staying ahead of the curve

2003 ANNUAL REPORT
Lawyers' Professional Indemnity Company

LawPRO®

about LAWPRO

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

In 2003, LAWPRO provided liability insurance to more than 19,800 members of the Law Society of Upper Canada, and managed the liability insurance program of the Law Society of Newfoundland. 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."

stability…expertise…vision…leadership…focus

These strengths are at the core of our success as an insurance company. They are also defining attributes for the services and programs we provide – and thus the framework for this year's annual report which takes a different approach than those of the past.

As well as summarizing our principal accomplishments in 2003, the LAWPRO 2003 Annual Report examines how we have positioned ourselves to be out in front of major changes and developments that could affect the profession – so that we can better help the profession thrive in today's fast-changing and competitive environment.

contents

remarks of the chairman

In this, my first year as Chairman of LAWPRO, I am pleased to report that 2003 was another solid year for this organization.

The successes posted in 2003 – which are detailed in the pages of this annual report – are all the more gratifying given current insurance industry woes. In 2003, LAWPRO had $401 million in assets, $96 million in equity and an after-tax profit of $7.5 million.

I am particularly pleased that we have been able to maintain the basic insurance premium at $2,500 for both 2003 and again for 2004. Moreover, more than one-third of insured lawyers are today taking advantage of premium discounts that can reduce premiums to levels as low as $1,113 per lawyer. As a small firm lawyer, I am particularly sensitive to the need to contain program costs, and have made a point of representing this perspective during my nine years as a member of the LAWPRO Board.

As well as providing the profession with a cost-effective insurance program, we have built in LAWPRO the financial strength, expertise and vision needed to continue to succeed in the long term. This success was corroborated by A.M. Best Co. which awarded LAWPRO its fourth consecutive "A" (Excellent) financial strength rating – a major accomplishment at a time many insurers saw ratings downgraded.

Governance was a major agenda topic for most boards in 2003, and LAWPRO's Board was no exception. A detailed reporting process that has been in place from the outset ensures that your Board members are fully apprised of both the strategic direction and day-to-day operations of the company. LAWPRO management and Board members are diligent in ensuring the company meets or exceeds regulatory requirements, and that we are on the forefront of implementing legislative change such as, for example, new privacy legislation. As well, we have codified the roles and responsibilities of Board members and committees, to further strengthen the framework under which we operate.

At LAWPRO, ethics and integrity are a top priority. A good ethical framework starts with strong, professional staff who have strong, professional ethics – an apt descriptor for the management and staff at LAWPRO. The commitment, enthusiasm and expertise they bring to the table are principal factors in the success of this organization.

I would also like to recognize the collective contribution of our Board members to LAWPRO's success. The addition of several new Benchers to the Board in 2003 further strengthened the legal, insurance and financial services expertise represented on our Board.

It has been a pleasure to be LAWPRO's Chairman in 2003, and I congratulate everyone who has played a part in building a company in which we can all take pride.

Kim A. Carpenter-Gunn

remarks of the president and CEO

"Staying ahead of the curve" implies many things. It suggests vision, expertise, and focus. It suggests the ability to draw on accumulated wisdom and experience to anticipate where the next change in direction or the next inflexion point will occur. At LAWPRO, we do this by tracking industry, economic and investment trends and assessing their likely impact on our insurance products and services. And by being open to new ideas and options. Most importantly, we then translate these into processes and programs that help steer the profession in the right direction.

LAWPRO is uniquely positioned to add value by helping the legal profession stay ahead of the curve.

Our enviable database enables us to identify and track trends that affect both our own operations and those that will affect the course of the profession. For example, this year we mined our records for insights into the changing demographics of the profession and the impacts these could have on the provision of legal services and the longer term costs of insurance. These findings supported the work of the Law Society's task force on the future of sole practitioners and small firms, as well as providing us with a new perspective on the changing needs of the legal profession.

Our extensive interaction with lawyers – through our customer service teams, our strong legal and insurance sector networks, and ongoing grassroots contact with the bar – helps keep us in touch with the profession's needs and priorities. New practicePRO and TitlePLUS initiatives, and our support of the real estate bar's campaign to inform lawyers of the implications of new lender outsourcing initiatives, reflect this commitment to keep one step ahead of the changing legal landscape.

Complementing this wealth of information is the internal expertise we have to monitor economic data and interpret how external trends could influence the path of the legal profession and shape the insurance program. When it became apparent several years ago that insurance markets would retrench, making it more difficult and costly to secure excess insurance and to reinsure the primary program, we acted. First we launched our own Excess Insurance Program in the late 1990s. In 2003, with insurance markets at their worst in decades, we were ready to retain the risk for the primary program ourselves, enabling us to hold the line on insurance premiums.

Our ability to stay ahead of the curve also tells us that we need to be prepared for upcoming change. We cannot avoid all of the curves that come our way, and cannot insulate against all of the forces acting on the profession. The increased prevalence of fraud, for example, may affect both our liability and TitlePLUS programs. Increased claims costs and changes in our revenue stream may prompt moderate premium increases in the future.

But we are well positioned to manoeuvre the curves. Our financial base is solid. Our team of employees is dedicated to adding value to your relationship with LAWPRO. Together we can help shape the future.

Michelle L.M. Strom

UNDERWRITING HIGHLIGHTS

- Insured 19,800 practising lawyers.
- Held base premiums at $2,500/lawyer (2003 and 2004).
- Provided a wide range of risk-based premium discount options to the practising bar:
  - One in three lawyers claimed the part-time, restricted area of practice or new lawyer discount.
  - 40 per cent of lawyers qualified for the CLE Premium Credit program (by participating in LAWPRO-approved CLE programs).
  - 82 per cent of insured lawyers claimed the $50 e-filing discount.
- Modified program coverage to respond to changing practice needs:
  - Enhanced coverage for *pro bono* work.
  - Provided limited defence cost coverage for certain *Income Tax Act, Excise Tax Act* penalties.
  - Facilitated inter-jurisdictional mobility of lawyers.
  - Extended full limit coverage to lawyers' estates for a limited period.
- Retained all of the risk for Ontario primary program in LAWPRO rather than rely on reinsurance.

stability: underwriting

One area in which we apply our wealth of information and expertise is in underwriting our insurance programs. Over the past nine years, we have implemented a number of underwriting measures to better insulate the primary program against some of the major cyclical changes affecting the economy, the insurance industry and the legal profession. As well, we've positioned ourselves to anticipate some of the major trends that could affect our programs, and to mitigate the impact of these trends on the premium required and scope of coverage we provide.

RELATING PREMIUM AND RISK

Ongoing analysis of the risks associated with the insurance program consistently indicate that some practice areas represent more risk to the program than others.

Specifically, analysis of claims data shows that real estate and civil litigation practice represent a disproportionate risk when compared to other areas of practice. As well, lawyers with a prior history of claims are more likely to report future claims than those who are claims free.

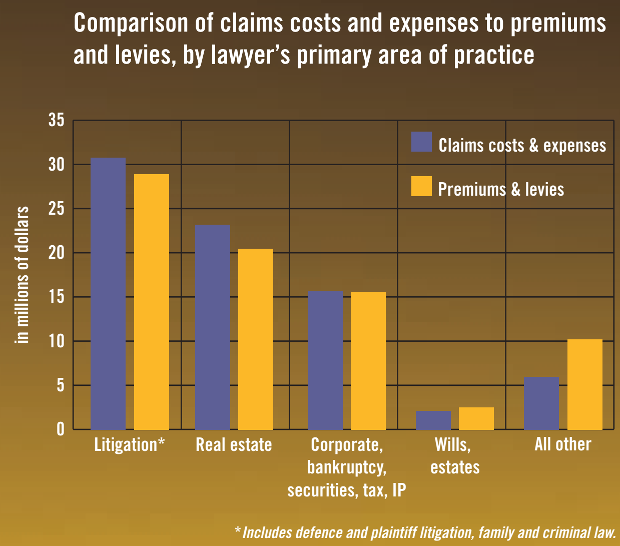
The LAWPRO premium structure reflects this variation in the risk inherent in some areas of practice, while also providing for some sharing of risk among the whole of the bar. For example, lawyers who practise real estate and civil litigation pay a transaction levy surcharge of $50 per transaction, which is applied as premium revenue. Similarly, lawyers with one or more claims pay a claims history levy surcharge that ranges from $2,500 to $35,000 or more, depending on the number of claims paid. In this way, LAWPRO ensures that the premium paid by higher risk segments of the bar closely correlates with the costs to the program represented by these segments, as is illustrated in the graph on the next page.

