

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
("CLLAS")**

Minutes of a Meeting of the Advisory Board

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

Wednesday, September 6, 2017

Present:

Nicholas Leblovic (Chair)	Davies Ward Phillips & Vineberg LLP
Melanie M. Koszegi	Davies Ward Phillips & Vineberg LLP
Barry Bresner	Borden Ladner Gervais LLP
Gordon Goodman	Cassels Brock & Blackwell LLP
Donald Milner	Fasken Martineau DuMoulin LLP
Ken Crofoot	Goodmans LLP
William Scott	McCarthy Tétrault LLP
Dan MacDonald (via phone)	McMillan LLP
Julia Holland	Torys LLP
Mike Swartz (via phone)	WeirFoulds LLP
Patrick Mahoney	Office of the General Manager, CLLAS
Norma Ibbetson	Office of the General Manager, CLLAS
Joe Tontini	Axxima
Ryan Durrell	Axxima

Absent:

David Morritt	Osler, Hoskin & Harcourt LLP
---------------	------------------------------

1. Constitution of Meeting

The Chair brought the meeting to order.

2. Appointment of Secretary

Norma Ibbetson acted as Secretary.

3. Approval of Minutes of the June 21, 2017 Meeting of the Advisory Board

It was moved by Don Milner and seconded by Gordon Goodman that the minutes of the June 21, 2017 meeting of the Advisory Board be approved, as amended. The motion was carried unanimously.

4. Business Arising Out of the Minutes

All business arising out of the minutes will be dealt with elsewhere in the agenda.

5. Comments of the Chair

No additional comments of the Chair.

6. Reinsurance Renewal – Final Report

Ryan Durrell reviewed the final placement of the July 1, 2017 reinsurance renewal with the Board, including his memorandum of August 29, 2017 that was included with the Board package.

As indicated at the June Board meeting, the primary objective for the July 1 renewal was to achieve a 25% rate reduction and this was accomplished. This was done by leveraging CLLAS' long term relationships with reinsurers and pressing them to their limit to obtain 20% rate reductions on almost all layers. The balance of the savings was achieved through a return of surplus.

All Lloyd's syndicates and domestic reinsurers were renewed, although there were a number of changes to participation levels. The premium per non-Quebec lawyers for the \$49MM xs \$1 MM layer (including the drop-down piece) at July 1, 2017 was \$1,939, a decrease of 25% from last year.

There were no material policy wording changes.

Tail coverage continues to be provided to former Heenan Blaikie LLP ("HB") lawyers on all CLLAS policies. Coverage is added by endorsement but additional premiums are no longer being charged for the coverage.

CLLAS Associate Firm Initiative – Update

Ryan Durrell advised that, over the course of the next few months leading up to the January 1, 2018 renewals (for most Ontario firms), Axxima will be selectively approaching a number of other law firms to explore the prospect of joining CLLAS either as full members or as Associate Members.

7. Report of the General Manager's Office

Cyber Initiative – Update

Joe Tontini reviewed his memorandum of August 29, 2017. To date, applications for cyber coverage have been received from three CLLAS firms and coverage has been bound for two. As reported previously, Ascent Underwriting through Ridge Canada has provided the most competitive terms and conditions compared to other leading cyber insurance markets. Ascent/Ridge have also been extremely cooperative in agreeing to policy enhancements and in recognizing the unique requirements of the CLLAS firms. Mr. Tontini advised that the objective over the next few months is to assist the remaining CLLAS firms in completing the cyber

application and securing the best available coverage. The plan is also to build up the limits of available coverage and refine the policy wording as needed. The current offering is \$10 million in limits and a second layer of an additional \$10 million is being secured, although the slip is only partially complete. Pricing for that layer is the sticky issue. Limits above \$20 million appear to be achievable, tracking to a minimum premium payable.

Mr. Tontini reported that the wordings of most of the leading cyber provider had been reviewed and the conclusion was that Ascent's wording was broad and competitive. As noted, Ascent is also willing to modify its wording to address the specific requirements of CLLAS firms. The only drawback to the Ascent offering, which some CLLAS firms may in fact consider as a benefit, is Ascent's insistence on managing the claims with their approved service providers and forensic specialists. A number of the CLLAS firms will already have cyber event response plans in place, but tapping into the Ascent claims management protocol should lead to a better CLLAS cyber claims protocol for the future.

It was agreed that once a few more firms had bound cyber coverage that it would be appropriate to establish a working group to develop a claims protocol. Barry Bresner and Bill Scott agreed to participate in this process.

The Policy Committee will be asked to review the CLLAS specific endorsements that have been negotiated to ensure that they are appropriate and coordinate appropriately with the cyber coverage that currently exists under the CLLAS professional liability policies.

On a final note, Mr. Tontini cautioned the firms to review their Crime policy to ensure that it explicitly includes a "social engineering" component.

Financial Statements Quarter Ending June 30, 2017

Mr. Mahoney presented CLLAS' financial management report as at June 30, 2017.

As shown on Exhibit II, CLLAS experienced a quiet second quarter from claims perspective, which means that the underwriting loss (premiums minus claims and expenses) for the first six months of the year increased only slightly, to just over \$1 million. After taking into account investment income (including unrealized losses arising during the period) the loss was reduced to \$950,000. The loss was primarily due to a case reserve posted in the first quarter on a "drop down" claim, i.e. a claim in the layer below \$1 million which is fully retained by CLLAS.

The Budget Variance (Exhibit IV) shows that expenses for the year are about 2.3% (\$30,000) over budget for the six-month period. This overage is attributable to Axxima's professional services fees related to the special underwriting submission that led to CLLAS securing reinsurance renewal terms in April, CLLAS' revised subscribers agreement and the cyber initiative.

At June 30, 2017, CLLAS had surplus of \$13.5 million.

At June 30, 2017, CLLAS had cash and approved securities well in excess of the minimum AMRGF requirement mandated by Alberta insurance law. CLLAS' MCT ratio at the same date was 468%, basically unchanged from December 31, 2016 and well above CLLAS' minimum requirements.

Related Party Transaction Policy/Outsourcing Policy

Mr. Mahoney reviewed the draft Related Party Transaction and Outsourcing policies that were provided with the Board package. The Board provided input and suggested changes to the draft policies and asked that they be brought back to the December Board meeting for adoption.

8. Committee Reports

Report of the Audit Committee

There was no report of the Audit Committee.

Report of the Claims Committee

Barry Bresner reported to the Board. The Board received a new handout intended to provide a high-level overview of open claims activity without compromising confidentiality. The report is to replace the current handout and will, in the future, be included in the Board package. A request was made to add a short narrative under each graph

It was noted that a firm had recently received a claim report acknowledgement letter from LawPRO in which LawPRO requested copies of all applicable excess policies. The request appeared to be boilerplate and the firm did not intend to comply with it. The Board generally agreed with this stance and each Board member was encouraged to circulate this information internally as appropriate.

Report of the Risk Management Committee

There was no report of the Risk Management Committee.

Report of the Policy Committee

Donald Milner reported to the Board. CLLAS' General Manager's office is gathering the signatures on the updated Subscribers Agreement. Once this initiative has been finished, the Committee will turn its attention to updating CLLAS' Rules of the Reciprocal.

9. Other Business

Quarterly Report of the Investment Manager

This is an information item for the Board.

Annual Dinner

The annual dinner will be held on Thursday, April 26, 2018 at the National Club.

The Chair reported to the Board that Joe Tontini will be retiring from Axxima on August 31, 2018. While Mr. Tontini will continue to be actively involved in CLLAS through the next renewal, the Board expressed its appreciation for the work done by Mr. Tontini on CLLAS' behalf over many years.

There was no further business.

10. Next Meeting

The next regularly scheduled meeting of the Board will be on December 6, 2017.

There being no further business, the meeting was terminated.

Chairman

Secretary



P R I V A T E & C O N F I D E N T I A L

Date: November 29, 2017

To: David Morritt Barry Bresner Michael Swartz
William Scott Daniel MacDonald Gordon Goodman
Donald Milner Julia Holland
Nicholas Leblovic Ken Crofoot

Copy: Patrick Mahoney

From: Joe Tontini and Ryan Durrell

Re: **CLLAS CYBER INSURANCE UPDATE**

The Cyber Threat Continues...

The *Paradise Papers* are a set of 13.4 million confidential electronic documents originating from the offshore law firm *Appleby* relating to offshore investments that were leaked to the German newspaper *Süddeutsche Zeitung*. The newspaper shared them with the *International Consortium of Investigative Journalists* and a network of more than 380 journalists. Some of the details were made public November 5, 2017.

Appleby's response (found under Media Statements on its website), "...We wish to reiterate that our firm was not the subject of a leak but of a serious criminal act and our systems were accessed by an intruder who deployed the tactics of a professional hacker. While there were no allegations of any wrongdoing on the part of Appleby, there were some allegations of perceived failings in our business practice standards..."

Can this happen to a CLLAS firm? Of course, it can. Perhaps it has, and the firm doesn't even know it. Appleby's statement that there were no allegations of wrongdoing but that there were allegations of perceived failings in their business practices sums up the situation. All law firms are different but common among them is the fact that they all hold confidential client information and the financial impact on any firm, should that information be compromised, is a serious matter. While we cannot advise on the technical aspects of cyber security, which is clearly of the utmost importance, we can comment on financing the claims costs should a cyber incident occur.



CLLAS Action

The first step was to identify cyber risk as a serious threat and make sure that the CLLAS policy provided the requisite professional liability insurance protection. The CLLAS Board acted decisively on July 1, 2012 when CLLAS modified its policy wording to make it clear that the safeguarding of personal and confidential client information is a professional service and that a professional negligence claim alleging a cyber breach of such information would be covered by the policy.

The next step was to address the first party concerns and the out of pocket and business interruption costs that would inevitably result from a serious cyber breach. After an extensive marketing exercise, we came up with a highly competitive cyber insurance program with Ascent Underwriting LLP through Ridge Canada. Five CLLAS firms are now bound on the program and have received their policy documents. Another firm completed the application but has not yet committed to the Ascent proposal. The other firms are in the process of finalizing their application. We have also contacted the two CLLAS Associate Members and they too are in the process of completing the application. We are encouraged by the response thus far and urge all CLLAS members to participate in this group program.

Strength in Numbers

CLLAS members understand that there is strength in numbers and that members have benefited over the years because of the group buying power that CLLAS represents. Since cyber risk and insurance is a relatively new exposure, CLLAS is in the unique position of significantly influencing the product offering in the market. It began with identifying the most competitive market including the best price among the leading cyber contenders and a policy wording that is at least as broad as others in the market. However, it doesn't stop at the initial placement. As CLLAS members know, the CLLAS unwritten philosophy of continuous improvement has yielded benefits and improvements at almost every renewal.

Common Anniversary Date

We are currently binding coverage on a 12-month basis because the time that each CLLAS member needs to complete the application, obtain a formal quote, receive management approval and bind coverage differs from firm to firm. Our first policy was bound in July and it may be another few months before we bind our last policy. Once that happens we will suggest a common anniversary date to make the most of the negotiation power that CLLAS can wield in the market. We would ask the CLLAS firms to start thinking about an appropriate anniversary date that most firms would be happy with. It could be July 1st to coincide with the CLLAS renewal or January 1st to coincide with the LawPro renewal or, frankly, anywhere in between. Once we settle on a common anniversary date, we can either extend the policies at renewal to expire on the new anniversary date or we can renew the policy so that it expires on the new anniversary date. Underwriters can usually offer as much as a six-month extension or as much as an 18-month policy to accommodate this particular request.



Policy Wording Improvements

We have already identified a few policy wording issues that should be reviewed and, if appropriate, amended at renewal or earlier. Ascent have been very flexible when it comes to wording amendments that were suggested so we do not expect that future wording changes will be an issue. Over the next couple of months, we plan to summarize some of the wording issues that have been identified and engage the CLLAS Policy Committee and/or others on an ad hoc basis to review and recommend the necessary changes.

Money and Securities Fraud

The Ascent Policy includes two insuring agreements which provide some money and securities fraud coverage, although on a limited basis. Specifically, Insuring Module 9, Electronic Theft, Computer Fraud and Telecommunications Fraud and Insuring Module 10, Social Engineering Fraud have sub-limits of \$250,000. We were successful in increasing that sub-limit to \$500,000 for one of the firms but the cyber underwriters are cautious when it comes to money and securities fraud. They strongly believe that this type of coverage belongs in a comprehensive dishonesty, disappearance and destruction bond which most firms buy already. We have discussed this with some of the firms and with some of the insurance companies that specialize in such bonds and we believe that this area needs further exploration. The scope of coverage varies from firm to firm and from insurer to insurer.

CLLAS has already experienced a social engineering type claim which has triggered the CLLAS policy. Technically, this kind of claim can also trigger a cyber policy and a crime policy. It is therefore important that the gaps and overlaps in coverage are clearly identified and understood. As an area of common concern, we would suggest that the CLLAS firms undertake a review of the professional liability, cyber and crime policies for each firm to: 1) identify the gaps and overlaps in coverage; 2) compare the available offerings from the different carriers insuring the CLLAS firms (and others if appropriate); and 3) advise on a course of action that would provide the best crime bond with the best professional liability and cyber insurance coverage fit.

Excess Cyber Limits

We have bound as much as \$20,000,000 in limits for at least one CLLAS firm. The primary \$10,000,000 is with Ascent Underwriting LLP while the excess \$10,000,000 is with Ptarmigan Underwriting Agency. In both cases the security is 100% Lloyd's. While \$10 or \$20 million may seem like enough coverage for now, we believe that higher limits should be investigated.

In a serious cyber event, the cyber policy may be enough to cover first party expenses such as network expenditures, event management costs, notification expenses, support and credit monitoring expenses and network extortion costs. The more significant loss may be in terms of business interruption including loss of revenue and reputation damage. For this reason, we will continue to look for additional limits at reasonable cost. Also, CLLAS may want to investigate higher limits through reinsurance of CLLAS. One



possibility would be to arrange an umbrella policy that protects all firms excess of their existing limits. This would be similar to the shared umbrella policy that CLLAS issues on the professional liability side.

Commission Credit

Our fees for the CLLAS cyber initiative is included under the CLLAS strategic line on the budget. Ascent grants us 15% commission while Ptarmigan provides us with 12.5% commission. Any commissions earned goes toward reducing the CLLAS fees. This is similar to the way we treat commissions on the Associate Member program.

One suggestion from a CLLAS firm was to credit the firm directly based on the amount of cyber coverage and premiums the firm pays. This would have the effect of reducing the cyber premiums for the individual firms. We think this is a good suggestion and should be explored further once we know how many of the CLLAS firms take advantage of this group purchasing opportunity.

Conclusion

Cyber coverage is changing rapidly, and we are encouraged that CLLAS firms are taking advantage of this group buy opportunity before the market gets cold feet. If the market continues to be competitive, then we can negotiate improved terms on behalf of CLLAS in subsequent renewals, especially if all CLLAS firms participate. If this is indeed the case, and all firms participate, then this will give us more flexibility and CLLAS can consider retaining some of the risk in future renewals.



