Management Statement on Responsibility for Financial Information

The preparation of the annual financial statements, Management's Discussion and Analysis (MD&A) and all other information in the Company's Annual Report is the responsibility of the Company's management, and the annual financial statements have been approved by the Board of Directors.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial statements, by their very nature, include amounts and disclosures based on estimates and judgments. Where alternative methods or interpretations exist, management has chosen those it deems most appropriate in the circumstances, including appropriate consideration to relevance and materiality. Actual results in the future may differ materially from management's current assessment given the inherent variability of future events and circumstances. Financial information appearing elsewhere in the Company's Annual Report is consistent with the financial statements.

Management maintains the necessary system of internal controls over financial reporting to meet its responsibility for the reliability of the financial statements. These controls are designed to provide management with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Board of Directors is responsible to ensure that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out its responsibility primarily through its Audit Committee, which is independent of management. The Audit Committee reviews the financial statements and recommends them to the Board for approval. The Audit Committee also reviews and monitors the Company's system of internal controls over financial reporting in the context of reports made by management or the external auditors.

Role of the Auditor

The external auditors, Deloitte and Touche LLP, have been appointed by the shareholder. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and to report thereon to the Company's shareholder. In carrying out their audit, the auditors make use of the work of the appointed actuary and his report on the policy liabilities of the Company. The external auditors have full and unrestricted access to the Audit Committee and the Board of Directors to discuss audit, financial reporting and related findings. The auditors' report outlines the scope of their audit and their opinion.

Role of the Appointed Actuary

The actuary is appointed by the Board of Directors of the Company. With respect to the preparation of these financial statements, the appointed actuary is required to carry out a valuation of the policy liabilities and to report thereon to the Company's shareholder. The valuation is carried out in accordance with accepted actuarial practice and regulatory requirements. The scope of the valuation encompasses the policy liabilities as well as any other matter specified in any direction that may be made by the regulators. The policy liabilities consist of a provision for unpaid claims and adjustment expenses on the expired portion of policies, a provision for future obligations on the unexpired portion of policies, and other policy liabilities that may be applicable to the specific circumstances of the Company.

In performing the valuation of the policy liabilities, which are by their very nature inherently variable, the appointed actuary makes assumptions as to the future rates of claims severity, inflation, reinsurance recoveries, expenses and other matters, taking into consideration the circumstances of the Company and the nature of the insurance coverage being offered. The valuation is necessarily based on estimates; consequently, the final values may vary significantly from those estimates. The appointed actuary also makes use of management information provided by the Company, and uses the work of the auditor with respect to the verification of the underlying data used in the valuation.

Toronto, Ontario
February 5, 2010

KWaters

Kathleen A. Waters
President and CEO

Steve

Steven W. Jorgensen
Vice-President, Finance and Treasurer

Auditors' Report

Deloitte & Touche LLP
Brookfield Place
181 Bay Street, Suite 1400
Toronto ON M5J 2V1
Canada

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Deloitte.

To the Shareholder of Lawyers' Professional Indemnity Company

We have audited the balance sheet of Lawyers' Professional Indemnity Company as at December 31, 2009 and the statements of (loss)/income, of comprehensive income/(loss), of changes in shareholder's equity and of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accountants
Licensed Public Accountants
February 5, 2010

Appointed Actuary's Report

Eckler Ltd.
Consultants and Actuaries

I have valued the policy liabilities of Lawyers' Professional Indemnity Company for its balance sheet as at December 31, 2009, and their changes in its statement of income for the year then ended, in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of the policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

B G Pelly

Toronto, Ontario
February 5, 2010

Brian G. Pelly
Fellow, Canadian Institute of Actuaries
Eckler Ltd.
110 Sheppard Avenue East, Suite 900
Toronto, Ontario M2N 7A3

BALANCE SHEET

Stated in thousands of Canadian dollars

As at December 31	**2009**	**2008**
ASSETS		
Cash and cash equivalents	12,471	3,039
Investments (note 2)	434,963	406,385
Investment income due and accrued	2,296	2,165
Due from reinsurers	4,182	6,308
Due from insureds	2,194	2,216
Due from the Law Society of Upper Canada (note 5)	19,124	7,392
Reinsurers' share of provision for unpaid claims and adjustment expenses (note 4)	45,485	46,186
Other receivables	644	680
Other assets	1,593	355
Capital assets (note 3)	3,373	3,993
Income taxes recoverable	—	5,925
Future income taxes (note 7)	3,361	2,645
Total assets	**529,686**	**487,289**
LIABILITIES		
Provision for unpaid claims and adjustment expenses (note 4)	383,855	348,646
Unearned premiums	693	811
Due to reinsurers	568	527
Due to insureds	260	5
Expenses due and accrued	1,963	2,783
Income taxes due and accrued	7	—
Other taxes payable	1,273	638
	388,619	**353,410**
SHAREHOLDER'S EQUITY (NOTE 8)		
Capital stock issued and paid	5,000	5,000
Contributed surplus	30,645	30,645
Retained earnings	101,940	108,417
Accumulated other comprehensive income / (loss)	3,482	(10,183)
	141,067	133,879
Total liabilities and shareholder's equity	**529,686**	**487,289**

See accompanying notes to financial statements

On behalf of the Board

Kathleen A. Waters
Director

Ian D. Croft
Director

Statement of (Loss)/Income

Stated in thousands of Canadian dollars

For the year ended December 31	2009	2008
Premiums earned – gross	107,453	90,739
Premiums earned – ceded	(5,960)	(5,683)
Net premiums earned	**101,493**	**85,056**
Net claims and adjustment expenses (note 4)	108,686	81,880
Premium taxes	3,225	2,724
General expenses	15,434	15,809
Reinsurance commissions earned	(3,252)	(4,913)
	124,093	**95,500**
Underwriting loss	**(22,600)**	**(10,444)**
Investment income (note 2)	11,873	20,658
Other income	83	31
(Loss) / Income before income taxes	**(10,644)**	**10,245**
Income tax (recovery) / expense (note 7)		
Current	(3,268)	2,877
Future	(899)	343
	(4,167)	**3,220**
Net (loss) / income	**(6,477)**	**7,025**

See accompanying notes to financial statements

Statement of Comprehensive Income/(Loss)

Stated in thousands of Canadian dollars

For the year ended December 31	2009	2008
Net (loss) / income	**(6,477)**	**7,025**
Other comprehensive income / (loss), net of income tax:		
Net changes in unrealized gains and losses on available for sale financial assets, net of taxes of ($3,256) (2008: $3,815)	6,669	(7,574)
Reclassification adjustment for (gains) and losses included in net income, net of taxes of ($3,446) (2008: $701)	6,996	(1,392)
Other comprehensive income / (loss)	**13,665**	**(8,966)**
Comprehensive income / (loss)	**7,188**	**(1,941)**

