LawPRO™

making the difference...

2002 annual report

Lawyers' Professional Indemnity Company

about LAWPRO

Lawyers' Professional Indemnity Company (LAWPRO®) is an insurance company that is licensed to provide professional liability insurance and title insurance in numerous jurisdictions across Canada.

In 2002, LAWPRO provided liability insurance to more than 18,650 members of the Law Society of Upper Canada, and managed the liability insurance program of the Law Society of Newfoundland and Labrador. Through its TitlePLUS® operation, LAWPRO also provides comprehensive title insurance and legal services coverage for residential purchase and mortgage-only/refinance transactions handled by lawyers.

Our mission statement

"To be an innovative provider of insurance products and services that enhance the viability and competitive position of the legal profession."

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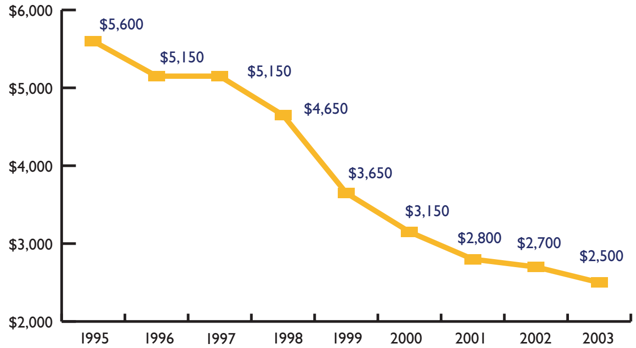
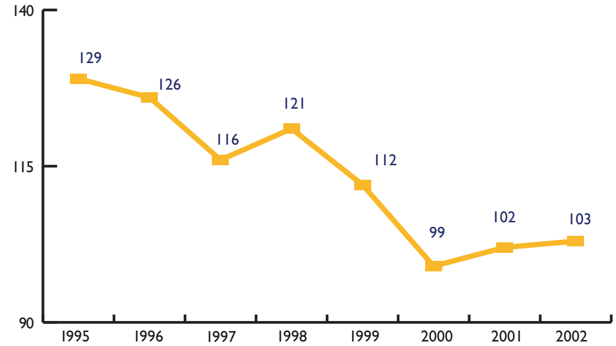
2002 at-a-glance

Base premium per lawyer
(1995-2003)



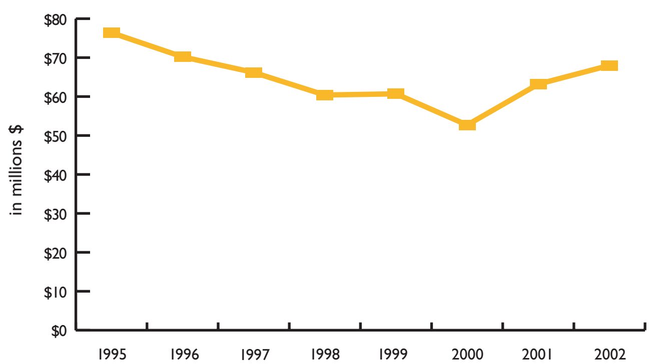
At $2,700 per lawyer, the base insurance premium in 2002 was less than half of what it had been in 1995, when LAWPRO assumed management of the professional liability insurance program. Premiums for 2003 have been reduced an additional $200 to $2,500.

Number of claims per thousand lawyers
(1995-2002)



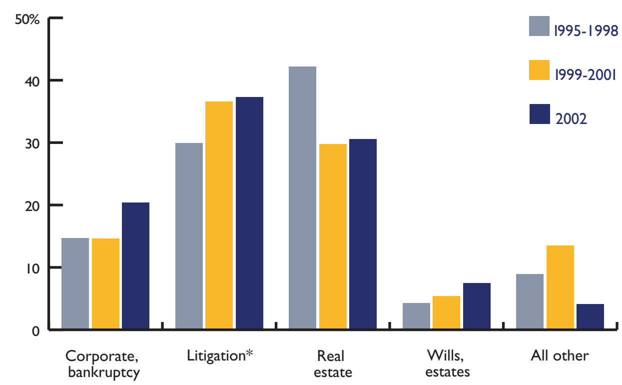
Over the last two years, the number of new claims reported annually has increased slightly to 1,947 in 2002 from 1,780 in 2000. The growth in the numbers of lawyers in practice accounts for much of this increase. In 2002, there were 18,650 lawyers in private practice compared to 17,800 in 2000 and 16,300 in 1995.

Gross claims paid
(1995-2002)



The cost of claims paid out in 2002 increased 8 per cent to just over $68 million, reflecting a 15 per cent increase in defence payments (including expert and adjuster fees). It is important to note that these files relate not only to claims reported in 2002 but also to prior years' claims which were resolved in 2002. These files had been reserved conservatively, and were subsequently closed at less than the reserve value. As a result, claims recorded in the 2002 financial statements reflect a $5.2 million improvement.

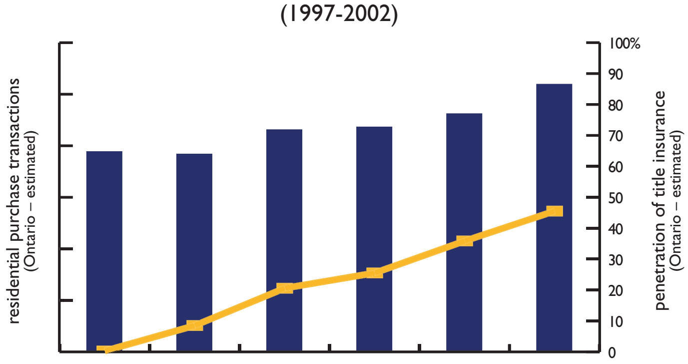
Distribution of claims by area of practice
(% of gross claims costs)



The claims portfolio handled by LAWPRO is changing: Increased risk management activities and the use of title insurance have played a key role in reducing real estate claims. The cost of claims arising out of litigation practice has stabilized, but litigation now is the area of practice that represents the highest percentage of reported claims. The increase in corporate claims is commented on in more depth on page 8 of this report.

* Includes defence and plaintiff litigation, family law and criminal law.

Increased use of title insurance
(1997-2002)



When TitlePLUS was first launched in 1997, fewer than one per cent of residential real estate purchases were insured with title insurance. In the intervening years, an increasing number of real estate lawyers have made title insurance a mainstay of their practice. It is estimated that in 2002 almost half of residential purchase transactions were title insured.

residential purchase transactions

percentage of transactions that are title-insured

remarks of the chairman

Once again our organization has enjoyed a year of outstanding success. For the third consecutive year, LAWPRO has received an "A" (Excellent) rating from the A.M. Best Company, a premier rating organization. This strong endorsement is based on a solid financial track record: In 2002, LAWPRO had $411 million in assets, $81 million in equity, and an after-tax profit of $8.6 million.

LAWPRO's decision to retain the 2003 professional liability program itself rather than place a portion with the reinsurance market is not only an indication of the company's financial stability and strength, but also proof that it has matured as an insurance company. In the words of A.M. Best Co.: "The company's disciplined management, strengthened capital position and stop-loss arrangement ensure it is able to assume 100 per cent of the Ontario program without compromising its financial strength."

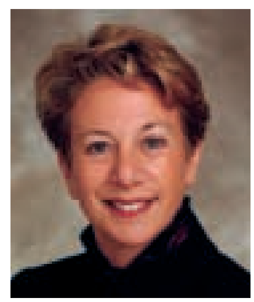
As any lawyer tracking costs knows, LAWPRO insurance premiums in 2002 were less than half of what they were in 1995, and for 2003 have been reduced further to $2,500 per lawyer; moreover, some lawyers will be paying premiums as low as $1,113, depending on the insurance options they have selected. Excellent fiscal, claims and risk management have helped keep claims costs in check, contributing to this reduction in insurance premiums. However, one must never lose sight of the fact that changing economic and practice realities have the potential to make achieving similar results more difficult in the future.

