

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

**Minutes of a Meeting of the Advisory Board**

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

**Wednesday, September 9, 2015**

**Present:**

Nicholas Leblovic (Chair)	Davies Ward Phillips & Vineberg LLP
Barry Bresner	Borden Ladner Gervais LLP
John Esvelt	Dentons LLP
Donald Milner (via phone)	Fasken Martineau DuMoulin LLP
Ken Crofoot	Goodmans LLP
Caroline Zayid	McCarthy Tétrault LLP
Julia Holland (via phone)	Torys LLP
Rita Coburn	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
Gordon Goodman	Cassels Brock & Blackwell LLP
Dan MacDonald	McMillan 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 24, 2015 Meeting of the Advisory Board**

**It was moved by Barry Bresner and seconded by Ken Crofoot that the minutes of the June 24, 2015 meeting of the Advisory Board be approved. The motion was carried unanimously.**

#### **4. Comments of the Chair**

Early in July 2015, it was announced that Willis, which recently acquired Miller Insurance Services, would be merging with Towers Watson. This is the second change for Miller in a short timeframe and the Chair, along with the General Manager's office, is monitoring.

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

#### **5. Report of the General Manager's Office**

##### *Own Risk and Solvency Assessment ("ORSA") Discussion/ERM*

Patrick Mahoney provided an update on ORSA. He advised that the actuaries were in the process of doing the financial modelling required for the ORSA report. This involves preparing a "baseline" scenario projecting CLLAS' financial results out over five years, and then stress testing these results assuming various adverse scenarios developed based on key risk factors identified and discussed previously with the Board. This analysis will be used to build a surplus target for CLLAS. An update on the results of this modelling should be available for the December 2015 Board meeting. The ultimate deadline for filing CLLAS' initial ORSA Report is October 31, 2016, so work is still proceeding on schedule.

##### *Financial Statements Quarter Ending June 30, 2015*

Mr. Mahoney discussed CLLAS' financial management report as at June 30, 2015.

##### **Financial Results**

CLLAS experienced a small underwriting loss (premiums minus claims and expenses) of \$167,000 for the first six months of 2015. After taking into account investment income (including unrealized gains arising during the quarter) the loss is reduced to \$30,000. Mr. Mahoney advised that, as a result of an adverse trial decision, CLLAS has made a material reserve adjustment on a claim. The impact on CLLAS' net income is minimal as the loss is fully reinsured. There has however been a significant increase in the provision for unpaid claims (and the provision for claims recoverable from reinsurers). At June 30, 2015, CLLAS had a surplus of \$13.6 million.

The Budget Variance exhibit shows that expenses for the first six months of the year are about \$70,000, or 6%, under budget. Mr. Mahoney advised that barring unforeseen circumstances, he expected that operating expenses will finish the year on budget.

##### **Solvency Tests**

Mr. Mahoney reported on CLLAS' solvency tests and financial ratios included in the financial management report:

- The Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF") test requires CLLAS to maintain "cash and approved securities" in excess of the reserve fund plus the guarantee fund required by the Alberta regulator. The AMRGF required for CLLAS at

March 31, 2015 was \$8.3 million. CLLAS' cash and approved securities totaled \$20.3 million, i.e. well in excess of the minimum requirement.

- The Alberta Superintendent of Insurance expects reciprocals to maintain an Minimum Capital Test ("MCT") ratio of at least 210%. At December 31, 2014, CLLAS' MCT ratio was 346%. At June 30, 2015, using the new basis, it is estimated to be 323%, i.e. well in excess of regulatory expectations.
- The Board and management have identified the material risks facing CLLAS and have defined "risk metrics" to monitor those material risks that are capable of being quantified. With one exception, the results for June 30, 2015 are within CLLAS' risk tolerances. CLLAS' claims development (gross of reinsurance) exceeds CLLAS' risk tolerance but this is the result of the single loss referred to above and does not represent a broad based deterioration in CLLAS' loss experience.

Mr. Mahoney advised that the contents of CLLAS' financial management report will be refined as CLLAS works through the implementation of ORSA.

#### *Reinsurance Placement – Final*

Ryan Durrell reviewed the final placement of the July 1, 2015 reinsurance renewal. All Lloyd's syndicates were renewed and new capacity was obtained from two new syndicates. Argo's participation was slightly reduced. Domestically, CNA Canada rejoined the program and replaced Arch Insurance. The premium per member at July 1, 2015 was \$2,985, a decrease of 2.0% from the prior year.

Given the challenges experienced during the renewal, and the claim event discussed earlier, Mr. Durrell cautioned that reinsurance rates may be at or near the underwriters' minimum pricing levels.

#### *CLLAS Expansion – Update*

Joe Tontini provided an update on CLLAS expansion activities. He advised that most of the support required to create the CLLAS Associate Member facility had been secured. He advised that he expects that the facility will ultimately be placed 80% with Lloyd's and 20% with domestic reinsurers. Once the facility is in place, the next step is to open discussions with prospect firms.

Mr. Tontini advised that a benchmarking exercise will be done in advance of the next renewal in an effort to determine what limits other large firms (i.e. outside of CLLAS) are purchasing and what the cost is.

## **6. Report of the Claims Committee**

Barry Bresner reported. A few files have seen reserve increases in the last quarter. One recent decision on a claim has made the news because of the large dollars involved. There are multiple firm conflicts so the details of the claim cannot be discussed at the Board.

Mr. Leblovic advised that he had been in discussions with the firm involved in that matter. The focus of the discussions was not on the details of the particular matter but on any learning that might come from it.

**7. Report of the Risk Management Committee**

Julia Holland reported on a recent meeting of the Committee.

*Audit Process* – Ms. Holland reported that the first firm re-audit was well underway. An update on the status of the re-audits will be provided at the December meeting.

*Future Guidelines/Practice Notes* – A practice note on outside counsel guidelines is currently in circulation among committee members for comments. Additional topics for future guidelines include an update on “identifying conflicts” in accordance with new rules being proposed by the Law Society of Upper Canada.

**8. Report of the Policy Committee**

There was no report of the Policy Committee.

**9. Report of the Audit Committee**

Patrick Mahoney reported on behalf of the Chair. An audit planning meeting with the Auditor will be held in mid-November 2015.

**10. Report of the Investment Manager at June 30, 2015**

This report is for information only.

**11. Other Business**

The annual dinner will be held in April with the exact date subject to confirmation.

There was no other business.

**12. Next Meeting**

The next regularly scheduled meeting of the Board will be on December 9, 2015.

There being no further business, the meeting was terminated.

---

Chairman

---

Secretary



# MEMORANDUM

DATE: November 25, 2015  
TO: CLLAS Advisory Board  
FROM: Patrick Mahoney  
COPY:  
RE: September 30, 2015 Financial Management Report

---

CLLAS's financial management report for the nine months ended September 30, 2015 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 experienced a small underwriting loss (premiums minus claims and expenses) of \$156,000 for the first nine months of 2015. After taking into account investment income (including unrealized gains arising during the year) the result is a \$38,000 gain. As discussed last quarter, as a result of an adverse trial decision, CLLAS has materially increased its reserve on a specific claim. The impact of CLLAS' net income is minimal as the loss is fully reinsured. There has however been a significant increase in the provision for unpaid claims (and the provision for claims recoverable from reinsurers) shown on Exhibit I. At September 30, 2015, CLLAS had a surplus of \$13.7 million, essentially unchanged from June 30, 2015.

The Budget Variance (Exhibit IV) shows that expenses for the first nine months of the year are about \$100,000, or 10%, under budget. At this point in the year, our expectation is that operating expenses will finish the year on budget.

## Solvency Tests

The key regulatory solvency test that CLLAS is required to comply with is known as the Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF"). CLLAS must maintain "cash and approved securities" in excess of the reserve fund plus the guarantee fund required by the Alberta regulator. Exhibit VI of the financial management report shows that the AMRGF required for CLLAS at September 30, 2015 was \$15.0 million. CLLAS' cash and approved securities totaled \$21.0 million, i.e. well in excess of the minimum requirement.



CLLAS also monitors its Minimum Capital Test ratio. The Alberta Superintendent of Insurance expects reciprocals to maintain an MCT ratio of at least 210%. At December 31, 2014, CLLAS' MCT ratio was 346%. At September 30, 2015, using a revised calculation basis mandated by the federal regulator, it is estimated to be 314%. As mentioned in previous reports, mid-year MCT calculations are done on a simplified basis in the interest of efficiency; the "official" MCT calculation is done at year-end.

### **Financial Ratios**

Exhibit V is a new exhibit introduced in 2015. CLLAS' Board and management have identified the material risks facing CLLAS and have defined "risk metrics" to monitor the material risks, like insurance risk and interest rate risk, that are capable of being quantified. Exhibit V compares results for CLLAS at December 31, 2013, December 31, 2014 and September 30, 2015 against risk targets and risk limits. With one exception, the results for September 30, 2015 are within CLLAS' risk tolerances. CLLAS' claims development (gross of reinsurance) as shown on Line 1 of Exhibit V is 33%, compared with a risk tolerance of 20%. This is the result of the single loss referred to above and does not represent a broad based deterioration in CLLAS' loss experience. As can be seen on Line 2, CLLAS' claims development (net of reinsurance) actually improved in the period.

This Exhibit will be refined as CLLAS works through the implementation of its Own Risk and Solvency Assessment (ORSA).

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

Sincerely,

Patrick Mahoney  
General Manager

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

**QUARTERLY FINANCIAL MANAGEMENT REPORT**

**September 30, 2015**

# **CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

## **QUARTERLY FINANCIAL MANAGEMENT REPORT**

**SEPTEMBER 30, 2015**

### **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, 2015**

	<b>As at September 30, 2015</b>	<b>As at September 30, 2014</b>
<b>ASSETS</b>		
Cash	4,350,229	6,535,185
Short term investments	11,879,340	9,175,063
Bonds	4,788,312	3,792,733
Interest income due and accrued	24,113	17,071
Premium receivable	6,219,274	6,470,949
Other receivable	-	-
Prepaid expenses	209,250	211,500
Deferred policy acquisition costs	259,820	269,900
Unearned reinsurance premium ceded	7,504,660	7,826,856
Reinsurance recoverable	319,993	995,279
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	102,289,000	68,797,000
	<u>137,843,990</u>	<u>104,091,538</u>
<b>LIABILITIES</b>		
Accounts payable & accrued charges	694,845	397,771
Premium taxes payable	111,287	113,590
Unearned premium	9,311,918	9,664,551
Due to reinsurers	5,012,236	5,240,489
Provision for unpaid claims and adjustment expenses	109,023,000	75,171,000
Premium deficiency liability	-	-
	<u>124,153,286</u>	<u>90,587,401</u>
<b>SUBSCRIBERS' EQUITY</b>		
Surplus	13,572,775	13,469,644
Accumulated Other Comprehensive Income (Loss)	117,929	34,494
	<u>13,690,704</u>	<u>13,504,137</u>
	<u>137,843,990</u>	<u>104,091,538</u>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the Period Ending September 30, 2015**

	<b>Current Year</b>		<b>Prior Year</b>	
	<b>Quarter September 30, 2015</b>	<b>Year to Date September 30, 2015</b>	<b>Quarter September 30, 2014</b>	<b>Year to Date September 30, 2014</b>
Written Premium	12,438,547	12,438,547	12,921,469	13,105,940
Gross Written Premiums	12,438,547	12,438,547	12,921,469	13,105,940
Less: Reinsurance Ceded	10,024,473	10,024,473	10,464,478	10,603,410
Net Written Premiums	2,414,074	2,414,074	2,456,991	2,502,530
Change in Unearned Premiums	(1,807,258)	(593,764)	(1,837,695)	(295,818)
Earned Premiums	606,817	1,820,310	619,296	2,206,712
Claims Paid	(34,796)	(3,178)	(30,384)	(30,384)
Change in IBNR	139,000	330,000	2,000	385,000
Change in Case Reserve	(24,000)	11,000	-	-
Premium Deficiency Expense	-	-	-	-
Incurred Claims	80,204	337,822	(28,384)	354,616
Management and operating expenses	359,106	1,254,230	353,033	1,229,491
Reinsurance fees	69,750	209,250	70,500	210,000
Premium taxes	86,607	175,756	89,967	287,349
Total Operating Expenses	515,462	1,639,235	513,500	1,726,841
<b>Underwriting Gain (Loss)</b>	<b>11,150</b>	<b>(156,746)</b>	<b>134,181</b>	<b>125,255</b>
Investment Income	68,770	151,627	43,516	132,704
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
<b>NET GAIN/(LOSS)</b>	<b>79,920</b>	<b>(5,119)</b>	<b>177,697</b>	<b>257,959</b>
<b>Other comprehensive income (loss)</b>				
Unrealized gains (losses) on available for sale financial assets arising during the year	(12,121)	43,212	540	60,720
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	(12,121)	43,212	540	60,720
<b>Total comprehensive income (loss)</b>	<b>67,799</b>	<b>38,093</b>	<b>178,237</b>	<b>318,679</b>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF CHANGES IN EQUITY**  
**September 30, 2015**

	<b>Minimum Surplus</b>	<b>Additional Surplus</b>	<b>Unrealized gains and losses on AFS financial assets</b>	<b>Total Equity</b>
<b>Balance, beginning of year</b>	<b>50,000</b>	<b>13,527,894</b>	<b>74,717</b>	<b>13,652,612</b>
Prior year adjustment		-		-
<b>Comprehensive income (loss) for the year</b>				
Net gain (loss) for the year		(5,119)		(5,119)
<b>Other comprehensive income (loss)</b>				
Change in unrealized gain on available-for-sale assets			43,212	43,212
Recognition of realized (gain) loss on available-for-sale assets			-	-
<b>Total comprehensive income (loss) for the year</b>		<b>(5,119)</b>	<b>43,212</b>	<b>38,093</b>
<b>Balance at September 30, 2015</b>	<b>50,000</b>	<b>13,522,775</b>	<b>117,929</b>	<b>13,690,704</b>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS**  
**FOR THE PERIOD ENDED September 30, 2015**

	Annual Budget	Year to Date Budget % Accrued to Date	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
<b>MANAGEMENT SERVICES</b>	635,000	75%	476,250	496,605	(20,355)
<b>PROFESSIONAL SERVICES</b>					
Actuarial Services	85,000	85%	72,250	71,881	369
Reinsurance Matters	300,000	85%	255,000	200,215	54,785
Strategic Matters	150,000	85%	127,500	98,530	28,970
Sub-Total Professional Services	535,000		454,750	370,625	84,125
GST/HST on Consulting Fees	152,100		121,030	112,740	8,290
<b>Total Management &amp; Professional Services *</b> (See Note 1)	<b>1,322,100</b>		<b>1,052,030</b>	<b>979,970</b>	<b>72,060</b>
<b>OTHER EXPENSES</b>					
Audit Expenses	103,000	75%	77,250	83,043	(5,793)
Annual Dinner	7,000	75%	5,250	5,083	167
Premium Taxes	269,000	75%	201,750	175,756	25,994
Chairman's Expenses	3,000	75%	2,250	822	1,428
Chairman's Honourium	75,000	100%	75,000	75,000	-
Reinsurance Expense	11,000	75%	8,250	4,067	4,183
D&O Insurance	14,000	100%	14,000	13,851	149
Office Expenses	27,500	75%	20,625	19,068	1,557
Office Expenses - Website management software license	3,000	75%	2,250	1,688	563
Claims: Borderaux (LawPro/LIF)	14,600	95%	13,933	14,250	(317)
Special Services	50,000	75%	37,500	-	37,500
Miller Insurance Fees (Reins. Comm.) (See Note 2)	282,000	75%	211,500	209,250	2,250
I.B.C Statistical Plan Fees	5,000	75%	3,750	2,280	1,471
FSCO Assessment Fees	3,000	75%	2,250	2,000	250
Investment counsel fees	36,000	75%	27,000	19,141	7,859
Investment - Custodial	18,000	75%	13,500	13,339	161
Risk Management/Loss Prevention	50,000	75%	37,500	16,950	20,550
License Fee	6,500	75%	4,875	3,678	1,197
Insurance: Sundry	-		-	-	-
<b>Sub-total</b>	<b>977,600</b>		<b>758,433</b>	<b>659,265</b>	<b>99,168</b>
<b>TOTAL</b>	<b>2,299,700</b>		<b>1,810,463</b>	<b>1,639,235</b>	<b>171,228</b>

**\* NOTE 1: 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	25%
Second Quarter, ending June 30th	46%
Third Quarter, ending September 30th	14%
Fourth Quarter, ending December 31st	15%
	<u>100%</u>

**\* NOTE 2: MILLER INSURANCE FEES (Reins. Comm.)**

The annual budget is based upon the annual fee estimated for the policy period 2014/2015.

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**SUMMARY OF RISK METRICS**  
**September 30, 2015**

	<b>Risk Category</b>	<b>Risk Metric</b>	<b>December 31, 2013</b>	<b>December 31, 2014</b>	<b>September 30, 2015</b>	<b>Target</b>	<b>Limit</b>
(1)	<b>Insurance</b>	Prior year development - Gross of reinsurance	-16%	-6%	33%	0%	20%
(2)		Prior year development - Net of reinsurance	-17%	-33%	-15%	0%	10%
(3a)		3-year net combined ratio	n/a	84%	84%		
(3b)		3-year net combined ratio before surplus adjustments via premiums	n/a	81%	78%	100%	125%
(4)		Maximum allocation to a single jurisdiction	57%	57%	56%	n/a	67%
(5)	<b>Interest Rate</b>	Interest rate risk per MCT formula at 1.25%	\$382,500	\$201,667	\$221,000	\$250,000	\$600,000
(6)	<b>Liquidity</b>	Ratio of cash and short-term investments to gross claim liabilities	20%	21%	15%	15%	10%
(7)	<b>Asset Default</b>	Credit rating of invested assets	AAA	AA to AAA	AA to AAA	AA to AAA	A
(8)		Maximum allocation to a single non-government security	1.1%	1.6%	1.9%	n/a	5%
(9)	<b>Strategic</b>	Annual Advisory Board turnover	0	0	0	2 members	4 members
(10)	<b>Regulatory Solvency Indicators</b>	AMRGF - Excess of cash and approved securities over required reserve and guarantee fund	\$7,597,000	\$8,020,000	\$5,972,000	n/a	\$0
(11)		MCT	328%	346%	314%	210%	210%

**Notes**

(1) and (2) = Year-over-year change in ultimate losses / Prior year undiscounted unpaid claims (excl. ULAE)

(3a) = [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

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

(4) Based on insured lawyer counts

(8) Maximum allocation does not consider cash and cash equivalents

(11) 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. 2013 and 2014 MCT ratios shown above were calculated best on the old MCT guidelines.

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**For the Period Ending September 30, 2015**

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

	Current Year to Date 09/30/2015 (in \$000's)	Prior Year End 12/31/2014 (in \$000's)
<b><u>Reserve Fund</u></b>		
Premiums collected or credited having one year or less to run	(1) 12,439	13,080
Less: Amount paid to licensed reinsurers	(2) 9,918	10,471
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) 2,521	2,609
Reserve Fund Required (50% of Line 5)	(6) 1,261	1,305
<b><u>Guarantee Fund</u></b>		
Total Liabilities	(7) 124,153	84,993
Less: Unearned Premiums	(8) 9,312	6,382
Less: Recoverable from licensed reinsurers	(9) 101,106	68,446
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 13,785	10,215
<b>TOTAL RESERVE &amp; GUARANTEE FUND REQUIRED (Line 6+11)</b>	(12) 15,046	11,520
Cash & Approved Securities	(13) 21,017	19,539
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 5,972	8,020



# MEMORANDUM

DATE: December 1, 2015  
TO: CLLAS Advisory Board  
FROM: Patrick Mahoney  
RE: Subscribers' Accounts as at June 30, 2015

---

You will find attached to this memorandum the Subscribers' Accounts for the year ended June 30, 2015.

Following the information session held with the Subscribers of CLLAS on May 20, 2015, one change has been made with regards to the allocation of operating expenses. Operating expenses are first allocated to the six CLLAS underwriting periods, and are then allocated amongst the firms participating in each period. Most operating expenses are related to the current underwriting period but the portion dedicated to claims management can relate to prior underwriting periods.

In 2014 and prior years, all operating expenses for the most recent underwriting period, including claims management, were allocated on the basis of lawyer counts in the most recent policy period. This allocation was changed as follows:

- Non-claims management expenses for the most recent underwriting period relate to the most recent year only. For consistency with the allocation of expenses in the premiums, these were allocated based on gross expected losses in the most recent year.
- Claims management expenses for the most recent underwriting period may relate to all years in the underwriting period. These were allocated based on expected losses for the underwriting period to be consistent with the allocation of claims management expenses in prior periods.

Operating expenses relating to prior underwriting periods consist of claims management expenses only. These expenses were allocated based on the expected losses in the underwriting period. There was no change to the allocation.

The changes noted above are effective with the 2015 Subscribers Accounts. All other amounts were allocated per the methodology presented to the Subscribers on May 20, 2015.

I look forward to discussing with you at the upcoming Board meeting.

CLLAS SUBSCRIBERS' ACCOUNTS

STATEMENT OF FINANCIAL POSITION AND STATEMENT OF OPERATIONS BY UNDERWRITING PERIOD  
FOR THE YEAR ENDED JUNE 30, 2015

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, 2015

SUBSCRIBER	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
ASSETS														
Net Asset Account	2,275,398	2,746,693	1,619,935	744,020	2,511,750	0	1,159,710	2,399,511	1,710,673	2,151,444	1,478,087	476,494	1,048,445	20,322,161
Accrued Interest	1,511	2,799	1,791	768	2,505	0	1,142	2,370	1,584	2,122	1,530	470	1,056	19,648
Premium Receivable	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Reinsurance Receivable	19,915	25,068	18,199	6,580	18,427	0	8,249	20,388	14,206	15,216	8,415	3,318	7,777	165,760
Prepaid Expenses	0	24,613	18,301	5,259	17,317	0	8,014	16,876	11,146	13,434	10,090	3,206	8,248	136,504
Total Assets	2,296,824	2,799,173	1,658,227	756,627	2,549,999	0	1,177,115	2,439,146	1,737,608	2,182,217	1,498,123	483,488	1,065,526	20,644,073
LIABILITIES														
Undiscounted Case Reserves	0	8,485	6,142	2,102	6,262	0	2,924	5,808	4,112	4,785	3,464	1,173	2,746	48,000
Undiscounted IBNR	171,949	534,289	387,110	135,477	392,914	0	180,583	391,059	277,024	309,950	201,501	72,419	169,915	3,224,191
Impact of Discounting and Provision for Adverse Deviation	269,171	535,795	388,384	137,620	393,272	0	179,098	406,504	287,970	315,709	192,755	71,829	168,703	3,346,809
Accrued Expenses	0	70,507	56,271	19,007	52,866	0	21,914	52,444	29,593	39,914	27,997	9,476	22,183	402,171
Total Liabilities	441,120	1,149,076	837,907	294,205	845,313	0	384,519	855,815	598,699	670,357	425,716	154,897	363,547	7,021,171
SUBSCRIBERS' EQUITY														
Total Subscribers' Equity	1,855,704	1,650,097	820,320	462,422	1,704,686	0	792,596	1,583,331	1,138,910	1,511,860	1,072,407	328,590	701,979	13,622,902
Total Liabilities and Equity	2,296,824	2,799,173	1,658,227	756,627	2,549,999	0	1,177,115	2,439,146	1,737,608	2,182,217	1,498,123	483,488	1,065,526	20,644,073

CLLAS SUBSCRIBERS' ACCOUNTS  
UNDERWRITING PERIODS CONSOLIDATED  
STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED JUNE 30, 2015

Exhibit 1  
Page 2

SUBSCRIBER	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
Direct Written Premium	0	2,253,704	1,886,431	619,899	1,615,706	0	693,769	1,698,040	948,905	1,292,849	898,916	280,893	706,820	12,895,931
Retroassessment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Written Premium	0	2,253,704	1,886,431	619,899	1,615,706	0	693,769	1,698,040	948,905	1,292,849	898,916	280,893	706,820	12,895,931
Reinsurance Ceded	0	1,821,683	1,539,689	506,107	1,294,723	0	560,476	1,381,676	768,055	1,048,165	727,627	224,697	570,953	10,443,848
Net Written Premium	0	432,022	346,742	113,793	320,984	0	133,293	316,364	180,850	244,685	171,290	56,197	135,867	2,452,084
Change in Unearned Premium	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Earned Premium	0	432,022	346,742	113,793	320,984	0	133,293	316,364	180,850	244,685	171,290	56,197	135,867	2,452,084
Claims Paid	-24,499	-2,883	-2,147	-1,171	-1,808	0	-477	-5,272	-4,037	-2,798	1,287	-187	-512	-44,505
Change in Undiscounted Case Reserves	0	8,485	6,142	2,102	6,262	0	2,924	5,808	4,112	4,785	3,464	1,173	2,746	48,000
Change in Undiscounted IBNR	-3,194	23,875	23,893	7,081	17,117	0	4,719	15,692	3,420	13,104	8,800	3,358	8,325	126,191
Change in Impact of Discounting and Provision for Adverse Deviation	11,606	12,579	13,777	4,282	6,961	0	1,456	5,231	2,975	6,558	1,592	1,504	4,288	72,809
Incurred Claims	-16,086	42,056	41,665	12,294	28,532	0	8,622	21,459	6,470	21,648	15,142	5,848	14,847	202,495
Operating Expenses	20,829	322,839	250,952	84,782	242,402	0	102,721	241,078	140,791	184,706	128,867	44,082	102,660	1,866,707
Premium Tax	0	65,132	48,121	14,255	45,004	0	21,679	43,844	31,109	34,923	26,182	8,153	21,465	359,867
Total Expenses	20,829	387,971	299,073	99,037	287,406	0	124,400	284,922	171,900	219,629	155,049	52,235	124,125	2,226,574
Underwriting Gain (Loss)	-4,743	1,995	6,004	2,462	5,046	0	271	9,984	2,480	3,408	1,099	-1,886	-3,106	23,014
Investment Income	13,539	25,315	16,161	6,942	22,744	0	10,354	21,461	14,284	19,276	13,952	4,270	9,592	177,891
Other Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Gain (Loss)	8,796	27,310	22,165	9,405	27,790	0	10,626	31,444	16,764	22,684	15,051	2,385	6,486	200,905
Other Comprehensive Income	7,391	13,689	8,759	3,757	12,250	0	5,584	11,592	7,746	10,380	7,485	2,297	5,167	96,097
Total Comprehensive Income	16,187	40,999	30,924	13,161	40,040	0	16,210	43,036	24,510	33,064	22,536	4,681	11,653	297,002



# MEMORANDUM

DATE: December 2, 2015  
TO: CLLAS Advisory Board  
FROM: Patrick Mahoney  
COPY:  
RE: Draft Terms of Reference

---

Among the recommendations in the January 17, 2014 Examination Report of the Alberta Superintendent of Insurance was the request to prepare terms of reference for the various CLLAS Committees, and to document the role of the Attorney-in-Fact as distinct from the role of the CLLAS Chair. Attached is a draft document (that will eventually become part of a CLLAS Governance Handbook) addressing these items.

Please review the attached and in particular the terms of reference of any Committees on which you participate. Ideally, we would like to reflect any input from the Board with a view to finalizing this document by year-end.

Sincerely,

Patrick Mahoney  
General Manager



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

### Terms of Reference

Last Updated  
December 9, 2015



## 1. Subscribers

CLLAS currently has 11 member firms, but has historically included up to 14 firms. Each subscriber firm is represented by one director on the Advisory Board. The current subscribers of CLLAS are set out in the following table:

Firm	Advisory Board Member
Borden Ladner Gervais LLP	Barry Bresner
Fasken Martineau DuMoulin LLP	Donald Milner
Davies Ward Phillips & Vineberg LLP	Nicholas Leblovic
Dentons Canada LLP	John Esvelt
Goodmans LLP	Ken Crofoot
McCarthy Tetrault LLP	Bill Scott
McMillan LLP	Dan McDonald
Osler, Hoskin & Harcourt LLP	David Morritt
Torys LLP	Julia Holland
WeirFoulds LLP	Mike Swartz
Cassels, Brock & Blackwell LLP	Gordon Goodman

Each firm participates in CLLAS for a five-year underwriting period. The underwriting periods are the following:

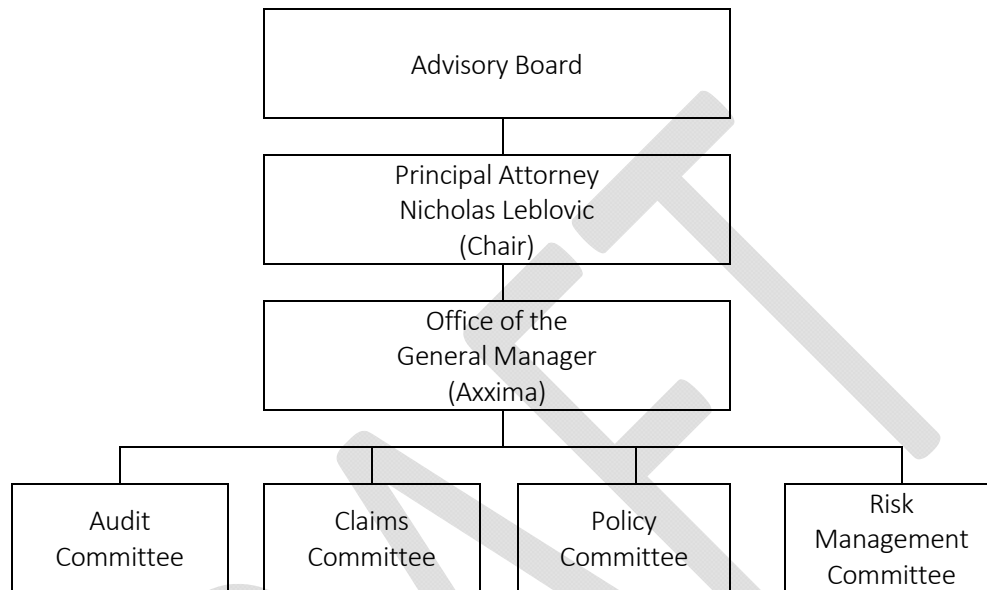
Underwriting Period	Policy Years
1	1987/88 to 1991/92
2	1992/93 to 1996/97
3	1997/98 to 2001/02
4	2002/03 to 2006/07
5	2007/08 to 2011/12
6	2012/13 to 2016/17

Each firm participates in the gains and losses of CLLAS while they are subscribers of CLLAS. Subscribers' accounts, which document each firm's financial interest in CLLAS, are prepared and distributed to subscribers on an annual basis.



## 2. Board and Management Structure

A schematic of CLLAS' management structure is presented below:



CLLAS is governed by its Advisory Board which consists of one representative from each of the member firms. The Chair of the Advisory Board is responsible for sending notices and materials as well as presiding over all Board meetings. The Chair of the Advisory Board also acts as CLLAS' principal attorney.

CLLAS' Advisory Board, supported by the standing committees, is responsible for overall business strategy. A list of the committees and committee members is included in Appendix A of this handbook. *[NTD: It is contemplated that this document and other governance policies of CLLAS will be combined into a CLLAS Handbook.]*

The Office of the General Manager is responsible for the implementation of Board-approved strategies and for overall business performance.

Roles and responsibilities are defined in the next sections.

## 3. Advisory Board

Subpart 6 of the Alberta *Insurance Act* and OSFI's Corporate Governance guideline prescribe the roles and responsibilities of directors of the Advisory Board, which include the following:

- Supervising the management of the business and affairs of CLLAS;



- Establishing an Audit Committee and Conduct Review Committee, or assuming the functions of these Committees at the Advisory Board level;
- Establishing procedures to resolve conflicts of interest and provide disclosures of information;
- Establishing policies and procedures to ensure that CLLAS applies prudent investment standards;
- Appointing the actuary.

The supervision of the management and business affairs of CLLAS includes the following:

- Reviewing and approving of all short-term and long-term objectives, strategies and plans, including the risk appetite framework;
- Reviewing and approving significant strategic initiatives or transactions;
- Annually reviewing and approving budgets, business plans and strategic plans;
- Annually reviewing and signing<sup>1</sup> the financial statements and annual return;
- Annually reviewing the financial performance relative to the Board-approved strategy and risk appetite framework;
- Annually reviewing and approving premium rates;
- Periodically reviewing and approving all governance and operational policies of CLLAS;
- Ensuring that an appropriate internal control framework is in place;
- Through the Audit Committee, approving the external audit plan, including the scope of the audit engagement;
- Approving the appointment and compensation of the principal attorney and general manager;
- Ensuring succession planning with respect to the Board and principal attorney;
- Ensuring compliance with applicable laws, regulations and guidelines.

As CLLAS does not have a separate Conduct Review Committee, the duties of the Conduct Review Committee are fulfilled by the Advisory Board as a whole. Section 347 of the Insurance Act prescribes the following duties of the Conduct Review Committee:

- Establishing policies and procedures for review of related party transactions;
- Reviewing transactions with related parties; and
- Reviewing practices to ensure that transactions with related parties do not have a material effect on the stability or solvency of the reciprocal.

#### **4. Principal Attorney**

The principal attorney is the individual authorized by subscribers under a power of attorney to sign reciprocal contracts or act in respect of any matter specified in the power of attorney on their behalf if the subscribers. The principal attorney must have the skills and knowledge to effectively manage the ongoing operations of the reciprocal. CLLAS' current principal attorney is set out in Appendix A.

---

<sup>1</sup> The financial statements must be signed by at least one member of the audit committee.



The responsibilities of the principal attorney include the following:

- Executing documents on behalf of the subscribers, including insurance contracts, certificates, endorsements;
- Collecting premiums on behalf of the subscribers;
- Maintaining cash and approved securities in excess of the regulatory requirement<sup>2</sup> on behalf of the subscribers;
- Maintaining CLLAS' license to underwrite contracts of insurance in good standing;
- Signing the financial statements.

## **5. Attorney for Service**

Pursuant to Article 94(2) requires a reciprocal to have an attorney for service who is a resident in Alberta if the principal attorney is not located in Alberta.

CLLAS' current attorney for service is set out in Appendix A.. The attorney for service is authorized to receive service of process in all suits and legal proceedings and to receive notices from the regulator.

## **6. Office of the General Manager**

CLLAS' current General Manager is set out in Appendix A. The General Manager acts in a management and advisory capacity and is responsible for the following:

- Managing the day-to-day operations of CLLAS;
- Implementing Board-approved strategies;
- Ensuring compliance with and recommending changes to Board-approved governance policies;
- Implementing plans to achieve business and financial objectives relative to the Board-approved strategy and risk appetite framework;
- Monitoring and reporting on the risk profile of CLLAS;
- Recommending, implementing, monitoring internal controls;
- Recommending changes to comply to applicable laws, regulations and guidelines;
- Communicating with the Superintendent of Insurance on substantive issues affecting CLLAS.

## **7. Audit Committee**

The Audit Committee is comprised of at three Advisory Board members and may include a Board member's alternate<sup>3</sup>. The Audit Committee has the authority to investigate any activity of CLLAS and may retain persons having special expertise to assist in fulfilling its responsibilities.

---

<sup>2</sup> From articles 99 to 101 of the Insurance Act.

<sup>3</sup> Article 346(1) prescribes that the audit committee must consist of at least 3 directors. Article 346(2) of the Insurance Act describes additional restrictions for audit committee members which are currently not applicable to CLLAS.





This Committee is responsible for the following:

- Reviewing and reporting on the annual financial statements before they are approved by the Advisory Board;
- Reviewing and reporting on the annual return before it is filed with the regulator;
- Ensuring the appropriate internal control procedures are in place, and discussing their effectiveness with the auditor and general manager;
- Reviewing the investments and transactions that could adversely affect CLLAS' well-being that the auditor, any Advisory Board member or management may bring to the attention of the Audit Committee;
- Meeting with the external auditor to review the annual financial statements and annual return;
- Meeting with the actuary to review the actuarial valuation report;
- Reporting to the Advisory Board on any matter which the external auditors brought to the attention of the Advisory Board;
- Reviewing significant changes in the accounting policies and practices of CLLAS;
- Reviewing the reinsurance security report;
- Recommending to the Advisory Board the appointment or reappointment of external auditors;
- Inquiring into any other matters referred to it by the Advisory Board.

The Committee meets at least twice per year to review the audit plan, and to review the annual financial statements and reports. Quorum is a majority of members. Notes for each meeting are prepared by a person designated by the Committee. Additional meetings may be held as deemed necessary by the Chair, or as requested by any member. The Chair of the Audit Committee reports to the Advisory Board at each Advisory Board meeting.

## **8. Claims Committee**

The Claims Committee is comprised of five Advisory Board members and may include a Board member's alternate. It is expected that at least three of the Committee members be experienced litigation lawyers.

Assisted by the Office of the General Manager, this Committee is, in accordance with CLLAS' Claims Procedures Guidelines, responsible for the following:

- Reviewing the significant claim files and claim files that have the potential to become significant;
- Assessing liability and damages, monitoring new developments and recommending changes in reserves on significant claim files;
- Reviewing resolution strategies on significant claims, including the approval of settlement offers;
- Inquiring into any other matters referred to it by the Advisory Board.

The Committee meets on a quarterly basis. Quorum is a majority of members. Notes for each meeting are prepared by a person designated by the Committee. Additional meetings may be held as deemed necessary



by the Chair or as requested by any member. The Chair of the Claims Committee reports to the Advisory Board at each Advisory Board meeting.

## **9. Policy Committee**

The Policy Committee is comprised of three Advisory Board members and may include a Board member's alternate.

The Committee is responsible for assisting the Board in managing policy issues and providing recommendations on such. The Committee is responsible for the following:

- Contributing to the development of policy wordings and reviewing the scope of coverage;
- Considering and approving endorsements to the policy;
- Acting as a resource as needed or retain counsel to provide assistance;
- Monitoring changes in the business environment that should be reflected in the policy wordings;
- Inquiring into any other matters referred to it by the Advisory Board.

The Committee meets during the year as deemed necessary by the Chair or as requested by any members. Quorum is a majority of members. The Chair of the Policy Committee reports to the Advisory Board at each Advisory Board meeting.

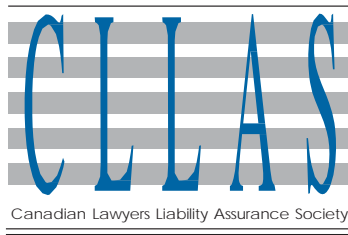
## **10. Risk Management Committee**

The Risk Management Committee is comprised of four Advisory Board members and may include a Board member's alternate.

The Committee is responsible for the following:

- Implementing and monitoring risk management initiatives such as risk management seminars and the e-learning program;
- Overseeing the firm risk management audits;
- Reviewing trends in insurance claims and practice management to develop future loss prevention initiatives;
- Maintaining relationships with law society insurance program risk management personnel;
- Inquiring into any other matters referred to it by the Advisory Board.

The Risk Management Committee meets during the year as deemed necessary by the Chair or as requested by any members. Quorum is a majority of members. The Chair of the Policy Committee reports to the Advisory Board at each Advisory Board meeting.



# MEMORANDUM

DATE: November 30, 2015  
TO: CLLAS Advisory Board  
FROM: Patrick Mahoney  
COPY:  
RE: Draft ORSA Report

---

You will recall that we have discussed CLLAS' Own Risk and Solvency Assessment ("ORSA") at recent Board meetings. Attached for discussion at the December 9, 2015 Board meeting is the first draft of CLLAS' initial ORSA Report. This is a lengthy document and as you will see, there are some sections that have not been completed pending discussion with the Board.

We are well ahead of the timeline that we had reported to the Alberta Superintendent of Insurance for the completion of ORSA. As a result, it is not necessary to approve the ORSA Report at the upcoming meeting. It may be appropriate, for example, to schedule a discussion with the actuary to talk through the analysis. If the Report seems to be acceptable at a general level, then I suggest that the General Manager be asked to informally review the Report with the Alberta regulator. The regulator does not "approve" reports but has offered to provide feedback.

