10

LAWPRO 2004 annual report

About LAWPRO

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

In 2004, LAWPRO provided liability insurance to more than 20,400 members of the Law Society of Upper Canada. 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

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

contents

chairman

As chairman of the LAWPRO® Board of Directors and one of the legal profession's nominees on this Board, I am honoured to congratulate our insurer on a remarkable decade of success and service to the profession.

Collectively we have much to celebrate. LAWPRO today is acknowledged as a leading North American bar-related insurer. Our operational excellence is regularly affirmed by external bodies, including A.M. Best Company which in 2004 awarded LAWPRO its fifth consecutive "A" rating. Our risk management expertise – as evidenced in both the practicePRO and TitlePLUS progams – not only benefits the profession but is widely recognized as leading edge.

In 1995, when I was first elected a Bencher and appointed to the LAWPRO Board, the situation was quite different. The Law Society's insurance program had a $200 million deficit to wrestle to the ground; claims numbers had climbed to over 6,600. Base premiums soared to $5,600. The profession's confidence in its insurer's future was shaken.

The rescue plan that a Task Force of Benchers implemented has proven to be visionary. LAWPRO was revamped to run as an independent insurance company with a mandate to operate using market principles (risk rating the program) while also ensuring all lawyers had access to a minimum level of coverage – thereby protecting the public interest. The relaunched company has been profitable every year, including 2004, in which it posted a net income of $6.1 million. It has assets of $430 million, and shareholder's equity stands at $102 million. Claims numbers are down more than 50 per cent from 1994, and premiums have fallen steadily to levels of only $2,500 in 2004.

None of these successes would have been possible without the strong leadership of Malcolm Heins (President, 1995 to 2001) and Michelle Strom (our current President and CEO), and the commitment and energy of the entire LAWPRO team. The success we celebrate is very much their success.

Also to be commended are the members of the Board, present and past: They bring to the table a stellar collection of insurance, financial and legal expertise that is of tremendous benefit to the entire organization. They and the LAWPRO staff, make chairing LAWPRO a rewarding, enlightening experience. I thank everyone who has contributed to the first decade of LAWPRO and look forward to continuing to build this organization, for the benefit of the bar, into the next decade.

Kim A. Carpenter-Gunn

president and CEO

2004 was an important milestone for LawPRO: We completed our tenth year of independent operation. In those ten years our key successes coalesce around ten interconnected themes. Together these 10 themes, described below, create a self-reinforcing cycle to allow us to serve the needs of the profession, now and in the future.

#1 – Financial strength

Fundamental to our short- and long-term success is a strong capital position. Our ten years of profitable results have supported the growth of our programs, and the increased assumption of risk. This in turn allows us to better maintain stable premiums in the face of variable economic and external insurance market conditions.

#2 – Excellence in claims management

Contributing to our financial success is our approach to claims management. Specialized expertise and experienced staff have a major bottom line impact. Despite the increased complexity of claims, we have continued to reduce our claims inventory. The positive feedback from lawyers on how their claims were handled assures us that we have appropriately addressed the human costs as well.

#3 – Customer focus

The program has continued to evolve in response to the changing needs of the profession and the practice environment. Improvements to the scope of coverage and to coverage options enable lawyers to tailor their coverage to their circumstances – reflecting LawPRO's commitment to serve the profession. In turn, for firms with 15 or fewer lawyers, where LawPRO can offer the necessary coverage, LawPRO is the Excess insurer of choice.

#4 – Proactive risk management

It is a truism that if you can reduce the number of claims, the cost of operating the insurance program will decline overall. Our practicePRO program is recognized as a leading source of tools and resources regarding practice-related risks, whether they are area of law specific, or deal with the softer skills of lawyering such as client relationships and communication. Our TitlePLUS program is similarly recognized. The underwriting discipline inherent in the program and the broader coverage it provides serves lawyers and their clients well.

Risk management is possibly the best investment we can make in the profession and the continued cost efficiency of the program.

#5 – TitlePLUS®

TitlePLUS is not simply an insurance product – it is a whole support system to subscribing real estate practitioners. The TitlePLUS model offers enhanced protection for lenders and consumers by building on the pivotal role that lawyers play in the real estate transaction. We have expanded this tool nationally in 2004, customizing it for each provincial jurisdiction.

#6 – Technology in action

Early on, we realized we could add value to our offerings if we could interpret technology trends and help lawyers integrate technology into their practices. We have internalized this by using technology to streamline our own operations. Through services such as online policy applications, and our TitlePLUSWeb product, we have kept processing costs down while improving efficiency.

#7 – Communication, communication, communication

Whether your preferred method of gaining information is paper, electronic or the spoken word, we have made a point of communicating regularly, and thoroughly about the insurance program, our plans, products and practice risks. We know that we are succeeding from the many requests from near and far to reprint sections from our LAWPRO magazine and our practicePRO managing booklets, and to speak on claims and risk management topics.

#8 – Aggregator and interpreter of information

Less visible, but no less powerful, is our ability to leverage the strengths that are resident in LAWPRO: varied and deep professional expertise, and rich databases. Mining these databases allows us to forecast trends and identify potential issues.

#9 – Building partnerships

Through partnerships with other legal and industry organizations we are poised to monitor issues and influence changes. Our participation in a multi-stakeholder task force on fraud is but one example of this. Our staff have a presence on industry committees and are in demand as speakers.

#10 – Expertise of the LAWPRO team

Our success at assembling a team of talented individuals who are recognized for their excellence is also your success. More than half of our staff has celebrated at least five years of service. Whether it is the real estate expertise in the TitlePLUS staff, the resolution skills in the Claims department or the problem solving skills of the Customer Service group, these individuals reinforce that cycle for the benefit of the legal profession.

On the occasion of our 10th anniversary, (and coincidentally my own 10th anniversary), I thank them for their commitment to LAWPRO.