At the same time, LAWPRO has created many innovative and resourceful tools, including practicePRO, LAWPRO magazine and TitlePLUS. I encourage you to give them a second look, and to take advantage of the information and initiatives offered by LAWPRO to help make our law practices more effective and successful.

Since 1995, LAWPRO has had the benefit of a knowledgeable and professional management team. This team has been able to work with a Board which included both experienced insurance and corporate directors, and dedicated benchers. Together they have achieved remarkable results.

To the members of the Board and to LAWPRO's management and staff, thank you and congratulations on a job well done. You have made my task as Chairman a pleasure, and the accomplishments of this organization a source of confidence for our profession.

Frank N. Marrocco, Q.C.



In a perfect world, there would be no errors, no miscommunication, no deadlines to miss – and no need for liability or title insurance.

But perfection is hard to come by. Mistakes are made. People procrastinate or omit to put pen to paper. Surveys become dated, property taxes remain unpaid, fraud happens. Human nature being what it is, the need for insurance is here to stay.

LAWPRO cannot change this reality. But our approach, our expertise and our ability to innovate can – and does – make the difference for the legal profession.

Sound financial management of the insurance program has enabled us to weather the upheaval in global politics, economies, markets and the insurance sector of the past year.

Expert claims management helped contain claims costs. Innovative risk management tools and resources from practicePRO equipped lawyers to better manage the risk inherent in law practice – and, we believe, prevented many a claim from happening. Our commitment to technology leadership, as evidenced by the migration of all TitlePLUS Ontario products to a Web environment, will make a huge difference for the real estate bar in both the short and long term.

We are in a unique position to use insurance to make the difference for the legal community. Our claims data provides us with an early warning system about trends that will impact both our costs and our risk management activities. Through our customer service call centre, we obtain valuable insight and feedback on lawyers' concerns and priorities. We closely monitor economic data and trends, as one indicator of forces that could impact our programs. As well, we maintain a high profile in legal and insurance sector networks to ensure we are well tapped into trends, issues and needs. Armed with this information, we develop programs and services that add value to your relationship with LAWPRO.

This information gathering process indicates that we will have new challenges ahead in 2003 and beyond. The geopolitical and economic climate is uncertain. The insurance and reinsurance markets are global, with decisions and directions established outside our borders. It is at times like these when we can best serve the profession. We have been able to insulate ourselves from many of these forces and, as indicated in this year's annual report, we will not be fully immune to them all. Moderate decreases in our primary liability program pricing, and moderate increases in our excess program are the result for 2003.

2002 was another successful year, thanks to the people who are LAWPRO: Their talents, integrity and commitment to provide you with programs and services of the highest quality, are what continues to make the difference.

Michelle L.M. Strom

making the difference…

through flexible, responsive insurance programs

When it was charged with responsibility for the administration of the liability insurance program for Ontario lawyers in 1995, Lawyers' Professional Indemnity Company (LAWPRO) set for itself two key mandates:

- **to provide the legal profession with a cost-effective insurance program whose premiums generally reflect risk; and**
- **to operate customer-focused insurance programs that respond to lawyers' changing needs.**

Over the past seven years, we have consistently met these goals. In 2002, we provided liability insurance coverage to a record 18,650 lawyers – up significantly from both 2001 levels (18,018) and from 1995, when we insured just over 16,300 lawyers. Despite increased costs to operate a program of this size, we have been able to consistently reduce premiums. In 2002, the base premium stood at $2,700 per lawyer; for 2003, premiums were reduced by a further $200 to $2,500 per lawyer, less than half of the base premium of $5,600 in 1995.

As in past years, a significant number of lawyers took advantage of the opportunity to tailor their insurance coverage to meet their needs, resulting in reduced premiums for many. About 33 per cent of lawyers qualified for premium reductions available to those who are newly called to the bar, practise on a part-time basis or restrict their practice to criminal and/or immigration law. Premiums in 2003 for many in this group are $1,500 per lawyer or lower, depending on the deductible option selected. As well, 62 per cent of lawyers applied for optional insurance coverages such as additional Innocent Party Protection, and non-standard deductible options.

Lawyers applying for their 2003 insurance coverage also participated in large numbers in the optional measures offered by LAWPRO to reduce insurance premiums:

- a record 78 per cent of the practising bar – about 14,000 lawyers – qualified for a $50 per lawyer discount for filing their 2003 insurance applications online;
- just over 45 per cent received the $150 per lawyer discount available for paying insurance premiums in a lump sum; and
- about eight per cent applied for the $50 per course ($100 maximum per lawyer) discount available for those who have completed LAWPRO-approved Continuing Legal Education programs, including our own Online COACHING CENTRE, a self-coaching tool delivered via the Web.

As these statistics indicate, our efforts to provide flexibility in insurance programs and educate lawyers about the options available to them are increasingly successful. Lawyers have a better understanding of the issues related to insurance, and how they can better protect themselves with liability insurance coverage appropriate to their needs.

A LAWPRO hallmark is our commitment to quality, responsive customer service. Last year Call Centre staff such as Antonella Vizzini, Toshiba Billings and Greg March handled more than 65,000 phone calls, e-mails and letter correspondence. Queries ranged from simple requests for copies of insurance applications and policies, to more complex discussions of liability issues and related insurance needs.

Growth in Excess coverage

A good measure of LAWPRO's success in raising awareness of liability issues is the continued growth experienced in the Excess Insurance program, first launched in 1998. Targeted primarily at firms of 15 or fewer lawyers, our Excess program is competitively priced and provides a choice of limits ranging from $1 million per claim/$2 million in the aggregate to $4 million per claim/$8 million in the aggregate. For 2003, limits of $9 million per claim/$18 million in the aggregate were discontinued because of low participation and increased costs.

Now in its sixth year, LAWPRO's Excess program has grown from nil to approximately 1,000 firms (representing about 2,500 lawyers) for 2003. Between 2002 and 2003, lawyer participation in this program increased by 25 per cent, due in part to our ability to hold rate increases to an average of only 10 per cent while other excess insurers were demanding significantly more; claims deterioration and upheaval in the insurance marketplace after the events of September 11, 2001, prompted these rate changes.

Our competitive pricing attracted 198 new firms to LAWPRO's Excess program – 63 per cent of which had previously secured excess coverage elsewhere. Minimal rate increases also helped ensure that 96 per cent of firms who had insured with us in 2002 renewed their excess coverage with LAWPRO for 2003.

Adapting the program to changing circumstances

Privacy initiative

Pending privacy legislation will require that organizations such as LAWPRO follow a code of conduct for the protection of personal information gathered in the course of doing business. In the absence of provincial legislation, we opted to take steps to meet the requirements of federal legislation, which will come into effect at the end of 2003.

All insurance materials were adapted to explain this initiative and obtain consent for the collection, use and disclosure of information, as it relates to our optional insurance programs. A Privacy Code, Consent Statement and Security Policy were developed and distributed to stakeholder groups including lawyers, suppliers, and others with whom we interact.

LAWPRO will apply the experience we have gained in this process to help lawyers prepare themselves to comply with privacy legislation.