See accompanying notes to financial statements

Statement Of Changes In Shareholder's Equity

Stated in thousands of Canadian dollars

	Capital stock	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Shareholder's Equity
Balance at December 31, 2007	**5,000**	**30,645**	**101,392**	**(1,217)**	**135,820**
Net income	—	—	7,025	—	7,025
Other comprehensive loss for the year	—	—	—	(8,966)	(8,966)
Balance at December 31, 2008	**5,000**	**30,645**	**108,417**	**(10,183)**	**133,879**
Net loss	—	—	(6,477)	—	(6,477)
Other comprehensive income for the year	—	—	—	13,665	13,665
Balance at December 31, 2009	**5,000**	**30,645**	**101,940**	**3,482**	**141,067**

The aggregate of retained earnings and accumulated other comprehensive income (loss) as at December 31, 2009 is $105,422 (December 31, 2008 – $98,234).

Statement Of Cash Flows

Stated in thousands of Canadian dollars

For the year ended December 31	**2009**	**2008**
Operating Activities		
Net (loss) / income	(6,477)	7,025
Items not affecting cash:		
Future income taxes	(899)	343
Amortization of capital assets	891	875
Realized gains	10,248	(2,443)
Amortization of premiums and discounts on bonds	(582)	(1,603)
Changes in unrealized gains and losses	(6,028)	(1,028)
	(2,847)	**3,169**
Changes in non-cash working capital balances:		
Investment income due and accrued	(131)	45
Due from reinsurers	2,167	(2,218)
Due from insureds	277	(1,303)
Due from the Law Society of Upper Canada	(11,732)	4,004
Reinsurers' share of provisions for unpaid claims and adjustment expenses	701	9,257
Other receivables	36	(244)
Other assets	(1,238)	659
Income taxes recoverable	(586)	(188)
Provision for unpaid claims and adjustment expenses	35,209	9,025
Unearned premiums	(118)	24
Expenses due and accrued	(820)	290
Other taxes payable	635	(457)
Net cash inflow from operating activities	**21,553**	**22,063**
Investing Activities		
Purchases of capital assets	(271)	(4,141)
Purchases of investments	(293,598)	(286,316)
Proceeds from sales and maturities of investments	281,748	264,584
Net cash outflow from investing activities	**(12,121)**	**(25,873)**
Net change in cash and cash equivalents during the year	9,432	(3,810)
Cash and cash equivalents, beginning of year	3,039	6,849
Cash and cash equivalents, end of year	**12,471**	**3,039**
Cash and cash equivalents at end of year consists of:		
Cash	4,389	2,721
Cash equivalents	8,082	318
	12,471	**3,039**

See accompanying notes to financial statements

Lawyers' Professional Indemnity Company (the "Company") is an insurance company, incorporated in Ontario and licensed to provide lawyers professional liability insurance and title insurance. The Company is a wholly-owned subsidiary of the Law Society of Upper Canada ("Law Society"), which is the governing body for lawyers in Ontario.

1 Significant Accounting Policies

These financial statements have been prepared under the *Insurance Act of Ontario* (the "Act") and related regulations which require that except as otherwise specified by the Company's primary insurance regulator, the Financial Services Commission of Ontario ("FSCO"), the financial statements of the Company are to be prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements are summarized below. These accounting policies conform, in all material respects, to Canadian generally accepted accounting principles.

Changes In Accounting Policies

a) Adopted During the Current Year

On January 1, 2009, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section ("Section") 3064, "Goodwill and Intangible Assets". Section 3064 replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Provisions concerning goodwill are unchanged from the standards included in the previous Section 3062. The provisions relating to intangible assets, including internally generated intangible assets, are incorporated from International Financial Reporting Standards ("IFRS"). The adoption of this Section did not have a material impact on the Company's financial statements.

Effective January 1, 2009, the Company adopted the CICA Emerging Issues Committee ("EIC") Abstract No.173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". EIC 173 clarifies how an entity's own credit risk and that of the relevant counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The new guidance did not have a material impact on the Company's financial statements.

In June 2009, the Company retroactively adopted amendments to CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement". The amendments clarify that, subsequent to the recognition of an impairment loss, the rate used to determine the impairment loss is used to calculate interest income on the impaired debt security. The amendments make the application of the effective interest method under Section 3855 consistent with the application of this method under IFRS. The adoption of these amendments did not have a material impact on the Company's financial statements.

In the third quarter of 2009, the CICA issued further amendments to Section 3855. The amendments include a revision of the definition of loans and receivables. As a result of the amended definition, debt instruments with fixed and determinable payments that are not quoted in an active market may be classified as loans and receivables and impairment of these loans would be assessed following Section 3025, "Impaired Loans", which assesses and measures impairment losses on an incurred credit loss basis. Impairment of held-to-maturity investments will also be measured on this basis. Loans and receivables that an entity intends to sell immediately or in the near term must be classified as held-for-trading and those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, must be classified as available-for-sale. The amendments also require the reversal of impairment losses on available-for-sale debt instruments through profit and loss in a subsequent period when the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net income. The adoption of these amendments did not have a material impact on the Company's financial statements.

In June 2009, the CICA issued amendments to Section 3862, "Financial Instruments – Disclosures". The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS. The Company has presented these additional disclosures in note 11.

b) Adopted During the Prior Year

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1535 "Capital Disclosures", 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation". Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital; information about what the entity regards as capital; whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance. Sections 3862 and 3863 replace Handbook Section 3861 "Financial Instruments – Disclosure and Presentation". Section 3863 carries forward unchanged the presentation requirements of Section 3861 while Section 3862 requires additional disclosures of the nature and extent of risks arising from financial instruments, including the objectives, policies, processes and methods used to measure and manage key risks. These new disclosures are included in notes 12 and 13.

On October 17, 2008, the CICA announced amendments to Section 3855 "Financial Instruments – Recognition and Measurement" and Section 3862 "Financial Instruments – Disclosures". These amendments permit companies to move certain financial assets out of categories that require fair value changes to be recognized immediately in net income. No such transfers have been effected by the Company.

c) Future Accounting Changes

The Accounting Standards Board ("AcSB") has issued an exposure draft proposing to incorporate IFRS into the CICA Handbook over the period ending December 31, 2010. After this transitional period, the Company will cease to use Canadian GAAP and will adopt IFRS on January 1, 2011. IFRS 4 Phase II, an IFRS accounting standard which addresses the recognition and measurement of insurance contracts, is still under development. The Company monitors this transition to IFRS and is analyzing the impact that the adoption of the IFRS will have on its financial statements.