MEMORANDUM

DATE: November 27, 2017
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: September 30, 2017 Financial Management Report

CLLAS' financial management report for the six months ended September 30, 2017 is attached. Included are the following exhibits:

Exhibit I:	Statement of Financial Position
Exhibit II:	Statement of Comprehensive Income
Exhibit III:	Statement of Changes in Equity
Exhibit IV:	Budget Variance Analysis
Exhibit V:	Summary of Risk Metrics
Exhibit VI:	Alberta Maintenance of Reserve and Guarantee Fund

Financial Results

As shown on Exhibit II, CLLAS' underwriting loss for the first nine months of 2017 increased to \$1.76 million, with the total comprehensive loss (after taking into account realized and unrealized gains on the investment portfolio) of just over \$1.7 million. The actuaries strengthened CLLAS' unallocated loss adjustment expense (ULAE) provision, which is the provision carried by CLLAS to account for running of open claims. The ULAE pattern was lengthened from seven years to 10 years to reflect CLLAS's claims history, resulting in a one-time increase in the provision of about \$700,000. This, combined with the social engineering drop-down loss reported in the first quarter, makes up most of the loss for the year to date. As shown on Exhibit I, CLLAS' surplus at September 30, 2017 stood at \$12.7 million.

The Budget Variance (Exhibit IV) shows that expenses for the year are about 2.2% (\$41,000) over budget for the nine month period. This overage is attributable to Axxima's professional services fees related to the special underwriting submission that led to CLLAS securing reinsurance renewal terms in April, CLLAS' revised subscribers agreement and the cyber initiative.

Risk Metrics

Exhibit V presents the results of various "risk metrics" monitored by CLLAS based on what have been identified through the ORSA process as its material risks. The Exhibit shows results for CLLAS at December 31, 2014, December 31, 2015, December 31, 2016 and September 30, 2017 against risk targets



and risk limits. Similar to the prior quarter, the results for September 30, 2017 are within CLLAS' risk tolerances with two exceptions (Lines 1b and 10, discussed below). Items of note include:

- Line 1b: Prior year development on CLLAS' retained losses was 20% (down from 34% at June 30, 2017). This is the result of a single reserve on a drop-down claim and is not a cause for concern. As can be seen from Line 1a, overall losses (including reinsured losses) were stable in the period.
- Line 10: CLLAS held a highly rated money market investment that on September 30, 2017 comprised more than 5% of its non-cash investment portfolio. This type of investment is not subject to the 5% regulatory restriction. As you will in other Board materials, we are proposing a small change to this metric to better reflect this type of situation.
- Line 13: The key regulatory solvency test that CLLAS is required to comply with is known as the Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF"). Details of this calculation are included in Exhibit VI, with the result summarized in Line 13 of Exhibit V. CLLAS must maintain "cash and approved securities" in excess of the reserve fund plus the guarantee fund required by the Alberta regulator. Exhibit VI shows that the CLLAS held cash and approved securities well in excess of the AMRGF requirement at September 30, 2017.
- Line 14: CLLAS also monitors its Minimum Capital Test ratio. At September 30, 2017, CLLAS' MCT ratio was 438%, well above CLLAS' internal target of 210%. Note that mid-year MCT calculations are done on a simplified basis in the interest of efficiency; the "official" MCT calculation is done at year-end.

Please contact me if you have any questions with respect to the management financial statements or the solvency tests.

Sincerely,

Patrick Mahoney
General Manager

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

FINANCIAL MANAGEMENT REPORT

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

QUARTERLY FINANCIAL MANAGEMENT REPORT

September 30, 2017

CONTENTS

Exhibit I	Statement of Financial Position
Exhibit II	Statement of Comprehensive Income
Exhibit III	Statement of Changes in Equity
Exhibit IV	Operating Budget Variance Analysis
Exhibit V	Risk Metrics
Exhibit VI	Alberta Maintenance of Reserve and Guarantee Funds

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF FINANCIAL POSITION
September 30, 2017

	As at September 30, 2017	As at September 30, 2016
ASSETS		
Cash	4,480,204	4,440,576
Short term investments	11,680,827	11,942,115
Bonds	5,086,720	4,888,432
Interest income due and accrued	32,479	28,103
Premium receivable	3,511,476	5,305,172
Other receivable	0	0
Prepaid expenses	209,250	209,250
Deferred policy acquisition costs	154,965	234,036
Unearned reinsurance premium ceded	3,832,939	6,307,930
Reinsurance recoverable	1,001,143	1,444,201
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	98,095,000	95,974,000
	<u>128,085,003</u>	<u>130,773,814</u>
LIABILITIES		
Accounts payable & accrued charges	435,663	403,458
Premium taxes payable	19,496	109,218
Unearned premium	5,339,149	7,935,956
Due to reinsurers	3,386,829	5,473,866
Provision for unpaid claims and adjustment expenses	106,166,000	102,480,000
Premium deficiency liability	0	0
	<u>115,347,136</u>	<u>116,402,497</u>
SUBSCRIBERS' EQUITY		
Surplus	12,767,482	14,210,694
Accumulated Other Comprehensive Income (Loss)	(29,615)	160,622
	<u>12,737,867</u>	<u>14,371,317</u>
	<u>128,085,003</u>	<u>130,773,814</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
For the Period Ending September 30, 2017

	Current Year		Prior Year	
	Quarter September 30, 2017	Year to Date September 30, 2017	Quarter September 30, 2016	Year to Date September 30, 2016
Written Premium	7,138,422	7,138,422	10,610,344	10,610,344
Gross Written Premiums	7,138,422	7,138,422	10,610,344	10,610,344
Less: Reinsurance Ceded	5,124,626	5,124,626	8,433,679	8,433,679
Net Written Premiums	2,013,796	2,013,796	2,176,665	2,176,665
Change in Unearned Premiums	(1,506,209)	(426,822)	(1,628,026)	(427,585)
Earned Premiums	507,587	1,586,974	548,639	1,749,080
Claims Paid	(54,780)	(144,535)	(50,694)	(162,567)
Change in IBNR	800,000	972,000	(2,000)	129,000
Change in Case Reserve	(3,000)	646,000	(7,000)	(11,000)
Premium Deficiency Expense	-	-	-	-
Incurred Claims	742,220	1,473,465	(59,694)	(44,567)
Management and operating expenses	382,646	1,463,990	351,489	1,307,875
Reinsurance fees	69,750	209,250	69,750	209,250
Premium taxes	51,655	205,876	78,012	251,225
Total Operating Expenses	504,051	1,879,115	499,251	1,768,350
Underwriting Gain (Loss)	(738,684)	(1,765,606)	109,082	25,297
Investment Income	52,265	142,859	45,764	125,359
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
NET GAIN/(LOSS)	<u>(686,418)</u>	<u>(1,622,748)</u>	<u>154,845</u>	<u>150,656</u>
Other comprehensive income (loss)				
Unrealized gains (losses) on available for sale financial assets arising during the year	(73,237)	(91,226)	(3,081)	33,195
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	(73,237)	(91,226)	(3,081)	33,195
Total comprehensive income (loss)	<u>(759,655)</u>	<u>(1,713,973)</u>	<u>151,765</u>	<u>183,851</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF CHANGES IN EQUITY
September 30, 2017

	Minimum Surplus	Additional Surplus	Unrealized gains and losses on AFS financial assets	Total Equity
Balance, beginning of year	50,000	14,340,229	61,611	14,451,840
Prior year adjustment		-		-
Comprehensive income (loss) for the year				
Net gain (loss) for the year		(1,622,748)		(1,622,748)
Other comprehensive income (loss)				
Change in unrealized gain on available-for-sale assets			(91,226)	(91,226)
Recognition of realized (gain) loss on available-for-sale assets			-	-
Total comprehensive income (loss) for the year		(1,622,748)	(91,226)	(1,713,973)
Balance at September 30, 2017	50,000	12,717,482	(29,615)	12,737,867

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS
FOR THE PERIOD ENDED September 30, 2017

	Annual Budget	Year to Date Budget %	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
MANAGEMENT SERVICES* (See Note 1)	579,500	75%	434,625	446,916	(12,292)
PROFESSIONAL SERVICES					
Actuarial Services	80,000	80%	64,000	47,834	16,166
Reinsurance Matters	310,000	80%	248,000	282,192	(34,192)
Strategic Matters	160,000	80%	128,000	194,453	(66,453)
Sub-Total Professional Services	550,000		440,000	524,479	(84,479)
GST/HST on Consulting Fees	146,835		113,701	126,281	(12,580)
Total Management & Professional Services * (See Note 2)	1,276,335		988,326	1,097,677	(109,351)
OTHER EXPENSES					
Audit Expenses	107,000	75%	80,250	77,612	2,638
Annual Dinner	7,500	100%	7,500	8,390	(890)
Premium Taxes	289,000	75%	216,750	205,876	10,874
Chairman's Expenses	3,000	75%	2,250	1,473	777
Chairman's Honourarium	150,000	100%	150,000	150,000	-
Reinsurance Expense	8,500	75%	6,375	4,542	1,833
D&O Insurance	20,000	100%	20,000	18,900	1,100
Office Expenses	25,000	75%	18,750	24,446	(5,696)
Office Expenses - Website management software license	3,000	75%	2,250	-	2,250
Claims: Borderaux (LawPro/LIF)	14,600	100%	14,600	14,200	400
Special Services	50,000	75%	37,500	24,695	12,805
Miller Insurance Fees (Reins. Comm.) (See Note 3)	279,000	75%	209,250	209,250	-
I.B.C Statistical Plan Fees	4,000	75%	3,000	1,892	1,108
Assessment Fees	3,000	75%	2,250	2,000	250
Investment counsel fees	30,000	75%	22,500	20,759	1,741
Investment - Custodial	18,000	75%	13,500	13,904	(404)
Risk Management/Loss Prevention	50,000	75%	37,500	-	37,500
License Fee	6,500	75%	4,875	3,500	1,375
Insurance: Sundry	-		-	-	-
Sub-total	1,068,100		849,100	781,438	67,662
TOTAL	2,344,435		1,837,426	1,879,115	(41,689)

*** NOTE 1: MANAGEMENT SERVICES**

The actual budget of \$612,00 has been reduced to \$579,500 as a result of Commissions received on CLLAS associate program.

*** NOTE 2: PROFESSIONAL SERVICES - SEASONALLY WEIGHTED BUDGET**

This is based upon an analysis of the current budget and previous years' experience, the anticipated pattern of seasonal workflow is as follows:

First Quarter, ending March 31st	21%
Second Quarter, ending June 30th	43%
Third Quarter, ending September 30th	16%
Fourth Quarter, ending December 31st	20%
	<u>100%</u>

*** NOTE 3: MILLER INSURANCE FEES (Reins. Comm.)**

The annual budget is based upon the annual fee estimated for the policy period 2016/2017.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
SUMMARY OF RISK METRICS
September 30, 2017

Exhibit V

	Risk Category	Risk Metric	December 31, 2014	December 31, 2015	December 31, 2016	September 30, 2017	Target	Limit
(1a)	Insurance	Prior year development - Gross of reinsurance	-6%	27%	-13%	-5%	≤ 0%	> 20%
(1b)		Prior year development - Net of reinsurance	-33%	-29%	-45%	20%	≤ 0%	> 10%
(2a)		3-year net combined ratio	84%	79%	91%	120%		
(2b)		3-year net combined ratio before surplus adjustments via premiums	81%	74%	78%	96%	≤ 100%	> 125%
(3)		Maximum allocation to a single jurisdiction	57%	56%	56%	60%	n/a	> 67%
(4)	Reinsurance	Reinsurer credit rating	BBB+ to A+	BBB+ to A+	A- to A+	A- to A+	≥ A	< A-
(5)		Maximum concentration with a single reinsurer excl. Colchester	13.3%	11.6%	12.2%	12.8%	≤ 10%	> 15%
(6)	Interest Rate	Interest rate risk per MCT formula at 1.25%	\$201,667	\$162,000	\$112,000	\$221,000	≤ \$250,000	> \$600,000
(7)	Liquidity	Ratio of cash and short-term investments to gross claim liabilities	21%	13%	16%	15%	≥ 15%	< 10%
(8)		Ratio of short term funds to total short & long term funds	69%	64%	69%	70%	≥ 40%	< 20%
(9a)	Asset Default	Credit rating of invested assets	AA to AAA	AA to AAA	AA to AAA	AA to AAA	AA to AAA	< A
(9b)		Credit rating of Bankers Acceptances and Certificates of Deposit	R1 - High	R1 - High	R1 - High	R1 - High	R1-High	< R1-High
(10)		Maximum allocation to a single non-government security	1.6%	2.4%	6.7%	6.8%	n/a	> 5%
(11)	Strategic	Annual Advisory Board turnover	0	0	0	0	≤ 2 members	> 4 members
(12)	Operational	Key management/advisor turnover	0	0	0	0	≤ 1 per 3 years	> 1 per year
(13)	Regulatory Solvency Indicators	AMRGF - Excess of cash and approved securities over required reserve and guarantee fund	\$8,020,000	\$6,934,000	\$9,595,000	\$7,201,500	\$3,500,000 to \$7,000,000	< \$3,500,000
(14)		MCT	346%	359%	464%	438%	≥ 210%	< 210%

Notes

(1) = Year-over-year change in ultimate losses / Prior year undiscounted unpaid claims (excl. ULAE); net development in 2017 is mainly due to one claim of \$650,000

(2a) = [3-year net incurred losses + 3-year operating expenses] / [3-year net earned premiums]; only experience after June 30, 2012 has been considered in the 2014 combined ratio to exclude the effect of the LPT transaction

(2b) = (2a), where 3-year net earned premiums reflect actuary's indicated premium rates before surplus distributions

(3) Based on insured lawyer counts

(4) Based on A.M. Best. information from report on reinsurance security (October 31, 2017). Note that in 2013 and 2014, there was only one reinsurer with credit rating of BBB+ (Alleghany Corporation, formerly Transatlantic Reinsurance Company)

(5) Based on claim liabilities exposure. Lloyds syndicates are assessed separately. 2014 information from report on reinsurance security (September 23, 2014); 2015 information from report on reinsurance security (October 30, 2015); 2016 information from report on reinsurance security (October 21, 2016).

(10) Maximum allocation does not consider cash and cash equivalents. At September 30, 2017, the largest non-government security is a money market investment rated R1-High maturing on October 10, 2017.

(12) Includes principal attorney, general manager, accountant, auditor, actuary, reinsurance broker and excess insurance broker.

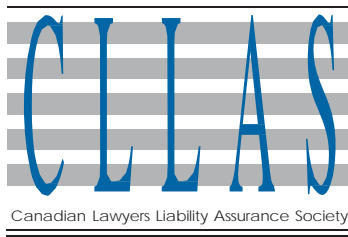
(14) For Provincially Regulated Insurance Entities that are required to file the MCT on an annual basis, the capital impact of the revised Guideline must be phased-in over three years, starting with the first year ending in 2015. The 2014 MCT ratio shown above calculated based on the old MCT guidelines.

Color Code
Meets Target
Between Target and Limit
Exceeds Limit

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
For the Period Ending September 30, 2017

ALBERTA MAINTENANCE OF RESERVE AND GUARANTEE FUNDS
 (Section 99 and 100)

	Current Year to Date 9/30/2017 (in \$000's)	Prior Year End 9/30/2016 (in \$000's)
<u>Reserve Fund</u>		
Premiums collected or credited having one year or less to run	(1) 7,138	10,610
Less: Amount paid to licensed reinsurers	(2) 5,125	8,347
Premiums collected with more than one year to run, less expired portion	(3) -	-
Less: Amount paid to reinsurers on premiums on line 3, less expired portion.	(4) -	-
Subtotal (lines 1, minus line 2, plus line 3, minus line 4)	(5) 2,013	2,263
Reserve Fund Required (50% of Line 5)	(6) 1,007	1,132
<u>Guarantee Fund</u>		
Total Liabilities	(7) 115,347	116,402
Less: Unearned Premiums	(8) 5,339	7,936
Less: Recoverable from licensed reinsurers	(9) 97,018	94,858
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 13,040	13,658
TOTAL RESERVE & GUARANTEE FUND REQUIRED (Line 6+11)	(12) 14,047	14,790
Cash & Approved Securities	(13) 21,248	21,271
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 7,202	6,482



MEMORANDUM

DATE: November 27, 2017
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: CLLAS Subscribers' Accounts as at June 30, 2017

You will find attached to this memo the Subscribers' Accounts for the year ended June 30, 2017.

