

2010
annual
report

LAWPRO®
Lawyers' Professional Indemnity Company

About LAWPRO®

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

In 2010, LAWPRO provided liability insurance to about 22,500 members of the Law Society of Upper Canada. We also insured more than 1,440 law firms (representing about 3,700 lawyers) under our optional Excess Insurance program.

Through our TitlePLUS® operation, LAWPRO also provides comprehensive title insurance to property owners and lenders throughout Canada. LAWPRO's practicePRO® risk management program assists lawyers in managing their potential exposure to professional liability claims.

Our vision

To be regarded as the preferred insurer in all markets and product lines in which we do business.

Our mission

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

Our values

Professionalism

Individually and as a team, we hold ourselves to the highest professional standards.

We deliver programs and services known for quality and cost-effectiveness, and for being practical, helpful and relevant.

We demand the best of ourselves every day and in everything we do.

Innovation

We foster a climate in which creativity, innovation and change can flourish.

We share ideas, skills and knowledge and encourage continual learning.

We value teamwork and collaboration, and the diverse strengths and perspectives of others.

Integrity

We act with the highest levels of integrity in all of our interactions and decisions.

We aim to always be consistent, fair, ethical and accountable.

Service

We strive for excellence in customer service.

We share our knowledge, experience and expertise with our customers and with each other, so that together we can identify, prevent and solve problems.

We take the time to listen and understand, so we can respond effectively and empathetically to our customers and to each other.

We demonstrate courtesy and genuine respect for all.

Leadership

We try to make the world a better place, and to that end lend our energy and expertise to many communities.

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Remarks of the Chair

Although the turmoil associated with the economic crisis of 2008/09 is largely behind us – certainly investment markets have rebounded, and our housing markets and employment statistics are stable – that crisis has fundamentally changed the regulatory environment in which companies, especially those in the financial sector, operate.

Today, banks and insurance companies such as LAWPRO are under increased scrutiny from their regulators: Solvency tests are more stringent, the benchmarks against which we are measured higher, and disclosure requirements more extensive – and growing. The bottom line: Robust financial results are in order.

The most important of our benchmarks – the Minimum Capital Test (“MCT”) as set by LAWPRO’s principal regulator, the Financial Services Commission of Ontario – is a case in point. At December 31, 2010, the company’s MCT ratio was 226 per cent compared to 206 per cent a year earlier. However, a pending change to the way the MCT is calculated could result in a significant drop in all insurers’ MCTs, without the companies themselves making any changes to their underlying business. So, the better a company’s MCT is today, the better it will be able to cushion itself against the fallout from the new MCT calculation when it comes.

Equally challenging are the evolving new financial reporting standards being adopted by the accounting profession in many parts of the world. These new International Financial Reporting Standards (“IFRS”) not only require significantly more disclosure (the Notes that accompany our financial statements could be twice as long next year), but could also dramatically affect how we treat funds held in reserve to pay for claims in the future.

Stacked up against these pressures, LAWPRO’s solid and stable financial results for 2010 are reassuring and just what the doctor ordered. They put the company in a better position to weather the coming changes that may adversely affect our financial results and will fundamentally change the way this Board reports those results publicly.

Certainly a net income of \$15.2 million looks good at first blush.

But this solid result does not mean lawyers are reporting fewer claims. Instead, it is largely the result of a revision to the actuarial models LAWPRO uses to project ultimate claims costs. Initiated two years ago and developed with the assistance of external actuaries, this revision addresses the need for an actuarial tool that provides more robust predictions in ultimate claims costs for the insurance program. The revision relies heavily on the fact that LAWPRO now has more than 10 years of claims experience to draw on since the original models were adopted in 2001, and was vetted by members of the LAWPRO Board with extensive experience in the insurance industry.

Under the new models, LAWPRO was able to release more than \$20 million of gross claims reserves, contributing to overall claims costs in the 2010 financial statements of just under \$80 million. This release of reserve funds had a positive effect on both net income of \$15.2 million compared to a loss of \$6.5 million in 2009, and on shareholder’s equity which grew to more than \$159 million from \$141 million in 2009.

Despite this favourable result, all signs point to fact that we have truly arrived at a new era in claims. In 2010, the number of claims reported again topped the 2,000 mark. Based on current trends, LAWPRO is projecting total claims costs in the order of \$80 to \$90 million for the 2010 program, once all claims received in 2010 are eventually resolved. This compares unfavourably to the earlier part of this decade when claims costs arising from operating the program for a year were in the \$55 to \$65 million range annually.

Although strong, investment income at just over \$19 million is not at a level that completely offsets this significant increase in claims costs which, as we have said in the past, continues to put pressure on the level of the insurance premium. For 2011, the base premium is \$3,350 – which is about the average level of the premium paid by lawyers over the past 15 years.

To conclude, the Board and management are dealing with extensive new regulatory issues from both our primary regulator and other provincial authorities, the new and as yet poorly defined IFRS accounting rules for insurers, and disturbingly increased claims costs.

The Board is working closely with LAWPRO management to monitor these challenges and others as they evolve. The positive results of 2010 reflect well on the leadership and expertise of the management team. On behalf of the members of the Board, I thank them for their extraordinary efforts and commitment.

I am also indebted to my fellow Board members for the rigor, commitment and insights that they brought to the table as we addressed many difficult issues in 2010.

We live in interesting times.

Ian D. Croft
Chair

Remarks of the President & CEO



Reproduced at the front of this issue of our annual report is the new LAWPRO vision, mission and values statement developed and adopted by our employees in 2010.

That statement has become an integral part of the way we at LAWPRO plan and execute our responsibilities to manage the company efficiently, effectively and responsibly on behalf of the members of the Ontario bar. This statement also provides me with an ideal framework for my annual accounting of LAWPRO's initiatives and activities in 2010.

Professionalism & Integrity

As our Board chair has stated in his own message, LAWPRO is an insurance company operating in an increasingly regulated market. Insurance itself is a highly specialized and scrutinized business, with many financial imperatives. For example, we need to keep our eye not only on the bottom line, but also on the critical benchmarks that regulators (we are licensed in all jurisdictions across Canada) and the auditor uses to assess our solvency and viability. Throughout, our focus is on the long-term survival of a financially sound insurance program (and by implication, the long-term survival of the capital that has come predominantly from the members of the legal profession). This allows us to serve the best interests of all our policyholders.

We could not take the LAWPRO obligation and responsibility as steward of the profession's resources and provider of superior insurance programs more seriously – as is reflected in our commitment to the values of professionalism and integrity. It is against this principal responsibility that we measure all of our decisions and actions – from the coverage we provide and the risks we underwrite, to the insurance premium we set. As stewardship dictates, our approach must reflect sound insurance business practices.

Recommending a primary professional liability base premium for 2011 of \$3,350 is a case in point. Given the high level of claims costs, which for each of the past four years are expected to top the \$80 million mark, and the relatively lower level of investment returns, a premium increase was inevitable.

We recognize that this is not a popular decision: No one likes paying more for insurance of any type. But we also know that Ontario lawyers – individually and collectively – count on us to be there for them when they need us. So, in the interests of the whole of the bar, we "take the high road" of being fiscally prudent – to ensure the long-term viability, sustainability and integrity of the insurance program.

Being prudent also means keeping a tight rein on the costs we can control. For example, for each of the last two years general expenses for the program (salaries, rent and other overhead costs)

were lower than budgeted and stood at 18 per cent of the total budget, compared to the industry norm of close to 30 per cent. A focused effort to exercise our rights of recovery on E&O claims could generate more than \$1 million in recoveries on only 16 claims files. We also have more than 100 files in promising stages of recovery in the TitlePLUS® portfolio. Whether handling claims or undertaking general expenses, such as our own purchasing of corporate insurance, we understand that our insureds want us to be sensitive to the expense bottom line and obtain savings where prudent to do so.

A restructuring of the claims function into two departments – one focusing on the primary E&O program, the other on the TitlePLUS, excess E&O programs, and difficult coverage files – will further strengthen our focus on managing costs.