This process can be undertaken with a view to incorporating the regulator's input so that the final draft Report is presented to the Board for adoption at the February 2016 meeting. This timing still puts us well ahead of the October 2016 deadline we provided to the Superintendent for finalizing the ORSA Report.

I look forward to discussing the draft ORSA Report with you.



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Own Risk and Solvency Assessment  
Fiscal Years 2015/2016 to 2019/2020

Draft Report  
December 1, 2015



---

## TABLE OF CONTENTS

---

<b>PART 1 — EXECUTIVE SUMMARY .....</b>	<b>1</b>
1.1. Purpose and Scope .....	1
1.2. Conclusions .....	1
1.3. Recommendations of Management.....	2
1.4. Recommendations Adopted by the Advisory Board.....	3
<b>PART 2 — PURPOSE AND SCOPE .....</b>	<b>4</b>
<b>PART 3 — DEFINITIONS.....</b>	<b>5</b>
<b>PART 4 — ENTERPRISE RISK MANAGEMENT FRAMEWORK .....</b>	<b>6</b>
<b>PART 5 — OVERVIEW OF OPERATIONS.....</b>	<b>9</b>
5.1. Overview of the Insurance Program .....	9
5.2. Operating Environment .....	11
5.3. Reinsurance and Excess Insurance.....	12
5.4. Regulatory Environment.....	12
<b>PART 6 — IDENTIFICATION OF MATERIAL RISKS .....</b>	<b>15</b>
6.1. Material Inherent Risks.....	15
6.2. Risk Mitigation .....	16
<b>PART 7 — EVALUATION OF MATERIAL RISKS .....</b>	<b>18</b>
7.1. Limitations and Distribution .....	18
7.2. Data .....	18
7.3. Model Methodology and Assumptions .....	19
7.4. Base Scenario.....	22
7.5. Alternate Scenarios.....	23
7.6. Capital Required .....	25
7.7. Summary of Capital Required.....	27
7.8. Stress Testing .....	29
<b>PART 8— RISK MONITORING.....</b>	<b>33</b>
<b>PART 9— CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>35</b>
9.1. Conclusions .....	35
9.2. Recommendations of Management.....	36
9.3. Recommendations Adopted by the Advisory Board.....	36
<b>PART 10 — LIST OF SCHEDULES AND EXHIBITS.....</b>	<b>37</b>



---

## PART 1 — EXECUTIVE SUMMARY

---

This report summarizes the Own Risk and Solvency Assessment (“ORSA”) for the Canadian Lawyers Liability Assurance Society (“CLLAS” or “the Reciprocal”) based on the Reciprocal’s financial position as at June 30, 2015. This report includes financial projections for fiscal years 2015/2016 to 2019/2020.

This report was prepared by the Office of the General Manager in collaboration with Axxima Inc., a non-affiliated company of CLLAS providing actuarial and strategic advisory services to CLLAS.

### 1.1. Purpose and Scope

The ORSA is a qualitative and quantitative assessment of material risks and capital adequacy to support those risks under normal and stressed conditions. One important element of ORSA is developing an internal capital/surplus target based on CLLAS’ own risk appetite and risk profile, instead of through standard formulas such as the Minimum Capital Test (“MCT”) or Alberta Maintenance of Reserve and Guarantee Fund (“AMRGF”) requirement.

The ORSA is primarily used as a strategic planning tool to assist the Advisory Board in determining an appropriate and prudent target capital level based on the business strategy. In addition, this ORSA report is designed to meet various regulatory requirements adopted by the Alberta Superintendent of Insurance (“Superintendent”).

This report documents the Reciprocal’s Enterprise Risk Management (“ERM”) philosophy, material risks and capital requirements to support business strategy.

### 1.2. Conclusions

The following were concluded:

1. Based on its current risk profile, CLLAS’ main sources of inherent risk (i.e. risk before mitigation strategies) are insurance/reinsurance, premium & strategy and operational risks.
2. Based on its current risk profile, CLLAS’ main sources of residual risk (i.e. risk after mitigation strategies) are insurance/reinsurance, operational and inflation risks.
3. CLLAS takes significant insurance risk since it writes insurance for professional liability insurance losses with significant limits per claim. CLLAS currently mitigates its insurance risk by limiting its net retention to drop down claims and \$5,000,000 in the annual aggregate. CLLAS also mitigates the risk of reserve deterioration with a Loss Portfolio Transfer with Colchester through which CLLAS cedes all development on claims reported prior to June 30, 2012.



4. CLLAS is exposed to significant reinsurance risk; unpaid claims recoverable from reinsurers are above \$100,000,000 as at June 30, 2015. Reinsurance risk can emerge in the form of reinsurance defaults or disputes as well as through reductions in market capacity and variability in reinsurance rates. CLLAS mitigates this risk through the selection of reinsurers with high credit ratings.
5. CLLAS is well capitalized as at June 30, 2015 based on the risk profile of its assets and liabilities. The surplus is \$13,622,000 as at June 30, 2015 and the MCT ratio is 547% before the application of transition rules. The AMRGF requirement is met with a margin in excess of \$10,000,000.
6. Assuming that CLLAS maintains its insurance and reinsurance structure, the actuary estimated the following:
  - o There is an estimated probability of 95% that the surplus will remain above \$10,493,000 at June 30, 2016 and above \$3,372,000 at June 30, 2020.
  - o The surplus position as at June 30, 2015, together with the current funding mechanism, is estimated to be sufficient to support the business strategy with a probability of 96.9% over the next 3 years and 94.1% over the next five years. In other words, the probability of incurring at least one retroassessment to meet the AMGRF requirement is 3.1% over the next 3 years and 5.9% over the next 5 years.

### 1.3. Recommendations of Management

Based on the review and analysis provided by the actuary, the following is recommended:

1. The Advisory Board should adopt an internal capital/surplus target based on risk appetite. Based on the actuarial analysis presented in Part 7 and assuming that the current insurance and reinsurance structure are maintained, the Advisory Board could consider an internal capital/surplus target ratio of 210%.

An MCT ratio of 210% as at June 30, 2015 corresponds to a surplus position of \$5,975,000 which is made up of capital required of \$4,766,000 plus an amount of \$1,209,000 which represents the reinsurance recoverable from unregistered reinsurers not covered by collateral.

2. The Advisory Board should adopt targets and limits for key risk metrics for individual risks based on risk appetite and the following targets and limits:

Risk Category	Risk Metric	Risk Target	Risk Limit
Insurance	Prior year development	0%	Gross: 20% Net: 10%
	3-year net combined ratio before surplus adjustments	100%	125%
	Maximum allocation to a single jurisdiction		67%
Reinsurance	Reinsurer credit rating	A	A-
	Maximum concentration with a single reinsurer excluding Colchester	10%	15%
Interest Rate	Interest rate risk per MCT formula at 1.25%	\$250,000	\$600,000
Liquidity	Proportion of the short-term investment fund to the total value of the short-term and long-term investment funds	40%	20%
	Cash and short-term investments to gross liabilities	15%	10%
	Cash and investments in excess of AMRGF requirement	TBD	\$3,000,000
Asset Default	Credit rating of bonds and treasury bills	AA to AAA	A
	Credit rating of bankers acceptances and certificates of deposit	R-1 high	R-1 high
	Maximum allocation to a single non-government security		5%
Strategy	Annual Advisory Board turnover	2 members	4 members
Operational	Key management/advisor turnover	1 per 3 years	1 per year

- Management should track the adopted key risk metrics at least annually and consider taking action when such metrics exceed the risk limits adopted by the Advisory Board.
- The risk targets, risk limits and internal capital target should be reviewed annually, or more frequently if there are material changes in the risk profile or strategy.

#### 1.4. Recommendations Adopted by the Advisory Board

[To be completed after the Advisory Board meeting]





---

## PART 2 — PURPOSE AND SCOPE

---

The ORSA is a qualitative and quantitative assessment of material risks and capital adequacy to support those risks under normal and stressed conditions. One important element of ORSA is developing an internal capital target based on CLLAS' own risk appetite and risk profile, instead of through standard formulas such as the MCT or AMRGF requirement.

The ORSA is primarily used as a strategic planning tool to assist the Advisory Board in determining an appropriate and prudent target capital level based on the business strategy. In addition, this ORSA report is designed to meet the regulatory requirements set out in the following supervisory guidelines adopted by the Alberta Superintendent:

- OSFI Corporate Governance Guideline;
- OSFI Guideline A-4: Regulatory Capital and Internal Targets;
- OSFI Guideline E-18: Stress Testing; and
- OSFI Guideline E-19: Own Risk and Solvency Assessment.

The main objectives of this report are the following:

- Identify the main sources of risk;
- Identify risk mitigation strategies;
- Identify and recommend risk metrics, risk targets and risk limits for periodic monitoring;
- Evaluate the capital required to support the Reciprocal's anticipated strategy and risk profile;
- Stress test the impact of alternate risk assumptions on the financial position; and
- Recommend an internal surplus target for adoption by the Advisory Board.

Notwithstanding that CLLAS, as a reciprocal, does not have capital *per se*, this report will generally refer to capital instead of surplus, as that is the terminology used in the relevant OSFI supervisory guidelines.



---

## PART 3 — DEFINITIONS

---

<b>Alberta Maintenance of Reserve and Guarantee Fund (“AMRGF”) Requirement:</b>	Regulatory solvency requirement set of in Articles 99 and 100 of the Alberta Insurance Act.
<b>Enterprise Risk Management (“ERM”):</b>	The discipline by which an organization in any industry assesses, controls, exploits, finances and monitors risks from all sources for the purpose of increasing the organization’s short- and long-term value to its stakeholders.
<b>Minimum Capital Test (“MCT”):</b>	Regulatory solvency test generally applied to commercial insurers but also used as a monitoring tool for reciprocals.
<b>Risk:</b>	Potential that the financial position will be affected due to deviation of actual results from expected results.
<b>Risk appetite:</b>	The level of aggregate risk that an organization chooses to take in pursuit of its objectives.
<b>Risk limit:</b>	A threshold used to monitor the actual risk exposure of a specific unit or units of the organization to ensure that the level of aggregate risk remains within the risk tolerance.
<b>Risk metric:</b>	A measure of risk.
<b>Risk mitigation:</b>	Action that reduces the frequency or severity of a risk.
<b>Risk profile:</b>	The nature and magnitude of risks to which an organization is exposed over a specified period of time.
<b>Risk mitigation:</b>	Action that reduces the frequency or severity of a risk.
<b>Stochastic model:</b>	Model relying on statistical probability distributions to determine results.

---

## PART 4 — ENTERPRISE RISK MANAGEMENT FRAMEWORK

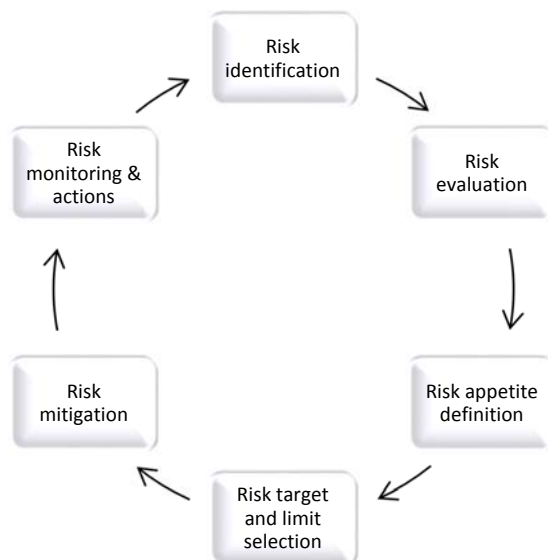
---

ERM has multiple objectives, including the following:

- Avoid or mitigate risks that could materially impair the financial position;
- Accept risks that contribute to the business strategy;
- Manage risks in accordance with best practices and enhance strategic decision-making; and
- Promote a better understanding of the interrelationships between the risk profile and capital needs.

It must be recognized that ERM is a cycle, and that risk appetite is regularly reassessed as a step of the ERM cycle. Risk appetite is fluid and reflects any improvement or deterioration in risk tolerance, changes in the business strategy and changes in economic conditions.

The ERM cycle is as follows:



The ERM cycle involves identifying all material risks, and then evaluating their potential impact to determine CLLAS' risk profile. Based on the risk profile and strategic vision, the risk appetite is defined as a high-level direction for the amounts and types of risks the entity wants to pursue. Based on the overall risk appetite, risk targets and limits are assigned to the various risks previously identified. Risk mitigation measures may be implemented by the Advisory Board and management in order to reduce the frequency or severity of risks. Risks are monitored and compared against targets and limits; the



Advisory Board and management would consider implementing appropriate actions when a risk exceeds the established limit.

### **Strategic Goals**

One of the main goals of CLLAS is to achieve premium stability and to provide its members with adequate insurance and reinsurance coverage at a reasonable cost. The Advisory Board strives to operate with adequate surplus levels in order to mitigate the need for a retroassessment. Since CLLAS operates above its surplus target, premiums collected from members are set so that the expected net income or loss is \$0.

### **Risk Appetite**

Risk appetite is the high-level direction for the amounts and types of risks CLLAS wants to pursue based on its risk profile, vision and overall strategy. Overall CLLAS has a low to medium risk appetite. CLLAS wants to balance the likelihood of retroassessment against the efficiency of operating with as little capital/surplus as is prudent and appropriate.

Schedule 1 presents the draft version of the ERM policy in which CLLAS' risk appetite statements can be found in Section 1.5.

### **Internal Controls**

Internal controls consist of systematic checks and reviews to ensure the efficiency, accuracy and completeness of operations, financial reporting and compliance with applicable laws and regulations. The internal control system contributes to managing risk.

CLLAS has implemented a number of internal control processes, as follows:

<b>Operational Function</b>	<b>Internal Controls</b>
Claims management	Claims committee involvement on significant claims Periodic internal claims reviews Quarterly reports and teleconferences with reinsurers Two signed authorities on all cheques Reconciliation of claims database to financial statements
Premium management	Board approval of premium rates Reconciliation of premiums collected and invoiced
Investments	Quarterly reconciliation of cash balances and investments Quarterly review of investment report



Operational Function	Internal Controls
Finance and administration	Segregation of duties All payments via cheques Two signed authorities on all cheques Periodic bank reconciliation Board-approved budget Quarterly tracking of expenses against Board-approved budget Quarterly financial statements Signed annual audited financial statements
Regulatory Compliance	Annual checklist of compliance requirements Periodic review of applicable legislation

In addition, the Reciprocal annually engages an independent external auditor to perform a review of claims, premiums, investment and other financial accounts. The external auditor issues an opinion to the effect that financial statements are free from material misstatement and reports to the Board and senior management on the effectiveness of processes, procedures and internal controls in place.

CLLAS' actuarial liabilities were peer reviewed by an independent actuary as at December 31, 2014. The peer review actuary had no significant recommendations.

### **ERM Roles and Responsibilities**

CLLAS and its subscribing law firms have a strong risk management culture. CLLAS' Advisory Board oversees all enterprise risk management aspects of the Reciprocal.

Section 1.10 of the draft ERM policy presented in the Schedule 1 details the roles and responsibilities of the Advisory Board, Principal Attorney and Office of the General Manager with regards to ERM.



## PART 5 — OVERVIEW OF OPERATIONS

### 5.1. Overview of the Insurance Program

CLLAS was formed in 1986 and licensed in Ontario as an insurer in 1987 with the first policies issued with an effective date of July 1, 1987. Effective July 1, 2012, CLLAS' lead regulator was changed from Ontario to Alberta. CLLAS is licensed in Alberta, British Columbia, Nova Scotia and Ontario.

CLLAS provides professional liability insurance to subscribing law firms in excess of the compulsory coverage provided by the various law societies. Since inception, coverage provided by CLLAS has been on a claims-made basis. For the first policy term (i.e., July 1, 1987 to June 30, 1988), coverage was in excess of \$600,000. Coverage in subsequent policy terms is in excess of \$1,000,000.

A summary of the coverage provided by CLLAS is set out below:

CLLAS HISTORICAL COVERAGE SUMMARY	
Coverage Period	Coverage Provided (in million \$)
July 1, 1987 to June 30, 1988	\$24.4 excess of \$0.6
July 1, 1988 to June 30, 1989 to July 1, 1989 to June 30, 1990	\$24.0 excess of \$1.0
July 1, 1990 to June 30, 1991	\$24.0 excess of \$1.0* plus \$25.0 excess of \$50.0
July 1, 1991 to June 30, 1992 to July 1, 1996 to June 30, 1997	\$34.0 excess of \$1.0* plus \$25.0 excess of a minimum of \$50.0
July 1, 1997 to June 30, 1998	\$34.0 excess of \$1.0* plus \$25.0 excess of a minimum of \$50.0 \$15.0 excess of \$120.0 (optional layer)
July 1, 1998 to June 30, 1999	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$130.0 (optional layer)
July 1, 1999 to June 30, 2000 **	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$130.0 (optional layer)
July 1, 2000 to June 30, 2001 to July 1, 2002 to June 30, 2003 **	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer)
July 1, 2003 to June 30, 2004 to July 1, 2005 to June 30, 2006 ***	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer)



CLLAS HISTORICAL COVERAGE SUMMARY	
Coverage Period	Coverage Provided (in million \$)
July 1, 2006 to June 30, 2007 to July 1, 2007 to June 30, 2008 ***	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer 1) \$20.0 excess of \$160.0 (optional layer 2)
July 1, 2008 to June 30, 2009 to July 1, 2009 to June 30, 2010 ***	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer 1) \$10.0/20.0/30.0 excess of \$160.0 (optional layer 2)
July 1, 2010 to June 30, 2011 ***	\$34.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$50.0 \$20.0 excess of \$140.0 (optional layer 1) \$20.0/30.0/40.0 excess of \$160.0 (optional layer 2)
July 1, 2011 to June 30, 2012 to July 1, 2015 to June 30, 2016 ****	\$49.0 excess of \$1.0* plus \$30.0 excess of a minimum of \$65.0 \$10.0/20.0/30.0/40.0/50.0/60.0 excess of \$160.0 (optional layer)

\* The excess policies are endorsed to drop down to excess of \$250,000 (\$25,000 starting in 2008/2009) in certain instances

\*\* For Québec, all CLLAS coverage is provided in excess of a \$5 million retention up to and including policy year 2002/2003

\*\*\* For Québec, for policy years 2003/2004 and after, CLLAS coverage is provided \$30million in excess of a \$10 million retention

\*\*\*\* For Québec, for policy year 2011/2012 and after, CLLAS coverage is provided \$40 million in excess of a \$10 million retention

As of July 1, 2002, the firm aggregate limit on the first \$5 million of coverage, inclusive of underlying, was set at \$25 million. This was reduced as of July 1, 2007 to \$12 million and further reduced to \$5 million as of July 1, 2008. As of July 1, 2011, the policy limits presented above (except for the umbrella layer, discussed below) are also firm aggregate limits.

The umbrella layer of coverage (\$30 million excess of a minimum of \$65 million) is subject to an annual aggregate of \$60 million for all law firms combined. Coverage between the basic coverage described above (\$49 million excess of \$1 million) and the minimum attachment point of \$65 million of the umbrella layer is not provided by CLLAS, but left to individual subscribers to arrange. As of July 1, 2008, CLLAS began offering an option of \$10 million excess of \$160 million, \$20 million excess of \$160 million or \$30 million excess of \$160 million in optional layer 2. As of July 1, 2010, CLLAS began offering an option of \$20 million excess of \$160 million, \$30 million excess of \$160 million or \$40 million excess of \$160 million in optional layer 2. As of July 1, 2011, CLLAS replaced its two optional layers with a single layer excess of \$160 million (increased from previous years' \$140 million attachment point) with options ranging from \$10 million to \$60 million in \$10 million increments.



CLLAS' operations, including underwriting, claims, brokerage, actuarial and finance, are outsourced to third parties. CLLAS' Advisory Board, supported by its standing committees, provides oversight for these operations.

The number of insured lawyers increased from approximately 1,500 to 4,300 (including 51 patent and trademark agents) from 1987/1988 to 2015/2016. The firm Blake, Cassels & Graydon LLP withdrew from CLLAS at June 30, 2012. In 2014, a number of lawyers previously with Heenan Blaikie joined various CLLAS firms.

CLLAS was managed by The Wyatt Company from its inception in 1987 until late 1995, by Dion, Durrell + Associates Inc. until September 2013, and by Axxima Insurance Services, a division of 3303128 Canada Inc. ("Axxima Insurance Services") thereafter.

For policy year 2015/2016, CLLAS issued insurance contracts for total number of lawyers of 4,295 and collected total net premiums of \$2,415,000. The net income was \$201,000 and the surplus was \$13,623,000 for the policy year ended June 30, 2015. All invested assets were held in cash, cash equivalents and investments with credit rating of A-1 or higher for short-term investments and A+ or higher for long-term investments.

Statements of financial position and of comprehensive income for the policy years ended June 30, 2014 and 2015 are presented in Section 1, Exhibits 1A and 1B respectively.

## **5.2. Operating Environment**

Professional liability insurance losses are subject to significant volatility surrounding the timing, frequency and severity of claims. Claim frequency is expected to remain stable but individual claims are expected to trend up by approximately 6% per year.

The Reciprocal currently operates with the philosophy of collecting premiums which are expected to generate no profit or loss over a given policy year. Premiums are expected to cover losses, operating expenses and reinsurance costs and include a credit to recognize the expected investment income during the year. The Board may, at its discretion, distribute a portion of the surplus when the surplus held is in excess of the surplus target (approximately \$500,000 in 2014/2015 and 2015/2016).

CLLAS is not aware of any legal or regulatory changes or any precedents set in case law that would impact existing or future claims.





### 5.3. Reinsurance

CLLAS cedes paid losses, case reserves and provisions for IBNR in three ways:

1. **Proportional reinsurance:** The amounts ceded to proportional reinsurance in each layer vary according to the reinsurance arrangements effective in each policy period. The size and number of layers have varied over time.
2. **Aggregate reinsurance:** CLLAS' aggregate reinsurance with Colchester Reinsurance Limited ("Colchester") is applicable to its retention after reflection of proportional reinsurance. The amounts ceded to aggregate reinsurance vary according to the reinsurance arrangements effective in each policy period.
3. **Loss portfolio transfer:** At June 30, 2012, CLLAS entered into a loss portfolio transfer agreement with Colchester which covers all outstanding claim obligations on policies written between July 1, 1987 and June 30, 2012. CLLAS' remaining net claim liabilities attributable to the business written prior to June 30, 2012 are provisions for unallocated loss adjustment expenses.

The current and historical reinsurance arrangements are summarized in the Section 3 exhibits.

Commercial market reinsurance and excess insurance costs tend to be cyclical, with high prices and tighter underwriting restrictions following years with poor underwriting results. CLLAS has developed strong relationships with its reinsurers and therefore rates and availability for layers in excess of CLLAS' net retention are expected to remain stable.

### 5.4. Regulatory Environment

In March 2013, the Superintendent adopted OSFI's solvency, governance and other supervisory guidelines which were historically only applicable to federally-regulated insurance companies. The Superintendent has flexibility and discretion in the application of these guidelines for reciprocals.

#### MCT

The Superintendent requires reciprocals to make annual regulatory filings including the MCT. The MCT is a solvency test which has historically applied to incorporated insurance entities. The Superintendent is increasingly looking to apply the MCT standard to reciprocals but has indicated that it has discretion in the application of solvency requirements for reciprocals.



The MCT ratio is calculated as follows:

$$\text{MCT Ratio} = \frac{\text{Capital Available}}{\text{Minimum Capital Required}}$$

The Capital Available is equal to the entity's surplus, reduced by the amount of reinsurance recoverables from unlicensed reinsurers not covered by deposits. The Minimum Capital Required is a function of the entity's risk profile. The Minimum Capital Required accounts for risks such as the deterioration of asset values, adverse development on unpaid claims or operational risk.

The MCT calculation was changed effective January 1, 2015; capital charges were revised and an operational risk charge and diversification credit were introduced. The regulator has indicated that it will be targeting 210% as a supervisory target MCT ratio. Alberta-regulated reciprocals are expected to determine an internal target MCT ratio through the ORSA and operate with surplus in excess of this internal target.

The Reciprocal's MCT ratio as at December 31, 2014 increased from 346% using the previous formula to 694% using the new formula, mainly due to lower capital requirements for gross claim and premium liabilities. Transitional adjustments will ensure that all insurance entities transition to the new MCT framework over a period of 3 years.

A summary of the MCT ratio calculation using the new formula for the year ended December 31, 2014 and the policy year ended June 30, 2015 is presented in Section 1, Exhibit 1C.

## **AMRGF**

The primary regulatory solvency test for Alberta-based reciprocals remains the AMRGF requirement. The AMRGF requirement is a liquidity requirement which essentially prescribes that a reciprocal must hold cash and approved securities in excess of the following:

$$\begin{aligned} \text{AMRGF Requirement} = & 50\% \text{ of premiums written} \\ & - 50\% \text{ of premiums written ceded to licensed reinsurers} \\ & + \text{Total Liabilities} \\ & - \text{Unearned premiums} \\ & - \text{Unpaid claims recoverable from licensed reinsurers} \\ & + \$50,000 \end{aligned}$$

CLLAS must maintain cash and approved securities in excess of this requirement in order to avoid a retroassessment. At June 30, 2015, CLLAS met this requirement with an excess margin of \$10,335,000, as shown in Section 1, Exhibit 1D.



In the event that a reciprocal fails to meet regulatory requirements, the Superintendent would require a retroassessment in order to replenish the surplus or liquidity position. The Subscribers, being large law firms, have the ability to finance a retroassessment.

### **Premium Tax**

The Government of Alberta announced an increase in the insurance premium tax rate from 3% to 4% effective April 1, 2016. This change is not expected to be material for CLLAS.

---

## PART 6 — IDENTIFICATION OF MATERIAL RISKS

---

### 6.1. Material Inherent Risks

The Board identified ten broad risk categories applicable to the Reciprocal. The inherent risk (i.e. risk before the application of risk mitigation strategies) for each category was qualitatively evaluated by the committee and ranked in order of most to least significant, as follows:

1. **Insurance (claims) risk:** This risk arises out of the uncertainty surrounding the timing, frequency and severity of losses. Examples include large losses, change in payment patterns and increase in losses frequency.
2. **Premium and strategy risk:** This risk pertains to underwriting, competitive pressures as well as the inability to implement the business strategy. Examples include inadequate or uncompetitive premium rates and gain or loss of subscribers.
3. **Reinsurance risk:** This risk arises from reinsurer default, reduction in market capacity following major events, increases in reinsurance rates and disputes over policy conditions.
4. **Operational risk:** This risk arises from inadequate or failed processes, people, systems or external events. Examples include the loss of key personnel, business continuity issues, IT and data failures, information/privacy breaches and fraud.
5. **Inflation risk:** Examples of inflation risk include changes in the rate of general inflation as well as social inflation risk such as new legal precedents and changes in social attitudes and expectations. Inflation generally affects claim payments, operating expenses as well as investment yields.
6. **Interest rate (market) risk:** This risk category relates to the volatility in investment yields, which impact both investments and unpaid claims.
7. **Regulatory risk:** This risk arises out of changes in the regulatory environment. Examples include increases in solvency requirements.
8. **Credit/default risk:** Examples of credit risk include defaults on investments and accounts receivable.
9. **Liquidity risk:** This represents the potential for losses due to holding insufficient funds in liquid assets such as cash and short-term fixed income. Examples include needing to realize a loss on the sale of a bond when there is insufficient liquidity to pay for claims and expenses and having reinsurance receivables but not enough liquid assets to pay for a claim.



10. **Reputation risk:** Reputation risk arises when the confidence of subscribers, reinsurers and other business partners leads to a negative impact on net income, surplus or liquidity.

In addition, concentration risk arises from failure to diversify risk. It is a risk category closely tied with other risk categories, such as insurance (claims), reinsurance, premium and investments.

Based on its Investment Policy, CLLAS holds all its assets in cash and Canadian bonds and is therefore not directly exposed to equity or foreign exchange risks.

Schedule 2 of this report presents the ranking methodology as well as additional background on the main categories of inherent risk as determined by the Board.

## 6.2. Risk Mitigation

Risk mitigation measures are adopted by the Advisory Board and management in order to mitigate the frequency or severity of risks. CLLAS would consider risk mitigation strategies for all material risk categories, such as the following:

Risk Category	Current Risk Mitigation Measures	Additional Risk Mitigation Measures
Insurance	Periodic review of policy limits and other terms of coverage Purchase of reinsurance Annual review of premiums per rate setting policy Quarterly review of claims by Claims Committee Quarterly review of actuarial liabilities Support of subscriber risk management programs and audits	Diversification of risk (additional subscribers)
Reinsurance	Annual review of reinsurance limits and other terms of coverage Annual reinsurance security review Maintenance of Reinsurance Security Agreement with Colchester Diversification of reinsurers	Formal reinsurance risk management policy

Risk Category	Current Risk Mitigation Measures	Additional Risk Mitigation Measures
Premium, strategy and reputation	Rate setting policy Managed Board turnover Board orientation for new members Selective criteria for Board member nomination Purchase of D&O insurance Succession planning	Additional diversification of subscribers
Operational	Outsourcing of critical functions Business continuity plan in place for management Periodic assessment of outsourced functions Outsourcing policy (draft)	List of key functions with possible replacements  Outsourcing policy
Inflation	Periodic monitoring of CPI and other general inflation indices Periodic monitoring of legal changes and judgments	
Interest Rate	Periodic review of Investment Policy	Asset-Liability matching
Liquidity	Prescribed minimum amount of short-term assets	
Asset Default	Investment policy which restricts credit ratings	Additional diversification of investments
Regulatory Compliance	Regular communication with regulator Multi-disciplinary team responsible for regulatory compliance	

The evaluation of material risks in Part 7 is performed after reflecting the application of risk mitigation strategies. For example, the capital required for insurance risk would reflect the annual aggregate limits and reinsurance structure.



---

## PART 7 — EVALUATION OF MATERIAL RISKS

---

The quantitative risk evaluation was performed by Axxima Inc., a non-affiliated company of CLLAS providing actuarial and strategic advisory services to CLLAS.

### 7.1. Limitations and Distribution

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 report. 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 report should be amended accordingly, if warranted.

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

Part 7 of the report as well as Sections 1 and 2 of the exhibits attached are strictly for the use of CLLAS, its internal and external auditors, advisors and regulators in the context of their work for CLLAS. If they are distributed, they must be distributed in their entirety and with prior consent from Axxima.

### 7.2. Data

Axxima's review and analysis is based on the following information received from CLLAS:

- Claims database containing unlimited paid losses and case reserves for policy periods 1987/1988 to 2014/2015 as at June 30, 2015;
- Lawyer counts for policy periods 1987/1988 to 2015/2016;
- Investments as at June 30, 2015;
- Audited financial statements as at December 31, 2014 and internal financial statements as at June 30, 2015;
- P&C-1 annual return as at December 31, 2014;
- Budget and business plan for fiscal years 2015 to 2017;
- Details of historical reinsurance arrangements;



- Reciprocal Insurance Exchange Agreement;
- Investment policy;
- Guidelines for selection of reinsurers; and
- Various discussions with CLLAS management.

Axxima also relied on the actuarial valuation analysis as at June 30, 2015 and rating analysis for policy period 2015/2016 previously issued to CLLAS.

In addition, Axxima relied on the following:

- Bank of Canada historical yield curves;
- Statistics Canada tables 326-0020 (consumer price index);
- Standard & Poor's report on U.S. Corporate Default Study and Rating Transitions (2011);
- Standard & Poor's report on U.S. Recovery Rating Performance 5-Year Study (2013);
- Standard & Poor's credit ratings;
- Merrill Lynch U.S. corporate spreads, based on Federal Reserve Bank of St. Louis Economic Research;
- A.M. Best credit ratings;
- A.M. Best's report on the Securitization of Reinsurance Recoverables (2011); and
- ORX Report on Operational Risk Loss Data (2014).

### 7.3. Model Methodology and Assumptions

A stochastic model with 10,000 iterations was used to project the distribution of premiums, incurred losses, operating expenses, investment income and financial position of the Reciprocal over the next 5 years. The projections are based on the starting financial position as at June 30, 2015 and the period of projection extends to June 30, 2020.

The model is based on the claims and investment portfolio data as at June 30, 2015 as well as the number of lawyers for policy period 2015/2016.

Details on the model methodology and assumptions are provided in Section 2 of the exhibits. Key assumptions used in the model include the following:

- 2015/2016 per-claim limits effective in future policy years;
- 2015/2016 reinsurance structure effective in future policy years;
- Number of lawyers of 4,295 in 2015/2016 and subsequent trend of 0%;
- Expected ground up claim frequency of 1% per lawyer;
- Average 2015/2016 loss severity of \$620,000 in ground up losses and trend of 6% in subsequent years;
- Payout pattern and provisions for adverse deviation per the June 30, 2015 actuarial valuation;





- Proportion of 1% of ceded reserves recoverable from unlicensed reinsurers (excluding Colchester);
- Reinsurance Security Agreement with Colchester in place throughout the period of projection;
- Expected operating expenses of \$1,691,000 in 2015/2016;
- Expected investment yield equal to 1.80% in 2015/2016;
- Expected inflation rate of 2%;
- Probability of reinsurance default ranging from 0.54% to 0.70% depending on the reinsurer and recovery rate of 20%;
- Probability of investment default of 0.50% and recovery rate of 70%;
- Expected operational risk losses of 0.50% of gross premiums (i.e. \$62,000 in 2015/2016).

CLLAS' net written premiums are established according to the current funding philosophy and are expected to generate no net income or loss during the year. CLLAS may apply additional premium discounts when the accumulated surplus exceeds the surplus target. The model assumes that no premium discount will apply for policy years 2016/2017 and after. Reinsurance premiums are added to net required premiums to arrive at the gross premiums collected from Subscribers. The reinsurance premium is \$10,024,000 for policy year 2015/2016. CLLAS charges the reinsurance premium in its direct premium and then cedes it at 100%.

The Alberta regulator requires an immediate retroassessment when the AMRGF requirement is not met. For modelling purposes, the scenarios were modelled without future retroassessments (either per regulatory requirements or per the surplus policy) in order to calculate the probabilities of retroassessment at each year-end as well as the magnitude of the retroassessment required. It is assumed that no retroassessment is collected when the surplus position at the prior year-end is insufficient to meet the AMRGF regulatory requirement. This assumes that no additional capital arises from outside sources, beyond that included in the Reciprocal's business plan and model's base scenario.

Reinsurance rates are expected to be stable given CLLAS' experience to date. However, rates could significantly increase in the event of a reduction in market capacity, for example due to unfavorable Reciprocal's experience, social inflation or other events around the world. Reinsurance rate changes were modeled assuming this distribution:



Range of Reinsurance Rate Change	Probability
-10% to -5%	5.00%
-5% to 0%	15.00%
0%	40.00%
0% to 5%	20.00%
5% to 10%	10.00%
10% to 15%	5.00%
15% to 20%	2.50%
20% to 25%	1.25%
25% to 30%	0.63%
30% to 35%	0.31%
35% to 40%	0.16%
40% to 45%	0.08%
45% to 50%	0.08%
<b>Total</b>	<b>100.00%</b>
<b>Average</b>	<b>2.2%</b>

The reinsurance rate change per lawyer for the next five years was judgmentally capped between -25% and 75%.

Reinsurance defaults were modeled based on the current reinsurance structure with a simplification: Five of the most important reinsurers in terms of current liability assumed were selected (including Colchester) and all other reinsurers were grouped together, for a total of 6 reinsurers. Each reinsurer was assigned a probability of default ranging from 0.54% to 0.70% depending on their credit rating except for Colchester, which is assumed to have a probability of default of 0%. The correlation between reinsurance defaults was set at 15% based on industry data and the fact that many reinsurers were grouped together. A positive correlation implies that the default of individual reinsurers are not independent and that instead reinsurers tend to default in the same year due to common market forces. This notion is consistent with the fact that reinsurance markets are global and tend to be affected by the same catastrophic or market events. In the event of a default, the model assumes that any reinsurance losses payable during the year or in subsequent years by a reinsurer in default will only be recovered at 20% and that CLLAS will replace the defaulted reinsurer with a new one of equivalent credit rating starting the following policy period.

CLLAS' investments as at June 30, 2015 consist of short-term and long-term bonds. The default risk associated with these assets was modeled using a probability of investment default of 0.50% based on the credit rating of the issuers. In the event of default, the model assumes that 70% of the value will be recovered.

Operational risk arises from inadequate or failed internal processes, people, systems and external events. The benchmarking of operational risk losses in the insurance industry is recent and therefore



the operational risk for CLLAS was modeled based on data available from the banking and financial sector. The data available reflects historical losses with significant volatility for large companies with highly sophisticated operations. Operational risk was modeled taking into consideration the nature, size and complexity of CLLAS' operations. The annual losses modeled average 0.50% of gross premiums (approximately \$62,000 in 2015/2016).

9 scenarios were modeled under the current insurance and reinsurance structure, as follows:

1. Base Scenario;
2. Insurance risk only;
3. Operational risk only;
4. Reinsurance risk only;
5. Inflation risk only;
6. Market risk only;
7. Premium risk only;
8. Credit risk only;
9. All above risks combined.

The capital required to support material risks was determined using a mixture of deterministic (i.e. static) and stochastic (i.e. random) assumptions and scenarios. The recommended capital requirements are based on the value at risk at various confidence levels ranging from 90% to 95% over horizons ranging from 1 to 3 years. For example, a given capital position at a confidence level of 90% is expected to be sufficient in 90% of scenarios or 9 times out of 10.

#### **7.4. Base Scenario**

The Base Scenario projections are presented in Section 1, Exhibit 1, as follows:

- Exhibit 1A: Projection of statement of financial position;
- Exhibit 1B: Projection of statement of comprehensive income;
- Exhibit 1C: Projection of MCT (2015 formula excluding transition adjustments);
- Exhibit 1D: Projection of AMRGF.

The Base Scenario (Scenario 1) represents the best estimate scenario for the Reciprocal's financial position over the next 5 years. It was generated using a deterministic model for the Reciprocal's premiums, claims, operating expenses and investment income. This implies that static, best-estimate assumptions were employed throughout the projection period.

Net written premiums are consistent with premium rates recommended by the actuary for policy period 2015/2016 and are projected in the range of \$2,415,000 to \$3,555,000 over the next five years. Premiums are expected to trend up due to a 6% claim severity trend and an increase in operating



expenses of 3% per year. The large increase between policy years 2015/2016 and 2016/2017 is due to the premium distribution surplus. It is assumed that no premium discount will be provided for policy years 2016/2016 and after.

Net claims incurred are expected to be in the range of \$483,000 to \$929,000 annually. Operating expenses were projected at \$1,691,000 based on CLLAS' budget for fiscal year 2015. Operating expenses in subsequent years are expected to trend at 3% per year. We assume that premium taxes are expected to represent 4% of premiums.

The investment yield, gross of investment management fees, was projected at 1.80%. Total investment income is projected in the range of \$316,000 to \$372,000 annually throughout the period of projection.

The total comprehensive income is projected between -\$257,000 and \$372,000 for the period of projection. This is in accordance with CLLAS' current funding philosophy to operate with a total comprehensive income close to \$0.

The surplus is projected in the range of \$13,366,000 to \$14,245,000 throughout the period of projection. The MCT ratio is expected to remain above 400%, which is in excess of the regulatory target of 210%. The AMRGF requirement is also expected to be met with a margin in excess of \$10,000,000.