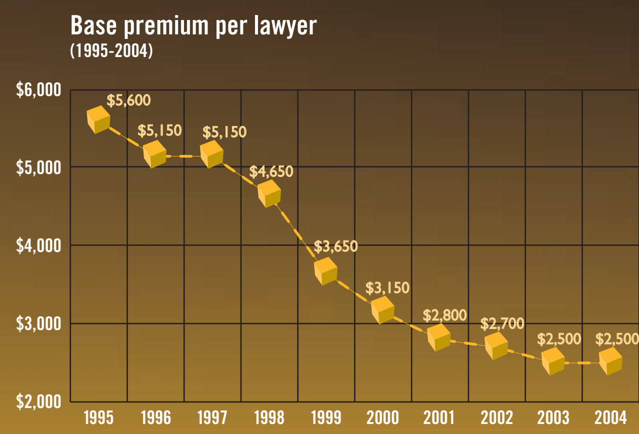
Conversely, this same analysis reveals that certain segments of the bar are less claims prone: Those who restrict their practice to criminal and immigration law, practise part-time, or are newly called to the bar, all report proportionately fewer claims. These segments are risk rated by applying a premium reduction to the base premium that all lawyers are charged. For example, the 40 per cent discount provided to new calls (in their first full year of practice), to part-time lawyers and to those who qualify for the restricted area of practice option reduced their premiums to $1,500 from the $2,500 base premium in 2003.

STABILIZING THE PREMIUM

The premium revenue generated by risk rating higher risk areas of practice has, over the past nine years, contributed to a steady decline in the base premium from a high of $5,600 per lawyer in 1995 to present levels of $2,500 for 2003 and again for 2004. In 2003, for example, transaction levies contributed about one-third of the total Ontario mandatory program premium revenue ($24 million of $78 million).

Revenues from these transaction and claims history levy surcharges that are in excess of our projections for any given year are rolled into a premium stabilization fund and are available for LAWPRO to draw on to offset premium needs in subsequent years. In 2003, for example, approximately $6 million from this fund was used to fund our premium needs, enabling us to reduce





premiums to $2,500 per lawyer. It is estimated that we will need to draw about $9.7 million from this fund in 2004 to stabilize premiums at the $2,500 level.

The widespread adoption of title insurance, and the cooling of a heated real estate market will impact this revenue stream and the extent to which we can draw on the surplus fund to stabilize future premiums. Although major upswings in premiums are not anticipated, the premium cycle likely has reached its lowest point and may have to edge upwards in coming years to meet increased program costs.

EVOLVING THE PROGRAM

Ongoing monitoring of claims trends, coupled with the need to keep in the forefront of the changing legal landscape, have prompted LAWPRO to modify the insurance program – both to expand coverage and to guard against unintended "coverage creep." These measures reflect our commitment to ensure the program responds to the profession's needs, but is also viable in the long term.

We have, for example, introduced policy modifications that exclude certain high-risk activities which fall outside the scope of "legal services" normally provided by a lawyer. Claims relating to mortgage brokering activities have been excluded from coverage since 1995; claims relating to investment advice or services provided by a lawyer are excluded from coverage effective January 1, 2004 (unless the advice or services were a direct consequence of providing legal services). Similarly, the policy has been modified to exclude from coverage claims relating to business ventures or investments which do not directly relate to the lawyer's practice of law.

At the same time, LAWPRO introduced a number of coverage enhancements to ensure the primary insurance program is in step with lawyers' changing needs. Program and policy changes introduced in July 2003 support the inter-provincial practice of law and the National Mobility Agreement. Other coverage modifications made in 2003 encourage lawyers to provide approved *pro bono* legal services, and add limited defence cost protection for lawyers who successfully defend themselves against certain penalties assessed under the *Income Tax Act* or *Excise Tax Act*. Full limit protection was extended to lawyers' estates for 90 days after the death of a practising lawyer so that the estate can assess the ongoing liability of the deceased lawyer's practice.

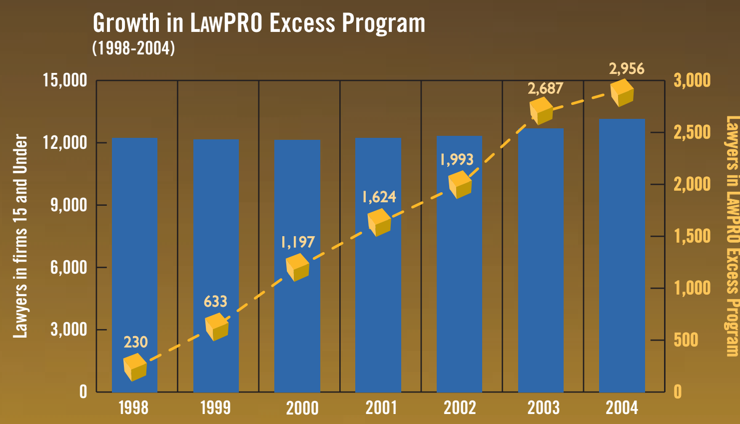
EXCESS INSURANCE: MEETING CHANGING NEEDS

In the mid 1990s, LAWPRO took notice of two trends: a decline in the number of insurers offering excess insurance (the first signs of a "hard" insurance market in which insurers are more selective in who they insure); and a low level of interest in securing excess insurance, especially among sole and small firm lawyers where only one in 10 carried excess insurance protection.

Concerned that a large segment of the bar could find itself without access to adequate additional protection at an affordable price, LAWPRO in 1998 launched its own Excess Insurance Program; at the same time, we developed a campaign to educate lawyers about their exposure for risks above the limits of the primary

EXCESS INSURANCE HIGHLIGHTS

- Grew insured lawyer base by 11 per cent for 2004:
  - Provide Excess Insurance to 1,140 firms representing 2,956 lawyers (1,050 firms and 2,687 lawyers in 2003):
    - Of 120 new firms insured with LAWPRO, 79 had never carried excess insurance.
    - 97 per cent renewed insurance with LAWPRO for 2004 (94 per cent in 2003).
- Held premium increases to 10 per cent – significantly less than other excess insurers.



program. Our program is targeted primarily at firms of 15 or fewer lawyers, and provides a choice of excess limits ranging from $1 million per claim/$2 million in the aggregate to $4 million per claim/$8 million in the aggregate.

Since its launch six years ago, our Excess Program has enjoyed substantial growth. In 2003, we insured more than 1,000 law firms and approximately 2,700 lawyers. For 2004 we posted an additional 11 per cent growth in the number of firms insured with LAWPRO – 66 per cent of which had not previously carried any excess insurance coverage. Our ability to anticipate need, predict market conditions and respond with a competitively priced product has ensured that today close to 23 per cent of sole practitioners and small firm lawyers are protected with our Excess Insurance Program.

RETAINING THE RISK

In 2003, LAWPRO opted to retain all of the risk under the Law Society's primary program itself, rather than place a portion of the risk with the reinsurance markets.