I look forward to discussing the attached with you at the up-coming Board meeting.

CLLAS SUBSCRIBERS' ACCOUNTS

STATEMENT OF FINANCIAL POSITION AND STATEMENT OF OPERATIONS BY UNDERWRITING PERIOD
FOR THE YEAR ENDED JUNE 30, 2017

LAW FIRMS:

- 1 Blake, Cassels & Graydon LLP
- 2 Borden Ladner Gervais LLP
- 3 Fasken Martineau DuMoulin LLP
- 4 Davies Ward Phillips & Vineberg LLP
- 5 Dentons Canada LLP
- 6 Goodman and Carr LLP
- 7 Goodmans LLP
- 8 McCarthy Tetrault LLP
- 9 McMillan LLP
- 10 Osler, Hoskin & Harcourt LLP
- 11 Torys LLP
- 12 WeirFoulds LLP
- 13 Cassels, Brock & Blackwell LLP

UNDERWRITING PERIODS:

- 1 1987/1988 to 1991/1992
- 2 1992/1993 to 1996/1997
- 3 1997/1998 to 2001/2002
- 4 2002/2003 to 2006/2007
- 5 2007/2008 to 2011/2012
- 6 2012/2013 to 2016/2017

CLLAS SUBSCRIBERS' ACCOUNTS
UNDERWRITING PERIODS CONSOLIDATED
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2017

SUBSCRIBER	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
ASSETS														
Net Asset Account	2,336,308	2,571,470	1,499,096	706,452	2,372,365	0	1,101,665	2,289,600	1,634,388	2,061,343	1,403,840	449,955	993,266	19,419,748
Accrued Interest	1,842	2,965	1,946	828	2,554	0	1,159	2,517	1,673	2,205	1,551	488	1,052	20,780
Premium Receivable	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Reinsurance Receivable	13,697	236,360	175,670	59,320	175,856	0	79,008	167,495	109,507	137,767	100,653	33,872	74,911	1,364,114
Prepaid Expenses	0	19,772	14,724	4,465	14,359	0	5,719	13,935	8,016	11,481	9,025	2,676	5,496	109,668
Total Assets	2,351,848	2,830,567	1,691,435	771,065	2,565,134	0	1,187,552	2,473,547	1,753,583	2,212,796	1,515,069	486,990	1,074,725	20,914,311
LIABILITIES														
Undiscounted Case Reserves	0	119,347	88,876	29,852	88,882	0	39,949	83,627	54,321	69,353	51,687	17,211	37,895	681,000
Undiscounted IBNR	122,965	544,086	402,197	137,970	402,907	0	181,096	396,177	265,301	319,556	219,684	76,493	171,569	3,240,000
Impact of Discounting and Provision for Adverse Deviation	218,743	545,411	400,868	139,767	402,096	0	180,740	408,710	279,663	322,959	207,828	75,150	171,065	3,353,000
Accrued Expenses	0	24,934	20,561	7,329	18,332	0	7,195	18,698	9,688	14,765	11,065	3,597	6,627	142,792
Total Liabilities	341,708	1,233,778	912,502	314,918	912,218	0	408,979	907,212	608,974	726,633	490,264	172,450	387,157	7,416,792
SUBSCRIBERS' EQUITY														
Total Subscribers' Equity	2,010,140	1,596,788	778,933	456,147	1,652,917	0	778,572	1,566,335	1,144,610	1,486,163	1,024,805	314,540	687,568	13,497,518
Total Liabilities and Equity	2,351,848	2,830,567	1,691,435	771,065	2,565,134	0	1,187,552	2,473,547	1,753,583	2,212,796	1,515,069	486,990	1,074,725	20,914,310

CLLAS SUBSCRIBERS' ACCOUNTS
UNDERWRITING PERIODS CONSOLIDATED
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2017

Exhibit 1
Page 2

SUBSCRIBER	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
Direct Written Premium	-	1,842,990	1,571,309	549,652	1,287,075	-	536,214	1,404,972	723,084	1,110,182	837,683	250,861	496,322	10,610,344
Retroassessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross Written Premium	-	1,842,990	1,571,309	549,652	1,287,075	-	536,214	1,404,972	723,084	1,110,182	837,683	250,861	496,322	10,610,344
Reinsurance Ceded	-	1,462,425	1,259,289	441,179	1,011,131	-	424,800	1,122,031	574,430	883,210	665,517	196,519	393,148	8,433,679
Net Written Premium	-	380,565	312,020	108,473	275,944	-	111,414	282,941	148,654	226,972	172,166	54,342	103,174	2,176,665
Change in Unearned Premium	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Earned Premium	-	380,565	312,020	108,473	275,944	-	111,414	282,941	148,654	226,972	172,166	54,342	103,174	2,176,665
Claims Paid	(27,785)	(29,453)	(21,158)	(7,704)	(21,368)	-	(9,799)	(23,660)	(17,903)	(17,610)	(8,664)	(3,677)	(9,336)	(198,116)
Change in Undiscounted Case Reserves	-	114,435	85,234	28,636	85,220	-	38,280	80,206	52,021	66,530	49,618	16,519	36,302	653,000
Change in Undiscounted IBNR	(14,009)	22,629	18,333	6,400	16,611	-	5,938	15,173	3,792	14,945	15,624	4,642	4,924	115,000
Change in Impact of Discounting and Provision for Adverse Deviation	(22,939)	2,910	3,541	1,057	1,954	-	(50)	(802)	(4,888)	2,401	6,727	1,551	(464)	(9,000)
Incurred Claims	(64,733)	110,522	85,950	28,389	82,415	-	34,369	70,917	33,023	66,267	63,305	19,035	31,426	560,884
Operating Expenses	4,144	364,582	294,267	104,449	268,684	-	108,100	271,164	146,406	215,360	161,120	52,678	99,613	2,090,567
Premium Tax	-	54,975	42,256	12,384	39,311	-	16,481	39,282	23,020	31,868	24,997	7,444	16,425	308,442
Total Expenses	4,144	419,556	336,523	116,833	307,995	-	124,580	310,445	169,426	247,228	186,117	60,123	116,037	2,399,009
Underwriting Gain (Loss)	60,589	(149,512)	(110,453)	(36,749)	(114,466)	-	(47,536)	(98,422)	(53,795)	(86,523)	(77,256)	(24,816)	(44,289)	(783,228)
Investment Income	16,128	25,846	16,907	7,232	22,286	-	10,112	21,942	14,597	19,248	13,561	4,268	9,153	181,279
Other Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Gain (Loss)	76,718	(123,667)	(93,546)	(29,518)	(92,181)	-	(37,424)	(76,480)	(39,198)	(67,275)	(63,696)	(20,547)	(35,136)	(601,949)
Other Comprehensive Income	(10,646)	(17,131)	(11,245)	(4,787)	(14,760)	-	(6,697)	(14,546)	(9,667)	(12,740)	(8,964)	(2,822)	(6,077)	(120,081)
Total Comprehensive Income	66,072	(140,798)	(104,791)	(34,305)	(106,941)	-	(44,121)	(91,026)	(48,865)	(80,015)	(72,659)	(23,369)	(41,213)	(722,030)



MEMORANDUM

DATE: November 27, 2017
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: Blakes Withdrawal from CLLAS

You will recall that Blakes withdrew from CLLAS on June 30, 2012 and that the general expectation is that a departed Subscriber's surplus position in CLLAS will be reviewed after five years to determine whether an interim payment to the Subscriber by way of refund of premiums is appropriate.

CLLAS' Subscribers' Accounts as at June 30, 2017 have been provided under separate cover. Those accounts show that Blakes' share of CLLAS' \$13.5 million of surplus is just over \$2 million. CLLAS' overall financial performance is reasonably stable, and older years (Blakes is only exposed to its share of CLLAS' claims for years prior to July 1, 2012) should be even more stable as time passes. However, a departed Subscriber remains responsible for its share of CLLAS' claims for the period it participated in CLLAS until no further liability for those claims exists. Given the long-tail nature of CLLAS' claims, it could take 10 or even 15 years to run off all those claims.

CLLAS will want to retain a prudent amount of Blakes' surplus until the old claims can be quantified with a high degree of certainty. However, an interim payment by way of refund of premium seems appropriate.

We had asked Julie-Linda Laforce to review this matter in June 2016, to assist us in managing Blakes expectations with respect to timing and quantum. She recently updated that analysis based on June 30, 2017 information. Memos summarizing the results of these reviews (which have not been shared with Blakes) are attached.

In summary, Julie-Linda advises that a return to Blakes in the range of \$1.0 million to \$1.5 million still leaves CLLAS with ample surplus to address any residual volatility in the older claims years. By way of illustration, Julie-Linda advised in 2016 that there was an estimated 95% probability that a surplus distribution of almost \$2.0 million would leave CLLAS with sufficient assets to cover future liabilities. She further stress tested this with an additional full-limits loss. This had minimal impact on CLLAS (and on Blakes) due to its reinsurance arrangements.

Nick and I have had annual discussions with Blakes over the past five years. In our most recent discussions (about a year ago, with Julie-Linda's 2016 analysis in mind) we advised Blakes that while the Board had not formally considered the matter, we expected that it would be prepared to authorize a distribution by means of refund of premiums of about \$1.0 million assuming that June 30, 2017 financial information remained



consistent with prior years. Blakes has followed up on this discussion and we have simply advised them that the matter is being considered at CLLAS' December 6, 2017 meeting.

Assuming the interim payment will be made in the near future, we can expect Blakes to ask what can be expected in future years. Based on discussions with CLAS' actuaries, I believe that there are two approaches open to CLLAS:

1. Hold off on any further interim payments for five years, i.e. until June 30, 2022. Review the financial information at that point and plan to make a second substantial interim payment, retaining only a small amount of surplus as considered prudent at the time. Discuss with Blakes whether a full settlement is possible, with Blakes agreeing to forego a part of its surplus in return for a release from any future obligations to CLLAS.
2. Plan to make small annual interim payments on a basis recommended by the actuary for the next four years and then at June 30, 2022 proceed as outlined in 1. above.

Option 1 is the more conservative approach, and allows CLLAS to retain more of Blakes funds while the claims run off. It is also simpler from an administration perspective. We can expect that Blakes would prefer the annual interim payments. Having said that, I expect that Blakes would be satisfied with Option 1 (or at least with deferring consideration of another interim payment for a few years) if the quantum of the initial payment is nearer the upper end of the range recommended by CLLAS' actuary.

If the Board approves the return of \$1.0 million, I would suggest annual interim payment be made (perhaps at say \$125,000-150,000 per year) subject to material adverse development. If instead the Board approves a payment of \$1.5 million, I would be inclined to advise Blakes that we intend to review this matter again in 2022. If Blakes indicates a desire to negotiate a final resolution of its obligations to CLLAS (which would require it to forgo a portion of its surplus to provide CLLAS a buffer against adverse claims development) we would ask CLLAS' actuary to update the review done in 2016 and provide recommendations to the Board.

Blakes has indicated that it would be very helpful from its perspective if it could receive payment before the end of 2017.

I look forward to discussing this at the up-coming Board meeting.

Sincerely,

Patrick Mahoney
General Manager

MEMORANDUM

DATE: November 20, 2017
TO: Patrick Mahoney
FROM: Julie-Linda Laforce
RE: CLLAS: Blakes June 30, 2017 Surplus Return

Blake, Cassels & Graydon LLP ("Blakes") withdrew from CLLAS effective June 30, 2012. Pursuant to CLLAS' Reciprocal Insurance Exchange Agreement, Blakes may be entitled to refund of premiums previously paid based on the surplus it has accumulated in CLLAS as of June 30, 2017.

We performed an in-depth analysis under various scenarios in June 2016 based on the June 30, 2015 Subscribers' Accounts where we had estimated Blakes' surplus as at June 30, 2017 under various scenarios:

- At the mean level;
- At the 75th, 85th and 95th percentiles;
- Assuming additional losses of \$25,000,000 and \$49,000,000 materializing in 2011/2012.

We note that percentiles represent probability levels of meeting a certain threshold. For example, surplus at the 95th percentile implies that we estimate that a given surplus position will be sufficient in 95% of scenarios.

As of June 30, 2015, Blakes had a surplus position \$1,856,000. Our recommendations at that time provided support for a refund of premiums in the range of \$1,000,000 to \$1,500,000 to Blakes as at June 30, 2017.

We had also noted that the refund of premiums implies, at the reciprocal level, a reduction in funds available to meet regulatory solvency tests. We had no concern with CLLAS meeting the MCT and the AMRGF test required by the Alberta Regulator.

As of June 30, 2017, Blakes' actual surplus position has increased to \$2,010,140. We therefore continue to support our prior recommendation of a refund to Blakes in the range of \$1,000,000 to \$1,500,000.

Please do not hesitate to contact us should you wish to discuss these matters with us.

MEMORANDUM

DATE: June 29, 2016
TO: Patrick Mahoney
FROM: Sarah Ashley Chevalier, Julie-Linda Laforce
RE: CLLAS: Blakes Withdrawal

Purpose and Scope

Blake, Cassels & Graydon LLP ("Blakes") withdrew from CLLAS effective June 30, 2012. Pursuant to CLLAS' Reciprocal Insurance Exchange Agreement, Blakes may be entitled to a share of the surplus it has accumulated in CLLAS starting June 30, 2017.

The purpose of this memo is to assist CLLAS in quantifying the risk associated with returning surplus to Blakes. We have estimated Blakes' surplus as at June 30, 2017 under various scenarios:

- At the mean level;
- At the 75th, 85th and 95th percentiles;
- Assuming additional losses of \$25,000,000 and \$49,000,000 materializing in 2011/2012.

We note that percentiles represent probability levels of meeting a certain threshold. For example, surplus at the 95th percentile implies that we estimate that a given surplus position will be sufficient in 95% of scenarios.

Data

Our projections rely on the following:

1. Subscribers' accounts as at June 30, 2015;
2. Claims data and actuarial valuation report as at December 31, 2015;
3. Audited financial statements as at December 31, 2015; and
4. P&C-1 annual return as at December 31, 2015.

The analysis and results are based on the data provided by CLLAS. Axxima has relied on such data without any detailed audit or verification, but has performed checks necessary to verify that the information provided is sufficient and reliable for the purpose of this analysis.



Axxima does not assume responsibility for the result of any error or omission in the data or other materials provided for the preparation of this analysis. The accuracy of results is dependent upon the accuracy and completeness of the underlying data; therefore, any material discrepancies discovered in the data provided by CLLAS to Axxima should be reported and this analysis should be amended accordingly, if warranted.

It is virtually certain that actual future incurred losses, operating expenses and investment income will not emerge exactly as projected and may, in fact, deviate from our estimates by a significant margin. By its nature, the CLLAS insurance program is subject to statistical and other deviations in its experience. As a result, we cannot guarantee the projections of future surplus position as being the extent of CLLAS' maximum exposure to loss.