## 7.5. Alternate Scenarios

### Methodology and Assumptions – Stochastic Scenarios

A stochastic model with 10,000 iterations was used to apply volatility to the base assumptions. The following alternate scenarios were modeled:

Scenario	Variable Assumptions <sup>1</sup>
1. Base Scenario	All assumptions are static
2. Insurance/Reinsurance Risk Only	<ul style="list-style-type: none"> <li>• Frequency of claims</li> <li>• Severity of claims</li> <li>• Payment pattern</li> <li>• Reinsurance default/dispute</li> <li>• Reinsurance costs</li> </ul>
3. Operational Risk Only	<ul style="list-style-type: none"> <li>• Number of operational risk events</li> <li>• Severity of operational risk events</li> </ul>
4. Inflation Risk Only	<ul style="list-style-type: none"> <li>• Rate of inflation applied to payments and expenses</li> <li>• Impact on investment yields</li> </ul>

<sup>1</sup> Details on the assumptions selected are presented in Section 2 of the exhibits.



Scenario	Variable Assumptions <sup>1</sup>
5. Market Risk Only	<ul style="list-style-type: none"> <li>• Investment yield (risk-free)</li> <li>• Credit spreads</li> <li>• Discount rate for actuarial liabilities</li> <li>• Interest rate margin for adverse deviation for actuarial liabilities</li> </ul>
6. Premium and Strategy Risk Only	<ul style="list-style-type: none"> <li>• Total number of lawyers</li> </ul>
7. Credit/Default Risk Only	<ul style="list-style-type: none"> <li>• Default rate on investments</li> <li>• Default rate on accounts receivable</li> </ul>
8. All Risks Above Combined	<ul style="list-style-type: none"> <li>• All of the above</li> </ul>

The insurance and reinsurance risk categories were combined to reflect that under its current insurance and reinsurance structures, CLLAS' most significant risk is the risk of incurring large claims and subsequently experiencing a reinsurance default or dispute.

Notwithstanding regulatory requirements, for the purposes of modelling, it is assumed that no retroassessment is collected when the surplus position at the prior year-end is insufficient to meet the AMRGF regulatory requirement and no surplus distributions are assumed.

Correlations and dependencies in Scenario 8 are taken into account between insurance/reinsurance, premium and strategy, market, inflation and operational risks, given the following interrelationships:

- Investment yields impact premiums and the rate and margin used to discount actuarial liabilities;
- Inflation rates impact investment yields, premiums and claim payments;
- Losses incurred in a given year impact future premiums;
- Number of lawyers impact incurred losses and premiums; and
- Operational risk losses are dependent on the premium volume.

Other risk categories are assumed to be independent.

## Results – Stochastic Scenarios

Section 1, Exhibit 2 presents the 5-year projections at 5<sup>th</sup>, 20<sup>th</sup>, mean, 80<sup>th</sup> and 95<sup>th</sup> percentiles for the following key financial elements under Scenario 8 (i.e. all risks, diversified):

- Exhibit 2A: Net written premiums;
- Exhibit 2B: Net incurred losses;
- Exhibit 2C: Total investment income, gross of fees;
- Exhibit 2D: Total comprehensive income;
- Exhibit 2E: Surplus;



- Exhibit 2F: MCT ratio, without transitional adjustments; and
- Exhibit 2G: Excess of AMRGF requirement.

The confidence interval between the 5<sup>th</sup> and 95<sup>th</sup> percentiles represents the range of probable outcomes over the next 5 years. Actual results are expected to remain within this range 9 times out of 10.

The surplus is projected to remain above \$10,493,000 over one year and above \$3,372,000 over 5 years with 95% probability.

The MCT and AMRGF regulatory requirements are expected to be met over the next five years. The probability of retroassessment based on not meeting the MCT supervisory target ratio of 210% is estimated at 2.8% over the next year and 20.6% over the next 5 years. The probability of retroassessment based on not meeting the AMRGF requirement is estimated at 1.0% over the next year and 5.9% over the next 5 years.

## 7.6. Capital Required

### Risk Categories Modeled Stochastically

Section 1, Exhibit 3 presents the surplus position under the Base Scenario as well as under the seven alternate stochastic Scenarios at the end of fiscal years 1 and 3. Confidence levels of 90%, 95%, 97.5% and 99% for the impact on surplus are presented.

The impact of these Scenarios can be thought of as the capital required to sustain the volatility in net income due to the various risks faced by the Reciprocal at the given probability level.

The impact of these scenarios is implicitly shown after the application of risk mitigation strategies. For example, the capital required for insurance/reinsurance risk reflects the reinsurance structure and the market risk capital required implicitly reflects the current investment policy and investment profile.

After considering the current risk mitigation strategies, the risk categories presenting the greatest residual risk at the end of projection year 3 under a 90% confidence level, in order of most to least significant, are insurance/reinsurance, operational and inflation risks. It is worth noting that for the 97.5% and 99% confidence levels for the insurance/reinsurance risk, the significant impact on surplus would occur if Reinsurer 1 (Lloyds) or Reinsurer 5 (all reinsurers other than Lloyds, Scor Re, Aspen Re and Transatlantic Reinsurance Company) defaulted over the next 3 years.

The difference between the impact of Scenario 8 (i.e. all risk combined) and the additive impact of Scenarios 2 to 7 is the diversification credit. Less capital is required in Scenario 8 because the risks are



not perfectly correlated. For example, a scenario presenting the 95<sup>th</sup> percentile operating loss will not necessarily be the scenario presenting the 95<sup>th</sup> percentile loss in market value.

Over a longer-time horizon, the capital requirement at a given confidence level is greater. This reflects the “compounding” of risk over time.

### **Diversification**

The methodology used to determine the diversification benefit consists of running stochastic scenarios for the individual categories first (i.e. Scenarios 2 to 7 for insurance/reinsurance risk, market risk, inflation risk, etc. individually) and then running a scenario for all risks combined (i.e. Scenario 8). The difference between the sum of the impact on surplus of individual risks and the impact on surplus of all risks combined is the diversification credit.

Section 1, Exhibit 3 shows the impact on surplus and calculation of the diversification credit.

For example, in Exhibit 3, at the 95<sup>th</sup> percentile over a one-year horizon, the sum of the impacts on surplus of the individual risks is \$2,761,000. This implies a \$2,761,000 loss would result if CLLAS experienced the 95<sup>th</sup> percentile insurance/reinsurance loss, the 95<sup>th</sup> percentile bond loss, the 95<sup>th</sup> percentile operational risk loss, etc. all in the same year. However, the 95<sup>th</sup> percentile loss for all risk categories considered simultaneously is \$2,536,000. The diversified losses are smaller because when all risk sources are considered, losses from certain risk categories may be offset from losses in other risk categories. For example, a large claim may be offset by market gains, resulting in a lower impact on surplus. The diversification credit is calculated as  $\$2,761,000 - \$2,536,000 = \$225,000$ .

### **Other Risk Categories**

Other risk categories modeled separately from stochastic Scenario 8 include the following:

- Premium and strategy risk: The capital requirement associated with this risk was judgmentally selected based on 25% of the impact on surplus of a decrease of 20% in number of insured lawyers in policy period 2015/2016. The capital recommended is in the range of \$445,000 to \$552,000 based on the 95<sup>th</sup> percentile surplus position after 1 year and 90<sup>th</sup> percentile surplus position after 3 years.
- Regulatory risk: The capital requirement associated with the risk of changes in regulatory requirements was judgmentally set at 5% of the MCT regulatory capital required as at June 30, 2015. The capital recommended is \$238,000.
- Reputation risk: This risk arises when the confidence of subscribers, reinsurers and other business partners leads to a negative impact on net income, surplus or liquidity. Reputation risk was identified as a key risk by CLLAS’ Advisory Board. The capital requirement associated with the



reputation risk was judgmentally set at 5% of the MCT regulatory capital required as at June 30, 2015. The capital recommended is \$238,000. Reputation risk was also implicitly assumed in Scenarios 2 (insurance/reinsurance), 3 (operational) and 6 (premium and strategy) through possible outsourcing and operational risk as well as changes in reinsurance rates and Subscriber participation.

- Liquidity risk: The capital requirement was judgmentally set at 2.5% to 5% of the AMGRF requirement as at June 30, 2015. The capital recommended is in the range of \$238,000 and \$475,000 based on the 95<sup>th</sup> percentile surplus position after 1 year and 90<sup>th</sup> percentile surplus position after 3 years.

## 7.7. Summary of Capital Required

Section 1, Exhibit 4 presents the capital requirements for all material risks identified above based on CLLAS maintaining its current insurance and reinsurance limits under two options:

- Option A: Low surplus target (high risk appetite); and
- Option B: High surplus target (low risk appetite).

An internal capital target should be selected based on the Advisory Board's risk appetite. A low risk appetite translates to a higher level of risk aversion, which will generally result in holding higher capital levels to sustain a given risk profile. In contrast, a high risk appetite will generally translate in holding lower capital levels for a given risk profile.



The capital requirements under the two options are summarized in the following table:

Capital Requirements	Option A Low Target	Option B High Target
<b>Risks Modeled Stochastically</b>		
Insurance/Reinsurance Risk	\$2,519,000	\$2,804,000
Operational Risk	148,000	282,000
Inflation Risk	20,000	111,000
Market Risk	0	109,000
Premium and Strategy Risk	0	0
Credit Risk	\$2,519,000	\$2,804,000
Subtotal	2,761,000	3,514,000
Diversification Credit	(225,000)	(755,000)
<b>Additional Risks Modeled</b>		
Premium & Strategy	552,000	445,000
Regulatory Risk	238,000	238,000
Reputation Risk	238,000	238,000
Liquidity Risk	238,000	475,000
Subtotal	1,266,000	1,396,000
Indicated Total Required	<b>\$3,802,000</b>	<b>\$4,155,000</b>
Equivalent MCT Ratio	<b>168%</b>	<b>183%</b>
Required for Regulatory Compliance	964,000	611,000
Equivalent MCT Ratio	42%	27%
<b>Minimum Capital Required</b>	<b>\$4,766,000</b>	<b>\$4,766,000</b>
<b>Equivalent MCT Ratio</b>	<b>210%</b>	<b>210%</b>
<b>Recoverables from unregistered reinsurers not covered by acceptable collateral*</b>	<b>\$1,209,000</b>	<b>\$1,209,000</b>
<b>Total Surplus Required</b>	<b>\$5,975,000</b>	<b>\$5,975,000</b>

\* This represents the additional surplus required to meet a minimum MCT ratio of 210% due to regulatory capital deductions in the MCT calculation. The amount is as at June 30, 2015.

Option A is expected to be sufficient in 95% of scenarios over a 1-year horizon and Option B is expected to be sufficient in 90% of scenarios over a 3-year horizon.

The above capital requirements compare to an AMRGF capital requirement of \$2,806,000 as at June 30, 2015. The surplus required to meet an MCT ratio of 210% is \$5,975,000, which consists of the



capital required of \$4,766,000 plus an amount of \$1,209,000 to cover the recoverables from unregistered reinsurers not covered by acceptable collateral. The actual surplus was \$13,623,000 as at June 30, 2015 and is projected at \$13,366,000 at June 30, 2016.

Section 1, Exhibit 5 presents the regulatory Key Risk Metrics report; this exhibit compares the regulatory and ORSA capital requirements by risk category.

## 7.8. Stress Testing

Stress testing involves evaluating the potential effect on the financial position of a set of specified assumptions. Stress testing was performed by rerunning Scenario 8 (all risks) and incorporating the following alternate assumptions:

1. **Stress Scenario 1 – Increasing the claim frequency by 50%:** CLLAS' loss frequency has been very low and stable over the last 15 years as shown in Section 2, Exhibit 3. However, given the 58 claims to date, little information is known about the actual claims distribution and therefore Scenario 8 was rerun assuming a 50% increase in the estimated claims frequency.
2. **Stress Scenario 2 – Increase of 20% in number of insured lawyers and surplus in policy year 2015/2016:** An increase in exposure can put stress on the surplus of an insurance entity because there is an increased exposure to loss. This Scenario was tested with a 20% increase surplus contributions (i.e. it is assumed that the increase in number of lawyers originates from the addition of a new Subscriber that would likely contribute surplus when joining CLLAS). Scenario 8 was rerun assuming a 20% increase in number of insured lawyers and in surplus for policy year 2015/2016; all other assumptions were unchanged.
3. **Stress Scenario 3 – Decrease of 20% in number of insured lawyers and surplus in policy year 2015/2016:** Such a scenario is intended to reflect the departure of CLLAS Subscribers. The departure of Subscribers would translate into a smaller surplus and premium volume and would also add Reciprocal volatility and concentration of risk. Scenario 8 was rerun assuming a 20% decrease in number of insured lawyers and surplus for policy year 2015/2016; all other assumptions were unchanged.
4. **Stress Scenario 4 – Default by Lloyds' underwriters:** The Lloyds' syndicates are the most important reinsurers for CLLAS; as at June 30, 2015, these syndicates hold approximately 62% of CLLAS' claim liabilities not ceded to Colchester. Scenario 8 was rerun assuming that all these syndicates will default during policy year 2015/2016.
5. **Stress Scenario 5 – Doubling the reinsurance default/dispute rate:** CLLAS has had a high reliance on reinsurers since its inception with an amount of unpaid claims recoverable from reinsurers above \$100,000,000 as at June 30, 2015. Scenario 8 was rerun assuming double the estimated reinsurance default/dispute rates.



6. **Stress Scenario 6 – Default by Scor Re:** The probability of default by all the Lloyds syndicates is remote but there is a greater likelihood that a single CLLAS reinsurer defaults. This scenario is designed to quantify the impact of a CLLAS reinsurer default other than Lloyds. Scenario 8 was rerun assuming Score Re (a significant reinsurer for CLLAS) will default during policy year 2015/2016.
7. **Stress Scenario 7 – Inflation rate increases by 2%:** Inflation affects claims payments, operating expenses and interest rate. Scenario 8 was rerun assuming the inflation rate is 2% higher than expected.
8. **Stress Scenario 8 – Increasing the frequency of operational risk losses by 50%:** CLLAS identified operational risk as a major source of inherent risk. Very little information is known to date about operational risk losses in the insurance industry. Scenario 8 was rerun assuming an increase of 50% in the frequency of operational risk losses.
9. **Stress Scenario 9 – Change in Fund asset allocation.** The asset allocation is 71% in short-term investments (less than one year) and 29% in long-term investments (more than one year) as at June 30, 2015. In December 2013, CLLAS adopted an investment policy where invested assets would be allocated in target proportions of 40% in short-term securities and 60% in long-term securities. The change in asset allocation will affect different components of the model such as the investment yield, the duration of assets, the present value of the claims liabilities as well as the capital required for the market and insurance risks in the MCT. Scenario 8 was rerun assuming the December 2013 investment policy.



The results of the above Scenarios are shown in the table below:

Scenario	Mean Surplus June 30, 2018 (Year 3)	90 <sup>th</sup> Percentile Surplus June 30, 2018 (Year 3)	Cumulative Probability of Retroassessment <sup>1</sup> by June 30, 2018
Scenario 8 (i.e. All Risks)	12,778,000	10,019,000	3.10%
Stress Scenario 1	10,469,000	6,955,000	5.47%
Stress Scenario 2	14,729,000	11,779,000	2.97%
Stress Scenario 3	10,686,000	8,238,000	3.54%
Stress Scenario 4	-24,463,000	-39,786,000	100.00%
Stress Scenario 5	11,799,000	8,488,000	6.03%
Stress Scenario 6	9,054,000	5,473,000	7.50%
Stress Scenario 7	13,150,000	10,606,000	2.87%
Stress Scenario 8	12,667,000	9,959,000	3.13%
Stress Scenario 9	13,034,000	10,311,000	2.93%

Based on the above results, CLLAS remains sufficiently capitalized at June 30, 2015 to mitigate the probability of retroassessment within the next 3 years to less than 10% under the most severe stress scenario except for Stress Scenario 4 where all the Lloyds syndicates default. CLLAS is in technical bankruptcy under this stress scenario. Excluding Stress Scenario 4, the Stress Scenario showing the highest probability of retroassessment and impact on surplus is Stress Scenario 6 where the reinsurer Scor Re defaults.

Using the alternate assumptions, the total capital requirements would change as follows:

Capital Requirements	Option A Low Target	Option B High Target
Recommended per Section 7.7	4,766,000	4,766,000
Recommended with Stress Scenario 1	6,152,000	7,830,000
Recommended with Stress Scenario 2	2,595,000	3,006,000
Recommended with Stress Scenario 3	6,972,000	6,547,000
Recommended with Stress Scenario 4	56,489,000	54,571,000
Recommended with Stress Scenario 5	5,287,000	6,297,000
Recommended with Stress Scenario 6	10,070,000	9,312,000
Recommended with Stress Scenario 7	4,673,000	4,179,000
Recommended with Stress Scenario 8	4,783,000	4,826,000
Recommended with Stress Scenario 9	4,600,000	4,474,000

<sup>1</sup> Probability of at least one retroassessment over the next three years; retroassessment based on AMRGF requirement.



Although the range of recommended surplus targets shows sensitivity to the different Stress Scenarios, we note that CLLAS' surplus of \$13,623,000 at June 30, 2015 remains above the recommended targets under all the Stress Scenarios except for Stress Scenario 4.

## PART 8— RISK MONITORING

Risk targets and limits are determined in the context of applying risk appetite statements to specific risk categories. Risk targets and limits should be mindful of regulatory requirements or constraints, such as the following:

- AMRGF requirements;
- MCT requirements: minimum regulatory target of 150%;
- Limits on investments:
  - 5% or \$500,000 limit on individual investments (except federal or provincial bonds);
  - 10% limit on real property;
  - 25% limit on equities;
  - 30% combined limit on real property and equities;

The following table presents risk categories that can be monitored quantitatively. As these risks may challenge the Reciprocal's ability to meet strategic objectives, the following risk targets and limits are recommended, above which management action could be considered:

Risk Category	Risk Metric	Risk Target	Risk Limit
Insurance	Prior year development <sup>1</sup>	0%	Gross: 20% Net: 10%
	3-year net combined ratio before surplus adjustments <sup>2</sup>	100%	125%
	Maximum allocation to a single jurisdiction <sup>3</sup>		67%

<sup>1</sup> This is a measure of the redundancy or deficiency of reserves. It is calculated as the year-over-year development in ultimate losses expressed as a ratio of the prior year's unpaid claims (excluding ULAE).

<sup>2</sup> This is a measure of underwriting profitability during a given fiscal year. It is calculated as follows:

$$\text{Net Combined Ratio} = \frac{\text{Fiscal Year Net Incurred Claims} + \text{Fiscal Year Operating Expenses}}{\text{Fiscal Year Net Earned Premiums}}$$

The three-year net combined ratio is monitored as there could be significant volatility in annual net combined ratios, especially in years when CLLAS has a higher claim retention. Further, the net earned premiums exclude the effect of surplus adjustments order to provide a more meaningful comparison of expected losses and operating expenses (i.e. premiums) to actual losses and operating expenses. This risk metric may also be used for the Premium risk category.

<sup>3</sup> This is monitored to assess concentration risk and is expressed as a percentage of insured lawyers.



Risk Category	Risk Metric	Risk Target	Risk Limit
Reinsurance	Reinsurer credit rating <sup>1</sup>	A	A-
	Maximum concentration with a single reinsurer <sup>2</sup>	10%	15%
Interest Rate	Interest rate risk per MCT formula at 1.25% <sup>3</sup>	\$250,000	\$600,000
Liquidity	Proportion of the short-term investment fund to the total value of the short-term and long-term investment funds	40%	20%
	Cash and short-term investments to gross liabilities <sup>4</sup>	15%	10%
	Cash and investments in excess of AMRGF requirement	TBD	\$3,000,000
Asset Default	Credit rating of bonds and treasury bills	AA to AAA	A
	Credit rating of bankers acceptances and certificates of deposit	R-1 high	R-1 high
	Maximum allocation to a single non-government security <sup>5</sup>		5%
Strategy	Annual Advisory Board turnover	2 members	4 members
Operational	Key management/advisor turnover	1 per 3 years	1 per year

Risk categories such as strategic, reputation, operational, political and regulatory compliance are difficult to monitor quantitatively. Management qualitatively monitors any trends or risk sources for these risk categories and report on them to the Advisory Board along with the above risk metrics.

<sup>1</sup> The credit rating is based on A.M. Best and S&P.

<sup>2</sup> This is monitored to assess concentration risk. It is measured based on a reinsurer's proportion of current claims liability exposure (i.e. case reserves and IBNR) for all policy years. Lloyd's syndicates are assessed separately.

<sup>3</sup> This is an expected measure of net loss due to the timing mismatch of the expected payment streams from fixed income assets and those from claim liabilities, assuming a movement of 1.25% in interest rates.

<sup>4</sup> CLLAS' liquidity risk mainly arises from the possibility of realizing a loss on the sale of invested assets if insufficient liquid assets are available to pay for claims.

<sup>5</sup> The maximum allocation to a single security is monitored to assess concentration risk. The allocation to the largest single security excludes investments in cash or cash equivalents and is expressed as a percentage of total cash and invested assets. The maximum allowable per the Insurance Act is 5% of total assets (the 5% limit does not apply to investments in federal or provincial bonds and banks).



---

## PART 9— CONCLUSIONS AND RECOMMENDATIONS

---

### 9.1. Conclusions

The following were concluded:

1. Based on its current risk profile, CLLAS' main sources of inherent risk (i.e. risk before mitigation strategies) are insurance/reinsurance, premium & strategy and operational risks.
2. Based on its current risk profile, CLLAS' main sources of residual risk (i.e. risk after mitigation strategies) are insurance/reinsurance, operational and inflation risks.
3. CLLAS takes significant insurance risk since it writes insurance for professional liability insurance losses with significant limits per claim. CLLAS currently mitigates its insurance risk by limiting its net retention to drop down claims and \$5,000,000 in the annual aggregate. CLLAS also mitigates the risk of reserve deterioration with a Loss Portfolio Transfer with Colchester through which CLLAS cedes all development on claims reported prior to June 30, 2012.
4. CLLAS is exposed to significant reinsurance risk; unpaid claims recoverable from reinsurers are above \$100,000,000 as at June 30, 2015. Reinsurance risk can emerge in the form of reinsurance defaults or disputes as well as through reductions in market capacity and variability in reinsurance rates. CLLAS mitigates this risk through the selection of reinsurers with high credit ratings.
5. CLLAS was well capitalized as at June 30, 2015 based on the risk profile of its assets and liabilities. The surplus is \$13,622,000 as at June 30, 2015 and the MCT ratio is 547% before the application of transition rules. The AMGRF requirement is met with a margin in excess of \$10,000,000.
6. Assuming that CLLAS maintains its insurance and reinsurance structure, the actuary estimated the following:
  - o There is an estimated probability of 95% that the surplus will remain above \$10,493,000 at June 30, 2016 and above \$3,372,000 at June 30, 2020.
  - o The surplus position as at June 30, 2015, together with the current funding mechanism, is estimated to be sufficient to support the business strategy with a probability of 96.9% over the next 3 years and 94.1% over the next five years. In other words, the probability of incurring at least one retroassessment to meet the AMGRF requirement is 3.1% over the next 3 years and 5.9% over the next 5 years.





## 9.2. Recommendations of Management

Based on the review and analysis provided by the actuary, the following is recommended:

1. The Advisory Board should adopt an internal capital/surplus target based on risk appetite. Based on the actuarial analysis presented in Part 7 and assuming that the current insurance and reinsurance structure are maintained, the Advisory Board could consider an internal capital/surplus target ratio of 210%.

An MCT ratio of 210% as at June 30, 2015 corresponds to a surplus position of \$5,975,000 which is made up of capital required of \$4,766,000 plus an amount of \$1,209,000 which represents the reinsurance recoverable from unregistered reinsurers not covered by collateral.

2. The Advisory Board should adopt targets and limits for key risk metrics for individual risks based on risk appetite and the targets and limits presented in Part 8 of this report.
3. Management should track the adopted key risk metrics at least annually and consider taking action when such metrics exceed the risk limits adopted by the Advisory Board.
4. The risk targets, risk limits and internal capital target should be reviewed annually, or more frequently if there are material changes in the risk profile or strategy.

## 9.3. Recommendations Adopted by the Advisory Board

[To be completed after the Advisory Board meeting]



---

## PART 10 — LIST OF SCHEDULES AND EXHIBITS

---

### Schedule 1:

Enterprise Risk Management Policy (Draft)

### Schedule 2:

Memo on ORSA Risk Identification and Evaluation (June 12, 2015)

### Section 1: Financial Projections (provided by Axxima)

#### Exhibit 1: Base Scenario

- A. Statement of Financial Position
- B. Statement of Comprehensive Income
- C. Minimum Capital Test (Excluding Transition Adjustments)
- D. Concentration of Insured Values

#### Exhibit 2: 5-Year Projections at Various Confidence Levels

- A. Premiums Written
- B. Incurred Losses
- C. Investment Income
- D. Net Income
- E. Surplus
- F. Minimum Capital Test Ratio
- G. Excess of Alberta Reserve and Guarantee Fund Requirement

#### Exhibit 3: Summary of Surplus Position under Various Stochastic Scenarios

#### Exhibit 4: Selected Capital Requirement

#### Exhibit 5: Key Risk Metrics Report



## **Section 2: Model Methodology and Assumptions (provided by Axxima)**

Exhibit 1: Summary of Historical Data

Exhibit 2: Selection of Exposure Trend

Exhibit 3: Selection of Loss Frequency Assumptions

Exhibit 4: Selection of Loss Severity Trend

Exhibit 5: Selection of Loss Severity Distribution

A. Ground up Losses

B. Summary of Undiscounted Loss Costs by Layer of Coverage

Exhibit 6: Selection of Payment Pattern Assumptions

Exhibit 7: Investments

A. Summary of Investment Portfolio as at June 30, 2015

B. Selection of Real Rate of Return Assumptions

C. Selection of General Inflation Assumptions

D. Selection of Yield Spreads and Investment Management Expenses

E. Selection of Default Assumptions

F. Selection of Recovery Rate

Exhibit 8: Reinsurance

A. Selection of Reinsurance Rate Change Assumptions

B. Selection of Reinsurance Default Assumptions

Exhibit 9: Selection of Operational Risk Assumptions

## **Section 3: CLLAS Reinsurance Arrangements**

---

SCHEDULE 1: ENTERPRISE RISK MANAGEMENT POLICY (DRAFT)

---



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

### Enterprise Risk Management Policy

Last Updated  
June 12, 2015

**DRAFT**



---

## ENTERPRISE RISK MANAGEMENT POLICY

---

Effective date: July 1, 2015

### 1.1. Purpose and Scope

Enterprise Risk Management (“ERM”) is the process through which CLLAS proactively manages risk by identifying, assessing, monitoring and mitigating risks from all sources that may impact short- and long-term financial sustainability. ERM is intended to enhance decision-making by integrating strategic planning with a focused evaluation of the risk exposures stemming from CLLAS’ operations and the environment in which it operates. The purpose of this policy is to document the practices and responsibilities with respect to ERM.

The ERM policy, together with CLLAS’ risk appetite assessment, constitutes the foundation for CLLAS’ Own Risk and Solvency Assessment (“ORSA”) and most governance policies, including the surplus target and surplus policy, the investment policy, the reinsurance security policy and the outsourcing policy.

### 1.2. Objectives

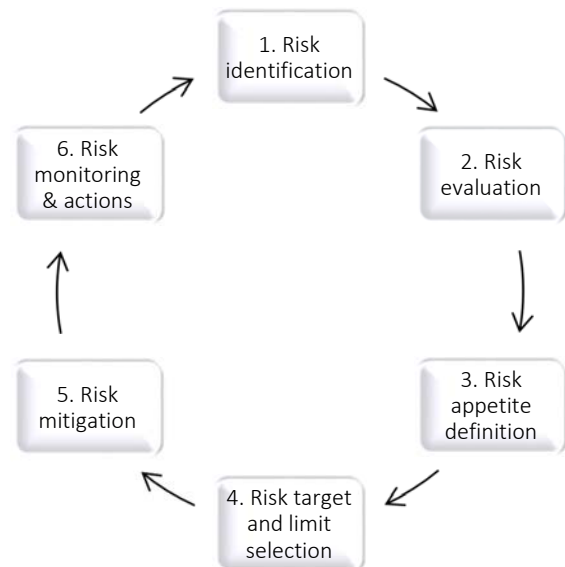
ERM has multiple objectives, including the following:

- Avoid or mitigate risks that could materially impair the financial position or condition of CLLAS;
- Accept risks that contribute to CLLAS’ strategy;
- Manage risks in accordance with best practices and enhance strategic decision-making; and
- Promote a better understanding of the interrelationships between CLLAS’ risk profile and capital needs.

### 1.3. ERM Cycle

ERM is a cycle where risks are periodically identified and measured, where risk targets and limits are set, and where CLLAS' financial condition and material risks are regularly monitored and compared to its risk targets and limits. Risk appetite is fluid and would reflect any improvement or deterioration in risk tolerance, changes in the business strategy and changes in economic conditions.

The diagram on the right illustrates the steps of the ERM cycle. CLLAS' approach to the various steps is outlined in the next sections.



### 1.4. Identification and Evaluation of Material Risks

The Office of the General Manager identifies, defines and assesses the materiality of known, reasonably foreseeable or emerging risks that may have an impact on CLLAS' ability to continue operations, both under normal and stressed conditions. The materiality of the risks CLLAS is exposed to will change over time as the risks are, in part, dependent on CLLAS' business strategy (e.g. amount of net retention, subscriber base, reinsurers selected for reinsurance placement) and on its business environment (e.g. stage of the insurance/reinsurance cycle, outlook for investment market).

The risks which are considered to be material are reviewed in more detail and their potential impact on CLLAS' financial position and continued ability to meet minimum regulatory requirements is quantified.

### 1.5. Risk Appetite

Risk appetite is the high-level direction for the amounts and types of risks CLLAS wants to pursue based on its risk profile, vision and overall strategy. CLLAS currently considers the following risk appetite statements to be appropriate:

- CLLAS has an overall low to medium risk appetite;
- CLLAS wants to balance the likelihood of retroassessment against the efficiency of operating with as little capital as is prudent and appropriate;
- CLLAS does not want to engage in risk-taking activities that could be detrimental to its reputation or the reputation of its subscribers;
- CLLAS wants protection against extreme events that could compromise its solvency;
- CLLAS strives to maintain excellent long-term relationships with its reinsurance partners in order to continue accessing reinsurance markets at a reasonable cost;
- CLLAS strives to protect itself from strategic risk by having knowledgeable and stable Advisory Board and senior management;



- CLLAS reduces its operational risk by outsourcing operational functions to experts (accounting, claims management, actuarial, investments, etc.).

## **1.6. Risk Targets and Limits**

Risk targets and limits are determined in the context of applying risk appetite statements to specific risk categories or business units. Risk targets and limits should be mindful of regulatory requirements or constraints, such as the following:

- AMRGF requirements;
- MCT requirements;
- Limits on investments:
  - 5% or \$500,000 limit on individual investments (except federal or provincial bonds and banks);
  - 10% limit on real property;
  - 25% limit on equities;
  - 30% combined limit on real property and equities;
- Limitation on ownership of an unincorporated entity: 10% ownership;
- Substantial investment definition: 10% of voting rights or 25% of equity.





The following table shows the risk categories that can be monitored quantitatively. As these risks may challenge the ability to meet strategic objectives, risk targets and limits have been determined, above which management action could be considered:

Risk Category	Risk Metric	Risk Target	Risk Limit
Insurance	Prior year development <sup>1</sup>	0%	Gross: 20% Net: 10%
	3-year net combined ratio before surplus adjustments <sup>2</sup>	100%	125%
	Maximum allocation to a single jurisdiction <sup>3</sup>		67%
Interest Rate	Interest rate risk per MCT formula at 1.25% <sup>4</sup>	\$250,000	\$600,000
Liquidity	Cash and short-term investments to gross liabilities <sup>5</sup>	15%	10%
Asset Default	Credit rating of invested assets <sup>6</sup>	AA to AAA	A
	Maximum allocation to a single non-government security <sup>7</sup>		5%
Strategic	Annual Advisory Board turnover	2 members	4 members
Equity <sup>8</sup>	Proportion of equities in investment portfolio	0%	0%
Foreign Exchange <sup>9</sup>	Proportion of investments in foreign currency	0%	0%

<sup>1</sup> This is a measure of the redundancy or deficiency of reserves. It is calculated as the year-over-year development in ultimate losses expressed as a ratio of the prior year's unpaid claims (excluding ULAE).

<sup>2</sup> This is a measure of underwriting profitability during a given fiscal year. It is calculated as follows:

$$\text{Net Combined Ratio} = \frac{\text{Fiscal Year Net Incurred Claims} + \text{Fiscal Year Operating Expenses}}{\text{Fiscal Year Net Earned Premiums}}$$

The three-year net combined ratio is monitored as there could be significant volatility in annual net combined ratios, especially in years when CLLAS has a higher claim retention. Further, the net earned premiums exclude the effect of surplus adjustments order to provide a more meaningful comparison of expected losses and operating expenses (i.e. premiums) to actual losses and operating expenses.

<sup>3</sup> This is monitored to assess concentration risk and is expressed as a percentage of insured lawyers.

<sup>4</sup> This is an expected measure of net loss due to the timing mismatch of the expected payment streams from fixed income assets and those from claim liabilities, assuming a movement of 1.25% in interest rates.

<sup>5</sup> CLLAS' liquidity risk mainly arises from the possibility of realizing a loss on the sale of invested assets if insufficient liquid assets are available to pay for claims.

<sup>6</sup> The credit rating is based on DBRS (or similar).

<sup>7</sup> The maximum allocation to a single security is monitored to assess concentration risk. The allocation to the largest single security excludes investments in cash or cash equivalents and is expressed as a percentage of total cash and invested assets. The maximum allowable per the Insurance Act is 5% of total assets (the 5% limit does not apply to investments in federal or provincial bonds and banks).

<sup>8</sup> CLLAS is not exposed to this risk category as the Investment Policy does not allow investments in equities.

<sup>9</sup> CLLAS is not exposed to this risk category as the Investment Policy does not allow foreign investments.



Reinsurance is a critical element of CLLAS' risk management framework. Reinsurer credit risk is managed by means of CLLAS' reinsurance security policy, pursuant to which CLLAS monitors its reinsurers' financial strength ratings and assesses its reinsurance concentration risk according to various metrics such as the actual claim liabilities by reinsurer and claim liability limit by reinsurer.

Risk categories such as strategic, operational, regulatory compliance, social inflation and reputation risks, are difficult to monitor quantitatively. The Office of the General Manager will qualitatively monitor any trends or risk sources for these risk categories and report on them to the Board along with the above risk metrics.

### 1.7. Risk Mitigation

Risk mitigation measures are implemented by the Advisory Board and the Office of the General Manager in order to mitigate the frequency or severity of risks. CLLAS would consider risk mitigation strategies for all material risk categories, such as the following:

Risk Category	Risk Mitigation Measures
Insurance	Periodic review of policy limits and other terms of coverage Purchase of reinsurance Annual review of premiums per rate setting policy Periodic review of claims and actuarial liabilities
Reinsurance Default	Periodic review of reinsurance limits and other terms of coverage Periodic reinsurance security review Maintenance of Reinsurance Security Agreement Diversification of reinsurers
Strategic	Managed Board turnover Board orientation for new members Selective criteria for Board member nomination Purchase of D&O insurance Succession planning
Operational	Outsourcing of critical functions Business continuity plan
Inflation	Periodic monitoring of CPI and other general inflation indices Periodic monitoring of legal changes and judgments
Interest Rate	Periodic review of Investment Policy
Liquidity	Prescribed minimum amount of short-term assets
Asset Default	Investment policy which restricts credit ratings
Reputation	
Regulatory Compliance	Regular communication with regulator Multi-disciplinary team responsible for regulatory compliance



These risks are defined in Appendix A, attached.

## **1.8. Risk Monitoring and Actions**

Risks are monitored and compared against targets and limits on a quarterly basis by the Office of the General Manager. Results are presented to the Advisory Board along with management financial statements, which also include aggregate solvency measures such as the AMRGF, MCT and other financial performance ratios.

The Advisory Board and Office of the General Manager would consider implementing appropriate actions when a risk exceeds the established limit. Corrective actions would be discussed with the Advisory Board or a committee thereof before being implemented by the Office of the General Manager.

## **1.9. Stress Testing**

CLLAS will perform stress testing in accordance with OSFI Guidelines E-18 and E-19 in the context of its 2015 ORSA. This section will be developed in due course.

## **1.10. Responsibility for ERM**

The Advisory Board is ultimately responsible for overseeing ERM and risk-taking activities. The Advisory Board is responsible for the following:

- Annual review/approval of risk appetite statements;
- Annual review/approval of risk targets and limits;
- Annual review/approval of the ERM policy; and
- Annual review/approval of the internal capital target and the ORSA.

The Principal Attorney is responsible for the following:

- Reporting to the Advisory Board on the effectiveness of and compliance with the ERM policy.

The Office of the General Manager is responsible for the implementation of the Board-approved strategy and overall business performance, specifically:

- Ensuring compliance with the ERM policy;
- Identifying, assessing and monitoring risks;
- Assessing the effectiveness of operations against risk appetite statements and risk limits;
- Recommending appropriate risk mitigation strategies;
- Developing appropriate action plans and ensuring timely communication with the Advisory Board or a committee thereof when risk limits are exceeded;
- Reporting to the Principal Attorney and Board on the risk profile and capital needs, including ORSA;
- Recommending improvements in policies, processes and procedures;



- Developing and reporting on internal controls with respect to risk-taking activities;
- Filing appropriate documentation and communication with the regulator with respect to the ERM policy and ORSA.

#### **1.11. Authority**

The Advisory Board has the authority to make revisions to this policy.

#### **1.12. History of Modifications**

This policy was first approved by the Advisory Board on XXXX, 2015.



---

## APPENDIX A – MATERIAL RISKS

---

Pursuant to its ERM policy, CLLAS periodically identifies, assesses and monitors material risks. The following are CLLAS' exposure to material risks:

- 1. Insurance risk:** CLLAS provides Canadian law firms with up to \$139,975,000 of professional liability insurance coverage per occurrence. Coverage is provided on a claims-made basis. Coverage is provided excess of \$1,000,000 (or \$25,000 in the case of drop-down coverage) and so CLLAS is exposed to low frequency, high severity losses. There is significant uncertainty around the timing, frequency and severity of these insurance losses.

Further, CLLAS is a monoline insurer, with no line of business diversification to mitigate insurance risk. However, CLLAS has a geographical diversification benefit as it insures lawyers in multiple Canadian provinces.

- 2. Reinsurance default risk (credit risk):** Given the loss portfolio transfer at June 30, 2012 and the low net claim retention since July 1, 2012, CLLAS retains only a small proportion of its insurance exposure and cedes the remaining exposure to reinsurers. A reinsurer default or dispute on claims presents a material risk as CLLAS has the ultimate responsibility for the payment of claims.

CLLAS places reinsurance with multiple reinsurers, the largest placement being with Colchester Reinsurance Limited. due to the loss portfolio transfer. Colchester also has an important participation on the proportional treaty since July 1, 2012.

Deposits held in Canada for unregistered reinsurance amounts recoverable from Colchester Reinsurance Limited do not present a material off-balance sheet risk exposure for CLLAS given that amounts are secured under a security agreement and are held in cash or government bonds in Canadian denomination.

- 3. Strategic risk:** Strategic risk arises from the potential inability to implement appropriate business plans and strategies, make decisions, allocate resources, or adapt to changes in the business environment<sup>1</sup>.

CLLAS operates on the basis of five year underwriting periods, and can expect significant competitive pressure from insurance brokers during the lead up to a new underwriting period. In order for CLLAS' premium rates to remain

---

<sup>1</sup> OSFI Own Risk and Solvency Assessment Guideline, January 2014.



competitive, there must be a sufficiently large subscriber base to share the administrative costs necessary to maintain the self-insurance structure. If the subscriber base decreased significantly, the viability of the reciprocal may be compromised.

