



NOTICE OF ANNUAL MEETING OF SUBSCRIBERS

Of

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY (CLLAS)

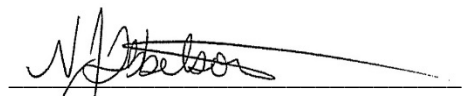
Wednesday, June 25, 2014

NOTICE IS HEREBY GIVEN that the Annual Meeting of Subscribers of CLLAS will be held at the office of Davies Ward Phillips & Vineberg LLP, 40th Floor, RBC Centre, 155 Wellington Street West, Toronto, Ontario on Wednesday, June 25, 2014 at 8:30 a.m. (Eastern Standard Time) for the following purposes:

1. To receive the financial statements of the Reciprocal for the fiscal year ended December 31, 2013;
2. To appoint auditors of the Reciprocal;
3. To appoint the actuary of the Reciprocal;
4. To transact such further or other business as may properly come before the meeting or any adjournment thereof.

DATED at Toronto, Ontario the 3rd day of June, 2014.

By Order of the Board of Directors


Secretary



Notice of Annual Meeting of Subscribers

To: ALL Subscribers of CLLAS

Copy: Neil Harrison, Deloitte
Julie-Linda Laforce, Axxima Inc.

From: The Board of Directors

Re: Annual Meeting of Subscribers

Date: June 3, 2014

As you will see from the accompanying documents, the Annual Meeting of Subscribers of Canadian Lawyers Liability Assurance Society (CLLAS) will be held at the office of Davies Ward Phillips & Vineberg LLP, 40th Floor, RBC Centre, 155 Wellington Street West, Toronto, Ontario on Wednesday, June 25, 2014 beginning at 8:30 a.m. Eastern Standard Time.

In this regard we would like to draw your attention to the following items.

1. The Reciprocal's financial statements for FY2013 are enclosed with this notice.
2. If you are unable to attend the Subscribers' Meeting we encourage you to complete, date and sign the enclosed Proxy and return it to Nicholas Leblovic.

All Subscribers please confirm your attendance with Norma Ibbetson at normaibbetson@axxima.ca by **June 18, 2014**.



FORM OF PROXY

Annual Meeting of Subscribers, June 25, 2014

The undersigned subscriber to Canadian Lawyers Liability Assurance Society (CLLAS) hereby appoints:

to attend and to act on behalf of the undersigned at the annual meeting of the subscribers of CLLAS to be held on the 25th of June, 2014 and at any adjournment thereof, and to vote, or withhold from voting, as follows:

1. To appoint Deloitte LLP, as auditors of CLLAS, until the next annual meeting of subscribers; VOTE FOR: _____ WITHHOLD VOTE: _____
2. To appoint Axxima Inc., the actuary of CLLAS.
VOTE FOR: _____ WITHHOLD VOTE: _____

If any other matters properly come before the Meeting, this proxy confers discretionary authority to vote on such other matters.

The undersigned hereby revokes any proxy previously given by the undersigned for use at the Meeting.

DATED the ____ day of June, 2014.

SUBSCRIBERS' Name (Please print):

Name of Firm

Signature on behalf of Subscriber



ANNUAL MEETING OF SUBSCRIBERS

June 2014
8:30 a.m.
Davies Ward Phillips & Vineberg LLP
40th Floor, RBC Centre
155 Wellington Street West
Toronto, Ontario

AGENDA

Tab

1. Welcome by Chair
2. Appointment of Secretary
3. Annual Report of Management
4. Annual Financial Report
5. Appointment of Auditors
6. Appointment of Actuary
7. Other Business
8. Closure of Meeting

A

Financial statements of

**Canadian Lawyers Liability
Assurance Society**

December 31, 2013

Canadian Lawyers Liability Assurance Society

December 31, 2013

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Independent Auditor's Report

To the Advisory Board of Canadian Lawyers Liability Assurance Society

We have audited the accompanying financial statements of Canadian Lawyers Liability Assurance Society, which comprise the statement of financial position as at December 31, 2013, and the statements comprehensive income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Lawyers Liability Assurance Society as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
February 26, 2014

Canadian Lawyers Liability Assurance Society

Statement of financial position as at December 31

	2013	2012
	\$	\$
Assets		
Cash at bank	4,349,462	1,680,722
Short term investments (Note 4)	10,535,050	13,253,831
Bonds (Note 4)	2,778,853	-
Interest income due and accrued	14,915	-
Premiums receivable (Note 6)	4,522,408	6,359,506
Prepaid expenses	139,500	136,500
Deferred policy acquisition costs	192,969	147,759
Reinsurers' share of unearned premiums	5,292,272	5,398,507
Reinsurance receivable	120,021	1,869,508
Provision for unpaid claims and adjustment expenses recoverable from reinsurers (Note 5)	67,092,000	68,609,000
Total assets	95,037,450	97,455,333
Liabilities		
Accounts payable and accrued charges	412,738	471,184
Unearned premiums	6,834,148	7,055,890
Due to reinsurers	1,524,104	3,338,523
Provision for unpaid claims and adjustment expenses (Note 5)	73,081,000	74,790,000
Total liabilities	81,851,990	85,655,597
Equity		
Minimum surplus (Note 12)	50,000	50,000
Additional surplus (Note 12)	13,161,687	11,759,748
Accumulated other comprehensive income	(26,227)	(10,012)
Total equity	13,185,460	11,799,736
Total liabilities and equity	95,037,450	97,455,333