Methodologies and Assumptions

In order to project Blakes' financial position as at June 30, 2017 at various percentiles, we applied the following methodology:

1. We projected the net claims experience between June 30, 2015 (i.e. most recent subscribers' accounts) and June 30, 2017 at the mean level and under various scenarios.

In order to determine the losses at the 75th, 85th and 95th percentiles, we first examined the volatility associated with the claims experience in the various insurance layers using a stochastic model. Then, we projected ultimate losses at various confidence levels based on this model, while also taking into consideration the stage of maturity of each policy year. For example, we would expect less volatility on period 2002/2003 than on period 2011/2012, given that more time has elapsed for claims to be reported and paid. No volatility or further development was assumed on claims from policy periods prior to 2002/2003.

For stress scenarios with additional losses, we projected one additional loss of \$25,000,000 and \$49,000,000 (i.e. full limit claim) in 2011/2012.

Based on the above, we estimated net undiscounted claims liabilities as at June 30, 2017 as well as claims paid between June 30, 2015 and June 30, 2017 based on the claims payment pattern and reinsurance structure in place in each policy period.

Claims liabilities were then determined based on Canadian actuarial standards of practice, i.e. they include a provision for ULAE, they are discounted to reflect the time value of money and they include provisions for adverse deviation. All assumptions from the most recent actuarial valuation report were replicated.

2. We projected Blakes' surplus position as at June 30, 2017 at the mean level and under the various scenarios based on the financial position as at June 30, 2015 (i.e. most recent subscribers accounts) and the following:

- Net claims payments and claims liabilities described in Step 1. above, reflecting Blakes' participation percentage;
- Annual operating expenses identical to those attributed to Blakes in the subscribers' accounts for the year ended June 30, 2015;
- Net investment income earned at a rate of 1.50% per year, based on the yield to maturity of investments as at December 31, 2015; and
- No other income or expenses.

Results

Based on the data, methodologies and assumptions described above, Blakes' surplus as at June 30, 2017 is estimated as follows:

	Net Assets	Net Liabilities	Surplus
Actual as at June 30, 2015	\$2,297,000	\$441,000	\$1,856,000
Projected as at June 30, 2017			
Mean Level	\$2,337,000	\$272,000	\$2,065,000
75 th Percentile	2,337,000	290,000	2,047,000
85 th Percentile	2,337,000	318,000	2,019,000
95 th Percentile	2,337,000	354,000	1,983,000
Additional claim of \$25,000,000	2,337,000	390,000	1,947,000
Additional claim of \$49,000,000	2,337,000	503,000	1,834,000

The assets are expected to consist of invested assets only and the liabilities are expected to consist of unpaid claims only. We note that the assets do not vary since no variability is expected on cash flows (i.e. no payments are expected since claims are fully reinsured due to the loss portfolio transfer with Colchester, operating expenses are also assumed to be fixed and therefore investment income is also assumed to be fixed).

Based on the above, the surplus available for distribution is \$2,065,000 at the mean level and there is an estimated 95% probability that a surplus distribution of \$1,983,000 will leave sufficient assets to cover future liabilities as at June 30, 2017. If a full limit claim materialized in policy year 2011/2012, Blakes' surplus would be expected to dip down to \$1,834,000.

Due to its reinsurance structure, CLLAS transfers insurance risk to its reinsurers and its exposure is limited to the default of (or dispute with) other parties. We note, however, that claims liabilities were calculated based on standards of practice and therefore the claims liabilities (and surplus) reflect an explicit provision of 3.5% for reinsurance default.

Recommendations

CLLAS could consider returning Blakes' surplus in multiple installments pending the full payment of all claims liabilities. The following options for a first partial surplus distribution could be considered:

1. Percentile of surplus at June 30, 2017 (as shown in the table in the previous page): For example, giving out the 95th percentile surplus of \$1,983,000 would leave CLLAS with an estimated 5% probability of deficit where additional funds would need to be collected from Blakes.

Our projections assume that the only significant source of volatility comes from claims experience. For this reason, CLLAS could consider paying out only a portion of the percentile of surplus, such as 50% or 75% of \$1,983,000, in order to maintain surplus for sources of adverse deviation other than claims, such as operational risk, regulatory risk, liquidity risk, strategic risk and other risks identified in the ORSA.

2. Excess of internal target of 210%: This option would require calculating the surplus required equivalent to an MCT of 210% for Blakes only. We estimate this surplus requirement to be in the range of \$375,000 to \$425,000 as at June 30, 2017. The surplus distribution would be equivalent to the excess of this target as at June 30, 2017.
3. Surplus in older Underwriting Periods: As at June 30, 2015, Blakes' surplus of \$1,856,000 included \$1,076,000 of surplus in Underwriting Periods 1 and 2. CLLAS could consider distributing the amounts in these older policy periods and maintain the surplus from subsequent Underwriting Periods pending the payment of all claims liabilities.

In summary, Options 1 to 3 would provide support for a surplus distribution in the range of \$1,000,000 to \$1,500,000 to Blakes as at June 30, 2017.

Impact to Remaining CLLAS Subscribers

The maintenance of accounting records based on subscriber participation implies that, to a large extent, the other subscribers' accumulated surplus is not directly impacted by Blakes' departure. However, returning Blakes' share of surplus implies, at the reciprocal level, a reduction in funds available to meet regulatory solvency tests.

For example, based on the financial position as at December 31, 2015, a return of surplus of \$1,000,000 (i.e. approximately 50% of the estimated mean surplus available for distribution at June 30, 2017) would have the following effect on CLLAS' solvency indicators:



As at December 31, 2015	Actual Audited	Proforma Assuming Surplus Return of \$1,000,000	CLLAS Target
Excess of AMRGF	\$6,934,000	\$5,934,000	\$3,500,000 to \$7,000,000
Minimum Capital Test			
(a) Capital Available	\$12,982,000	\$11,982,000	
(b) Capital Required at 100%	\$3,610,000	\$3,610,000	
(c) MCT Ratio = (a) / (b)	360%	332%	210%

Each dollar of surplus returned to Blakes reduces the cash and approved securities which can be used to meet the AMRGF.

Similarly, each dollar of surplus returned to Blakes reduces the capital available in the MCT. The capital required would not be significantly impacted given that the assets which would be liquidated to pay the surplus distribution are invested in conservative asset classes which require very little regulatory capital. Based on the December 31, 2015 results, each million dollars of surplus distribution would translate into a decrease of 28 points in the MCT ratio.

Please do not hesitate to contact us should you wish to discuss these matters with us.



MEMORANDUM

DATE: November 27, 2017
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: Interim ORSA Update and ERM Policy

Attached is a brief Interim Update of CLLAS' Own Risk and Solvency Assessment (ORSA). This report is in draft for discussion and does not need to be formally adopted until the February 21, 2018 meeting. As you can see, the report confirms that the current surplus target of 210% remains appropriate and should be maintained.

The report also recommends a minor change to one of CLLAS' "key metrics", specifically that fixed income investments issued by Canadian chartered banks be subject to a higher concentration limit (10% as opposed to 5%) than other fixed income investments. This higher limit remains in compliance with applicable regulations and the change is intended to facilitate the quarterly monitoring of CLLAS' risk targets and limits.

The attached Interim Update will be presented at the February 21, 2018 Board meeting for approval, after which it will be filed with the Alberta regulator.

I look forward to discussing the attached at the up-coming meeting.

Sincerely,

Patrick Mahoney
General Manager



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Own Risk and Solvency Assessment Interim Update

Draft Report
February 21, 2017



This report constitutes the fiscal year 2017 interim update to the Own Risk and Solvency Assessment (“ORSA”) for the Canadian Lawyers Liability Assurance Society (“CLLAS”). The full ORSA report was adopted by CLLAS on February 24, 2016.

Management Analysis and Recommendations

1. Since the last ORSA analysis was performed, there was no material change to CLLAS’ risk profile and therefore management recommends that the current surplus target based on an MCT ratio of 210% be maintained.
2. Management reviewed and recommends the following change to the targets and limits for risk metrics:

The maximum allocation to a single non-government security metric currently has a limit of 5% based on the concentration limits imposed in the *Alberta Insurance Act*. Because the *Act* allows for investments in excess of 5% in banks and that CLLAS’ investment policy allows for fixed-income instruments issued by Canadian banks rated R-1 or higher, management recommends that the limit be changed to 10% for individual investments associated with Canadian banks and remain at 5% for all other investments. The targets for maximum concentration should be set at 75% of the limit, or 7.5% and 3.75% for Canadian banks and other investments respectively.

3. Risk metrics for individual risk categories should continue to be monitored quarterly and the overall internal target of 210% and the targets and limits for individual risk metrics should be reviewed in 12 months.
4. The Enterprise Risk Management Policy should be revised to reflect Recommendation #2 above.

Recommendations Adopted by the Advisory Board

[To be added in final report]

[Sample wording: The Advisory Board is satisfied that there was no material change in CLLAS’ risk profile. There was no change in risk appetite since the last ORSA and all management recommendations were adopted.]



MEMORANDUM

DATE: November 28, 2017
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: Related Party Transaction Policy
Outsourcing Policy

The Alberta Superintendent of Insurance (“ASOI”) has adopted OSFI guidelines which, among other things, require regulated entities to implement policies in the following areas:

- related party transactions, and
- outsourcing.

Both the OSFI guidelines and the Alberta *Insurance Act* (the “Act”) provide some guidance on the requirements for these policies. For example, the Act requires a regulated entity to define “minor or general expenditure” and to establish written review and approval procedures for related party transactions. Draft policies were reviewed at CLLAS’ September 6, 2017 Board meeting.

The Board provided feedback on the policies, specifically (1) to ensure that the Related Party Transaction Policy did not affect CLLAS’ ability to retain the most effective defence counsel and (2) to ensure that the Outsourcing Policy focused specifically on outsourced tasks as distinct from services (such as the financial audit) which could never be in-sourced.

Attached for the Board’s consideration are blacklined draft policies showing the changes from the September 2017 drafts. I look forward to discussing the attached drafts at the up-coming Board meeting.

Sincerely,



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Related Party Transaction Policy

Last Updated

December~~September~~ 6, 2017

DRAFT



RELATED PARTY TRANSACTION POLICY

Effective date: [DATE]

1. Purpose and Scope

The purpose of this policy is to ensure the proper approval and disclosure of related party transactions. This policy documents the following:

- The definition of related party;
- Prohibited and permitted related party transactions under this policy;
- Required disclosures and procedures; and
- Roles and responsibilities with regards to related party transactions.

This policy applies to all activities, functions, processes and operations of the Reciprocal and should be read in conjunction with CLLAS's Outsourcing Policy and Part 2, Subpart 12 of the Alberta Insurance Act (the "Act") on transactions with related parties.

2. Definition of Related Party

Related parties include the following¹:

- A CLLAS Subscriber or an entity controlled by a CLLAS Subscriber;
- An entity that controls CLLAS;
- A board member or senior official of CLLAS, or of an entity that controls CLLAS;
- A spouse, partner, child less than 18 years of age of a board member or senior official of CLLAS, or of an entity that controls CLLAS; and
- An entity designated by the regulator as a related party.

The regulator may designate² any person as a related party if it is of the opinion that there is an interest or relationship between the person and CLLAS that might reasonably be expected to affect the exercise by CLLAS of its best judgment with respect to a transaction.

3. Definition of Minor or General Expenditure

A minor or general expenditure is either an expenditure which has been included in the annual budget approved by CLLAS or an expenditure which meets the following criteria:

- It does not involve a material outsourcing arrangement as defined in Section 3 of CLLAS' Outsourcing Policy;

¹ The full definition of related party is set out in Section 434(1) of the Act.

² The full list of reasons a person may be designated by the regulator is set out in Section 435 of the Act.



- The consideration for the goods or services supplied by the related party must be reasonable and at or below fair market rate; and
- The value of the transaction, together with all transactions with the same related party in the previous 12 months, must not exceed \$100,000.

4. Related Party Transactions³

CLLAS may enter into a transaction with a related party if:

- It is a minor or general expenditure;
- It is not a minor or general expenditure, but the consideration for the goods or services supplied by the related party is determined by the Board to be reasonable and at or below fair market rate, and the transaction is reviewed and approved in accordance with Section 5; or
- It is approved by the Minister in accordance with Section 443 of the Act.

Except as otherwise permitted under the policy:

- CLLAS may not, directly or indirectly, enter into any transaction with a related party;
- A related party may not, directly or indirectly, enter into any transaction with CLLAS; and
- CLLAS may not, directly or indirectly, make an investment in any securities of a related party.

Nothing in this policy will operate to prevent:

- The management and payment of claims under insurance policies issued by CLLAS, including the retention of defence counsel, expert witnesses, etc.;
- The determination and collection of premiums or assessments pursuant to CLLAS' Rate Setting Policy and/or Surplus Management Policy;
- The distribution of surplus by means of premium credit or otherwise in accordance with CLLAS' Rate Setting Policy and/or Surplus Management Policy;
- Remuneration paid to a senior officer of CLLAS included in the annual budget approved by CLLAS; or
- Indemnification payments mandated under CLLAS' Subscribers Agreement⁴.

5. Procedures for Review and Approval

Following are the review and approval procedures to be followed by CLLAS when considering a related party transaction:

1. The specific nature of the related party interest should be documented.
 - If CLLAS knows or has reason to believe that a party is a related party, CLLAS must take all reasonable steps to obtain from the other party full disclosure in writing of the nature and extent of their interest in or relationship with CLLAS.

³ In accordance with Section 439 of the Act.

⁴ In accordance with Section 438(a) of the Act.



- A related party must forthwith disclose the nature and extent of any potential conflict of interest in writing to CLLAS or request to have such entered in the meeting minutes.
 - CLLAS must not enter into the transaction until it has satisfied itself that it has received appropriate disclosure in respect of a proposed transaction.
2. A formal written contract between CLLAS and the related party must be prepared.
 3. A contract with a related party can only be approved, modified or terminated (other than by natural expiry) in writing on resolution approved by the Board. A related party must not vote or attempt in any way to influence the voting on any such resolution or be present while the vote is being conducted⁵.

Within 12 months of the adoption of this policy, CLLAS will review all existing transactions to confirm compliance with the policy.

6. Responsibilities

The Board is responsible for the following:

- Periodically approving the related party transaction policy;
- Periodically reviewing the criteria for what constitutes minor or general expenditures;
- Approving related party transactions.
- Reviewing the related party transaction policy at least once every five years or more frequently if circumstances dictate.

The General Manager is responsible for the following:

- Implementing the related party transaction policy and any associated procedures;
- Monitoring related party transactions and communicating any significant risks to the Board.

7. Authority

The Board has the authority to make revisions to this policy and to approve related party transactions.

8. History of Modifications

The rate setting policy was first approved by CLLAS on [DATE].

⁵ Section 355(1) of the Act outlines certain exceptional circumstance in which a conflicted director may vote.



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Outsourcing Policy

Last Updated

December~~September~~ 6, 2017

DRAFT



OUTSOURCING POLICY

Effective date: [DATE]

1. Purpose and Scope

An outsourcing arrangement is an agreement between CLLAS and a service provider, whereby the service provider performs a business activity, function or process that could be undertaken by CLLAS itself. CLLAS ultimately retains the responsibility for all outsourced activities.

The purpose of this policy is to document the following:

- The outsourcing philosophy;
- The procedures and processes to manage outsourcing risk;
- The due diligence process in the selection of service providers; and
- The roles and responsibilities with regards to outsourced activities.