The values of professionalism and integrity also drive the priority we put on compliance, and on making rigorous principles, processes and procedures an integral part of our work day.

LAWPRO's principled approach to E&O claims management – which sees us defend to the highest level if appropriate, resolve claims expeditiously where there is liability and refuse to entertain "economic settlements" – benefits the whole of the bar economically as well as professionally. As is documented elsewhere in this report, LAWPRO won 12 of 13 matters that went to trial, seven of eight matters taken to the Court of Appeal, 19 of 25 summary judgment motions and two appeals from summary judgment motions. And clearly insureds who have first-hand experience with us think we are on the right track: 98 per cent of those responding to an annual survey of insureds with closed claims said they were satisfied with way LAWPRO handled their claim.

The same principled approach applies to our underwriting guidelines: For example, when it became clear that building compliance issues were a major source of loss in the TitlePLUS program, we implemented measures to help lawyers identify these issues – and help their clients avoid a claim altogether. A proposed pilot project in one Ontario municipality to automate this process as part of the TitlePLUS application will further enhance the information lawyers have at their fingertips when closing a real estate transaction – as well as mitigating our underwriting risk. This initiative could well prove to be a major breakthrough that benefits lawyers, municipalities and, of course, LAWPRO.

Innovation

Like any successful organization, we will not rest on our laurels: We welcome creativity and change. Much time and energy were dedicated in 2010 to completing the review of the model our internal and external actuaries use to arrive at their claims cost projections. These projections are vital to our ability to plan for

the E&O program's present and future needs, and to setting appropriate premiums that support the program over the long term. (The Chair in his remarks has discussed the implications of this revision for our 2010 financial results.)

We are applying the same rigor and forward-looking mindset to the need to convert to new international financial standards. In this 2010 annual report, you will find a description of our journey to being IFRS-compliant. Our financial statements effective December 31, 2011, will be produced under the new standards. We are also carefully monitoring discussions on the treatment of the discount rate and how that may affect what we set aside in claims reserves (and ultimately how that affects shareholder's equity).

Because of the vital nature of technology to every aspect of our organization, we have also undertaken a major review of our systems and future needs with a goal of producing a five-year plan that will ensure we continue to be in a position to lead by example on this front.

Service

Service at LAWPRO means more than assisting lawyers on the telephone or providing guidance to those with a potential claim concern – although we do plenty of that. In fact, in 2010, our Customer Service centre alone handled close to 65,000 calls and correspondence.

Service for us means sharing information and knowledge: To that end, we presented our risk management message at 35 seminars, conferences and events; we provided expertise to the Canadian Bar Association's Conflicts of Interest Task force, played a leading role in the development of a large firm model file retention policy and alerted the profession to the challenges of unbundled legal services. We expanded the range of tools we use to get all of our messages into lawyers' hands, making more use of electronic newsletters and producing a first-ever Year in Review – a type of annual review of LAWPRO activities that addresses issues of specific interest to lawyers. And we got very active in the blog world: Our practicePRO® Avoid A Claim blog is credited by dozens of lawyers for alerting them to new and evolving frauds targeting the legal profession.

Leadership

As well as sharing our expertise through presentations, we reach out to the legal community through our participation in more than 50 legal-related organizations, committees and task forces. Our goals: To know and understand the issues facing lawyers; and to bring the LAWPRO perspective and our risk management message to as many tables as possible.

We also actively promote the lawyers' interest to external communities. We continue to meet regularly with key government officials to ensure understanding of the issues facing the legal community, including the importance of a viable real estate bar as an access to justice issue.

We also stepped up our efforts to educate the consumer public about the vital role of lawyers. A series of articles on topics such as cottage ownership, powers of attorney, real estate fraud, and home renovations were picked up by more than 100 media outlets nationally; the accompanying interviews generated coverage in major media across the country including the Globe and Mail and The National Post. The result: Our message that "your lawyer is your trusted advisor" reached more than 10 million Canadians.

In memoriam

We ended the year on a sad note as our friend and colleague Caron Wishart passed away shortly before Christmas after a courageous battle with cancer. As Vice-President, Claims, Caron steered the LAWPRO Claims Department from 1995 to 2010. Many of the successes we point to today have their origins in Caron's ideas and innovations, and the fact that our claims function often is referred to as "best in class" among Canadian insurers is to her credit. To honour her tireless efforts on behalf of the bar, LAWPRO established an endowment in her name at her alma mater, the University of Toronto Faculty of Law. Many have donated to this cause. Thanks to the matching grants program of the Ontario government, that endowment now stands at \$100,000 and will fund one scholarship each year for a second-year law student. Caron knew about this initiative and was thrilled.



Kathleen A. Waters
President & CEO

Management Discussion and Analysis

The following Management Discussion and Analysis provides a review of the activities, results of operations and financial condition of Lawyers' Professional Indemnity Company ("LAWPRO" or the "Company") for the year ended December 31, 2010, in comparison with the year ended December 31, 2009. These comments should be read in conjunction with the corresponding audited financial statements, including the accompanying notes.

Financial Highlights

Statement of income and comprehensive income

In 2010, underwriting income increased year over year by \$25.4 million while investment income increased by \$7.4 million, with both items contributing to an increase in income before taxes of \$32.7 million, resulting in an income of \$22.1 million before taxes. In total, during 2010 the Company generated a net income of \$15.2 million, an increase of \$21.7 million over 2009, and earned comprehensive income of \$18.2 million compared to a comprehensive income of \$7.2 million during the prior year.

Net premiums earned

Premiums earned, net of reinsurance ceded, decreased by \$1.1 million to \$100.4 million in 2010. Premiums from the mandatory Ontario errors and omissions ("E&O") insurance program were \$0.4 million lower than 2009 results, as a premium rate increase during the current year was more than offset by a \$13.6 million drop in additional premium due from the Law Society of Upper Canada's (the "Law Society") Errors and Omissions Fund under the retrospective provisions of its insurance contract. Compared to budget, the mandatory professional liability premiums came in \$0.6 million over anticipated levels as a result of a slightly higher than expected number of insured lawyers participating in the 2010 program. The optional excess insurance program experienced growth of \$0.3 million in the year while the title insurance program experienced a decline of \$0.7 million during the same period.

Net claims and adjustment expenses

Incurred claims and adjustment expenses in 2010, net of reinsurance recoveries, decreased by \$28.8 million from 2009.

While results varied significantly by policy year, during the current year the Company experienced net favourable development on prior years' claims of approximately \$23.8 million (compared with net unfavourable development of almost \$6 million during 2009), due in large part to the completion of a re-evaluation of the actuarial models used to estimate ultimate outstanding losses which allowed the Company to release a significant amount of prior year provisions. The prior year claims expense was affected by a significant drop in the discount rate and a \$10.7 million one-time retrospective increase in the required provisions for the anticipated impact of the implementation of the HST in Ontario.

Reinsurance

Similar to recent years, the Company purchased excess of loss clash reinsurance coverage for 2010, which limits its exposure to one or more large aggregations of multiple claims arising from the same proximate cause. The optional excess program continued to be fully reinsured, significantly mitigating exposure to the Company from claims in this program.

General expenses

LAWPRO's general expenses in 2010 were \$0.8 million lower than 2009, and were \$1.8 million lower than budgeted, due to continued cost management efforts undertaken by the Company.

Commissions earned

The Company earned reinsurance commissions of \$1.5 million on premium ceded in respect of its 2010 optional excess

insurance program, representing a \$0.2 million increase from 2009. In addition, the Company also earned \$0.2 million of profit commissions for favourable claims development on the quota share reinsurance arrangements that it had prior to January 1, 2003, down from \$2.0 million in 2009. As claims estimates become more certain with time, there is less potential for favourable development on claims relating to older fund years, resulting in a tendency towards lower profit commissions.

Investment income

Income generated from investments increased by \$7.4 million in 2010. Investment income for 2010 included net capital gains of \$1.4 million realized on disposition of assets, compared to \$10.2 million of capital losses in 2009. Investment results for the prior year were impacted by a \$9.0 million realized loss relating to the midyear transfer of investment management of the Company's surplus portfolio.