Enhanced coverage

In keeping with our commitment to ensure insurance programs reflect the changing needs of the legal community, LAWPRO expanded the coverage provided under the program for 2003:

- Lawyers who participate in certain approved pro bono legal programs will have enhanced coverage and will not be required to pay deductibles and levy surcharges for claims that arise out of their pro bono legal services.
- Coverage also has been expanded to help lawyers defend themselves against certain penalties assessed under either the *Income Tax Act* or *Excise Tax Act*.
- Recognizing that it takes time for an estate to assess the ongoing liability of a deceased lawyer's practice, LAWPRO will provide full limit coverage of $1 million per claim/$2 million in the aggregate for the first 90 days after the death of a lawyer carrying the standard LAWPRO insurance coverage.
- To support the National Mobility Protocol, which will allow lawyers from one province to provide legal services in another with very little impediment, we will be amending the insurance program to ensure LAWPRO coverage responds to that offered in other jurisdictions, and facilitates mobility among jurisdictions.

Underwriting and reinsurance

When LAWPRO first assumed responsibility for the liability insurance program, we placed a significant portion of the risk with the reinsurance marketplace. We did not at that time have sufficient capital to insure the whole of the program; as well, reinsurance added a measure of credibility to the program by ensuring our pricing and practices were subject to the discipline of the reinsurance community.

Over the intervening years, sound financial management has enabled LAWPRO to build capital in the company, and reduce the portion of the program it reinsures from a high of 57 per cent in 1995 to 35 per cent in 2002. Our solid financial position was again confirmed recently by A.M. Best Co., a leading insurance rating agency, which awarded LAWPRO an A (Excellent) financial strength rating for the third consecutive year.

As well, the hardening reinsurance market after September 11, 2001, forced prices up steeply, limiting reinsurance participants and making it increasingly difficult to secure reinsurance at a reasonable cost.

Given very difficult markets, and the substantial reserves we have set aside, LAWPRO opted to insure all of the Ontario program itself for 2003. This decision has contributed to our ability to maintain premiums at the levels outlined earlier, while at the same time ensuring that we continue to operate the program in a financially prudent manner, and in the best interests of the legal community.

We can anticipate challenges on another front in the future. For the past eight years, base rates on the primary insurance program have declined consistently, from a high of $5,600 in 1995 to $2,500 per lawyer in 2003. Although it would be premature to predict premium rates for 2004, in a climate of low investment returns and upward pressures on claims costs, as described later in this report, we will have higher hurdles to jump to achieve lower, or possibly comparable, rates in the future.

making the difference…

through proactive claims & risk management

The claims portfolio in 2002 could be summed up in one word: "stable."

The proactive, focused claims management philosophy implemented in 1995, when LAWPRO assumed responsibility for the professional liability insurance program, has, over the years, yielded impressive results.

Our open claims file load in 2002 fell to below the 3,000 mark – to 2,954 open files, less than one half of the peak of 6,681 open files in 1994. In 2002, 1,947 new claims were reported – a slight increase from 1,836 new claims reported in 2001; 1,990 claims files were closed. In other words, we opened about as many new claims files as we were able to close.

These results provide some indication that the claims file load has reached a plateau, and the major gains made from implementing a rigorous claims management philosophy have been realized. For the past four years, the number of new claims reported annually has hovered in the 1,800-2,000 range.

Another important measure is our ability to close new claims quickly, and at minimal cost to the program. Here too numbers have stabilized. In both 2001 and 2002, about 40 per cent of the claims files closed were closed without any payment made for either defence or indemnity. Moreover, in each of the last two years, about 80 per cent of files closed were closed without any indemnity payment made.

Rating service quality

As well as closing claims quickly, we are also, according to survey results, providing the quality service that lawyers with a claim have come to expect of LAWPRO. More than 40 per cent of lawyers whose claims files were closed in 2002 completed a survey asking them to evaluate both the way the claim was handled and the service provided by defence counsel:

- 92 per cent of respondents indicated they were satisfied with the way LAWPRO handled their claim;
- 83 per cent indicated they felt LAWPRO received value for monies spent on defence of their claim; and
- 87 per cent said they were satisfied with the selection of counsel and would ask the firm to represent them again, if needed.

A changing claims portfolio

LAWPRO's successful claims management record is anchored by a focused claims management philosophy:

- we establish a resolution strategy early in the life of each file;
- if there is liability on the part of the lawyer, we move expeditiously to achieve a cost-effective resolution;
- we will not make economic settlements to rid ourselves of frivolous claims; and
- we will defend those claims that can only be resolved at trial.

This approach, together with stringent underwriting criteria and changes to policy coverage, helped reduce claims payments from $75 million in 1995 to levels in the $62 to $65 million range in three of the last four years.

As well as being indicators of the success of a claims management strategy, claims payments also can be early signs of a change in claims patterns. Because all claims reported in a year may not be resolved for several years, payments made in any one year relate to files reported from several different years. So payments made – both in total and by area of practice – can provide some insight into potential changes in claims patterns.

In 2002, total claims payments exceeded $68 million. Indemnity payments were up four per cent to $40.6 million from $38.9 million in 2001. Total defence payments, including costs for experts and adjusters, increased 15 per cent to $27.9 million from $24.3 million the previous year.

The increase in 2002 payments can be attributed to a number of factors not subject to our control:

- *More complex files:* Many of the newer files LAWPRO is called on to handle involve complex issues, often requiring the services of senior, experienced counsel and other experts. In some cases, neither the claims reported nor the issue of coverage under the policy are straightforward, reflecting the more complex nature of the services that lawyers provide as they expand their practices. In other instances, where liability may be clear, the issue of damages is difficult to assess. The more complex the legal issues involved in claims, the more likely the cost of resolving that claim will rise.

- *Changes in the court system:* The increased use of case management has put many files on a shorter litigation track, ultimately saving defence and interest costs, but resulting in increased indemnity payments in the short term.

A number of trends, it appears, are converging. The number of lawyers in private practice, as outlined earlier in this report, is increasing; the number of claims reported annually is up slightly; and the environment in which lawyers practise is more complex, giving rise to more complicated and often costly claims files. An increase in claims costs in this type of environment is not unexpected.

Although all of this activity has affected payments made in 2002, the overall impact on the financial results of the insurance program is negligible, as we had appropriately assessed and placed adequate reserves on these files.

A consistent record at trial

LAWPRO's rigorous claims resolution strategies, backed by expert defence counsel when matters went to court, continued to yield impressive results in 2002. We were successful on 11 of 14 matters that were taken to trial; as well, we won seven of nine matters that went to the Court of Appeal, and one Supreme Court matter. Moreover, another 17 matters were resolved at the court room steps – a fact that speaks to the integrity of our position and the expertise and experience we bring to each claim file.

Successful applications for summary judgment help minimize costs by taking claims off the litigation track. In 2002, LAWPRO won 18 of 20 summary judgment applications; another eight matters collapsed when plaintiffs were served with our summary judgment motion materials.

Claims trends reflect changing practice climate

Despite a robust housing market, real estate losses remained remarkably steady last year when compared to the 1999-2001 period. A major factor contributing to this trend is the increased use of title insurance; it is estimated that 50 per cent of residential real estate transactions and more than 85 per cent of refinance transactions in Ontario now are title insured. As is documented elsewhere in this report, LAWPRO's title insurance product, TitlePLUS, also posted record results in 2002, with policy sales up approximately 40 per cent from the previous year.

Over the last four-year period, litigation claims costs have stabilized, although up significantly from the 1995-1998 time period. Increased focus on litigation practice within the bar recently, including LAWPRO's own efforts to educate lawyers about the underlying causes of increased litigation claims, appears to have had some impact. In both 2001 and 2002, civil litigation claims remained steady at about 30 per cent of total claims costs.

However, within the category of litigation claims, costs for family law claims have jumped significantly, from approximately four per cent of total claims costs in prior years to more than seven per cent of claims costs in 2002. This increase may be attributable in part to the increased complexity of family law legislation.

Wills and estates claims also appear to be on the rise, increasing from four per cent of total claims costs to over seven per cent of total costs in 2002.