Reinsurance was a necessity for the insurance program in the past. In the 1990s, we did not have the financial strength to insure the whole program ourselves, and reinsurance added a measure of credibility, as our practices and pricing were subject to the scrutiny of the reinsurance community. Moreover, reinsurance audits of our claims files helped reinforce that our claims management strategies were on track.

Today our situation could not be more different. We have built capital to levels well above all minimums required by insurance regulators. We have set aside prudent reserves on our open files. We have established a reputation as a well-managed, cost-effective professional liability insurer. This was corroborated for the fourth consecutive year when A.M. Best Co. again awarded LAWPRO an "A" (Excellent) financial strength rating. This recognition is particularly rewarding given that a substantial number of insurers and reinsurers saw their ratings drop because of poor performance and depleted capital funds, post 9/11.

By 2003 we were positioned to take the next step: When insurance markets "hardened" in 2003 and pricing for reinsurance increased dramatically, we were ready to assume all of the risk for the Ontario primary program within LAWPRO. Our ability to take this course of action enabled us to avoid premium increases for both 2003 and again for 2004 – a rarity among insurers today.

CLAIMS HIGHLIGHTS

- Number of open files at December 31, 2003: 2,798 – a record low.
- New claims reported: 1,830 (1,947 in 2002).
- Claims payments declined by 10 per cent:
  - Claims paid in 2003: $61.6 million ($68.4 million in 2002).
  - Indemnity payments down 17 per cent to $33.7 million from $40.6 million.
  - Defence payments up one per cent to $24 million from $23.8 million.
  - Other fee payments down four per cent to $3.4 million from $3.6 million.
- Excellent record at trial:
  - Of 17 matters taken to trial, we won 11, lost one and five were under reserve at the end of 2003.
  - Won 6 of 9 appeals.
  - Successful on 15 of 20 summary judgment applications.

expertise: managing claims

Our approach to claims management – which has both a short- and long-term focus – lets us react quickly to the unpredictable but inevitable "curve balls" that come our way, as well as take proactive positions on matters that have long-term implications.

In the short term, we move quickly to establish a resolution strategy early in the life of each file, and, if there is liability on the part of the lawyer, we act quickly to achieve a cost-effective resolution.

Because of the precedent value of any claim, we also take a long-term perspective. We will defend lawyers against frivolous claims and take to trial those claims that can only be resolved at trial and those matters which, by their nature, may set a precedent or affect the reputation of the lawyer and/or the profession generally. In other words, we take a very principled approach to managing our claims portfolio.

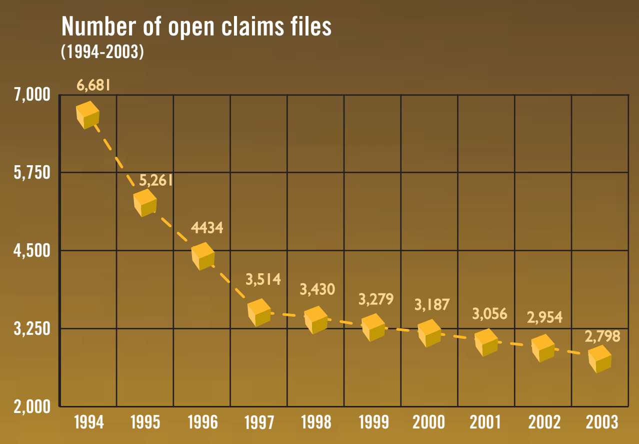
This approach consistently yields impressive results. We have reduced the number of files that we are handling to a record low of 2,798. We continue to consistently close more than 40 per cent of files without any defence or indemnity payment, and between 80 and 85 per cent of files without making any indemnity payment.

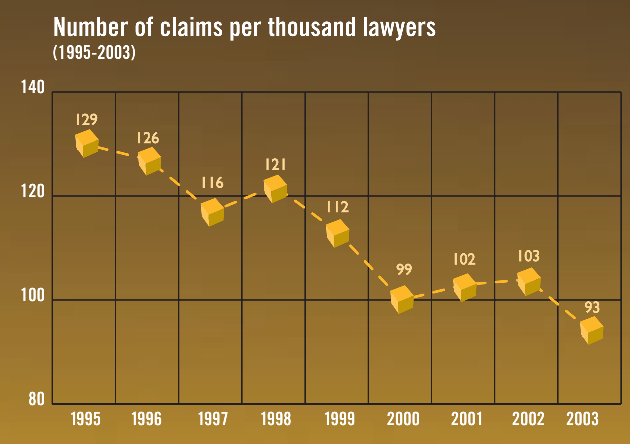
Our success extends also into the courts. We again were successful on most of the matters that went to trial or appeal, or where we applied for summary judgment.

Our claims management strategy also signals to plaintiffs' counsel, insured lawyers and excess insurers that we are a principled insurer who looks at matters in a big picture context.

Two cases that went to trial in 2003 are good examples of this stance. In a headline-making case involving the heirs of the Lucy Maud Montgomery estate, we successfully defended the lawyer against allegations of defamation and negligence. In another matter we successfully defended a lawyer being sued by clients he had represented in an arbitration. The clients were not successful and, when presented with the lawyer's fee, sued the lawyer. The trial judge found that the plaintiffs' actions were "an unwarranted attack on the professionalism and reputation of the defendants… What was at issue in this case was the competence, reputation and integrity of the defendants."

As well as speaking to our commitment to take principled positions on matters that have far-reaching implications, these judgments point to an increasingly





complex claims portfolio where neither the nature of the claim nor the coverage issues are straightforward – a reflection of the changing legal practice environment.

Complex claims are, by their nature, often costly claims. They are also claims that catch the attention of reinsurers and excess insurers. In today's cost-conscious insurance markets, our strategies and tactics are under increased scrutiny from all quarters – requiring additional resourcefulness on the part of both our examiners and defence counsel in managing these situations. Our expert claims team, who are experienced in both legal and insurance sectors, play a key role in helping us take principled positions with these parties.

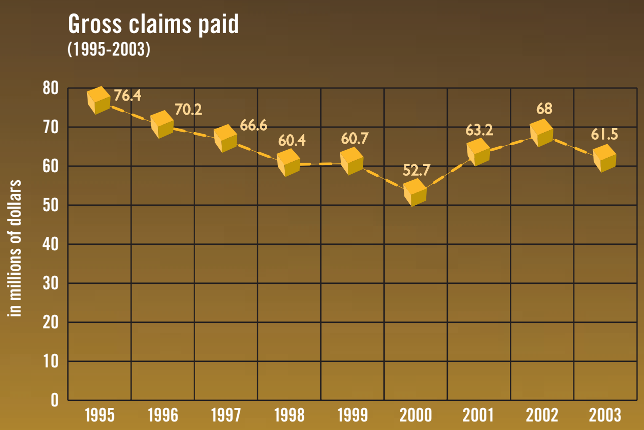
SURVEYING LAWYERS WITH CLAIMS

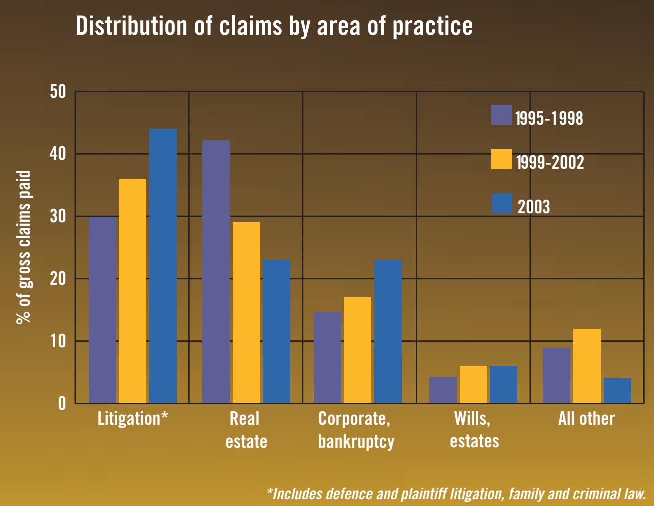
Staying ahead of the curve requires us to stay in touch with the views of our insured lawyers. One way we do this is by surveying lawyers when their claims files are closed. These surveys provide firsthand insights into what lawyers say causes claims, and their recommendations for how others can avoid the same pitfalls. The surveys also let us monitor the work of both counsel and examiner staff.