Financial instruments – recognition and measurement

Financial assets are classified as held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are classified as held for trading or as other financial liabilities. These classifications are determined based on the characteristics of the financial assets and liabilities, the company's choice and/or the company's intent and ability. As permitted under the standards, the company has the ability to designate any financial instrument irrevocably, on initial recognition or adoption of the standards, as held for trading under the fair value option ("FVO") as long as its fair value can be reliably measured. The Company's financial assets and liabilities are measured on the balance sheet at fair value on initial recognition and are subsequently measured at fair value or amortized cost depending on their classification as indicated below.

Fair values of financial instruments are based on quoted market prices in active markets and are determined using bid prices for financial assets and ask prices for financial liabilities. Fair values of third party pooled funds are based on the net asset values as advised by the fund administrators. Transaction costs related to financial assets and liabilities are expensed as incurred. The Company accounts for the purchase and sale of securities using trade date accounting. The effective interest method is used to calculate amortization/accretion of premiums or discounts on fixed income securities.

Held for trading financial assets

Financial assets classified as held for trading are measured at fair value on the balance sheet with realized gains and losses and net changes in unrealized gains and losses recorded in investment income along with dividends and interest earned.

The Company maintains a cash-flow matched investment portfolio which was designated as held for trading under the FVO. The cash-flow matched portfolio consists of fixed income investment securities the amounts and terms of which match the expected timing and magnitude of future payments of claims and adjustment expenses. The cash-flow matched portfolio represents a significant component of the Company's risk management strategy for meeting its claims obligations. The designation of the financial assets in the cash-flow matched investment portfolio as held for trading is intended to significantly reduce the measurement or recognition inconsistency that would otherwise arise from measuring assets, liabilities, and gains and losses under different accounting methods. Interest rate movements cause changes in the values of the investment portfolio and of discounted estimated future claims liabilities. As the changes in values of the matched portfolio and of the discounted estimated future claims liabilities flow through the income statement, the result is an offset of at least a significant portion of these changes.

Cash and cash equivalents are also classified as held for trading. Cash and cash equivalents consist of cash on hand, balances with banks, and short-term investments that mature in three months or less from the date of acquisition.

Available for sale financial assets

Financial assets classified as available for sale are measured at fair value on the balance sheet. Dividends and interest income from available for sale securities, including amortization of premiums and the accretion of discounts, are recorded in investment income in the statement of income. Net changes in unrealized gains and losses are recorded in other comprehensive income ("OCI") until realized, at which time the cumulative gain or loss is reclassified to investment income in the statement of income. Also, unrealized losses that are determined to be other than temporary are reclassified to investment income. Investments in equity securities classified as available for sale that do not have quoted market prices in an active market would be measured at cost.

Financial assets in the Company's surplus portfolio (consisting of all investments outside the cash-flow matched portfolio) including fixed income securities, equities and pooled funds, are designated as available for sale.

Other financial assets and liabilities

The Company has not designated any financial assets as held to maturity. Loans and receivables and other financial liabilities are carried at amortized cost. Given the short term nature of other financial assets and other financial liabilities, amortized cost approximates fair value.

Impairment

Available for sale assets are tested for impairment on a quarterly basis. Objective evidence of impairment for bonds includes financial difficulty of the issuer, bankruptcy or defaults and delinquency in payments of interest or principal. Objective evidence of impairment for stocks includes a significant or prolonged decline in fair value of the stock below cost or changes with adverse effects that have taken place in the technological, market, economic or legal environment in which the issuer operates that may indicate that the carrying value will not recover.

Where there is objective evidence that an available for sale asset is impaired and the decline in value is considered other than temporary, the loss accumulated in OCI is reclassified to net investment income. Once an impairment loss is recorded to income, the loss can only be reversed for fixed income securities to the extent a subsequent increase in fair value can be objectively correlated to an event occurring after the loss was recognized. Following impairment loss recognition, these assets will continue to be recorded at fair value with changes in fair value recorded to OCI and tested for further impairment quarterly. Interest is no longer accrued and previous interest accruals are reversed.

Capital assets

Capital assets are carried at amortized cost. Amortization is charged to expense on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture and fixtures	3 to 5 years
Computer equipment and software	1 to 3 years
Leasehold improvements	Term of lease

Premium related balances

Insurance policies under the professional liability insurance program are effective on a calendar year basis. Professional liability insurance premium income is earned on a pro rata basis over the term of coverage of the underlying insurance policies; generally one year, except for policies for retired lawyers, which have terms of up to five years. The portion of premiums related to the unexpired term of coverage at the balance sheet date is recorded as unearned premiums. Title insurance premiums are earned at the inception date of policies.

Premiums receivable are recorded as amounts due from insureds in the balance sheet, net of any required provision for doubtful amounts. Premiums received from insureds in advance of the effective date of the insurance policy are recorded as amounts due to insureds in the balance sheet.

The Company defers policy acquisition expenses, primarily premium taxes on its written professional liability insurance premiums, to the extent these costs are considered recoverable. These costs are expensed on the same basis that the related premiums are earned. The method to determine recoverability of deferred policy acquisition expenses takes into consideration future claims and adjustment expenses to be incurred as premiums are earned and anticipated investment income. Deferred policy acquisition expenses are not material at year-end, and therefore the Company's policy is to not recognize an asset on the balance sheet.

Other income

Other income is miscellaneous income other than premium income or investment income and is recognized when it is earned.

Claims related balances

a) Provision for unpaid claims and adjustment expenses

The provision for unpaid claims and adjustment expenses is calculated based on accepted actuarial practice developed by the Canadian Institute of Actuaries. The provision consists of case estimates prepared by claims adjusters and a provision for incurred but not reported claims ("IBNR"). The estimates include related investigation, settlement and adjustment expenses. The estimates are regularly reviewed and updated, and any resulting adjustments are included in current income. The provision is recorded net of anticipated salvage and subrogation recoveries.

Claim liabilities are carried on a discounted basis using the yield of the underlying assets backing the claim liabilities, with a provision for adverse deviations, in accordance with accepted actuarial practice. Since the underlying assets are carried at fair value, the discount rate is the market yield.

b) Deductibles

The professional liability insurance policy requires insureds to pay deductibles to the maximum extent of $25 each on individual claims. Expected deductible recoveries on paid and unpaid claims are recognized net of any required provision for uncollectible accounts at the same time as the related claims liability.