Other comprehensive income

During 2010 LAWPRO earned other comprehensive income of \$3.0 million due to an increase in unrealized gains on its surplus investments, driven by a continued broad-based stock market rally. These results compare to the other comprehensive income of \$13.7 million experienced during 2009 from an increase in unrealized gains as a result of the robust stock market rally following the fallout from the 2008 world credit crunch.

Balance Sheet

Overall, the Company ended the year of 2010 in a favourable position, with shareholder's equity up by \$18.2 million year over year, as the net income incurred during the year was amplified by the other comprehensive income earned during the same period.

Investments

As at December 31, 2010, the market value of the Company's investment portfolio exceeded its cost by \$19.1 million, compared to 2009 where the market value exceeded cost by \$13.4 million. Investment assets, inclusive of cash and cash equivalents and investment income due and accrued, increased by \$44.7 million to \$494.4 million at December 31, 2010. The increase was primarily the result of the positive cash flow provided by operations and investment income generated by the portfolio.

The investment portfolio is managed in accordance with the investment policy approved by the Company's Board of Directors in diversified, high quality assets. A portion of the investment portfolio, which is comprised primarily of fixed income securities, is invested in a manner that is expected to substantially match in maturity to the payment of claims liabilities in future years. The portion of the Company's investment portfolio which is considered surplus to the requirements of settling claims liabilities is managed separately and includes fixed income securities and equity investments in publicly traded companies, the values of which are more subject to market volatility.

Provision for unpaid claims and adjustment expenses and reinsurers' share thereof

The provision for unpaid claims represents the amount required to satisfy all of the Company's obligations to claimants prior to reinsurance recoveries. This balance has decreased by \$2.3 million. Reinsurance recoveries have declined by \$5.1 million and accordingly the net increase in the provision is \$2.8 million. This increase is attributable to the fact that the claims expense relating to the additional risk associated with the 2010 program more than offset the reductions to the claims provision from both the settlement of prior year claims during 2010 and the net favourable development of prior years' reserves experienced during the year.

Report On LAWPRO Operations

LAWPRO is an insurance company with three product lines: A mandatory E&O insurance program (as required by the Law Society for all its practising members); an optional excess insurance program that enables Ontario law firms to increase their insurance coverage limit to a maximum of \$9 million per claim/\$9 million in the aggregate above the \$1 million per claim/\$2 million aggregate levels provided by the mandatory E&O program; and an optional TitlePLUS title insurance product that real estate practitioners across Canada can make available to their clients.

The mandatory E&O insurance program

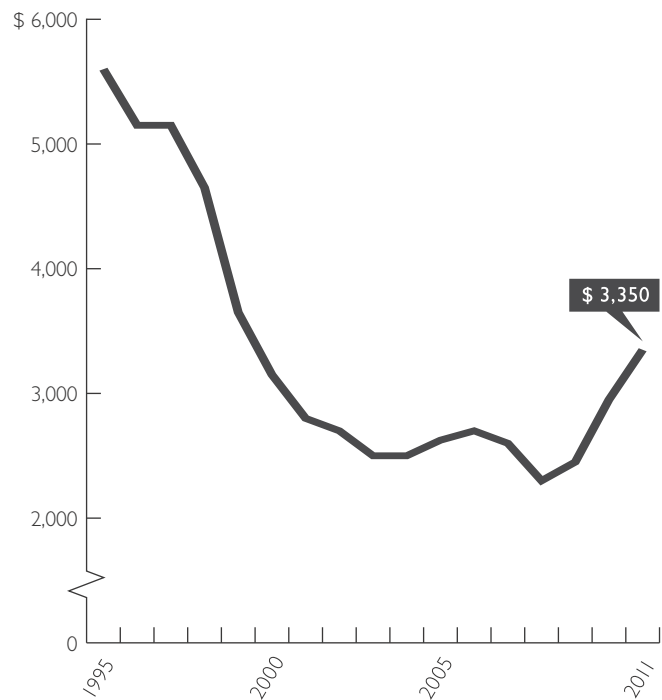
In each of the last two years, the number of lawyers insured under the LAWPRO program has increased about two per cent: In 2010, the Company provided E&O coverage to just over 22,500 lawyers, up from about 22,000 in 2009.

The E&O base premium has varied since the Company assumed active responsibility for the Law Society's insurance operations in 1995 (see graph 1), depending on the outlook of key factors such as claims costs and investment income. In order to address rising claims trends, the base premium was increased by \$500 to \$2,950 per lawyer in 2010. For 2011, the base premium was further increased an additional \$400 to \$3,350 per lawyer, a level that represents the average premium over the preceding fifteen years of the program.

One of the hallmarks of the mandatory LAWPRO E&O insurance program is its flexibility. Lawyers have a number of options to tailor their insurance coverage to their specific needs – often with the added benefit of reducing the actual premium payable below the base premium level. As indicated on the chart to the right, the number of lawyers availing themselves of these options continues to increase.

LAWPRO's sustainability initiative, combined with its program of encouraging lawyers to use its comprehensive website to access information and complete insurance-related filings, also continues to yield solid results. A record 96 per cent of lawyers – 21,100 – filed their insurance applications online for the 2010 insurance program; 83 per cent of them did so in time to qualify for the \$25 per lawyer e-filing discount. For the 2011 program, those numbers increased again, with 97 per cent of lawyers choosing to e-file applications.

1. Base premium per lawyer



Coverage Option	Feature	No. of lawyers participating (as of Jan. 31, 2010)	No. of lawyers participating (as of Jan. 31, 2011)
New call discount	10-40 per cent base premium discount for those called in the last one to four years	3,592	3,772
Part-time practice	40 per cent base premium discount for eligible lawyers	1,442	1,466
Restricted area of practice option	40 per cent base premium discount for immigration/criminal law practitioners	1,320	1,343
Innocent Party buy-up	Increase in Innocent Party sublimits up to as much as \$1 million per claim/aggregate	3,193 (based on \$249/lawyer)	3,268
Run-off buy-up	Increase limits for past services from \$250,000 per claim/aggregate to as much as \$1 million per claim/\$2 million aggregate	772	867
Real Estate practice coverage	Required for all lawyers practising real estate law in Ontario. Submit coverage of \$250,000 per claim/\$1 million aggregate	7,093	7,171

E&O Claims

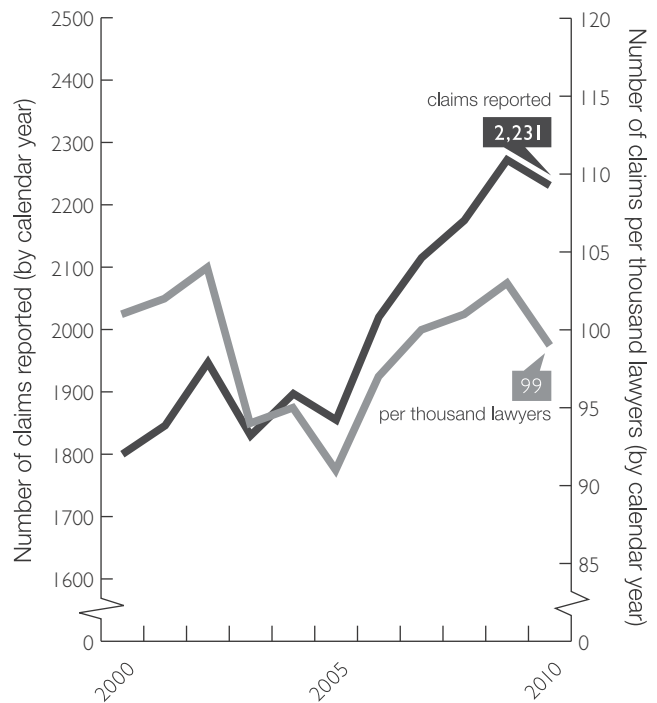
The numbers

In addition to the favourable actuarial changes realized during 2010, LAWPRO experienced – at the very least – a temporary reprieve from a rather troubling recent trend. The number of claims reported to LAWPRO decreased slightly to 2,231 (see graph 2).