On behalf of the Advisory Board

Member

Chairman

Member

*Chairperson of the
Audit Committee*

Canadian Lawyers Liability Assurance Society

Statement of comprehensive income (loss) years ended December 31

	2013	2012
	\$	\$
Premiums		
Written premiums	13,769,929	14,228,728
Reinsurance ceded	10,660,620	55,146,493
Net written premiums	3,109,309	(40,917,765)
Change in unearned premiums	115,507	879,185
Earned premiums	3,224,815	(40,038,580)
Expenses		
Claims (Note 5)	(192,000)	(33,036,606)
Premium deficiency adjustment	-	(586,000)
Operating expenses (Note 7)	1,810,398	2,327,796
Premium taxes	340,728	251,759
	1,959,126	(31,043,051)
Underwriting income (loss) for the year	1,265,689	(8,995,529)
Investment income (Note 4)	136,250	2,899,388
Interest income on premium tax	-	82,438
Net income (loss) for the year	1,401,939	(6,013,703)
Change in unrealized gains (losses) on available-for-sale financial assets arising during the year	(16,215)	(2,312,444)
Other comprehensive income (loss)	(16,215)	(2,312,444)
Comprehensive income (loss)	1,385,724	(8,326,147)

Canadian Lawyers Liability Assurance Society

Statement of changes in equity
years ended December 31

	Minimum surplus	Additional surplus	Accumulated other comprehensive income	Total equity
	\$	\$	\$	\$
Balance December 31, 2011	50,000	17,773,451	2,302,432	20,125,883
Net income (loss)		(6,013,703)		(6,013,703)
Other comprehensive income (loss)			(2,312,444)	(2,312,444)
Balance December 31, 2012	50,000	11,759,748	(10,012)	11,799,736
Net income (loss)		1,401,939		1,401,939
Other comprehensive income (loss)			(16,215)	(16,215)
Balance December 31, 2013	50,000	13,161,687	(26,227)	13,185,460

Canadian Lawyers Liability Assurance Society

Statement of cash flows years ended December 31

	2013	2012
	\$	\$
Operating activities		
Net income (loss) for the year	1,401,939	(6,013,703)
Changes in non-cash items:		
Interest income due and accrued	(14,915)	308,227
Premiums receivable	1,837,098	(1,355,569)
Unearned reinsurance premiums ceded	106,235	521,831
Prepaid Expenses	(3,000)	-
Deferred policy acquisition costs	(45,210)	(147,759)
Reinsurance receivable	1,749,487	3,869,917
Premium taxes receivable	-	1,733,852
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	1,517,000	(34,178,000)
Provision for unpaid claims and adjustment expenses	(1,709,000)	(5,153,000)
Premium deficiency liability	-	(586,000)
Unearned premiums	(221,742)	(1,401,015)
Due to reinsurers	(1,814,419)	(1,168,474)
Accounts payable and accrued charges	(58,446)	(186,473)
Cash (used in) provided by operating activities	2,745,027	(43,756,166)
Investing activities		
Purchase of bonds	(2,792,389)	(4,099,933)
Maturities and disposal of bonds	-	47,924,969
Purchase of short term investments	(83,767,950)	(123,661,481)
Disposal of short term investments	86,529,286	122,656,365
Amortization of bond premium	(45,345)	92,239
Amortization of bond discount	111	(33,723)
(Gain)/loss on disposal of bonds	-	(1,979,832)
Cash provided by (used in) investing activities	(76,287)	40,898,604
Net (decrease) increase in cash	2,668,740	(2,857,562)
Cash balance, beginning of year	1,680,722	4,538,284
Cash balance, end of year	4,349,462	1,680,722
Cash balance comprises		
Cash at bank	4,349,462	1,680,722
Interest received	76,102	1,286,299

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2013

1. Description of business

The Canadian Lawyers Liability Assurance Society (the "Society") was formed under the Reciprocal Insurance Exchange Agreement for select Canadian Law Firms dated December 22, 1986 ("Subscription Agreement"). The Society is licensed by the Superintendent of Insurance, Alberta and other provinces in Canada to provide lawyers professional liability insurance to its subscribers. The Society commenced operations on June 30, 1987.

The address and registered office is RBC Centre, 155 Wellington Street West, 40th Floor, Toronto, Ontario, M5V 3J7.

The Society does not have any employees and is managed by an independent third party that reports to the Advisory Board. The Advisory Board has the authority and responsibility for planning, directing and controlling the activities of the entity. The Chair of the Advisory Board receives an annual honorarium of \$75,000 (2012 - \$75,000) and the other members of the Advisory Board receive no compensation.

2. Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as defined by the International Accounting Standards Board ("IASB").

These financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments which are measured at fair value.

3. Significant accounting policies

These financial statements reflect the following policies:

Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about the reported amounts of revenues, expenses, assets, and liabilities and the disclosure of contingent liabilities, at the reporting date. These estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and any future periods affected. Information about judgments, estimates and assumptions that have the most significant effect on the amounts reflected in the financial statements are reflected in the following notes:

Note 3 and 8: Reinsurance (regarding insurance contract premium related to additional premium liability)

Note 3 and 5: Provision for unpaid claims and adjustment expenses

Insurance premiums and deferred acquisition costs

Insurance premiums are recorded as written at the inception date of the policies and deferred as unearned premiums to be taken into income as earned on a pro-rata basis over the terms of the underlying policies. Retro-assessment calls are recorded as written and earned at the date of approval by the Society's Advisory Board. Premium taxes are recorded as deferred policy acquisition costs and expensed in the periods in which related premiums are earned.

At each reporting period, liability adequacy tests are performed to ensure that the unearned premiums are sufficient to pay expected claims and expenses. If not, a premium deficiency will occur. Premium deficiencies are recognized initially by reducing the deferred acquisition cost asset and, if necessary, establishing an additional provision.

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2013

3. Significant accounting policies (continued)

Reinsurance

The Society participates in, and enters into, reinsurance contracts in the normal course of business in order to limit the potential for losses arising from certain exposures. Reinsurance premiums are recognized in the same period as the related insurance premiums that are earned as described above.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses. Amounts recoverable from reinsurers are estimated and recognized in a manner consistent with the reserve for losses associated with the related reinsurance contract. The Society reflects reinsurance balances on a gross basis in the statement of financial position to reflect the credit risk related to reinsurance.

Certain of the Society's reinsurance contracts contain additional premium liability clauses which require that the Society pay additional premiums if paid claims and case reserves exceed certain pre-determined levels. The Society accrues such additional premiums based upon current actuarial estimates of ultimate loss experience.

Provision for unpaid claims and adjustment expenses

The provision for unpaid claims and adjustment expenses represents an estimate of the ultimate gross amounts payable for all claims, including investigation costs and the projected final settlement of claims incurred prior to the statement of financial position date. The provision for unpaid claims and adjustment expenses is calculated in accordance with accepted actuarial practice in Canada taking into consideration the time value of money and explicit provisions for adverse deviation ("PFAD"). The estimates of loss activity are, by necessity, subject to uncertainty and are derived from a wide range of possible outcomes. These estimates are continually reviewed as additional information affecting the estimated quantum of claims settlement is obtained. All changes in estimated claim amounts are recorded as incurred claims in the period in which the change in estimate is determined.

The amounts recoverable from reinsurers are calculated based upon the same principles as the gross liability and are reflected as an asset in the statement of financial position.

Investments

The investment portfolio is comprised of bonds and short term investments which are classified as available-for-sale ("AFS") and their fair value is determined using quoted market bid prices. The Society does not have investments in bonds or other investments for which the fair value is determined using a valuation technique based on assumptions that are not supported by observable market prices or rates.

AFS investments are recorded at fair value with changes in the fair value recorded as unrealized gains and losses, which is included in other comprehensive income ("OCI"). Realized gains and losses on sale, as well as losses from impairment are recorded in net investment income in the statement of comprehensive income.

The Society accounts for the purchase and sale of investments using trade date accounting. Realized gains or losses on sale of investments are determined on a first in first out basis. Transaction costs related to the purchase of these bonds are recorded as part of the carrying value of the bond at the date of purchase. Discounts or premiums on the purchase of bonds are deferred and amortized over the remaining term of the bonds using the effective interest method.

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2013

3. Significant accounting policies (continued)

Impairments

AFS bonds are assessed for impairment on at least a quarterly basis. Objective evidence of impairment includes financial difficulty of the issuer, bankruptcy or defaults and delinquency in payments of interest or principal. When an investment is impaired it is written down to its fair value and associated unrealized gains or losses accumulated in OCI are reclassified to net investment income in the statement of comprehensive income. Once an impairment loss is recorded to income, the loss can only be reversed for fixed income securities to the extent a subsequent increase in fair value can be objectively correlated to an event occurring after the loss was recognized. Recovery in the fair value of a previously impaired AFS fixed income security up to the original amortized cost is recognized in net income. Following the impairment loss recognition, these assets will continue to be recorded at fair value with changes in fair value recorded to OCI, and tested for further impairment quarterly.

Insurance and reinsurance assets are reviewed for impairment on quarterly basis. If objective evidence arises indicating a receivable from a policyholder or reinsurer is uncollectible, the carrying amount of the asset is reduced to its expected recoverable amount. The impairment loss is recognized as an expense in the net income.

New accounting policies adopted in 2013

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities ("IFRS 7")

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments.

The amendments have been applied retrospectively. As the Society does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in the financial statements.