Reinsurance

Net premiums earned and claims incurred are recorded net of amounts ceded to, and recoverable from, reinsurers in the statement of income. Amounts relating to reinsurance in respect of the premiums and claims related balances in the balance sheet are recorded separately. Amounts recoverable from reinsurers are estimated and recognized in a manner consistent with the Company's method of determining the policy liability associated with the reinsurance policy.

Employee future benefits

The Company maintains a defined contribution pension plan for its employees as well as a supplemental defined benefit pension plan for certain designated employees, which provides benefits to those employees in excess of the benefits provided by the Company's defined contribution pension plan. The benefit liability under the supplemental defined benefit pension plan is actuarially determined using the projected benefit method pro-rated on service and management's assumptions about discount rates, expected plan assets' performance, salary growth and retirement ages of employees. The discount rate is determined on the basis of market conditions at year-end and other assumptions are based on long term expectations.

Adjustments for plan amendments are recognized fully in income in the year to which they relate. Changes in assumptions and actuarial gains and losses are recognized in income in the year following the actuarial valuation of the benefit liability to which they relate.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities, and are measured using the tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized, where those tax rates and laws have been substantively enacted.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates and changes in estimates are recorded in the year in which they are determined. The most significant assets and liabilities which require estimation in their determination are the provision for unpaid claims and adjustments and reinsurers' share thereof (note 4).

2 Investments

a) Summary

	December 31, 2009			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available for sale				
Fixed income securities	$ 68,201	1,740	(370)	69,571
Common equities	32,093	4,504	(947)	35,650
Preferred equities	125	48	—	173
	100,419	6,292	(1,317)	105,394
Held for trading under FVO				
Fixed income securities	320,542	9,351	(780)	329,113
Preferred equities	615	—	(159)	456
	$ 321,157	9,351	(939)	329,569
Total	**$ 421,576**	**15,643**	**(2,256)**	**434,963**
Reconciled in aggregate to asset classes as follows:				
Fixed income securities	$ 388,743	11,091	(1,150)	398,684
Equities	32,833	4,552	(1,106)	36,279
Total	**$ 421,576**	**15,643**	**(2,256)**	**434,963**

	December 31, 2008			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available for sale				
Fixed income securities	$77,962	2,035	(2,113)	77,884
Common equities	49,191	300	(15,615)	33,876
	127,153	2,335	(17,728)	111,760
Held for trading under FVO				
Fixed income securities	290,637	7,117	(4,467)	293,287
Preferred equities	1,605	10	(277)	1,338
	292,242	7,127	(4,744)	294,625
Total	**$419,395**	**9,462**	**(22,472)**	**406,385**
Reconciled in aggregate to asset classes as follows:				
Fixed income securities	$368,599	9,152	(6,580)	371,171
Equities	50,796	310	(15,892)	35,214
Total	**$419,395**	**9,462**	**(22,472)**	**406,385**

The available for sale assets disclosed in the preceding tables exhibit evidence of impairment; however, no impairment loss has been recognized in net income because it is not considered other than temporary, due to factors such as a lack of prolonged decline and/or the existence of good prospects for future recovery.

b) Realized/change in unrealized gains and losses

The realized capital gains (losses) and increase (decrease) in the unrealized gains and losses of the Company's available for sale investments for the year are as follows:

	2009					
	Net realized gains (losses)			Increase (decrease) in unrealized gains and losses		
	Gross	Tax	Net	Gross	Tax	Net
Fixed income securities	$ 240	(79)	161	1,448	(458)	990
Equities	(10,682)	3,525	(7,157)	18,918	(6,243)	12,675
Total	**$(10,442)**	**3,446**	**(6,996)**	**20,366**	**(6,701)**	**13,665**

	2008					
	Net realized gains (losses)			Increase (decrease) in unrealized gains and losses		
	Gross	Tax	Net	Gross	Tax	Net
Fixed income securities	$ 931	(312)	619	(635)	212	(423)
Equities	1,162	(389)	773	(12,847)	4,304	(8,543)
Total	**$ 2,093**	**(701)**	**1,392**	**(13,482)**	**4,516**	**(8,966)**

c) Investment income

Investment income arising from investments classified as held for trading under FVO and from investments classified as available for sale recorded in net income for the year is as follows:

	2009			2008		
	Held for trading under FVO	Available for sale	Total	Held for trading under FVO	Available for sale	Total
Interest	$ 12,645	3,174	15,819	$ 12,444	4,141	16,585
Dividends	28	1,024	1,052	77	1,152	1,229
Net realized gains (losses)	194	(10,442)	(10,248)	350	2,093	2,443
Change in net unrealized gains and losses	6,028	—	6,028	1,028	—	1,028
	18,895	(6,244)	12,651	13,899	7,386	21,285
Less: Investment expenses	(315)	(463)	(778)	(321)	(306)	(627)
Investment income	**$18,580**	**(6,707)**	**11,873**	**$13,578**	**7,080**	**20,658**

d) Maturity profile of fixed income securities

The maturity profile of fixed income securities and its analysis by type of issuer is as follows:

December 31, 2009	Within 1 Year	1 to 5 Years	Over 5 Years	Total
Available for sale				
Issued or guaranteed by:				
Canadian federal government	$ 150	23,862	1,494	25,506
Canadian provincial and municipal government	120	11,075	10,720	21,915
Other government	—	—	—	—
Mortgage backed securities	—	285	3,252	3,537
Corporate debt	894	3,306	14,413	18,613
	$ 1,164	38,528	29,879	69,571
Held for trading under FVO				
Issued or guaranteed by:				
Canadian federal government	$ 42,065	63,277	11,075	116,417
Canadian provincial and municipal government	7,193	36,839	38,896	82,928
Other government	—	—	—	—
Mortgage backed securities	—	1,165	1,275	2,440
Corporate debt	29,771	63,938	33,619	127,328
	$ 79,029	165,219	84,865	329,113
Fixed income securities	**$80,193**	**203,747**	**114,744**	**398,684**
Percent of total	20%	51%	29%	100%

December 31, 2008	Within 1 Year	1 to 5 Years	Over 5 Years	Total
Available for sale				
Issued or guaranteed by:				
Canadian federal government	$ —	23,177	1,131	24,308
Canadian provincial and municipal government	—	1,203	2,969	4,172
Other government	—	—	—	—
Mortgage backed securities	—	1,350	18,071	19,421
Corporate debt	—	3,944	26,039	29,983
	$ —	29,674	48,210	77,884
Held for trading under FVO				
Issued or guaranteed by:				
Canadian federal government	$ 39,474	63,594	17,355	120,423
Canadian provincial and municipal government	7,455	18,038	48,712	74,205
Other government	—	5,371	2,496	7,867
Mortgage backed securities	—	1,248	1,351	2,599
Corporate debt	16,138	54,364	17,691	88,193
	$ 63,067	142,615	87,605	293,287
Fixed income securities	**$ 63,067**	**172,289**	**135,815**	**371,171**
Percent of total	17%	46%	37%	100%

The weighted average duration of fixed income securities at December 31, 2009 is 3.52 years (2008: 4.32 years). The effective yield on fixed income securities as at December 31, 2009 is 3.67% (2008: 3.96%).