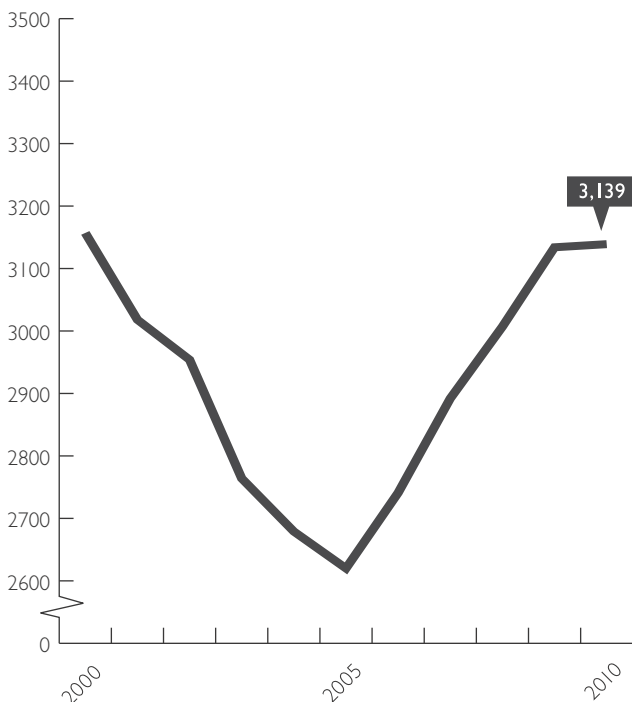
Beyond the fact that much of the actuarial gains enjoyed in 2010 are one-time in nature (resulting from the enhancement of the Company’s principal actuarial model for the professional liability program), a number of trends continue to be of concern. Despite a concerted and successful effort on the part of the Company’s claims group to close more files than the previous year, the number of open files managed by the claims team continues to stand at over 3,100 – the highest it has been in the last decade (see graph 3).

A very important measure is to compare the average cost of claims for each policy year at a specific point in time: As graph 4 shows, between 2005 and 2008 the average severity (i.e., the average cost per claim) was close to \$37,000 compared to an average severity at beginning of decade of only about \$30,000. These figures have been affected by the growing number of large claims received by the Company, which continues to exceed 200 per annum (see graph 5). As a result of these pressures, similar to the 2007 through 2009 programs, the 2010 program is expected to ultimately cost between \$80 to \$90 million in claims expenses.

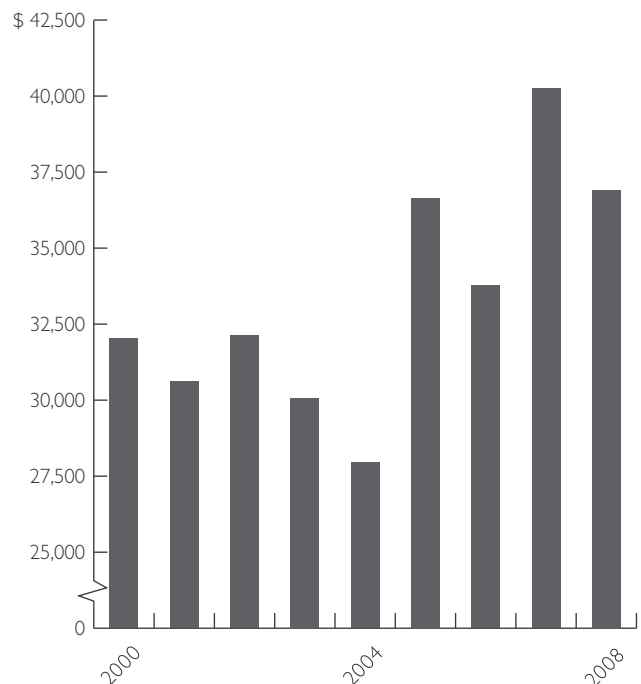
2. Number of claims reported & frequency (by calendar year as at December 31, 2010)



3. Number of open claims files



4. Average cost per claim at 38 months after start of year in which claim was reported



Although the estimated costs attached to 2010 claims are still relatively new at this point, a clear trend is evident. As in the past, real estate and litigation claims continue to account for the bulk of claims costs, with real estate claims representing over 35 per cent of claims costs, on average, for the past five years. The rise in cost of real estate claims is a reflection of both the more complex practice environment and the high underlying values associated with alleged errors in these areas (see graph 6).

Managing costs

LAWPRO's focused claims management philosophy – which sees us resolve claims quickly in situations where there is liability, defend vigorously if the claim has no merit and avoid economic settlements – yields solid results.

In 2010, LAWPRO won 12 of the 13 matters that the Company took to trial, was successful on seven of the eight matters that went to appeal and won 19 of 25 summary judgment applications.

Another important tool – and a measure of success – is feedback the Company receives from lawyers. A survey conducted of insured lawyers with a closed claim demonstrates that the Company is meeting lawyers' needs and expectations. For details see below.

Helping lawyers avoid claims

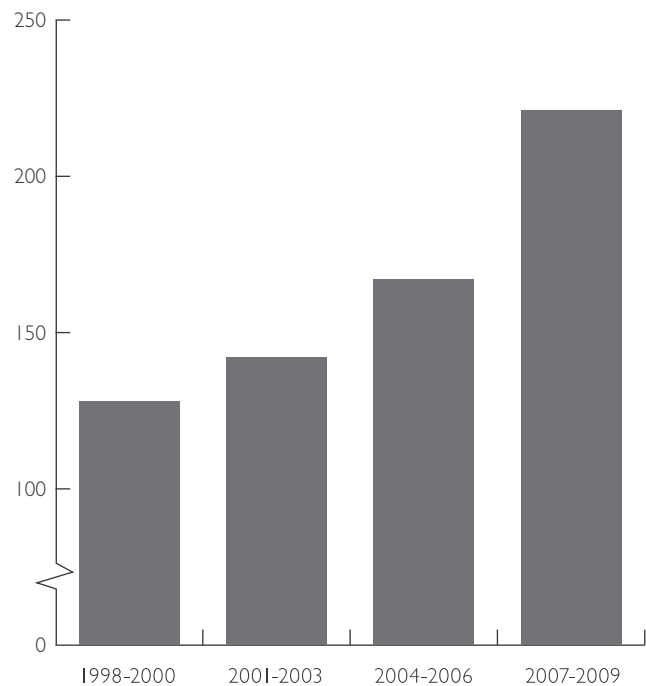
An important focus for LAWPRO is to help lawyers avoid claims in the first place. The Company's practicePRO risk management program provides the practising bar with tools and resources to help lawyers identify practice risks and take steps to minimize their claims exposure.

LAWPRO SURVEY RESULTS

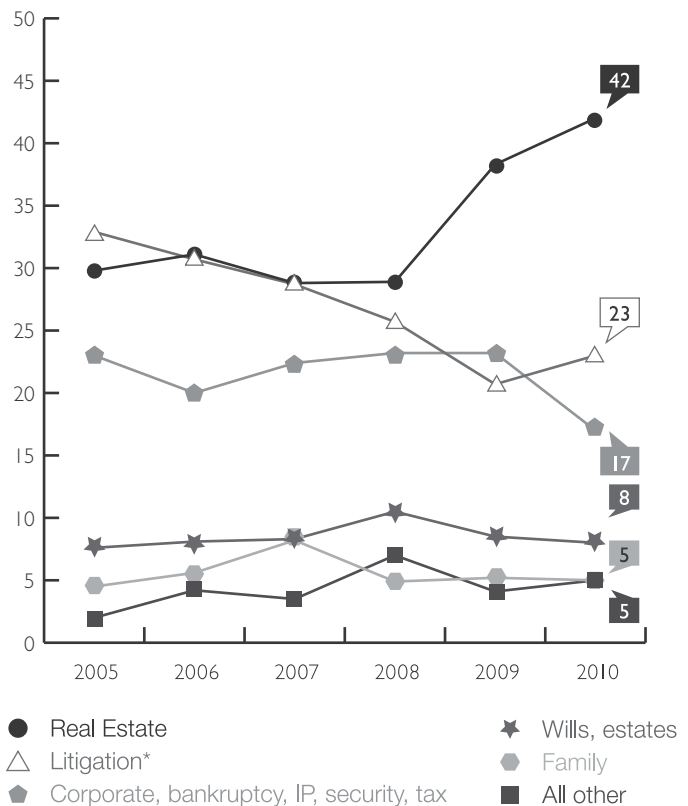
The annual survey of LAWPRO E&O insureds with a closed claim indicated the following:

- 98 per cent said that they were satisfied with how LAWPRO handled the claim;
- 88 per cent said they were satisfied with our selection of counsel;
- 86 per cent said they would have the defence counsel firm represent them again; and
- 84 per cent said LAWPRO received good value for defence monies spent.