IFRS 13, Fair Value Measurements ("IFRS 13")

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures. The scope of IFRS 13 applies to both financial instrument items and non-financial instrument items. IFRS 13 requires prospective application from January 1, 2013. In accordance with the transitional provisions, the Society has not made any new disclosures for the 2012 comparative period. The application of the IFRS 13 has not had any impact on the financial statements.

IAS 1, Presentation of Financial Statements ("IAS 1")

Amendments require entities to group together items within Other Comprehensive Income that may be reclassified to the Statement of Operations and to separately group together items that will not be reclassified to the Statement of Operations. The application of the IFRS 13 has not had any impact on the financial statements.

Future accounting changes

IFRS 4: The IASB issued a revised exposure draft ED/2013/7 Insurance Contracts (the "revised ED") on June 21, 2013. The revised proposals represent the first comprehensive IFRS accounting model for insurance contracts and aim to provide a consistent basis for accounting for insurance contracts. The final standard is expected in 2015, with implementation not expected before 2018.

IFRS 9: Financial Instruments ("IFRS 9"), (2009) introduces new requirements for the classification and measurements of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes related to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurements requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The effective date for IFRS 9 (2010) and (2009) has been deferred pending the finalization of the impairment and classification and measurement requirements, with early adoption permitted. The Reciprocal is currently evaluating the impact of IFRS 9.

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2013

4. Investments

a) The Society's investments consist of the following:

	December 31, 2013		December 31, 2012	
	Fair value and carrying value	Amortized cost	Fair value and carrying value	Amortized cost
	\$	\$	\$	\$
Short term investments	10,535,050	10,538,302	13,253,831	13,263,843
Bonds	2,778,853	2,792,277	-	-
	13,313,903	13,330,579	13,253,831	13,263,843

The difference between amortized cost and market value of the AFS investments consists of gross unrealized gains of \$Nil (2012: \$ Nil) and gross unrealized losses of \$26,226 (2012: \$10,012).

The Society limits its bonds to securities issued or guaranteed by the Government of Canada, any province of Canada or Canadian corporations having a rating of A or better.

Short term investments are invested in securities issued by the Government of Canada or a Canadian Province having a rating of A or better, or a Canadian Chartered Bank having a rating of R-1 or better. These securities have a maturity of less than 1 year from the purchase date.

b) Maturity profile of investments as at December 31:

	Term to maturity			
	Within 1 year	1 - 5 years	Over 5 years	Total
2013	\$	\$	\$	\$
Short-term investments	10,535,050	-	-	10,535,050
Government of Canada bonds	-	303,599	-	303,599
Canadian public authorities bonds	-	979,544	499,475	1,479,019
Canadian corporate bonds	-	598,154	398,081	996,235
Total fair value	10,535,050	1,881,297	897,556	13,313,903

	Term to maturity			
	Within 1 year	1 - 5 years	Over 5 years	Total
2012	\$	\$	\$	\$
Short-term investments	13,253,831	-	-	13,253,831
Total fair value	13,253,831	-	-	13,253,831

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2013

4. Investments (continued)

c) Net investment income has the following components:

	2013	2012
	\$	\$
Interest income		
Bonds	1,321	854,512
Cash, cash equivalents and short term investments	89,695	123,560
	91,016	978,072
Amortization of discount (premium) on investments	45,234	(58,516)
Realised gain (loss) on disposal	-	1,979,832
Total net investment income	136,250	2,899,388

d) Fair value measurements

The Society measures certain assets and liabilities using fair value. Fair value is a market-based measurement and not an entity-specific measurement, and requires the use of a fair value hierarchy with the highest priority given to quoted prices in active markets. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents the Society's financial instruments that have been measured at fair value, on a recurring basis, as at December 31.

December 31, 2013	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash at bank	4,349,462	-	-	4,349,462
Investments - available-for-sale				
Short term investments	-	10,535,050	-	
Bonds	-	2,778,853	-	
	-	13,313,903	-	-
	4,349,462	13,313,903	-	17,663,365

December 31, 2012	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash at bank	1,680,722	-	-	1,680,722
Investments - available-for-sale				
Short term investments	-	13,253,831	-	13,253,831
Bonds	-	-	-	-
	-	13,253,831	-	13,253,831
	1,680,722	13,253,831	-	14,934,553

The Society did not have any transfers between any levels during the year.

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2013

5. Unpaid claims and adjustment expenses

a) Nature of unpaid claims and adjustments expenses

The establishment of the provision for unpaid claims and adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Society's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Society's consultants retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination. The longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be.