Michelle L.M. Strom

10 years of innovation | **underwriting/ customer service**

In each year since 1995, LAWPRO has introduced program coverage and payment enhancements that reflect our commitment to deliver a customer-focused program that is both cost effective and incorporates elements of risk rating. These changes enable insureds to tailor their coverage to their needs and preferences. They also ensure LAWPRO delivers on its mandate to deliver programs and services that enhance the competitive position of the legal profession.

underwriting/customer service

1995
- LAWPRO assumes administration of insurance program
- transaction & claims history levy surcharges introduced
- premiums & coverage adjusted for new lawyers, lawyers working with others, lawyers no longer in practice
- application process developed

1996
- 16,700 application & option selection forms processed
- options introduced for deductibles, areas of practice, sub-limit and premium payment options
- exempt lawyers offered basic coverage and limit buy-up options

1997
- part-time practice discount, enhanced coverage for in-house corporate counsel, and early payment discount introduced

1998
- Innocent Party Coverage expanded
- Optional Excess Insurance Program introduced
- title-insured transactions generally exempted from real estate surcharge

1999
- 10,500 lawyers use online filing & receive $50 e-filing discount
- volume levy surcharge discontinued

2000
- Mandatory Innocent Party Coverage premium substantially reduced

2001
- $50 CLE premium credit introduced

2002
- definition of insured expanded to include law corporations & MDPs

2003
- LAWPRO retains all of the risk for the Ontario program
- enhanced coverage for lawyers in approved *pro bono* legal programs, and for lawyers' estates
- new defence cost protection against certain statutory tax penalties
- amendments to facilitate lawyer mobility under National Mobility Protocol

2004
- claims arising out of business ventures and investment advice and/or services, not related to the member's practice of law, excluded from coverage

Keeping a pulse on change

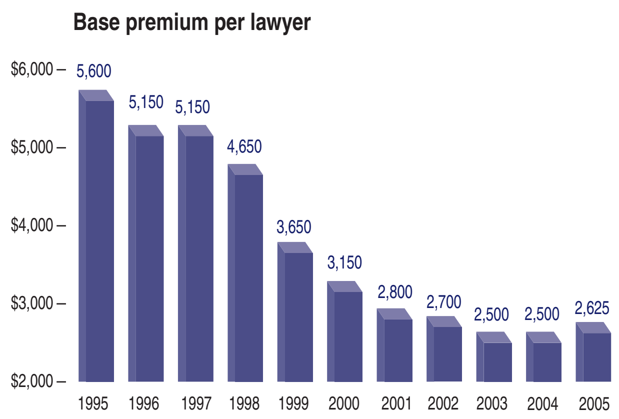
Mining our extensive database of claims allows us to both monitor how the practice of law is changing, as well as gauge the risk associated with certain practice areas.

Real estate and civil litigation, for example, consistently generate the highest percentage of claims, while immigration and criminal law account for fewer claims than other practice areas. Part-time practitioners and lawyers who have been recently called to the bar also report fewer claims than other groups. LAWPRO has addressed these trends by offering discounts for lawyers who restrict their practice to lower risk practice areas, while lawyers in real estate and civil litigation pay a transaction levy surcharge of $50 per transaction. In addition, lawyers with one or more claims pay a claims history levy surcharge that ranges from $2,500 to $35,000 and up, depending on the number of claims paid. These measures ensure that lawyers who practice in statistically higher risk areas pay a premium that more closely correlates with the risk they represent, as the graph on this page illustrates.

Monitoring claims trends along with the changing practice climate also enables us to adapt the program to changing circumstances. We constantly assess the marketplace in which lawyers practise to ensure coverage reflects current realities – while also guarding against the increasing trend to stretch the boundaries of the "professional services" definition. For example, claims arising out of mortgage brokering activities have been excluded from coverage since 1995.

Comparison of claims and expenses to premiums and levies, by lawyer's primary area of practice

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



Program changes implemented in 2004 exclude from coverage:

- claims arising from investment advice and/or services; and
- claims related to business ventures or investments not directly related to the practice of law.

Excluding these higher-risk activities minimizes the program's exposure to claims for services that are not generally considered to fall within the scope of legal services.

LawPRO also tracks the changing practice environment to ensure that the insurance program responds to meet the profession's changing needs. To facilitate the Pro Bono Law initiative, for example, in 2003 we enhanced coverage for lawyers providing *pro bono* legal services. Additional coverage changes provided limited defence cost protection for insureds who were successful in defending themselves against certain penalties assessed under the *Income Tax Act* or *Excise Tax Act*. Enhanced coverage was offered to the estates of lawyers who were practising at the time of their death in order to allow the estate to assess ongoing liability for the deceased's law practice. In 2004, further changes were implemented to reflect the National Mobility Agreement, which enables lawyers to practice in different jurisdictions more easily.

The increased use of title insurance has prompted the Law Society to require that title insurers have in place Law Society-approved release and indemnity agreements protecting lawyers against claims arising out of titled-insured transactions before the $50 transaction levy will be waived. Formalizing these agreements will better protect lawyers against claims arising out of title-insured transactions, and will better clarify under which circumstances lawyers can claim exemption from paying the real estate transaction levy surcharge. LawPRO supports these measures to better protect the program's risk exposure.

Stabilizing the premium

Since 2001, insurance markets have experienced much upheaval and change, including significant increases in premiums. Through effective management of claims costs, implementing risk rating, and other measures, we have insulated ourselves from these forces; in fact, we have been able to reduce premiums consistently from a high of $5,600 in 1995, to a low of $2,500 in 2003 and 2004. While there was a significant increase in fraud-related claims in 2004, premiums increased just five per cent for the 2005 program.

Retaining the risk

In LawPRO's early years, reinsurance was an important component in helping us move toward solid financial ground. As a newly re-minted company in 1995, LawPRO retained about half the risk of the program, while reinsuring the other half in the commercial reinsurance market. Reinsurance allowed us to focus on developing infrastructure, operations efficiency and sound claims management strategies in a stable environment. Reinsurance also afforded us a measure of credibility as our practises and pricing were scrutinized by reinsurers.

As LAWPRO retired the deficit and built up its capital, it was eventually positioned to assume all of the risk of the Ontario program, and has done so since 2003. This has allowed us to cushion the premium from the effects of fluctuating insurance markets and keep the premium increase to just five per cent in 2005.

As a result of our underwriting and operating performance, favourable loss reserve development and strong capital position, A.M. Best Co. has awarded LAWPRO the "A" rating every year since 1999.