- 4. Operational risk:** Operational risk arises from inadequate or failed internal processes, people and systems, or from external events. It includes selling practices, claims processes, physical security, people, product, project, internal fraud, external fraud, model, legal, privacy and information security, technology and infrastructure, business continuity, third party, financial reporting, and money laundering / terrorist financing risks<sup>1</sup>.
- 5. Inflation Risk:** General inflation risk: Sudden and sustained increases in the inflation rate would most likely lead to higher-than-anticipated claim payments and general expenses as well as disruptions in fixed income and capital markets.

Social inflation risk: This is the risk of unfavorable changes in claim behavior driven by new legal precedents as well as changes in social attitudes and expectations. Social inflation could be exacerbated by the fact that information is readily available through global news, social media and the internet.
- 6. Interest rate risk (market risk):** CLLAS' fixed income investments are classified as available-for-sale and are therefore reported at fair market value in the financial statements. Claim liabilities are also reported on a fair value basis (i.e. liabilities are discounted using market rates).

Interest rate risk exists when there is a mismatch between expected payments from assets and expected payments from liabilities. For example, when interest rates increase, both fixed income assets and claim liabilities would decrease. If they were perfectly matched, the impact on surplus would be nil. If not, one would decrease more than the other, creating a non-zero impact on surplus. The converse would also be true when interest rates decrease.
- 7. Liquidity risk:** Liquidity risk is the potential for losses due to holding insufficient funds in liquid assets such as cash. An example of a situation leading to liquidity risk is needing to realize a loss on the sale of invested assets when insufficient liquid assets are available to pay for losses.

---

<sup>1</sup> OSFI Own Risk and Solvency Assessment Draft Guideline, January 2014.



- 8. Asset default risk (credit risk):** Fixed income default risk: CLLAS is exposed to asset default risk as it has investments in fixed income instruments. CLLAS' investment policy allows for long-term investments in federal and provincial government bonds as well as corporate bonds rated A or better.
- The riskiest class of fixed income in CLLAS' portfolio is corporate bonds. Although provincial and federal government bonds present some default risk, it is not considered material at this moment.
- Other asset default risk: CLLAS has minimal exposure to default risk on other assets, for example receivables or cash held in bank accounts.
- 9. Reputation risk:** Reputation risk arises when the confidence of insured members, creditors, reinsurers and other business partners leads to a negative impact on earnings, liquidity or capital position.
- For example:
- Reputation with subscribers could be negatively impacted by unstable or noncompetitive premium rates or failure to pay claims in a timely manner;
  - Reputation with reinsurers could be negatively impacted by a lack of risk management efforts or failure to report claims information in a timely manner;
  - Reputation with various business partners could be negatively impacted by failure to provide timely payments;
  - Reputation with regulators could be negatively impacted by failure to communicate in a timely manner.
- 10. Regulatory compliance risk:** Regulatory compliance risk arises from losses due to failure to comply with regulatory requirements. Examples include costs associated with the need to restate financial statements if they are not in compliance with professional standards, or fines and penalties if legislative requirements are not fulfilled.
- 11. Equity risk (market risk):** Investments in equities are subject to significant volatility in fair value. In addition, there is typically uncertainty around dividend payments and investments in equities can present significant exposure to default risk. This risk category is not material for CLLAS at this time as the investment policy does not allow for investments in equities.



- 12. Foreign exchange risk (market risk):** Investments in denominations other than Canadian dollars can present foreign exchange risk, as ultimately these investments would have to be converted to Canadian dollars in order to pay for losses. This risk category is not material for CLLAS at this time as the investment policy does not allow for foreign investments.

Concentration risk arises from failure to diversify risk. It is a risk category that is closely tied with other risk categories, most notably with risks involving insurance, reinsurance and invested assets.

It is also important to keep in mind that risk mitigation measures – such as the use of reinsurance to reduce the net insurance exposure or the use of collateral or letters of credit to secure reinsurance recoverables – may not be functioning as usual under stressed market conditions. For example, if there were a property catastrophe and multiple insurers were seeking recoveries from reinsurers, CLLAS' communications and recoveries on professional liability losses with these same reinsurers may be delayed or compromised.



---

## SCHEDULE 2: RISK IDENTIFICATION AND QUALITATIVE RISK EVALUATION

---



## M E M O R A N D U M

---

**TO:** CLLAS Board  
**FROM:** Patrick Mahoney  
**RE:** ORSA – Risk Identification and Qualitative Risk Evaluation  
**DATE:** June 12, 2015

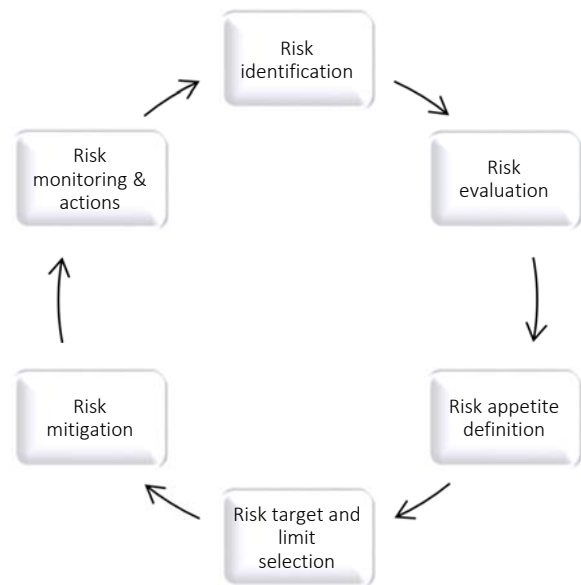
---

In accordance with a plan filed with the Alberta regulator in 2014, CLLAS has agreed to implement ORSA by October 30, 2016. The figure below summarizes the continual ERM cycle that would be carried out as a part of the ORSA.

CLLAS has already made great progress in identifying material risks, formulating qualitative risk appetite statements, setting risk targets and limits for individual risks based on its risk appetite, performing an inventory of risk mitigation strategies and implementing quarterly risk monitoring.

This memo focuses on the qualitative evaluation and ranking of risks which will be used as a basis for the subsequent quantitative evaluation. This quantitative evaluation will then allow CLLAS to select an internal capital target based on its risk appetite.

The ORSA process culminates in an annual report describing the material risks and the capital required to support those risks (i.e. internal target). Although the regulator does not approve the ORSA, a copy of the ORSA report must be filed annually with the Superintendent.



It is recognized that ERM and ORSA operate as a cycle, and that risk evaluation and risk appetite will be regularly reassessed as a step of the ERM cycle. Risk appetite is fluid and should reflect any improvement or deterioration in risk tolerance, changes in the business strategy and changes in economic conditions.

The first part of this memo summarizes discussions the Board has previously had with respect to defining the risks facing CLLAS. The second part of the memo presents, for consideration by the Board, a qualitative assessment of those risks.



## Risk Identification

The following have been identified as potential risk categories that CLLAS may face:

1. Insurance risk
2. Reinsurance risk
3. Strategic risk
4. Operational risk
5. Inflation risk
6. Interest rate risk
7. Regulatory compliance risk
8. Asset default risk
9. Liquidity risk
10. Reputation risk
11. Equity risk (currently no risk exposure)
12. Foreign exchange risk (currently no risk exposure)

As part of an earlier discussion on risk appetite, the Board discussed each of the above risks, and defined each as it arises in the specific context of CLLAS's operations. The result of that discussion is summarized below.

### Definition of Material Risks

- 1. Insurance risk:** CLLAS provides Canadian law firms with up to \$139,975,000 of professional liability insurance coverage per occurrence. Coverage is provided on a claims-made basis. Coverage is provided excess of \$1,000,000 (or \$25,000 in the case of drop-down coverage) and so CLLAS is exposed to low frequency, high severity losses. There is significant uncertainty around the timing, frequency and severity of these insurance losses.

Further, CLLAS is a monoline insurer, with no line of business diversification to mitigate insurance risk. However, CLLAS has a geographical diversification benefit as it insures lawyers in multiple Canadian provinces.

- 2. Strategic risk:** Strategic risk arises from the potential inability to implement appropriate business plans and strategies, make decisions, allocate resources, or adapt to changes in the business environment<sup>1</sup>.

CLLAS operates on the basis of five year underwriting periods, and can expect significant competitive pressure from insurance brokers during the lead up to a new underwriting period. In order for CLLAS' premium rates to remain

---

<sup>1</sup> OSFI Own Risk and Solvency Assessment Guideline.



competitive, there must be a sufficiently large subscriber base to share the administrative costs necessary to maintain the self-insurance structure. If the subscriber base decreased significantly, the viability of the reciprocal may be compromised.

- 3. Reinsurance default risk (credit risk):** Given the loss portfolio transfer at June 30, 2012 and the low net claim retention since July 1, 2012, CLLAS retains only a small proportion of its insurance exposure and cedes the remaining exposure to reinsurers. A reinsurer default or dispute on claims presents a material risk as CLLAS has the ultimate responsibility for the payment of claims.

CLLAS places reinsurance with multiple reinsurers, the largest placement being with Colchester Reinsurance Limited due to the loss portfolio transfer. Colchester also has an important participation on the proportional treaty since July 1, 2012.

Deposits held in Canada for unregistered reinsurance amounts recoverable from Colchester Reinsurance Limited do not present a material off-balance sheet risk exposure for CLLAS given that amounts are secured under a security agreement and are held in cash or government bonds in Canadian denomination.

- 4. Operational risk:** Operational risk arises from inadequate or failed internal processes, people and systems, or from external events. It includes selling practices, claims processes, physical security, people, product, project, internal fraud, external fraud, model, legal, privacy and information security, technology and infrastructure, business continuity, third party, financial reporting, and money laundering / terrorist financing risks<sup>2</sup>.

- 5. Inflation Risk:** General inflation risk: Sudden and sustained increases in the inflation rate would most likely lead to higher-than-anticipated claim payments and general expenses as well as disruptions in fixed income and capital markets.

Social inflation risk: This is the risk of unfavorable changes in claim behavior driven by new legal precedents as well as changes in social attitudes and expectations. Social inflation could be exacerbated by the fact that information is readily available through global news, social media and the internet.

---

<sup>2</sup> OSFI Own Risk and Solvency Assessment Guideline.



- 6. Interest rate risk (market risk):** CLLAS' fixed income investments are classified as available-for-sale and are therefore reported at fair market value in the financial statements. Claim liabilities are also reported on a fair value basis (i.e. liabilities are discounted using market rates).
- Interest rate risk exists when there is a mismatch between expected payments from assets and expected payments from liabilities. For example, when interest rates increase, both fixed income assets and claim liabilities would decrease. If they were perfectly matched, the impact on surplus would be nil. If not, one would decrease more than the other, creating a non-zero impact on surplus. The converse would also be true when interest rates decrease.
- 7. Regulatory compliance risk:** Regulatory compliance risk arises from losses due to failure to comply with regulatory requirements. Examples include costs associated with the need to restate financial statements if they are not in compliance with professional standards, or fines and penalties if legislative requirements are not fulfilled.
- 8. Asset default risk (credit risk):** Fixed income default risk: CLLAS is exposed to asset default risk as it has investments in fixed income instruments. CLLAS' investment policy allows for long-term investments in federal and provincial government bonds as well as corporate bonds rated A or better.
- The riskiest class of fixed income in CLLAS' portfolio is corporate bonds. Although provincial and federal government bonds present some default risk, it is not considered material at this moment.
- Other asset default risk: CLLAS has minimal exposure to default risk on other assets, for example receivables or cash held in bank accounts.
- 9. Liquidity risk:** Liquidity risk is the potential for losses due to holding insufficient funds in liquid assets such as cash. An example of a situation leading to liquidity risk is needing to realize a loss on the sale of invested assets when insufficient liquid assets are available to pay for losses.
- 10. Reputation risk:** Reputation risk arises when the confidence of insured lawyers, creditors, reinsurers and other business partners leads to a negative impact on earnings, liquidity or capital position.



For example:

- Reputation with insured lawyers could be negatively impacted by unstable or uncompetitive premium rates or failure to pay claims in a timely manner;
- Reputation with reinsurers could be negatively impacted by a lack of risk management efforts or failure to report claims information in a timely manner;
- Reputation with various business partners could be negatively impacted by failure to provide timely payments;
- Reputation with regulators could be negatively impacted by failure to communicate in a timely manner.

**11. Equity risk  
(market risk):**

Investments in equities are subject to significant volatility in fair value. In addition, there is typically uncertainty around dividend payments and investments in equities can present significant exposure to default risk. This risk category is not material for CLLAS at this time as the investment policy does not allow for investments in equities.

**12. Foreign exchange  
risk (market risk):**

Investments in denominations other than Canadian dollars can present foreign exchange risk, as ultimately these investments would have to be converted to Canadian dollars in order to pay for losses. This risk category is not material for CLLAS at this time as the investment policy does not allow for foreign investments.

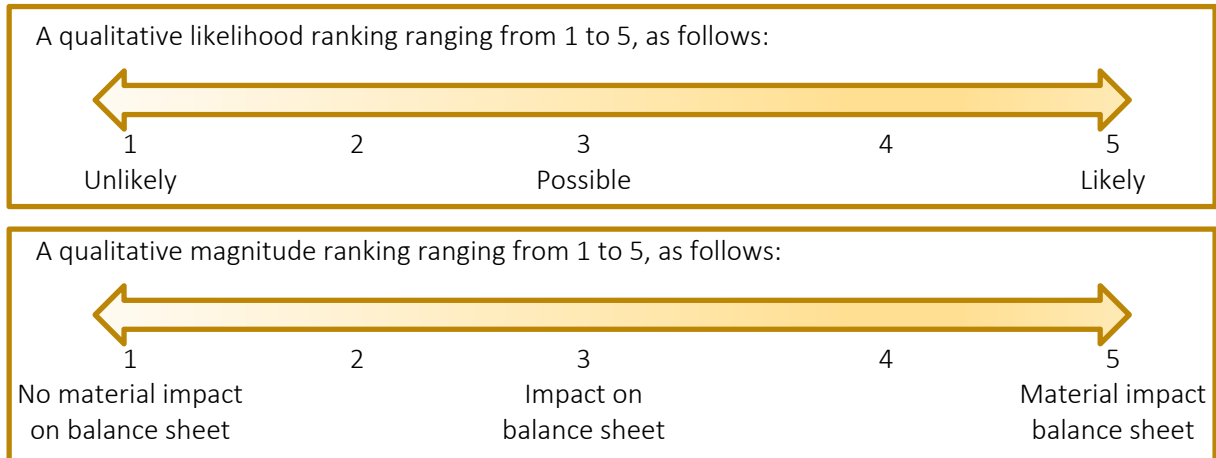
CLLAS is mindful of concentration risk, which arises from failure to diversify risk. It is a risk category that is closely tied with other risk categories, most notably with risks involving insurance, reinsurance and invested assets. Further, CLLAS's risk evaluation takes into account that risk mitigation measures – such as the use of reinsurance to reduce the net insurance exposure or the use of collateral or letters of credit to secure reinsurance recoverables – may not be functioning as usual under stressed market conditions. For example, if there were a property catastrophe and multiple insurers were seeking recoveries from reinsurers, CLLAS's communications and recoveries on its losses with these same reinsurers may be delayed or compromised.

### **Qualitative Assessment of Material Risks**

Risk is the potential that CLLAS's financial position will be affected due to the deviation of actual results from expected results. This implies that CLLAS's ability to pursue its operations may be compromised. In addition, any immediate or long-term impacts on the surplus or risk profile may compromise CLLAS's ability to meet solvency requirements such as the Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF") requirement or the Minimum Capital Test ("MCT").



Inherent risk (i.e. the risk before the application of any risk mitigation strategies) was ranked based on the following scale:



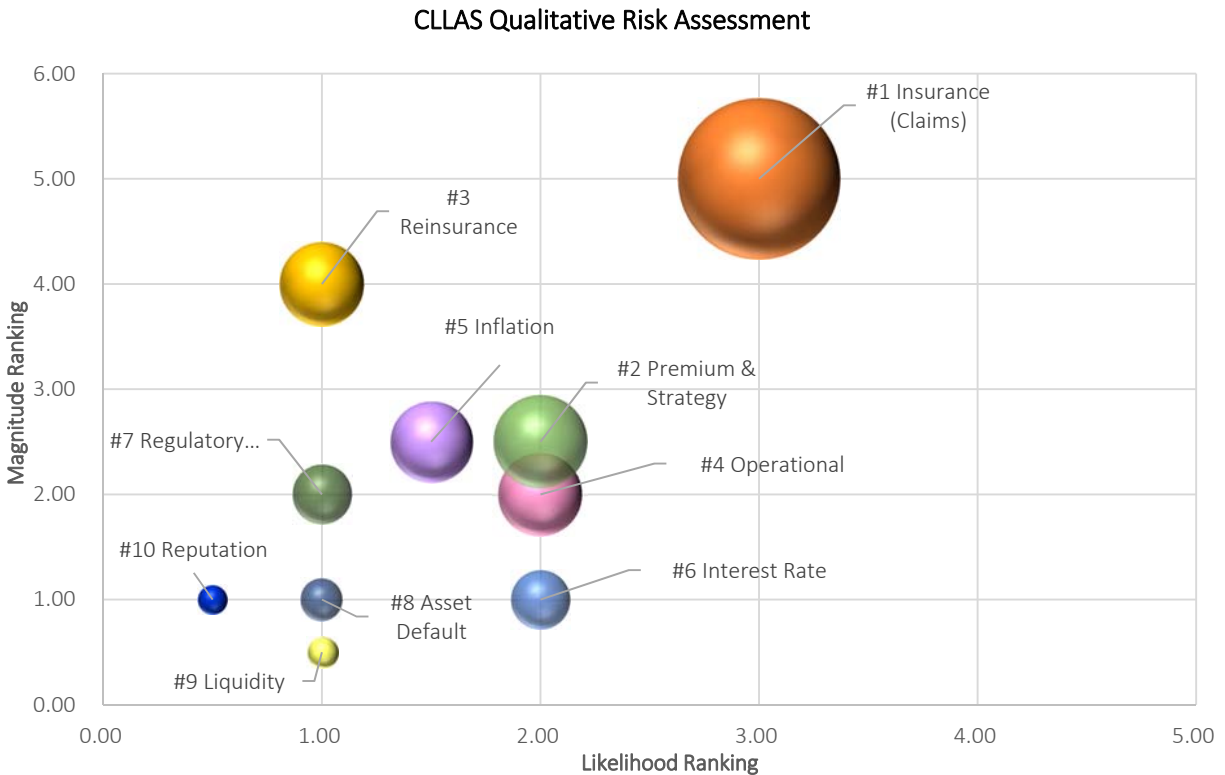
The results of CLLAS's qualitative assessment of its risks are summarized in the table below and presented graphically on the following page.

#### CLLAS Preliminary Risk Assessment

Category	Overall Likelihood Ranking	Overall Magnitude Ranking	Overall Ranking
#1 Insurance (Claims)	3.00	5.00	15.00
#2 Premium & Strategy	2.00	2.50	5.00
#3 Reinsurance	1.00	4.00	4.00
#4 Operational	2.00	2.00	4.00
#5 Inflation	1.50	2.50	3.75
#6 Interest Rate	2.00	1.00	2.00
#7 Regulatory Compliance	1.00	2.00	2.00
#8 Asset Default	1.00	1.00	1.00
#9 Liquidity	1.00	0.50	0.50
#10 Reputation	0.50	1.00	0.50
#11 Equity	0.00	0.00	0.00
#12 Foreign Exchange	0.00	0.00	0.00



The following chart presents a graphical summary of the risk categories for CLLAS:



Note: The size of each bubble represents the overall ranking for the risk category.

### Next Steps

The Board should review and provide input on the qualitative risk assessments set out immediately above. The next step in the ORSA process will consist of a quantitative evaluation of CLLAS's risks. This analysis will be performed by CLLAS' actuaries as it involves the creation of a financial model to test the sensitivity of CLLAS's surplus position to various adverse events, such as a deterioration in claims or a deterioration in investments. The risks modeled will be based on the material risk categories identified by CLLAS. This analysis should allow CLLAS to select a surplus target that is reflective of its risk profile and risk appetite. In addition, the risk metrics targets and limits will be reviewed as part of the analysis.

I look forward to discussing this memo with you.

Patrick Mahoney  
General Manager



---

## SECTIONS 1-2-3

---

**Section 1**  
**Exhibit 1A**

**Canadian Lawyers Liability Assurance Society**  
**Projection of Statement of Financial Position**

**Scenario 1: Base Scenario**

	←	Actual	Budget *	Projected	→			
	06/30/2014	06/30/2015	12/31/2015	06/30/2016	06/30/2017	06/30/2018	06/30/2019	06/30/2020
<b>Assets</b>								
Investments, Cash and cash equivalents	13,991,912	20,322,164	19,446,000	20,298,000	20,995,000	21,685,000	22,355,000	23,013,000
Interest income due and accrued	15,128	19,648	0	20,000	21,000	22,000	22,000	23,000
Prepaid expenses	170,430	136,504	140,000	124,000	137,000	144,000	152,000	161,000
Accounts receivable	5,655,772	165,760	5,150,000	187,000	205,000	217,000	229,000	241,000
Deferred acquisition costs	0	0	190,000	0	0	0	0	0
Unearned premiums recoverable from reinsurers	0	0	5,500,000	0	0	0	0	0
Unpaid claims recoverable from reinsurers	69,590,000	100,299,000	73,020,000	98,484,000	97,408,000	98,978,000	102,511,000	106,597,000
<b>Total</b>	<b>89,423,242</b>	<b>120,943,076</b>	<b>103,446,000</b>	<b>119,113,000</b>	<b>118,766,000</b>	<b>121,046,000</b>	<b>125,269,000</b>	<b>130,035,000</b>
<b>Liabilities</b>								
Accounts payable and accrued expenses	135,342	402,171	800,000	300,000	311,000	322,000	333,000	345,000
Unpaid claims and adjustment expenses	75,962,000	106,918,000	80,140,000	105,447,000	104,716,000	106,746,000	110,816,000	115,445,000
Unearned premiums	0	0	6,800,000	0	0	0	0	0
Premium deficiency reserve	0	0	0	0	0	0	0	0
Other liabilities	0	0	2,260,000	0	0	0	0	0
<b>Total</b>	<b>76,097,342</b>	<b>107,320,171</b>	<b>90,000,000</b>	<b>105,747,000</b>	<b>105,027,000</b>	<b>107,068,000</b>	<b>111,149,000</b>	<b>115,790,000</b>
<b>Surplus</b>								
Retained earnings	13,325,900	13,622,905	13,446,000	13,366,000	13,739,000	13,978,000	14,120,000	14,245,000

\* Per business plan dated March 20, 2015.

**Section 1  
Exhibit 1B**

**Canadian Lawyers Liability Assurance Society  
Projection of Statement of Comprehensive Income**

**Scenario 1: Base Scenario**

	←	Actual	Budget *	Projected	→			
	06/30/2014	06/30/2015	12/31/2015	06/30/2016	06/30/2017	06/30/2018	06/30/2019	06/30/2020
<b>Underwriting Income</b>								
Premiums Written								
Direct	13,954,400	12,895,931		12,439,000	13,689,000	14,445,000	15,245,000	16,091,000
Ceded to reinsurers	10,799,552	10,443,845		10,024,000	10,526,000	11,157,000	11,827,000	12,536,000
Net	3,154,848	2,452,086	2,660,000	2,415,000	3,163,000	3,288,000	3,418,000	3,555,000
Net premiums earned	3,154,848	2,452,086	2,573,000	2,414,000	3,163,000	3,288,000	3,418,000	3,554,000
Net losses paid	0	(44,505)	110,000	139,000	195,000	260,000	325,000	386,000
Net change in unpaid claims	(320,000)	247,000	727,000	344,000	345,000	460,000	537,000	543,000
Premium deficiency adjustments	0	0	0	0	0	0	0	0
Losses incurred	(320,000)	202,495	837,000	483,000	540,000	720,000	862,000	929,000
Management and Operating Expenses**	1,445,488	1,587,707	1,642,000	1,691,000	1,742,000	1,794,000	1,848,000	1,903,000
Reinsurance Fees	279,000	279,000	282,000	290,000	299,000	308,000	317,000	326,000
Premium taxes	390,351	359,867	376,000	523,000	548,000	578,000	610,000	644,000
Total claims and expenses	1,794,839	2,429,069	3,137,000	2,987,000	3,129,000	3,400,000	3,637,000	3,802,000
Total underwriting income	1,360,009	23,017	(564,000)	(573,000)	34,000	(112,000)	(219,000)	(248,000)
Investment income	159,187	177,891	357,000	316,000	338,000	350,000	361,000	372,000
<b>Other income and expenses</b>			0	0	0	0	0	0
<b>Total comprehensive income (loss)</b>	1,519,196	200,908	(207,000)	(257,000)	372,000	238,000	142,000	124,000

\* Per business plan dated March 20, 2015.

\*\* Includes investment fees

**Section 1**  
**Exhibit 1C**

**Canadian Lawyers Liability Assurance Society**  
**Projection of Minimum Capital Test (2015 Formula Excluding Transition Adjustments)**

**Scenario 1: Base Scenario**

	← 12/31/2014	Restated 06/30/2015	Budget * 12/31/2015	Projected 06/30/2016	06/30/2017	06/30/2018	06/30/2019	→ 06/30/2020
<b>Capital Available</b>								
Surplus	13,653,000	13,623,000	13,446,000	13,366,000	13,739,000	13,978,000	14,120,000	14,245,000
Deductions from Capital Available	(573,000)	(1,209,000)	(606,700)	(985,000)	(974,000)	(990,000)	(1,024,000)	(1,065,000)
Capital Available	13,080,000	12,414,000	12,839,300	12,381,000	12,765,000	12,988,000	13,096,000	13,180,000
<b>Capital Required</b>								
Insurance Risk	1,017,000	1,161,000	1,156,336	1,239,000	1,389,000	1,494,000	1,607,000	1,718,000
Market Risk	203,000	102,000	224,815	117,000	116,000	124,000	138,000	155,000
Credit Risk	1,198,000	1,674,000	1,277,306	1,710,000	1,765,000	1,858,000	1,976,000	2,095,000
Operational Risk	725,000	842,000	797,537	822,000	883,000	936,000	993,000	1,053,000
Diversification Credit	(315,000)	(375,000)	(349,683)	(394,000)	(427,000)	(456,000)	(488,000)	(521,000)
Total Capital Required at 150%	2,828,000	3,404,000	3,106,311	3,494,000	3,726,000	3,956,000	4,226,000	4,500,000
Capital Required at 100%	1,885,000	2,269,000	2,070,874	2,329,000	2,484,000	2,637,000	2,817,000	3,000,000
<b>MCT Ratio</b>	694%	547%	620%	532%	514%	493%	465%	439%

\* Per business plan dated March 20, 2015. The MCT ratio presented above excludes the transition adjustment in order to provide a meaningful comparison.

**Section 1  
Exhibit 1D**

**Canadian Lawyers Liability Assurance Society  
Projection of Alberta Maintenance of Reserve and Guarantee Fund Requirement**

**Scenario 1: Base Scenario**

	← 12/31/2014	Actual 06/30/2015	Budget * 12/31/2015	Projected 06/30/2016	06/30/2017	06/30/2018	06/30/2019	→ 06/30/2020
<b>Reserve Fund</b>								
Net premiums written	2,609,000	2,452,086	2,660,000	2,415,000	3,163,000	3,288,000	3,418,000	3,555,000
Reserve fund required	1,304,500	1,226,043	1,330,000	1,208,000	1,582,000	1,644,000	1,709,000	1,778,000
<b>Guarantee Fund</b>								
Total liabilities	84,993,000	107,320,171	90,000,000	105,747,000	105,027,000	107,068,000	111,149,000	115,790,000
Less: Unearned premiums	(6,382,000)	0	(6,800,000)	0	0	0	0	0
Less: Recoverable from registered reinsurers**	(68,446,000)	(99,091,171)	(72,471,535)	(97,302,000)	(96,239,000)	(97,791,000)	(101,281,000)	(105,319,000)
Plus: Statutory margin	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Guarantee fund required	10,215,000	8,279,000	10,778,465	8,495,000	8,838,000	9,327,000	9,918,000	10,521,000
<b>Total reserve and guarantee fund required</b>	11,519,500	9,505,043	12,108,465	9,703,000	10,420,000	10,971,000	11,627,000	12,299,000
<b>Cash and approved securities</b>	19,539,000	20,322,164	19,446,000	20,298,000	20,995,000	21,685,000	22,355,000	23,013,000
<b>Excess of Cash &amp; Securities over reserve and guarantee fund required</b>	8,019,500	10,817,121	7,337,535	10,595,000	10,575,000	10,714,000	10,728,000	10,714,000

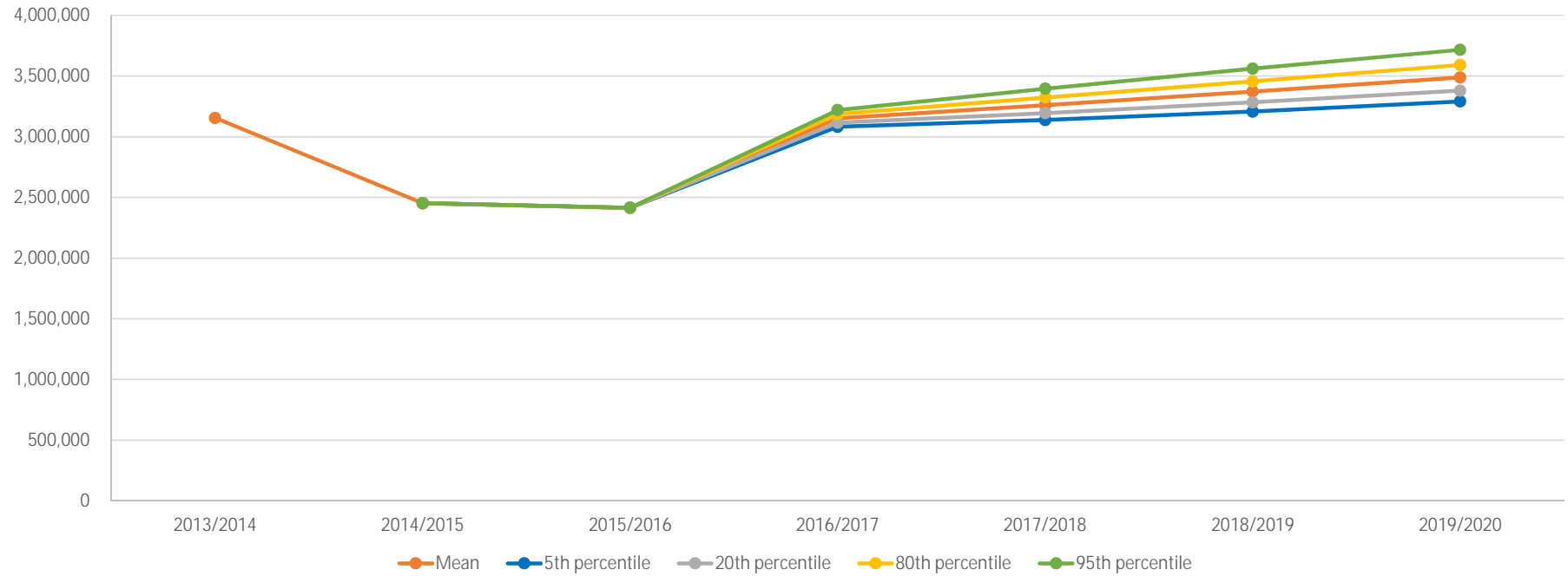
\* Per business plan dated March 20, 2015.

\*\* Amounts recoverable from Colchester are secured by a Reinsurance Security Agreement and can be deducted.

Section 1  
Exhibit 2A

Canadian Lawyers Liability Assurance Society  
5-Year Projections at Various Confidence Levels

Net Written Premiums Excluding Retroassessments



Year	Actual 2013/2014	Actual 2014/2015	Projected (Known) 2015/2016	Projected 2016/2017	Projected 2017/2018	Projected 2018/2019	Projected 2019/2020
5th percentile			2,414,000	3,082,000	3,138,000	3,207,000	3,291,000
20th percentile			2,414,000	3,116,000	3,194,000	3,283,000	3,380,000
Mean	3,155,000	2,452,000	2,414,000	3,151,000	3,260,000	3,372,000	3,488,000
80th percentile			2,414,000	3,187,000	3,323,000	3,456,000	3,591,000
95th percentile			2,414,000	3,220,000	3,396,000	3,561,000	3,716,000

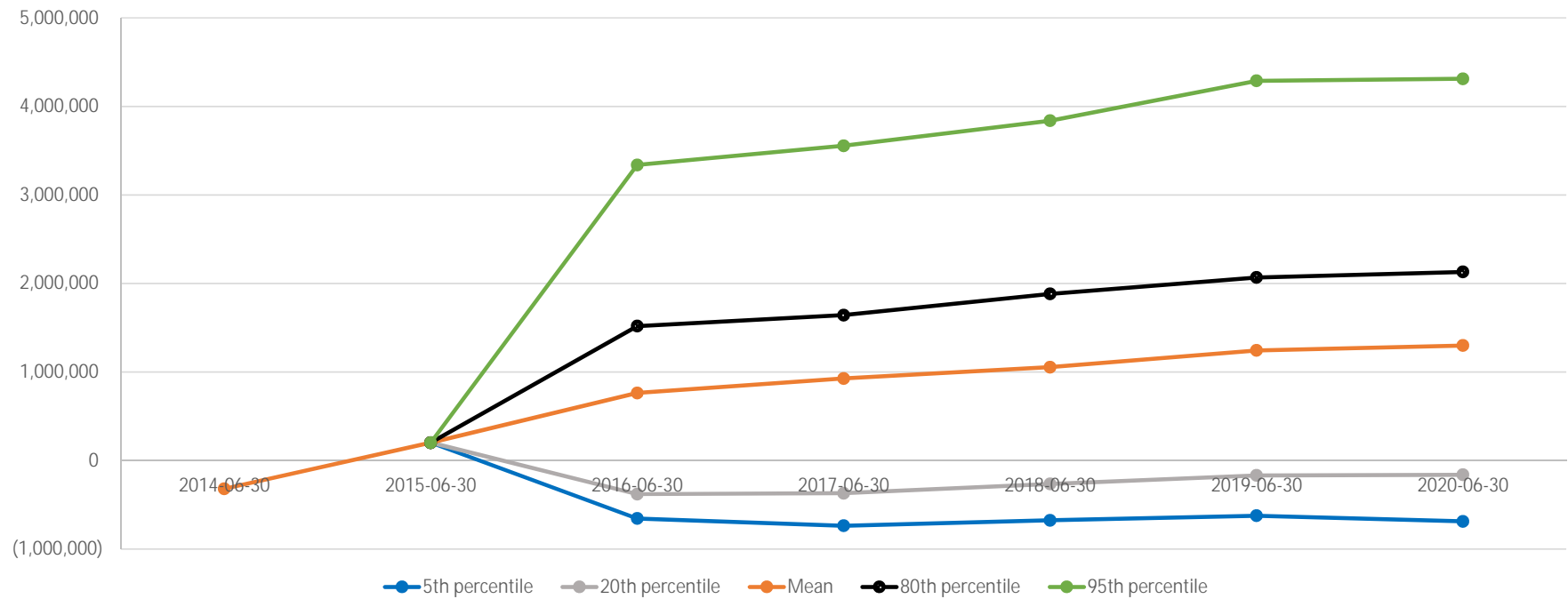
**Notes**

From stochastic simulation for all risks combined (Scenario 9).  
Does not include Future Retroassessments

Section 1  
Exhibit 2B

Canadian Lawyers Liability Assurance Society  
5-Year Projections at Various Confidence Levels

Net Incurred Losses



Year	Actual 2014-06-30	Actual 2015-06-30	Projected 2016-06-30	Projected 2017-06-30	Projected 2018-06-30	Projected 2019-06-30	Projected 2020-06-30
5th percentile			(655,000)	(737,000)	(676,000)	(624,000)	(688,000)
20th percentile			(380,000)	(369,000)	(265,000)	(168,000)	(161,000)
Mean	(320,000)	202,000	763,000	927,000	1,054,000	1,244,000	1,299,000
80th percentile			1,518,000	1,643,000	1,882,000	2,068,000	2,130,000
95th percentile			3,339,000	3,556,000	3,839,000	4,289,000	4,312,000

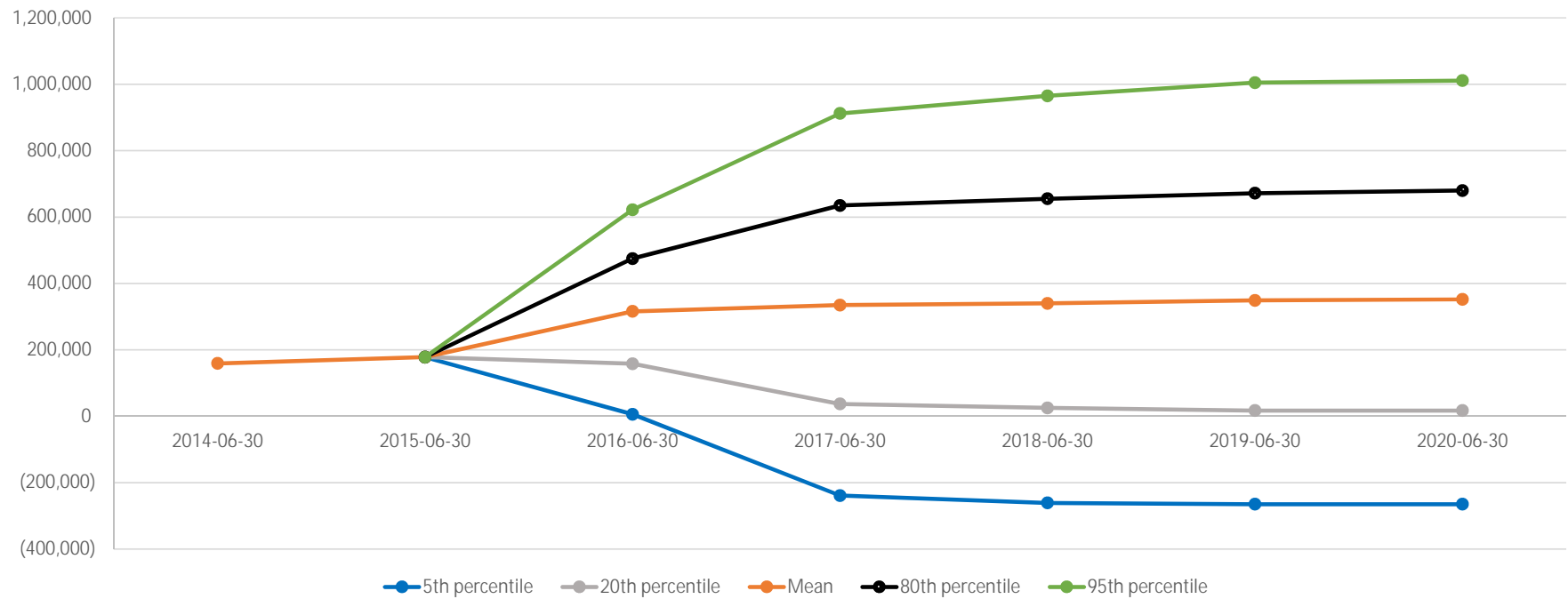
**Notes**

From stochastic simulation for all risks combined (Scenario 9).