Consequently, the establishment of the provision for unpaid claims and adjustment expenses process relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps materially, from the best estimates made.

b) Activity in the provision for unpaid claims and adjustment expenses is summarized as follows:

	Gross \$	Ceded \$	Net \$
Provision for unpaid claims and adjustment expenses, January 1, 2012	79,943,000	34,431,000	45,512,000
Incurring claims and claim adjustment expenses			
Provision for current year claims	8,134,000	7,268,000	866,000
Increase (decrease) in provision for claims of prior years	(5,552,964)	28,537,642	(34,090,606)
Increase (decrease) in provision due to discount rate change	1,905,691	1,717,691	188,000
Total incurred	4,486,727	37,523,333	(33,036,606)
Payments and recoveries attributable to			
Current year claims	-	-	-
Prior years claims	(9,639,727)	(3,345,333)	(6,294,394)
	(9,639,727)	(3,345,333)	(6,294,394)
Provision for unpaid claims and adjustment expenses, December 31, 2012	74,790,000	68,609,000	6,181,000
Incurring claims and claim adjustment expenses			
Provision for current year claims	7,343,000	6,591,000	752,000
Increase (decrease) in provision for claims of prior years	(3,507,762)	(2,981,762)	(526,000)
Increase (decrease) in provision due to discount rate change	(5,032,000)	(4,614,000)	(418,000)
Total incurred	(1,196,762)	(1,004,762)	(192,000)
Payments and recoveries attributable to			
Current year claims	-	-	-
Prior years claims	(512,238)	(512,238)	-
	(512,238)	(512,238)	-
Provision for unpaid claims and adjustment expenses, December 31, 2013	73,081,000	67,092,000	5,989,000

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2013

5. Unpaid claims and adjustment expenses (continued)

c) Provision for unpaid claims and adjustment expenses

Under accepted actuarial practice in Canada, the appropriate value of the claims liabilities is the discounted value of such liabilities plus the provision for adverse deviation ("PFAD").

December 31, 2013

	Undiscounted	Discounted at 2.40%	Provisions for adverse deviation	Value per accepted actuarial practice
	\$	\$	\$	\$
Provision for unpaid claims and adjustment expenses				
Gross	72,271,000	65,196,000	7,885,000	73,081,000
Recoverable from reinsurers	69,435,000	62,650,000	4,442,000	67,092,000
Net	2,836,000	2,546,000	3,443,000	5,989,000

December 31, 2012

	Undiscounted	Discounted at 0.85%	Provisions for adverse deviation	Value per accepted actuarial practice
	\$	\$	\$	\$
Provision for unpaid claims and adjustment expenses				
Gross	69,955,000	67,298,000	7,492,000	74,790,000
Recoverable from reinsurers	67,195,000	64,645,000	3,964,000	68,609,000
Net	2,760,000	2,653,000	3,528,000	6,181,000

d) Key assumptions

The best estimate of the provision for unpaid claims and adjustment expenses as reported in these financial statements has been determined by the Society's appointed actuary in accordance with accepted actuarial practice as determined by the Standards of Practice of the Canadian Institute of Actuaries ("CIA"), including the selection of appropriate assumptions and methods.

The Incurred But Not Reported ("IBNR") liabilities have been estimated for each coverage period using the Bornhuetter-Ferguson Method which is based on expected claims development patterns and expected losses.

The estimated undiscounted outstanding liabilities are discounted to reflect the time value of money using a selected discount rate of 2.40% (2012: 0.85%) which is based on the expected market yield of the Society's investment portfolio of bonds and short term assets.

Based on the recommended margin for adverse deviation ranges prescribed by the CIA, a provision for adverse deviation is selected for the following variables: claims development, reinsurance recovery and interest rate.

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2013

5. Unpaid claims and adjustment expenses (continued)

d) Key assumptions (continued)

Changes in the assumptions used in the December 31, 2013 actuarial valuation resulted in a total decrease in net liabilities of \$415,000 (2012: \$389,000), which is due to the change in loss development factors used in the Bornhuetter-Ferguson method and change in unallocated loss adjustment expense load from 3.75% to 3.15%. The change in the discount rate and provisions for adverse deviation assumptions led to a further decrease in the net liabilities of \$386,000 (2012: \$188,000).

Sensitivities regarding these assumptions are provided in Note 11 Insurance Risk Management.

6. Premiums receivable

All subscribers are large reputable Canadian law firms, and no significant credit risk is expected. All amounts are due by January 1, 2013.

7. Expenses by nature

The following table presents the Society's expenses by nature:

	2013	2012
	\$	\$
Management services	1,034,836	1,147,341
Legal and professional	621,605	893,351
Other expenses	153,957	287,104
Total	1,810,398	2,327,796

8. Reinsurance program

- a) The Society has obtained proportional reinsurance coverage which limits its net liability to a maximum amount of \$975,000 effective for the annual coverage period beginning on July 1, 2013 (July 1, 2012: \$975,000) on any one loss.
- b) Colchester Reinsurance Limited (Colchester) is an off-shore captive reinsurer domiciled in Barbados. The shareholders of Colchester are eleven Toronto based legal firms or their related service corporations. Those eleven shareholders are unrelated to each other. However, each of Colchester's shareholders is, or is related to certain of the Society's subscribers. For the annual coverage period beginning on July 1, 2013, Colchester received from the Society premiums of \$2,878,831 (July 1, 2012: \$3,390,789).

Colchester provides aggregate stop-loss reinsurance protection for a portion of the Society's retained risk. On July 1, 2013 this reinsurance had an attachment point of \$5,000,000 (July 1, 2012: \$5,000,000), and an annual aggregate limit of \$10,000,000 (July 1, 2012: \$10,000,000). Starting July 1, 2011, the attachment point and limit were determined with reference to the combined net claim liabilities of the Society and Colchester. Starting on July 1, 2012 the attachment point and limit are solely determined with reference to the net claim liabilities of the Society.