Ensuring adequate coverage

In 1998, LAWPRO strengthened its line of insurance products by offering excess professional liability insurance. At the time, excess insurance was difficult for some to obtain in the commercial market, and was often costly. Moreover, many smaller firms were operating without adequate coverage, likely due to a lack of awareness of their potential risk exposure and their need for excess insurance. Through stringent underwriting, LAWPRO was able to provide excess insurance at affordable rates to our target market of firms of 15 or fewer lawyers. In the six years since it was introduced, the Excess program has grown from 80 firms to 1,152 firms insured in 2004. Also impressive is our 95 per cent renewal rate: Despite a 10 per cent increase in premiums in 2004 and 2005, our rates remain very competitive and interest in the program has continued to grow. In 2005 we increased the number of lawyers who are insured in our Excess program to 3,165 lawyers in 1,168 firms, reaching close to saturation levels in our target market.

Online services

Since 1995, communicating the program changes and enhancements to Ontario's lawyers on a day-to-day basis has been the domain of the Customer Service Department. In 2004, our customer service team made 6,879 outbound calls and handled 34,619 inbound calls, with 94 per cent of calls responded to within 24 seconds. The number of calls made and received decreased 35 per cent and 12 per cent respectively from 2003. Written correspondence has similarly decreased eight per cent in 2004 to 16,726 from 19,255 pieces received in 2003.

The decrease in call and correspondence volume is a result of ongoing efforts by our customer service team to provide insureds with alternative ways to access and obtain information. The focus of this enhanced communication is the LAWPRO Web site: Through posting clear, easy-to-access information about the insurance program, and the development of a more interactive, intuitive e-filing application process, the number of calls from insureds relating to the application process and program has decreased, along with the need for follow-up calls from our customer service team to clarify discrepancies and missing information.

In 1996, when LAWPRO first introduced individual application and option selection forms, 16,700 lawyers submitted the paper forms by mail, fax and in person. Launching an online application process in 1999 was a major breakthrough: almost 10,000 lawyers chose to e-file that year. While the number of lawyers insured under the program has risen steadily to about 20,340 in 2004, the ease of online filing prompted just over 17,000 lawyers to e-file, representing 85 per cent of insured lawyers.

We continue to streamline our online interactions with lawyers. In 2003, lawyers were offered online access to policy and invoice documents and the premium payment authorization form. This past year, we expanded this capability: Many sole practitioners were able to take advantage of instant electronic policy and invoice issuance, allowing them to file their application and access their policies and invoices in the same online session.

As lawyers become more familiar with the e-filing process, the focus of correspondence received by LAWPRO has shifted from questions about the application process to requests for account information, including payment details, payment options and amounts owing. As a result, making this information available on the lawyer or law firm's dedicated page in the secure section of the LAWPRO Web site will be a customer service priority for 2005.

10/10 | claims

Whether the measure is the level of satisfaction expressed by lawyers whose claims we have defended, or the hard financial benchmarks of claims management, LawPRO is consistently at the top of the ratings when it comes to managing a changing and increasingly complex claims portfolio.

claims

Ten years ago, our focus was on building the infrastructure and expertise needed to manage a sizeable claims portfolio. Within the first few years, we whittled the number of open files from over 6,600 to about 3,500, and reduced incurred claims costs by approximately 40 per cent from their peak, bringing an element of stability to the program.

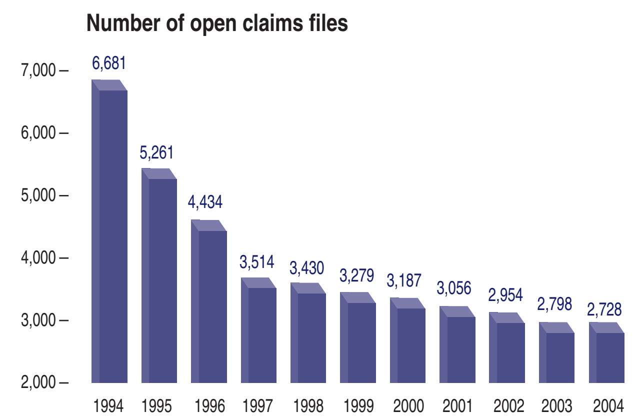
Equally important was the need to put a framework to the scope of coverage provided under the policy – and specifically to the scope of what constitutes "professional services" provided by lawyers. To that end, certain activities – such as mortgage brokering – were excluded from coverage.

A decade later, the issues are increasingly complex. A changing practice environment has led to challenging claims that are time-consuming and costly to defend and resolve. Clients today are more demanding, and have higher expectations of what their lawyer can deliver. As well, the courts are holding lawyers to a higher standard of care. Yet we continue to register impressive results.

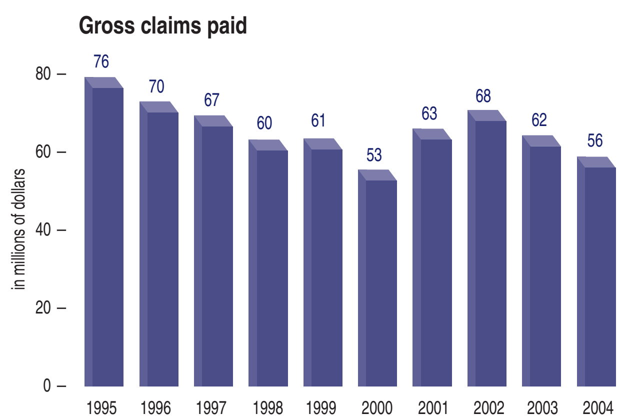
The number of open claims files in our portfolio at the end of 2004 fell to a new record low of 2,728, even though the number of claims reported in 2004 was up marginally to 1,874 from 1,830 the previous year. Total claims payments for the year fell by nine per cent to $56 million, reflecting both lower legal costs and reduced indemnity payments in 2004.

Active, strategic file management

We attribute our successful track record in managing claims to several inter-related factors: the expertise of LawPRO's 20-person claims team; our innovative approach to working with defence counsel; and a focus on actively and strategically managing all aspects of each and every claims file.



This strategic guidance involves both short- and long-term strategies. If we determine that there is liability on the part of the lawyer, we will act quickly to resolve the matter cost effectively. Alternately, if the claim is without merit, we will not make economic settlements, defending our insured through the trial process, if required. We will take to trial those claims that only a trial can resolve.



Certain claims have far-reaching implications for the profession. We carefully consider the impact of claims that could set a precedent for the bar or impinge on the reputation of the lawyer involved and/or the bar.