Corporate claims also are in flux. In each of the last two years, these claims accounted for about 20 per cent of claims costs, compared to just under 15 per cent in earlier years. This trend is consistent with one noted earlier: Because of the increasingly complex legal environment, LAWPRO is handling more complex and costly claims.

Although we resolve the majority of the 1,800-2,000 new claims reported annually through other means, when we do turn to the courts, we have a solid record of success: In 2002, we won 11 of the 14 matters that we took to trial, were successful on seven of nine matters at the Court of Appeal, and won our Supreme Court action.

helping lawyers reduce exposure to claims

As well as managing claims expeditiously and cost-effectively, LawPRO has developed practicePRO, a comprehensive risk and change management initiative.

CLE premium credit

A new initiative in 2002 centered around support for Continuing Legal Education programs offered by law organizations and associations. CLE programs that include a substantial risk management component qualify for the LawPRO CLE premium credit – a $50 per course credit applied to lawyers' insurance premiums. More than 1,500 lawyers received this credit in 2002; 28 programs qualified for the credit.

In response to this CLE credit initiative, all major CLE providers have adapted programs to include content that highlights where, when and how lawyers err, and how they can reduce their risk of a negligence claim. Lawyers and CLE providers are now more attuned to the very practical aspects of risk management, and better understand that the need to manage risk underlies all aspects of law practice.

To further reinforce this message, we expanded the depth of resources offered under the practicePRO banner.

New risk management tools

LawPRO magazine, our new publication which replaces LPIC News, tackled topical risk and law practice management issues such as mentoring, practice interruptions/disaster recovery, and insurance as a risk management tool in the three issues published in 2002.

The magazine also contains in-depth articles on important court decisions, legislative changes, technology, and other developments that affect the legal community.

Complementing this new publication are two new booklets in the "managing" series: ***managing mentoring relationships*** helps lawyers participate in mentoring relationships; ***managing practice interruptions*** provides a comprehensive review of the steps lawyers can take to prepare for and work their way through unexpected practice interruptions.

Although these booklets were widely circulated, we received requests to distribute an additional 1,000 copies to legal firms across the province – a fact that speaks to the increasing level of interest in the legal profession for risk management materials.

Technology awareness

As part of our program to promote the effective use of technology, practicePRO launched a series of Technology Breakfasts that provided insights into practice management software, and tips on how to make use of technology and specific computer programs. The practicePRO Web site, which enables lawyers to access all practicePRO materials as well as additional resources available only in electronic format, averages close to 2,500 visitors each month. More than 4,000 copies of various publications and materials have been downloaded from the site; as well, more than 1,000 lawyers accessed the Online COACHING CENTRE, practicePRO's online self-coaching tool.

Complementing these activities was an active presentation/speaking roster that saw practicePRO take its message to 30 law firms, law associations and CLE programs, exhibit at 10 legal sector events, and co-chair LegalTech Toronto 2002, a major annual legal technology conference.

International recognition

practicePRO has gained the recognition of lawyers and the legal community across Canada, in various American jurisdictions, and as far away as Hong Kong and Singapore. Law-related organizations have used or adapted our materials for their own risk management programs; as well, lawyers and law associations in numerous jurisdictions turn to practicePRO for guidance on developments surrounding anti-money laundering legislation and related legislative matters.

making the difference…

through technology

From the outset, LAWPRO has placed a high priority on technology as a cornerstone for doing business – in its own operations, in its interactions with lawyers, and in initiatives which encourage lawyers to make technology an integral part of their law practices.

The Web as a business tool

Recognizing the time and cost reduction benefits offered by electronic communication – to both lawyers and LAWPRO itself – we have focused on delivering services and information via the Internet.

Our insurance application process, for example, is now primarily Web-based and integrated with our insurance databases. Lawyers can update information and apply for various insurance coverages online, in a fraction of the time it would take to complete a paper application. Our Web site was revamped in 2002; it now is our primary communications medium, enabling us to disseminate news and update information quickly and cost-effectively. A new electronic newsletter, LAWPRO E-News, ensures we keep lawyers up to date on fast-breaking developments.

Statistics indicate that the legal community has embraced this approach:

- our Web sites recorded more than one million hits in 2002, representing 75,000 unique visitor sessions;
- a record 14,000 lawyers filed their 2003 insurance applications online, a significant increase from the 12,700 who e-filed for 2002;
- almost 50 per cent of firms making their first application for LAWPRO Excess coverage in 2003 completed their applications online;
- close to 40 per cent of the correspondence we receive from lawyers relating to the insurance program now comes to us via e-mail;
- 1,000 lawyers not only learned how to use technology but also used technology to learn – by upgrading their "soft skills" through our online self-coaching tool, the Online COACHING CENTRE.

As is documented later in this report, TitlePLUS – and TitlePLUS lawyers – have similarly adopted the Web as a primary business tool. By mid-2003, all TitlePLUS Ontario programs will be accessible via the Web, a move that recognizes the increasingly important and viable role that electronic conveyancing plays in a successful real estate practice.

Complementing this is a LAWPRO-Bank of Montreal initiative that enables real estate lawyers to transfer closing funds electronically, in real time and real value, from purchaser lawyer to vendor lawyer bank accounts – without having to leave their office. LAWPRO developed this electronic funds transfer system specifically to streamline real estate transactions in the electronic registration environment.

Technology education

Through our practicePRO initiative, we provide opportunities for lawyers to learn how they can make better use of technology in their practices – to both help minimize risk exposure and to make practices more successful. For example, we hosted a series of Technology Breakfasts featuring speakers on a variety of legal technology topics; we sponsored LegalTech Toronto 2002 and will chair the event in 2003; our practice interruptions/disaster management booklets and accompanying LAWPRO magazine provided practical advice on how to protect computer systems in the event of a major practice interruption. LAWPRO magazine features a Tech Tips column that provides bit-sized tips on legal technology, as well as more detailed legal technology articles. Technology is an important theme in many of the dozens of speeches and presentations we give annually.

Partnering with others

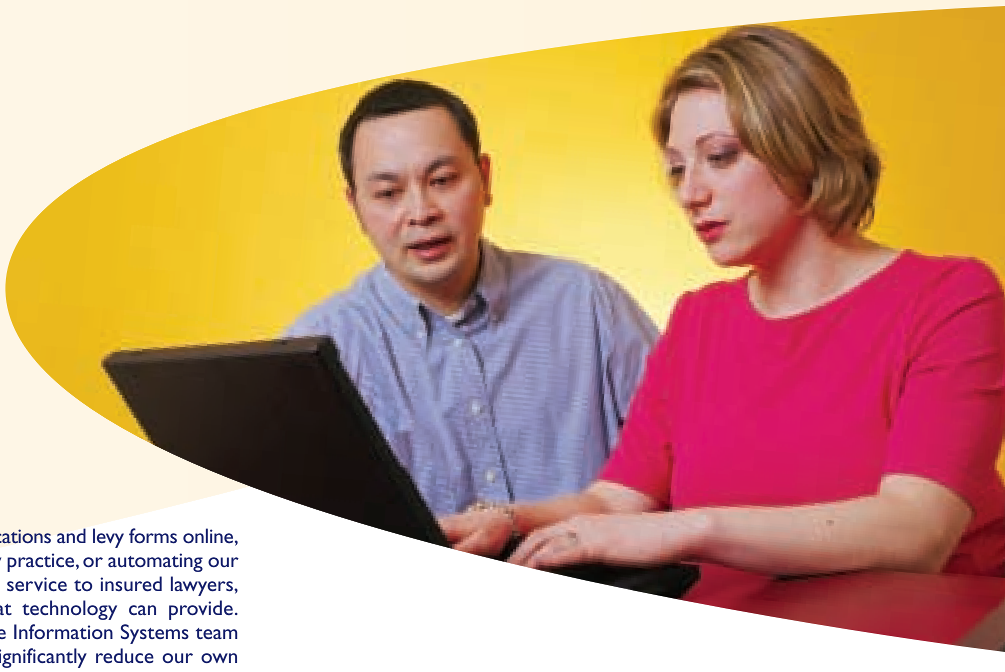
LAWPRO also continues to work with others to build new tools that leverage technology to help lawyers practise in a more risk averse manner. DIVORCEmate, the family law software product in which we have an equity interest, is a good example. In 2002, LAWPRO worked with DIVORCEmate Software Inc., which produces family law software, to enhance its existing *Tools+* product, incorporating references to risk management issues. We are also providing legal expertise to help with the development of a new *Precedents+* product, to be released in 2003, which will enable lawyers to produce a state of the art separation agreement more quickly and efficiently, and will provide substantive information with a risk management focus.