- c) In 2012, the Society initiated a Loss Portfolio Transfer (LPT) with Colchester to transfer the outstanding net retained liabilities for the policy year periods from inception to the period ended June 30, 2013 inclusive for a premium of \$44,260,000, the net retained liability was estimated as \$33,103,000 at the time of LPT. The Society recorded a net loss of \$11,157,000 at the inception of the LPT contract.

As at December 31, 2013, the total reserves held and recoverable on the Society's financial statements relating to LPT was \$30,329,000 (2012- \$31,370,000). A Reinsurance Security Agreement (RSA) is in place which requires Colchester to set up on behalf of the Society deposits equal to 115% of Colchester's share of claim liabilities. At December 31, 2013 the value of the security deposits exceeds the required amount.

- d) Reinsurance does not discharge the primary liability of the Society.

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2013

9. Income taxes

The Society is a reciprocal as defined under Part 1 of the Alberta Insurance Act, RSA 2000, c I-3. Accordingly, no provision for income taxes is made in these financial statements.

10. Equity

In accordance with the Reciprocal Insurance Exchange Agreement, subscribers were not obliged to contribute any amounts to the Society in the form of a capital contribution. The subscribers' surplus therefore represents cumulative surplus and may be used to cover potential future catastrophe claims or reduce future premiums, if appropriate. The Agreement provides that additional assessments may be made to cover the actual loss, claims and costs experienced by the Society.

Under the terms of the Society's Reciprocal Insurance Exchange Agreement, the Society is obligated to return a share of the Society's surplus (if any) to a departed Subscriber subsequent to the fifth anniversary of its departure, based on that Subscriber's participation in the Society. A Subscriber withdrew from the Society on June 30, 2012. As a result, a payment to that Subscriber may be due subsequent to June 30, 2017. The Society would consider whether as of June 30, 2017 there are no further liabilities relating to the underwriting periods prior to the date of the Subscriber's withdrawal in determining whether the distribution should be determined as of June 30, 2017 or a later date. Depending on the amount of such payment and the amount of the Society's surplus at that time, such payment may have a material effect on the equity position of the Society.

11. Risk management

Insurance risk management

The Society accepts insurance risks through its insurance contracts where it assumes the risk of loss from persons or organizations subject to the underlying loss. The Society is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts and the principal risk that the actual claims payments exceed the carrying amount of the insurance liabilities or that claims are under-reserved.

The Society manages insurance risk via its underwriting and reinsurance strategy within an overall risk management framework. Pricing is based on assumptions which have regard to trends and past experience. Exposures are managed by having documented underwriting limits and rating criteria. Reinsurance is purchased to mitigate the effect of potential loss to the Society from individual large events. Reinsurance policies are written with approved reinsurers (two of the current reinsurers are unlicensed) on either a proportional, aggregate or excess of loss treaty basis.

There is some concentration of risk since all coverage is related to professional liability and the underlying insured's are a homogeneous group since all are engaged in the practice of law in Canada. There is some risk of increased claim activity due to the occurrence of events that could increase the number of or value of legal actions against lawyers. Examples could be changes in legislation or a severe economic downturn. This risk is mitigated to some extent by the use of aggregate and excess of loss reinsurance. Concentration risk regarding reinsurance is mitigated by the use of multiple reinsurers with varying participations and an annual assessment of the financial strength of all reinsurers.

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2013

11. Risk management (continued)

Claim development

Uncertainty exists on reported claims in that all information may not be available at the reporting date; therefore, the claim cost may rise or fall at some date in the future when the information is obtained. In addition, claims may not be reported to the Society immediately; therefore, estimates are made as to the value of claims incurred but not yet reported, a value which may take some months to finally determine. In order to determine the liability, assumptions are developed considering the characteristics of the line of business, the historical pattern of payments, the amount of data available and any other pertinent factors. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported. The following table shows the development of claims over a 6 year period, on both a gross and net of reinsurance basis:

Analysis of claims development - net and gross

	2008	2009	2010	2011	2012	2013	Total
	\$	\$	\$	\$	\$	\$	\$
Estimate of ultimate (by underwriting year):							
End of year	8,150,000	8,797,000	8,322,000	4,665,000	463,000	206,000	
One year later	7,626,000	9,329,000	9,795,000	107,000	423,000		
Two years later	5,524,000	8,299,000	2,073,000	107,000			
Three years later	4,419,000	20,000	2,073,000				
Four years later	5,000	20,000					
Five years later	5,000						
Current estimate of ultimate	5,000	20,000	2,073,000	107,000	423,000	206,000	2,834,000
Cumulative payments	(5,000)	(20,000)	(2,073,000)	(107,000)	-	-	(2,205,000)
Net liability	-	-	-	-	423,000	206,000	629,000
Total all years							
Six years net liability							629,000
Effect of discounting and PFAD							3,153,000
Unallocated loss adjustment expense							2,207,000
Provision for unpaid claims and adjusting expenses recoverable from reinsurers							67,092,000
Gross liability in statement of financial position							73,081,000

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2013

11. Risk management (continued)

Sensitivities

The insurance claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The table below shows the effect on net income and equity of a +/- 5% change in the expected losses and the effect of a +/- 0.5% change in the discount rate applied to claims provisions for the year ended December 31, 2013.