Their recommendations help us track information needs and structure risk management initiatives. In the last two years, the return rate for these surveys has soared to close to 50 per cent. Results consistently indicate that lawyers are satisfied with the way their claim is handled (93 per cent); and that they are satisfied with the selection of counsel and would ask the same firm to represent them again (86 per cent). Their insights into what caused their specific claim and what they would do differently were recently featured in LAWPRO magazine.

INCREASED COMPLEXITY IN CLAIMS PORTFOLIO

The gradual increase in claims arising out of corporate and bankruptcy law is one example of the increased complexity of the claims files we are managing. In terms of both numbers and costs, claims arising out of these two areas of law increased by about 50 per cent between 1995 and 2003. Whereas claims arising out of corporate and bankruptcy law accounted for about nine per cent of claims reported and just over 14 per cent of claims paid in the 1995 to 1998 period, they accounted for 14 per cent of claims reported and 23 per cent of claims paid in 2003.





Litigation claims also continue to increase. Broadly defined to include plaintiff and defence litigation, criminal and family law, they now rank at the top of the claims list: In 2003, 46 per cent of claims reported and 44 per cent of claims paid were in the area of litigation claims. For the 1995-98 period, litigation claims accounted for 39 per cent of claims reported and 30 per cent of claims payments made.

On the other hand, the impact of title insurance has contributed to a significant decrease in claims against the real estate bar. In 2003, real estate claims accounted for 26 per cent of claims reported and 23 per cent of claims paid – a significant decrease from 1995-98 when real estate represented the highest risk area of practice.

One development that may adversely affect this trend is the recent increased reporting of fraud noted in real estate markets late in 2003. Although these are early days, fraud claims have the potential to affect both our liability and TitlePLUS programs. We have implemented a number of underwriting and investigative measures to help us determine the potential impact of fraudulent activities and the involvement of lawyers in these activities. As well, we are stepping up our education efforts to ensure lawyers are fully informed of the types of fraudulent schemes in the marketplace, and are working with industry and government groups seeking to combat real estate fraud.

Given these realities, the 10 per cent reduction in claims paid in 2003 is an anomaly that can be largely attributed to the fact that several large, complex and costly claims resolved late in 2003 were not actually paid out until early 2004. We expect claims payments in 2004 to be in the $68 to $70 million range.

TITLEPLUS CLAIMS

To date, superior underwriting measures incorporated into our online application have helped keep the number of TitlePLUS claims reported relatively low. Most TitlePLUS claims are resolved for less than $1,000 as many claims arise out of relatively minor permit, survey and search-related issues, and utility arrears. To date, 13 per cent of TitlePLUS claims have been legal services claims – that is, claims in which the lawyer made an error or omission in the transaction.

PRACTICEPRO HIGHLIGHTS

Strengthened reputation as leading risk management initiative:

- Published "*Managing the Finances of Your Practice,*" the sixth in a series of booklets on law practice management issues.
- Expanded the CLE Premium Credit program to 63 approved programs attended by 8,800 lawyers.
- Presented to 28 firms, associations, CLE programs, and exhibitions, and chaired Technology for Lawyers 2003 Conference in Toronto.
- Contributed risk management and technology content to publications in Canada and U.S.
- Increased traffic to practicePRO Web site:
  - Recorded an average of 105 visitors daily.
  - Enabled 9,700 downloads of practicePRO materials.

vision: practicePRO

One of the best examples of our commitment to anticipate issues that affect the profession is practicePRO – the risk and change management initiative developed in 1997. This initiative reflects our belief that risk management is an important element of a successful claims management strategy – and that we can control costs by reducing the likelihood of claims.

Today, practicePRO is one of the most proactive and well-recognized risk management initiatives of any bar-related insurer in North America. Our practicePRO tools and resources are frequently cited, copied or adapted for use by others in the field.

practicePRO focuses on providing lawyers with the tools and resources to avoid claims by honing their "soft skills" – such as improved client communication and improved practice management skills (financial planning, time management, marketing, etc.). Through an extensive roster of articles and links on its Web site, practicePRO also helps lawyers better understand the concepts of wellness and balance and how they contribute to successful law practice. Another major focus is to demonstrate the benefits of incorporating technology into law practice.

In keeping with the technology focus, we have advanced the concept of online Continuing Legal Education (CLE) learning through the online COACHING CENTRE (OCC) – a self-help Web site launched in 1998 to help lawyers enhance their people and organizational skills.

We have also facilitated a major shift in CLE programming. Instead of focusing on substantive law, CLE programming today has expanded to address the soft skill issues that underlie many of the claims we see at LAWPRO. The LAWPRO CLE Premium Credit program helped bring about this shift in focus: This program provides a $50 per course credit (to a maximum of $100 per lawyer, applied to insurance premiums) to those who participate in CLE programs that have a risk management component. Since we launched the CLE Premium Credit program in 2002, the number of CLE providers and courses eligible for this credit has almost tripled, as has lawyer participation in these programs. Through our "stamp of approval" we have helped shape the curriculum of CLE programming by weaving risk management topics into the fabric of CLE programs delivered across Ontario.

Moreover, LAWPRO's belief that this type of programming would help lawyers avoid claims was corroborated in 2003: An analysis of claims indicates that those who claim the CLE Premium Credit are less likely to have a claim made against them than those who do not claim the credit.

TITLEPLUS HIGHLIGHTS

Supported the central role lawyers play in a conveyancing and lawyer-based title insurance through a variety of business-building initiatives:

- Expanded our national presence: TitlePLUS is now licensed in all provinces except Quebec.
  - Placed 165 ads in 30 publications and on television.
  - Attended and/or sponsored 135 events/shows/presentations.
- Supported development of lender-oriented Web service that puts lawyers in the centre of streamlined mortgage processing system.
- Moved all TitlePLUS business to the Web:
  - 1,804 lawyers are Web users – 613 more than in 2002.
  - Only 2 per cent of policies issued via dial-in service (21 per cent in 2001).
- A solid year in which business grew by 13 per cent:
  - Grew subscriber/user base by 15 per cent.
  - 370 lawyers issued TitlePLUS policies for the first time.

leadership: the TitlePLUS initiative

LAWPRO recognized several years ago that a number of converging trends would reshape the real estate industry and real estate practice.

In the 1990s, work had begun on computerization of the province's registry system: Electronic search and registration were on the horizon. At the same time, U.S.-based title insurers were stepping up efforts to expand title insurance into the Canadian real estate marketplace, threatening the role of lawyers in conveyancing. The lending community, interested in reducing costs associated with their mortgage operations, was putting pressure on all parties in real estate transactions to deliver services at lower cost.

In 1997, LAWPRO launched a tool to keep lawyers on the leading edge of the inevitable changes in real estate. Its name: TitlePLUS.

From the outset, one of the principal strengths of the TitlePLUS program has been our commitment to technology solutions. Our initial desktop conveyancing package streamlined the real estate transaction, integrating the TitlePLUS title insurance policy application with Teraview® and providing some document management and production capabilities. Equally important was the underwriting criteria built into the process – ensuring buyers and lenders alike that, in providing title insurance, the quality of a lawyer's service was not compromised.

WEB-BASED CONVEYANCING

In 2003, the TitlePLUS program moved to a fully automated Web-based delivery system that further streamlines the lawyer's work in a real estate transaction.