Leading by example

An integral part of improving services to the legal community is to streamline our own internal operations. Our new Technology over Paper (TOP) initiative will help automate our internal processes and reduce reliance on paper, enabling us to deliver a higher level of customer service. For example, one aspect of the TOP project involves the scanning of incoming communication, such as insurance applications, which are then integrated with database information and other internal processes.

Applying TOP to our Excess program in 2002 enabled us to reduce six person-weeks of work to five days; we were able to process more applications more quickly.

In the future, we will build on this technology to further automate and streamline our application, information retrieval, and other internal processes.



Whether we're making it easier for lawyers to file applications and levy forms online, or showing them how to integrate technology into law practice, or automating our own internal processes so that we can deliver better service to insured lawyers, LAWPRO puts a high priority on the efficiency that technology can provide. Patricia Burton and Michael Liang are members of the Information Systems team assigned to an initiative launched in 2002 that will significantly reduce our own reliance on paper and allow us to continue to streamline our operations.

making the difference… with TitlePLUS®

TitlePLUS marked its fifth anniversary with two milestones: It posted record results, driven largely by increased use of its Web-based products; and, building on that success, it announced that it would be moving all of its Ontario products – including its core title insurance application – to the Web, positioning itself for major growth both inside and outside Ontario.

A winning team: Personalized training and service, and a title insurance product tailored to the needs of real estate lawyers helped TitlePLUS grow its business by approximately 40 per cent in 2002. Contributing to that growth was Niagara Falls lawyer Beverley Hodgson (right), who credits the training and support provided by Consultant Marjorie Sharpe with helping make TitlePLUS a mainstay of Ms. Hodgson's law practice.

Since its launch in 1997, TitlePLUS has played a major role in helping establish title insurance as an integral part of the conveyancing process. It is estimated that about 50 per cent of residential real estate purchases in Ontario today are title-insured, up from about 30 per cent last year. As well, upwards of 85 per cent of refinance/mortgage-only transactions now have title insurance coverage, driven largely by lenders who require the added protection that a title insurance policy can provide.

TitlePLUS accounts for a significant share of that increase. In 2002, we grew the TitlePLUS business by close to 40 per cent over the previous year, building further on two record-breaking years during which the volume of TitlePLUS sales in Ontario more than doubled.

The number of TitlePLUS subscribers increased by more than 20 per cent to just under 2,000; about 350 lawyers were first-time TitlePLUS users in 2002. These results are particularly encouraging given that competitors appear to significantly outspend TitlePLUS in the areas of marketing and incentives. They also reflect a growing recognition of TitlePLUS as a lawyer-friendly product that provides significantly enhanced protection for lawyers and clients through its comprehensive legal services coverage, which insures the policyholder for any errors or omissions made by the lawyer handling the transaction.

Moving to the Web

Another indication of the fundamental change in the way real estate lawyers undertake transactions – and the leading role that TitlePLUS has played in driving this change – is the increasing number of lawyers who have adopted the Web as their title insurance processing tool.

More than 60 per cent of TitlePLUS subscribers have signed on to use TitlePLUS Web-based delivery channels; the number of lawyers actually using our automated products in 2002 increased by over 50 per cent.

These results indicate clearly that lawyers have embraced technology as fundamental to a successful law practice.

Further evidence of the impact TitlePLUS has had can be found in the record results posted by our online products in 2002:

- LawyerMortgage.com, which enables lawyers to apply for TitlePLUS coverage for refinance and mortgage-only transactions via the Web, exceeded targets by 20 per cent;
- NewHome.LawyerDoneDeal.com, a Web-based conveyancing process for new home/condominium developments, posted results that were 32 per cent over target;
- In December 2002 alone, more than 25 per cent of TitlePLUS policies were issued through one of the Web-based products.

Based on this track record of solid growth, and new business development strategies that will enable lawyers in eastern and western Canada to access TitlePLUS, we anticipate an additional 25 per cent growth in TitlePLUS policies written in 2003.

Strategies for growth

A number of factors separate TitlePLUS from other title insurers, and have contributed to the success TitlePLUS has enjoyed in its first five years.

Products that enhance lawyers' competitive position

Developing automated delivery systems that are Web-based streamlines real estate transactions for law practices, enabling lawyers to provide enhanced service at cost savings to their clients in many cases.

Building on the success of LawyerMortgage.com and other online products launched earlier, TitlePLUS in 2002 began development work on a Web-based application for its core TitlePLUS title insurance product. This new automated application, which was launched in early 2003, makes TitlePLUS easier to use and more accessible to real estate lawyers, thus facilitating expansion of TitlePLUS into other jurisdictions across Canada. It also paves the way for a fully integrated conveyancing package that enables lawyers to conduct all aspects of their real estate practice online, with the Web-based system co-ordinating the data from various desktop software packages or other proprietary service providers.

Personalized service

TitlePLUS has built a reputation as a service provider with expertise and experience. Our team of four consultants visited more than 600 law firms in 2002, working one-on-one with lawyers and law clerks to help them integrate TitlePLUS into their real estate practices.

Complementing the consultant team is a staff of legal-trained analysts and underwriters who provide telephone and e-mail support to TitlePLUS users; increased use of the Web (including moving the TitlePLUS manual online) has enabled this team to provide more value-added support and guidance to TitlePLUS users.

To further keep TitlePLUS lawyers up-to-date with developments in the title insurance and real estate arenas, we published four issues of *TitlePLUS Times*, a periodical available both in print/fax and on the TitlePLUS Web site. Eight *TitlePLUS Hot Sheets* informed lawyers of late-breaking changes related to TitlePLUS coverage and underwriting. As well, we published two issues of our *Focus* publication, one for lawyers and one for lenders, in which our successes during our first five years were featured.

National expansion

Service and support also are fundamental to the success of our plans to expand TitlePLUS across Canada. In 2002, we hired a national sales consultant who will be working to foster closer working relationships with the lending and legal communities outside Ontario, as well as increase understanding of the conveyancing and other benefits provided by title insurance and TitlePLUS. This strategy is generating interest in Atlantic Canada, where TitlePLUS was introduced in early 2002. Expansion into western Canada was initiated in early 2003, with the launch of TitlePLUS in Manitoba and Alberta.

Building a brand profile

As well as breaking new ground geographically in 2002, we also took a new approach with our marketing and sales strategies. A new advertising campaign with the theme "Nothing's sweeter" focused on the benefits that accrue to all parties when lawyers use TitlePLUS. We looked for new opportunities to promote TitlePLUS through Web-based environments, such as the Toronto Star's online site for new home and condo developments. TitlePLUS participated in dozens of events for the real estate, financial and legal sectors in 2002, through event sponsorship and presentations. As well, we hosted two major conferences, one for law clerks and a second for real estate lawyers, to keep these constituencies informed of developments at TitlePLUS, and in the real estate and legal arenas. A major effort to revamp the TitlePLUS Web site, making it more accessible and more informative, culminated in its relaunch in early 2003.