	2013		2012	
	Net income for the year	Equity	Net income for the year	Equity
5% increase in expected losses	(224,000)	(224,000)	(256,298)	(256,298)
5% decrease in expected losses	224,000	224,000	256,298	256,298
0.5% increase in discount rate	124,000	124,000	137,727	137,727
0.5% decrease in discount rate	(129,000)	(129,000)	(143,533)	(143,533)

Financial risk management

The Society has policies related to the identification, monitoring and mitigation of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (interest rate, equity and currency). The following describes how the Society manages each of these risks.

a) Credit risk

Credit risk is the risk of loss due to the failure of debtors to make payments when due. Credit risks are primarily associated with invested assets and amounts due from policyholders and reinsurance counterparties. The investment portfolio's exposure to credit risk is managed through policies and procedures including a credit evaluation by the investment manager and investment guidelines which specify investment quality and exposure limits. The portfolio is monitored and reviewed regularly by the Board. Premiums due from policyholders present minimal risk due to the short term nature of the receivable and the historic/financial relationship with the Society as a Reciprocal Insurance Exchange. The Society evaluates the financial condition of its reinsurers and monitors concentrations of credit risk of the reinsurers to minimize its exposure to significant losses from their insolvency. The Society believes that it has taken appropriate steps to manage credit risk and has made appropriate provision for any such exposures. One of the primary reinsurers is Colchester Reinsurance Limited as discussed in Note 8. The credit risk related to Colchester is managed by maintaining a security account pursuant to the RSA and a quarterly review of Colchester's financial condition. The balance held in the account at December 31, 2013 is \$74,377,000.

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2013

11. Risk management (continued)

a) Credit risk (continued)

i) Exposure to credit risk

The following table summarizes the exposure to credit risk related to financial instruments and certain insurance assets at carrying value.

	2013	2012
	\$	\$
Short term investments	10,535,050	13,253,831
Bonds	2,778,853	-
Interest income due and accrued	14,914	-
Premiums receivable	4,522,408	6,359,506
Reinsurance recoverable	120,021	1,869,508
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	67,092,000	68,609,000
Total credit exposure	85,063,246	90,091,845

ii) Concentration of credit risk

The Society utilizes an investment policy to minimize the concentration of credit risk by ensuring diversification across asset classes. The following table summarizes the distribution of investments by credit risk:

	2013	2012
	%	%
Bonds, treasury bills and cash (< 1 year)	79.0	100.0
Government of Canada (> 1 year)	2.0	-
Canadian provincials (> 1 year)	11.0	-
Corporates (> 1 year)	8.0	-
Total portfolio	100.0	100.0

b) Liquidity risk

Liquidity risk is the risk that the Society will not be able to meet all cash outflow obligations as they come due. The primary potential cash outflow is the payment of insurance claims and is represented by the provision for unpaid claims and adjustment expenses liability on the statement of financial position. In order to manage the liquidity risk associated with this liability, an investment policy is in place. A summary of the invested assets by term to maturity is provided in Note 4. The following table summarizes the exposure to liquidity risk:

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2013

11. Risk management (continued)

b) Liquidity risk (continued)

	December 31, 2013			
	Due within 1 year	1 to 5 years	Over 5 years	Total
	\$	\$	\$	\$
Provision for unpaid claims and adjustment expenses (net)	844,000	2,995,000	2,150,000	5,989,000
Due to reinsurers	1,524,104	-	-	1,524,104
Accounts payable and accrued charges	412,738	-	-	412,738
Total	2,780,842	2,995,000	2,150,000	7,925,842

	December 31, 2012			
	Due within 1 year	1 to 5 years	Over 5 years	Total
	\$	\$	\$	\$
Provision for unpaid claims and adjustment expenses (net)	1,552,000	3,662,000	967,000	6,181,000
Due to reinsurers	3,338,523	-	-	3,338,523
Accounts payable and accrued charges	471,184	-	-	471,184
Total	5,361,707	3,662,000	967,000	9,990,707

c) Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity markets and foreign currency rates. The primary market risk exposures are discussed below.

i) Interest rate risk

Interest rate risk is the risk of financial loss arising from changes in interest rates. Fluctuations in interest rates will impact the market value of the fixed income portion of the investment portfolio. Interest rate fluctuations may create unrealized gains or losses which are recorded as OCI, however, these assets are ordinarily held until maturity which would result in a recovery of par value. A portion of these assets support the net provision for unpaid claims and adjustment expenses which is calculated, in part, using a discount factor based on the market rate of return of the investment portfolio.