This policy applies to all activities, functions or processes outsourced to external service providers that could otherwise be undertaken by CLLAS itself. The robustness of outsourcing risk management should be commensurate with the materiality of the arrangement.

2. Outsourcing Philosophy

CLLAS does not have employees and therefore outsources ~~all~~ its management/operational requirements. This allows CLLAS to reduce its operating costs, leverage the expertise of external service providers, and continue to offer competitively-priced insurance coverage to its members.

Outsourcing risk is the risk that outsourced functions will not be appropriately fulfilled and will negatively impact CLLAS' operations, reputation or financial position. CLLAS minimizes this risk through building long-term relationships based on a careful selection process and monitoring of its service providers. In selecting its service providers, CLLAS strives to achieve a balance between expertise, service and reasonable cost.

A list of all outsourced operations is contained in Appendix 1 to this policy. All operations are overseen and managed by the office of the General Manager, which itself is overseen by the Chair of CLLAS. All outsourced functions are ultimately under the responsibility and oversight of the Board.

3. Materiality Assessment for Outsourcing Arrangements

The materiality of an outsourcing arrangement refers to the extent to which it has the potential to have an important influence on the operations of CLLAS. CLLAS would consider the following in assessing the materiality of its outsourcing arrangements:



- The impact of the outsourcing arrangement on the finances, reputation and operations of CLLAS;
- The ability of CLLAS to maintain appropriate internal controls and meet regulatory requirements;
- The cost of the outsourcing arrangement; and
- The degree of difficulty and time required to find an alternative service provider or to “in-source” the activity.

4. Policies and Procedures to Manage Risks Associated with Material Outsourcing Arrangements

The selection of service providers should be subject to due diligence, which may include examining service providers in light of the following factors:

- Experience and technical competence to implement and support the outsourced activity;
- Compatibility between CLLAS management and personnel of service provider;
- Financial strength;
- Business reputation, complaints, compliance and pending litigation;
- Internal controls, reporting and monitoring environment;
- Business continuity and contingency measures;
- Reliance on sub-contractors;
- Insurance coverage; and
- Service philosophy and business culture.

The due diligence process should also include an assessment of the strengths, weaknesses, opportunities and threats associated with the outsourcing arrangement. CLLAS should ensure that records necessary to sustain business operations and meet statutory obligations (e.g., subscribers’ agreement, audited financial statements) are readily available. Risk mitigation, including the due diligence process, should vary with the nature of the outsourcing arrangement.

5. Outsourcing Arrangements

The terms of each material outsourcing arrangement entered into by CLLAS should be documented in a written contract that addresses all elements of the arrangement. Appendix 2 outlines the key contractual provisions that should be considered for each outsourcing arrangement.

6. Monitoring and Oversight of Material Outsourcing Arrangements

CLLAS periodically monitors all material outsourcing arrangements to ensure that the service is being delivered in the manner expected and in accordance with the terms of the outsourcing contract and CLLAS’s outsourcing policy. The scope of the review is commensurate with the nature of the outsourcing arrangement.



7. Prohibited Outsourcing Arrangements

CLLAS will not outsource the following activities to its external auditor:

- Any actuarial service, with the exception of the external review of the appointed actuary's work in accordance with OSFI Guideline E-15 where the peer reviewer may be an actuary working in the company's external auditor firm.
- Any internal audit service related to the internal accounting controls, financial systems or financial statements of CLLAS, unless it is reasonable to conclude that the results of the service will not be subject to audit procedures during an audit of CLLAS's financial statements.

8. Responsibility for Outsourcing Arrangements

The Board is responsible for the following:

- Approving policies and procedures for the outsourcing of business activities, including the materiality criteria;
- Ensuring that the outsourcing of material business activities is carried out in accordance with risk management policies and practices of CLLAS;
- Approving the outsourcing agreements;
- Monitoring the performance of outsourced activities based on established performance targets;
- Reviewing the policies and agreements for sufficiency and relevance on an annual basis, or more frequently if circumstances warrant.

The General Manager is responsible for the following:

- Developing an outsourcing policy for Board approval;
- Implementing the outsourcing policy and any associated procedures;
- Communicating significant outsourcing risks to the Board;
- Maintaining a centralized list of all material outsourced business arrangements;
- Monitoring the material outsourcing arrangements on a regular basis and reporting to the Board on their effectiveness;
- Monitoring service providers, at least annually, on their ability to continue to provide the degree of service as stated in the outsourcing arrangement.

The external service providers are responsible for the following:

- Managing the day-to-day requirements as outlined in the service agreement;
- Achieving performance targets established by CLLAS, if any;
- Reporting to the General Manager as established in the service agreement, or more frequently if matters related to non-compliance or emerging risks are discovered.



9. Authority

The Board has the authority to make revisions to this policy and to engage or terminate a service provider.

10. History of Modifications

The outsourcing policy was first approved by CLLAS on [DATE].

APPENDIX 1

CENTRALIZED LIST OF OUTSOURCING ARRANGEMENTS

Description of Outsourcing Arrangement	Service Provider Name	Main Contact(s)	Type of Arrangement	Expiry or Renewal Date of Contract	Arrangement Deemed Material	Contract in Place
General Management including brokerage, claims, financial accounting, regulatory, underwriting	Axxima Insurance Services	Patrick Mahoney Norma Ibbetson Ryan Durrell	Third Party	On-going	Yes	Yes
Actuarial Services	Axxima Inc.	Julie-Linda Laforce	Third Party	Annual Appointment	Yes	No
Audit Services	Deloitte LLP	Elaine Hultzer	Third Party	Annual Appointment	Yes	Yes
Investment Management	Martin, Lucas & Seagram Ltd.	Rowland Bell	Third Party	On-going	Yes	Yes
Reinsurance Brokerage	Miller Insurance Services	Mark Popple Graeme Lynch	Third Party	On-going	Yes	Yes

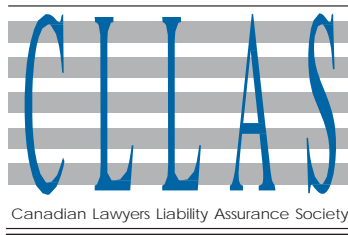


APPENDIX 2

KEY CONTRACTUAL PROVISIONS

Outsourcing contracts should address all issues applicable to managing the risks associated with each outsourcing arrangement, including as appropriate such items as the following:

- Nature and scope of the service being provided: This includes provisions that address the frequency, physical location, and content of the service being provided.
- Performance measures: This allows each party to determine if the commitments in the contract are being realized and may be tied to the service provider's compensation.
- Reporting requirements: These are to be included and must specify the type and frequency of information received from the service provider.
- Resolution of differences: A protocol for resolving differences is to be part of the contract, including provisions for the continuation of work while dealing with the dispute, time periods for resolution, rules under which the dispute will be dealt with and legal jurisdiction.
- Defaults and termination: The contract should specify what constitutes a default, identify remedies and, where appropriate, allow for the opportunity to cure the default in advance of terminating the agreement. The contract should define the termination provisions on behalf of both parties and their resultant obligations to minimize the likelihood of disruption to the business of CLLAS.
- Ownership and access: Ownership of all assets, both physical and intellectual property/data, related to the outsourcing arrangements should be clearly stated. Default should be ownership by CLLAS. Access rights to any data generated by the service provider on behalf of CLLAS should be clearly stipulated.
- Contingency planning: The service provider's arrangements to continue to provide the service in the event of problems that may affect the service provider's operations should be documented.
- Audit rights: Audit rights for CLLAS should be stated. CLLAS should have the right to evaluate, or have an independent auditor evaluate, the service provider.
- Subcontracting: The contract should set out any rules/limitations on subcontracting.
- Confidentiality, security and separation of property: These requirements should be set out in the contract, including which party has responsibility for protection mechanisms, the scope of the information to be protected, the powers of each party to change security procedures and requirements, which party may be liable for any losses that might result from a security breach, and notification requirements if there is a breach of security.
- Pricing: The pricing and terms of payment should be fully described.
- Insurance: The service provider should be required to disclose general terms and conditions of applicable insurance coverage and to notify CLLAS about significant changes in coverage. If appropriate, approval by CLLAS of material changes should be required.



M E M O R A N D U M

TO: CLLAS Audit Committee
FROM: Patrick Mahoney
RE: Deferral of Implementation of IFRS 9
DATE: October 31, 2017

As discussed in Deloitte's audit planning report, IFRS 9, which deals with the classification and measurement of financial assets, takes effect on January 1, 2018.

An entity which meets a test focused on ensuring that its predominant activity is the issuance of insurance contracts, has the option to defer the implementation of IFRS 9 until January 1, 2021, when IFRS 17 (which focuses on insurance contracts) takes effect, in order that both accounting standards be implemented at the same time. As shown on the attached exhibit, CLLAS meets the test and is therefore eligible to defer implementation.

Management recommends deferral and therefore asks that the Committee make the necessary recommendation at the December 6, 2017 meeting of the CLLAS Board.

I look forward to discussing this matter with you at the up-coming meeting.

Assessment to determine eligibility for IFRS 9 temporary exemption

There are two optional solutions available to address the temporary volatility resulting from the different effective dates of IFRS 9 and the forthcoming insurance contracts standard (IFRS 17).

1. Temporary exemption from IFRS 9

Provides a reporting entity (whose predominant activity is to issue insurance contracts) a temporary exemption from applying IFRS 9 until the earlier of:

- a) the application of IFRS 17; or
- b) January 1, 2021

2. Overlay approach

Give entities issuing insurance contracts the option to remove from profit or loss the incremental volatility caused by changes in the measurement of specified financial assets upon application of IFRS 9. This option will be in place until IFRS 17 comes into effect.

Temporary exemption: Rather than having to implement IFRS 9 in 2018, an entity is permitted to continue applying IAS 39 Financial Instruments standard if:

- It has not applied IFRS 9 before and
- Its activities are *predominantly connected with insurance* on its annual reporting date immediately before April 1, 2016

An entity's activities are *predominantly connected with insurance* if:

- Its liabilities arising from contracts in the scope of IFRS 4 are significant compared with the total liabilities, and
- The ratio of its liabilities connected with insurance compared with its total liabilities is
 - Greater than 90 percent or
 - Greater than 80 percent but less than or equal to 90 percent, and the entity does not engage in a significant activity unconnected with insurance

Application to CLLAS

CLLAS's total liabilities at December 31, 2015 were \$111,113,316 of which \$110,202,627 pertain to insurance liabilities. Because CLLAS's predominance ratio is greater than 90%, it qualifies to apply the temporary exemption.



MEMORANDUM

DATE: November 28, 2017
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY: Ryan Durrell
RE: September 30, 2017 Claims Report

Attached are the following claims charts for CLLAS as at September 30, 2017:

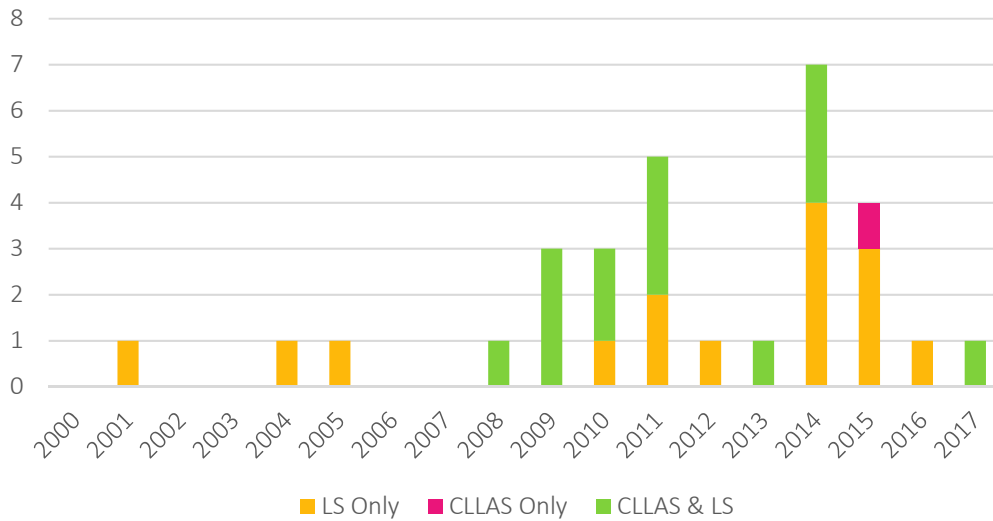
- Chart I: Open Large Loss Claims - Number of Claims by Insurer
- Chart II: Open Large Loss Claims - Incurred Amounts by Insurer
- Chart III: Open Large Loss Claims - Change in Incurred Amounts (CLLAS)
- Chart IV: Open Large Loss Claims - By Area of Law
- Chart V: Open Large Loss Claims - Number of Claims by Best Estimate of Worst Case
- Chart VI: Open Large Loss Claims - Claim Count Movement in Quarter

The charts are intended to provide an overview of the nature and scope of the “large losses” being actively managed by CLLAS in the period. We look forwards to discussing the charts at the up-coming Board meeting.