TitlePLUS claims

Despite the significant increase in the number of policies sold, TitlePLUS continues to enjoy an enviable claims track record. Less than one half of one per cent of our policies have reported claims; moreover, most of these claims have a value of less than $1,000. Because the logic contained in the software helps prevent claims, the majority of TitlePLUS claims arise out of minor problems, such as permit, survey and search-related issues, and utility arrears. Our solid track record in resolving these claims can be attributed to both an efficient claims handling system, and to stringent underwriting criteria: TitlePLUS will not insure just any transaction that "walks in the door."

As well as resolving claims efficiently and cost-effectively, we also take pride in the rapid turnaround time for the majority of TitlePLUS claims. It takes, on average, less than 30 days to resolve a typical TitlePLUS claims file, due in part to our emphasis on assessing coverage and damages quickly, and repairing matters where appropriate. Insureds have consistently praised our TitlePLUS claims team for their considerate and timely handling of claims; TitlePLUS lawyers have commented favourably on the quick response and expertise of our claims team.

Income Statement

The Company's 2002 net results were consistent with 2001. While underwriting income rose by $1.8 million in 2002, this was more than offset by a decrease in investment income.

Premiums earned

Premiums increased marginally in 2002. This increase is a composite of several offsetting factors. While base rates dropped for the Ontario professional liability program, the number of practicing lawyers paying these rates increased. The TitlePLUS and optional Excess programs, however, both experienced significant growth in premiums written.

Reinsurance ceded

Reinsurance costs increased in 2002 by $2 million. The increased costs are attributable to a general "hardening" of the reinsurance market. While the reliance on reinsurance treaties for the Ontario program has been steadily decreasing over the years, most of the increase relates to the Ontario professional liability program. The percentage of this program shared with reinsurers has steadily declined from 57% in 1995 to 35% in each of 2001 and 2002.

The Newfoundland and Labrador program and the optional Excess programs were reinsured 100% in both years, removing all exposure to the Company from claims in these programs.

Net claims and adjustment expenses

Incurred claims costs decreased by $0.7 million or 2% in 2002 from 2001. The number of claims reported in 2002 was roughly consistent with levels seen in 2001. The average severity of the claims reported in 2002 is expected to be slightly higher than in 2001, but the financial results for 2002 include offsetting improvements in reserves for claims of prior years.

Commissions earned

The Company earns base commissions on that portion of premiums ceded to reinsurers, plus additional commission for profitable results. The increase of almost $3.0 million noted in 2002 was due to these profit commissions earned, reflecting positive outcomes on claims reserves of prior years.

General expenses

The increase in general expenses of $0.9 million in 2002 over 2001 is attributable to higher occupancy costs associated with renewal of the company's lease agreement, increased personnel costs, and investment in technology in 2002.

Investment income

Income from investments for the year decreased by $2.6 million from 2001. Debt securities typically constitute over 80% of the investment portfolio. In 2002, not only were bond yields generally lower, but there were limited opportunities to generate gains on this portfolio. In contrast, yields were falling in 2001, and we were able to augment investment returns. Investment income is net of a $1.2 million write-down for equity holdings. (In 2001, a write-down of $4.2 million was taken for equity holdings, but this loss was compensated for by the gains in the bond portfolio.) At December 2002 the market value of the portfolio exceeds book value by $0.5 million (2001 – $3.6 million).

Provision for income taxes

Corporate tax rates dropped approximately 3% from 2001, and this change is reflected in the 2002 tax expense.

Balance Sheet

Shareholder's equity increased by $8.6 million, the net income earned during the year.

Investments

Investment assets, inclusive of cash and short term deposits, increased by $13.6 to $240.7 million at December 31, 2002. The increase was primarily a result of cash provided by operations and investment income generated by the portfolio. Investment assets are invested in accordance with investment policy approved by the Company's Board of Directors in a diversified, high quality portfolio. Part of the Company's portfolio includes equity investments in publicly traded companies, the values of which are subject to market volatility.

Provision for unpaid claims and adjustment expenses and reinsurer's share of provision

The provision for unpaid claims represents the amount required to satisfy all of the Company's obligations to claimants without offset for reinsurance. This has increased by $1.1 million. Reinsurance recoveries have declined by $6.0 million and accordingly the net change in provision is $7.1 million. These changes are the result of the addition of claims for the 2002 year, net of payments, during the year. The decline in the reinsurance recoveries is due to the continued effects of the reduced share of the Ontario program ceded, which decreased from 50% to 35% in 2001 and maintained at that level in 2002.

The estimation of claims liabilities introduces processes that generate measurement uncertainty and are subject to variation. The Company attempts to ensure these estimates are prudently conservative.

Risk management

The Company is exposed to a variety of risks in its business activities. We pay particular attention to the management of the following types of risk inherent in our operations:

Product design and pricing risk

The Company must be able to provide insurance coverage that meets the needs of the legal profession at a cost that is both reasonable for the insured and results in adequate financial returns for the Company. The process of pricing products requires estimates of many factors, including future investment yields, changes in the number of practicing lawyers and general economic activity. Annually, there is an assessment of appropriate coverage and limits. Scenario analysis and testing allow for acceptable results within a range of possible outcomes.

Claims liability management

Claims trends are monitored on an ongoing basis. Limits are set on the maximum exposure for any one claim. Risk management efforts are used to educate the profession and lower the risk of future claims. However once a claim is reported, effective claims management is key in controlling this exposure. Prompt handling of files, using appropriate expertise, allows the Company to both track and manage cumulative claims exposures.

Reinsurance risk

In determining the need for reinsurance, the Company assesses the potential volatility of claims results, the availability of capital to absorb such variation and our risk appetite. Our claims exposure is long-tailed in nature, requiring payments many years in the future. To minimize the risk of potential default, reinsurers participating in our programs must pass stringent financial quality thresholds. Costs of these reinsurance treaties are carefully assessed in light of the associated benefits.

Investment portfolio risk

A substantial portion of the Company's assets are held in the investment portfolio. The portfolio functions as a repository of funds to pay claims liabilities and generates a significant portion of annual income. Should expected returns not be achieved, the company's financial results could be negatively affected and as such, conservative targets are set in pricing the programs. The Company engages professional asset managers who manage the portfolio according to prescribed asset quality, mix and duration considerations. Performance is monitored on a regular basis.

Capital management

The Company has procedures to ensure that there is adequate capital to meet statutory requirements with appropriate safety margins. Forecasting models and sensitivity analysis are used to establish whether expected results will conform to industry norms.

Internal controls

To ensure that the Company is managed and controlled in a prudent manner, operational and procedural controls are in place, supported by effective management information systems, and qualified and trained personnel. Oversight is provided by the Board of Directors, with a review of the Company's key controls performed annually by the Company's external auditors.

auditors' report

Lawyers' Professional Indemnity Company

Deloitte & Touche

To the Shareholder of Lawyers' Professional Indemnity Company

We have audited the balance sheet of Lawyers' Professional Indemnity Company as at December 31, 2002, and the statements of income and 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, 2002, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Financial Services Commission of Ontario.

Toronto, Ontario
January 31, 2003

Deloitte & Touche LLP
Chartered Accountants

actuary's report

Lawyers' Professional Indemnity Company

INTERNATIONALLY MILLIMAN GLOBAL
Eckler Partners Ltd.
Consultants and Actuaries

Report for Financial Statements at December 31, 2002

Role of the Valuation Actuary

The valuation actuary is appointed by the Audit Committee of the company. With respect to the preparation of these financial statements, the actuary is required to carry out a valuation of the policy liabilities and to report thereon to the company's shareholders. The valuation is carried out in accordance with accepted actuarial practice, except as specifically disclosed to the contrary, 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 and a provision for future obligations on the unexpired portion of policies.