Our approach to working with defence counsel is equally principled: We set out clear cost guidelines and reporting expectations for counsel, and ensure the LAWPRO examiner assigned to the file actively guides the claim file at each step in the resolution strategy. To ensure long-term consistency in the quality of representation given under our program, defence counsel firms subscribe to the concept of mentoring up-and-coming lawyers by their own respected veterans.

Distribution of claims by area of practice

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

The success of our strategic approach to claims management has been corroborated on several fronts.

In 2004, we closed about 45 per cent of files without any defence or indemnity payment, and 83 per cent without any indemnity payment.

We were successful on 13 of the 16 matters that we took to Superior Court, and on all three matters taken to the Court of Appeal. We won four of the six matters that went to trial in small claims court; and we were successful on 12 of 15 summary judgment applications.

As in past years, lawyers who have had LAWPRO manage their claim again gave us high marks for the services provided by both our examiners as well as the defence counsel on the file; as the following illustrates:

	YES
Were you satisfied with the way LAWPRO handled your claim?	96%
Would you ask the same defence counsel firm to represent you again?	87%
Were you satisfied with the process of selection of counsel?	88%

A changing mix in the claims portfolio

Our proactive approach to managing claims has yielded impressive results. But claims management is, by its nature, also reactive: Factors over which we have no control can and do have a significant affect on the program. Over the past decade, for example, we have seen a significant shift in the proportion of claims attributed to various practice areas. As the chart to the left indicates, where real estate once accounted for the majority of claims costs, litigation practice now holds that position.

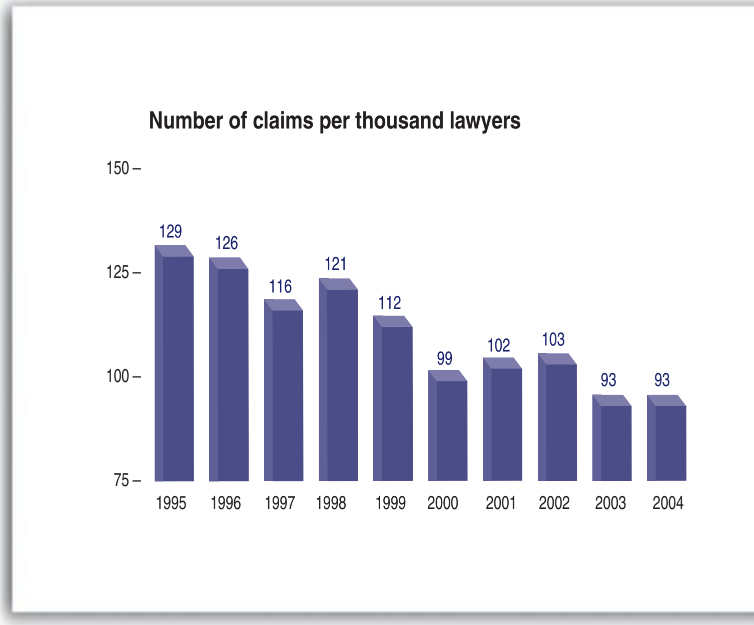
Similarly, the cost of claims arising out of corporate and bankruptcy practice have consistently increased to the point where they are almost 60 per cent higher than a decade ago.

Both of these trends reflect notable changes in the practice environment. The increased lack of civility within the bar, a more litigious consumer public, and the increased complexity of certain practice areas have contributed to this realignment of claims in the portfolio. They have also resulted in more complicated, difficult claims and claimants; liability is often less clear than in the past, and coverage issues are often extraordinarily difficult to resolve.

In the longer term, these trends will affect our bottom line: We have already seen an increase in the average cost of claims on which we incur defence or indemnity costs to more than $53,500 in the last four years from $41,000 in the 1997-2000 period. Moreover, the inventory of complex claims that we expect will ultimately cost us $100,000 or more to resolve, is today larger than it has ever been.

A major contributing factor has been the increased incidence of claims with a fraud component. In the last year alone, for example, the number of fraud-related claims reported has increased 60 per cent to more than 100 claims, and our projected cost to resolve these claims is up 80 per cent to more than $5 million. Because most of these files have not yet reached the resolution stage, their ultimate cost to the program is still uncertain. However, we have already seen the first signs of the impact that fraud-related claims will have. In 2004, the cost of claims arising out of real estate practice increased to 30 per cent from 23 per cent in 2003, with most of this increase attributable to fraud-related claims.

As a result, we have stepped up both our underwriting and investigative measures, and our efforts to better inform lawyers about the types of frauds being perpetrated, and how they can better equip themselves to protect against being victimized by fraudsters. The June 2004 issue of our LAWPRO Magazine was dedicated to the subject of fraud, and provided practical advice and checklists for lawyers to incorporate into their practices. We are also participating on an industry/government task force that is working to fight real estate fraud at all levels.



TitlePLUS claims

Although the incidence of fraud-related claims in our TitlePLUS program remains relatively low, fraud has had an impact here as well. In 2004, the number of TitlePLUS claims with a fraud component more than doubled to three per cent of claims reported from less than one per cent a year ago. Stringent new underwriting processes and more rigorous procedures for becoming a TitlePLUS subscriber have helped minimize the impact of fraud on our title insurance program when compared to other title insurers, who are reporting that fraud claims accounted for one-quarter to one-third of losses in 2004.

As in the past, the majority of claims arise out of minor permit, survey and search-related issues and utility arrears, and are resolved for $1,000 or less. The average cost to resolve TitlePLUS claims has remained relatively stable.

top 10 | **practicePRO**

Whether it is the hands-on tips in the popular “managing” series of booklets; or the insights shared in presentations at CLE and other legal events; or the practical discussions of technology and risk issues in articles in legal publications; practicePRO is today recognized as a leading source of quality risk management tools and resources in legal and technology circles across North America.

Top 10 practicePRO downloads

Item	No. of downloads
1. The Dangers of Metadata (from LAWPRO Magazine)	2,770
2. Transition Rules Chart for New Limitations Period Act	2,657
3. Dealing With Difficult Clients paper	1,798
4. General Retainer Letter Precedent	1,464
5. Law Office Business Plan Precedent	1,409
6. Sample Law Office Privacy Policy	1,291
7. Criminal Law Retainer Letter Precedent	1,087
8. New Privacy Legislation (from LAWPRO Magazine)	1,060
9. Dealing with Difficult Clients (from LAWPRO Magazine)	914
10. Family Law Retainer Letter Precedent	898

Since its launch seven years ago, practicePRO has provided lawyers with tips by the ten-fold. Its focus is on the "soft" skills, such as improved client communication, better planning and time management (which analysis of our claims data indicates are among the principal underlying causes of loss); and on equipping lawyers to adapt their practices to the changing times.