5. Number of claims reported with a value greater than \$100,000 (as at February 28, 2011)



6. Distribution of claims by area of practice (% of gross claims costs as at February 28, 2011)



In 2010, the practicePRO website recorded an 11 per cent increase in traffic to 229,000 visits from 205,000 the previous year. More than 287,000 LAWPRO articles and resources were downloaded, up from 244,000 in 2009.

A principal tool to communicate risk management content is *LAWPRO Magazine*, which is distributed to all practising insured lawyers. Complementing the printed magazine are electronic newsletters and alerts on active frauds, evolving risk issues, and insurance program-related information.

The practicePRO Avoid A Claim blog enables LAWPRO to provide lawyers with tips and insights into practice issues as they develop, including real-time warnings on active frauds targeting lawyers. Through Twitter feeds and LinkedIn the Company and practicePRO ensure lawyers know when new content is available on our website, on the blog or in our magazine. By the end of 2010, the number of those following LAWPRO and practicePRO on Avoid A Claim and our Twitter feeds topped the 1,000 mark.

LAWPRO also works behind the scenes to ensure the risk management message is getting heard. As a result of its CPD Credit program, through which lawyers taking LAWPRO-approved continuing professional development programs receive a \$50 per course credit on their insurance premium (to a maximum of \$100), the Company has ensured CPD providers include a significant risk management component in their programs. In 2010, the Company approved 184 programs attended by more than 24,000 lawyers. LAWPRO and practicePRO content was included in the materials for many of these programs.

Active participation in the work of the Law Society and of law-related associations is yet another way that the Company spreads the risk management message.

In 2010, for example, the Company prepared a submission to the Law Society on the challenges of unbundled legal services. As well, the Company showed leadership in working with the development of a model file retention policy for large law firms and helped the CBA Conflicts of Interest Task Force with a conflicts resources toolkit.

practicePRO delivered 35 presentations on risk management-related topics to various law associations, law firms and CLE programs. LAWPRO's practicePRO director co-chaired the Law Society/ Ontario Bar Association's annual Solo and Small Firm Conference (for the fifth year), and co-chaired the 2010 CBA Annual Conference and Meeting.

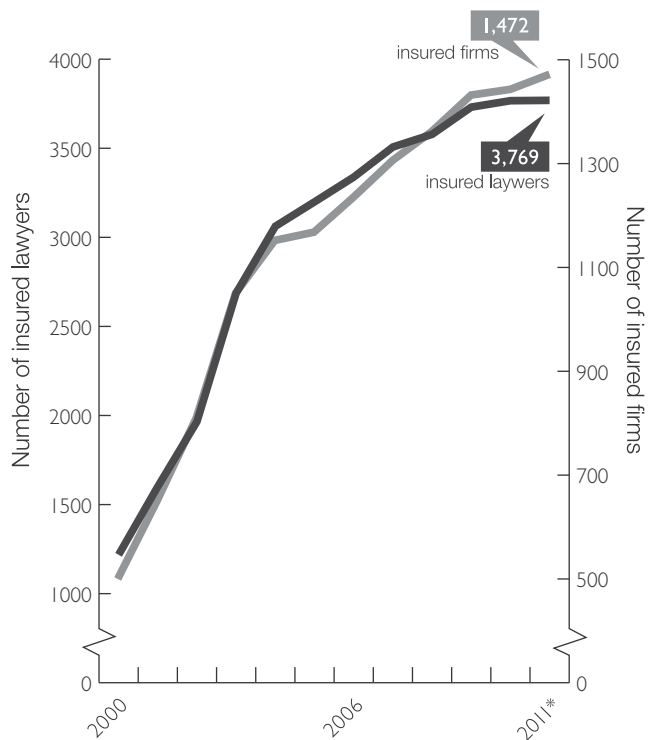
The LAWPRO Excess program

Since it was established in 1997, LAWPRO's optional excess insurance program has posted consistent annual growth in revenues and numbers of law firms (and lawyers) insured under the program. A record 1,448 firms representing 3,768 lawyers elected LAWPRO as their excess insurance provider for 2010 (see graph 7); 113 firms chose the maximum \$9 million limit option.

We have seen similar growth in the 2011 program. The number of firms insured under the LAWPRO Excess program for 2011 has increased to 1,472, representing 3,769 lawyers. Of 57 new firms opting to buy excess coverage from LAWPRO for 2011, 84 per cent did not already carry excess coverage. The Company's retention rate on excess business was 97 per cent for the second consecutive year, a clear indication that this program meets the needs of the market it is aimed at – small and medium-sized firms of fewer than 50 lawyers. LAWPRO's excess program insures, on average, 15 per cent of lawyers employed in firms of 50 or fewer lawyers.

To date, the Company has not paid any indemnity amount under its excess program, a reflection of LAWPRO's ability to carefully manage costs within the insurance program's primary limits. There are, however, some Excess claims files with provisions. Prudent underwriting and solid claims management have helped ensure that our excess program is a profitable line of business for LAWPRO.

7. LAWPRO Excess Insurance Program (as at February 28, 2011)



The TitlePLUS program

In part due to a difficult real estate market, the TitlePLUS title insurance program posted a modest decrease in gross written premiums in 2010 compared to 2009. Although our national purchase market penetration fell slightly, there was a significant increase in policy sales relating to residential properties in many provinces outside Ontario as well as commercial properties.

Our subscriber base in 2010 increased to well over 4,700 lawyers and Quebec notaries, with new applications continuing to be received, and the Company issuing TitlePLUS policies for approximately 790 lenders across Canada. These results indicate that our vision of real estate practice continues to gain traction: The higher level of legal expertise and professionalism that LAWPRO expects from both lawyer/notary subscribers and our TitlePLUS staff sets it apart from other providers.

TitlePLUS claims

The legal expertise and experience of the TitlePLUS team referenced earlier not only helped alert lawyers to potential claims issues, but also strengthened its stringent underwriting measures. The result: Over 90 per cent of TitlePLUS claims are minor with payments of less than \$10,000, and the average indemnity payment on a TitlePLUS claim is approximately \$4,650 (based on claims closed as of December 31, 2010).

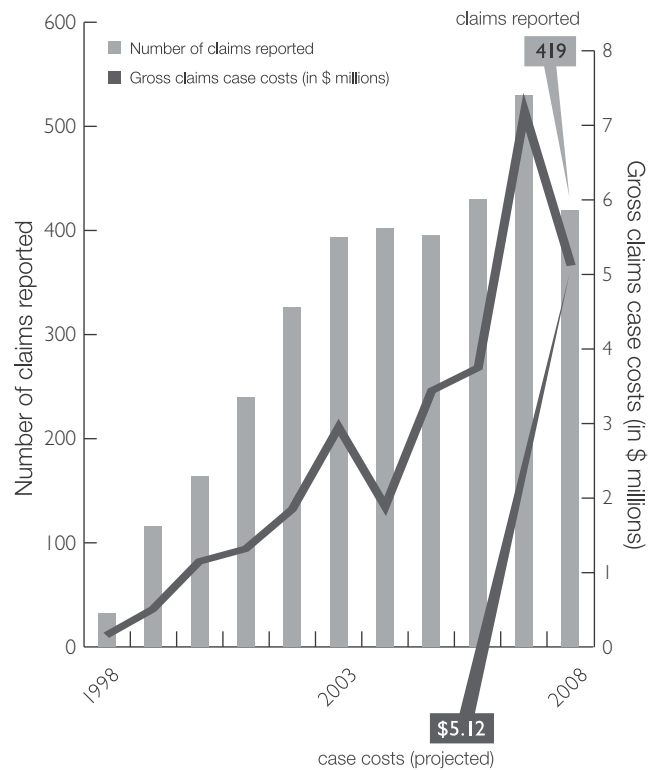
It should be noted that over the history of the TitlePLUS program, our claims paid ratio (the ratio of claims paid to premiums) stands at 40 per cent.