In performing the valuation of the liabilities for these future events, which are by their very nature inherently variable, the actuary makes assumptions as to 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 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.

Valuation Actuary's Report

I have valued the policy liabilities of the Lawyers' Professional Indemnity Company for its balance sheet as at 31 December 2002, 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, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Pursuant to the authority granted by the Insurance Act for the Province of Ontario, the Superintendent of Financial Services has directed that the valuation of some policy liabilities not reflect the time value of money. My valuation complies with that directive.

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

Toronto, Ontario
February 13, 2003

Brian G. Pelly
Fellow, Canadian Institute of Actuaries

balance sheet

Lawyers' Professional Indemnity Company

Stated in thousands of dollars

As at December 31	**2002**	**2001**
ASSETS		
Cash and cash equivalents	2,460	3,736
Investments (note 3)	238,275	223,437
Investment income due and accrued	2,595	2,337
Due from reinsurers	14,940	12,529
Due from insureds	983	1,033
Reinsurers' share of provisions for:		
Unpaid claims and adjustment expenses (note 2)	144,577	150,583
Unearned premiums	216	224
Other receivable	970	1,024
Other assets	134	255
Fixed assets (accumulated depreciation – 4,203; 2001 – 3,599)	1,454	622
Future income taxes (note 7)	4,052	3,355
Total assets	**410,656**	**399,135**
LIABILITIES		
Bank overdraft	727	–
Provision for unpaid claims and adjustment expenses (note 2)	312,018	310,900
Due to reinsurers	6,369	5,965
Due to insureds	2	763
Due to the Law Society of Upper Canada	4,129	2,726
Expenses due and accrued	2,603	2,317
Income taxes due and accrued	2,338	3,342
Other taxes payable	841	106
Unearned premiums and commissions	657	679
	329,684	**326,798**
SHAREHOLDER'S EQUITY		
Capital stock issued and paid	5,000	5,000
Contributed surplus	30,645	30,645
Earned surplus	39,687	32,460
Statutory appropriations	5,640	4,232
	80,972	72,337
Total liabilities and shareholder's equity	**410,656**	**399,135**

See accompanying notes

On behalf of the Board

Frank Marrocco

Director

Director

statement of income

Lawyers' Professional Indemnity Company

Stated in thousands of dollars

Year ending December 31	**2002**	**2001**
Premiums earned	82,787	81,770
Reinsurance ceded	31,520	29,558
Net premiums earned	**51,267**	**52,212**
Net claims and adjustment expenses (note 2)	43,644	44,327
Premium taxes	2,498	2,468
General expenses	10,740	9,841
Reinsurance commissions earned	(10,343)	(7,389)
	46,539	49,247
Underwriting income	**4,728**	**2,965**
Investment and other income	9,778	12,395
Income before income taxes	**14,506**	**15,360**
Provision for income taxes – current (note 7)	6,568	5,252
– future (note 7)	(697)	1,378
Net income	**8,635**	**8,730**

See accompanying notes

statement of cash flows

Lawyers' Professional Indemnity Company

Stated in thousands of dollars **Year ending December 31**	**2002**	**2001**
OPERATING ACTIVITIES		
Net income	8,635	8,730
Items not affecting cash:		
Future income taxes	(697)	1,378
Depreciation	605	494
Realized gains	(176)	(1,474)
Amortization of discount on bonds	(1,432)	(32)
	6,935	**9,096**
Changes in non-cash working capital balances:		
Other taxes payable	735	(71)
Income taxes due and accrued	(1,004)	3,342
Due from reinsurers and insureds	(2,718)	(3,339)
Provision for unpaid claims and adjustment expenses	1,118	6,985
Reinsurers' share of provisions	6,014	8,516
Unearned premiums and commissions	(22)	121
Expenses due and accrued	286	191
Investment income due and accrued	(258)	(53)
Income taxes recoverable	-	5,473
Other receivable	54	(852)
Other assets	121	102
Due to/(from) the Law Society of Upper Canada	1,403	(12,728)
Total funds provided by operating activities	**12,664**	**16,783**
INVESTING ACTIVITIES		
Fixed assets:		
Purchases of fixed assets	(1,437)	(318)
Investments:		
Purchases of investments	(166,190)	(280,441)
Proceeds of sale of investments	152,960	265,216
Investment purchases, net	(13,230)	(15,225)
Net change in cash and cash equivalents	(2,003)	1,240
Cash and cash equivalents, beginning of year	3,736	2,496
Cash and cash equivalents (net of overdraft), end of year	**1,733**	**3,736**

See accompanying notes

Stated in thousands of dollars
As at December 31, 2002

Lawyers' Professional Indemnity Company ["the Company"] is an insurance company licensed to provide lawyers' professional liability and title insurance.

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Financial Services Commission of Ontario. The most significant accounting policies are as follows:

Investments

The Company records its investments in debt securities at amortized cost. Premiums and discounts from par value are amortized on a straight-line basis over the term to maturity. Investments in term deposits and common and preferred shares are carried at cost.

Gains and losses on investments are included in investment income when realized. Any losses in value of an investment which are considered other than temporary in nature are recognized in income.

Fixed assets

Fixed assets are presented at cost, net of accumulated depreciation and amortization. Depreciation and amortization are charged to expense on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	Term of lease
Furniture and equipment	3 to 5 years
Software	1 to 3 years

Premium related balances

Professional liability premium income is earned evenly over the terms of underlying insurance policies; generally one year, except for policies for retired members. Most policies are written to follow the calendar year. The portion of premiums related to the unexpired portion of policies at the end of the fiscal year is reflected in unearned premiums.

The reinsurers' share of unearned premiums is recognized as an asset at the same time using principles consistent with the Company's method for determining the unearned premium liability.

Title insurance premiums are earned at the inception date of policies.

Premiums receivable are recorded at amounts due less any required provision for doubtful amounts.

Claims related balances

a) Provision for unpaid claims and adjustment expenses

The insurance program covers claims made against insureds in the policy period.

The provision is determined using case-basis evaluations plus an amount for future development and is an estimation of the ultimate cost of all insurance claims to December 31, 2002.

The estimates are regularly reviewed and updated and any resulting adjustments are included in current income.

Claims liabilities are carried on an undiscounted basis.

b) Reinsurers' share of provisions for unpaid claims and adjustment expenses

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets using principles consistent with the Company's method for establishing the related liability.

c) Members' deductibles

The insurance policy calls for insured members to pay deductibles ranging from nil up to twenty-five thousand dollars. Expected deductible recoveries on paid and unpaid claims are recognized net of any required provision for uncollectible accounts using principles consistent with the Company's method for establishing the related claims liability.

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.

2. MEASUREMENT UNCERTAINTY

The settlement of professional liability claims involves processes the outcome of which is inherently uncertain. Consequently, the estimation 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 or deductibles, involves estimates and measurement uncertainty. The amounts are necessarily based on estimates of future trends in claim severity and other factors which could vary as the claims are settled. Variability can be caused by receipt of additional claim information, changes in judicial interpretation, or significant changes in severity or frequency of claims from historical trends. Ultimate costs incurred will inevitably vary from current estimates, to some extent. 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. Estimates are reviewed at least annually by an actuary and, as adjustments to these liabilities become necessary, they are reflected in current operations.

Stated in thousands of dollars

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 credit worthiness of the companies to which it cedes. Based on current information of the financial health of the reinsurers, no provision has been made in the accounts for doubtful collection.

Changes in prior year loss estimates

Changes in claim liabilities for prior year claims recorded in the balance sheet and their impact on net claims and adjustment expenses amounted to an improvement of $5,187 in the year ended December 31, 2002 (2001 – $3,000).