We have also developed a stable of online products that meet lawyers' and lenders' evolving needs.

Our Mortgage-Only program (available at TitlePLUS.LawyerDoneDeal.com) provides online title insurance/document management capabilities for refinance or mortgage-only transactions.

The New Home program (also available at TitlePLUS.LawyerDoneDeal.com) lets both developers and lawyers work in an online environment. Developers post project-specific data (the project's legal description, builder information, title data) to the central Web site. With underwriting data built into the system, all lawyers have to do is enter client-specific information, such as mortgage details. The system automatically generates the vendor's documents needed to close the transaction, and pre-populates a TitlePLUS application if it is being used in the transaction.

LAWPRO is also working with other providers to further expand online programs for the lawyer and lender communities. Under development and scheduled for launch in mid-2004 is the next generation of online services: RealtiPLUS Web is an integrated document production/practice management package that will enable lawyers to undertake many aspects of their real estate practice online. The program can also launch a TitlePLUS application, if desired.

EVENTS SPONSORED BY TITLEPLUS INCLUDE:

London & St. Thomas Real Estate Board
Newfoundland Clerks Conference
OBA e-reg Program
OBA Institute of CLE
TLOMA 15th Annual Educational Conference
TitlePLUS Staff User Conference
TitlePLUS Lawyer Conference
York Regional Real Estate Board

EVENTS AT WHICH TITLEPLUS EXHIBITED/PRESENTED INCLUDE:

Atlantic Legal Associates Semi-Annual Meeting
CBA Annual Trade Show
CDLPA Plenary
CIMBL Atlantic Canada Conference and Trade Show
CIMBL National Conference & Expo
Carleton County Law Association East Region Solicitors Conference
Credit Union Central of Canada 2003 Marketing Spectrum
Credit Union Professionals' Association Conference
Hamilton District Real Estate Board 3rd Annual Realtors Without Borders
Institute of Law Clerks of Ontario Conference
LSUC Six-Minute Real Estate Lawyer
LSUC/OBA Technology for Lawyers – Conference & Vendor Expo
Newfoundland Bar Admission Program
New Home Buyers Network Seminars
Nova Scotia Barristers' Society Provincial Property Conference
OBA/CDLPA/ORELA Task Force on Lender Outsourcing (18 presentations in 2003 and early 2004)
OREA Leadership Conference
Ontario Credit Union Trade Show
Toronto Real Estate Board General Meeting & Realtor Expo
Thunder Bay Real Estate Board Northern Regional Conference & Trade Show
Thunder Bay Law Association Annual Fall CLE

SERVING THE LENDER COMMUNITY

Our customized TitlePLUS reports, which provide detailed information on mortgage transactions (and other specific information required by the lender), have evolved into a Web site from which lenders and lawyers can work, creating, distributing and exchanging data on an automated basis. This VIP (Virtual Intermediary Program) service will be unveiled to the financial services industry in the spring of 2004.

We also recognize the value that both financial institutions and lawyers place on being able to access the TitlePLUS program across Canada. In 2003, we completed the process of obtaining licences to operate in all provinces (except Quebec), and now have in place agreements with various financial institutions to recognize TitlePLUS coverage nationally. Our delivery models reflect the specific needs and protocols of local jurisdictions. In Alberta, for example, we are working with an insurance broker to offer TitlePLUS policies to buyers through their lawyers, while lawyers in most other provinces can access the TitlePLUS program by calling our toll-free lines.

The need to strengthen these lender relationships and develop processes that better meet lender needs was reinforced by "lender outsourcing" initiatives launched by some of the other service providers recently. Although the structure of these outsourcing initiatives varies, they generally see lenders outsource their mortgage administration services to third parties, streamlining processing and presumably enabling financial institutions to realize cost efficiencies.

Our concern – and one shared by many groups representing legal interests – is that these outsourcing initiatives sacrifice long-term effectiveness for short-term efficiency. These ventures minimize the protection provided by lawyers to their clients and raise serious conflict issues for the legal community and increased the opportunity for fraudulent transactions. Throughout 2003 and into 2004, a number of law associations collaborated on a province-wide education campaign to make the real estate bar aware of the many issues these initiatives raise. LAWPRO supported this effort, providing expertise to principal stakeholders and spokespeople, and presenting information on the online, lender-oriented VIP initiative.

Our principal objective in these presentations – and in all of the programs and services we develop for the real estate bar – is to reinforce the pivotal role that the lawyer plays in protecting the interests of buyers and lenders, and to help keep real estate practice one step ahead of the inevitable changes in conveyancing.

CUSTOMER SERVICE HIGHLIGHTS

Insurance Call Centre

- Handled 47,200 inbound and outbound calls (46,650 in 2002):
  - Responded to 93 per cent of calls within the first 20 seconds.
- Responded to 18,300 letters and e-mails, up 22 per cent from 2002.

TitlePLUS Call Centre

- Handled 41,000 inbound and outbound calls.

focus: customer service

All of LAWPRO's employees – whether it's our Call Centre staff who are often a lawyer's first contact with LAWPRO, or our claims examiners who work with a lawyer to manage a claim, or the finance team who help track insurance payments, or the TitlePLUS consultants who provide in-office training for lawyers and their staff – share a commitment to providing excellent customer service.

This commitment is especially critical for the staff on our front lines, in the Call Centres for the insurance program and for the TitlePLUS program. What started out as a three-person Customer Service staff in 1995 has evolved into two teams of about 20 people – many of them lawyers or employees with call centre and insurance sector expertise. In 2003, our Call Centres handled about 90,000 calls from and to lawyers across the province.

The increasingly complex nature of the inquiries they field reflects the increased complexity of law practice today. They can be called on to help a lawyer understand specific policy provisions as it affects that lawyer's law practice. They need to be prepared to explain how major developments such as mobility and privacy legislation affect the insurance coverage or the lawyer specifically. They may be asked to explain the details of our Excess program and to provide information that can help a firm assess its exposure. To equip our staff to deal with this wide cross-section of queries, we carefully monitor upcoming issues and develop in-house training programs.

TitlePLUS Call Centre staff can find themselves handling inquiries from both lawyers and other stakeholders. Lawyers may need information on how to sign on with the TitlePLUS program or how to complete an application online. More complex underwriting and special requests are handled by a separate team of TitlePLUS analysts and underwriters.

A FOCUS ON THE CUSTOMER

Expertise, experience and personalized service are a TitlePLUS trademark – and one of the unique aspects of our title insurance program. Our team of TitlePLUS consultants, for example, provides hands-on, in-office training and advice to help lawyers integrate our online programs into their law practices.

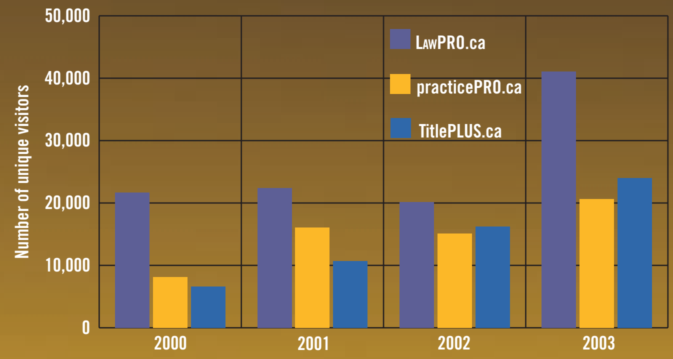
In 2003, our consultants provided first-person advice and training to more than 700 law firms in all corners of the province. Our sales team also visited dozens of law offices and lenders in Western and Atlantic Canada to help familiarize other regions with the benefits of TitlePLUS insurance. As well as positioning ourselves as the value-added title insurer, this emphasis on personal service ensures we keep abreast of lawyers' changing practice needs.