Building compliance-related claims continue to have a significant impact on the program. For policies sold in the years since 2000, the TitlePLUS program has had 856 building compliance related claims, costing a total of \$13.1 million (payments plus reserves on claims in progress). So, although only 23 per cent of the TitlePLUS claims by count

arise from this area of coverage, 46 per cent of the claims costs reside here. These trends have placed significant pressures on the program's claims costs (see graph 8).

The TitlePLUS underwriting team is working on methods to better detect building compliance risks before a policy is approved. Also, the TitlePLUS claims team is focusing additional efforts on recovery initiatives where a past property owner should be bearing responsibility for the problem, as well as on salvage opportunities.

8. TitlePLUS claims (as at February 28, 2011)



Transition to International Financial Reporting Standards (“IFRS”)

Publicly accountable enterprises in Canada are required to adopt IFRS for periods beginning on or after January 1, 2011. LAWPRO will adopt IFRS as a replacement of current Canadian GAAP for fiscal periods beginning the first quarter of 2011, with corresponding comparative financial information for 2010.

Our IFRS transition plan includes the education, review, approval and implementation of any accounting policy changes. Additionally, the transition plan includes ensuring that project resourcing remains adequate, modifying internal controls over financial reporting as appropriate, frequent communication with our external auditor as well as the Audit Committee and Board of Directors which includes a review of transition progress, discussion of potential transition and ongoing reporting changes, and an overview of developments in accounting and regulatory guidance related to IFRS. As we implement IFRS, we continue to monitor ongoing changes to IFRS and adjust our transition and implementation plans accordingly.

Our transition project status is currently on-track in accordance with our overall transition plan. We have completed our assessment of the preliminary IFRS first-time adoption elections, identified the key applicable accounting policy differences, finalized the opening IFRS balance sheet and quantified the quarterly comparative results. The most significant remaining milestone in our plan is to prepare the note disclosures under IFRS, which will be completed in 2011.

In general, an entity is required to apply the principles under IFRS on a retrospective basis. Any difference between the carrying value of assets, liabilities and equity determined in accordance with Canadian GAAP and IFRS, as at January 1, 2010 will be recorded in opening retained earnings. However, certain optional exemptions from retrospective application exist for certain areas where the International Accounting Standards Board (“IASB”) has determined that it would be operationally impracticable. The key preliminary first time adoption election under IFRS 1 – “First Time Adoption of IFRS” that is applicable to LAWPRO relates to employee benefits. After careful consideration, we do not expect to recognize the

unamortized actuarial gains and losses associated with our defined benefit pension plan in retained earnings upon transition to IFRS, as is afforded by the IFRS 1 election, and instead will apply the IFRS requirements retrospectively as sufficient data exists to perform this calculation and it is not operationally impracticable to do so.

Based on our current analysis of the identified differences between Canadian accounting requirements and existing IFRS, there are a very limited number of differences with any significance. However, one key difference that is applicable to LAWPRO’s operations relates to the impairment of financial instruments. Impairment charges under IFRS are recorded for available for sale (“AFS”) equity instruments if declines in the carrying value are significant or prolonged, irrespective of future expectations for recovery. Under Canadian GAAP, impairment charges are not recorded when such declines in value are considered to be temporary. This change may result in more frequent impairment charges recorded under IFRS.

The net result after considering any applicable IFRS 1 elections, as well as all Canadian GAAP and IFRS accounting differences, is that LAWPRO does not have any material adjustments upon adoption of IFRS to either its opening January 1, 2010, balance sheet or fiscal 2010 financial statements. Furthermore, we do not expect that the initial adoption of IFRS will have a significant impact on our disclosure controls and procedures, information technology systems or our business activities.

On July 30, 2010, the IASB issued its Insurance Contracts (Phase II) Exposure Draft which outlines a proposed framework for a single standard for the measurement of insurance contracts to be applied across all jurisdictions adopting IFRS as published by the IASB. The changes contained in these proposed standards may lead to a significant initial adjustment to reported insurance liabilities upon adoption, and may create significant ongoing volatility in our reported results. This standard is currently being developed and is not expected to be in effect until at least 2014.

Management Statement on Responsibility for Financial Information

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

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

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

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

Role of the Auditor

The external auditor, Deloitte and Touche LLP, has been appointed by the shareholder. Its responsibility is to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and to report thereon to the Company's shareholder. In carrying out its audit, the auditor

considers the work of the appointed actuary and his report on the policy liabilities of the Company. The external auditor has full and unrestricted access to the Audit Committee and the Board of Directors to discuss audit, financial reporting and related findings. The auditor's report outlines the scope of its audit and its opinion.

Role of the Appointed Actuary

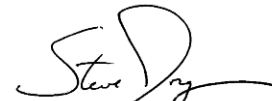
The actuary is appointed by the Board of Directors of the Company. With respect to the preparation of these financial statements, the appointed actuary is required to carry out a valuation of the policy liabilities and to report thereon to the Company's shareholder. The valuation is carried out in accordance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

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

Toronto, Ontario
February 23, 2011



Kathleen A. Waters
President & CEO



Steven W. Jorgensen
Vice-President, Finance & Treasurer

Independent Auditor's Report

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

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Deloitte.

To the Shareholder of Lawyers' Professional Indemnity Company

We have audited the accompanying financial statements of Lawyers' Professional Indemnity Company, which comprise the balance sheet as at December 31, 2010, and the statements of income (loss), comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lawyers' Professional Indemnity Company as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accountants
Licensed Public Accountants
February 23, 2011

Appointed Actuary's Report



Eckler Ltd.
Consultants and Actuaries

I have valued the policy liabilities of Lawyers' Professional Indemnity Company for its balance sheet as at December 31, 2010, and their changes in its statement of income for the year then ended, in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

Toronto, Ontario
February 23, 2011

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

Balance Sheet

Stated in thousands of Canadian dollars | As at December 31

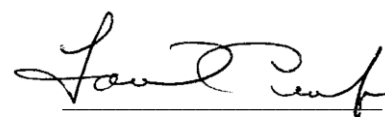
	2010	2009
Assets		
Cash and cash equivalents	\$ 16,851	12,471
Investments (note 2)	475,380	434,963
Investment income due and accrued	2,216	2,296
Due from reinsurers	2,158	4,182
Due from insureds	1,427	2,194
Due from the Law Society of Upper Canada (note 5)	4,107	19,124
Reinsurers' share of provision for unpaid claims and adjustment expenses (note 4)	40,375	45,485
Other receivables	609	644
Other assets	1,276	1,593
Capital assets (note 3)	3,084	3,373
Future income taxes (note 7)	3,506	3,361
Total assets	\$ 550,989	529,686
Liabilities		
Provision for unpaid claims and adjustment expenses (note 4)	381,606	383,855
Unearned premiums	570	693
Due to reinsurers	1,187	568
Due to insureds	302	260
Expenses due and accrued	1,587	1,963
Income taxes due and accrued	5,770	7
Other taxes payable	660	1,273
	\$ 391,682	388,619
Shareholder's equity (note 8)		
Capital stock issued and paid	5,000	5,000
Contributed surplus	30,645	30,645
Retained earnings	117,153	101,940
Accumulated other comprehensive income	6,509	3,482
	\$ 159,307	141,067
Total liabilities and shareholder's equity	\$ 550,989	529,686

Accompanying notes are an integral part of the financial statements.