Fair value

The fair value of amounts determined necessary to settle claims are actuarially determined using accepted actuarial practices. The fair value is determined by discounting the amounts, taking into consideration the time value of money and related provisions for adverse deviations.

As at December 31, 2002, the Superintendent of Financial Services does not recognize that these actuarially determined liabilities represent the appropriate amount at which policy liabilities should be stated in the financial statements.

Below, is a comparison between policy liabilities as recorded in the Company's financial statements and policy liabilities computed in accordance with accepted actuarial practice. Management believes that policy liabilities computed in accordance with accepted actuarial practice provide a reasonable measurement of the fair value of such liabilities.

December 31		Recorded in the accounts	According to accepted actuarial practice
2002	Unpaid claims	312,018	287,696
	Reinsurers' share of unpaid claims	(144,577)	(131,598)
2001	Unpaid claims	310,900	297,400
	Reinsurers' share of unpaid claims	(150,583)	(142,124)

3. INVESTMENT INFORMATION

The company holds a diversified portfolio consisting of equities and securities with investment grades of "A" or better.

Estimated fair values and unrealized gains and losses

The book values, estimated fair values, yields and unrealized gains (losses) on investments as at December 31 were as follows:

2002

	Book Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Yield %
Debt Securities	197,888	4,609	(77)	202,420	4.3
Common Shares	32,542	1,890	(5,978)	28,454	
Preferred Shares	7,845	178	(154)	7,869	
	238,275	6,677	(6,209)	238,743	

2001

	Book Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Yield %
Debt Securities	190,387	3,806	(759)	193,434	4.3
Common Shares	25,421	2,598	(1,987)	26,032	
Preferred Shares	7,629	36	(48)	7,617	
	223,437	6,440	(2,794)	227,083	

The estimated fair values of debt securities, common and preferred shares are based on quoted market values. The book value of common shares noted above is net of a cumulative write-down of $5,329 (2001 – $4,169).

Liquidity and interest rate risk

The maturity profile of debt securities as at December 31, 2002, is as follows:

	Within 1 Year	1 to 5 Years	Over 5 Years	Book Value
Debt Securities	11,719	177,446	8,723	197,888
Percent of total	6%	90%	4%	

The average duration of debt securities at December 31, 2002, is 2.4 years. Shares have no specific maturities.

4. STATUTORY INSURANCE INFORMATION

a) The Company is the beneficiary of a trust account in the amount of $7,219 (2001 – $7,158) which is 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 reserve requirements.

b) The Ontario Insurance Act restricts amounts available for shareholder dividends to unappropriated surplus, subject to minimum capital requirements.

Stated in thousands of dollars

c) The Company has deposited securities with the regulatory authorities having a market value of $332 (2001 – $295).

5. RELATED PARTY TRANSACTIONS

Pursuant to a service agreement implemented January 1, 1995, the Company administers the Errors & Omissions Fund of the Law Society of Upper Canada (Law Society) and provides all services directly related to operations and general administration in consideration for the Law Society insuring its mandatory professional liability insurance program with the Company.

For the year ended December 31, 2002, 96% of the premiums written related to mandatory insurance coverage provided to the Law Society and its members. Under the insurance policy in force between July 1, 1990, and December 31, 1994, the Company is responsible for claims in excess of 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. This amount is currently estimated to be $18,841 (2001 – $26,786).

Commencing January 1, 1995, there is no longer a Law Society deductible and 100% of the risk over the individual member deductible is insured through the Company. The annual policy limits for the period January 1, 1995, to December 31, 2002, are $1 million per claim and $2 million per member in the aggregate.

In 2002, the Company refunded $4.1 million (2001 – $2.9 million) in premiums to the Law Society pursuant to the retrospective premium rating provisions of the insurance contract. These funds are held by the Errors & Omissions Fund of the Law Society for future insurance purposes.

6. SHAREHOLDER'S EQUITY

a)	Common Shares: Par value of $100 each, authorized, issued and outstanding	30,000
	Preferred Shares: Par value of $100 each, 6% non-cumulative, redeemable, non-voting, authorized, issued and outstanding	20,000

b) Reconciliation of earned surplus	2002	2001
Beginning of year	**32,460**	**22,074**
Net income for the year	8,635	8,730
Decrease/(increase) in statutory appropriations		
Fixed and other assets	(711)	278
Future income taxes	(697)	1,378
End of year	**39,687**	**32,460**

7. INCOME TAXES

The Company's effective tax rate does not differ significantly from the applicable Canadian statutory income tax rate of 38.62%.

The Company's income tax expense has the following components:

	2002	2001
Current	6,568	5,252
Future	(697)	1,378
Total income tax expense	5,871	6,630

Reconciliation to Statutory Tax Rate

	2002	2001
Income taxes at Canadian statutory tax rate	5,602	6,412
Increase/(decrease) resulting from:		
Changes in tax rate applicable to future income taxes	707	513
Other	(438)	(295)
Income tax provision	5,871	6,630

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:

	2002	2001
Investments	(2,348)	(880)
Actuarial liabilities	6,281	4,271
Other	119	(36)
Total	4,052	3,355

8. COMMITMENTS

The Company is committed to monthly lease payments in effect until January 31, 2008. Lease obligations are as follows:

2003	$1,300
2004	$1,362
2005	$1,362
2006	$1,362
2007	$1,362
Thereafter	$ 114

9. COMPARATIVE FINANCIAL STATEMENTS

Certain amounts in the comparative financial statements have been reclassified to better reflect the nature of the account.

board of directors

(*Bencher, Law Society of Upper Canada)

Frank N. Marrocco, Q.C.*
Chairman, Board of Directors
Partner
Gowling, Lafleur Henderson LLP

Ian D. Croft
Vice-Chairman
Board of Directors, Director
The Woodbridge Company

Kim A. Carpenter-Gunn*
Partner
Waxman, Carpenter-Gunn

Abdul A. Chahbar*
Councillor
City of London

Marshall A. Crowe*
Counsel
Johnston Buchan LLP

Douglas F. Cutbush
Insurance Consultant
Mediator & Arbitrator

Lawrence A. Eustace
Principal
Lawrence A. Eustace

Malcolm L. Heins
President & CEO
Law Society of Upper Canada

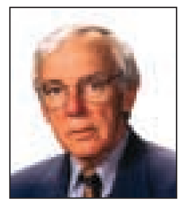
Rita Hoff
Vice-President & Director
Canaccord Capital Corporation

William G. Holbrook
President
W.G. Holbrook & Associates

Robert J. McCormick
Insurance Consultant

W.A. Derry Millar*
Partner
WeirFoulds LLP

Eric J. Schjerning
Corporate & Litigation
Vice-President
Canada Life Assurance
Company



Donald D. White*
Partner
Howell, Fleming LLP

Michelle L.M. Strom
President
LAWPRO

management team

Michelle L.M. Strom
President

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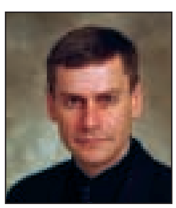

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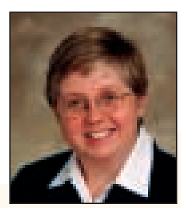

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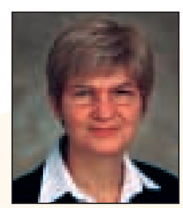

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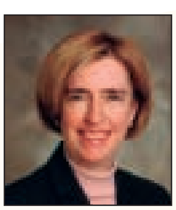

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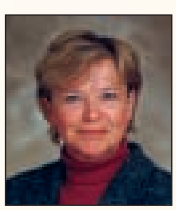

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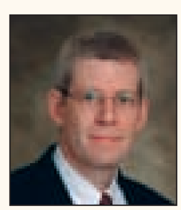

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