3 Capital Assets

	2009			2008
	Cost	Accumulated amortization	Carrying value	Carrying value
Furniture & Fixtures	$ 1,321	(506)	815	1,078
Computer Equipment	1,023	(835)	188	436
Computer Software	264	(199)	65	88
Leasehold Improvements	2,778	(473)	2,305	2,391
Total	**$ 5,386**	**(2,013)**	**3,373**	**3,993**

4 PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

The determination of the provision for unpaid claims and adjustment expenses is a complex process based on known facts, interpretations and judgment and is influenced by a variety of factors. Consequently, the measurement of the ultimate settlement costs of claims made to date that underlies the provision for unpaid claims and adjustment expenses, and any related recoveries for reinsurance and deductibles, involves estimates and measurement uncertainty. The amounts are based on estimates of future trends in claim severity and other factors which could vary as claims are settled.

Variability can be caused by several factors including the emergence of additional information on claims, changes in judicial interpretation and significant changes in severity or frequency of claims from historical trends. Ultimate costs incurred could vary from current estimates. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the methods of estimation that have been used will produce reasonable results given the current information. An actuary performs a valuation of claims liabilities at least annually. As adjustments to estimated claims liabilities become necessary, they are reflected in current operations.

To limit losses through the spreading of risks, the Company cedes reinsurance to other insurers. In the event that a reinsurer is unable to meet obligations assumed under reinsurance agreements, the Company is liable for such amounts. The Company has guidelines and a review process in place to ascertain the creditworthiness of the companies to which it cedes. Based on current information of the financial health of the reinsurers, no provision for doubtful debts has been made in the financial statements in respect of reinsurers.

Details of the provision for unpaid claims and adjustment expenses, by line of business, is summarized as follows:

December 31, 2009	**Gross**	**Ceded**	**Net**
Liability	370,385	(45,280)	325,105
Title	13,470	(205)	13,265
Total	**383,855**	**(45,485)**	**338,370**

December 31, 2008	**Gross**	**Ceded**	**Net**
Liability	337,185	(46,019)	291,166
Title	11,461	(167)	11,294
Total	**348,646**	**(46,186)**	**302,460**

Changes in the provision for unpaid claims and adjustment expenses recorded in the balance sheet is comprised of the following:

	2009	**2008**
Provision for unpaid claims and adjustment expenses – beginning of year – net	$ 302,461	284,178
Change in net provision for claims and adjustment expenses due to:		
Prior years' incurred claims	4,698	(15,143)
Current year's incurred claims	96,987	94,470
Net claims and adjustment expenses paid in relation to:		
Prior years	(63,054)	(55,099)
Current year	(9,723)	(8,499)
Impact of discounting	7,001	2,553
Provision for unpaid claims and adjustment expenses – end of period – net	338,370	302,460
Reinsurers' share of provisions for unpaid claims and adjustment expenses	45,485	46,186
Provision for unpaid claims and adjustment expenses – end of period – gross	$ 383,855	348,646

The Government of Ontario is expected to implement a Harmonized Sales Tax ("HST") for the province effective on July 1, 2010. Amounts currently provided in the provision for unpaid claims and adjustment expenses above include a $10,681 provision, before discounting and reinsurance, relating to the estimated effect of the HST on claims payments expected to be made after June 30, 2010 with respect to claims incurred on or before the statement date of December 31, 2009. This additional provision has been allocated $2,492 to the current year's claims and $8,189 to prior years' claims.

Details of the net claims and adjustment expenses for the year ended December 31 are as follows:

		2009			**2008**	
	Gross	**Ceded**	**Net**	**Gross**	**Ceded**	**Net**
Claims & adjustment expenses paid	70,350	3,539	66,811	64,653	6,527	58,126
Change in case reserves	16,821	(3,209)	20,030	10,517	(7,490)	18,007
Change in IBNR	10,001	1,460	8,541	(6,175)	(3,367)	(2,808)
Discount expense/ (income)	8,049	1,048	7,001	3,350	797	2,553
Unallocated loss adjustment expenses paid	5,966	—	5,966	5,472	—	5,472
Change in ULAE	337	—	337	530	—	530
	$111,524	**2,838**	**108,686**	**78,347**	**(3,533)**	**81,880**

As the provision for unpaid claims and adjustment expenses is recorded on a discounted basis and reflects the time value of money, its carrying value is expected to provide a reasonable basis for the determination of fair value. However, determination of fair value also requires the practical context of a buyer and seller, both of whom are willing and able to enter into an arm's length transaction. In the absence of such a practical context, the fair value is not readily determinable.

5 Related Party Transactions

Pursuant to a service agreement effective January 1, 1995, and as amended effective September 30, 2009, the Company administers the Errors and Omissions Insurance Fund (the "Fund") of the Law Society and provides all services directly related to the operations and general administration of the Fund in consideration for the Law Society insuring its mandatory professional liability insurance program with the Company.

The insurance policy under the mandatory professional liability insurance program of the Law Society is written by the Company and is effective on a calendar year basis. The insurance policy is renewed effective January 1 each year subject to the Law Society's acceptance of the terms of renewal submitted by the Company.

Commencing January 1, 1995, there was no longer the Law Society deductible and 100% of the risk over the individual member deductible was insured through the Company. The annual policy limits for each of the years effective January 1, 1995 to December 31, 2009 are $1,000 per claim and $2,000 in aggregate per member.

For the year ended December 31, 2009, 89% of the premiums written related to mandatory insurance coverage provided to the Law Society and its members (2008: 87%). Under the insurance policy that was in force between July 1, 1990 and December 31, 1994, the Company was responsible for claims in excess of the Law Society and member deductibles. The provision for unpaid claims and adjustment expenses is net of amounts relating to policies for years prior to 1995 that are payable by the Law Society. For 2009, the Company has estimated an additional premium of $13,568 from (2008: $1,415 refund of premium to) the Fund pursuant to the retrospective premium rating provisions of its insurance policy. This retrospective premium forms part of the net inter-company balance due from the Law Society of $19,124 (2008: $7,392).