Section 1  
Exhibit 2C

Canadian Lawyers Liability Assurance Society  
5-Year Projections at Various Confidence Levels

Total Investment Income



Year	Actual 2014-06-30	Actual 2015-06-30	Projected 2016-06-30	Projected 2017-06-30	Projected 2018-06-30	Projected 2019-06-30	Projected 2020-06-30
5th percentile			6,000	(239,000)	(261,000)	(265,000)	(265,000)
20th percentile			158,000	37,000	25,000	17,000	17,000
Mean	159,000	178,000	316,000	335,000	340,000	349,000	352,000
80th percentile			475,000	635,000	655,000	672,000	680,000
95th percentile			622,000	912,000	965,000	1,005,000	1,011,000

**Notes**

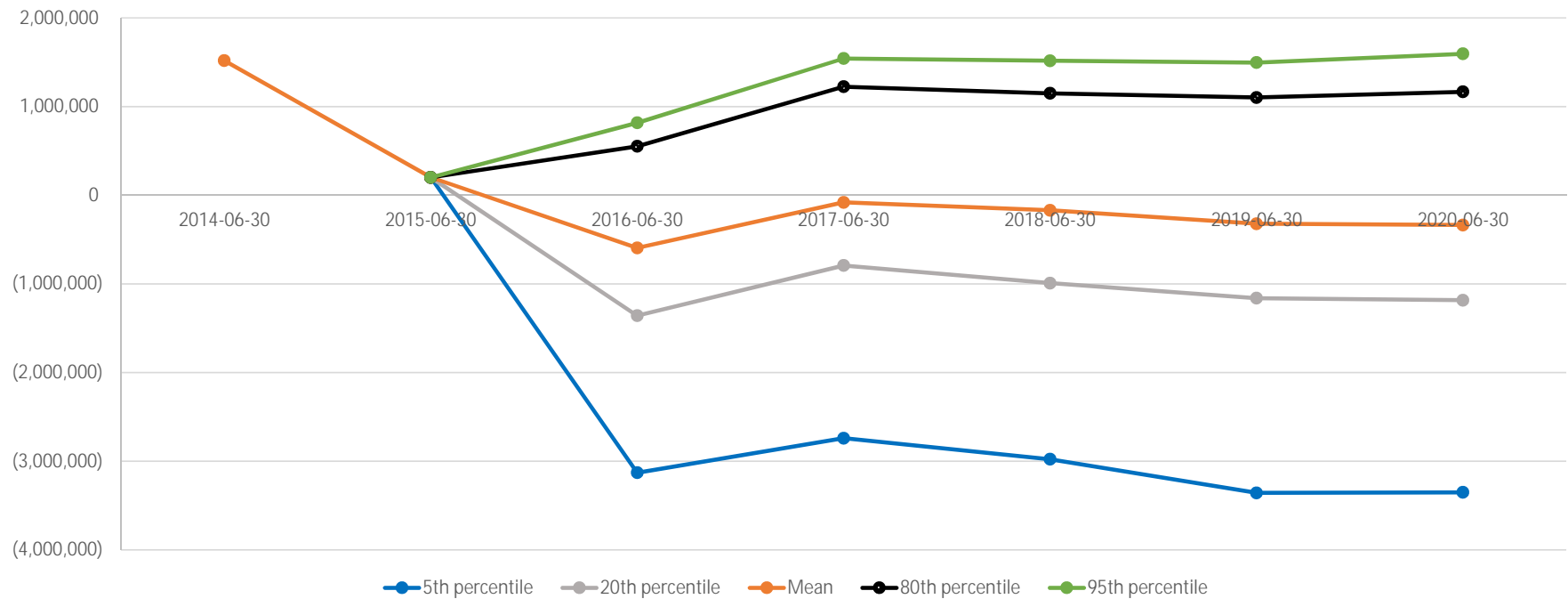
From stochastic simulation for all risks combined (Scenario 9).  
Does not include Future Retroassessments



Section 1  
Exhibit 2D

Canadian Lawyers Liability Assurance Society  
5-Year Projections at Various Confidence Levels

Total Comprehensive Income



Year	Actual 2014-06-30	Actual 2015-06-30	Projected 2016-06-30	Projected 2017-06-30	Projected 2018-06-30	Projected 2019-06-30	Projected 2020-06-30
5th percentile			(3,130,000)	(2,741,000)	(2,978,000)	(3,357,000)	(3,351,000)
20th percentile			(1,359,000)	(793,000)	(991,000)	(1,161,000)	(1,184,000)
Mean	1,519,000	201,000	(594,000)	(81,000)	(170,000)	(322,000)	(336,000)
80th percentile			552,000	1,224,000	1,149,000	1,102,000	1,166,000
95th percentile			817,000	1,542,000	1,517,000	1,496,000	1,595,000

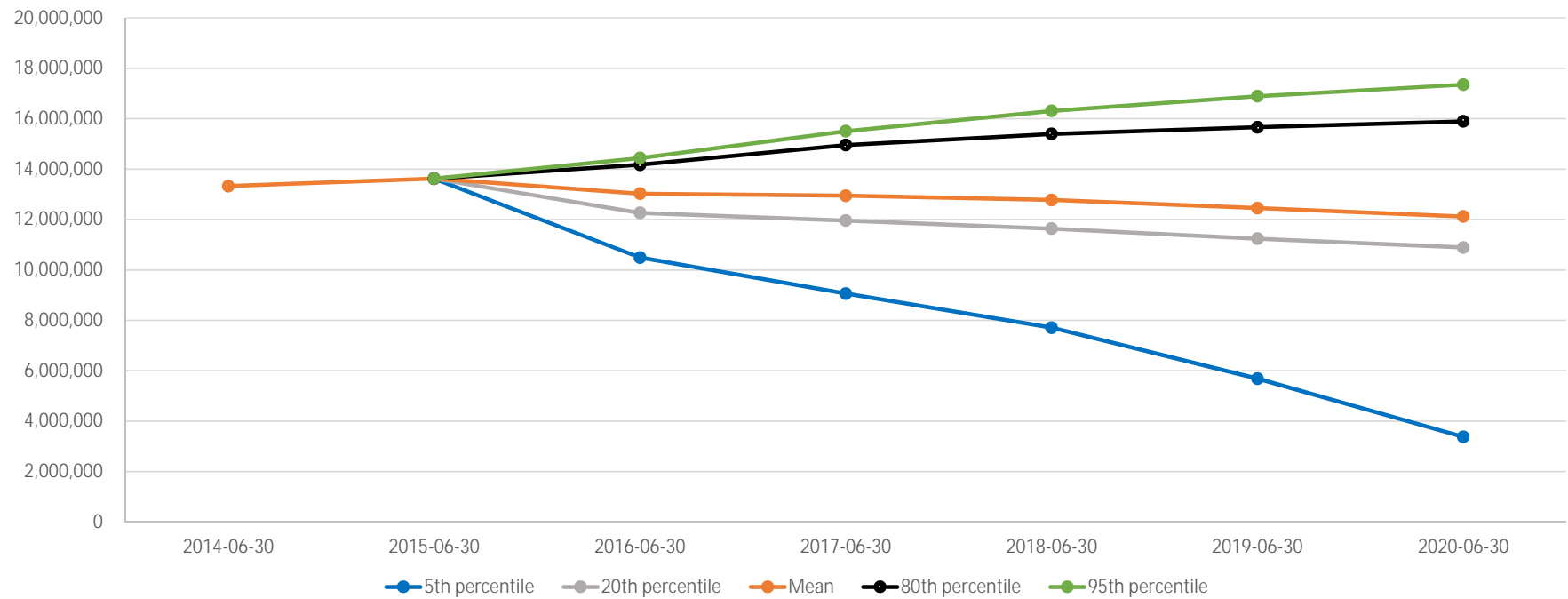
**Notes**

From stochastic simulation for all risks combined (Scenario 9).  
Does not include Future Retroassessments

Section 1  
Exhibit 2E

Canadian Lawyers Liability Assurance Society  
5-Year Projections at Various Confidence Levels

Surplus



Year	Actual 2014-06-30	Actual 2015-06-30	Projected 2016-06-30	Projected 2017-06-30	Projected 2018-06-30	Projected 2019-06-30	Projected 2020-06-30
5th percentile			10,493,000	9,064,000	7,707,000	5,686,000	3,372,000
20th percentile			12,264,000	11,962,000	11,639,000	11,241,000	10,892,000
Mean	13,326,000	13,623,000	13,029,000	12,948,000	12,778,000	12,456,000	12,120,000
80th percentile			14,174,000	14,955,000	15,397,000	15,663,000	15,894,000
95th percentile			14,440,000	15,505,000	16,310,000	16,895,000	17,354,000

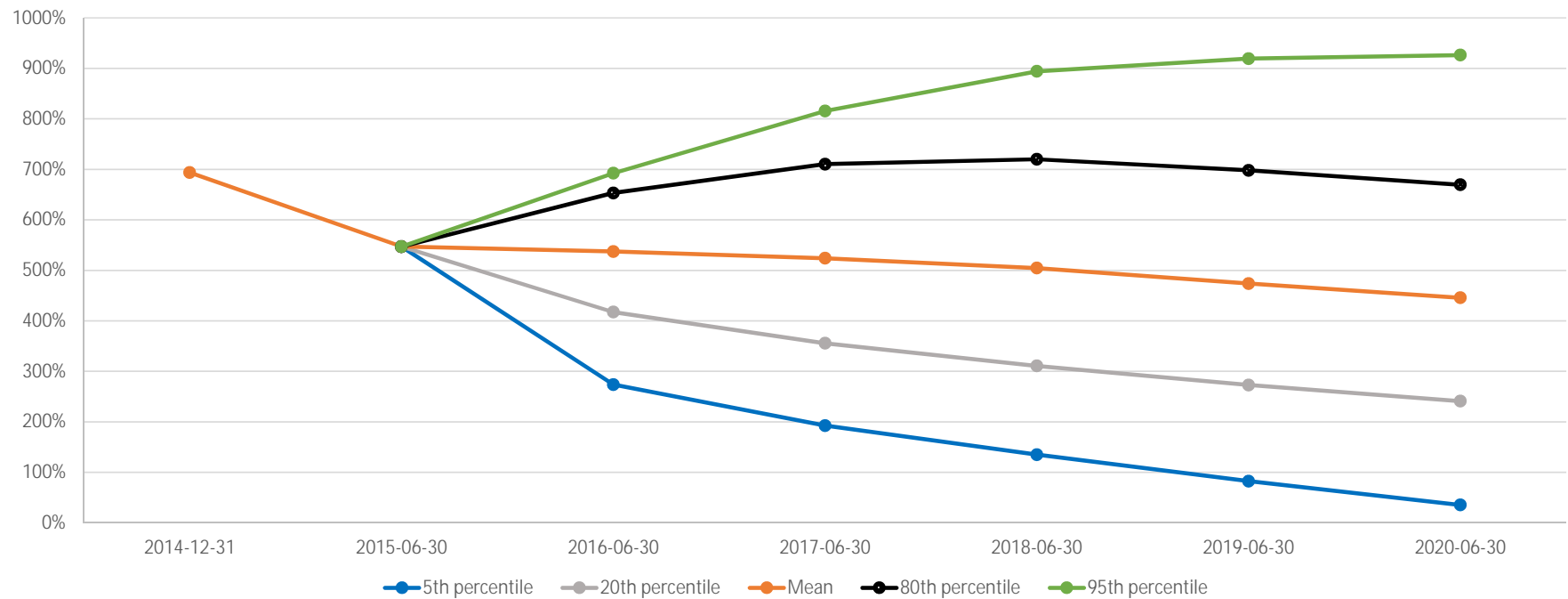
**Notes**

From stochastic simulation for all risks combined (Scenario 9).  
Does not include Future Retroassessments

Section 1  
Exhibit 2F

Canadian Lawyers Liability Assurance Society  
5-Year Projections at Various Confidence Levels

MCT Ratio (Without Transition Adjustments)



Year	Actual 2014-12-31	Actual 2015-06-30	Projected 2016-06-30	Projected 2017-06-30	Projected 2018-06-30	Projected 2019-06-30	Projected 2020-06-30
5th percentile			274%	193%	135%	83%	35%
20th percentile			417%	356%	311%	273%	241%
Mean	694%	547%	537%	524%	505%	474%	446%
80th percentile			653%	710%	720%	698%	669%
95th percentile			692%	816%	894%	919%	926%

MCT ratio as at 2014-12-31 comes from the PC-1 with the 2015 formula

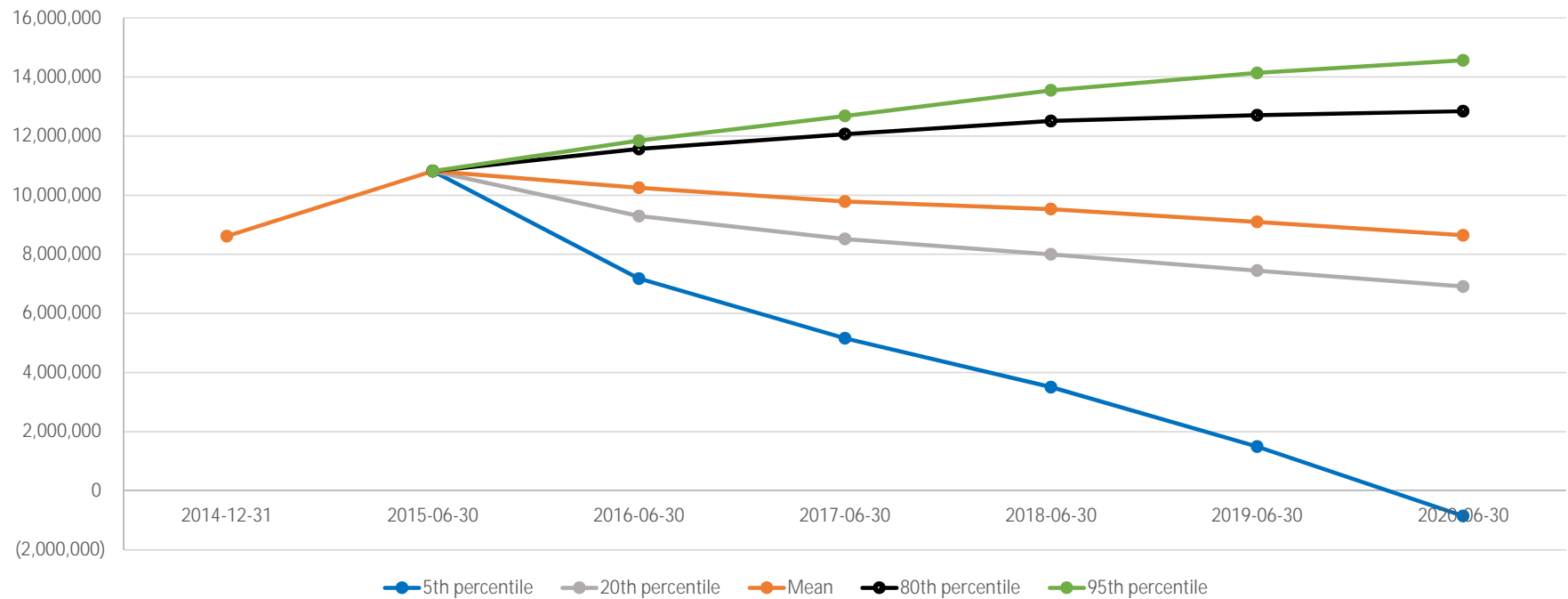
**Notes**

From stochastic simulation for all risks combined (Scenario 9).  
Does not include Future Retroassessments

Section 1  
Exhibit 2G

Canadian Lawyers Liability Assurance Society  
5-Year Projections at Various Confidence Levels

Excess of AMRGF Requirement



Year	Actual 2014-12-31	Actual 2015-06-30	Projected 2016-06-30	Projected 2017-06-30	Projected 2018-06-30	Projected 2019-06-30	Projected 2020-06-30
5th percentile			7,179,000	5,158,000	3,504,000	1,493,000	(853,000)
20th percentile			9,294,000	8,517,000	7,999,000	7,448,000	6,912,000
Mean	8,611,000	10,816,000	10,253,000	9,788,000	9,531,000	9,097,000	8,645,000
80th percentile			11,567,000	12,068,000	12,511,000	12,708,000	12,843,000
95th percentile			11,846,000	12,682,000	13,551,000	14,140,000	14,566,000

**Notes**

From stochastic simulation for all risks combined (Scenario 9).  
Does not include Future Retroassessments

**Section 1**  
**Exhibit 3**

**Canadian Lawyers Liability Assurance Society**  
**Summary of Surplus Position under Various Stochastic Scenarios**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	<b>End of Projection Year 1</b>					<b>End of Projection Year 3</b>				
<b>Confidence Level</b>	<b>Mean</b>	<b>90%</b>	<b>95%</b>	<b>97.5%</b>	<b>99%</b>	<b>Mean</b>	<b>90%</b>	<b>95%</b>	<b>97.5%</b>	<b>99%</b>
Return Period (in Years)	10	20	40	100		10	20	40	100	
Scenario 1: Base Scenario*	13,366,000	13,366,000	13,366,000	13,366,000	13,366,000	13,978,000	13,978,000	13,978,000	13,978,000	13,978,000
<b>Impact on Surplus **</b>										
Scenario 2: Insurance & Reinsurance Risks Only	(1,701,000)	(2,519,000)	(3,714,000)	(10,133,000)		(2,804,000)	(5,175,000)	(12,712,000)	(30,896,000)	
Scenario 3: Operational Risk Only	(73,000)	(148,000)	(392,000)	(612,000)		(282,000)	(539,000)	(690,000)	(1,012,000)	
Scenario 4: Inflation Risk Only	(66,000)	(74,000)	(82,000)	(93,000)		(208,000)	(258,000)	(300,000)	(346,000)	
Scenario 5: Market Risk Only	(19,000)	(20,000)	(21,000)	(22,000)		(111,000)	(135,000)	(158,000)	(182,000)	
Scenario 6: Premium Risk Only	0	0	0	0		(109,000)	(141,000)	(170,000)	(205,000)	
Scenario 7: Credit Risk Only	0	0	0	0		0	0	0	(376,000)	
Additive Impact on Surplus (Before Diversification)	(1,859,000)	(2,761,000)	(4,209,000)	(10,860,000)		(3,514,000)	(6,248,000)	(14,030,000)	(33,017,000)	
Equivalent MCT Ratio	82%	122%	186%	479%		155%	275%	618%	1455%	
Scenario 8: All Risks Combined	(1,714,000)	(2,536,000)	(3,793,000)	(10,081,000)		(2,759,000)	(5,070,000)	(11,654,000)	(30,955,000)	
Equivalent MCT Ratio	76%	112%	167%	444%		122%	223%	514%	1364%	
Diversification Benefit	145,000	225,000	416,000	779,000		755,000	1,178,000	2,376,000	2,062,000	
Equivalent MCT Ratio	-6%	-10%	-18%	-34%		-33%	-52%	-105%	-91%	

**Notes**

\* From Exhibit 1A (no simulation)

\*\* From stochastic simulation

Does not include Future Retroassessments

**Section 1  
Exhibit 4**

**Canadian Lawyers Liability Assurance Society  
Capital Requirements**

		ORSA Capital		Regulatory Capital
		Low Option A	High Option B	Supervisory Target MCT 210% *
<b>Capital Requirement for Risks and Diversification From Stochastic Model</b>				
(1)	Insurance & Reinsurance Risks	2,519,000	2,804,000	1,625,000
(2)	Operational Risk	148,000	282,000	1,179,000
(4)	Inflation Risk	74,000	208,000	
(5)	Market Risk	20,000	111,000	143,000
(6)	Premium and Strategy Risk	0	109,000	
(7)	Credit Risk	0	0	2,344,000
(8a)	Subtotal	2,761,000	3,514,000	5,291,000
(8b)	Equivalent MCT Ratio	122%	155%	233%
(9a)	Diversification Credit	(225,000)	(755,000)	(525,000)
(9b)	Equivalent MCT Ratio	-10%	-33%	-23%
<b>Capital Requirement for Additional Risks</b>				
(10)	Premium & Strategy	552,000	445,000	
(11)	Regulatory Risk	238,000	238,000	
(12)	Reputation Risk	238,000	238,000	
(13)	Liquidity Risk	238,000	475,000	
(14a)	Subtotal	1,266,000	1,396,000	0
(14b)	Equivalent MCT Ratio	56%	62%	0%
<b>Total Capital Requirement</b>				
(15a)	Indicated Capital Required	3,802,000	4,155,000	4,766,000
(15b)	Equivalent MCT Ratio	168%	183%	210%
(16a)	Capital Required for Regulatory Compliance	964,000	611,000	
(16b)	Equivalent MCT Ratio	42%	27%	
(17a)	Total Capital Required	4,766,000	4,766,000	
(17b)	Equivalent MCT Ratio	210%	210%	
(17c)	MCT Deductions from Capital Available (June 30, 2015)	1,209,000	1,209,000	1,209,000
(17d)	Total Surplus Required (June 30, 2015)	5,975,000	5,975,000	5,975,000
(18)	Surplus (June 30, 2015)	13,622,905	13,622,905	13,622,905
(19)	AMRGF Surplus Required (June 30, 2015)			2,806,000

**Notes**

- (1) to (7) Option A based on 95% confidence using 1-year horizon [Exhibit 3, Col. (4)]; Option B based on 90% confidence using 3-year horizon [Exhibit 3, Col. (7)]
- (8) = Sum (1) to (7)
- (9) From Exhibit 3; Option A based on 95% confidence using 1-year horizon; Option B based on 90% confidence using 3-year horizon
- (10) = 25% of impact on surplus of decrease of 50% in exposure vs. Scenario 9; Option A based on 95% confidence using 1-year horizon; Option B based on 90% confidence using 3-year horizon
- (11) = 5% x MCT capital required at 210% as at June 30, 2015
- (12) = 5% x MCT capital required at 210% as at June 30, 2015
- (13) = 2.5% x AMRGF capital required as at June 30, 2015
- (14) = Sum (10) to (13)
- (15) = (8) + (9) + (14)
- (16) = Capital Required to meet a minimum MCT ratio of 210%
- (17a) = (15) + (16)
- (17c) Receivables and recoverables from unregistered reinsurers not covered by acceptable collateral as at June 30, 2015
- (17d) = (17a) + (17c)
- (18) From Exhibit 1
- (19) = Surplus - Excess of Alberta Reserve and Guarantee Fund Requirement (as at June 30, 2015)

\* Per MCT guideline effective January 1, 2015 without transition rules

**Section 1**  
**Exhibit 5**

**Canadian Lawyers Liability Assurance Society**  
**Key Risk Metrics Report**

	(02)	(04)	(06)
	Regulatory Capital (210% MCT)	ORSA Capital	Methodology and References
<b>Total Capital Required</b>			
	To be completed after Board Approval		
(01) Insurance & Reinsurance Risks	1,625,000		From Exhibit 4
(02) Market Risk	143,000		From Exhibit 4
(03) Credit Risk	2,344,000		From Exhibit 4
(04) Operational Risk	1,179,000		From Exhibit 4
(05) Base Required Capital	5,291,000		
(06) Phase-in of Capital Required	0		
(07) Regulatory Minimum Required Capital	5,291,000		
(08) Other Risk: Reinsurance			From Exhibit 4
(09) Other Risk: Inflation			From Exhibit 4
(10) Other Risk: Premium & Strategy			From Exhibit 4
(11) Other Risk: Regulatory			From Exhibit 4
(12) Other Risk: Reputation			From Exhibit 4
(13) Other Risk: Liquidity			From Exhibit 4
(19) Adjustments - Other			
(20) Adjustments - Aggregation / Diversification	(525,000)		From Exhibit 4
(21) Adjustments - Extremely Severe Scenarios			
(22) Target Required Capital / Own Capital Needs	4,766,000		From Exhibit 4
(23) Adjustments - Other			= (25) - (22)
(24) Adjustments - Varying Nature & Severity Scenarios			
(25) Internal Target			Adopted target in the range of
(26) Total Available Capital	12,414,000		From MCT calculation at 2015-06-30
<b>Reconciliation of Available Capital</b>			
(29) ORSA Total Available Capital			From MCT calculation at 2015-06-30
(37) Regulatory Total Available Capital	12,414,000		From MCT calculation at 2015-06-30

**Section 2**  
**Exhibit 1**

**Canadian Lawyers Liability Assurance Society**  
**Summary of Historical Data**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Policy Period	Exposure Number of Earned Lawyers	Reciprocal Premium Gross of Reinsurance	Net of Reinsurance	CLLAS Layer	Drop Down Claims	Ground-Up Losses	CLLAS Reported Losses Gross of Reinsurance	Net of Reinsurance	Ground Up Reported Losses	Drop Down Claims Reported Losses
1987-1988	1,479	4,434,000	1,883,829	0		24	0	0	255,751	
1988-1989	1,807	3,614,000	1,137,725	0		37	0	0	1,673,300	
1989-1990	2,078	3,740,400	689,957	0		62	0	0	2,655,706	
1990-1991	2,352	4,233,600	586,847	1		86	3,593,148	896,574	6,059,360	
1991-1992	2,400	4,320,000	577,354	3		90	7,416,563	2,470,496	14,078,492	
1992-1993	2,433	4,478,400	389,208	1		99	326,599	0	5,491,955	
1993-1994	2,507	4,512,600	373,280	2		131	30,654,825	5,638,230	37,389,958	
1994-1995	2,514	5,153,700	1,328,836	4		88	9,318,988	1,883,180	17,348,113	
1995-1996	2,525	5,807,500	1,930,552	2		53	3,742,644	1,871,322	10,099,385	
1996-1997	2,594	5,276,196	1,070,215	0		52	0	0	1,936,471	
1997-1998	2,640	6,587,610	1,627,963	0		49	0	0	4,109,525	
1998-1999	2,838	10,826,416	4,368,122	2		55	20,296,669	3,300,000	25,100,723	
1999-2000	3,229	12,093,829	5,100,300	3		41	8,492,585	3,300,000	13,119,207	
2000-2001	4,008	14,968,458	6,734,718	0		43	0	0	5,423,986	
2001-2002	4,242	14,694,378	5,919,526	4		52	17,553,756	3,300,000	25,282,592	
2002-2003	4,523	17,346,379	4,631,546	3		59	4,021,146	3,415,798	11,813,903	
2003-2004	4,719	22,376,007	6,619,932	4		59	38,933,335	6,433,335	49,181,313	
2004-2005	4,743	24,676,487	6,832,821	3	1	45	1,262,333	1,262,333	5,914,036	38,338
2005-2006	4,770	25,025,027	6,259,056	3		38	765,546	712,114	5,454,720	
2006-2007	4,772	33,356,139	12,326,959	2		30	6,474,107	5,050,313	10,323,010	
2007-2008	4,784	27,040,048	10,121,699	4		31	17,633,930	8,321,801	22,190,871	
2008-2009	4,835	24,343,680	9,812,057	3		43	1,262,051	5,042	6,654,003	
2009-2010	4,817	23,632,747	9,849,698	5		45	42,379,162	19,696	64,813,042	
2010-2011	4,771	20,852,074	8,040,957	4	1	51	15,242,013	2,073,436	22,420,658	242,012
2011-2012	4,708	17,006,743	5,101,008	4	2	43	2,196,253	106,506	7,501,099	106,506
2012-2013	4,128	14,228,728	3,352,235	1	1	47	206,390	206,390	6,780,124	206,390
2013-2014	4,124	13,954,400	3,154,848	0		60	0	0	5,487,077	
2014-2015	4,191	12,895,931	2,452,086	0		36	0	0	2,629,238	
2015-2016	4,295	12,438,547	2,414,074	0		0				
Total	103,823	393,914,025	124,687,409	58	5	1,549	231,772,044	50,266,566	391,187,617	593,246

**Notes**

(1) The policy period extends from July 1 to June 30

Losses from policy periods 1987-1988 to 2011-2012 have been transferred to Colchester

(2) From CLLAS

(3) to (11) From CLLAS Actuarial Valuation as at June 30, 2015 for Policy Periods 1987-1988 to 2014-2015

Premiums exclude retroassessments and the loss portfolio transfer premium



**Section 2**  
**Exhibit 2**

**Canadian Lawyers Liability Assurance Society**  
**Selection of Exposure Trend**

(1)	(2)	(3)
Policy Period	Number of Lawyers	Annual Change
1987-1988	1,479	
1988-1989	1,807	22.2%
1989-1990	2,078	15.0%
1990-1991	2,352	13.2%
1991-1992	2,400	2.0%
1992-1993	2,433	1.4%
1993-1994	2,507	3.0%
1994-1995	2,514	0.3%
1995-1996	2,525	0.4%
1996-1997	2,594	2.7%
1997-1998	2,640	1.8%
1998-1999	2,838	7.5%
1999-2000	3,229	13.8%
2000-2001	4,008	24.1%
2001-2002	4,242	5.8%
2002-2003	4,523	6.6%
2003-2004	4,719	4.3%
2004-2005	4,743	0.5%
2005-2006	4,770	0.6%
2006-2007	4,772	0.0%
2007-2008	4,784	0.3%
2008-2009	4,835	1.1%
2009-2010	4,817	-0.4%
2010-2011	4,771	-1.0%
2011-2012	4,708	-1.3%
2012-2013	4,128	-12.3%
2013-2014	4,124	-0.1%
2014-2015	4,191	1.6%
2015-2016	4,295	2.5%
Total	103,823	

(4) Indicated Trend	
All Years	4.13%
Last 10 Years	-0.96%
Last 5 Years	-1.93%

(5) Selected Average Exposure Trend	<b>0.00%</b>
-------------------------------------	--------------

(6) Indicated Standard Deviation of Annual Changes	4.29%
--	-------

(7) Selected Standard Deviation of Annual Changes	<b>4.00%</b>
---	--------------

**Notes**

- (1) The policy period extends from July 1 to June 30
- (2) = Exhibit 1, Col. (2)
- (4) Simple average based on (3)
- (5) Selected based on actuarial judgment
- (6) Based on last 15 years standard deviation
- (7) Selected based on actuarial judgment

**Section 2  
Exhibit 3**

**Canadian Lawyers Liability Assurance Society  
Selection of Loss Frequency Assumptions (Ground Up Losses)**

(1) Policy Period	(2) Number of Lawyers	(3) Number of Reported Drop Down Claims	(4) Number of Reported Claims CLLAS Layer	(5) Number of Non-Zero Ground Up Claims	(6) Claim Count Development Factor	(7) Ultimate Number of Claims	(8) Frequency (in %)
1987-1988	1,479		0	24	1.000	24	1.62%
1988-1989	1807		0	37	1.000	37	2.05%
1989-1990	2078		0	62	1.000	62	2.98%
1990-1991	2352		1	86	1.000	86	3.66%
1991-1992	2400		3	90	1.000	90	3.75%
1992-1993	2433		1	99	1.000	99	4.07%
1993-1994	2507		2	131	1.000	131	5.23%
1994-1995	2514		4	88	1.000	88	3.50%
1995-1996	2525		2	53	1.000	53	2.10%
1996-1997	2594		0	52	1.000	52	2.00%
1997-1998	2640		0	49	1.000	49	1.86%
1998-1999	2838		2	55	1.000	55	1.94%
1999-2000	3,229		3	41	1.000	41	1.27%
2000-2001	4,008		0	43	1.000	43	1.07%
2001-2002	4,242		4	52	1.000	52	1.23%
2002-2003	4,523		3	59	1.000	59	1.30%
2003-2004	4,719		4	59	1.000	59	1.25%
2004-2005	4,743	1	3	45	1.000	45	0.95%
2005-2006	4,770		3	38	1.000	38	0.80%
2006-2007	4,772		2	30	1.000	30	0.63%
2007-2008	4,784		4	31	1.000	31	0.65%
2008-2009	4,835		3	43	1.000	43	0.89%
2009-2010	4,817		5	45	1.000	45	0.93%
2010-2011	4,771	1	4	51	1.000	51	1.07%
2011-2012	4,708	2	4	43	1.000	43	0.91%
2012-2013	4,128	1	1	47	0.977	46	1.11%
2013-2014	4,124		0	60	0.930	56	1.35%
2014-2015	4,191		0	36	0.908	33	0.78%
Total	99,528	5	58	1,549		1,540	

(9) Indicated Frequency:

All Years	66	1.55%
Last 10 Years	39	0.91%
Last 5 Years	45	1.04%
Last 3 Years	46	1.08%

(10) Selected Frequency:

**1.00%**

(11) Projected Exposure:

(11a) Total:	4,295
(11b) Quebec:	771
(11c) Proportion Quebec:	18%

(12) Projected Claim Count  
2015-2016

**43**

(13) Indicated Frequency Trend:

All Years	-5.5%
Last 10 Years	5.0%

(14) Selected Frequency Trend

**0.0%**

(15) Selected Proportion of Drop Down Claims :

(15a) Outside Quebec	<b>10.00%</b>
(15b) Quebec	<b>1.00%</b>

**Notes**

- (1) The policy period extends from July 1 to June 30  
(2) = Exhibit 1, Col. (2)  
(3) = Exhibit 1, Col. (6)  
(4) = Exhibit 1, Col. (5)  
(5) = Exhibit 1, Col. (7)  
(6) Based on the loss development factors selection in the 2015-2016 rating analysis  
(7) = (5) x (6)  
(8) = (7) / (2)  
(9) Frequency weighted based on total insured values in (2)  
Ultimate number of claims = Indicated Frequency x Exposure value of policy period 2015-2016  
(10) Selected based on actuarial judgment  
(11a) = Exhibit 2, Col. (2)  
(11b) From CLLAS Rating 2015/2016 Analysis  
(11c) = (11b) / (11a)  
(12) = (10) x (11a)  
(13) Exponential trend  
(14) Selected based on actuarial judgment  
(15) Selected based on actuarial judgment

**Section 2  
Exhibit 4**

**Canadian Lawyers Liability Assurance Society  
Selection of Loss Severity Trend (Ground Up Losses)**

(1) Policy Period	(2) Ground-Up Reported Losses	(3) Adjustments for Large Losses	(4) Loss Development Factor	(5) Ground-Up Ultimate Losses	(6) Ultimate Number of Claims	(7) Average Claim
1987-1988	255,751	0	1.000	255,751	24	10,656
1988-1989	1,673,300	0	1.000	1,673,300	37	45,224
1989-1990	2,655,706	0	1.000	2,655,706	62	42,834
1990-1991	6,059,360	0	1.000	6,059,360	86	70,458
1991-1992	14,078,492	0	1.000	14,078,492	90	156,428
1992-1993	5,491,955	0	1.000	5,491,955	99	55,474
1993-1994	37,389,958	0	1.000	37,389,958	131	285,420
1994-1995	17,348,113	0	1.000	17,348,113	88	197,138
1995-1996	10,099,385	0	1.000	10,099,385	53	190,554
1996-1997	1,936,471	0	1.000	1,936,471	52	37,240
1997-1998	4,109,525	0	1.000	4,109,525	49	83,868
1998-1999	25,100,723	0	1.000	25,100,723	55	456,377
1999-2000	13,119,207	0	1.000	13,119,207	41	319,981
2000-2001	5,423,986	0	1.000	5,423,986	43	126,139
2001-2002	25,282,592	0	1.000	25,282,592	52	486,204
2002-2003	11,813,903	0	1.000	11,813,903	59	200,236
2003-2004	49,181,313	0	1.000	49,181,313	59	833,582
2004-2005	5,914,036	0	1.000	5,914,036	45	131,423
2005-2006	5,454,720	0	1.000	5,454,720	38	143,545
2006-2007	10,323,010	0	1.004	10,361,712	30	345,390
2007-2008	22,190,871	0	1.017	22,570,784	31	728,090
2008-2009	6,654,003	0	1.050	6,988,723	43	162,528
2009-2010	64,813,042	48,000,000	1.132	67,026,825	45	1,489,485
2010-2011	22,420,658	0	1.254	28,126,013	51	551,490
2011-2012	7,501,099	0	1.377	10,326,591	43	240,153
2012-2013	6,780,124	0	1.900	12,883,801	46	280,715
2013-2014	5,487,077	0	2.637	14,467,972	56	259,233
2014-2015	2,629,238	0	4.438	11,667,854	33	356,993
Total	391,187,617	48,000,000		426,808,772	1,540	277,078

(8) Indicated Trend:

All Years  
Last 10 Years

7.24%  
4.13%

9.17%  
0.98%

(9) Selected Trend:

**6.00%**

**Notes**

(1) The policy period extends from July 1 to June 30

Losses from policy periods 1987-1988 to 2011-2012 have been transferred to Colchester

(2) = Exhibit 1, Col. (10)

(3) Large claims not developed: 2010-059

(4) Based on the loss development factors selection in the 2015-2016 rating analysis

(5) = [(2) - (3)] x (4) + (3)

(6) = Exhibit 3, Col. (7)

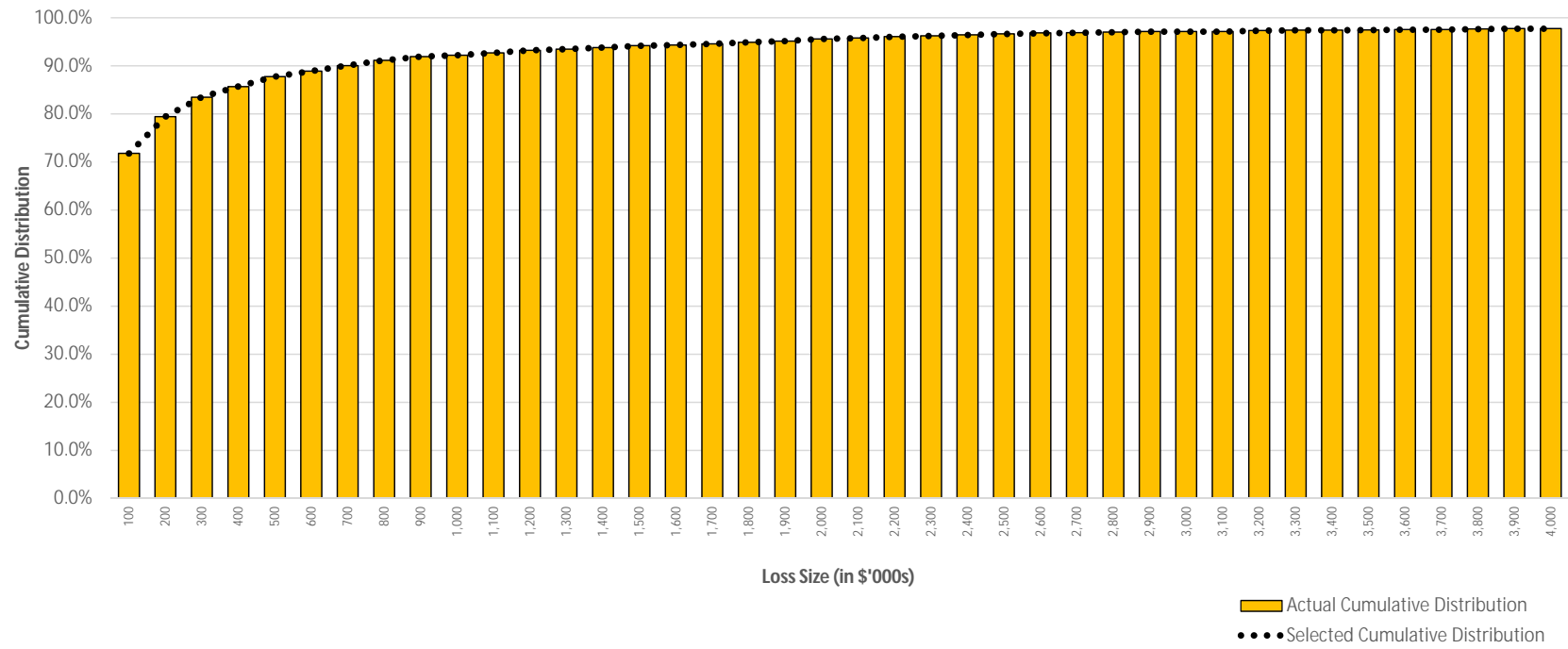
(7) = (5) / (6)

(8) Exponential trend

(9) Selected based on actuarial judgment

Section 2  
Exhibit 5A

Canadian Lawyers Liability Assurance Society  
Selection of Loss Severity Distribution - Ground Up Losses



	(1) Actual Distribution	(2) Selected Distribution	(3) Claims Excess of Retention	(4) Actual Proportion	(5) Selected Probability
Mean	713,431	620,000	> \$1,000,000	7.811%	7.814%
Standard Deviation	4,497,137	4,459,512	> \$10,000,000	1.033%	1.086%
Minimum	35	0	> \$50,000,000	0.258%	0.210%
Maximum	77,188,513	Unlimited	> \$100,000,000	0.000%	0.033%
			> \$220,000,000	0.000%	0.002%