Sincerely,

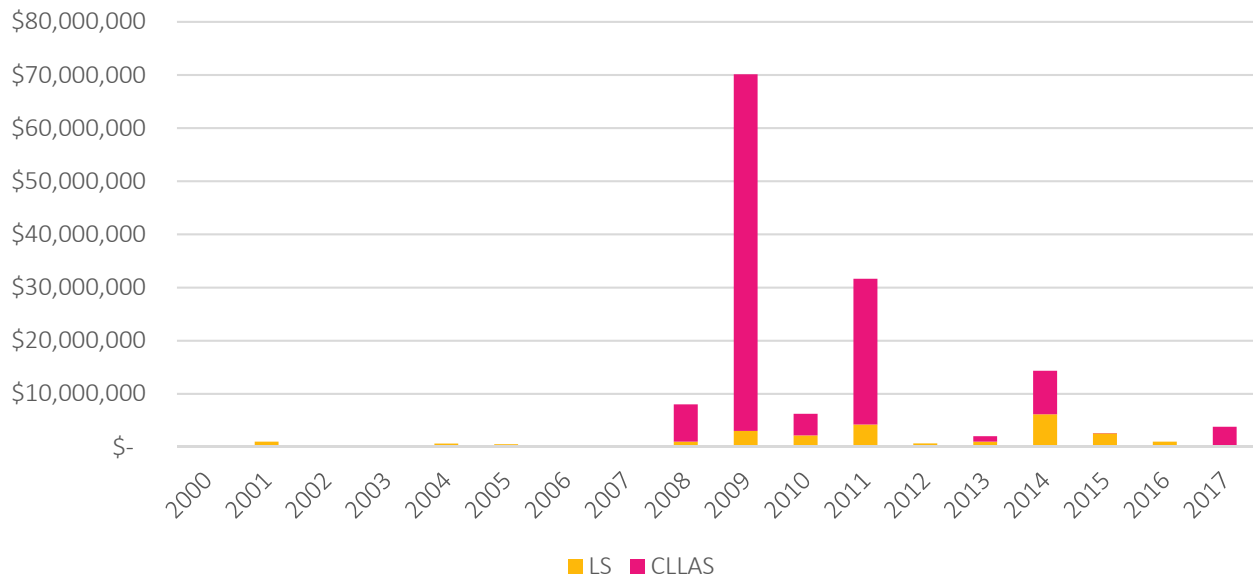
Patrick Mahoney
General Manager

Chart I – Open Large Loss Claims - Number of Claims by Insurer



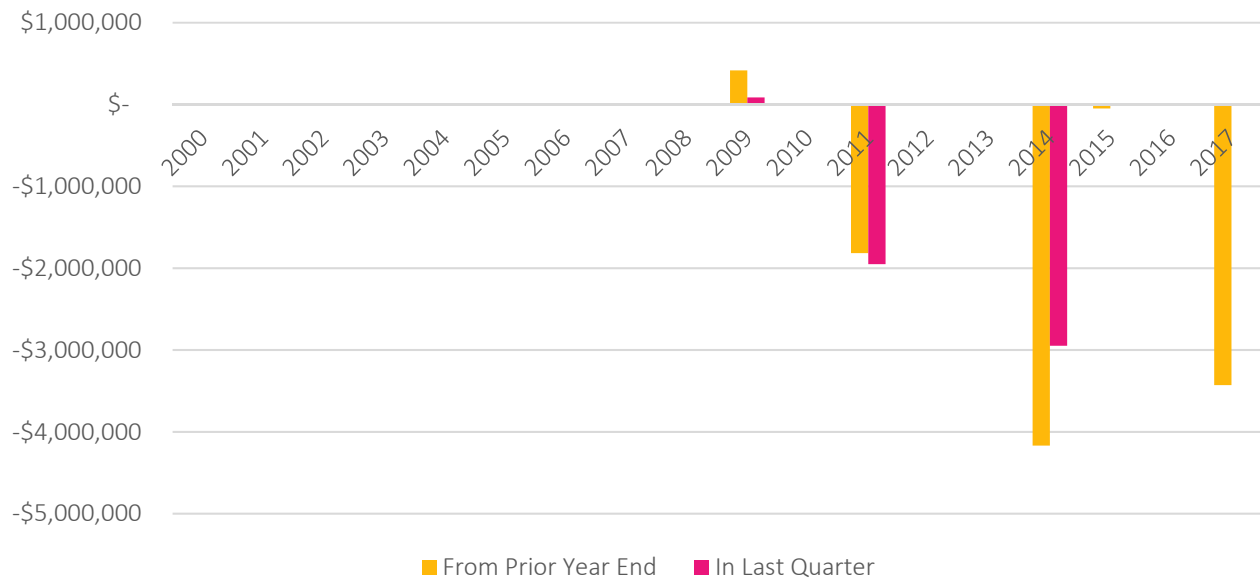
- Illustrates the number of open claims by insurer
- LS Only: Large (\$500,000+) Law Society (“LS”) claims which have not yet developed into CLLAS (\$1,000,000+) claims
- CLLAS Only: Claims which are typically drop-down claims where the Law Society does not respond
- CLLAS & LS: Claims where amounts have been incurred by both the Law Society and CLLAS

Chart II – Open Large Loss Claims - Incurred Amounts by Insurer



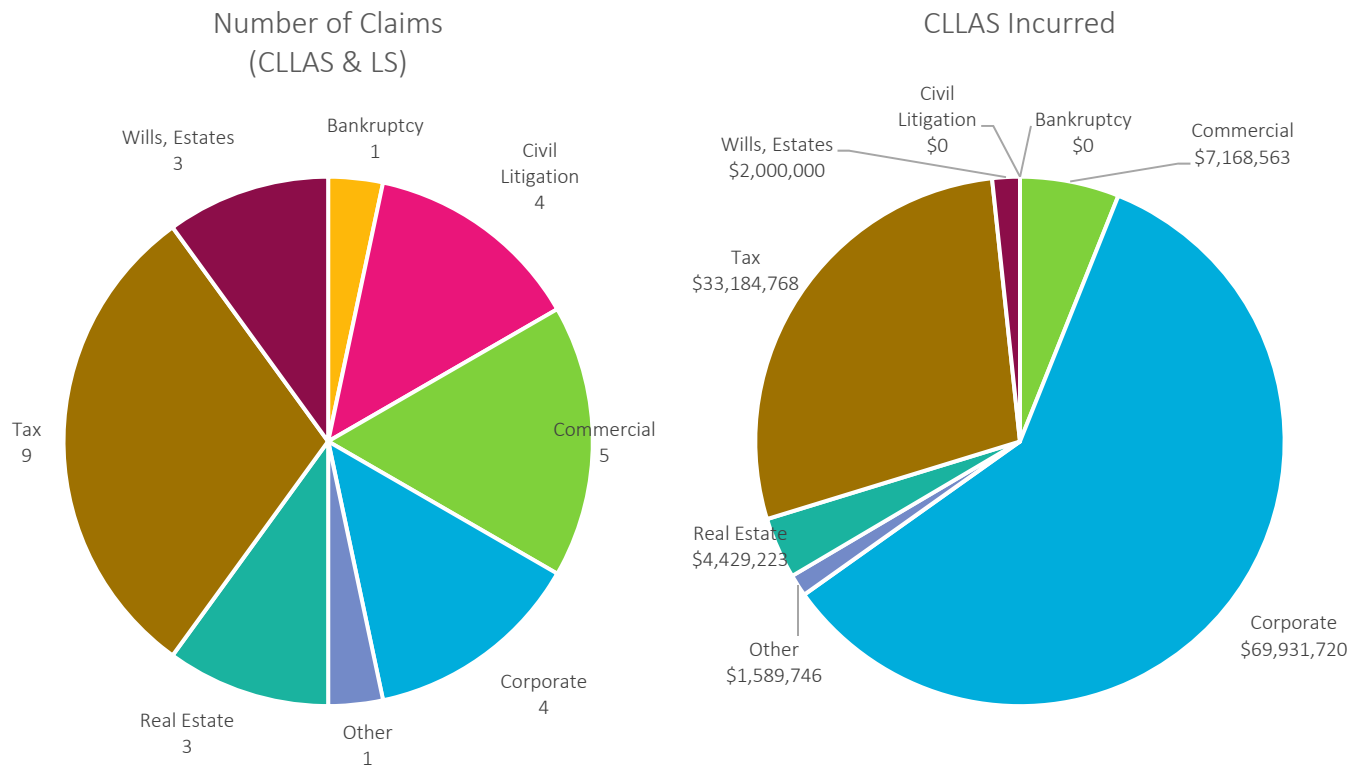
- Illustrates the aggregate incurred amounts (paid + reserved) by policy year
- Identifies the quantum yet to be crystalized and highlights extraordinary years

Chart III – Open Large Loss Claims - Change in Incurred Amounts (CLLAS)



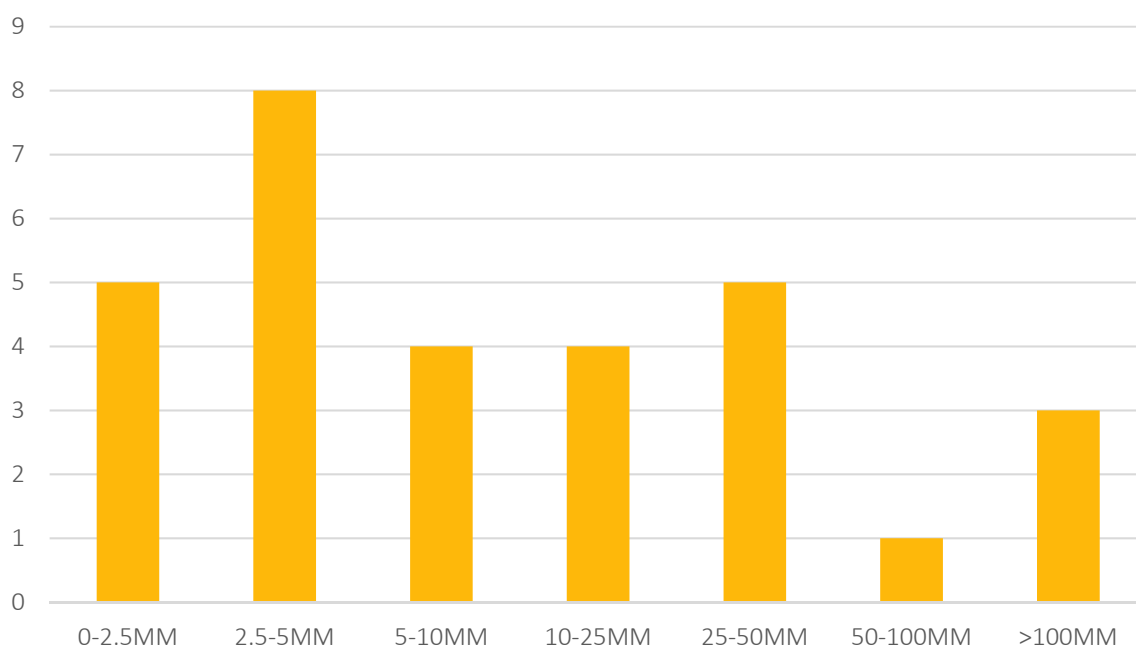
- Illustrates movements in paid and reserved amounts
- Negative values highlight strengthening of reserves, or adverse claim development. Positive values highlight reduced reserves or better than expected outcomes

Chart IV – Open Large Loss Claims - By Area of Law



- Illustrates the split between areas of law for the number of open claims and the incurred amounts (paid + reserved)
- Highlights the law areas of claims being actively managed

Chart V – Open Large Loss Claims - Number of Claims by Best Estimate of Worst Case



- Based on best estimate of the worst case outcome of each open claim
- Highlights the potential claim sized being actively managed

Chart VI – Open Large Loss Claims - Claim Count Movement in Quarter

Policy Year	Law Society Only	CLLAS Only	CLLAS & Law Society
2000	0	0	0
2001	0	0	0
2002	0	0	0
2003	0	0	-1
2004	0	0	0
2005	0	0	0
2006	0	0	0
2007	0	0	0
2008	0	0	0
2009	0	0	0
2010	0	0	0
2011	-1	0	1
2012	0	0	0
2013	0	0	0
2014	0	0	0
2015	0	0	0
2016	0	0	0
2017	0	0	0

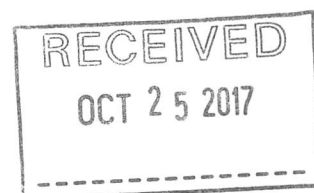
- Illustrates the emergence or closure (including reduction of incurred value below the large loss monitoring threshold of \$500,000) of claims over the previous quarter
- Note: Claims may move between Law Society Only, CLLAS & Law Society, and CLLAS Only

MARTIN, LUCAS & SEAGRAM LTD.
INDEPENDENT INVESTMENT COUNSEL
SUITE 620, 48 YONGE STREET
TORONTO
M5E 1G9

TELEPHONE: 416-363-6216
FACSIMILE: 416-363-4538
E-MAIL: INFO@MLSINVEST.COM

October 23rd, 2017

Mr. Patrick Mahoney,
Axxima,
36 Toronto Street, Suite 510
Toronto ON M5C 2C5



Dear Patrick:

Re: Canadian Lawyers Liability Assurance Society

Please find enclosed our quarterly investment report for the period ending September 30 last on the Short and Long Term Fund last for CLLAS, together with a copy of our accounts, the originals of which have been sent to RBC Dexia Investor Services for payment.

As a result of a sell off late in the period, the short bond index ended the third quarter down 1.1%, while the mid-term index fell 2.2%. Reflecting these trends, the valuation of the Long Term Fund recorded a capital decline of 1.5%.

Activity during the second quarter involved the roll-over of money market securities in the Short Term Investment Fund. In the Long Term Investment Fund two bonds matured and a medium-term corporate bond and a medium-term provincial bond were purchased with the proceeds.

Please let us know if you have any questions or comments on the report.

With best regards,

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Andrew Bell". The signature is fluid and cursive, with a large initial "A" and "B".

RWB/de
Enclosures

CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

INVESTMENT REPORT
SEPTEMBER 30, 2017

MARTIN, LUCAS & SEAGRAM LTD.
INDEPENDENT INVESTMENT COUNSEL

Suite 620, 48 Yonge Street
Toronto, Ontario
M5E 1G9

Tel.: 416-363-6216
Fax: 416-363-4538
e-mail: info@mlsinvest.com

CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

COMMENTARY FOR THE QUARTER ENDING SEPTEMBER 30, 2017

Review of Market Yields

Following an uptick early in the quarter, bond yields settled into a sideways trading range until early September, when the Bank of Canada hiked its overnight lending rate. Following the announcement, bond yields again turned higher and continued to climb for the balance of the quarter. As a result, at the end of September, yields across the entire curve were noticeably above their levels three months earlier. The yield on the 3-month Treasury Bills showed the smallest advance of 29 basis points, while the 1-year Canada yield posted the largest increase of 44 basis points. The increase in yields further out the curve averaged close to 36 basis points.

As a result of these changes, the yield curve became slightly steeper over the third quarter. At the end of September, the yield advantage of the 10-year issue over the Treasury bill had increased to 110 basis points, from 104 three months earlier.

	Jan. 01/95	Mar. 31 17	Jun. 30/17	Sep. 30/17
3-month Treasury Bills	6.80%	0.52%	0.71%	1.00%
5-year Canadas	8.99%	1.12%	1.38%	1.75%
10-year Canadas	9.09%	1.63%	1.75%	2.10%

During the quarter, in the Short Term Investment Fund, activity involved the roll-over of money market securities.

In the Long Term Investment Fund a provincial and a corporate bond matured and these proceeds were reinvested in similar credits maturing in 2023 and 2026.

During the second quarter, the market value of the Long Term Investment Fund holdings decreased by \$74,830, which represents a capital decrease of 0.8%.

At September 30, 2017, the average term to maturity of the Long Term Investment Fund stood at 4.5 years.

The table below shows the distribution of the assets held in both the Short and Long Term Investment Funds at September 30.