Similarly, our team of claims examiners gain insights into the underlying causes of claims, and into the changing legal practice climate, by working closely with insured lawyers on their claims. In fact, consulting

TRAFFIC TO LawPRO WEB SITES (2003)

	Total hits	Total visits
LawPRO.ca	791,590	85,221
practicePRO.ca	165,337	38,188
TitlePLUS.ca	190,272	43,432

LawPRO Web sites as a resource
(2000-2003)



the insured lawyer with the claim is an integral part of our claims resolution process: Our claims examiners, the insured lawyer and defence counsel, if assigned, form a partnership to ensure the claim is resolved expeditiously and cost-effectively.

TECHNOLOGY AS A CUSTOMER SERVICE TOOL

As is documented elsewhere in this annual report, LawPRO places a high priority on using technology to streamline workflows and interactions with lawyers, and in providing lawyers with technology-based options and solutions designed to showcase the benefits of technology in today's business environment.

A major initiative implemented in 2003 was our Technology Over Paper (TOP) project which automates internal processes, making insurance renewals faster and enabling us to deliver a higher level of customer service. We also expanded the range of transactions that lawyers can complete online: In 2003, law firms were able to download their 2004 insurance invoices electronically from our Web site. In the coming year, this functionality will be further enhanced to allow firms to access their account information online.

Statistics indicate that our strategy to use the Internet to deliver most services and information to lawyers is well received:

- Traffic to the LawPRO Web site more than doubled between 2002 and 2003.
- A record 16,200 lawyers – almost 82 per cent of lawyers in practice – completed their 2004 insurance applications online. This compares to 14,200 applications filed electronically for 2003.

MANAGEMENT TEAM

B. MARK FARRISH
Director
Sales & Marketing, TitlePLUS

CRAIG A. ALLEN
Vice-President & Actuary

CARON E. WISHART
Vice-President
Claims

DUNCAN D. GOSNELL
Vice-President
Underwriting

MICHELLE L.M. STROM
President and CEO

KATHLEEN A. WATERS
Vice-President
TitlePLUS

YOUNG KIM
Vice-President
Finance

DAGMAR KANZLER
Director
Communications

STRAUGHN INMAN
Director
Human Resources

DAVID M. REID
Director
Information Systems

DANIEL E. PINNINGTON
Director
practicePRO

management discussion & analysis

LAWYERS' PROFESSIONAL INDEMNITY COMPANY

INCOME STATEMENT

In 2003, the Company generated net income of $7.5 million, a decrease of $5.4 million over 2002.

Premiums earned

Premiums increased by $3.6 million to $86.4 million in 2003. Both the optional Excess and the TitlePLUS programs experienced growth in the year. In the core professional liability program, total premiums also increased despite a reduction in base rates.

Reinsurance ceded

Because of the Company's strong capital position paired with the unsettled reinsurance market in 2003, the Company chose to assume the risks of the core professional liability and TitlePLUS programs, rather than purchase reinsurance as it had done in prior years. Accordingly, reinsurance costs decreased by $27 million in 2003.

The optional Excess program continues to be reinsured at 100%, removing exposure to the Company from claims in this program. The Company only retains 10% of the risk from the program it manages for the Law Society of Newfoundland.

Net claims and adjustment expenses

While net incurred claims costs increased by $32.1 million in 2003, this difference is principally due to the change in reinsurance arrangements described above. The 2002 figure is also net of an improvement in prior year loss estimates in the amount of $5.2 million. The number of new claims reported in 2003 was marginally lower than that seen in 2002, but rising legal costs are expected to offset much of the benefit this may create.

General expenses

Overall, 2003 expenses were generally consistent with the prior year, with rising personnel costs accounting for the bulk of the increase noted.

Commissions earned

In 2002, the Company earned reinsurance commissions of $10.3 million consisting of commissions based on the total premiums ceded to reinsurers, plus additional commission for profitable results. The decrease of $7.3 million in 2003 reflects the discontinuance of quota share treaties for the core professional liability and TitlePLUS programs.

Investment income

Income generated from investments in 2003 was relatively consistent with 2002. Investment income includes net capital losses of $0.6 million realized on disposition of assets (2002 – gain of $0.2 million). At December 2003 the market value of the investment portfolio exceeds book value by $9.0 million (2002 – $0.5 million).

Provision for income taxes

Corporate tax rates dropped 2% from 2002, and this change is reflected in the 2003 tax expense.

BALANCE SHEET

Shareholder's equity increased by $7.5 million, which represents net income earned during the year.

Investments

Investment assets, inclusive of cash and short-term deposits, increased by $22.9 million to $263.7 million at December 31, 2003. The increase was primarily the 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 consisting largely of fixed income securities and preferred shares which are matched for maturity to expected claims payments.

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 reinsurers' 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 $10.3 million. Reinsurance recoveries have declined by $22.0 million and accordingly the net change in provision is $32.3 million. These changes are the result of the addition of claims for the 2003 year, net of payments, during the year. The decline in the reinsurance recoveries reflects the reduced share of the Ontario program ceded, which decreased from 50% in 2000 to 0% in 2003.

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.

management discussion of risk

The Company is exposed to various risks in its business activities. Accordingly, we take care to recognize, assess and manage the risks taken by the organization. The principal risks inherent in our operations are described below.

Product design and pricing risk

Insurance industry and practice environment changes are regularly assessed to ensure appropriate coverage and limits are available at an affordable cost for the insured and an acceptable return for the Company.

The process of designing and pricing products includes the estimation of many factors, including future investment yields, claims experience, and expenses. Product design and pricing risk is the risk that actual experience will not match the assumptions made at the time pricing was determined, and as a result, financial losses will occur. The risk is managed through detailed scenario analysis, and testing for acceptable results within a range of possible outcomes.

Claims liability management

Claims trends are monitored on an ongoing basis so that timely and appropriate actions can be taken to minimize costs. Risk management efforts are used to educate the profession and lower the risk of future claims. Once a claim is reported, effective claims management through prompt handling of files and the use of appropriate expertise is key to controlling this exposure.

Quantification of claims liabilities necessarily requires estimation of future costs and outcomes. Factors, such as settlement patterns, litigation trends, claims severity, and inflation may have an impact on the actual claims experience.

Investment portfolio risk

The investment portfolio represents the largest portion of the Company's assets. Income generated by the portfolio is used as working capital and contributes significantly to the Company's bottom line. Our ability to achieve investment objectives is affected by general economic conditions that are beyond our control. In an effort to further limit investment risk, investment assets are purchased with maturities to roughly mirror the expected maturity of our claims obligations.

Management of our investments is assigned to professional asset managers who are provided with specific investment mandates consistent with the goals of the organization. Performance is monitored on a regular basis.

Reinsurance risk

A well-structured reinsurance strategy can significantly minimize the negative effects of unanticipated claims events. However, since reinsurance comes at a cost, these costs must be carefully assessed in light of the associated benefits. Reinsurance does not relieve us of our liability to insureds. Should a third party reinsurer become insolvent, the Company's results and financial position could be negatively affected. To minimize the risk of potential default, reinsurers participating in our programs must pass stringent financial quality thresholds.

Regulatory and legislative compliance

The Company is provincially licensed to provide insurance and subject to legislative rules and regulations. These regulations, designed to protect the insured, are becoming increasingly more complex and cover a wide range of areas, including complaints resolution, privacy, solvency standards, investment restrictions, adequacy of reserves, and financial reporting. Management keeps abreast of changes in regulatory requirements and has systems in place to ensure compliance.

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. All significant financial initiatives are subject to stress tests to ensure compliance with solvency and capital requirements.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes, technology, or human performance. We endeavour to minimize operational risk by ensuring that effective infrastructure, controls, systems and individuals are in place. Internal controls, consisting of policies and procedures established and maintained by management, are in place to ensure the orderly and efficient conduct of our business. These controls are regularly reviewed and updated to follow best business practices and to minimize unintended practices or events from taking place.