Notes

- (1) Based on 687 ground up claims observations between 1999-2000 and 2013-2014; losses were developed and trended in accordance with assumptions presented in Exhibit 4
- (2) The selected distribution is based on an Inverse Gaussian fitted distribution with a mean of \$620,000
- (3) to (5) provide information on the probability of large losses for the actual and selected distribution

Section 2  
Exhibit 5B

Canadian Lawyers Liability Assurance Society  
Summary of Undiscounted Loss Costs by Layer of Coverage

**Claims with Adjusting Expenses Only**  
Policy Year 2015/2016

(1) Number of Lawyers	4,295
(2) Selected Frequency per Lawyer	1.00%
(3) Selected Average Number of Claims	42.95
(4) Selected Claim Severity	620,000
(5) Expected Losses	<b>26,627,450</b>

**Lawyers Practicing in Provinces other than Québec**

Range of Losses (6)	Layer [2]	Lawyer Distribution	From ORSA Analysis**		From 2015/2016 Rating Analysis*		Change from Rating
			Estimated Undiscounted Ultimate Losses	Estimated Undiscounted Loss Cost Per Lawyer	Estimated Undiscounted Ultimate Losses	Estimated Undiscounted Loss Cost Per Lawyer	
Up to \$25,000.00	\$ .025M Excess \$0		713,789	166	708,950	165	1%
From \$25,000 to \$1,000,000	\$ .975M Excess \$.025M		6,269,561	1,460	5,812,442	1,353	8%
From \$1,000,000 to \$5,000,000	\$4M Excess \$1M		6,089,947	1,418	5,841,155	1,360	4%
From \$5,000,000 to \$10,000,000	\$5M Excess \$5M		3,186,152	742	3,129,866	729	2%
From \$10,000,000 to \$20,000,000	\$10M Excess \$10M		3,595,568	837	3,391,736	790	6%
From \$20,000,000 to \$50,000,000	\$30M Excess \$20M		4,489,894	1,045	3,893,296	907	15%
	<b>Primary Layer (\$49M Excess \$1M)</b>		<b>17,361,560</b>	<b>4,043</b>	<b>16,256,053</b>	<b>3,785</b>	<b>7%</b>
From \$80,000,000 to \$110,000,000	\$30M Excess \$80M	14.6%	506,759		454,789		
From \$200,000,000 to \$230,000,000	\$30M Excess \$200M	16.1%	24,661		20,275		
From \$220,000,000 to \$250,000,000	\$30M Excess \$220M	69.4%	15,707		12,732		
	Excess Umbrella (\$30M Excess Min \$65M)	<b>100.0%</b>	<b>88,650</b>	<b>21</b>	<b>78,314</b>	<b>18</b>	<b>13%</b>
From \$160,000,000 to \$200,000,000	\$40M Excess \$160M	18.8%	75,565		63,765		
From \$160,000,000 to \$220,000,000	\$60M Excess \$160M	81.2%	93,787		78,790		
	Optional Excess (Excess \$160M)	<b>100.0%</b>	<b>90,358</b>	<b>21</b>	<b>75,962</b>	<b>18</b>	<b>19%</b>

**Lawyers Practicing in Québec**

Range of Losses (6)	Layer [2]	Lawyer Distribution	From ORSA Analysis**		From 2015/2016 Rating Analysis*		Change from Rating
			Estimated Undiscounted Ultimate Losses	Estimated Undiscounted Loss Cost Per Lawyer	Estimated Undiscounted Ultimate Losses	Estimated Undiscounted Loss Cost Per Lawyer	
Up to \$25,000.00	\$ .025M Excess \$0		71,379	17	70,895	17	1%
From \$25,000 to \$1,000,000	\$ .975M Excess \$.025M		626,956	146	581,244	135	8%
From \$1,000,000 to \$5,000,000	\$4M Excess \$1M		608,995	142	584,115	136	4%
From \$5,000,000 to \$10,000,000	\$5M Excess \$5M		318,615	74	312,987	73	2%
From \$10,000,000 to \$20,000,000	\$10M Excess \$10M		3,595,568	837	3,391,736	790	6%
From \$20,000,000 to \$50,000,000	\$30M Excess \$20M		4,489,894	1,045	3,893,296	907	15%
	<b>Primary Layer (\$49M Excess \$1M)</b>		<b>9,013,072</b>	<b>2,099</b>	<b>8,182,135</b>	<b>1,905</b>	<b>10%</b>
From \$80,000,000 to \$110,000,000	\$30M Excess \$80M	14.6%	506,759		454,789		
From \$200,000,000 to \$230,000,000	\$30M Excess \$200M	16.1%	24,661		20,275		
From \$220,000,000 to \$250,000,000	\$30M Excess \$220M	69.4%	15,707		12,732		
	Excess Umbrella (\$30M Excess Min \$65M)	<b>100.0%</b>	<b>88,650</b>	<b>21</b>	<b>78,314</b>	<b>18</b>	<b>13%</b>
From \$160,000,000 to \$200,000,000	\$40M Excess \$160M	18.8%	75,565		63,765		
From \$160,000,000 to \$220,000,000	\$60M Excess \$160M	81.2%	93,787		78,790		
	Optional Excess (Excess \$160M)	<b>100.0%</b>	<b>90,358</b>	<b>21</b>	<b>75,962</b>	<b>18</b>	<b>19%</b>

\*Based on data at 12.31.2014

\*\*ORSA includes adverse claim development between 12.31.2014 to 6.30.2015

**Section 2  
Exhibit 6**

**Canadian Lawyers Liability Assurance Society  
Selection of Payment Pattern Assumptions**

**Payment Pattern**

Selected Payment Pattern	(1) Policy Period Maturity (in months)	(2) Selected Proportion Paid in Year
	12	4.00%
	24	8.00%
	36	10.00%
	48	10.00%
	60	10.75%
	72	11.50%
	84	10.75%
	96	8.50%
	108	5.25%
	120	3.25%
	132	3.00%
	144	3.00%
	156	3.00%
	168	2.75%
	180	2.25%
	192	2.00%
	204	1.50%
	216	0.50%
		100.00%

**Unallocated Loss Adjustment Expenses**

(3a) Selected ULAE Ratio - Claim Liabilities	2.15%
(3b) Selected ULAE Ratio - Premium Liabilities	2.15%

**Margins for Adverse Deviation**

(4) Claims Development	10.00%
(5) Reinsurance Default	3.50%
(6) Interest Rate	If discounted rate is below 1.5%: 0.25%
	If discounted rate is between 1.5% and 2.5%: 0.50%
	If discounted rate is between 2.5% and 3.5%: 0.75%
	If discounted rate is between 3.5% and 4.5%: 1.00%
	If discounted rate is above or equal to 4.5%: 1.25%

(1) = Maturity of policy period as at June 30

(2) = Selected per actuarial valuation at December 31, 2014 (Payout Pattern for Discount Factors)

(3) = Selected per actuarial valuation at December 31, 2014, Exhibit 6

(4) to (6) Selected per actuarial valuation at December 31, 2014, Exhibit 9

**Section 2**  
**Exhibit 7A**

**Canadian Lawyers Liability Assurance Society**  
**Selection of Investment Assumptions**  
**Summary of Investment Portfolio as at June 30, 2015**

	(1) Market Value	(2) Average Duration	(3) Number of Investments	(4) Number of Issuers	(5) S&P Credit Rating	(6) IFRS 9 Classification
Cash	3,673,532					
Short-Term Investments						
Bank of Nova Scotia BA	1,109,362	0.02	1		A-1	Available for Sale
Canadian Imperial Bank BA	1,028,170	0.07	1		A-1	Available for Sale
First Bank BA	1,532,391	0.14	1		A-1	Available for Sale
Toronto Dominion Bank BA	1,516,890	0.23	1		A-1+	Available for Sale
Canada Treasury Bills	6,659,061	0.09	4		A-1+	Available for Sale
Subtotal	11,845,874	0.104	8	4		
Long-Term Investments						
Canada Housing Trust	1,235,596	4.172	5		AAA	Available for Sale
British Columbia Province	273,252	5.910	1		AAA	Available for Sale
Ontario Province	1,222,371	4.715	4		A+	Available for Sale
Alberta Province	304,012	1.158	1		AAA	Available for Sale
Royal Bank of Canada	204,575	2.620	1		AA-	Available for Sale
Bank of Montreal	528,627	4.910	2		A+	Available for Sale
Wells Fargo	368,530	5.042	2		A+	Available for Sale
Bank of Nova Scotia	202,397	1.341	1		A+	Available for Sale
Toronto Dominion Bank	463,398	3.544	2		AA-	Available for Sale
Subtotal	4,802,758	4.120	19	9		
Canadian Equities	0	0	0	0		
Non-Canadian Investments	0	0	0	0		
Total	20,322,164	1.262	27	13		

**Notes**

(1) From financial statements as at June 30, 2015

(2) Total Duration excludes Cash

(5) Credit Rating as at August 24, 2015

(6) Classification from PC-1 as at December 31, 2014

**Section 2  
Exhibit 7B**

**Canadian Lawyers Liability Assurance Society  
Selection of Investment Return Assumptions  
Risk-Free Real Rate of Return**

		(1a) Government of Canada Yield Curve Maturity 0.25 Years	(1b) Government of Canada Yield Curve Maturity 4.00 Years	(1c) Difference
Year	Year			
1986	29	8.44%	8.60%	0.16%
1987	28	8.63%	9.69%	1.06%
1988	27	11.01%	10.10%	-0.91%
1989	26	11.88%	9.71%	-2.17%
1990	25	11.00%	10.15%	-0.85%
1991	24	7.07%	7.57%	0.50%
1992	23	7.10%	7.32%	0.22%
1993	22	4.01%	5.47%	1.46%
1994	21	7.17%	8.81%	1.64%
1995	20	5.68%	6.38%	0.70%
1996	19	2.86%	5.35%	2.49%
1997	18	4.08%	5.32%	1.24%
1998	17	4.73%	4.72%	-0.01%
1999	16	4.95%	6.15%	1.20%
2000	15	5.57%	5.26%	-0.31%
2001	14	1.98%	4.42%	2.44%
2002	13	2.69%	3.79%	1.10%
2003	12	2.67%	3.75%	1.08%
2004	11	2.51%	3.51%	1.00%
2005	10	3.48%	3.86%	0.38%
2006	9	4.23%	3.93%	-0.30%
2007	8	3.89%	3.83%	-0.06%
2008	7	0.78%	1.65%	0.87%
2009	6	0.12%	2.53%	2.41%
2010	5	1.07%	2.22%	1.15%
2011	4	0.86%	1.18%	0.32%
2012	3	0.96%	1.33%	0.37%
2013	2	1.03%	1.70%	0.67%
2014	1	0.93%	1.23%	0.30%
(2) Simple Average				
Last 29 years		4.53%	5.16%	0.63%
Last 15 years		2.18%	2.95%	0.76%
Last 5 years		0.97%	1.53%	0.56%
(3) Selected Mean Nominal Yield (Risk-Free)		<b>0.95%</b>	<b>1.50%</b>	<b>0.55%</b>
(4) Selected Mean Inflation Rate		<b>2.00%</b>	2.00%	
(5) Selected Mean Real Return (Risk-Free)		<b>-1.05%</b>	<b>-0.50%</b>	<b>0.55%</b>

**Real Bond Returns (Risk-Free)**

**2-Year Mean-Reverting Autoregressive Model**

Based on Last 29 Years

	Maturity of 0.25 years	
	(6) Indicated Parameters	(7) Selected Parameters
Mean	4.53%	<b>-1.05%</b>
Weight on prior year	80.46%	<b>80.00%</b>
Weight on second prior year	5.34%	<b>5.00%</b>
Mean of Residuals	0.00%	<b>0.00%</b>
Standard Deviation of Residuals	1.66%	<b>0.25%</b>
Selected Minimum		<b>-2.00%</b>
Selected Maximum		<b>2.00%</b>

**Notes**

(1) from Bank of Canada.

(1a) Maturity of 0.25 years selected based on average maturity of 0.104 years for Short-Term Investments as at June 30, 2015.

(1b) Maturity of 4.00 years selected based on average maturity of 4.12 years for Long-Term Investments as at June 30, 2015.

(1c) = (1b) - (1a)

(3) Selected based on actuarial judgment

(4) = From Exhibit 7C, Col. (5)

(5) = (3) - (4)

(6) Indicated parameters based on least-squares regressions for AR(2) model

(7) Selected based on actuarial judgment



Section 2  
Exhibit 7C

Canadian Lawyers Liability Assurance Society  
Selection of Investment Return Assumptions  
General Inflation

		(1) Consumer Price Index (Canada) All Items	(2) Year-over-year changes
Year	Year		
1915	100	6.1	n/a
...	...	...	...
1916	99	6.6	8.2%
1980	35	44.2	10.0%
1981	34	49.9	12.9%
1982	33	55.4	11.0%
1983	32	58.4	5.4%
1984	31	60.8	4.1%
1985	30	63.3	4.1%
1986	29	65.9	4.1%
1987	28	68.9	4.6%
1988	27	71.6	3.9%
1989	26	75.4	5.3%
1990	25	78.5	4.1%
1991	24	83.2	6.0%
1992	23	84.2	1.2%
1993	22	85.6	1.7%
1994	21	85.7	0.1%
1995	20	87.9	2.6%
1996	19	89.0	1.3%
1997	18	90.5	1.7%
1998	17	91.4	1.0%
1999	16	93.1	1.9%
2000	15	95.8	2.9%
2001	14	98.4	2.7%
2002	13	100.5	2.1%
2003	12	102.6	2.1%
2004	11	105.0	2.3%
2005	10	107.1	2.0%
2006	9	109.6	2.3%
2007	8	112.0	2.2%
2008	7	115.8	3.4%
2009	6	114.7	-0.9%
2010	5	116.8	1.8%
2011	4	120.0	2.7%
2012	3	121.5	1.3%
2013	2	123.1	1.3%
2014	1	125.7	2.1%
(3) Simple Average			
Last 100 years			3.2%
Last 50 years			4.2%
Last 30 years			2.5%
Last 15 years			2.0%
<b>1-Year Mean-Reverting Autoregressive Model</b>		(4) Indicated Parameters	(5) Selected Parameters
Based on Last 30 Years			
Mean		2.5%	<b>2.00%</b>
Weight on prior year		39.0%	<b>30.00%</b>
Mean of Residuals		0.0%	<b>0.00%</b>
Standard Deviation of Residuals		1.3%	<b>0.75%</b>
Selected Minimum			<b>-1.00%</b>
Selected Maximum			<b>5.00%</b>

Notes

(1) From CANSIM Table 326-0020; accessed April 23, 2015

(2) = (1) / [(1) Previous Year]

(4) Indicated parameters based on least-squares regressions for AR(1) model

(5) Selected based on actuarial judgment

**Section 2  
Exhibit 7D**

**Canadian Lawyers Liability Assurance Society  
Selection of Investment Assumptions  
Yield Spreads and Investment Management Expenses**

	(1a)	(1b)	(1c)	(1d)	(2a)	(2b)	(2c)	(2d)
	Merrill Lynch US Corporate Spread - All Maturities				Standard & Poor's U.S. Corporate Spread by Maturity			
Year	AAA	AA	A	LLAS-Weighted	AAA 5 years	AA 5 years	A 5 years	LLAS-Weighted
Weight	37.7%	13.9%	48.3%	100.0%	37.7%	13.9%	48.3%	100.0%
1996	n/a	0.42%	0.57%	0.54%				
1997	n/a	0.51%	0.66%	0.63%				
1998	n/a	0.74%	1.02%	0.96%				
1999	n/a	0.83%	1.01%	0.97%				
2000	n/a	1.30%	1.86%	1.73%				
2001	n/a	0.86%	1.44%	1.31%				
2002	n/a	0.81%	1.33%	1.21%	n/a	1.10%	1.20%	1.18%
2003	n/a	0.48%	0.68%	0.64%	n/a	0.80%	0.90%	0.88%
2004	n/a	0.54%	0.68%	0.65%	n/a	0.60%	0.70%	0.68%
2005	n/a	0.64%	0.84%	0.80%	n/a	0.65%	0.75%	0.73%
2006	n/a	0.61%	0.84%	0.79%	n/a	0.55%	0.65%	0.63%
2007	n/a	1.68%	1.96%	1.90%	n/a	1.50%	1.50%	1.50%
2008	n/a	4.19%	5.62%	5.30%	n/a	4.10%	4.20%	4.18%
2009	n/a	1.19%	1.69%	1.58%	n/a	1.00%	1.25%	1.19%
2010	0.66%	1.10%	1.51%	1.13%	n/a	0.90%	1.10%	1.06%
2011	0.87%	1.67%	2.35%	1.70%				
2012	0.64%	0.89%	1.20%	0.95%				
2013	0.60%	0.70%	0.95%	0.78%				
2014	0.65%	0.84%	1.07%	0.88%				
(3) Simple Average	0.68%	1.05%	1.44%	1.29%		1.24%	1.36%	1.34%
(4) Average Excl. Min/Max	0.65%	0.91%	1.24%	1.09%		0.94%	1.06%	1.03%
(5) Standard Deviation	0.11%	0.84%	1.13%	1.05%		1.11%	1.10%	1.10%
(6) Minimum	0.60%	0.42%	0.57%	0.54%		0.55%	0.65%	0.63%
(7) Maximum	0.87%	4.19%	5.62%	5.30%		4.10%	4.20%	4.18%

**(8) Selected Credit Spread Distribution**

	(8a)	(8b)	(8c)
Credit Spread Range (in %)	Actual Distribution	Selected Probability	
0.00% to 0.25%	0.0%	0.0%	
0.25% to 0.50%	0.0%	5.0%	
0.50% to 0.75%	21.1%	20.0%	
0.75% to 1.00%	36.8%	35.0%	
1.00% to 1.25%	10.5%	10.0%	
1.25% to 1.50%	5.3%	10.0%	
1.50% to 1.75%	15.8%	10.0%	
1.75% to 2.00%	5.3%	5.0%	
2.00% and +	5.3%	5.0%	
Total	100.0%	100.0%	

Average spread selected for Long-Term Investments: **1.06%**

Selected Minimum 0.25%  
Selected Maximum 2.00%

Average spread selected for Short-Term Investments (50% of average spread selected for Long-Term Investments): **0.53%**

Selected Minimum 0.125%  
Selected Maximum 1.00%

**(9) Investment Management Expense Ratio**

(9a) Investment Management Expenses - Calendar Year 2014	21,327
(9b) Average Invested Assets (Excl. Cash) - Calendar Years 2013 and 2014	13,167,500
(9c) Indicated Ratio	0.16%
(9d) Selected Ratio	<b>0.16%</b>

**Notes**

- (1a) to (1c) from Federal Reserve Bank of St. Louis Economic Research. Merrill Lynch U.S. Corporate Option-Adjusted Spreads.  
<<https://research.stlouisfed.org/fred2/series/BAMLC0A2CAA>>. Accessed April 23, 2015.  
<<https://research.stlouisfed.org/fred2/series/BAMLC0A3CA>>. Accessed April 23, 2015.
- (1d) = (1a) to (1c) weighted based on June 30, 2015 credit rating distribution of Long-Term Investments (to the closest credit rating)  
Line (9): prior to 2010 weighted based on AA and A securities only
- (2a) to (2c) estimated from Standard & Poor's New Bond Spread And Total Return Series Report (2011) Chart 5.  
<<http://www.standardandpoors.com/ratings/articles/en/us/?assetID=1245305949879>>. Accessed April 23, 2015.  
5-year maturity was selected based on average maturity of 4.12 as at June 30, 2015 for Long-Term Investments
- (2d) = (2b) and (2c) weighted based on June 30, 2015 credit rating distribution of Long-Term Investments (to the closest credit rating)
- (8a) and (8b) based on (1d); (8c) selected based on actuarial judgment
- (9a) and (9b) From CLLAS internal financial statements as at December 31, 2014
- (9c) = (9a) / (9b)
- (9d) = Selected based on actuarial judgment

Section 2  
Exhibit 7E

Canadian Lawyers Liability Assurance Society  
Selection of Investment Assumptions  
Default Rates

Year	(1a) Default Rate by S&P Credit Rating	(1b)	(1c)	(2) CLLAS Portfolio Weighted
	AAA	AA	A	
1981	--	--	--	--
1982	--	--	0.21%	0.08%
1983	--	--	--	--
1984	--	--	--	--
1985	--	--	--	--
1986	--	--	0.18%	0.06%
1987	--	--	--	--
1988	--	--	--	--
1989	--	--	0.18%	0.06%
1990	--	--	--	--
1991	--	--	--	--
1992	--	--	--	--
1993	--	--	--	--
1994	--	--	0.14%	0.05%
1995	--	--	--	--
1996	--	--	--	--
1997	--	--	--	--
1998	--	--	--	--
1999	--	0.17%	0.18%	0.16%
2000	--	--	0.27%	0.10%
2001	--	--	0.27%	0.10%
2002	--	--	--	--
2003	--	--	--	--
2004	--	--	0.08%	0.03%
2005	--	--	--	--
2006	--	--	--	--
2007	--	--	--	--
2008	--	0.38%	0.39%	0.34%
2009	--	--	0.22%	0.08%
2010	--	--	--	--
2011	--	--	--	--
2012	--	--	--	--
2013	--	--	--	--
2014	--	--	--	--
(3) Simple Average	--	0.02%	0.06%	0.03%
(4) Standard Deviation	--	0.07%	0.11%	0.07%
(5) Minimum	--	--	--	--
(6) Maximum	--	0.38%	0.39%	0.34%
(7) One-Year Correlation	--	-5.58%	18.84%	11.91%
(8) CLLAS Investments	1,812,860	8,843,924	5,991,848	16,648,632
(9) Proportion (%)	10.89%	53.12%	35.99%	100.00%

(10) Selected Default Rate Distribution

Selected probability of default  
on at least one investment

**0.50%**  
1/200

Default on accounts receivable

Average  
Maximum

**0.50%**  
**2.00%**

Probability	Cumulative Probability	Default Rate
99.5000%	99.5000%	0%
0.2502%	99.7502%	10%
0.1251%	99.8754%	20%
0.0626%	99.9379%	30%
0.0313%	99.9692%	40%
0.0156%	99.9848%	50%
0.0078%	99.9927%	60%
0.0039%	99.9966%	70%
0.0020%	99.9985%	80%
0.0010%	99.9995%	90%
0.0005%	100.0000%	100%
Average Default Rate		0.0995%

Notes

(1) From Standard and Poor's 2014 Annual Global Corporate Default Study and Rating Transitions, Table 3  
<[http://www.nact.org/resources/2014\\_SP\\_Global\\_Corporate\\_Default\\_Study.pdf](http://www.nact.org/resources/2014_SP_Global_Corporate_Default_Study.pdf)>. Accessed October 8, 2015.

(2) = (1), weighted according to (9)

(8) From Exhibit 7A

(9) = (8) / [(8) Total]

(10) Selected based on actuarial judgment; 0% default rate with probability of 1/200 years; probability of 10% to 100% of investments defaulting with geometrically decreasing probability of 50%.

**Section 2**  
**Exhibit 7F**

**Canadian Lawyers Liability Assurance Society**  
**Selection of Investment Assumptions**  
**Recovery Rate**

	(1a)	(1b)	(1c)	(1d)	(1e)
		U.S. Average Recovery by Debt Class (in %)			
Year	No. of exits	First-Lien	Second-Lien	Unsecured	Subordinated
2007	1%	100%	100%	0%	0%
2008	5%	86%	50%	18%	8%
2009	35%	77%	22%	28%	17%
2010	48%	87%	27%	53%	13%
2011	12%	89%	27%	17%	0%
2012	4%	93%	100%	13%	0%
(2) Simple Average		89%	54%	22%	6%
(3) Standard Deviation		8%	37%	18%	8%
(4) Minimum		77%	22%	0%	0%
(5) Maximum		100%	100%	53%	17%

**(6) Selected Recovery Rate** **70%**

**Notes**

(1) From Standard & Poor's U.S. Recovery Rating Performance: A Five-Year Study (2013), Table 8

(6) Selected based on actuarial judgment

**Section 2  
Exhibit 8A**

**Canadian Lawyers Liability Assurance Society  
Selection of Reinsurance Rate Change Assumptions**

(1) Range of Reinsurance Rate Change	(2) Probability	(3) Average in Range
-10% to -5%	5.00%	-7.5%
-5% to 0%	15.00%	-2.5%
0%	40.00%	0.0%
0% to 5%	20.00%	2.5%
5% to 10%	10.00%	7.5%
10% to 15%	5.00%	12.5%
15% to 20%	2.50%	17.5%
20% to 25%	1.25%	22.5%
25% to 30%	0.63%	27.5%
30% to 35%	0.31%	32.5%
35% to 40%	0.16%	37.5%
40% to 45%	0.08%	42.5%
45% to 50%	0.08%	47.5%
Total	100.00%	2.2%

(4) 2015/2016 Reinsurance Premium

**10,024,473**

(5a) Minimum reinsurance rate change for the next five years

**-25%**

(5b) Maximum reinsurance rate change for the next five years

**75%**

**Notes**

(1) to (3) Selected distribution based on judgment

(4) Provided by CLLAS

(5) Selected based on judgment

**Section 2**  
**Exhibit 8B**

**Canadian Lawyers Liability Assurance Society**  
**Selection of Reinsurance Default Assumptions**  
**(Proportional Reinsurance Excluding Colchester)**

Reinsurance Group*	Most Important Reinsurers with the Largest Liability as at June 30, 2015 (Proportional Reinsurance)	(1) Proportion of Current Liability	(2) Expected Proportion of Future Liability	(3) Selected Proportion of Liability	(4) Status in Canada	(5a) A.M. Best Financial Strength Rating (FSR)	(5b) A.M. Best Issuer Credit Rating (ICR)	(6) Selected Probability of Default/Dispute
1	Underwriters at Lloyds	61.7%	64.9%	60.0%	Registered Insurer	A	a+	0.540%
2	Scor Re.	5.6%	--	6.0%	Registered Insurer	A	a+	0.540%
3	Aspen Re	5.5%	--	6.0%	Registered Insurer	A	a	0.700%
4	Transatlantic Reinsurance Company (Canada)	5.0%	--	5.0%	Registered Insurer	A	a+	0.540%
5	Others	22.2%	35.1%	23.0%	Registered and Unregistered			0.550%
Total		100%	100%	100%				
6	Colchester							
Average of Groups 1 to 4								0.551%
	Registered Reinsurers	82.3%						
	Unregistered Reinsurers (excluding colchester)	1.7%						
	Colchester	16.0%						
		100.0%						

**(7) Selected Default/Dispute Rate Correlation Between Reinsurers**

**15%**

**(8) Selected Default/Dispute Rate for Replacement Reinsurers in Event of Default**

**0.550%**

**(9) Selected Recovery Rate**

**20%**

**Notes**

\* Five groups of reinsurers are used for probability of default/dispute modeling.  
It is assumed that Colchester's probability of default/dispute is 0%.

(1) Based on Liability as at June 30, 2015

(2) Based on Calendar Year Premium

(3) Based on Judgment

(5) From A.M. Best as at August 25, 2015

(6) Based on A.M. Best's Securitization of Reinsurance Recoverables (June 16, 2011), Exhibits 4 and 5

Group 5: We assume a Probability of Default/Dispute equals to Row (8)

Colchester: We assume a 0% Probability of Default/Dispute

(7) Based on A.M. Best's Securitization of Reinsurance Recoverables (June 16, 2011), Exhibit 6 and Actuarial Judgment.

(8) Selected based on actuarial judgment

(9) Selected based on actuarial judgment

**Section 2**  
**Exhibit 9**

**Canadian Lawyers Liability Assurance Society**  
**Selection of Operational Risk Assumptions**

<b>(1) Industry Distribution by Loss Range</b> (Events in Excess of €20,000 Only)	(1a)	(1b)	(1c)	(1d) Selected Average Loss in Range
	Frequency in Loss Range			
Range	2013	2008 to 2012	2008-2013	
€ 20,000 to € 50,000	58.8%	52.8%	53.8%	€ 35,000
€ 50,000 to € 100,000	21.3%	20.8%	20.9%	€ 75,000
€ 100,000 to € 500,000	15.9%	20.0%	19.3%	€ 300,000
€ 500,000 to € 1,000,000	1.9%	2.8%	2.7%	€ 750,000
€ 1,000,000 to € 5,000,000	1.6%	2.6%	2.4%	€ 3,000,000
€ 5,000,000 to € 10,000,000	0.2%	0.5%	0.5%	€ 7,500,000
€ 10,000,000 and over	0.3%	0.5%	0.5%	€ 77,000,000
Total	100.0%	100.0%	100.0%	€ 578,401

**(2) Selected CLLAS Distribution by Loss Range (as a % of Gross Premium)**

(2a) Selected CLLAS Average Loss as a % of Gross Premium	<b>0.3%</b>		(2b)	(2c)
			Selected Frequency in Loss Range	Selected Average Loss in Range
Range				
0.02% to 0.06%			50.00%	0.04%
0.06% to 0.11%			25.00%	0.09%
0.11% to 0.57%			15.00%	0.34%
0.57% to 1.14%			7.00%	0.86%
1.14% to 5.71%			2.75%	3.42%
5.71% to 11.41%			0.25%	8.56%
11.41% and over			0.00%	11.41%
Total			100.0%	0.3%

**(3) Industry Average Total Loss Cost as a % of Gross Income (2008-2013)** 2.69%

**(4) Selected CLLAS Total Loss Cost as a % of Gross Premium**

	(4a)	(4b)	(4c)	(4d)	(4e)
Frequency of Loss Events by Event Type	2013	2008 to 2012	Indicated 2008 to 2013	Adjustment Factor	Selected % of Total
Internal fraud	2.9%	2.1%	2.2%	1.000	2.24%
External fraud	29.3%	28.8%	28.9%	0.150	4.33%
Employment practices and workplace safety	9.6%	19.5%	17.9%	0.000	0.00%
Clients, products and business practices	19.4%	18.9%	19.0%	0.250	4.75%
Disasters and public safety	1.4%	1.3%	1.3%	1.000	1.31%
Technology and infrastructure failures	2.0%	1.3%	1.4%	1.000	1.41%
Executing, delivery and process management	35.4%	28.1%	29.3%	0.250	7.32%
Total	100.0%	100.0%	100.0%		21.36%

(4f) Indicated CLLAS Total Loss Cost as a % of Gross Premium 0.57%

**(4g) Selected CLLAS Total Loss Cost as a % of Gross Premium** **0.50%**

**(5) Selected CLLAS Average Number of Events** **1.67**

**Notes**

(1a) and (1b) From 2014 ORX Report on Operational Risk Loss Data report

(1c) = 1/6 x (1a) + 5/6 x (1b)

(1d) Middle of range; range and average loss size for range €10,000,000 was selected based on actuarial judgment to arrive close to the average loss of €578,564.

(2a) Selected based on actuarial judgment

(2b) Selected based on (1c)

(2c) Ranges and average values normalized based on (2a)

(3) From 2014 ORX Report on Operational Risk Loss Data.

(4a) and (4b) From 2014 ORX Report on Operational Risk Loss Data

(4c) = 1/6 x (4a) + 5/6 x (4b)

(4d) Selected based on actuarial judgment; external fraud frequency reduced to as data reflects a high proportion of external fraud events from retail banking; the loss frequency for other categories was reduced to reflect the nature and complexity of the Reciprocal's operations.

(4e) = (4c) x (4d)

(4f) = (3) x (4e)

(4g) Selected based on actuarial judgment

(5) = (4f) / (2a)

---

## SECTION 3: CLLAS REINSURANCE ARRANGEMENTS

---

### Proportional Basis

Fiscal Period	Layer (in million \$)	Retained Portion	Portion Reinsured with:	
			Registered Companies	Unregistered Companies
7/1987 - 6/1988	\$4.4 xs \$0.6	50.00%	0.00%	50.00%
	\$5.0 xs \$5.0	8.00%	78.16%	13.84%
	\$15.0 xs \$10.0	16.00%	53.50%	30.50%
7/1988 - 6/1989	\$4.0 xs \$1.0	50.00%	0.00%	50.00%
	\$5.0 xs \$5.0	8.00%	74.90%	17.10%
	\$15.0 xs \$10.0	17.33%	54.38%	28.29%
7/1989 - 3/1990	\$4.0 xs \$1.0	50.00%	0.00%	50.00%
	\$5.0 xs \$5.0	8.00%	75.87%	16.13%
	\$15.0 xs \$10.0	17.33%	62.51%	20.16%
4/1990 - 6/1990	\$4.0 xs \$1.0	50.00%	27.50%	22.50%
	\$5.0 xs \$5.0	8.00%	75.87%	16.13%
	\$15.0 xs \$10.0	17.33%	68.13%	14.54%
7/1990 - 6/1991	\$4.0 xs \$1.0	50.00%	50.00%	0.00%
	\$5.0 xs \$5.0	8.00%	81.10%	10.90%
	\$15.0 xs \$10.0	17.33%	74.49%	8.18%
	\$25.0 xs \$50.0	0.00%	79.55%	20.45%
7/1991 - 6/1992	\$4.0 xs \$1.0	50.00%	50.00%	0.00%
	\$7.5 xs \$5.0	20.00%	71.50%	8.50%
	\$12.5 xs \$12.5	18.00%	72.52%	9.48%
	\$10.0 xs \$25.0	12.50%	87.50%	0.00%
	\$25.0 xs \$50.0	0.00%	79.75%	20.25%
7/1992 - 6/1993	\$4.0 xs \$1.0	50.00%	50.00%	0.00%
	\$7.5 xs \$5.0	20.00%	71.60%	8.40%
	\$12.5 xs \$12.5	18.00%	75.34%	6.66%
	\$10.0 xs \$25.0	12.50%	87.50%	0.00%
	\$25.0 xs \$50.0	0.00%	89.81%	10.19%
7/1993 - 6/1994	\$4.0 xs \$1.0	50.00%	50.00%	0.00%
	\$7.5 xs \$5.0	20.00%	73.62%	6.38%
	\$12.5 xs \$12.5	18.00%	75.44%	6.56%
	\$10.0 xs \$25.0	12.50%	87.50%	0.00%
	\$25.0 xs \$50.0	0.00%	86.41%	13.59%



---

## SECTION 3: CLLAS REINSURANCE ARRANGEMENTS

---

### Proportional Basis (Continued)

Fiscal Period	Layer (in million \$)	Retained Portion	Portion Reinsured with:	
			Registered Companies	Unregistered Companies
7/1994 - 6/1995	\$4.0 xs \$1.0	50.00%	44.58%	5.42%
	\$7.5 xs \$5.0	20.00%	74.93%	5.07%
	\$12.5 xs \$12.5	18.00%	76.30%	5.70%
	\$10.0 xs \$25.0	12.50%	87.50%	0.00%
	\$25.0 xs \$50.0	0.00%	85.48%	14.52%
7/1995 - 6/1996	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4.0 xs \$1.0	50.00%	42.35%	7.65%
	\$7.5 xs \$5.0	20.00%	75.21%	4.79%
	\$12.5 xs \$12.5	18.00%	77.41%	4.59%
	\$10.0 xs \$25.0	12.50%	81.80%	5.70%
	\$25.0 xs \$50.0	0.00%	88.12%	11.88%
7/1996 - 6/1997	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4.0 xs \$1.0	50.00%	42.94%	7.06%
	\$7.5 xs \$5.0	20.00%	75.22%	4.78%
	\$12.5 xs \$12.5	18.00%	77.97%	4.03%
	\$10.0 xs \$25.0	12.50%	81.80%	5.70%
	\$25.0 xs \$50.0	0.00%	87.74%	12.26%
7/1997 - 6/1998	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4.0 xs \$1.0	50.00%	42.94%	7.06%
	\$7.5 xs \$5.0	20.00%	74.34%	5.66%
	\$12.5 xs \$12.5	18.00%	77.97%	4.03%
	\$10.0 xs \$25.0	12.50%	79.03%	8.47%
	\$25.0 xs \$50.0	0.00%	87.17%	12.83%
	\$15.0 xs \$120.0	0.00%	89.02%	10.98%
7/1998 - 6/1999	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	50.00%	42.63%	7.37%
	\$7.5 xs \$5.0	20.00%	74.04%	5.96%
	\$12.5 xs \$12.5	18.00%	77.93%	4.07%
	\$10 xs \$25	12.50%	79.03%	8.47%
	\$30 xs \$50	0.00%	87.17%	12.83%
	\$20 xs \$130	0.00%	89.02%	10.98%

---

## SECTION 3: CLLAS REINSURANCE ARRANGEMENTS

---

### Proportional Basis (Continued)

Fiscal Period	Layer (in million \$)	Retained Portion	Portion Reinsured with:	
			Registered Companies	Unregistered Companies
7/1999 - 6/2000	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	50.00%	46.80%	3.20%
	\$7.5 xs \$5.0	20.00%	75.98%	4.02%
	\$12.5 xs \$12.5	18.00%	77.61%	4.39%
	\$10 xs \$25	12.50%	79.12%	8.38%
	\$30 xs \$50	0.00%	86.00%	14.00%
	\$20 xs \$130	0.00%	88.16%	11.84%
7/2000 - 6/2001	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	50.00%	46.80%	3.20%
	\$7.5 xs \$5.0	20.00%	75.98%	4.02%
	\$12.5 xs \$12.5	18.00%	77.61%	4.39%
	\$10 xs \$25	12.50%	79.12%	8.38%
	\$30 xs \$50	0.00%	86.00%	14.00%
	\$20 xs \$140	0.00%	88.16%	11.84%
7/2001 - 6/2002	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	50.00%	46.80%	3.20%
	\$7.5 xs \$5.0	20.00%	80.00%	0.00%
	\$12.5 xs \$12.5	18.00%	78.97%	3.03%
	\$10 xs \$25	12.50%	79.12%	8.38%
	\$30 xs \$50	0.00%	86.00%	14.00%
	\$20 xs \$140	0.00%	88.16%	11.84%
7/2002 - 6/2003	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	20.00%	80.00%	0.00%
	\$12.5 xs \$12.5	18.00%	82.00%	0.00%
	\$10 xs \$25	12.50%	63.42%	24.08%
	\$30 xs \$50	0.00%	76.46%	23.54%
	\$20 xs \$140	0.00%	18.23%	81.77%

---

## SECTION 3: CLLAS REINSURANCE ARRANGEMENTS

---

### Proportional Basis (Continued)

Fiscal Period	Layer (in million \$)	Retained Portion	Portion Reinsured with:	
			Registered Companies	Unregistered Companies
7/2003 - 6/2004	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	20.00%	80.00%	0.00%
	\$12.5 xs \$12.5	18.00%	82.00%	0.00%
	\$10 xs \$25	12.50%	57.50%	30.00%
	\$30 xs \$50	0.00%	73.85%	26.15%
	\$20 xs \$140	0.00%	9.66%	90.34%
7/2004 - 6/2005	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	20.00%	75.00%	5.00%
	\$12.5 xs \$12.5	18.00%	82.00%	0.00%
	\$10 xs \$25	12.50%	63.05%	24.45%
	\$30 xs \$50	0.00%	74.86%	25.14%
	\$20 xs \$140	0.00%	9.66%	90.34%
7/2005 - 6/2006	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	20.00%	75.00%	5.00%
	\$12.5 xs \$12.5	18.00%	80.00%	2.00%
	\$10 xs \$25	12.50%	87.50%	0.00%
	\$30 xs \$50	0.00%	100.00%	0.00%
	\$20 xs \$140	0.00%	36.00%	64.00%
7/2006 - 6/2007	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	20.00%	75.00%	5.00%
	\$12.5 xs \$12.5	18.00%	77.00%	5.00%
	\$10 xs \$25	12.50%	87.50%	0.00%
	\$30 xs \$50	0.00%	100.00%	0.00%
	\$20 xs \$140	0.00%	36.00%	64.00%
	\$20 xs \$160	0.00%	100.00%	0.00%