<i>Distribution at September 30, 2017</i>	<i>Valuation</i>	<i>%</i>
Short Term Investment Fund	\$11,695,119	69.7%
Long Term Investment Fund	\$ 5,082,898	30.3%
TOTAL COMBINED VALUATION	\$16,778,017	100.0%

CLLAS

CANADIAN LAWYERS LIABILITY **ASSURANCE SOCIETY**

The following pages set out tables, commentary and schedules on the items listed below:

- Total Returns vs. Benchmarks - Gross and Net of Fees
- Distribution of Securities in the Long Term Investment Fund by Credit Risk and by Maturity
- Compliance Statement
- Quarterly Performance Report - Gross of Fees: Long Term Investment Fund
- Bond Market Commentary and Future Policy
- Security Holdings in the Short and Long Term Investment Funds Listed and Valued Separately as at September 30, 2017
- Security Purchases and Sales
- Cash Reconciliations
- External Individual Credit Rating Report

CLLAS

LONG TERM INVESTMENT FUND

TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIODS ENDING SEPTEMBER 30, 2017

	3 Years*	2 Years*	1 Year	Last 3 months
<i>Long Term Investment Fund – Gross of Fees</i>	<i>1.95%</i>	<i>0.79%</i>	<i>-1.53%</i>	<i>-0.84%</i>
<i>Long Term Investment Fund – Net of Fees</i>	<i>1.66%</i>	<i>0.51%</i>	<i>-1.81%</i>	<i>-0.91%</i>
Benchmark Portfolio **	2.07%	0.88%	-1.73%	-0.86%

* Annualized

** The Benchmark Portfolio is based on the sum of the following total return indices:

60% Canada Short Bond Index
40% Canada Mid Bond Index

SHORT TERM INVESTMENT FUND

TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIODS ENDING SEPTEMBER 30, 2017

	Since Inception Oct. 01/08 *	3 Years*	2 Years *	1 Year	Last 3 Months
<i>Short Term Investment Fund – Gross of Fees</i>	<i>0.76%</i>	<i>0.61%</i>	<i>0.59%</i>	<i>0.63%</i>	<i>0.19%</i>
<i>Short Term Investment Fund – Net of Fees</i>	<i>0.64%</i>	<i>0.50%</i>	<i>0.47%</i>	<i>0.51%</i>	<i>0.16%</i>
Benchmark Portfolio **	0.72%	0.56%	0.50%	0.54%	0.16%

* Annualized

** The Benchmark Portfolio, adopted from October 1, 2008, is based 100% on the total return index of the 30-day Treasury Bill Index

CLLAS**LONG TERM INVESTMENT FUND****DISTRIBUTION OF SECURITIES BY CREDIT RISK**

(Based on Market Values)

	Dec. 17/13	Dec. 31/16	Mar. 31/17	Jun. 30/17	Sep. 30/17
Bonds, Treasury Bills & Cash Less than 1 year term	100.0%	10.4%	14.2%	19.2%	15.8%
Canadas Greater than 1 year term		23.8%	23.8%	18.8%	18.7%
Provincials Greater than 1 year term		31.9%	32.0%	32.0%	31.8%
Corporates Greater than 1 year term		33.9%	30.0%	30.0%	33.7%
TOTAL PORTFOLIO	100.0%	100.0%	100.0%	100.0%	100.0%

LONG TERM INVESTMENT FUND**DISTRIBUTION OF SECURITIES BY MATURITY**

(Based on Market Values)

	Sep. 30/16	Mar. 31/17	Jun. 30/17	Sep. 30/17
Under 1 year	21.2%	14.2%	19.2%	15.8%
1 - 3 years	26.2%	20.7%	26.8%	19.9%
3 - 5 years	16.2%	28.2%	22.2%	22.1%
5 - 7 years	23.4%	16.3%	11.1%	18.1%
7 - 10 years	13.0%	20.6%	20.7%	24.1%
TOTAL	100.0%	100.0%	100.0%	100.0%
Average Maturity (yrs)	3.91	4.31	4.06	4.53
Average Duration (yrs)	3.61	3.97	3.75	4.15

SHORT TERM INVESTMENT FUND

	Dec. 31/16	Mar. 31/17	Jun. 30/17	Sep. 30/17
Short Term Average Duration (yrs)	0.07	0.10	0.08	0.07

CLLAS

COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT SEPTEMBER 30, 2017

	Investment Limits	Investment Funds	Compliance
<i>Short Term Investment Fund</i>			
Maximum Term of Any Issue	1 year	0.2 years	Yes
Minimum Percentage of Total Fund (Short & Long)	40% of Total	69.7%	Yes
Minimum Canada & Provincial Percentage	50%	51.7%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1 (high)	R1 (high)	Yes
<i>Long Term Investment Fund</i>			
Maximum Term of Any Issue	10 years	8.4 years	Yes
Maximum Percentage of Total Fund (Short & Long)	60% of Total	30.3%	Yes
Minimum Canada Percentage	20%	23.6%	Yes
Maximum Provincial Percentage	40%	38.8%	Yes
Minimum Canada & Provincial Percentage	60%	62.4%	Yes
Minimum Provincial Quality *	A	AA (low)	Yes
Maximum Corporate Percentage	40%	37.6%	Yes
Minimum Corporate Quality *	A	AA (low)	Yes

** At time of purchase*

This will confirm that during the third quarter the Long Term Investment Fund was managed in compliance with the Investment Policy limits provided on December 3, 2013.

Similarly, during the same period the Short Term Fund remained in compliance with the Investment Policy Statement that became effective on May 5, 2012.

CLLAS

Martin, Lucas & Seagram Ltd.

PERFORMANCE REPORT

GROSS OF FEES

CLLAS – LONG TERM INVESTMENT FUND

(RBC Investor Services)

From 06-30-17 to 09-30-17

Portfolio Value on 06-30-17	5,128,243
Accrued Interest	20,780
Contributions	\$33,785
Withdrawals	-23,891
Realized Gains	-961
Unrealized Gains	-73,868
Interest	19,590
Dividends	0
Change in Accrued Interest	11,698
Portfolio Value on 09-30-17	5,082,898
Accrued Interest	32,479
Average Capital	5,147,413
Total Gains before Fees	-43,541
IRR for 0.25 Years	-0.85%

CLLAS

BOND MARKET COMMENTARY AND FUTURE POLICY

On balance, the global macro-economic backdrop has continued to improve and the year-to-date data has been supportive of the consensus forecast that global growth will show a gradual improvement this year and next.

On the domestic front, buoyant economic growth in the first quarter of 2017 was followed by an even stronger second quarter, when real GDP surged at an annualized rate of 4.5%. This gain was fuelled by solid growth in consumption, government expenditures, business investment and exports. Consumer spending has been supported by growth in the labour market, which has driven unemployment to its lowest level in almost nine years, as well as an acceleration in household borrowing to its fastest pace in seven years.

Meanwhile, the Bank of Canada implemented another 1/4% rate hike last month, following a similar hike in July, which marked the first increase in 7 years. While the Bank acknowledged that inflation remained below its 2% target, higher rates were warranted since excess capacity was being absorbed faster than originally forecast and growth was becoming more broadly based and self-sustaining. However, the resulting increase in borrowing costs will put pressure on consumers, particularly in light of their elevated debt levels and some cooling in the housing market, following the adoption of tighter finance policies. Furthermore, the domestic trade balance, which was an important source of strength earlier this year, has deteriorated in recent months in the wake of a stronger Canadian dollar and growing uncertainty surrounding the future of NAFTA, where renegotiations are proving difficult. Looking ahead, the Bank of Canada expects growth to moderate from 2.8% in 2017 to 2.0% in 2018 and just 1.6% in 2019 as the output gap closes. Given that growth is forecasted to slow and inflation remains well below target, suggest the Bank will move cautiously as they adopt a less accommodative stance.

Growth in the U.S. economy also strengthened in the second quarter to an annualized rate of 3.0%, more than double the prior quarter's pace. The acceleration was largely driven by personal consumption expenditures, which found support from the household sector's improved optimism, as well as its capacity to spend and borrow on the back of solid employment growth. Non-residential investments and trade also contributed to growth, while government spending remained weak. Recent data suggests these trends carried into the third quarter as consumption has remained strong and industrial production has ramped up to replenish inventories. Despite these gains, household debt recently hit a record high and other measures of economic activity have turned mixed. Activity in the housing sector has slowed and the fallout from hurricanes Harvey and Irma also weighed on a variety of indicators. However, a rebound in manufacturing output and construction spending related to reconstruction activity is expected to provide a lift in the current quarter.

CLLAS

On the political front, earlier this month U.S. lawmakers narrowly passed a \$4.1 trillion budget, which formally started the process that Republicans hope will result in the enactment of major tax reforms later this year. The U.S. administration is counting on tax reform and deregulation to boost annual growth to 3% from the 2% rate that has prevailed during most of the recovery. However, many of the fundamental details of the reforms are still to be determined and it is far from certain that Republicans will be able to find enough common ground to successfully pass the most important plank of their pro-growth policies. While recent optimism over tax reform has pushed bond yields higher, given the highly contentious atmosphere in Washington, bouts of market volatility in both directions should be expected as the negotiations unfold. Policy moves by the monetary authorities in response to the administration's success or failure on tax reform presents another potentially destabilizing factor. Furthermore, the predictive powers of traditional economic models used by the monetary authorities to guide policy have also been called into question as inflation has not increased in line with expectations. As a result, the risk of a policy mistake has risen, particularly as the Fed prepares to begin reversing the unprecedented expansion of its \$4.5 trillion balance sheet. Another uncertainty facing bond investors is the likelihood that the leadership of the Fed may soon change, with an announcement expected within the next few weeks.

Looking offshore, the Eurozone economy also proved resilient growing at an annualized pace of 2.3% in the second quarter, which marks 17 consecutive quarters of expansion. Robust business activity helped drive the unemployment rate to 9.1%, the lowest reading since March 2009. This solid growth in jobs, together with favourable credit conditions and a lower savings rate, should continue to support consumer spending, despite muted wage gains. However, the euro's appreciation against the U.S. dollar is likely to weigh on an already weak inflation rate and hurt European exporters. Furthermore, growth in credit and economic activity remains uneven across the zone, with six of its nineteen countries still below their 2008 peaks. This suggests that any decision by the European Central Bank to phase out its bond purchase program is likely to be gradual, leaving monetary policy accommodative for some time yet.

Turning to the world's second largest economy, aggregate growth in China came in at 6.9% in the second quarter of 2017 and a similar reading is expected in the third quarter. The manufacturing sector continues to expand and solid retail sales, along with a noticeable rise in imports, point to stronger domestic demand. However, the country's growing debt burden, which has fueled its overheating property markets and made shadow banking activities more complex, carries material economic and financial risks. This concern underpinned S&P's decision to downgrade China's sovereign credit rating last month, following a similar move from Moody's earlier this year. The country must also confront a possible U.S. trade war as the Trump Administration has made clear it intends to use trade as leverage to get China to help deter North Korea's nuclear ambitions.

CLLAS

Meanwhile, Japan's second quarter growth remained healthy at an annualized rate of 2.5%, its longest streak of positive quarterly growth since 2006. This was largely driven by solid overseas demand, as well as government and investment expenditures. However, despite strong employment numbers and improving domestic demand, wage inflation remains subdued. As a result, the Bank of Japan has voted to maintain its easy monetary policy in an attempt to lift inflation, which remains far below the bank's 2% target.

In conclusion, most indicators suggest that we remain in a slow but steady global expansion, which has become better balanced and more synchronized this year. The improvement in the North American economy has allowed the Canadian and U.S. monetary authorities to begin reducing their unprecedented monetary accommodation. While the authorities' moves to date have contributed to an upward shift in the yield curve, we believe yields will most likely remain range bound over the near term. Thus far, the policy shifts have been tentative and the central banks have indicated the additional moves to normalize policy will be done gradually and will be dependent on incoming data, which has been softer of late. Given the structural headwinds to growth, little evidence of rising inflation and the economies' sensitivity to higher rates due to elevated debt levels, we expect monetary policies will remain supportive of bond prices over the short term. Looking further ahead, we continue to believe that yields will gradually move higher provided the North American and global expansion remains intact, which is our base case expectation. In light of this, we believe bond investors should maintain a defensive posture to hedge against the likelihood of a gradual upward shift in the yield curve. At this juncture, we believe the Long Term Fund's laddered maturity structure and duration of 4.2 years is appropriate in light of the outlook.

RWB/de

As stipulated in our Investment Management Agreement, please let ML&S know if there are major changes in your financial circumstances, income needs or risk tolerance in order for us to review the suitability of your investment objectives.

Martin, Lucas & Seagram Ltd.

CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)

Portfolio Holdings at September 30, 2017

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
CASH					
	Cash Account			13,430	0
MONEY MARKET ISSUES					
640,000	FirstBank BA 1.082% due October 2, 2017	99.92	99.99	639,935	6,919
895,000	CIBC BA 1.100% due October 4, 2017	99.79	99.98	894,850	9,824
1,075,000	CIBC BA 1.10% due October 5, 2017	99.90	99.98	1,074,797	11,813
1,755,000	Canada Treasury Bill 0.701% due October 5, 2017	99.84	99.98	1,754,724	12,283
1,135,000	Toronto Dominion Bank BA 1.18% due October 10, 2017	99.91	99.97	1,134,607	13,381
610,000	CIBC BA 1.069% due October 16, 2017	99.74	99.95	609,674	6,504
435,000	Toronto Dominion Bank BA 1.146% due October 19, 2017	99.91	99.93	434,695	4,981
1,005,000	Canada Treasury Bill .68% due November 2, 2017	99.82	99.92	1,004,167	6,822
860,000	CIBC BA 1.23% due November 6, 2017	99.81	99.87	858,897	10,558
1,485,000	Canada Treasury Bill .68% due November 16, 2017	99.82	99.88	1,483,205	10,080
1,795,000	Canada Treasury Bill .68% due November 30, 2017	99.82	99.84	1,792,137	12,184
				11,681,688	105,348
TOTAL PORTFOLIO				11,695,119	105,348

Disclosures:

1. Please note that the securities listed herein are held on your behalf by the above noted custodian. You may wish to contact them directly to determine if your account is covered by any recognized Investor Protection Plan and/or for information on how these securities are held.
2. The cost of each position shown in the account is the book cost (original cost adjusted for distributions, capital returns and re-orgs). For unit costs marked with an *, the book cost cannot be determined and the value shown is based on the closing market price on July 15, 2015.

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 07-01-17 To 09-30-17

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
07-04-17	07-05-17	1,130,000	Toronto Dominion Bank BA .94% due September 13, 2017	99.82	1,127,966.00
07-06-17	07-07-17	1,070,000	FirstBank BA 0.881% due August 4, 2017	99.93	1,069,277.75
07-10-17	07-11-17	885,000	Royal Bank BA 1.01% due August 10, 2017	99.92	884,265.45
07-13-17	07-13-17	1,755,000	Canada Treasury Bill 0.701% due October 5, 2017	99.84	1,752,174.45
07-18-17	07-19-17	610,000	CIBC BA 1.069% due October 16, 2017	99.74	608,412.78
07-25-17	07-26-17	895,000	CIBC BA 1.100% due October 4, 2017	99.79	893,116.03
07-26-17	07-27-17	1,005,000	Canada Treasury Bill .68% due November 2, 2017	99.82	1,003,168.89
08-03-17	08-04-17	1,075,000	Bank of Nova Scotia BA 1.096% due September 1, 2017	99.92	1,074,097.00
08-09-17	08-10-17	885,000	Bank of Nova Scotia BA 1.05% due September 11, 2017	99.91	884,185.80
08-09-17	08-10-17	1,485,000	Canada Treasury Bill .68% due November 16, 2017	99.82	1,482,294.33
08-23-17	08-24-17	1,795,000	Canada Treasury Bill .68% due November 30, 2017	99.82	1,791,729.51
09-01-17	09-05-17	1,075,000	CIBC BA 1.10% due October 5, 2017	99.90	1,073,899.20
09-01-17	09-05-17	640,000	FirstBank BA 1.082% due October 2, 2017	99.92	639,488.00
09-08-17	09-11-17	860,000	CIBC BA 1.23% due November 6, 2017	99.81	858,379.76
09-12-17	09-13-17	1,135,000	Toronto Dominion Bank BA 1.18% due October 10, 2017	99.91	1,134,010.28
09-19-17	09-19-17	435,000	Toronto Dominion Bank BA 1.146% due October 19, 2017	99.91	434,604.15
					16,711,069.38
SALES					
07-05-17	07-05-17	1,130,000	FirstBank BA .659% due July 5, 2017	100.00	1,130,000.00
07-07-17	07-07-17	1,070,000	CIBC BA 0.731% due July 7, 2017	100.00	1,070,000.00
07-11-17	07-11-17	885,000	Toronto Dominion Bank BA .809% due July 11, 2017	100.00	885,000.00

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 07-01-17 To 09-30-17

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
07-13-17	07-13-17	1,755,000	Canada Treasury Bill .479% due July 13, 2017	100.00	1,755,000.00
07-19-17	07-19-17	610,000	CIBC BA .814% due July 19, 2017	100.00	610,000.00
07-26-17	07-26-17	895,000	Bank of Nova Scotia BA .654% due July 26, 2017	100.00	895,000.00
07-27-17	07-27-17	1,005,000	Canada Treasury Bill 0.450% due July 27, 2017	100.00	1,005,000.00
08-04-17	08-04-17	1,070,000	FirstBank BA 0.881% due August 4, 2017	100.00	1,070,000.00
08-10-17	08-10-17	1,485,000	Canada Treasury Bill 0.46% due August 10, 2017	100.00	1,485,000.00
08-10-17	08-10-17	885,000	Royal Bank BA 1.01% due August 10, 2017	100.00	885,000.00
08-24-17	08-24-17	1,785,000	Canada Treasury Bill .48% due August 24, 2017	100.00	1,785,000.00
09-01-17	09-01-17	1,075,000	Bank of Nova Scotia BA 1.096% due September 1, 2017	100.00	1,075,000.00
09-05-17	09-05-17	640,000	CIBC BA .64% due September 5, 2017	100.00	640,000.00
09-11-17	09-11-17	885,000	Bank of Nova Scotia BA 1.05% due September 11, 2017	100.00	885,000.00
09-13-17	09-13-17	1,130,000	Toronto Dominion Bank BA .94% due September 13, 2017	100.00	1,130,000.00
09-20-17	09-20-17	435,000	Bank of Nova Scotia BA 0.879% due September 20, 2017	100.00	435,000.00
					16,740,000.00

This page intentionally left blank.

Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 07-01-17 to 09-30-17

Cash Balance at June 1, 2017			5,953.07
ADD:	Proceeds from Sales	16,740,000.00	
	Bond Interest Credited (from Long Term Investment Fund)	23,499.25	
	Transfer to Long Term Investment Fund	<u>-33,393.70</u>	<u>16,730,105.55</u>
			16,736,058.62
LESS:	Cost of Purchases	16,711,069.38	
	Investment Counsel Fees - Short Term Investment Fund	3,303.58	
	Investment Counsel Fees - Long Term Investment Fund	3,621.82	
	Trust Company Charges	<u>4,633.57</u>	<u>16,722,628.35</u>
Cash Balance at September 30, 2017			13,430.27

Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - SEPTEMBER 30, 2017

CLLAS - SHORT TERM INVESTMENT FUND

				Unit	Total		Market	Pct.
Quantity	Security		Rating	Cost	Cost	Price	Value	Assets
CASH								
	Cash Account				13,430		13,430	0.1%
MONEY MARKET ISSUES								
640,000	FirstBank BA 1.082%	due October 2, 2017	R-1 (high)	99.92	639,488	99.99	639,935	5.5%
895,000	CIBC BA 1.100%	due October 4, 2017	R-1 (high)	99.79	893,116	99.98	894,850	7.7%
1,755,000	Canada Treasury Bill 0.701%	due October 5, 2017	R-1 (high)	99.84	1,752,174	99.98	1,754,724	15.0%
1,075,000	CIBC BA 1.100%	due October 5, 2017	R-1 (high)	99.90	1,073,899	99.98	1,074,797	9.2%
1,135,000	Toronto Dominion Bank BA 1.180%	due October 10, 2017	R-1 (high)	99.91	1,134,010	99.97	1,134,607	9.7%
610,000	CIBC BA 1.069%	due October 16, 2017	R-1 (high)	99.74	608,413	99.95	609,674	5.2%
435,000	Toronto Dominion Bank BA 1.146%	due October 19, 2017	R-1 (high)	99.91	434,604	99.93	434,695	3.7%
1,005,000	Canada Treasury Bill 0.680%	due November 2, 2017	R-1 (high)	99.82	1,003,169	99.92	1,004,167	8.6%
860,000	CIBC BA 1.230%	due November 6, 2017	R-1 (high)	99.81	858,380	99.87	858,897	7.3%
1,485,000	Canada Treasury Bill 0.680%	due November 16, 2017	R-1 (high)	99.82	1,482,294	99.88	1,483,205	12.7%
1,795,000	Canada Treasury Bill 0.680%	due November 30, 2017	R-1 (high)	99.82	1,791,730	99.84	1,792,137	15.3%
					11,671,277		11,681,688	100%
TOTAL PORTFOLIO					11,684,707		11,695,118	

Martin, Lucas & Seagram Ltd.

CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)

Portfolio Holdings at September 30, 2017

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
GOVERNMENT BONDS					
250,000	Canada Housing Trust 1.75% due June 15, 2018	100.11	100.28	250,695	4,375
250,000	Canada Housing Trust 1.95% due June 15, 2019	100.10	100.53	251,318	4,875
200,000	Canada Housing Trust 2.4% Series 48 due December 15, 2022	100.37	101.24	202,488	4,800
200,000	Canada Housing Trust 2.35% due September 15, 2023	105.62	100.69	201,378	4,700
300,000	Canada Housing Trust Ser. 70 2.25% due December 15, 2025	100.98	98.44	295,305	6,750
				1,201,184	25,500
PROVINCIAL BONDS					
350,000	Ontario 2.1% due September 8, 2018	99.57	100.52	351,813	7,350
250,000	British Columbia 3.25% due December 18, 2021	102.30	104.64	261,593	8,125
250,000	Ontario 3.15% due June 2, 2022	99.04	104.16	260,405	7,875
350,000	Ontario 2.85% due June 2, 2023	103.15	102.54	358,894	9,975
400,000	Ontario 2.60% due June 2, 2025	101.08	99.61	398,428	10,400
350,000	British Columbia 2.3% due June 18, 2026	104.40	96.89	339,122	8,050
				1,970,254	51,775
CORPORATE BONDS					
200,000	Royal Bank Dep. Note 2.26% due March 12, 2018	99.28	100.30	200,592	4,520
200,000	Wells Fargo Canada 2.944% due July 25, 2019	100.02	101.55	203,100	5,888
300,000	Bank of Montreal 2.84% due June 4, 2020	101.77	101.76	305,289	8,520
250,000	Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	104.57	101.03	252,563	6,408
200,000	Bank of Montreal 3.4% due April 23, 2021	100.65	103.59	207,184	6,800
150,000	Royal Bank 1.968% due March 2, 2022	100.05	97.99	146,988	2,952

Martin, Lucas & Seagram Ltd.

CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)

Portfolio Holdings at September 30, 2017

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
250,000	National Bank of Canada 2.105% due March 18, 2022	102.04	98.55	246,370	5,263
150,000	Wells Fargo 3.46% due January 24, 2023	102.36	103.85	155,781	5,190
200,000	Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	99.23	96.80	193,594	5,240
				1,911,461	50,780
TOTAL PORTFOLIO				5,082,898	128,055

Disclosures:

1. Please note that the securities listed herein are held on your behalf by the above noted custodian. You may wish to contact them directly to determine if your account is covered by any recognized Investor Protection Plan and/or for information on how these securities are held.
2. The cost of each position shown in the account is the book cost (original cost adjusted for distributions, capital returns and re-orgs). For unit costs marked with an *, the book cost cannot be determined and the value shown is based on the closing market price on July 15, 2015.

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 07-01-17 To 09-30-17

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
08-16-17	08-21-17	200,000	Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	99.23	198,460.00
09-07-17	09-11-17	350,000	Ontario 2.85% due June 2, 2023	103.15	361,025.00
					559,485.00
SALES					
08-15-17	08-15-17	200,000	Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	100.00	200,000.00
09-08-17	09-08-17	330,000	Ontario 1.90% due September 8, 2017	100.00	330,000.00
					530,000.00

This page intentionally left blank.

Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - LONG TERM INVESTMENT FUND
From 07-01-17 to 09-30-17

Cash Balance at June 1, 2017		0.00
ADD: Transfer from Short Term Investment Fund	33,393.70	<u>33,393.70</u>
		33,393.70
ADD: Proceeds from Sales	530,000.00	
Bond Interest Credited (to Long Term Investment Fund)	5,568.00	
Transfer to Short Term Investment Fund	<u>-5,568.00</u>	<u>530,000.00</u>
		563,393.70
LESS: Cost of Purchases	559,485.00	
Accrued Interest Debited (from Long Term Investment Fund)	3,908.70	<u>563,393.70</u>
Cash Balance at September 30, 2017		0.00

Martin, Lucas & Seagram Ltd.									
EXTERNAL INDIVIDUAL CREDIT RATING REPORT - SEP 30, 2017									
CLLAS - LONG TERM INVESTMENT FUND									
					Unit	Total		Market	Pct.
Quantity	CUSIP	Security		Rating	Cost	Cost	Price	Value	Assets
GOVERNMENT BONDS									
250,000	13509PDT7	Canada Housing Trust 1.75%	due June 15, 2018	AAA	100.11	250,275	100.28	250,695	4.9%
250,000	13509PEL3*	Canada Housing Trust 1.95%	due June 15, 2019	AAA	100.10	250,238	100.53	251,318	4.9%
200,000	13509PDL4	Canada Housing Trust 2.4% Series 48	due December 15, 2022	AAA	100.37	200,740	101.24	202,488	4.0%
200,000	13509PDV2	Canada Housing Trust 2.35%	due September 15, 2023	AAA	105.62	211,240	100.69	201,378	3.9%
300,000	13509PFD0	Canada Housing Trust Ser. 70 2.25%	due December 15, 2025	AAA	100.98	302,940	98.44	295,305	5.8%
	13509PEG4					1,215,433		1,201,184	23.5%
PROVINCIAL BONDS									
350,000	68323ABR4	Ontario 2.1%	due September 8, 2018	AA (low)	99.57	348,495	100.52	351,813	6.9%
250,000	110709BJ0	British Columbia 3.25%	due December 18, 2021	AA (high)	102.30	255,750	104.64	261,593	5.1%
250,000	68323AAW4	Ontario 3.15%	due June 2, 2022	AA (low)	99.04	247,600	104.16	260,405	5.1%
350,000	68323ABN3	Ontario 2.85%	due June 2, 2023	AA (low)	103.15	361,025	102.54	358,894	7.0%
400,000	68323ACX0	Ontario 2.60%	due June 2, 2025	AA (low)	101.08	404,305	99.61	398,428	7.8%
350,000	11070TAJ7	British Columbia 2.3%	due June 18, 2026	AA (high)	104.40	365,400	96.89	339,122	6.6%
						1,982,575		1,970,254	38.6%
CORPORATE BONDS									
200,000	780086DV3	Royal Bank Dep. Note 2.26%	due March 12, 2018	AA	99.28	198,560	100.65	201,296	3.9%
200,000	94975ZBM7	Wells Fargo Canada 2.944%	due July 25, 2019	AA (low)	100.02	200,040	102.44	204,886	4.0%
300,000	06367VCT0	Bank of Montreal 2.84%	due June 4, 2020	AA	101.77	305,307	102.95	308,862	6.1%
250,000	891145S47	Toronto Dominion Bank Dep. Note 2.563%	due June 24, 2020	AA	104.57	261,425	102.01	255,018	5.0%
200,000	06367VJN6	Bank of Montreal 3.4%	due April 23, 2021	AA	100.65	201,300	105.13	210,258	4.1%
150,000	780086KD5	Royal Bank 1.968%	due Mar 2, 2022	AA	100.05	150,075	99.23	148,838	2.9%
250,000	633067C27	National Bank of Canada 2.105%	due March 18, 2022	AA (low)	102.04	255,100	99.78	249,458	4.9%
150,000	94975ZBN5	Wells Fargo 3.46%	due January 24, 2023	AA (low)	102.36	153,542	105.81	158,715	3.1%
200,000	064151QE6	Bank of Nova Scotia Dep. Note 2.62%	due December 2, 2026	AA	99.23	198,460	96.80	193,594	3.8%
						1,923,809		1,930,924	37.8%
TOTAL PORTFOLIO						5,121,816		5,102,361	100.0%

Martin, Lucas & Seagram Ltd.
DATE TO DATE GAINS AND LOSSES
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 06-30-17 to 09-30-17

Security	06-30-17 Market Value	Additions Withdrawals	09-30-17 Market Value	09-30-17 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
CASH								
Cash Account	0	0	0	0				
GOVERNMENT BONDS								
Canada Housing Trust 1.75% due June 15, 2018	251,735	0	250,695	250,275	0	0	420	-1,040
Canada Housing Trust 1.95% due June 15, 2019	253,343	0	251,318	250,238	0	0	1,080	-2,025
Canada Housing Trust 2.4% Series 48 due December 15, 2022	205,946	0	202,488	200,740	0	0	1,748	-3,458
Canada Housing Trust 2.35% due September 15, 2023	205,220	-2,350	201,378	211,240	0	0	-9,862	-3,842
Canada Housing Trust Ser. 70 2.25% due December 15, 2025	302,655	0	295,305	302,940	0	0	-7,635	-7,350
GOVERNMENT BONDS Total	1,218,899		1,201,184	1,215,433	0	0	-14,249	-17,715
PROVINCIAL BONDS								
Ontario 1.90% due September 8, 2017	330,617	-333,135	0	0	-594	-617	0	0
Ontario 2.1% due September 8, 2018	353,822	-3,675	351,813	348,495	0	0	3,318	-2,009
British Columbia 3.25% due December 18, 2021	265,585	0	261,593	255,750	0	0	5,843	-3,993
Ontario 3.15% due June 2, 2022	264,483	0	260,405	247,600	0	0	12,805	-4,078
Ontario 2.85% due June 2, 2023	0	363,785	358,894	361,025	0	0	-2,132	-2,132
Ontario 2.60% due June 2, 2025	408,340	0	398,428	404,305	0	0	-5,877	-9,912
British Columbia 2.3% due June 18, 2026	348,824	0	339,122	365,400	0	0	-26,278	-9,702
PROVINCIAL BONDS Total	1,971,671		1,970,254	1,982,575	-594	-617	-12,321	-31,825
CORPORATE BONDS								
Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	200,344	-202,433	0	0	-1,460	-344	0	0
Royal Bank Dep. Note 2.26% due March 12, 2018	201,296	-2,260	200,592	198,560	0	0	2,032	-704
Wells Fargo Canada 2.944% due July 25, 2019	204,886	-2,944	203,100	200,040	0	0	3,060	-1,786
Bank of Montreal 2.84% due June 4, 2020	308,862	0	305,289	305,307	0	0	-18	-3,573
Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	255,018	0	252,563	261,425	0	0	-8,863	-2,455
Bank of Montreal 3.4% due April 23, 2021	210,258	0	207,184	201,300	0	0	5,884	-3,074
Royal Bank 1.968% due March 2, 2022	148,838	-1,476	146,988	150,075	0	0	-3,087	-1,850
National Bank of Canada 2.105% due March 18, 2022	249,458	-2,631	246,370	255,100	0	0	-8,730	-3,088
Wells Fargo 3.46% due January 24, 2023	158,715	-2,595	155,781	153,542	0	0	2,240	-2,934

Martin, Lucas & Seagram Ltd.
DATE TO DATE GAINS AND LOSSES
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 06-30-17 to 09-30-17

Security	06-30-17 Market Value	Additions Withdrawals	09-30-17 Market Value	09-30-17 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	0	199,608	193,594	198,460	0	0	-4,866	-4,866
CORPORATE BONDS Total	1,937,674		1,911,461	1,923,809	-1,460	-344	-12,348	-24,329
TOTAL PORTFOLIO	5,128,243		5,082,898	5,121,816	-2,054	-961	-38,918	-73,869
TOTAL DATE TO DATE GAIN OR LOSS								-74,830
% CHANGE DURING PERIOD								-1.46