The cornerstones of practicePRO's risk management arsenal are a series of books that address specific practice management issues or risks. In 2004, we published the seventh in this series: *"managing the security and privacy of electronic data in a law office"* which not only provides practical tips on the subject, but also reflects practicePRO's other focus: Helping lawyers integrate technology into their law practices.

To this end, practicePRO maintains an extensive Web site that features articles and links that put risk management content at the lawyers' fingertips. In 2004, close to 27,000 visitors logged on to the site – an average of about 150 a day. Visitors downloaded close to 36,000 documents.

practicePRO's influence is evidenced in the shift that has occurred in CLE programming as a result of the LAWPRO CLE Premium Credit Program. CLE programs, which in the past focused primarily on substantive law topics, now incorporate risk management and claims prevention content (often delivered by LAWPRO staff or defence counsel). More than 12,000 lawyers attended one of the 87 CLE programs that qualified for the premium credit in 2004 – an increase of more than 50 per cent from the previous year. CLE providers are now proactively seeking to have their programs approved.

We have forged strong working relationships with all of the major law-related associations, regional, national and international. These partnerships provide us with opportunities to access the risk management expertise of others, as well as raise the visibility of our program among key stakeholders and in their publications. Our risk management content, for example, is now frequently cited or republished in leading legal publications in the United States.

Reinforcing this higher visibility was an active calendar of speaking engagements which saw us present at 30 law firms, associations, exhibitions and conferences in 2004.

Rounding out the roster of tools from practicePRO is the risk management content practicePRO contributes to both our own publication, LAWPRO Magazine, as well as to other leading print and online publications, including The National (the publication of the CBA), OBA and CBA section newsletters, and US-based publications issued by the ABA.

101010 | **technology**

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Whether you're sending an e-mail, typing a letter, or storing data on your hard drive, the information you work with must be converted into binary code – a sequence of simple 1s and 0s – before it can be sent, stored or otherwise used.

Making the complex simple has also been an important focus at LAWPRO over the past decade. Whether we're streamlining the insurance application, making information more accessible, or developing new ways of doing business, our underlying goal is to make it simple. And our most important ally in this task: technology itself.

technology

In 1995, it took lawyers an hour or more to complete the 24-page paper application, which then was mailed or faxed to our offices where data entry personnel input application information. Another team then spent weeks assembling packages that contained invoices, Declaration pages and copies of the actual insurance policy, all of which had to then be mailed.

Over the last 10 years, the process has been fully computerized: It now takes lawyers an average of less than 10 minutes to complete their application in a secure section of our Web site. Firms find it equally fast and easy to complete the online filing for all lawyers in their firm. From the comfort of their home or office, they can validate information on their pre-populated application, authorize payments from bank or credit card accounts online, or update their personal or firm information.

In 2004, we further simplified our online services with the introduction of instant policy issuance: Within seconds of completing the online application filing, the lawyer's personalized invoice, Declaration pages and a copy of the insurance policy are accessible online.

Lawyers have been quick to capitalize on savings in time and costs that online services provide: The number of lawyers who opt to e-file has increased steadily from a base of just under 10,000 online filers in 1999 to a record 17,000 e-filers (85 per cent of the practising bar) in 2004. About 25 per cent of eligible lawyers opted for instant policy issuance – a facility that will be available to even more lawyers in 2005.

Our Web sites recorded more than 1.6 million hits representing 107,000 unique visitor sessions in 2004 – an increase of 25 per cent from the previous year. Similarly, e-mail is becoming the profession's preferred communication tool, accounting for more than 40 per cent of correspondence that we now receive annually.

Promoting technology use by lawyers

Developing technology-based services also offers us an opportunity to demonstrate how business can be done differently and keep lawyers competitive. Our TitlePLUS program, for example, is delivered almost entirely over the Internet, providing lawyers with a viable example of the potential of electronic conveyancing. RealtiPLUSWeb®, which offers lawyers a Web-based file management, document production and title insurance application system (see page 19) provides further evidence of the benefits of online real estate practice.

Technologies to improve internal operations allow us to also improve services to our external customers. The launch in 2004 of a "virtual claims file" allows us to electronically store the reams of documents related to a specific claims file – providing quick, secure and centralized access to claims documents. Testing new technologies on our intranet, which is an information and knowledge management tool for staff, has helped identify opportunities for upgrading our external LAWPRO Web site in mid 2005. Similarly, developing remote access capabilities that enable our staff to work offsite supports our goal of ensuring business continuity in the event of weather-related or other emergencies.

Technology education

LAWPRO is actively involved in educating lawyers about how to make better use of technology in their practices. Our new booklet, "*managing the security and privacy of electronic data in a law office"* details the steps lawyers should take to protect their electronic data. At our Technology Breakfasts we demonstrate hardware and software solutions at work.

LAWPRO Magazine not only includes a practical TechTip column, but also features in-depth articles on issues such as hidden metadata in computer files, phishing schemes and how to make better use of various features in commonly used software products.

1 2 3 4 5 6 7 8 9 10 | **TitlePLUS**

With our TitlePLUS program firmly established in Ontario, in 2004 we focused on making TitlePLUS title insurance more accessible nationally.

By year-end, we were issuing TitlePLUS policies in 9 of Canada's 10 provinces, and working with hundreds of lawyers and lenders across the country to further expand its availability in their jurisdictions.

titlePLUS

Lawyers, lenders and consumers across the country recognize the significant advantages that the TitlePLUS program offers each participant in the conveyancing process. The enhanced protection we provide, by combining title and legal services coverage under one policy, better protects both consumers and lenders. Lawyers can feel secure knowing they have provided a quality product that protects their clients' interests. Lenders take comfort from knowing they have protected their own interests in the transaction, as well as ensuring their clients have the most comprehensive protection available.

For lawyers, the TitlePLUS program offers yet another advantage: We are committed to supporting the pivotal role that the real estate bar plays in conveyancing. We support the bar through educational activities and by putting our in-house legal expertise at their fingertips – whether it is through the tips and legal content available on the TitlePLUS online application, through our publications, or through our expert team of consultants, analysts and underwriters.