---

## SECTION 3: CLLAS REINSURANCE ARRANGEMENTS

---

### Proportional Basis (Continued)

Fiscal Period	Layer (in million \$)	Retained Portion	Portion Reinsured with:	
			Registered Companies	Unregistered Companies
7/2007 - 6/2008	\$0.75 xs \$0.25	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	30.00%	65.00%	5.00%
	\$12.5 xs \$12.5	18.00%	77.00%	5.00%
	\$10 xs \$25	12.50%	87.50%	0.00%
	\$30 xs \$50	0.00%	100.00%	0.00%
	\$20 xs \$140	0.00%	36.00%	64.00%
	\$20 xs \$160	0.00%	100.00%	0.00%
7/2008 - 6/2009	\$0.975 xs \$0.025	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	35.00%	60.00%	5.00%
	\$12.5 xs \$12.5	24.00%	71.00%	5.00%
	\$10 xs \$25	12.50%	87.50%	0.00%
	\$30 xs \$50	0.00%	100.00%	0.00%
	\$20 xs \$140	0.00%	36.00%	64.00%
	\$30 xs \$160	0.00%	100.00%	0.00%
7/2009 - 6/2010	\$0.975 xs \$0.025	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	45.00%	52.00%	3.00%
	\$12.5 xs \$12.5	28.00%	68.00%	4.00%
	\$10 xs \$25	15.00%	85.00%	0.00%
	\$30 xs \$50	0.00%	100.00%	0.00%
	\$20 xs \$140	0.00%	36.00%	64.00%
	\$30 xs \$160	0.00%	100.00%	0.00%
7/2010 - 6/2011	\$0.975 xs \$0.025	100.00%	0.00%	0.00%
	\$4 xs \$1.0	100.00%	0.00%	0.00%
	\$7.5 xs \$5.0	50.00%	47.50%	2.50%
	\$12.5 xs \$12.5	30.00%	67.50%	2.50%
	\$10 xs \$25	20.00%	80.00%	0.00%
	\$30 xs \$50	0.00%	100.00%	0.00%
	\$20 xs \$140	0.00%	36.00%	64.00%
	\$40 xs \$160	0.00%	100.00%	0.00%

---

## SECTION 3: CLLAS REINSURANCE ARRANGEMENTS

---

### Proportional Basis (Continued)

Fiscal Period	Layer (in million \$)	Retained Portion	Portion Reinsured with:	
			Registered Companies	Unregistered Companies
7/2011 - 6/2012	\$0.975 xs \$0.025	100.00%	0.00%	0.00%
	\$49 xs \$1.0	25.00%	50.00%	25.00%
	\$30 xs min\$65	0.00%	100.00%	0.00%
	\$40/\$60 xs \$160	0.00%	76.00%	24.00%
7/2012 - 6/2013	\$0.975 xs \$0.025	100.00%	0.00%	0.00%
	\$49 xs \$1.0	0.00%	65.00%	35.00%
	\$30 xs min\$65	0.00%	100.00%	0.00%
	\$40/\$60 xs \$160	0.00%	76.00%	24.00%
7/2013 - 6/2014	\$0.975 xs \$0.025	100.00%	0.00%	0.00%
	\$49 xs \$1.0	0.00%	70.00%	30.00%
	\$30 xs min\$65	0.00%	88.00%	12.00%
	\$40/\$60 xs \$160	0.00%	93.00%	7.00%
7/2014 - 6/2015	\$0.975 xs \$0.025	100.00%	0.00%	0.00%
	\$49 xs \$1.0	0.00%	80.00%	20.00%
	\$30 xs min\$65	0.00%	88.00%	12.00%
	\$40/\$60 xs \$160	0.00%	93.00%	7.00%
7/2015 - 6/2016	\$0.975 xs \$0.025	100.00%	0.00%	0.00%
	\$49 xs \$1.0	0.00%	80.00%	20.00%
	\$30 xs min\$65	0.00%	100.00%	0.00%
	\$40/\$60 xs \$160	0.00%	100.00%	0.00%

---

## SECTION 3: CLLAS REINSURANCE ARRANGEMENTS

---

### Aggregate Basis Ceded to Unregistered Company

- |                 |   |
|-----------------|---|
| 7/1989 - 6/1990 | a) Aggregate of \$750,000 of CLLAS retention after reflection of proportional reinsurance, and<br>b) \$4,250,000 excess \$15,000,000 of CLLAS retention after reflection of proportional reinsurance.                             |
| 7/1990 - 6/1991 | a) Aggregate of \$900,000 of CLLAS retention after reflection of proportional reinsurance, and<br>b) \$4,250,000 excess of \$15,000,000 of CLLAS retention after reflection of proportional reinsurance.                          |
| 7/1991 - 6/1992 | a) Aggregate of \$1,000,000 of CLLAS retention after reflection of proportional reinsurance, and<br>b) \$25,000,000 excess of \$12,000,000 of CLLAS retention after reflection of proportional reinsurance.                       |
| 7/1992 - 6/1993 | a) Aggregate of \$1,000,000 of CLLAS retention after reflection of proportional reinsurance, and<br>b) \$25,000,000 excess of \$12,000,000 of CLLAS retention after reflection of proportional reinsurance.                       |
| 7/1993 - 6/1994 | a) Aggregate of \$2,750,000 excess of \$250,000 of CLLAS retention after reflection of proportional reinsurance, and<br>b) \$14,000,000 excess of \$14,000,000 of CLLAS retention after reflection of proportional reinsurance.   |
| 7/1994 - 6/1995 | a) Aggregate of \$2,750,000 excess of \$250,000 of CLLAS retention after reflection of proportional reinsurance, and<br>b) \$14,000,000 excess of \$14,000,000 of CLLAS retention after reflection of proportional reinsurance.   |
| 7/1995 - 6/1996 | a) Aggregate of \$4,700,000 excess of \$3,300,000 of CLLAS retention after reflection of proportional reinsurance, and<br>b) \$14,000,000 excess of \$14,000,000 of CLLAS retention after reflection of proportional reinsurance. |
| 7/1996 - 6/1997 | a) Aggregate of \$4,700,000 excess of \$3,300,000 of CLLAS retention after reflection of proportional reinsurance, and<br>b) \$14,000,000 excess of \$14,000,000 of CLLAS retention after reflection of proportional reinsurance. |

---

## SECTION 3: CLLAS REINSURANCE ARRANGEMENTS

---

### Aggregate Basis Ceded to Unregistered Company (Continued)

- |                 |   |
|-----------------|---|
| 7/1998 - 6/1999 | a) Aggregate of \$4,700,000 excess of \$3,300,000 of CLLAS retention after reflection of proportional reinsurance, and<br>b) \$14,000,000 excess of \$14,000,000 of CLLAS retention after reflection of proportional reinsurance. |
| 7/1999 – 6/2000 | a) Aggregate of \$4,700,000 excess of \$3,300,000 of CLLAS retention after reflection of proportional reinsurance, and<br>b) \$14,000,000 excess of \$14,000,000 of CLLAS retention after reflection of proportional reinsurance  |
| 7/2000 – 6/2001 | a) Aggregate of \$4,700,000 excess of \$3,300,000 of CLLAS retention after reflection of proportional reinsurance, and<br>b) \$14,000,000 excess of \$14,000,000 of CLLAS retention after reflection of proportional reinsurance  |
| 7/2001 – 6/2002 | a) Aggregate of \$4,700,000 excess of \$3,300,000 of CLLAS retention after reflection of proportional reinsurance, and<br>b) \$14,000,000 excess of \$14,000,000 of CLLAS retention after reflection of proportional reinsurance  |
| 7/2002 – 6/2003 | a) Aggregate of \$7,500,000 excess of \$5,500,000 of CLLAS retention after reflection of proportional reinsurance, and<br>b) \$20,000,000 excess of \$20,000,000 of CLLAS retention after reflection of proportional reinsurance  |
| 7/2003 – 6/2004 | a) Aggregate of \$7,500,000 excess of \$5,500,000 of CLLAS retention after reflection of proportional reinsurance, and<br>b) \$20,000,000 excess of \$20,000,000 of CLLAS retention after reflection of proportional reinsurance  |
| 7/2004 – 6/2005 | a) Aggregate of \$7,500,000 excess of \$5,500,000 of CLLAS retention after reflection of proportional reinsurance, and<br>b) \$20,000,000 excess of \$20,000,000 of CLLAS retention after reflection of proportional reinsurance  |
| 7/2005 – 6/2006 | a) Aggregate of \$9,500,000 excess of \$5,500,000 of CLLAS retention after reflection of proportional reinsurance, and<br>b) \$20,000,000 excess of \$20,000,000 of CLLAS retention after reflection of proportional reinsurance  |

---

## SECTION 3: CLLAS REINSURANCE ARRANGEMENTS

---

### Aggregate Basis Ceded to Unregistered Company (Continued)

7/2006 – 6/2007	a) Aggregate of \$5,000,000 excess of \$15,000,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$20,000,000 excess of \$20,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2007 – 6/2008	a) Aggregate of \$5,000,000 excess of \$15,000,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$20,000,000 excess of \$20,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2008 – 6/2009	a) Aggregate of \$5,000,000 excess of \$15,000,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$20,000,000 excess of \$20,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2009 – 6/2010	a) Aggregate of \$10,000,000 excess of \$15,000,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$15,000,000 excess of \$25,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2010 – 6/2011	a) Aggregate of \$10,000,000 excess of \$15,000,000 of CLLAS retention after reflection of proportional reinsurance, and b) \$15,000,000 excess of \$25,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2011 – 6/2012	Aggregate of \$22,500,000 excess of \$17,500,000 of CLLAS/Colchester retention after reflection of reinsurance
7/2012 – 6/2013	Aggregate of \$10,000,000 excess of \$5,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2013 – 6/2014	Aggregate of \$10,000,000 excess of \$5,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2014 – 6/2015	Aggregate of \$10,000,000 excess of \$5,000,000 of CLLAS retention after reflection of proportional reinsurance
7/2015 – 6/2016	Aggregate of \$10,000,000 excess of \$5,000,000 of CLLAS retention after reflection of proportional reinsurance



**WALKER SORENSEN LLP**  
BARRISTERS & SOLICITORS

**Memorandum**

Walker Sorensen LLP  
Barristers & Solicitors  
Suite 202  
1451 Royal York Road  
Toronto ON M9P 3B2  
Canada  
Telephone: 416-249-3929  
Facsimile: 416 249-4060

**John L. Walker**  
E-mail: jwalker@wslaw.ca

To: Nick Leblovic and Julia Holland, CLLAS  
From: John L. Walker  
Date: November 5, 2015  
Re: Future of CLLAS Online Professional Liability Risk Management Course

The CLLAS Online Professional Liability Risk Management Course was developed in 2009 and 2010, and a number of firms started to use it in 2010 and 2011. As it has been five years since the course was created, I thought it would be appropriate to take this opportunity to discuss the future of the course.

1. The Objectives of the Course

As you know, the course was developed to enhance the risk management of the firms and as tangible evidence to CLLAS's reinsurers and the firms' excess insurers that the firms are working to improve their risk management.

2. The Development of the Course

The course was developed as an online course so that delivering the course would not require live instructors to make multiple presentations of the same material to many groups of lawyers in potentially many offices. The content of the course, which takes 2 ½ hours to complete online, would take approximately 1 ½ days to present in a live seminar format.

With the help of several of the firm's professional development directors, we developed the content for the Risk Management Course. We then worked with Bluedrop Performance Learning ("Bluedrop") to transform the content into as interesting an e-learning course as possible, within CLLAS's budget. The cost for the work performed by Bluedrop, including the production and narration of a French version of the course, was approximately \$155,000. Our fees for developing the content for the course, reviewing Bluedrop's work, assisting firms to customize the course and set it up for use by their lawyers, and convincing the Law Society of Upper Canada to allow CLE credit for the course, were approximately \$73,000. While this is a lot of money, it amounts to approximately \$19,000 / firm. The alternative of presenting live seminars over and over again would have been much more costly.

We made the course customizable by each firm so that it would be more relevant to the lawyers at each firm. Customizations included the firm's risk management message, the firm's risk management organization chart and links to the firm's risk management policies.

We also included links to the law society codes of conduct in British Columbia, Alberta, Ontario, Quebec and New York and links to relevant documents (e.g. the CBA Report on Conflicts and significant conflicts cases) so that lawyers could refer to these while taking the course, or later if they wanted to look up and read these materials.

We worked with lawyers at McCarthys, Davies and Oslers to convince the Law Society of Upper Canada to change its CLE requirements to permit credit for on-line courses and to grant credit of 2.25 hours of professionalism for the course. Other Canadian law societies and New York allow CLE credit for the course.

Bluedrop arranged for an affiliate, CoursePark, to host the course on its learning centre website. CoursePark currently charges \$15,000/annum for up to 1,200 users of the course. Additional users can be added in 500 user blocks for a yearly charge of \$5,000 per block. So far, CLLAS has not exceeded the 1,200 user threshold. This contract is up for renewal on April 15, 2016.

### 3. Usage of the Course

Despite what we believe is an excellent product, and the fact that there is CLE credit for the course, only four CLLAS firms are using the English version course (Oslers, McMillan, Torys and McCarthys). BLG and Cassels Brock developed customized versions of the course, but are not using them. According to Bluedrop, no firms are using the French version of the course.

The reasons for firms not adopting the course vary and include the following:

- (a) some firms simply do not like the course;
- (b) some firms are concerned that their lawyers would not sit through the course because it is too basic or does not cover enough substantive law;
- (c) some firms are concerned that the course includes material on risk management practices that the firm has not adopted;
- (d) some firms appear not to have the time or will to provide the minimal customizations that are required to set up the course for their firm;
- (e) some firms want to make so many changes to the course that the cost is prohibitive; and

- (f) some firms do not appear to have the will or ability to set up their own IT systems to allow their lawyers to access the course through CoursePark.

My observation is that the CLLAS Advisory Board members of the firms that have not adopted the course have been unsuccessful in promoting the course at their firms. They have had to pass on responsibility for adopting the course to their professional development staff who have, for the reasons stated above, little or no interest in the course and who either have no knowledge of, or little sympathy for, the rationale for the course, which is to improve risk management by the firms and to demonstrate to CLLAS and its reinsurers and the firms' excess insurers that the CLLAS firms take risk management very seriously.

#### 4. Maintaining and Upgrading the Course

Nevertheless, I still believe that the course has value as a risk management tool. McCarthy's has told me that they are keen to keep using the course. They recently asked several junior associates to review the course and they reported that the course is good, the interactive scenarios are good (particularly the cases) and the emphasis of knowing what to do when the client walks in the door is good.

McCarthy's associates also noted that a number of links to the websites of the various law societies are no longer working and need to be up-dated. McCarthy's professional development director has decided to stop promoting the course to McCarthy's lawyers until these links are fixed. Bluedrop has advised me that their fees for fixing the nine dead links would be \$1,500 per firm (the links must be fixed separately for each firm's course, because each firm's course is customized). CLLAS has paid for such up-dates in the past because they relate to the course generally and not to firm specific customizations.

In addition, McCarthy's has suggested adding more information on insider trading, a reference in the Conflicts Module to the *McKercher* case, a discussion of CASL and a reference to the new online CBA Mental Health Module to the course. These changes would require the expenditure of additional funds by CLLAS.

#### 5. The Future of the Course

The key questions with respect to the future of the course are:

- (a) whether CLLAS is willing to continue to support the maintenance and upgrading of the course;
- (b) with such a low penetration rate, whether the course is achieving CLLAS's objectives of enhancing the risk management of the firms and demonstrating to reinsurers and insurers that the firms take risk management very seriously; and

(c) whether there is a way to get more of the firms to use the course.

If CLLAS is not interested in continuing to support the course, Walker Sorensen LLP might be interested in taking over the course and arranging to have it up-dated and hosted for those CLLAS and non-CLLAS firms that want to use it. We would be responsible for making arrangements with, and paying, suppliers such as Bluedrop, and would charge the firms a fee for providing them access to the course. We would need to have commitments from a sufficient number of firms to make this economically viable for us.

McCarthys has indicated that, if CLLAS decides not to continue supporting the course, they would like to be able to continue to use the course and deal with us or directly with Bluedrop. Also, Miller Thompson recently approached me to see if they could use the course. Previously, Heenan Blaikie and Gowlings were interested in using the course. Accordingly, there may be a market for the course outside of the CLLAS firms.

Please let us know how CLLAS would like to proceed with respect to the course.

Yours very truly,



John L. Walker

JLW/mh

## Norma Ibbetson

---

**From:** Leblovic, Nicholas <NLeblovic@dwvpv.com>  
**Sent:** Monday, November 23, 2015 2:47 PM  
**To:** Norma Ibbetson  
**Cc:** Joe Tontini; Patrick Mahoney; Ryan Durrell  
**Subject:** CLLAS Professional Liability Risk Management Course

Hi Norma. Please add the following email from Karen Bell to the material for the agenda item on this matter at the next Advisory Board meeting.

Thanks  
Nick

**From:** Bell, Karen [mailto:kbell@mccarthy.ca]  
**Sent:** November 20, 2015 2:17 PM  
**To:** Leblovic, Nicholas  
**Cc:** 'John L. Walker'; Julia E. Holland (jholland@torys.com); Norma Ibbetson (normaibbetson@axxima.ca); Patrick Mahoney (patrickmahoney@axxima.ca); Joseph D. Tontini (joetontini@axxima.ca); Scott, William G.  
**Subject:** RE: CLLAS Professional Liability risk Management Course

Hello Nick,  
Thank you for taking the time to respond.  
I would like to address a couple of points you raised.

On the matter of access, I had understood that CLLAS member firms were invited to put the program (both languages) on internal platforms rather than accessing them from the CoursePark site. While I don't have the particulars of which firms did so, I believe one or two did. At this point, that is all we are asking for – to put it on our site.

As for updating the content, I am trying to think of how we and other firms might do so without the significant cost involved when dealing with Bluedrop. The nature of desired changes are basically twofold - either generalizing or removing certain law society links to avoid the constant need for updates and also adding references to new developments, such as McKerracher in the world of conflicts. No substantive modifications would be done particularly given the amount of work that would entail and the age and rigidity of the current format. We simply want to try to make the most of the significant investment made years ago in this tool.

And, finally, you mention sharing with 'third parties'. I am not clear on what you have in mind but we have no interest in and no intention of ever sharing this outside of our firm.

I hope that my response gives you a better understanding of our request. I will brief Bill so he can speak to this at the next meeting. He is out of the country for the next week.

Regards,  
Karen

The logo for Davies is a red square with the word "DAVIES" in white, uppercase, sans-serif font.

Nicholas Leblovic | Bio

155 Wellington Street West  
Toronto, ON M5V 3J7

T 416.863.5514  
NLeblovic@dwpv.com

DAVIES WARD PHILLIPS & VINEBERG LLP

---

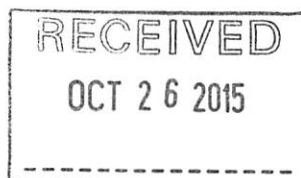
This e-mail may contain confidential information which may be protected by legal privilege. If you are not the intended recipient, please immediately notify us by reply e-mail or by telephone (collect if necessary), delete this e-mail and destroy any copies.

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 23, 2015

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.

It was an unsettled quarter in the financial markets and bond prices ended the period mixed. The short and long term bond indices lost 0.7% and 1.1% respectively, while the mid bond index was practically unchanged.

Reflecting these shifts, the Long Term Investment Fund recorded a capital decline of 0.3%. However, income returns more than offset this decline.

Activity during the quarter centred on the roll-over of maturities in the Short Term Investment Fund.

Please do not hesitate to call if you have any questions or comments.

With best regards,

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Robert Bell".

RWB/mab  
Enclosures

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 23, 2015

*Duplicate*

In account with

**Canadian Lawyers Liability Assurance Society**  
**- Short Term Investment Fund**

---

Valuation of Short Term Investment Fund  
at September 30, 2015

\$11,879,354

Investment Counsel Fee for the period  
July 1 to September 30, 2015  
at .025% (1/4 of .10% per annum)

\$2,969.84

Harmonized Sales Tax (HST) at 13%

386.08

\$3,355.92

Please return this account when  
making payment so that it may be  
receipted and sent back to you.

HST Registration No. R103546115



**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 23, 2015

*Duplicate*

In account with

**Canadian Lawyers Liability Assurance Society**  
**- Long Term Investment Fund**

---

Valuation of Long Term Investment Fund at September 30, 2015	\$4,786,686
---	-------------

Investment Counsel Fee for the period July 1 to September 30, 2015 at .0625% (1/4 of .25% per annum)	\$2,991.68
--	------------

Harmonized Sales Tax (HST) at 13%	<u>388.92</u>
-----------------------------------	---------------

	<u><u>\$3,380.60</u></u>
--	--------------------------

Please return this account when  
making payment so that it may be  
receipted and sent back to you.

HST Registration No. R103546115

**CLLAS**  
***CANADIAN LAWYERS LIABILITY***  
***ASSURANCE SOCIETY***

**INVESTMENT REPORT**  
**SEPTEMBER 30, 2015**

**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](mailto:info@mlsinvest.com)



***CLLAS***  
***CANADIAN LAWYERS LIABILITY***  
***ASSURANCE SOCIETY***

**COMMENTARY FOR THE QUARTER ENDING SEPTEMBER 30, 2015**

**Review of Market Yields**

Money market yields moved in a gradual downtrend during the quarter and the three Month T-Bills yield ended the period down 15 basis points. Meanwhile, yields on issues in the 3 to 5 year range were practically unchanged, while longer term yields fell back. The 10-year issue showed the largest drop of 23 basis points.

As a result of these shifts, the yield curve flattened during the third quarter as the yield advantage of 10-year issues over Treasury Bills declined from 110 basis points at June 30 to 102 basis points at the end of September.

	<b>Jan. 1/95</b>	<b>Mar.31/15</b>	<b>Jun. 30/15</b>	<b>Sep. 30/15</b>
3-Month Treasury Bills	6.80%	0.55%	0.58%	0.43%
5-year Canadas	8.99%	0.77%	0.81%	0.81%
10-year Canadas	9.09%	1.36%	1.68%	1.45%

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

There were no transactions in the Long Term Investment Fund during the period.

During the third quarter, the market value of the Long Term Investment Fund holdings declined by \$15,888, which represents a capital decrease of 0.3%.

At September 30, 2015, the average term to maturity of the Long Term Investment Fund stood at 4.2 years.

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

<b><i>Distribution at September 30, 2015</i></b>	<b><i>Valuation</i></b>	<b><i>%</i></b>
Short Term Investment Fund	\$11,879,354	71.3%
Long Term Investment Fund	4,786,686	28.7%
<b>TOTAL COMBINED VALUATION</b>	<b>\$16,666,040</b>	<b>100.0%</b>

## **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, 2015
- 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, 2015

	Since Inception Dec. 17/13	1 Year	Last 3 months
<b>Long Term Investment Fund – Gross of Fees</b>	<b>3.82%</b>	<b>4.29%</b>	<b>0.26%</b>
<b>Long Term Investment Fund – Net of Fees</b>	<b>3.51%</b>	<b>3.99%</b>	<b>0.19%</b>
<b>Benchmark Portfolio **</b>	<b>4.50%</b>	<b>4.48%</b>	<b>0.31%</b>

\*\* 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, 2015, 2015

	Since Inception Oct. 1/08*	Three Years*	Two Years*	One Year	Last 3 Months
<b>Short Term Investment Fund – Gross of Fees</b>	<b>0.81%</b>	<b>0.82%</b>	<b>0.78%</b>	<b>0.66%</b>	<b>0.11%</b>
<b>Short Term Investment Fund – Net of Fees</b>	<b>0.68%</b>	<b>0.72%</b>	<b>0.67%</b>	<b>0.55%</b>	<b>0.08%</b>
<b>Benchmark Portfolio **</b>	<b>0.78%</b>	<b>0.85%</b>	<b>0.80%</b>	<b>0.69%</b>	<b>0.12%</b>

\* 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. 31/14	Mar. 31/15	Jun. 30/15	Sep. 30/15
<b>Bonds, Treasury Bills &amp; Cash</b> Less than 1 year term	100.0%	0.0%	0.0%	0.0%	6.3%
<b>Canadas</b> Greater than 1 year term		25.2%	27.2%	25.7%	25.8%
<b>Provincials</b> Greater than 1 year term		37.9%	34.0%	37.5%	31.2%
<b>Corporates</b> Greater than 1 year term		36.9%	38.8%	36.8%	36.7%
<b>TOTAL PORTFOLIO</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**LONG TERM INVESTMENT FUND**

**DISTRIBUTION OF SECURITIES BY MATURITY**  
 (Based on Market Values)

	Dec. 31/14	Mar. 31/15	Jun. 30/15	Sep.30/15
Under 1 year	0.0%	0.0%	0.0%	6.3%
1 - 3 years	33.4%	34.0%	37.8%	39.0%
3 - 5 years	31.6%	23.8%	29.2%	21.6%
5 - 7 years	19.5%	23.4%	15.8%	15.8%
7 - 10 years	15.5%	18.8%	17.2%	17.3%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Average Maturity (yrs)</b>	<b>4.35</b>	<b>4.39</b>	<b>4.43</b>	<b>4.18</b>
<b>Average Duration</b>	<b>4.02</b>	<b>4.07</b>	<b>4.09</b>	<b>3.85</b>

**SHORT TERM INVESTMENT FUND**

	Dec. 31/14	Mar. 31/15	Jun. 30/15	Sep. 30/15
<b>Short Term</b> <b>Average Duration</b>	<b>.09</b>	<b>.11</b>	<b>0.10</b>	<b>0.11</b>

# CLLAS

## COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT SEPTEMBER 30, 2015

	Investment Limits	Investment Funds	Compliance
<b><i>Short Term Investment Fund</i></b>			
Maximum Term of Any Issue	1 year	0.2 years	Yes
Minimum Percentage of Total Fund (Short & Long)	40% of Total	71.3%	Yes
Minimum Canada & Provincial Percentage	50%	56.2%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1	R1	Yes
<b><i>Long Term Investment Fund</i></b>			
Maximum Term of Any Issue	10 years	9.7 years	Yes
Maximum Percentage of Total Fund (Short & Long)	60% of Total	28.7%	Yes
Minimum Canada Percentage	20%	25.8%	Yes
Maximum Provincial Percentage	40%	37.5%	Yes
Minimum Canada & Provincial Percentage	60%	63.3%	Yes
Minimum Provincial Quality *	A	AA (low)	Yes
Maximum Corporate Percentage	40%	36.7%	Yes
Minimum Corporate Quality *	A	AA	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***  
*From 06-30-15 to 09-30-15*

Portfolio Value on 06-30-15	4,802,574
Accrued Interest	20,147
Contributions	0
Withdrawals	-22,167
Realized Gains	0
Unrealized Gains	-15,888
Interest	22,167
Dividends	0
Change in Accrued Interest	6,103
Portfolio Value on 09-30-15	4,786,686
Accrued Interest	26,250
Average Capital	4,813,975
Total Gain before Fees	12,382
IRR for 0.25 Years	0.26%

## **CLLAS**

### **BOND MARKET COMMENTARY AND FUTURE POLICY**

Global financial markets became increasingly unsettled over the summer months and volatility across the equity, fixed income and commodity markets moved sharply higher. This culminated in a steep selloff in global equity markets in August and for the third quarter the global stock index recorded its steepest decline in four years. Both the Canadian and U.S. stock indices established new year-to-date lows in August, while bond yields approached their lowest levels for the year, as investors sought a safe haven from the financial turmoil. Since then, equity markets have recorded a modest recovery and bond yields have moved moderately higher.

During this period, investor confidence has been buffeted by a variety of domestic and offshore issues that came to the forefront. China has been a significant source of investor anxiety, following a string of disappointing economic data and extreme gyrations in the Chinese stock market. Confusion surrounding the future course of U.S. monetary policy added to investor uncertainty. Despite ongoing improvement in the U.S. economy, the Fed deferred its much anticipated September interest rate hike citing concerns about financial market volatility and global growth prospects, which had the potential to hold back domestic growth and keep inflation below the Fed's target.

Despite the market turbulence and escalating problems among emerging markets, news on the North American economic front has remained positive on balance. In the U.S., recent revisions show growth accelerated to 3.9% in the second quarter. While subsequent data suggests that growth has eased somewhat during the third quarter, U.S. domestic demand continued to show underlying strength. Over the past few months consumer confidence has improved, construction spending remained strong and even the manufacturing index held in expansionary territory, despite the drag from sluggish growth offshore and the strong U.S. dollar. However, recent labour market indicators have sent mixed signals. While initial claims for unemployment insurance have held steady near 40 year lows, the pace of hiring has tapered off over the past two months, although employment growth has remained well above what is required to keep downward pressure on the unemployment rate.

Meanwhile, the Canadian economy, which experienced a mild contraction during the first half of the year, has shown signs of improvement and preliminary data suggests that growth resumed in the third quarter. This has been fuelled by consumer spending, ongoing strength in the service sector and resurgent demand from the U.S. As a result, some forecasters expect third quarter growth will be in the 2% to 3% range, which is well above the 1-1/2% gain forecasted by the Bank of Canada back in July. While measures of manufacturing strength have waned recently, forward looking indicators, including the Business Outlook Survey and consumer confidence, suggest that the economy remains in recovery mode.

Outside of North America, results for the major economies have been mixed. China's economic growth has proved more resilient than expected and reported GDP growth in the first half matched the authorities' 7% target rate before easing to 6.9% in the third quarter. However, developing markets that rely heavily on trade with China have been experiencing a slowdown since early this year and the latest data confirms that China's expansion has lost momentum. The pressure on developing economies has also weighed on Japan, which experienced a slight contraction in the second quarter.

## **CLLAS**

The heightened uncertainty surrounding the outlook for China and the developing markets has triggered downward revisions for global growth and raised concerns that the global expansion may stall. While China's growth rate is slowing in percentage terms, the contribution to global growth remains strong in absolute terms. Furthermore, policy measures taken thus far, which include a devaluation of yuan and new fiscal stimulus, are expected to be supportive of their economy going forward and Chinese authorities still have ample flexibility to add more stimulus if needed. On this front, both the ECB and Bank of Japan have indicated that they will be extending or expanding the quantitative easing programs. Moreover, despite international challenges, the U.S. economy continues to show steady improvement, which provides an important backstop to world growth since it accounts for 25% of global GDP. As a result, the global expansion is expected to persist.

For some time now, investors have faced a particularly challenging environment as growing uncertainty surrounding the offshore economic outlook has triggered wide and rapid fluctuations in global equity markets, which has fuelled volatility in the fixed income markets. Looking ahead, we expect volatility will remain high given the elevated risks to the macroeconomic backdrop and the likelihood that upcoming economic data will remain mixed. As a result, bond prices are also expected to remain unsettled, as investors oscillate between risk-on and risk-off trades.

Over the near term, we believe the economic and monetary backdrop will remain supportive of domestic bond prices. The U.S. Fed's recent decision to defer an increase in rates removed near term uncertainty and the long anticipated first rate hike will likely be delayed until next year as the authorities take more time to evaluate global developments and their impact on the U.S. economy. Similarly, the Bank of Canada is expected to hold its target overnight rate at one-half % for some time yet. While Canada's modest economic rebound in the second half, along with the newly elected Liberal Party's pledge to increase fiscal stimulus has reduced the need for the Bank to cut rates further, the near term prospects for growth and ongoing slack in the economy suggests rates will not be raised anytime soon.

In conclusion, we believe recent developments have again delayed the normalization of interest rates and expect domestic yields will remain in a volatile sideways trading range for the balance of the year. Looking further ahead, we still expect a gradual rebound in global economic growth, led by an improving U.S. economy, will put upward pressure on domestic yields over the medium term. As a result, we believe it is prudent to maintain the Long Term Fund's laddered maturity structure and current duration of 3.9 years and expect volatility will provide an opportunity to expand the Long Term Fund at more favourable yields than presently prevail.

RWB/mab  
October 23, 2015

---

***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**

**Portfolio Holdings at September 30, 2015**

<u>Quantity</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Annual Income</u>
<b>CASH</b>					
	Cash Account			6,407	0
<b>MONEY MARKET ISSUES</b>					
1,110,000	Bank of Nova Scotia BA .48% due October 8, 2015	99.92	99.98	1,109,829	5,324
1,510,000	Canada Treasury Bill .32% due October 8, 2015	99.93	99.99	1,509,838	4,828
1,545,000	Royal Bank BA .56% due October 13, 2015	99.96	99.98	1,544,614	8,648
1,030,000	CIBC BA .507% due October 22, 2015	99.88	99.95	1,029,498	5,216
1,765,000	Canada Treasury Bill .28% due November 5, 2015	99.94	99.96	1,764,294	4,939
1,755,000	Canada Treasury Bill .26% due December 3, 2015	99.93	99.93	1,753,693	4,560
1,645,000	Canada Treasury Bill .30% due December 17, 2015	99.93	99.91	1,643,488	4,932
1,520,000	Toronto Dominion Bank BA .18% due December 18, 2015	99.96	99.85	1,517,693	2,735
				<hr/> 11,872,947	<hr/> 41,181
<b>TOTAL PORTFOLIO</b>				<b>11,879,354</b>	<b>41,181</b>

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*From 07-01-15 To 09-30-15*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
07-02-15	07-02-15	1,640,000	Canada Treasury Bill .47% due September 24, 2015	99.89	1,638,228.80
07-08-15	07-09-15	1,110,000	Bank of Nova Scotia BA .71% due August 7, 2015	99.94	1,109,373.96
07-15-15	07-16-15	1,510,000	Canada Treasury Bill .32% due October 8, 2015	99.93	1,508,888.64
07-24-15	07-27-15	1,030,000	CIBC BA .507% due October 22, 2015	99.88	1,028,756.79
08-06-15	08-07-15	1,110,000	Bank of Nova Scotia BA .48% due October 8, 2015	99.92	1,109,095.35
08-12-15	08-13-15	1,765,000	Canada Treasury Bill .28% due November 5, 2015	99.94	1,763,863.34
08-17-15	08-18-15	1,535,000	FirstBank BA .50% due September 14, 2015	99.96	1,534,432.05
08-26-15	08-27-15	1,755,000	Canada Treasury Bill .26% due December 3, 2015	99.93	1,753,775.01
09-11-15	09-14-15	1,545,000	Royal Bank BA .56% due October 13, 2015	99.96	1,544,312.48
09-21-15	09-22-15	1,520,000	Toronto Dominion Bank BA .18% due December 18, 2015	99.96	1,519,346.40
09-24-15	09-25-15	1,645,000	Canada Treasury Bill .30% due December 17, 2015	99.93	1,643,878.11
					<b>16,153,950.93</b>
<b>SALES</b>					
07-02-15	07-02-15	1,640,000	Canada Treasury Bill .54% due July 2, 2015	100.00	1,640,000.00
07-09-15	07-09-15	1,110,000	Bank of Nova Scotia .70% due July 9, 2015	100.00	1,110,000.00
07-16-15	07-16-15	1,510,000	Canada Treasury Bill .52% due July 16, 2015	100.00	1,510,000.00
07-27-15	07-27-15	1,030,000	CIBC BA 0.730% due July 27, 2015	100.00	1,030,000.00
08-07-15	08-07-15	1,110,000	Bank of Nova Scotia BA .71% due August 7, 2015	100.00	1,110,000.00
08-13-15	08-13-15	1,765,000	Canada Treasury Bill .49% due August 13, 2015	100.00	1,765,000.00
08-18-15	08-18-15	1,535,000	FirstBank BA .731% due August 18, 2015	100.00	1,535,000.00
08-27-15	08-27-15	1,750,000	Canada Treasury Bill .51% due August 27, 2015	100.00	1,750,000.00
09-14-15	09-14-15	1,535,000	FirstBank BA .50% due September 14, 2015	100.00	1,535,000.00

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*From 07-01-15 To 09-30-15*

<b>Trade Date</b>	<b>Settle Date</b>	<b>Quantity</b>	<b>Security</b>	<b>Unit Price</b>	<b>Amount</b>
09-22-15	09-22-15	1,520,000	Toronto Dominion Bank BA .688% due September 22, 2015	100.00	1,520,000.00
09-24-15	09-24-15	1,640,000	Canada Treasury Bill .47% due September 24, 2015	100.00	1,640,000.00
					<b>16,145,000.00</b>

1. The first part of the report is a summary of the findings of the study. This is followed by a discussion of the results and their implications for practice. The final section of the report is a conclusion and recommendations for further research.

2. The second part of the report is a detailed description of the methodology used in the study. This includes a description of the sample, the data collection procedures, and the statistical analysis. The third part of the report is a discussion of the results of the study. This includes a description of the findings and their implications for practice. The final section of the report is a conclusion and recommendations for further research.

**This page intentionally left blank.**

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - SHORT TERM INVESTMENT FUND***  
*From 07-01-15 to 09-30-15*

Cash Balance at July 1, 2015			4,539.96
ADD:	Proceeds from Sales	16,145,000.00	
	Bond Interest Credited (from Long Term Investment Fund)	22,167.00	
	Bank Interest Credited	<u>6.79</u>	<u>16,167,173.79</u>
			16,171,713.75
LESS:	Cost of Purchases	16,153,950.93	
	Investment Counsel Fees - Short Term Investment Fund	3,349.11	
	Investment Counsel Fees - Long Term Investment Fund	3,391.82	
	Trust Company Charges	<u>4,614.98</u>	<u>16,165,306.84</u>
<b>Cash Balance at September 30, 2015</b>			<b>6,406.91</b>



Martin, Lucas & Seagram Ltd.								
EXTERNAL INDIVIDUAL CREDIT RATING REPORT - SEPTEMBER 30, 2015								
CLLAS - SHORT TERM INVESTMENT FUND								
				Unit	Total		Market	Pct.
Quantity	Security		Rating	Cost	Cost	Price	Value	Assets
CASH								
	Cash Account				6,407		6,407	0
MONEY MARKET ISSUES								
1,110,000	Bank of Nova Scotia BA .48%	due October 8, 2015	R-1 (high)	99.92	1,109,095	99.98	1,109,829	9.3
1,510,000	Canada Treasury Bill .32%	due October 8, 2015	R-1 (high)	99.93	1,508,889	99.99	1,509,838	12.7
1,545,000	Royal Bank BA .56%	due October 13, 2015	R-1 (high)	99.96	1,544,312	99.98	1,544,614	13.0
1,030,000	CIBC BA .507%	due October 22, 2015	R-1 (high)	99.88	1,028,757	99.95	1,029,498	8.7
1,765,000	Canada Treasury Bill .28%	due November 5, 2015	R-1 (high)	99.94	1,763,863	99.96	1,764,294	14.9
1,755,000	Canada Treasury Bill .26%	due December 3, 2015	R-1 (high)	99.93	1,753,775	99.93	1,753,693	14.8
1,645,000	Canada Treasury Bill .30%	due December 17, 2015	R-1 (high)	99.93	1,643,878	99.91	1,643,488	13.8
1,520,000	Toronto Dominion Bank BA .18%	due December 18, 2015	R-1 (high)	99.96	1,519,346	99.85	1,517,693	12.8
					11,871,916		11,872,947	100
TOTAL PORTFOLIO					11,878,323		11,879,354	100

**CLLAS - LONG TERM INVESTMENT FUND**

**Portfolio Holdings at September 30, 2015**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
<b>GOVERNMENT BONDS</b>					
300,000	Canada Housing Trust 1.85% Series 43 due December 15, 2016	101.30	101.47	304,401	5,550
250,000	Canada Housing Trust 1.75% due June 15, 2018	100.11	102.31	255,775	4,375
250,000	Canada Housing Trust 1.95% due June 15, 2019	100.10	103.15	257,873	4,875
200,000	Canada Housing Trust 2.4% Series 48 due December 15, 2022	100.37	104.83	209,664	4,800
200,000	Canada Housing Trust 2.35% due September 15, 2023	105.62	104.09	208,176	4,700
				<hr/> 1,235,889	<hr/> 24,300
<b>PROVINCIAL BONDS</b>					
300,000	Alberta 1.85% due September 1, 2016	101.35	101.09	303,270	5,550
330,000	Ontario 1.90% due September 8, 2017	100.18	101.97	336,488	6,270
350,000	Ontario 2.1% due September 8, 2018	99.57	102.95	360,325	7,350
250,000	British Columbia 3.25% due December 18, 2021	102.30	108.76	271,903	8,125
250,000	Ontario 3.15% due June 2, 2022	99.04	107.56	268,905	7,875
250,000	Ontario 2.60% due June 2, 2025	100.15	101.25	253,128	6,500
				<hr/> 1,794,018	<hr/> 41,670
<b>CORPORATE BONDS</b>					
200,000	Bank of Nova Scotia Dep. Note 2.1% due November 8, 2016	100.32	100.97	201,942	4,200
200,000	Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	100.73	101.96	203,918	4,866
200,000	Royal Bank Dep. Note 2.26% due March 12, 2018	99.28	101.60	203,200	4,520
200,000	Wells Fargo Canada 2.944% due July 25, 2019	100.02	104.00	208,000	5,888
300,000	Bank of Montreal 2.84% due June 4, 2020	101.77	103.79	311,355	8,520
250,000	Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	104.57	102.74	256,843	6,408
200,000	Bank of Montreal 3.4% due April 23, 2021	100.65	106.34	212,678	6,800

Martin, Lucas & Seagram Ltd.