6 Employee Future Benefits

The Company has a defined contribution pension plan which is available to all its employees upon meeting the eligibility requirements. Each employee is required to contribute 4.5% of yearly maximum pensionable earnings, and 6% in excess thereof, of an employee's annual base earnings. Under the plan, the Company matches all employee contributions. The Company made payments of $496 in 2009 (2008: $468) and recorded pension expense of $496 (2008: $470).

The Company also has a supplemental defined benefit pension plan. Funding for the supplemental plan commenced in 2005, with payments of $1,557 in 2009 (2008: $756) and recorded pension expenses of $86 in 2009 (2008: $1,026). Funding requirements are reviewed annually with an actuarial valuation for funding purposes effective as at December 31. The most recent actuarial valuation for funding purposes was performed effective December 31, 2009. For reporting purposes, all assets and liabilities associated with pension benefits have been measured using values as at December 31, 2009.

Accrued benefit obligation	**2009**	**2008**
Balance, beginning of the year	$ 2,938	2,312
Current service cost	139	191
Interest cost	200	162
Actuarial loss (gain)	461	(461)
Plan amendment	—	734
Balance, end of year	**$ 3,738**	**2,938**

Fair value of plan assets	**2009**	**2008**
Market value of plan assets – beginning of year	$ 2,862	2,346
Actual return on plan assets, net of expenses	413	(240)
Employer contribution	1,558	756
Market value of plan assets – end of year	**$ 4,833**	**2,862**

The defined benefit plan assets arise primarily from employer contributions that are originally allocated equally between deposits with the Government of Canada and investments in the units of a balanced pooled fund, representing a portfolio mix of equities and debt securities.

Reconciliation of funded status surplus (deficit) of the benefit plans to the amounts recorded in the financial statements:

	2009	**2008**
Fair value of plan assets	$ 4,833	2,862
Accrued benefit obligation	(3,738)	(2,938)
Funded status surplus (deficit)	1,095	(76)
Unamortized net actuarial loss	166	(135)
Accrued benefit asset (liability)	**$1,261**	**(211)**

The accrued benefit asset is included in other assets while the accrued benefit liability is included in expenses due and accrued in the balance sheet.

Components of defined benefit costs recognized in the year:

	2009	2008
Current service cost	$ 139	190
Interest cost	200	162
Actual return on assets	(412)	240
Actuarial losses (gains)	461	(461)
Past service cost	—	734
Difference between actual and recognized actuarial losses	(597)	486
Difference between actual and expected return on assets	295	(325)
Defined benefit costs recognized in the statement of income	**$ 86**	**1,026**

The significant assumptions used by the Company are as follows (weighted average):

	2009	2008
Discount rate	6.00%	6.50%
Expected long term rate of return on plan assets	6.00%	6.00%
Rate of compensation increase	3.00%	3.50%

7 INCOME TAXES

The following table reconciles the difference between the income taxes that would result solely by applying statutory tax rates to pre-tax (loss) income and the income taxes actually provided in the financial statements.

	2009	2008
Net (loss)/income before taxes	$ (10,644)	10,245
(Recovery of)/provision for income taxes at statutory rates	(3,512)	3,432
(Decrease)/increase resulting from:		
Unpaid claims	(177)	221
Investments	(444)	(466)
Other	(34)	33
(Recovery of)/provision for income taxes	**$ (4,167)**	**3,220**

The Company's statutory income tax rate for the year ended December 31, 2009 is 33.00% (2008: 33.50%).

The Company's future income tax asset is the result of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The sources of these temporary differences and the tax effects for each year are as follows:

	2009	2008
Investments	$ (1,278)	(2,100)
Net provision for unpaid claims and adjustment expenses	4,863	4,591
Other	(224)	154
Total	**$ 3,361**	**2,645**

During the year the Company made payments of $2,257 and received refunds of $4,939 from tax authorities.

8 SHAREHOLDER'S EQUITY

Capital stock of the Company represents:

30,000 Common Shares of par value of $100 each – authorized, issued and paid.

20,000 6% non-cumulative, redeemable, non-voting Preferred Shares of par value of $100 each – authorized, issued and paid.

9 STATUTORY INSURANCE INFORMATION

The Company is the beneficiary of trust accounts in the amount of $1,288 (2008: $7,866) which are held as security for reinsurance ceded to unregistered reinsurers. This trust balance is not reflected in these financial statements but is considered in determining statutory capital requirements.

In accordance with licensing requirements, the Company has deposited securities with the regulatory authorities having a market value of $51 (2008: $50).

10 OPERATING LEASE COMMITMENTS

The Company entered into a lease effective February 1, 2008 for new premises at 250 Yonge Street.

At December 31, 2009, lease obligations on office premises were as follows:

2010	$ 1,220
2011	1,220
2012	1,220
2013	1,220
2014	1,220
Thereafter	4,168

11 FAIR VALUE MEASUREMENTS

Section 3855 defines fair value as the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. To increase the consistency and comparability in fair value measurements and related disclosures, Section 3862 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. The three levels of the fair value hierarchy as described by Section 3862 are:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes government and agency mortgage-backed debt securities and corporate debt securities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, certain asset-backed securities ("ABS"), highly structured, complex or long-dated derivative contracts, and certain collateralized debt obligations ("CDOs") where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

The following table presents the Company's financial instruments that have been measured at fair value, on a recurring basis, as at December 31, 2009. The financial instruments presented below include related accrued interest or dividends, as appropriate.

	Level 1	**Level 2**	**Level 3**	**Total**
Cash & cash equivalents	$ 12,471	—	—	12,471
Investment – Available for sale				
Fixed income securities	$ 43,880	26,302	—	70,182
Common equities	35,762	—	—	35,762
Preferred equities	—	173	—	173
	79,642	26,475	—	106,117
Investment – Held for trading under FVO				
Fixed income securities	201,533	129,146	—	330,679
Preferred equities	—	463	—	463
	$ 201,533	129,609	—	331,142
Total	**$ 293,646**	**$ 156,084**	**$ —**	**$ 449,730**

12 RISK MANAGEMENT

The Company employs an enterprise-wide risk management framework which establishes practices for risk management and includes policies, processes to identify, assess, manage and monitor risks and risk tolerance limits. It provides governance and supervision of risk management activities across the Company's business units, promoting the discipline and consistency applied to the practice of risk management.