Reputation

The biggest risk that any company faces is the loss of its good name. We strive to operate at the highest levels of professionalism, integrity and good practice.

auditors' report

LAWYERS' PROFESSIONAL INDEMNITY COMPANY

To the Shareholder of Lawyers' Professional Indemnity Company

We have audited the balance sheet of Lawyers' Professional Indemnity Company as at December 31, 2003, 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, 2003, 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

Toronto, Ontario
January 30, 2004

actuary's report

LAWYERS' PROFESSIONAL INDEMNITY COMPANY

INTERNATIONALLY MILLIMAN GLOBAL
Eckler Partners Ltd.
Consultants and Actuaries

Report for Financial Statements at December 31, 2003

Role of the Appointed Actuary

The 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, 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 2003, 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.

Toronto, Ontario
January 30, 2004

Brian G. Pelly
Fellow, Canadian Institute of Actuaries

balance sheet

LAWYERS' PROFESSIONAL INDEMNITY COMPANY

Stated in thousands of dollars **As at December 31**	**2003**	**2002** (restated – note 2)
Assets		
Cash and cash equivalents	9,203	2,460
Investments (note 4)	254,474	238,275
Investment income due and accrued	1,919	2,595
Due from reinsurers	12,570	14,940
Due from insureds	–	983
Due from the Law Society of Upper Canada	6,453	–
Reinsurers' share of provisions for:		
Unpaid claims and adjustment expenses (note 3)	109,661	131,654
Unearned premiums	–	216
Other receivable	1,026	970
Other assets	320	134
Fixed assets (accumulated depreciation – 4,898; 2002 – 4,203)	1,076	1,454
Future income taxes (note 8)	4,230	465
Total assets	**400,932**	**394,146**
Liabilities		
Bank overdraft	–	727
Provision for unpaid claims and adjustment expenses (note 3)	298,047	287,753
Due to reinsurers	603	6,369
Due to insureds	137	2
Due to the Law Society of Upper Canada	–	4,129
Expenses due and accrued	3,150	2,603
Income taxes due and accrued	1,470	2,338
Other taxes payable	735	841
Unearned premiums and commissions	592	657
	304,734	305,419
Shareholder's Equity		
Capital stock issued and paid	5,000	5,000
Contributed surplus	30,645	30,645
Retained earnings	60,553	53,082
	96,198	88,727
Total liabilities and shareholder's equity	**400,932**	**394,146**

See accompanying notes

On behalf of the Board

Director

Director

statement of income

LAWYERS' PROFESSIONAL INDEMNITY COMPANY

Stated in thousands of dollars **Year ending December 31**	**2003**	**2002** (restated – note 2)
Premiums earned	86,435	82,787
Reinsurance ceded	4,527	31,520
Net premiums earned	**81,908**	**51,267**
Net claims and adjustment expenses (note 3)	69,463	37,343
Premium taxes	2,619	2,498
General expenses	11,654	10,740
Commissions earned	(3,073)	(10,343)
	80,663	40,238
Underwriting income	**1,245**	**11,029**
Investment and other income	9,652	9,778
Income before income taxes	**10,897**	**20,807**
Provision for income taxes – current (note 8)	7,191	6,568
– future (note 8)	(3,765)	1,372
Net income	**7,471**	**12,867**

See accompanying notes

statement of cash flows

LAWYERS' PROFESSIONAL INDEMNITY COMPANY

Stated in thousands of dollars **Year ending December 31**	**2003**	**2002** (restated – note 2)
Operating Activities		
Net income	7,471	12,867
Items not affecting cash:		
Future income taxes	(3,765)	1,372
Depreciation	695	605
Realized (gains)/losses	614	(176)
Amortization of discount on bonds	(1,819)	(1,432)
	3,196	**13,236**
Changes in non-cash working capital balances:		
Other taxes payable	(106)	735
Income taxes due and accrued	(868)	(1,004)
Due from reinsurers and insureds	(2,278)	(2,718)
Provision for unpaid claims and adjustment expenses	10,294	(9,647)
Reinsurers' share of provision	22,209	10,478
Unearned premiums and commissions	(65)	(22)
Expenses due and accrued	547	286
Investment income due and accrued	676	(258)
Other receivable	(56)	54
Other assets	(186)	121
Due to/(from) the Law Society of Upper Canada	(10,582)	1,403
Total funds provided by operating activities	**22,781**	**12,664**
Investing Activities		
Fixed assets:		
Purchases of fixed assets	(317)	(1,437)
Investments:		
Purchases of investments	(661,654)	(166,190)
Proceeds of sale of investments	646,660	152,960
Investment purchases, net	(14,994)	(13,230)
Total funds provided by investing activities	**(15,311)**	**(14,667)**
Net change in cash and cash equivalents	7,470	(2,003)
Cash and cash equivalents, beginning of year	1,733	3,736
Cash and cash equivalents (net of overdraft), end of year	**9,203**	**1,733**

See accompanying notes

notes to the financial statements

Stated in thousands of dollars
As at December 31, 2003

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 Section 104 of the Ontario Insurance Act (the "Act") which states that except as otherwise specified by 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, including the accounting requirements of FSCO. The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of FSCO, are summarized below. These accounting policies conform, in all material respects, to Canadian generally accepted accounting principles.

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, which have terms of up to five years. 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 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, 2003. The estimates are regularly reviewed and updated and any resulting adjustments are included in current income.

Effective January 1, 2003, and with retroactive effect to all periods reflected in these financial statements, claims related balances are carried on a discounted basis in accordance with accepted actuarial practice in Canada (see note 2). In previous years, claims were 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 at the same time as 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. CHANGE IN ACCOUNTING POLICY

On January 1, 2003, the Company adopted, with retroactive effect, an accounting change required by FSCO relating to the method of calculating the provision for unpaid claims and related reinsurance recoveries. The new method requires that all policy liabilities be calculated on a discounted basis in accordance with accepted actuarial practice in Canada ("discounted"). The retroactive impact on the financial statements as at January 1, 2002, is a decrease in the provision for unpaid claims of $24,265, a decrease in reinsurance recoverable of $12,923, a decrease in the future income tax asset of $3,587 and an increase in retained earnings of $7,755.

Stated in thousands of dollars

The impact for the year ended December 31, 2002, is an increase in net income of $4,232 resulting from a decrease in claims expenses of $6,301 and an increase in income tax provision of $2,069.

The impact for the year ended December 31, 2003, is an increase in net income of $2,001 resulting from a decrease in claims expense of $3,157 and an increase in income tax provision of $1,156.

3. 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. An actuary reviews estimates at least annually and, as adjustments to these 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 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 provisions for prior year claims

Changes in provisions for prior year claims recorded in the balance sheet and their impact on net claims and adjustment expenses amounted to a deterioration of $459 in the year ended December 31, 2003 (2002 – improvement of $5,187).

4. INVESTMENT INFORMATION

The Company holds a diversified portfolio consisting of equities and fixed income debt 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:

2003

	Book Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Yield %
Debt Securities	221,078	4,100	(94)	225,084	4.1
Common Shares	28,540	5,224	(317)	33,447	
Preferred Shares	4,856	221	(42)	5,035	
	254,474	9,545	(453)	263,566	

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	

The estimated fair values of debt securities, common and preferred shares are based on quoted market values.

Liquidity and interest rate risk

The maturity profile of debt securities as at December 31, 2003, is as follows:

	Within 1 Year	1 to 5 Years	Over 5 Years	Book Value
Debt Securities	8,046	122,995	90,037	221,078
Percent of total	4%	55%	41%	

The average duration of debt securities at December 31, 2003, is 4.5 years. The Company attempts to match the maturity of these investments to the expected maturity of claims obligations. Shares have no specific maturities.