The Society is exposed to interest rate risk if the cash flows from the investments are not matched to the liabilities that they support. This risk is partially mitigated by the investment policy which specifies that the timing of the settlement of unpaid claims be considered when selecting the duration of invested assets.

The estimated impact of a 1% increase in interest rates would decrease the market value of the fixed income portion of the investment portfolio by \$210,171 (2012: \$Nil) which would be recorded in OCI. This impact would be more than offset on an economic basis by a decrease in the estimated unpaid claims and adjustment expense of \$244,000 (2012: \$Nil) recorded through income. Conversely, a 1% decrease in interest rates would increase the market value of the fixed income portion of the investment portfolio by \$147,728 (2012: \$Nil) which would be recorded in OCI. This impact would be more than offset on an economic basis by an increase in the estimated unpaid claims and adjustment expense of \$263,000 (2012: \$Nil) recorded through net income.

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2013

11. Risk management (continued)

c) Market risk (continued)

ii) Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. To mitigate this risk, the Society's investment policy does not allow exposure to equity markets.

iii) Currency risk

The Society does not have any material exposure to foreign currency.

12. Surplus management and adequacy

Equity is comprised of minimum and additional surplus and AOCI. At December 31, 2013, the equity was \$13,185,460 (2012: \$11,799,736). The Society's objectives for the management of surplus are for the prudent operation of the reciprocal and to provide relatively predictable premium costs for its members over time. A surplus management policy is approved by the Advisory Board which oversees the surplus management process.

As a reciprocal insurance exchange, the requirement for surplus is lower than that of an incorporated insurance company. A reciprocal may rely on the contractual agreement among its members to contribute to the losses incurred by other members and to make assessments for additional contributions to surplus if required and accordingly, can rely on the credit worthiness of its subscribers.

The Society is regulated by the Superintendent of Insurance, Alberta and in British Columbia and Ontario where licenses are held, all of which expect incorporated insurance companies to meet a Minimum Capital Test ("MCT") ratio of capital available to capital required of at least 150%. As of December 31, 2013, the Society's MCT was 328% (2012: 297%). However, the minimum regulatory standard for reciprocals in Alberta is adjusted equity exceeding \$50,000. The Society's practice is to maintain a surplus level which is significantly higher than the regulatory minimum. The Society's surplus adequacy is evaluated regularly and this evaluation takes into account the gross exposure to risk, the level and nature of reinsurance purchased and the resulting net exposure to members. Input from the appointed actuary, which includes an assessment of loss volatility, is factored into this evaluation.

In accordance with sections 99 & 100 of the Alberta Insurance Act, the Society is required to maintain a reserve and guarantee fund. At December 31, 2013 the total reserve and guarantee funds required are as follows:

	2013 (000's)	2012 (000's)
	\$	\$
Reserve fund		
Net premiums written during the period	13,770	14,229
Less: Amounts paid to licensed reinsurers	10,548	54,933
	3,222	(40,704)
Requirement	50%	50%
	1,611	(20,352)
Guarantee fund		
Total liabilities	81,852	85,656
Less: Unearned premiums	6,834	7,056
Recoverable from licensed reinsurers	66,613	67,826
Add: Statutory margin	50	50
	8,455	10,824
Total of reserve and guarantee fund	10,066	(9,528)
Cash and approved securities	17,663	14,935
Excess of cash and securities over reserve and guarantee fund	7,597	24,463

Canadian Lawyers Liability Assurance Society

Notes to the financial statements

For the year ended December 31, 2013

13. Fair value disclosure

The fair value of the following classes of financial instruments is deemed to approximate carrying value due to the immediate or short term maturity of the financial instruments.

- a) Cash at bank
- b) Interest income due and accrued
- c) Premiums receivable
- d) Premium taxes receivable
- e) Reinsurance recoverable
- f) Due to reinsurers
- g) Accounts payable and accrued charges

14. Date of authorization for issue

The financial statements were authorized for issue by the Advisory Board on _____.

REPORT OF THE ACTUARY

Role of Actuary

The actuary is appointed by the Advisory Board of the Canadian Lawyers Liability Assurance Society ("CLLAS") pursuant to the Insurance Act. The actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. The actuary is also required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of CLLAS. Examination of supporting data for accuracy and completeness and consideration of CLLAS assets are important elements of the work required to form this opinion.

Policy liabilities include unearned premiums, unpaid claims and adjustment expenses, the reinsurers' share of unearned premiums and unpaid claims and adjustment expenses, deferred premium acquisition costs, premium deficiency and retrospective adjustments. The actuary uses the work of the external and internal auditors in verifying data used for valuation purposes.

Appointed Actuary's Report

To the Subscribers of the
Canadian Lawyers Liability Assurance Society

I have valued the policy liabilities and reinsurance recoverables of the Canadian Lawyers Liability Assurance Society for its statement of financial position at December 31, 2013 and their changes in the statement of comprehensive income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance recoverables makes appropriate provision for all policy obligations and the financial statements fairly presents the results of the valuation.

Toronto, Ontario
February 26, 2014



Julie-Linda Laforce
Fellow, Canadian Institute of Actuaries