The Company's risk framework is designed to minimize risks that could materially adversely affect the value or stature of the Company, to contribute to stable and sustainable returns, to identify risks that the Company can manage in order to increase earnings, and to provide transparency of the Company's risks through internal and external reporting. The Company's risk philosophy involves undertaking risks for appropriate return and accepting those risks that meet its objectives. The Company's risk management program is aligned with its long term vision and its culture supports an effective risk management program. The key components of the risk culture include acting with fairness, appreciating the impact of risk on all major stakeholders, embedding risk management into day to day business activities, fostering full and transparent communications, cooperation, and aligning of objectives and incentives.

a) Insurance risk

Insurance risk is the risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, policyholder behaviour and expenses. A variety of assumptions are made related to the future level of claims, policyholder behaviour, expenses and sales levels when products are designed and priced as well as in the determination of actuarial liabilities. The development of assumptions for future claims are based on Company and industry experience; assumptions for policyholder behaviour are based on Company experience and predictive models. Such assumptions require a significant amount of professional judgment and therefore, actual experience may be materially different than the assumptions made by the Company. The Company has policies and procedures in place in order to monitor and control these risks.

b) Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a borrower or counterparty to fulfill its payment obligation to the Company. Credit risks arise from investments in fixed income securities and preferred shares, and its balances due from insureds and reinsurers.

Management monitors credit risk and any mitigating controls. The Company has established a credit review process where the credit quality of all exposures is continually monitored so that appropriate prompt action can be taken when there is a change which may have material impact.

Governance processes around investments include oversight by the Board of Directors' Investment Committee. The oversight includes reviews of the Company's third party investment managers, investment performance and adherence to the Company's investment policy. The Company's investment policy statement is reviewed at least on an annual basis and addresses various matters including investment objectives, risks and management. Guidelines and limits have been established in respect of asset classes, issuers of securities and the nature of securities to address matters such as quality and concentration of risks.

With respect to credit risk arising from balances due from reinsurers, the Company's exposure is measured as both current exposure and potential future exposure reflecting the level of ceded liabilities. Reinsurance and insurance counterparties must also meet minimum risk rating criteria. The Company's Board of Directors has approved a reinsurance policy, which is monitored by the Company's Audit Committee.

The credit risk profile of the Company's investments in fixed income securities and term deposits as at December 31 is provided below.

	2009		2008	
Credit rating	Market value	% of Total holdings	Market value	% of Total holdings
AAA	$ 163,835	42%	$ 165,287	45%
AA	88,014	22%	75,259	20%
A	103,465	26%	97,887	26%
BBB	29,433	7%	17,465	5%
BB or lower	—	0%	—	0%
Not rated	13,937	3%	15,273	4%
Total	**$ 398,684**	**100%**	**$ 371,171**	**100%**

c) Liquidity risk

Liquidity risk is the risk that the Company will not have enough funds available to meet all expected and unexpected cash outflow commitments as they fall due. Under stressed conditions, unexpected cash demands could arise primarily from a significant increase in the level of claim payment demands.

To manage its cash flow requirements, the Company has arranged diversified funding sources and maintains a significant portion of its invested assets in highly liquid securities such as cash and cash equivalents and government bonds (see note 2d). In addition, the Company has established counterparty exposure limits that aim to ensure that exposures are not so large that they may impact the ability to liquidate investments at their market value.

Claims liabilities account for the majority of the Company's liquidity risk. A significant portion of the investment portfolio is invested with the primary objective of matching the investment asset cash flows with the expected future payments on these claims liabilities. This portion, referred to as the cash flow matched investment portfolio, consists of fixed income and preferred equity securities that are intended to address the liquidity and cash flow needs of the Company as claims are settled. The remainder of the Company's overall investment portfolio, the available for sale portfolio, backs shareholder's equity and is invested in fixed income securities and equities with the objective of preserving capital and achieving an appropriate return consistent with the objectives of the Company.

The following table summarizes carrying amounts of financial instruments and insurance assets and liabilities by contractual maturity or expected cash flow dates (the actual repricing dates may differ from contractual maturity because certain securities and debentures have the right to call or prepay obligations with or without call or prepayment penalties).

	December 31, 2009					
	Within One year	One to Five years	Five to Ten years	More than Ten years	No fixed Maturity	Total
Assets						
Cash and cash equivalents	$ 12,471	—	—	—	—	12,471
Investments – held for trading under FVO	79,029	165,219	52,309	32,556	456	329,569
Investments – available for sale	1,164	38,528	21,271	8,608	35,823	105,394
Investment income due and accrued	2,296	—	—	—	—	2,296
Due from reinsurers	4,182	—	—	—	—	4,182
Due from insureds	2,194	—	—	—	—	2,194
Due from Law Society	19,124	—	—	—	—	19,124
Reinsurers' share of unpaid claims	11,916	25,461	6,694	1,414	—	45,485
Other receivable	644	—	—	—	—	644
Other assets	1,593	—	—	—	—	1,593
Total	**$ 134,613**	**229,208**	**80,274**	**42,578**	**36,279**	**522,952**
Liabilities						
Provision for unpaid claims	$ 78,842	216,814	67,466	20,733	—	383,855
Due to reinsurers	568	—	—	—	—	568
Due to insureds	260	—	—	—	—	260
Expenses due and accrued	1,963	—	—	—	—	1,963
Income taxes due and accrued	7	—	—	—	—	7
Total	**$ 81,640**	**216,814**	**67,466**	**20,733**	**—**	**386,653**

	December 31, 2008					
	Within One year	One to Five years	Five to Ten years	More than Ten years	No fixed Maturity	Total
Assets						
Cash and cash equivalents	$ 3,039	—	—	—	—	3,039
Investments – held for trading under FVO	63,067	142,615	59,582	28,023	1,338	294,625
Investments – available for sale	—	29,674	21,035	27,175	33,876	111,760
Investment income due and accrued	2,165	—	—	—	—	2,165
Due from reinsurers	6,308	—	—	—	—	6,308
Due from insureds	2,216	—	—	—	—	2,216
Due from Law Society	7,392	—	—	—	—	7,392
Reinsurers' share of unpaid claims	12,201	25,593	7,098	1,294	—	46,186
Other receivable	680	—	—	—	—	680
Other assets	330	25	—	—	—	355
Income taxes recoverable	5,925	—	—	—	—	5,925
Total	**$ 103,323**	**197,907**	**87,715**	**56,492**	**35,214**	**480,651**
Liabilities						
Provision for unpaid claims	$ 72,006	196,354	61,564	18,722	—	348,646
Due to reinsurers	527	—	—	—	—	527
Due to insureds	5	—	—	—	—	5
Expenses due and accrued	2,783	—	—	—	—	2,783
Total	**$ 75,321**	**196,354**	**61,564**	**18,722**	**—**	**351,961**

d) Market and interest rate risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rate, foreign exchange rates, and equity prices. Due to the nature of the Company's business, invested assets and insurance liabilities as well as revenues and expenses are impacted by movements in capital markets, interest rates, and to a lesser extent, foreign currency exchange rates. Accordingly, the Company considers these risks together in managing its asset and liability positions and ensuring that risks are properly addressed. These risks are referred to collectively as market price and interest rate risk – the risk of loss resulting from movements in market price, interest rate, credit spreads and foreign currency rates.