On behalf of the Board



Kathleen A. Waters
Director



Ian D. Croft
Director

Statement of Income (Loss)

Stated in thousands of Canadian dollars | For the year ended December 31

	2010	2009
Insurance premiums earned	\$ 106,796	107,453
Reinsurance premiums ceded	(6,358)	(5,960)
Net premiums earned	\$ 100,438	101,493
Net claims and adjustment expenses (note 4)	\$ 79,876	108,686
Premium taxes	3,205	3,225
General expenses	16,239	15,434
Reinsurance commissions earned	(1,704)	(3,252)
	\$ 97,616	124,093
Underwriting income (loss)	\$ 2,822	(22,600)
Investment income (note 2)	19,254	11,873
Other (expense) income	(1)	83
Income (loss) before income taxes	\$ 22,075	(10,644)
Income tax expense (recovery) (note 7)		
Current	\$ 6,917	(3,268)
Future	(55)	(899)
	\$ 6,862	(4,167)
Net income (loss)	\$ 15,213	(6,477)

Accompanying notes are an integral part of the financial statements.

Statement of Comprehensive Income

Stated in thousands of Canadian dollars | For the year ended December 31

	2010	2009
Net income (loss)	\$ 15,213	(6,477)
Other comprehensive income, net of income tax:		
Net changes in unrealized gains on available-for-sale financial assets, net of taxes of \$1,797 (2009: \$3,256)	4,000	6,669
Reclassification adjustment for (gains) and losses included in net income, net of taxes of (\$437) (2009: \$3,446)	(973)	6,996
Other comprehensive income	\$ 3,027	13,665
Comprehensive income	\$ 18,240	7,188

Accompanying notes are an integral part of the financial statements.

Statement Of Changes In Shareholder's Equity

Stated in thousands of Canadian dollars

	Capital stock	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Shareholder's Equity
Balance at December 31, 2008	\$ 5,000	30,645	108,417	(10,183)	133,879
Net loss	—	—	(6,477)	—	(6,477)
Other comprehensive income for the year	—	—	—	13,665	13,665
Balance at December 31, 2009	\$ 5,000	30,645	101,940	3,482	141,067
Net income	—	—	15,213	—	15,213
Other comprehensive income for the year	—	—	—	3,027	3,027
Balance at December 31, 2010	\$ 5,000	30,645	117,153	6,509	159,307

The aggregate of retained earnings and accumulated other comprehensive income (loss) as at December 31, 2010, is \$123,662 (December 31, 2009 – \$105,422).

Accompanying notes are an integral part of the financial statements.

Statement Of Cash Flows

Stated in thousands of Canadian dollars | For the year ended December 31

	2010	2009
Operating Activities		
Net income (loss)	\$ 15,213	(6,477)
Items not affecting cash:		
Future income taxes	(55)	(899)
Amortization of capital assets	764	891
Realized (gains) losses	(1,383)	10,248
Amortization of premiums and discounts on bonds	(567)	(582)
Changes in unrealized (gains) losses	(1,356)	(6,028)
	\$ 12,616	(2,847)
Changes in non-cash working capital balances:		
Investment income due and accrued	80	(131)
Due from reinsurers	2,643	2,167
Due from insureds	809	277
Due from the Law Society of Upper Canada	15,017	(11,732)
Reinsurers' share of provisions for unpaid claims and adjustment expenses	5,110	701
Other receivables	35	36
Other assets	317	(1,238)
Income taxes due and accrued (recoverable)	4,314	(586)
Provision for unpaid claims and adjustment expenses	(2,249)	35,209
Unearned premiums	(123)	(118)
Expenses due and accrued	(376)	(820)
Other taxes payable	(613)	635
Net cash inflow from operating activities	\$ 37,580	21,553
Investing Activities		
Purchases of capital assets	(474)	(271)
Purchases of investments	(237,785)	(293,598)
Proceeds from sales and maturities of investments	205,059	281,748
Net cash outflow from investing activities	\$ (33,200)	(12,121)
Net change in cash and cash equivalents during the year	4,380	9,432
Cash and cash equivalents, beginning of year	12,471	3,039
Cash and cash equivalents, end of year	\$ 16,851	12,471
Cash and cash equivalents at end of year consists of:		
Cash	6,203	4,389
Cash equivalents	10,648	8,082
	\$ 16,851	12,471

Accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

As at December 31, 2010 | Amounts stated in thousands of Canadian dollars (except per share amounts)

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

I. Significant Accounting Policies

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

CHANGES IN ACCOUNTING POLICIES

a) Adopted during the current year

There were no new accounting policies adopted in the current fiscal year.

b) Adopted during the prior year

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

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

In June 2009, the Company retroactively adopted amendments to CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement." The amendments clarify that, subsequent to the recognition of an impairment loss, the rate used to determine

the impairment loss is used to calculate interest income on the impaired debt security. The amendments make the application of the effective interest method under Section 3855 consistent with the application of this method under IFRS. The adoption of these amendments did not have a material impact on the Company's financial statements.

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

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

c) International Financial Reporting Standards ("IFRS")

In April 2008, the Canadian Accounting Standards Board ("AcSB") released an Omnibus exposure draft entitled "Adopting IFRS in Canada," which covers among other things, the incorporation of IFRS into the CICA Handbook. The exposure draft calls for Canadian publicly accountable entities to adopt IFRS for fiscal years beginning on or after January 1, 2011, with disclosure requirements beginning in 2008. As a result, the Company will adopt IFRS in its quarterly and annual financial reports starting with the first quarter of 2011 and will provide corresponding comparative financial information for 2010.

The IFRS accounting standard for insurance contracts, IFRS 4 – Phase II which deals with recognition and measurement is still under development. A discussion paper was published in May 2007 and the exposure draft circulated for comment in July 2010. The final standard is expected in 2011, with implementation not expected before 2014.

Notes to Financial Statements

As at December 31, 2010 | Amounts stated in thousands of Canadian dollars (except per share amounts)

FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

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

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

HELD-FOR-TRADING FINANCIAL ASSETS

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

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

Cash and cash equivalents are also classified as held for trading. Cash and cash equivalents consist of cash on hand, balances

with banks, and short-term investments that mature in three months or less from the date of acquisition.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

OTHER FINANCIAL ASSETS AND LIABILITIES

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

IMPAIRMENT

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

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

Notes to Financial Statements

As at December 31, 2010 | Amounts stated in thousands of Canadian dollars (except per share amounts)

CAPITAL ASSETS

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

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

PREMIUM-RELATED BALANCES

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

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

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

OTHER INCOME

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

CLAIMS RELATED BALANCES

a) Provision for unpaid claims and adjustment expenses

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

The provision for unpaid claims and adjustment expenses are carried on a discounted basis using the yield of the underlying assets

backing these liabilities, with reductions for estimated investment-related expense and provisions for both credit risk and potential adverse deviation, in accordance with accepted actuarial practice. Since the underlying assets are carried at fair value, the discount rate is the market yield.

b) Deductibles

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

REINSURANCE

Net premiums earned and claims incurred are recorded net of amounts ceded to, and recoverable from, reinsurers in the statement of income. Amounts relating to reinsurance in respect of the premiums and claims related balances in the balance sheet are recorded separately. Amounts recoverable from reinsurers are estimated and recognized in a manner consistent with the Company's method of determining the underlying provision for unpaid claims and adjustment expenses covered by the reinsurance contract.