At the same time, we have forged stronger ties with the lending community, and developed services that meet the needs of financial institutions in real estate transactions.

The success of this approach is measured in many ways. Again in 2004, an increasing number of lawyers opted for TitlePLUS insurance: About 400 lawyers in Ontario ordered TitlePLUS insurance for the first time, helping increase our TitlePLUS subscriber base to close to 2,400 – an increase of more than 30 per cent over last year's totals. This strong interest in using the TitlePLUS program helped us grow the TitlePLUS business by more than six per cent and exceed our premium targets for 2004. We estimate that one in 10 purchases in Ontario is now insured with a TitlePLUS policy.

At the national level, the TitlePLUS program also has momentum. More than 300 lawyers in the western provinces and Atlantic Canada have signed on to use the TitlePLUS program for their real estate transactions. As well, we have increased our presence in the lending community: All major financial institutions accept TitlePLUS policies nationally, and hundreds of smaller institutions – many of them regional lenders – use TitlePLUS coverage on transactions that they finance.

Our commitment to both consumers and lawyers has also been recognized by a major international organization. In 2004, LawPRO became the first and only Canadian company to be granted membership in the National Association of Bar-Related Title Insurers (NABRTI). Admission to NABRTI represents a milestone for our TitlePLUS program, as members have to demonstrate a long-term commitment to key principles such as working with the real estate bar in the public interest, delivering the title product only through lawyers, and evidence of educational initiatives that inform both the public and lawyers about the role of the lawyer and title insurance in real estate transactions.

Proudly Canadian

From the outset, we have made our Canadian identity a cornerstone of our promotional activities. In 2004, we developed a new advertising campaign that reinforces this "made in Canada" branding. The "Proudly Canadian" theme, along with indigenous wildlife, were featured in ads that ran in all major legal, consumer, real estate and lender publications across the country.

An equally important TitlePLUS trademark is the personal service we provide: In 2004, our team of consultants visited close to 1,000 lawyers and law firms across Canada, to introduce them to the TitlePLUS program and demonstrate first-hand how it can benefit their real estate practices. As well, we sponsored and/or participated in more than 150 events to promote the program to lawyers and their staff, as well as to consumers and real estate professionals.

Technology-based real estate practice

The technology platform that lawyers use to access TitlePLUS insurance has evolved significantly over the past seven years. The desktop software in place at its launch in 1997 has been replaced by a leading edge, Web-based system that takes just minutes to use, and also provides value-added tips and legal content that reflect the depth of the TitlePLUS team's legal expertise.

In 2004, we expanded technology initiatives for lawyers, in conjunction with LawyerDoneDeal Corp. (LDD), a technology developer.

RealtiPLUSWeb™ is a one-stop, fully integrated document production, file management and title insurance application system that is delivered to lawyers' desktops over the Web. With more than 1,000 lawyers eligible for RealtiPLUSWeb within the first six months of launch, it is fast becoming a preferred way to do business.

Working with LDD, we also began development of a Web-based process that will let lawyers outside Ontario apply for TitlePLUS coverage online rather than having to phone or fax us the required documentation. As of January 2005, lawyers in British Columbia, Alberta, Saskatchewan and Manitoba were able to apply online for TitlePLUS coverage for their mortgage-only/refinance transactions. We expect to be able to expand our online capabilities for both the western provinces and Atlantic Canada later in 2005.

Equally important is our support for technology initiatives for the lender community. The Virtual Intermediary Program (VIP™) launched to the financial services community in early 2004 provides lenders and lawyers with a centralized Web site from which they can work, creating, distributing and exchanging data on an automated basis; for example, lenders can post mortgage information for lawyers to retrieve, as well as generate any number of reports at a keystroke. We are currently working with a major national lender to expand the data transfer capabilities of the VIP initiative to facilitate the movement of funds in a real estate transaction.

Impact of fraud

In 2004, all title insurers reported an increase in fraud-related claims, with many reporting that fraud claims accounted for one third or more of their losses.

Although not immune to the impact of fraud, the TitlePLUS program has not been affected to the same extent as other title insurers, largely because of the more stringent underwriting requirements that are an integral part of TitlePLUS underwriting. Additional safeguards implemented in 2004 further mitigated the impact of fraud claims. However, the number of claims with a fraud component has more than doubled to about three per cent of all claims reported in 2004.

10 financial report

management discussion & analysis

Lawyers' Professional Indemnity Company

Income Statement

In 2004, the Company generated net income of $6.1 million, a decrease of $1.4 million over 2003. Income before taxes decreased by $1.8 million to $9.1 million. Underwriting income decreased by $9.0 million but was largely offset by an increase of $7.2 million in investment income.

Premiums earned

Total premiums decreased by $7.1 million to $79.3 million in 2004. While both the optional excess and TitlePLUS programs experienced growth in the year, premiums from the core professional liability program decreased substantially because no premium subsidies were drawn in 2004 from the Law Society ($6.1 million in 2003). Additionally, the Company returned $5.1 million to the Law Society for future insurance purposes pursuant to policy terms.

Reinsurance ceded

No reinsurance was purchased in either 2004 or 2003 for the core Ontario professional liability and TitlePLUS programs.

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

Net claims and adjustment expenses

Overall, incurred claims are consistent with the prior year. An improvement in prior year loss estimates in the amount of $8.0 million offset an increase in the number of claims reported in 2004.

General expenses

Personnel related costs and external consulting fees account for the bulk of the increase in 2004 general expenses over 2003.

Commissions earned

The Company earns base commissions on that portion of premiums ceded to reinsurers plus additional commissions for profitable results. While base commissions are comparable between the 2004 and 2003 years, profit commission decreased by $0.4 million.

Investment income

Income generated from investments increased by $7.2 million over 2003. Investment income includes net capital gains of $4.3 million realized on disposition of assets ($0.6 million loss in 2003). At December 2004 the market value of the investment portfolio exceeds book value by $12.6 million (2003 – $9.0 million).

Provision for income taxes

Combined corporate tax rates dropped by 0.5% from 2003, and this change is reflected in the 2004 tax expense.

Balance Sheet

Shareholder's equity increased by $6.1 million, the net income earned during the year.

Investments

Investment assets, inclusive of cash and cash equivalents, increased by $43.0 million to $306.7 million at December 31, 2004. 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.