5. STATUTORY INSURANCE INFORMATION

a) The Company is the beneficiary of a trust account in the amount of $7,393 (2002 – $7,219) 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 capital requirements.

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

c) In accordance with licensing requirements, the Company has deposited securities with the regulatory authorities having a market value of $403 (2002 – $332).

Stated in thousands of dollars

6. 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), which owns the Company's share capital, 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, 2003, 90% 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.

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, 2003, are $1 million per claim and $2 million per member in aggregate.

In 2003, the Company refunded $0.7 million (2002 – $4.1 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.

7. 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 retained earnings

	2003	2002
Beginning of year	**53,082**	**32,460**
Prior period adjustment for change in accounting policy (see note 2)	–	7,755
Net income for the year	7,471	12,867
End of year	**60,553**	**53,082**

8. INCOME TAXES

The Company's effective tax rate does not differ significantly from the applicable Canadian statutory income tax rate of 36.62%.

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

	2003	2002 (restated – note 2)
Current	7,191	6,568
Future	(3,765)	1,372
Total income tax expense	3,426	7,940

Reconciliation to Statutory Tax Rate

	2003	2002 (restated – note 2)
Income taxes at Canadian statutory tax rate	3,991	8,036
Increase (decrease) resulting from:		
Changes in tax rate applicable to future income taxes	(636)	342
Other	71	(438)
Income tax provision	3,426	7,940

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:

	2003	2002 (restated – note 2)
Investments	581	(2,348)
Actuarial liabilities	3,402	2,694
Other	247	119
Total	4,230	465

9. COMMITMENTS

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

2004	$1,362
2005	$1,362
2006	$1,362
2007	$1,362
2008	$ 114

board of directors

(* Bencher, Law Society of Upper Canada)

KIM A. CARPENTER-GUNN*
Chairman, LawPRO Board of Directors
Partner, Waxman, Carpenter-Gunn

A Law Society Bencher and member of the Board since 1995, Ms. Carpenter-Gunn was appointed Board Chairman and Chairman of the Executive Committee in 2003. As well as serving on LawPRO's Governance Committee, Ms. Carpenter-Gunn has been active on Law Society committees concerned with litigation, professional development and competence matters. She is a partner with Waxman, Carpenter-Gunn, where she practises primarily civil litigation law.

IAN D. CROFT
Vice-Chairman, LawPRO Board of Directors
Chartered Accountant

A member of the Board since 1995 and currently its Vice-Chairman, Mr. Croft has extensive experience in the financial management of insurance companies. He recently retired as a director of the private holding companies owned by the Thomson family of Toronto. He chairs LawPRO's Governance and Audit committees, and is a member of the Executive and Investment committees.

CONSTANCE B. BACKHOUSE*
Professor, Faculty of Law,
University of Ottawa

A law professor for more than 25 years, Ms. Backhouse teaches criminal law, human rights, legal history and women and law at the University of Ottawa. Ms. Backhouse has served for many years as adjudicator and mediator of human rights complaints, and is the author of several books. She was elected a Bencher of the Law Society in 2003, and joined the LawPRO Board of Directors the same year.

ABDUL A. CHAHBAR*
Councillor,
City of London

An appointed Bencher of the Law Society and member of the LawPRO Board since 1997, Mr. Chahbar has extensive experience in the areas of economics, finance and public administration, and sits on LawPRO's Audit Committee. He is currently serving his third term as a City of London councillor.

DOUGLAS F. CUTBUSH
Insurance Consultant,
Arbitrator & Mediator

A member of the Board since 1995, Mr. Cutbush has more than 50 years of experience in the insurance industry, in senior management, as principal in his company and as consultant/mediator with dispute resolution group. He serves on LawPRO's Executive and Audit committees.

LAWRENCE A. EUSTACE
Principal,
Lawrence A. Eustace

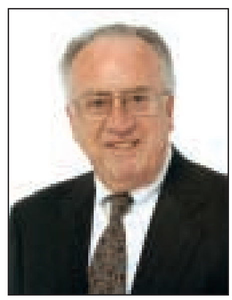
A sole practitioner in general practice in Northwestern Ontario, Mr. Eustace joined the LawPRO Board in 1999. A past chair of the County and District Law Presidents' Association (CDLPA), Mr. Eustace has served on numerous Law Society committees dealing with matters such as continuing legal education, legal aid and paralegal issues. He is a member of LawPRO's Investment committee.

MALCOLM L. HEINS
CEO,
Law Society of Upper Canada

A lawyer and former insurance industry executive, Mr. Heins was appointed CEO of LawPRO in 1994. He joined the Law Society as its CEO in 2001. Mr. Heins is a member of LawPRO's Executive, Governance, Audit, and Investment committees.

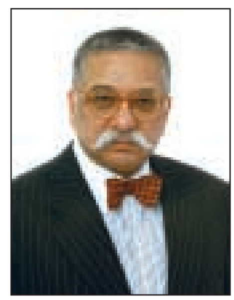
RITA HOFF
Vice-President & Director,
Canaccord Capital Corporation

Ms. Hoff joined the Board in 1996, bringing with her extensive experience in the investment industry. She is Vice-President & Director of Canaccord Capital Corporation and formerly served as President & CEO of a securities firm she co-founded. Ms. Hoff chairs the LawPRO Investment Committee and serves on the Governance Committee.



WILLIAM G. HOLBROOK
President,
W.G. Holbrook & Associates Inc.

A member of the LawPRO Board since 1995, Mr. Holbrook has extensive experience as an insurance executive and administrator. He is currently a member of LawPRO's Audit, Investment and Governance committees.



VERN KRISHNA, Q.C.*
Counsel,
Borden Ladner Gervais LLP

A well-known writer on financial and tax matters, university professor and tax counsel, Mr. Krishna is the immediate Past Treasurer of the Law Society of Upper Canada. He was elected a Bencher of the Law Society in 1991, appointed to the LawPRO Board of Directors in 2001, and re-appointed in 2003 after completing his term as Treasurer. He serves on LawPRO's Audit and Governance committees.

ROBERT J. MCCORMICK
Insurance Industry Consultant

An insurance consultant with extensive experience in the management, underwriting and claims areas of the insurance industry, Mr. McCormick has been a member of the LawPRO Board since 1995. He serves on the LawPRO Investment Committee.

LAURIE H. PAWLITZA*
Partner,
Goodman and Carr LLP

A partner at Goodman and Carr LLP, Ms. Pawlitza was named one of Canada's "Leading Family Law Practitioners" by LEXPERT. Ms. Pawlitza was elected a Bencher of the Law Society and appointed to the LawPRO Board in 2003. Her practice is restricted to family law matters.

ERIC J. SCHJERNING
Corporate & Litigation Vice-President
Canada Life Assurance Company

A member of the LawPRO Board since 1996, Mr. Schjerning has extensive experience in claims management, insurance law and litigation. He is a member of the Ontario bar and leads the in-house legal function at Canada Life.

MICHELLE L.M. STROM
President & CEO,
LawPRO

Ms. Strom has been a senior member of the LawPRO management team and Board since 1995, and in 2001 was appointed President & CEO of LawPRO. Ms. Strom, a Chartered Accountant has extensive experience in finance, administration and change management.

GERALD A. SWAYE, Q.C.*
Principal,
Gerald A. Swaye & Associates

A practitioner with 40 years experience, Mr. Swaye is certified as a Specialist in Civil Litigation and joined the LawPRO Board in 2003. Mr. Swaye has been a Bencher since 1995, and has been involved with various legal and community service organizations.

committees of the board

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Kim A. Carpenter-Gunn*
Ian D. Croft
Douglas F. Cutbush
Malcolm L. Heins
Michelle L. M. Strom

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Douglas F. Cutbush
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William G. Holbrook
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Ian D. Croft
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William G. Holbrook
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** Committee Chairman*

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