***CLLAS - LONG TERM INVESTMENT FUND***

**Portfolio Holdings at September 30, 2015**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
150,000	Wells Fargo 3.46% due January 24, 2023	102.36	105.90	158,844	5,190
				<hr/> 1,756,780	<hr/> 46,392
<b>TOTAL PORTFOLIO</b>				<b>4,786,686</b>	<b>112,362</b>

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 07-01-15 To 09-30-15*

<b>Trade Date</b>	<b>Settle Date</b>	<b>Quantity</b>	<b>Security</b>	<b>Unit Price</b>	<b>Amount</b>
-----------------------	------------------------	-----------------	-----------------	-----------------------	---------------

**No transactions were found!**

1. The first part of the document is a list of the names of the persons who have been named in the document. The names are listed in alphabetical order.

**This page intentionally left blank.**

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 07-01-15 to 09-30-15*

Cash Balance at July 1, 2015	0.00
------------------------------	------

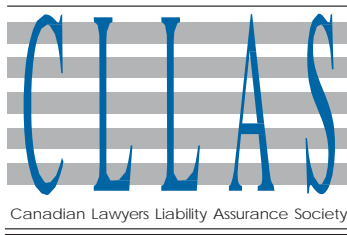
Cash Balance at September 30, 2015	0.00
------------------------------------	------

**Martin, Lucas & Seagram Ltd.**  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 06-30-15 to 09-30-15*

Security	06-30-15 Market Value	Additions Withdrawals	09-30-15 Market Value	09-30-15 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
<b>GOVERNMENT BONDS</b>								
Canada Housing Trust 1.85% Series 43 due December 15, 2016	305,199	0	304,401	303,900	0	0	501	-798
Canada Housing Trust 1.75% due June 15, 2018	256,558	0	255,775	250,275	0	0	5,500	-783
Canada Housing Trust 1.95% due June 15, 2019	258,593	0	257,873	250,238	0	0	7,635	-720
Canada Housing Trust 2.4% Series 48 due December 15, 2022	208,782	0	209,664	200,740	0	0	8,924	882
Canada Housing Trust 2.35% due September 15, 2023	206,578	-2,350	208,176	211,240	0	0	-3,064	1,598
<b>GOVERNMENT BONDS Total</b>	<b>1,235,709</b>		<b>1,235,889</b>	<b>1,216,393</b>	<b>0</b>	<b>0</b>	<b>19,496</b>	<b>180</b>
<b>PROVINCIAL BONDS</b>								
Alberta 1.85% due September 1, 2016	304,089	-2,775	303,270	304,050	0	0	-780	-819
Ontario 1.90% due September 8, 2017	337,748	-3,135	336,488	330,594	0	0	5,894	-1,261
Ontario 2.1% due September 8, 2018	361,851	-3,675	360,325	348,495	0	0	11,830	-1,526
British Columbia 3.25% due December 18, 2021	273,313	0	271,903	255,750	0	0	16,153	-1,410
Ontario 3.15% due June 2, 2022	269,755	0	268,905	247,600	0	0	21,305	-850
Ontario 2.60% due June 2, 2025	253,098	0	253,128	250,375	0	0	2,753	30
<b>PROVINCIAL BONDS Total</b>	<b>1,799,853</b>		<b>1,794,018</b>	<b>1,736,864</b>	<b>0</b>	<b>0</b>	<b>57,154</b>	<b>-5,836</b>
<b>CORPORATE BONDS</b>								
Bank of Nova Scotia Dep. Note 2.1% due November 8, 2016	202,402	0	201,942	200,640	0	0	1,302	-460
Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	204,738	-2,433	203,918	201,460	0	0	2,458	-820
Royal Bank Dep. Note 2.26% due March 12, 2018	204,504	-2,260	203,200	198,560	0	0	4,640	-1,304
Wells Fargo Canada 2.944% due July 25, 2019	209,922	-2,944	208,000	200,040	0	0	7,960	-1,922
Bank of Montreal 2.84% due June 4, 2020	314,061	0	311,355	305,307	0	0	6,048	-2,706
Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	258,595	0	256,843	261,425	0	0	-4,583	-1,753
Bank of Montreal 3.4% due April 23, 2021	214,712	0	212,678	201,300	0	0	11,378	-2,034
Wells Fargo 3.46% due January 24, 2023	158,078	-2,595	158,844	153,542	0	0	5,303	767
<b>CORPORATE BONDS Total</b>	<b>1,767,012</b>		<b>1,756,780</b>	<b>1,722,274</b>	<b>0</b>	<b>0</b>	<b>34,506</b>	<b>-10,232</b>
<b>TOTAL PORTFOLIO</b>	<b>4,802,574</b>		<b>4,786,686</b>	<b>4,675,530</b>	<b>0</b>	<b>0</b>	<b>111,156</b>	<b>-15,888</b>
<b>TOTAL DATE TO DATE GAIN OR LOSS</b>								<b>-15,888</b>
<b>% CHANGE DURING PERIOD</b>								<b>-0.33</b>

Martin, Lucas & Seagram Ltd.								
EXTERNAL INDIVIDUAL CREDIT RATING REPORT - SEPTEMBER 30, 2015								
CLLAS - LONG TERM INVESTMENT FUND								
				Unit	Total		Market	Pct.
Quantity	Security		Rating	Cost	Cost	Price	Value	Assets
GOVERNMENT BONDS								
300,000	Canada Housing Trust 1.85% Series 43	due December 15, 2016	AAA	101.30	303,900	101.47	304,401	6.4
250,000	Canada Housing Trust 1.75%	due June 15, 2018	AAA	100.11	250,275	102.31	255,775	5.3
250,000	Canada Housing Trust 1.95%	due June 15, 2019	AAA	100.10	250,238	103.15	257,873	5.4
200,000	Canada Housing Trust 2.4% Series 48	due December 15, 2022	AAA	100.37	200,740	104.83	209,664	4.4
200,000	Canada Housing Trust 2.35%	due September 15, 2023	AAA	105.62	211,240	104.09	208,176	4.3
					1,216,393		1,235,889	25.8
PROVINCIAL BONDS								
300,000	Alberta 1.85%	due September 1, 2016	AAA	101.35	304,050	101.09	303,270	6.3
330,000	Ontario 1.90%	due September 8, 2017	AA (low)	100.18	330,594	101.97	336,488	7.0
350,000	Ontario 2.1%	due September 8, 2018	AA (low)	99.57	348,495	102.95	360,325	7.5
250,000	British Columbia 3.25%	due December 18, 2021	AA (high)	102.30	255,750	108.76	271,903	5.7
250,000	Ontario 3.15%	due June 2, 2022	AA (low)	99.04	247,600	107.56	268,905	5.6
250,000	Ontario 2.60%	due June 2, 2025	AA (low)	100.15	250,375	101.25	253,128	5.3
					1,736,864		1,794,018	37.5
CORPORATE BONDS								
200,000	Bank of Nova Scotia Dep. Note 2.1%	due November 8, 2016	AA	100.32	200,640	100.97	201,942	4.2
200,000	Toronto Dominion Bank Dep. Note 2.433%	due August 15, 2017	AA	100.73	201,460	101.96	203,918	4.3
200,000	Royal Bank Dep. Note 2.26%	due March 12, 2018	AA	99.28	198,560	101.60	203,200	4.2
200,000	Wells Fargo Canada 2.944%	due July 25, 2019	AA	100.02	200,040	104.00	208,000	4.3
300,000	Bank of Montreal 2.84%	due June 4, 2020	AA	101.77	305,307	103.79	311,355	6.5
250,000	Toronto Dominion Bank Dep. Note 2.563%	due June 24, 2020	AA	104.57	261,425	102.74	256,843	5.4
200,000	Bank of Montreal 3.4%	due April 23, 2021	AA	100.65	201,300	106.34	212,678	4.4
150,000	Wells Fargo 3.46%	due January 24, 2023	AA	102.36	153,542	105.90	158,844	3.3
					1,722,274		1,756,780	36.7
TOTAL PORTFOLIO					4,675,530		4,786,686	100





# MEMORANDUM

DATE: November 26, 2015  
TO: CLLAS Advisory Board  
FROM: Patrick Mahoney  
COPY:  
RE: Amendments to CLLAS' Investment Policy

---

The CLLAS Board is required to review/confirm the Investment Policy annually. Attached are a clean and blacklined copy of the Investment Policy. It has been amended to address two separate matters:

Amendments which would be effective in December 2015 (i.e. on the date the amended Policy is adopted by the Board) and are intended to comply with OSFI's Guideline B-1, which has been adopted by the Alberta Superintendent of Insurance. Notable changes include the following:

- Addition of accounting classification of investments;
- Addition of section on the oversight of assets held pursuant to Reinsurance Security Agreements;
- Addition of section on roles and responsibilities;
- Addition of section on authority with respect to this Policy;
- Addition of section on history of changes.

Amendments which were approved by the Board in December 2013 to reflect CLLAS' financial profile in light of the Loss Portfolio Transfer. The following changes were adopted by the Board and are now formally reflected in the Investment Policy:

- Increasing the maximum allowable investments in corporate bonds from 20% to 40%;
- Changing the minimum for federal and provincial bonds to 60% in the Long Term Investment Fund;
- Adding a benchmark for the Short-Term Investment Fund.

For some reason (known only to Microsoft Word), new Section 7, "History of Changes" does not appear as an underlined addition on the blacklined version. All of Section 7 is new. Subject to any input provided by the Board, we ask that the attached be considered for adoption at the December 9, 2015 Advisory Board meeting.

Sincerely,

Patrick Mahoney  
General Manager



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

### Investment Policy

Last Updated  
December 9, 2015



## 1. PURPOSE

- 1.1. This investment policy (“Policy”) sets forth the investment objectives and guidelines for the management of the investments of the Canadian Lawyers Liability Assurance Society (“CLLAS”) and the conflict of interest rules applicable to the members of the Advisory Board (the “Board”) of CLLAS, the employees of the Office of the General Manager (the “General Manager”) directly engaged in providing services to CLLAS and the employees of the investment counsel directly engaged in providing investment services to CLLAS (the “Investment Manager”), collectively referred to as the “CLLAS Agents”.
- 1.2. This policy formalizes investment-related activities that comply with the *Alberta Insurance Act* and OSFI’s Guideline B-1 *Prudent Person Approach* adopted by the Alberta Superintendent of Insurance.
- 1.3. This Policy is considered to reflect the financial needs of CLLAS and the risk appetite of its subscribers and to set investment standards which a reasonably prudent person would apply to avoid undue risk of loss, maintain appropriate liquidity and obtain a reasonable return.

## 2. CLLAS INVESTMENT ACTIVITIES

- 2.1. The Investment Manager will invest and reinvest, with full discretion but in accordance with the provisions of this Policy, the funds of CLLAS not required for operational purposes.
- 2.2. The Investment Manager will maintain two Funds (the “Funds”) for investment purposes: the Short Term Investment Fund and the Long term Investment Fund. Monies provided to the Investment Manager for investment shall be allocated to one or both of the Funds as follows:

Fund	Target Allocation	Acceptable Range
Short Term Investment Fund	40%	20% to 100%
Long Term Investment Fund	60%	0% to 80%

- 2.3. In any event, the Short Term Investment Fund must represent not less than 20% of the total market value of the two Funds at the time the monies are received by the Investment Manager, after giving effect to such allocation. Transfers between the Funds may also be made subject to the Short Term Fund being at least 20% of the market value of the two Funds at the time of transfer and after giving effect thereto.
- 2.4. Investments in the two Funds will be denominated in Canadian dollars.
- 2.5. The Short Term Investment Fund is restricted to investments which mature within one year.



- 2.5.1. Such investments are restricted to the following:
- Treasury Bills issued by the Government of Canada or by any province of Canada having a rating A or better;
  - Certificates of Deposit issued by a Canadian chartered bank having a rating R-1 High or better;
  - Bankers Acceptances accepted by a Canadian chartered bank having a rating of R-1 High or better; and
  - Bonds issued or guaranteed by any of the above which mature in less than one year.
- 2.5.2. Not less than 50% of short term investments will be invested in qualifying Government of Canada or provincial securities.
- 2.6. The Long Term Investment Fund consists of all investments which are not designated as being part of the Short Term Investment Fund.
- 2.6.1. Such investments are restricted to the following:
- Securities issued or guaranteed by the Government of Canada or any province of Canada; and
  - Bonds issued by corporations incorporated under the laws of Canada or any province of Canada.
- 2.6.2. The maximum term to maturity of any one investment shall not exceed 10 years. For greater certainty, this Fund may include short term investments of the type permitted for investment under section 2.5.1
- 2.6.3. Not less than 60% of the market value of this Fund shall be invested in securities issued or guaranteed by the Government of Canada or by the government of any province of Canada and all such securities must, at the time of purchase, be rated A or better.
- 2.6.4. Not more than 40% of the market value of this Fund may be invested in bonds issued by corporations incorporated under the laws of Canada or any province of Canada and all such bonds must, at the time of purchase, be rated A or better.
- 2.7. Investments which do not meet the criteria in Sections 2.5 and 2.6 are ineligible for inclusion in the investment portfolio.
- 2.8. All investments shall be designated as available-for-sale and shall be reported at fair market value, unless otherwise determined by the General Manager with the concurrence of CLLAS' auditor.



- 2.9. The investment portfolio, in aggregate, will at all times comply with the applicable regulatory requirements and restrictions. In particular, Sections 415 to 432 of the *Alberta Insurance Act* describe restrictions with respect to investments.
- 2.10. Unless otherwise required by the Board, the Investment Manager will report to CLLAS each quarter on the status of the Funds and will compare the performance of the Funds with the following benchmarks for the period covered by the report.
  - 2.10.1. The benchmark for the Short Term Investment Fund consists of 30-day Treasury Bills.
  - 2.10.2. The benchmark for the Long Term Investment Fund is a composite benchmark comprised of 60% DEX Short Term Bond Indices (equal portions of the Federal and Provincial Indexes) and 40% DEX Mid Term Bond Indices (equal portions of the Federal and Provincial Indexes).
  - 2.10.3. Each report shall also provide such additional information as CLLAS may reasonably require.
- 2.11. The Board will re-examine the asset mix policy periodically in light of significant changes in any of the following:
  - 2.11.1. the Board becoming aware of any significant liability with respect to any claim;
  - 2.11.2. capital market prospects;
  - 2.11.3. the risk appetite of the subscribers of CLLAS;
  - 2.11.4. any changes in regulatory requirements, and
  - 2.11.5. any other factors considered relevant by the Board.
- 2.12. Nothing in this Section 2 will preclude the Chair or, in his absence, the Vice Chair, from withholding from the Investment Manager funds anticipated to be required for operational purposes and investing such funds in short term investments of the type permitted for investment under Section 2.5.1 and having maturities not exceeding 90 days.
- 2.13. The Board, in conjunction with the General Manager, will review and, if necessary, update this Policy at least annually.

### **3. ASSETS HELD PURSUANT TO REINSURANCE SECURITY AGREEMENTS**

- 3.1. Section 3 of this Policy applies to monies held for the benefit of CLLAS pursuant to Reinsurance Security Agreements with reinsurers not licensed to do business in Canada which may be entered into by CLLAS from time to time.
- 3.2. Such Reinsurance Security Agreements must comply with the requirements of the Alberta Superintendent of Insurance. Pursuant to the terms of applicable Reinsurance Security



Agreements, the market value of the deposits held pursuant to such Agreements must not total not less than the amount required in the Minimum Capital Test in order to avoid any capital deduction or margin requirement as a result of CLLAS ceding risks to unlicensed reinsurers.

- 3.3. Pursuant to the terms of applicable Reinsurance Security Agreements, such deposits must be denominated in Canadian dollars and are restricted to the following:
  - 3.3.1. Cash;
  - 3.3.2. Bonds and debentures issued by the Government of Canada, any province of Canada or any municipality of Canada;
  - 3.3.3. Bonds and debentures issued by a Canadian corporation, trust or limited partnership;
  - 3.3.4. Common or preferred shares in the capital of a Canadian or Provincial corporation; and
  - 3.3.5. Guaranteed investment certificates.
- 3.4. CLLAS has entered into a Loss Portfolio Transfer (“LPT”) with Colchester Reinsurance Limited. The terms of the LPT require that the assets supporting Colchester’s liabilities be held under a Reinsurance Security Agreement and that an investment policy that permits investment in securities other than Cash, T-bills, Government of Canada bonds and Canadian Provincial Government Bonds must be approved by CLLAS.

#### **4. CONFLICTS OF INTEREST**

- 4.1. No CLLAS Agent will knowingly permit his or her interest to conflict with his or her duties and powers in respect of CLLAS.
- 4.2. A conflict of interest is deemed to include any direct, indirect, actual or perceived material pecuniary interest of a CLLAS Agent in any arrangement, contract, investment, transaction or other matter in which CLLAS participates or proposes to participate. The pecuniary interest of a CLLAS Agent is deemed to include that of:
  - 4.2.1. his or her spouse;
  - 4.2.2. any person with whom the CLLAS Agent is living in a relationship outside marriage;
  - 4.2.3. any member of the CLLAS Agent's family who shares his or her home; and
  - 4.2.4. any corporation or trust controlled by the CLLAS Agent or in which he or she has a substantial beneficial interest.
- 4.3. CLLAS Agents must not:
  - 4.3.1. make, influence or participate in the making of any decision, if the effect or such decision is the potential furthering of the CLLAS Agent's interests;



- 4.3.2. use material information derived from is or her status as a CLLAS Agent that has not been generally disclosed, to further the CLLAS Agent's interests; or
- 4.3.3. accept, in connection with his or her status as a CLLAS Agent, any gift or personal benefit except those of a minor nature or as permitted by law.
- 4.4. At the earliest opportunity, each CLLAS Agent must fully disclose in writing, if practical, any conflict of interest or potential conflict of interest to the Chair or Vice Chair. The Chair or Vice Chair will record such declarations of conflict and report them to the Board at the earliest opportunity.
- 4.5. Board members in attendance at any meeting of the Board or its Committees must also declare to the Chair of the meeting any conflict or potential conflict of interest in any matter being considered at that meeting which relates to investment made pursuant to this policy and must refrain from participating in the discussion of or voting on such matter.
- 4.6. If any CLLAS Agent has doubt as to whether a particular situation represents a conflict of interest, he or she may provide the necessary information to the Chair or Vice Chair and request that the Board determine whether or not a conflict exists. The Chair or Vice Chair will record such requests and include them on the agenda for the next Board meeting for determination.
- 4.7. The obligation of CLLAS Agents under this Policy are in addition to those imposed on CLLAS Agents by any professional organization with which they may be associated.
- 4.8. The Chair will provide each member of the Board, the General Manager and the Investment Manager with a copy of this Policy. The Board may require periodic confirmation of compliance with this Policy.

## **5. ROLES AND RESPONSIBILITIES**

- 5.1. The Board is responsible for the following:
  - 5.1.1. Ensuring that the investments are in compliance with applicable regulatory requirements and restrictions and that the investments are managed in a prudent manner;
  - 5.1.2. Establishing investment objectives, asset allocations and performance measures;
  - 5.1.3. Reviewing and approving this Policy annually;
  - 5.1.4. Appointing and modifying or terminating the appointment of the Investment Manager;
  - 5.1.5. Reviewing the annual investment review and compliance report; and
  - 5.1.6. Reviewing changes, if any, to the investment policy for the assets supporting the LPT.



5.2. The General Manager is responsible for the following:

- 5.2.1. Ensuring that the investments are in compliance with applicable regulatory requirements and restrictions and that the investments are managed in a prudent manner;
- 5.2.2. Monitoring the Investment Manager's performance, based on the benchmarks set in this Policy, and recommending corrective actions to the Board when required;
- 5.2.3. Monitoring compliance with this Policy;
- 5.2.4. Maintaining a system of internal controls designed to prevent losses from inappropriate investment activities, fraud or human error;
- 5.2.5. Filing all documentation required by the Alberta Superintendent of Insurance.

5.3. The Investment Manager is responsible for the following:

- 5.3.1. Managing the day-to-day securities transactions;
- 5.3.2. Ensuring compliance with this Policy;
- 5.3.3. Achieving performance targets set in this Policy;
- 5.3.4. Maintaining an appropriate level of liquidity to meet financial obligations;
- 5.3.5. Reporting to the General Manager and Board on a quarterly basis, or if warranted, on a more frequent basis on compliance with this Policy;
- 5.3.6. Providing regular reports to the Board which include a review of the current portfolio, a review of investment performance and future investment strategies.

## 6. AUTHORITY

- 6.1. The Board has the authority to make revisions to this Policy.
- 6.2. The Board may, at any time, modify or terminate the appointment of Investment Manager and appoint one or more investment counsel to act as an Investment Manager in its place. The Chair or, in his absence, the Vice Chair shall be responsible, in consultation with the General Manager, for the supervision of the Investment Manager.
- 6.3. The Investment Manager has the authority to purchase, sell or hold securities that will be used to meet the objectives set forth in this Policy.

## 7. HISTORY OF CHANGES

December 2015: The Policy was amended to comply with OSFI's Guideline B-1 adopted by the Alberta Superintendent of Insurance. Notable changes include the following:

- Addition of accounting classification of investments;





- Addition of section on the oversight of assets held pursuant to Reinsurance Security Agreements;
- Addition of section on roles and responsibilities;
- Addition of section on authority with respect to this Policy;
- Addition of section on history of changes.

Other minor changes were also made.

December 2013:	<p>The Policy was amended to reflect CLLAS' financial profile in light of the Loss Portfolio Transfer. The following changes were adopted:</p> <ul style="list-style-type: none"><li>• Increasing the maximum allowable investments in corporate bonds from 20% to 40%;</li><li>• Changing the minimum for federal and provincial bonds to 60% in the Long Term Investment Fund;</li><li>• Adding a benchmark for the Short-Term Investment Fund.</li></ul>
May 2012:	<p>The Policy was amended to restrict all investments based on applicable regulatory requirements and restrictions. The reporting frequency was clarified to be on a quarterly basis. Other minor stylistic changes were made.</p>
October 2008:	<p>The benchmark for the Long-Term Fund was changed from Scotia McLeod's Short Term Bond Index and Provincial Short Term Bond Index to 60% DEX short-term index and 40% DEX mid-term index.</p>
Prior:	<p>Prior revisions to this Policy date from 2001.</p>



**INVESTMENT POLICY  
FOR THE  
CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

**Effective May 5, 2012**



~~INVESTMENT POLICY  
FOR THE  
CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY~~

—  
—

—

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Investment Policy

Last Updated  
December 9, 2015



## 1. PURPOSE

1.1. ~~1.1.~~ This investment policy ("Policy") sets forth the investment objectives and guidelines for the management of the ~~surplus funds investments~~ of the Canadian Lawyers Liability Assurance Society ("CLLAS") and the conflict of interest rules applicable to the members of the Advisory Board (the "Board") of CLLAS, the employees of ~~Dion Durrell + Associates Inc.~~ the Office of the General Manager (the "General Manager") directly engaged in providing services to CLLAS and the employees of ~~Martin Lucas & Seagram Ltd. (the "Investment Manager")~~ the investment counsel directly engaged in providing investment services to CLLAS (the "Investment Manager"), collectively, referred to as the "CLLAS Agents").".

~~1.2. This Policy has been adopted by the Board on the recommendation of the Executive Committee, which functions as the Investment Committee of CLLAS and is responsible to the Board for the administration of this Policy.~~

~~1.2.~~ ~~1.3.~~ This policy formalizes investment-related activities that comply with the *Alberta Insurance Act* and OSFI's *Guideline B-1 Prudent Person Approach* adopted by the Alberta Superintendent of Insurance.

~~1.2.1.3.~~ This Policy is considered to reflect the financial needs of CLLAS and the risk ~~tolerance~~ appetite of its ~~members~~ subscribers and to set investment standards which a reasonably prudent person would apply to avoid undue risk of loss, maintain appropriate liquidity and obtain a reasonable return.

## 2. ~~2.~~ CLLAS INVESTMENT ACTIVITIES

2.1. ~~2.1.~~ The Investment Manager ~~shall~~ will invest and reinvest, with full discretion but in accordance with the provisions of this Policy, the funds of CLLAS not required for operational purposes. ~~The Board may, at any time, terminate the appointment of Martin Lucas & Seagram Ltd. as an investment manager and appoint one or more investment counsel to act as an investment manager in its place. The Chair or, in his absence, the Vice Chair shall be responsible, in consultation with the General Manager, for the supervision of the Investment Manager.~~

~~2.2.~~ ~~2.2.~~ The Investment Manager ~~shall~~ will maintain two Funds (the "Funds") for investment purposes: the Short Term Investment Fund and the Long term Investment Fund. Monies provided to the Investment Manager for investment shall be allocated to one or both of the Funds, ~~as directed by CLLAS, or in the absence of such direction, as determined by the Investment Manger.~~ as follows:

Fund	Target Allocation	Acceptable Range
Short Term Investment Fund	40%	20% to 100%
Long Term Investment Fund	60%	0% to 80%



~~2.2.2.3.~~ In any event, the Short Term Investment Fund must represent not less than 20% of the total market value of the two Funds at the time the monies are received by the Investment Manager, after giving effect to such allocation. Transfers between the Funds may also be made ~~at the direction of CLLAS~~ subject to the Short Term Fund being at least 20% of the market value of the two Funds at the time of transfer and after giving effect thereto.

~~2.3.2.4.~~ ~~2.3.~~ Investments in the two Funds ~~shall~~will be denominated in Canadian dollars ~~and shall be made and restricted as follows:~~

~~2.4.2.5.~~ ~~2.3.1.~~ The Short Term Investment Fund is restricted to investments which mature within one year.

~~2.5.1.~~ Such investments ~~may consist of~~ are restricted to the following ~~instruments:~~ :

- Treasury Bills issued by the Government of Canada or by ~~a Canadian~~any province of Canada having a rating A or better;
- Certificates of Deposit issued by a Canadian chartered bank having a rating R-1 High or better;
- Bankers Acceptances accepted by a Canadian chartered bank having a rating of R-1 High or better; and ~~bonds issued or guaranteed by any of the above which mature in less than one year. Not less than 50% of short term investments shall be invested in qualifying Government of Canada or provincial securities.~~
- Bonds issued or guaranteed by any of the above which mature in less than one year.

~~2.5.2.~~ Not less than 50% of short term investments will be invested in qualifying Government of Canada or provincial securities.

~~2.5.2.6.~~ The Long Term Investment Fund consists of all investments which are not designated as being part of the Short Term Investment Fund. ~~Such investments are restricted to securities issued or guaranteed by the Government of Canada or any province of Canada and to bonds issued by corporations incorporated under the laws of Canada or any province of Canada as follows:~~

~~2.6.1.~~ ~~2.3.2.1~~ Such investments are restricted to the following:

- Securities issued or guaranteed by the Government of Canada or any province of Canada; and
- Bonds issued by corporations incorporated under the laws of Canada or any province of Canada.

~~2.5.1.2.6.2.~~ The maximum term to maturity of any one investment shall not exceed 10 years. For greater certainty, this Fund may include short term investments of the type permitted for investment under section 2.3~~5~~1



~~2.3.2.2~~ Not less than ~~40~~60% of the market value of this Fund shall be invested in securities issued or guaranteed by the Government of Canada.

~~2.5.2.2.6.3.~~ ~~2.3.2.3~~ Not more than ~~40%~~ of the market value of this Fund may be invested in securities issued or guaranteed or by the government of any province of Canada and all such securities must, at the time of purchase, be rated A or better.

~~2.5.3.2.6.4.~~ ~~2.3.2.4~~ Not more than ~~20~~40% of the market value of this Fund may be invested in bonds issued by corporations incorporated under the laws of Canada or any province of Canada and all such bonds must, at the time of purchase, be rated A or better.

~~2.7.~~ ~~2.3.3 — Regulatory Requirements:~~ Investments which do not meet the criteria in Sections 2.5 and 2.6 are ineligible for inclusion in the investment portfolio.

~~2.8.~~ All investments shall be designated as available-for-sale and shall be reported at fair market value, unless otherwise determined by the General Manager with the concurrence of CLLAS' auditor.

~~2.6.2.9.~~ The investment portfolio, in aggregate, will at all times comply with the applicable regulatory requirements and restrictions. In particular, Sections 415 to 432 of the Alberta Insurance Act describe restrictions with respect to investments.

~~2.10.~~ ~~2.4.~~ Unless otherwise required by the Board, the Investment Manager ~~shall~~will report to CLLAS ~~quarterly~~each quarter on the status of the Funds and ~~shall~~will compare the performance of the Funds with the following benchmarks for the period covered by the report.

2.10.1. The benchmark for the Short Term Investment Fund consists of 30-day Treasury Bills.

2.10.2. The benchmark for the Long Term Investment Fund ~~with~~is a composite benchmark comprised of: 60% DEX Short Term Bond Indices (equal portions of the Federal and Provincial Indexes); and 40% DEX Mid Term Bond Indices (equal portions of the Federal and Provincial Indexes) ~~for the period covered by the report.~~

~~2.6.1.2.10.3.~~ Each report shall also provide such additional information as CLLAS may reasonably require.

~~2.5 — Investments which do not meet the criteria in section 2.3 are ineligible for inclusion in the investment portfolio.~~

~~2.7.2.11.~~ ~~2.6~~ The ~~Investment Committee~~Board will re-examine the asset mix policy periodically in light of significant changes in any of the following:

~~2.7.1.2.11.1.~~ ~~2.6.1~~ — the Board becoming aware of any significant liability with respect to any claim;

~~2.7.2.2.11.2.~~ capital market prospects;



~~2.7.3-2.11.3.~~ the risk ~~tolerance~~ appetite of the ~~members~~ subscribers of CLLAS;  
~~2.7.4-2.11.4.~~ any changes in regulatory requirements, and  
~~2.7.5-2.11.5.~~ any other factors considered relevant by the Board.

~~2.8-2.12.~~ ~~2.7~~ Nothing in this Section 2 will preclude the ~~Chairman~~ Chair or, in his absence, the Vice ~~Chairman~~ Chair, from withholding from the Investment Manager funds anticipated to be required for operational purposes and investing such funds in short term investments of the type permitted for investment under Section 2. ~~35~~.1 and having maturities not exceeding 90 days.

~~2.9-2.13.~~ ~~2.8~~ The Board, in conjunction with the ~~Investment Committee~~ General Manager, will review and, if necessary, update this Policy at least annually.

### **~~3. CONFLICTS OF INTEREST~~**

~~3.1.~~

#### **~~3. ASSETS HELD PURSUANT TO REINSURANCE SECURITY AGREEMENTS~~**

~~3.1.~~ Section 3 of this Policy applies to monies held for the benefit of CLLAS pursuant to Reinsurance Security Agreements with reinsurers not licensed to do business in Canada which may be entered into by CLLAS from time to time.

~~3.2.~~ Such Reinsurance Security Agreements must comply with the requirements of the Alberta Superintendent of Insurance. Pursuant to the terms of applicable Reinsurance Security Agreements, the market value of the deposits held pursuant to such Agreements must not total not less than the amount required in the Minimum Capital Test in order to avoid any capital deduction or margin requirement as a result of CLLAS ceding risks to unlicensed reinsurers.

~~3.3.~~ Pursuant to the terms of applicable Reinsurance Security Agreements, such deposits must be denominated in Canadian dollars and are restricted to the following:

~~3.3.1.~~ Cash;

~~3.3.2.~~ Bonds and debentures issued by the Government of Canada, any province of Canada or any municipality of Canada;

~~3.3.3.~~ Bonds and debentures issued by a Canadian corporation, trust or limited partnership;

~~3.3.4.~~ Common or preferred shares in the capital of a Canadian or Provincial corporation; and

~~3.3.5.~~ Guaranteed investment certificates.

~~3.4.~~ CLLAS has entered into a Loss Portfolio Transfer ("LPT") with Colchester Reinsurance Limited. The terms of the LPT require that the assets supporting Colchester's liabilities be held under a Reinsurance Security Agreement and that an investment policy that permits investment in securities other than Cash, T-bills, Government of Canada bonds and Canadian Provincial Government Bonds must be approved by CLLAS.



#### 4. CONFLICTS OF INTEREST

- 4.1. No CLLAS Agent ~~shall~~will knowingly permit his or her interest to conflict with his or her duties and powers in respect of CLLAS.
- 4.2. ~~3.2.~~A conflict of interest is deemed to include any direct, indirect, actual or perceived material pecuniary interest of a CLLAS Agent in any arrangement, contract, investment, transaction or other matter in which CLLAS participates or proposes to participate. The pecuniary interest of a CLLAS Agent is deemed to include that of:
  - 4.2.1. ~~3.2.1.~~—his or her spouse;
  - 4.2.2. ~~3.2.2.~~—any person with whom the CLLAS Agent is living in a relationship outside marriage;
  - 4.2.3. ~~3.2.3.~~—any member of the CLLAS Agent's family who shares his or her home; and
  - 4.2.4. ~~3.2.4.~~—any corporation or trust controlled by the CLLAS Agent or in which he or she has a substantial beneficial interest;
- 4.3. ~~3.3.~~CLLAS Agents ~~shall~~must not:
  - 4.3.1. ~~3.3.1.~~—make, influence or participate in the making of any decision, if the effect or such decision is the potential furthering of the CLLAS Agent's interests;
  - 4.3.2. ~~3.3.2.~~—use material information derived from is or her status as a CLLAS Agent that has not been generally disclosed, to further the CLLAS Agent's interests; or
  - 4.3.3. ~~3.3.3.~~—accept, in connection with his or her status as a CLLAS Agent, any gift or personal benefit except those of a minor nature or as permitted by law.
- 4.4. ~~3.4.~~At the earliest opportunity, each CLLAS Agent ~~shall~~must fully disclose in writing, if practical, any conflict of interest or potential conflict of interest to the Chair or Vice Chair. The Chair or Vice Chair ~~shall~~will record such declarations of conflict and report them to the Board at the earliest opportunity.
- 4.5. ~~3.5.~~~~In the case of~~ Board members in attendance at any meeting of the Board or its Committees, ~~they shall~~must also declare to the Chair of the meeting any conflict or potential conflict of interest in any matter being considered at that meeting which relates to investment made pursuant to this policy and ~~shall~~must refrain from participating in the discussion of or voting on such matter.
- 4.6. ~~3.6.~~If any CLLAS Agent has doubt as to whether a particular situation represents a conflict of interest, he or she may provide the necessary information to the Chair or Vice Chair and request





that the Board determine whether or not a conflict exists. The Chair or Vice Chair ~~shall~~will record such requests and include them on the agenda for the next Board meeting for determination.

- 4.7. ~~3.7.~~ The obligation of CLLAS Agents under this Policy are in addition to those imposed on CLLAS Agents by any professional organization with which they may be associated.
- 4.8. ~~3.8.~~ The Chair ~~shall~~will provide each member of the Board, the General Manager and the Investment Manager with a copy of this Policy. The Board may require periodic confirmation of compliance with this Policy.

## 5. ROLES AND RESPONSIBILITIES

### 5.1. The Board is responsible for the following:

- 5.1.1. Ensuring that the investments are in compliance with applicable regulatory requirements and restrictions and that the investments are managed in a prudent manner;
- 5.1.2. Establishing investment objectives, asset allocations and performance measures;
- 5.1.3. Reviewing and approving this Policy annually;
- 5.1.4. Appointing and modifying or terminating the appointment of the Investment Manager;
- 5.1.5. Reviewing the annual investment review and compliance report; and
- 5.1.6. Reviewing changes, if any, to the investment policy for the assets supporting the LPT.



5.2. The General Manager is responsible for the following:

- 5.2.1. Ensuring that the investments are in compliance with applicable regulatory requirements and restrictions and that the investments are managed in a prudent manner;
- 5.2.2. Monitoring the Investment Manager's performance, based on the benchmarks set in this Policy, and recommending corrective actions to the Board when required;
- 5.2.3. Monitoring compliance with this Policy;
- 5.2.4. Maintaining a system of internal controls designed to prevent losses from inappropriate investment activities, fraud or human error;
- 5.2.5. Filing all documentation required by the Alberta Superintendent of Insurance.

5.3. The Investment Manager is responsible for the following:

- 5.3.1. Managing the day-to-day securities transactions;
- 5.3.2. Ensuring compliance with this Policy;
- 5.3.3. Achieving performance targets set in this Policy;
- 5.3.4. Maintaining an appropriate level of liquidity to meet financial obligations;
- 5.3.5. Reporting to the General Manager and Board on a quarterly basis, or if warranted, on a more frequent basis on compliance with this Policy;
- 5.3.6. Providing regular reports to the Board which include a review of the current portfolio, a review of investment performance and future investment strategies.

6. AUTHORITY

- 6.1. The Board has the authority to make revisions to this Policy.
- 6.2. The Board may, at any time, modify or terminate the appointment of Investment Manager and appoint one or more investment counsel to act as an Investment Manager in its place. The Chair or, in his absence, the Vice Chair shall be responsible, in consultation with the General Manager, for the supervision of the Investment Manager.
- 6.3. The Investment Manager has the authority to purchase, sell or hold securities that will be used to meet the objectives set forth in this Policy.

7. HISTORY OF CHANGES

December 2015: The Policy was amended to comply with OSFI's Guideline B-1 adopted by the Alberta Superintendent of Insurance. Notable changes include the following:

- Addition of accounting classification of investments;



- Addition of section on the oversight of assets held pursuant to Reinsurance Security Agreements;
- Addition of section on roles and responsibilities;
- Addition of section on authority with respect to this Policy;
- Addition of section on history of changes.

Other minor changes were also made.

December 2013:	<p>The Policy was amended to reflect CLLAS' financial profile in light of the Loss Portfolio Transfer. The following changes were adopted:</p> <ul style="list-style-type: none"><li>• Increasing the maximum allowable investments in corporate bonds from 20% to 40%;</li><li>• Changing the minimum for federal and provincial bonds to 60% in the Long Term Investment Fund;</li><li>• Adding a benchmark for the Short-Term Investment Fund.</li></ul>
May 2012:	<p>The Policy was amended to restrict all investments based on applicable regulatory requirements and restrictions. The reporting frequency was clarified to be on a quarterly basis. Other minor stylistic changes were made.</p>
October 2008:	<p>The benchmark for the Long-Term Fund was changed from Scotia McLeod's Short Term Bond Index and Provincial Short Term Bond Index to 60% DEX short-term index and 40% DEX mid-term index.</p>
Prior:	<p>Prior revisions to this Policy date from 2001.</p>