That part of the Company's portfolio which is surplus to the claims liabilities 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 $17.8 million. Reinsurance recoveries have declined by $12.0 million and accordingly the net change in provision is $29.8 million. This change is the result of additional claims recorded in 2004, net of payments made during the year. The decline in the reinsurance recoveries is mainly due to the continued transitional effects of ceding lesser amounts to reinsurers on the Ontario program. The percentage ceded dropped in stages from 57% in 1995 to nil in 2003, where it remained in 2004.

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

Lawyers' Professional Indemnity Company

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 management is the procedure by which an insurance company determines the validity and amount of a claim. Effective claims management through prompt handling of files and use of expertise is fundamental to the success of our business. Claims trends are monitored on an ongoing basis so that timely and appropriate actions can be taken to minimize costs. Risk management efforts are also used to educate the profession and lower the risk of future claims.

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

Investment portfolio risk

A significant portion of the Company's assets is held in the investment portfolio. Income generated by the portfolio is used as working capital and contributes significantly to the Company's bottom line. There is the risk that our investment objectives, which are affected by general economic conditions beyond our control, will not be achieved. In an effort to limit investment risk, claims obligations are matched with investment assets which have maturities that roughly mirror their expected payment.

The Company engages professional asset managers who manage the portfolio in accordance with specific investment mandates consistent with the goals of the organization. Performance is monitored on a regular basis.

Reinsurance risk

The Company's reliance on reinsurance has decreased in recent years. However, a significant portion of the existing provision for unpaid claims is still shared with reinsurers. Reinsurance in itself 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 and are subject to annual reviews.

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 complex, and cover a wide range of areas including complaints resolution, privacy, solvency standards, investment restrictions, adequacy of reserves, and financial reporting. Failure to comply with applicable laws or regulations could result in the imposition of fines or significant restrictions on our ability to conduct business. 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.

Deloitte.

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, 2004, 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, 2004, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
January 28, 2005

Deloitte & Touche LLP
Chartered Accountants

INTERNATIONALLY MILLIMAN GLOBAL
Eckler Partners Ltd.
Consultants and Actuaries
Report for Financial Statements at December 31, 2003

actuary's report

Lawyers' Professional Indemnity Company

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 2004, 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 28, 2005

Brian G. Pelly
Fellow, Canadian Institute of Actuaries

balance sheet

Lawyers' Professional Indemnity Company

Stated in thousands of dollars **As at December 31**	**2004**	**2003**
Assets		
Cash and cash equivalents	27,721	9,203
Investments (note 3)	278,978	254,474
Investment income due and accrued	1,781	1,919
Due from reinsurers	12,145	12,570
Due from insureds	814	–
Due from the Law Society of Upper Canada	–	6,453
Reinsurers' share of provisions for:		
Unpaid claims and adjustment expenses (note 2)	97,663	109,661
Other receivables	882	1,026
Other assets	386	320
Fixed assets (accumulated depreciation – 5,582; 2003 – 4,898)	729	1,076
Income taxes recoverable	3,224	–
Future income taxes (note 7)	5,495	4,230
Total assets	**429,818**	**400,932**
Liabilities		
Provision for unpaid claims and adjustment expenses (note 2)	315,845	298,047
Due to reinsurers	815	603
Due to insureds	–	137
Due to the Law Society of Upper Canada	5,976	–
Expenses due and accrued	3,829	3,150
Income taxes due and accrued	–	1,470
Other taxes payable	478	735
Unearned premiums and commissions	589	592
	327,532	304,734
Shareholder's Equity		
Capital stock issued and paid	5,000	5,000
Contributed surplus	30,645	30,645
Retained earnings	66,641	60,553
	102,286	96,198
Total liabilities and shareholder's equity	**429,818**	**400,932**

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**	**2004**	**2003**
Premiums earned	79,342	86,435
Reinsurance ceded	5,304	4,527
Net premiums earned	**74,038**	**81,908**
Net claims and adjustment expenses (note 2)	69,265	69,463
Premium taxes	2,405	2,619
General expenses	12,953	11,654
Commissions earned	(2,803)	(3,073)
	81,820	80,663
Underwriting (loss)/income	**(7,782)**	**1,245**
Investment and other income	16,836	9,652
Income before income taxes	**9,054**	**10,897**
Provision for income taxes – current (note 7)	4,231	7,191
– future (note 7)	(1,265)	(3,765)
Net income	**6,088**	**7,471**

See accompanying notes

statement of cash flows

Lawyers' Professional Indemnity Company

Stated in thousands of dollars **Year ending December 31**	**2004**	**2003**
Operating Activities		
Net income	6,088	7,471
Items not affecting cash:		
Future income taxes	(1,265)	(3,765)
Depreciation	684	695
Realized (gains)/losses	(4,338)	614
Amortization on bonds	101	(1,819)
	1,270	**3,196**
Changes in non-cash working capital balances:		
Other taxes payable	(257)	(106)
Net income taxes due and accrued	(4,694)	(868)
Due from reinsurers and insureds	(314)	(2,278)
Provision for unpaid claims and adjustment expenses	17,798	10,294
Reinsurers' share of provisions	11,998	22,209
Unearned premiums and commissions	(3)	(65)
Expenses due and accrued	679	547
Investment income due and accrued	138	676
Other receivables	144	(56)
Other assets	(66)	(186)
Due to/(from) the Law Society of Upper Canada	12,429	(10,582)
Total funds provided by operating activities	**39,122**	**22,781**
Investing Activities		
Fixed assets:		
Purchases of fixed assets	(337)	(317)
Investments:		
Purchases of investments	(174,368)	(661,654)
Proceeds from sale of investments	154,101	646,660
Investment purchases, net	(20,267)	(14,994)
Total funds provided by investing activities	**(20,604)**	**(15,311)**
Net change in cash and cash equivalents	18,518	7,470
Cash and cash equivalents, beginning of year	9,203	1,733
Cash and cash equivalents, end of year	**27,721**	**9,203**
Cash and cash equivalents at end of year consist of:		
Cash	4,775	756
Cash equivalents	22,946	8,447

See accompanying notes

Stated in thousands of dollars
As at December 31, 2004

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.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand balances with banks, and short-term investments with maturities of three months or less. The fair value of cash and cash equivalents approximates the amounts shown in the financial statements.

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.

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, 2004. The estimates are regularly reviewed and updated and any resulting adjustments are included in current income.