Interest rate risk is the potential for financial loss arising from changes in interest rates. The Company is exposed to interest rate price risk on monetary financial assets and liabilities that have a fixed interest rate and is exposed to interest rate cash flow risk on monetary financial assets and liabilities with floating interest rates that are reset as market rates change.

For held for trading assets and other financial assets supporting actuarial liabilities, the Company is exposed to interest rate risk when the cash flows from assets and the policy obligations they support are significantly mismatched, as this may result in the need to either sell assets to meet policy payments and expenses or reinvest excess asset cash flows under unfavourable interest environments. The estimated impact on the Company of an immediate parallel increase of 1% in interest rates as at December 31, 2009, across the yield curve in all markets, would be a decrease in net investment income of $9,971 (2008: $9,903) and a decrease in net claims and adjustment expenses of $11,212 (2008: $9,975) and conversely, an immediate 1% parallel decrease in interest rates would result in an estimated increase in net investment income of $10,402 (2008: $10,621) and an increase in net claims and adjustment expenses of $11,766 (2008: $10,701).

Bonds designated as available for sale generally do not support actuarial liabilities. Changes in fair value of available for sale fixed income securities are recorded to OCI. For the Company's available for sale fixed income securities, an immediate 1% parallel increase in interest rates at December 31, 2009, across the entire yield curve, would result in an estimated after-tax decrease in OCI of $2,496 (2008: $3,269). Conversely, an immediate 1% parallel decrease in interest rates would result in an estimated after-tax increase in OCI of $2,799 (2008: $3,766).

Market price and interest rate risk is managed through established policies and standards of practice that limit market price and interest rate risk exposure. Company-wide market price and interest rate risk limits are established and actual positions are monitored against limits. Target asset mixes, term profiles, and risk limits are updated regularly and communicated to portfolio managers. Actual asset positions are periodically rebalanced to within established limits.

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The Company's equities are designated as available for sale and generally do not support actuarial liabilities. Assuming all other variables held constant, an immediate 10% increase in stock prices at December 31, 2009, would result in an estimated after-tax increase in OCI of $2,507 (2008: $2,250), and conversely, an immediate 10% decrease in stock prices would result in an estimated after-tax decrease in OCI of $2,507 (2008: $2,250).

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates, in particular when an asset and liability mismatch exists in a different currency than the currency in which they are measured. As the Company does not hold significant liabilities in foreign currencies, the resulting currency risk is borne by the Company and forms part of its overall investment income. The table below details the effect of a 10% movement of the currency rate against the Canadian dollar as at December 31, 2009, with all other variables held constant. As at December 31, 2008, the Company did not have significant direct holdings in foreign denominated financial instruments.

Currency	Effect on Income before taxes (+/-)	Effect on OCI (+/-)
US Dollar	$ 1	$ 747
Euro	—	$ 417
Other	—	$ 172
	$ 1	$ 1,336

The Company also manages possible excessive concentration of risk. Excessive concentrations arise when a number of counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political and other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location. In order to avoid excessive concentrations of risk, the Company applies specific policies on maintaining a diversified portfolio. Identified risk concentrations are managed accordingly.

The following table summarizes the carrying amounts of financial instruments by geographical location of the issuer.

December 31, 2009

	Cash and Cash Equivalents	Fixed Income Securities	Equities	Investment Income Due and Accrued	Total	% of Total
Canada	$ 12,453	398,684	17,288	2,246	430,671	95.8%
USA	17	—	8,649	12	8,678	1.9%
Netherlands	—	—	2,182	—	2,182	0.5%
Germany	—	—	1,926	—	1,926	0.4%
Others	1	—	6,234	38	6,273	1.4%
Total	**$ 12,471**	**398,684**	**36,279**	**2,296**	**449,730**	**100.0%**

December 31, 2008

	Cash and Cash Equivalents	Fixed Income Securities	Equities	Investment Income Due and Accrued	Total	% of Total
Canada	$ 3,026	371,171	15,398	2,153	391,748	95.2%
USA	13	—	8,275	12	8,300	2.0%
Japan	—	—	2,548	—	2,548	0.6%
United Kingdom	—	—	1,445	—	1,445	0.4%
Others	—	—	7,548	—	7,548	1.8%
Total	**$ 3,039**	**371,171**	**35,214**	**2,165**	**411,589**	**100.0%**

13 CAPITAL MANAGEMENT

Capital is comprised of the Company's shareholder's equity. As at December 31, 2009 the Company's shareholder's equity was $141,067 (2008: $133,879). The Company's objectives when managing capital are to maintain financial strength and protect its claims paying abilities, to maintain creditworthiness and to maximize returns for shareholders over the long term. Senior management develops the capital strategy and oversees the capital management processes of the Company. Capital is managed using both regulatory capital measures and internal metrics.

FSCO, the Company's primary insurance regulator, along with other provincial insurance regulators, regulate the capital required in the Company using two key measures, i.e., Minimum Capital Test ("MCT") and the Dynamic Capital Adequacy Test ("DCAT"). The minimum solvency ratio targeted by the Company is 175%, which is higher than the regulatory MCT requirement of 150%. To monitor current and future capital requirements, the Company's appointed actuary models the Company's expected financial position under various adverse scenarios. The appointed actuary must present both an annual report and the DCAT report to management and the Audit Committee. During the year ended December 31, 2009, the Company complied with the various provincial regulators' guidelines and as at December 31, 2009, the Company has a MCT ratio of 206% (2008: 219%).

A common measure of capital adequacy in the property and casualty industry used by management is the ratio of net premiums to surplus (or shareholder's equity). The higher the ratio, the greater is the potential risk borne by the Company in relation to the surplus available to absorb loss variations. The net premiums written to surplus ratio at December 31, 2009 was 0.72 (2008: 0.64).

The Company may use reinsurance to manage its capital position.

14 COMPARATIVE FIGURES

The Company restated the prior year's Due from the Law Society of Upper Canada and Due to Insureds account balances to conform to the current year's presentation.