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.

Employee future benefits

The Company maintains a defined contribution plan for its employees as well as a supplemental defined benefit plan for certain designated employees which provides benefits to those employees in excess of the benefits provided by the Company pension plan. The cost of the supplemental defined benefit plan is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of the expected plan investment performance, salary escalation and retirement ages of employees. Market values are used to value benefit plan assets. The obligation related to employee future benefits is measured using current market interest rates assuming a portfolio of Corporate long bonds with terms to maturity in accordance with the requirements of the CICA standard "Employee Future Benefits".

Stated in thousands of dollars

Adjustments for plan amendments, changes in assumptions and actuarial gain and losses are charged fully into income in the year they are realized.

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 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 an improvement of $7,960 in the year ended December 31, 2004 (2003 – deterioration of $459).

3. 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:

2004	Book Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Yield %
Debt Securities	240,247	6,042	(29)	246,260	4.5
Common Shares	36,132	7,255	(863)	42,524	
Preferred Shares	2,599	154	–	2,753	
	278,978	13,451	(892)	291,537	

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	

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

Stated in thousands of dollars
As at December 31, 2004

Liquidity and interest rate risk

The maturity profile of debt securities as at December 31, 2004, is as follows:

	Within 1 Year	1 to 5 Years	Over 5 Years	Book Value
Debt Securities	415	131,671	108,161	240,247
Percent of total	0.2%	54.8%	45.0%	

The average duration of debt securities at December 31, 2004, is 4.4 years. The Company attempts to match the maturity of these investments to the expected maturity of claims obligations. Shares have no specific maturities.

4. STATUTORY INSURANCE INFORMATION

a) The Company is the beneficiary of a trust account in the amount of $7,483 (2003 – $7,393) 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) In accordance with licensing requirements, the Company has deposited securities with the regulatory authorities having a market value of $334 (2003 – $403).

5. RELATED PARTY TRANSACTIONS

Pursuant to a service agreement implemented January 1, 1995, the Company administers the Errors and 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, 2004, 92% 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, 2004 are $1 million per claim and $2 million per member in the aggregate.

In 2004, the Company refunded $5.1 million (2003 – $0.7 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 and 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

	2004	2003
Beginning of year	60,553	53,082
Net income for the year	6,088	7,471
End of year	66,641	60,553

7. INCOME TAXES

The Company's effective tax rate does not differ significantly from the applicable Canadian statutory income tax rate of 36.12%.

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

	2004	2003
Current	4,231	7,191
Future	(1,265)	(3,765)
Total income tax expense	2,966	3,426

Reconciliation to Statutory Tax Rate

	2004	2003
Income taxes at Canadian statutory tax rate	3,270	3,991
Increase (decrease) resulting from:		
Changes in tax rate applicable to future income taxes	–	(636)
Other	(304)	71
Income tax provision	2,966	3,426

Stated in thousands of dollars

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:

	2004	2003
Investments	987	581
Actuarial liabilities	3,940	3,402
Other	568	247
Total	5,495	4,230

During the year the Company made payments of $5,955 and received refunds of $234 from tax authorities.

8. FUTURE EMPLOYEE BENEFITS

The Company has a defined contribution pension plan which is available to all its employees. Each employee is required to contribute 4.5% of yearly maximum pensionable earnings and 6% in excess thereof, of an employee's annual base earnings. Under the plan, the Company matches all employee contributions. The Company made payments of $345 in 2004 (2003 – $322) and recorded pension expense of $353 (2003 – $351).

The Company also has a supplemental defined post-retirement benefit plan. Funding for the supplemental plan has not occurred as at the last actuarial valuation date, December 31, 2003. Accordingly, there are no plan assets. For reporting purposes, all assets and liabilities associated with pension benefits or obligations have been measured using values as at December 31, 2004.

The following tables describe the Company's commitments and costs for these employee future benefits, presented in accordance with the standards defined in Section 3461 of the CICA Handbook "Employee Future Benefits".

	2004	2003
Accrued benefit obligations		
Balance, beginning of year	697	439
Current service cost	103	58
Interest cost	69	–
Actuarial loss/(gain)	140	–
Plan amendments	255	200
Balance, end of year	1,264	697

The accrued benefit asset/(liability) is presented as follows in the Balance Sheet:

	2004	2003
Accrued benefit asset/(liability) in "Other Liabilities"	(1,264)	(697)

The significant assumptions used by the Company are as follows:

Discount rate	5.75%
Expected long term rate of return on plan assets	6.00%
Rate of compensation increase	3.50%
Estimated average remaining service life	12.0 years

The total net expense for the plan was as follows:

Current service cost	103
Interest cost	69
Expected return on plan assets	–
Amortization of net actuarial loss/(gain)	140
Amortization of past service costs	255
Net defined benefit plan expense	567

9. COMMITMENTS

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

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

board of directors

1 **Kim A. Carpenter-Gunn***
Chairman, LAWPRO Board of Directors; Partner, Waxman, Carpenter-Gunn

2 **Ian D. Croft**
Vice-Chairman, LAWPRO Board of Directors; Chartered Accountant

3 **Constance B. Backhouse***
Professor, Faculty of Law, University of Ottawa

4 **Abdul A. Chahbar***
Councillor, City of London

5 **Douglas F. Cutbush**
Insurance Consultant, Arbitrator & Mediator

6 **Lawerence A. Eustace**
Principal, Lawrence A. Eustace

7 **Malcolm L. Heins**
CEO, Law Society of Upper Canada

8 **Rita Hoff**
Vice-President & Director, Canaccord Capital Corporation

9 **William G. Holbrook**
President, W.G. Holbrook & Associates Inc.

10 **Vern Krishna, Q.C.***
Counsel, Borden Ladner Gervais LLP

11 **Frederick W. Gorbet**
Principal, Strategy Solutions

12 **Laurie H. Pawlitza***
Partner, Goodman and Carr LLP

13 **George D. Anderson**
Retired President and Chief Executive Officer, Insurance Bureau of Canada

14 **Michelle L.M. Strom**
President & CEO, LAWPRO

15 **Gerald A. Swaye, Q.C.***
Principal, Gerald A. Swaye & Associates

(* Bencher, Law Society of Upper Canada)

committees of the board

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

Audit
Ian D. Croft*
Abdul A. Chahbar
Douglas F. Cutbush
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