EMPLOYEE FUTURE BENEFITS

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

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

INCOME TAXES

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

Notes to Financial Statements

As at December 31, 2010 | Amounts stated in thousands of Canadian dollars (except per share amounts)

USE OF ESTIMATES

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

2. Investments

a) Summary

	December 31, 2010			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available for sale				
Fixed income securities	\$ 82,997	2,859	(18)	85,838
Common equities	46,368	7,865	(1,414)	52,819
Preferred equities	125	69	—	194
	<u>\$ 129,490</u>	<u>10,793</u>	<u>(1,432)</u>	<u>138,851</u>
Held-for-trading under FVO				
Fixed income securities	326,146	10,400	(587)	335,959
Preferred equities	615	—	(45)	570
	<u>\$ 326,761</u>	<u>10,400</u>	<u>(632)</u>	<u>336,529</u>
Total	\$ 456,251	21,193	(2,064)	475,380
Reconciled in aggregate to asset classes as follows:				
Fixed income securities	\$ 409,143	13,259	(605)	421,797
Equities	47,108	7,934	(1,459)	53,583
Total	\$ 456,251	21,193	(2,064)	475,380

December 31, 2009

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

Certain available-for-sale assets disclosed in the preceding tables exhibit evidence of impairment; however, no impairment loss has been recognized in net income because it is not considered other than temporary.

b) Realized and change in unrealized gains and losses

The realized gains (losses) and increase (decrease) in the unrealized gains and losses of the Company's available-for-sale investments for the year ended December 31 are as follows:

	2010					
	Net realized gains (losses)			Increase (decrease) in unrealized gains and losses		
	Gross	Tax	Net	Gross	Tax	Net
Fixed income securities	\$ 654	(203)	451	1,471	(455)	1,016
Equities	756	(234)	522	2,915	(904)	2,011
Total	\$ 1,410	(437)	973	4,386	(1,359)	3,027

Notes to Financial Statements

As at December 31, 2010 | Amounts stated in thousands of Canadian dollars (except per share amounts)

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

c) Investment income

Investment income arising from investments classified as held for trading under FVO and from investments classified as available for sale recorded in net income for the year ended December 31 is as follows:

	2010			2009		
	Held for trading under FVO	Available for sale	Total	Held for trading under FVO	Available for sale	Total
Interest	\$ 13,092	2,775	15,867	12,645	3,174	15,819
Dividends	27	1,260	1,287	28	1,024	1,052
Net realized gains (losses)	(27)	1,410	1,383	194	(10,442)	(10,248)
Change in net unrealized gains (losses)	1,356	—	1,356	6,028	—	6,028
	14,448	5,445	19,893	18,895	(6,244)	12,651
Less: Investment expenses	(348)	(291)	(639)	(315)	(463)	(778)
Investment income	\$ 14,100	5,154	19,254	18,580	(6,707)	11,873

d) Maturity profile of fixed income securities

The maturity profile of fixed income securities and its analysis by type of issuer as at December 31 is as follows:

	2010			
	Within 1 Year	1 to 5 Years	Over 5 Years	Total
Available for sale				
Issued or guaranteed by:				
Canadian federal government	\$ 15,100	11,793	1,723	28,616
Canadian provincial and municipal government	966	20,389	17,812	39,167
Mortgage-backed securities	—	858	2,245	3,103
Corporate debt	1,758	1,509	11,685	14,952
	\$ 17,824	34,549	33,465	85,838

Held for trading under FVO

Issued or guaranteed by:				
Canadian federal government	\$ 25,718	72,802	—	98,520
Canadian provincial and municipal government	2,388	47,552	45,577	95,517
Mortgage backed securities	—	5,904	2,815	8,719
Corporate debt	30,494	38,091	64,618	133,203
	\$ 58,600	164,349	113,010	335,959
Fixed income securities	\$ 76,424	198,898	146,475	421,797
Percent of total	18%	47%	35%	100%

Notes to Financial Statements

As at December 31, 2010 | Amounts stated in thousands of Canadian dollars (except per share amounts)

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

The weighted average duration of fixed income securities at December 31, 2010 is 3.58 years (2009: 3.52 years). The effective yield on fixed income securities as at December 31, 2010, is 3.22% (2009: 3.67%).

3. Capital Assets

	December 31, 2010			December 31, 2009
	Cost	Accumulated amortization	Carrying value	Carrying value
Furniture & fixtures	\$ 1,324	(771)	553	815
Computer equipment	1,343	(1,007)	336	188
Computer software	273	(242)	31	65
Leasehold improvements	2,921	(757)	2,164	2,305
Total	\$ 5,861	(2,777)	3,084	3,373

4. Provision For Unpaid Claims And Adjustment Expenses

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

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

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

In 2010, the Company performed a detailed re-evaluation of the key assumptions and methodologies used in determining its provision for unpaid claims and adjustment expenses to ensure they appropriately reflect emerging experience and changes in risk profile. Changes to the actuarial methods and assumptions result in a change to projected net cash outflows and, therefore, to the provision. The net impact of the changes in assumptions and model enhancements was a \$8,461 decrease in the provision, before reinsurance, as at December 31, 2010, which included a net decrease of \$20,196 relating to severity assumptions, an increase of \$990 relating to claim frequency assumptions, an increase of \$4,697 relating to refinements to the modeling of expected future net cash flows, and an increase of \$6,048 relating to a revision to the provision for adverse deviation. This total impact has been allocated by policy year as a \$5,532 increase related to the current year and a \$13,993 decrease related to the prior years and by line of business as a \$10,795 net decrease to liability and a \$2,334 increase to title.

In 2009, the Company adjusted the key assumptions and methodologies used in determining its provision for unpaid claims and adjustment expenses to reflect the Government of Ontario's expected implementation of the Harmonized Sales Tax

Notes to Financial Statements

As at December 31, 2010 | Amounts stated in thousands of Canadian dollars (except per share amounts)

("HST") for the province effective on July 1, 2010. The impact relating to the estimated effect of the HST on claims payments expected to be made after June 30, 2010, with respect to claims incurred on or before statement December 31, 2009, was a \$10,681 increase to the provision, before discounting and reinsurance. This total impact has been allocated by policy year as a \$2,492 increase related to the current year and an \$8,189 increase related to the prior years, and by line of business as a \$10,488 increase to liability and a \$193 increase to title.

Details of the provision for unpaid claims and adjustment expenses by line of business, as at December 31, is summarized as follows.

	2010		
	Gross	Ceded	Net
Liability	\$ 368,116	(40,170)	327,946
Title	13,490	(205)	13,285
Total	\$ 381,606	(40,375)	341,231

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

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

	2010	2009
Provision for unpaid claims and adjustment expenses – beginning of year – net	\$ 338,370	302,461
Change in net provision for claims and adjustment expenses due to:		
Prior years' incurred claims	(24,634)	4,698
Current year's incurred claims	93,005	96,987
Net claims and adjustment expenses paid in relation to:		
Prior years	(69,591)	(63,054)
Current year	(7,424)	(9,723)
Impact of discounting	11,505	7,001
Provision for unpaid claims and adjustment expenses – end of period – net	341,231	338,370
Reinsurers' share of provisions for unpaid claims and adjustment expenses	40,375	45,485
Provision for unpaid claims and adjustment expenses – end of period – gross	\$ 381,606	383,855

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

	2010			2009		
	Gross	Ceded	Net	Gross	Ceded	Net
Claims & adjustment expenses paid	\$ 72,902	1,901	71,001	70,350	3,539	66,811
Change in case reserves	873	(2,366)	3,239	16,821	(3,209)	20,030
Change in IBNR	(15,643)	(4,043)	(11,600)	10,001	1,460	8,541
Discount expense/(income)	12,753	1,248	11,505	8,049	1,048	7,001
Unallocated loss adjustment expenses paid	5,964	—	5,964	5,966	—	5,966
Change in ULAE	(233)	—	(233)	337	—	337
	\$ 76,616	(3,260)	79,876	111,524	2,838	108,686

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

5. Related-Party Transactions

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

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

Commencing January 1, 1995, there was no longer the Law Society deductible and 100% of the risk over the individual member deductible was insured through the Company. The annual policy limits for each of the years effective January 1, 1995, to December 31, 2010, are \$1,000 per claim and \$2,000 in aggregate per member.

For the year ended December 31, 2010, 89% of the premiums written related to mandatory insurance coverage provided to the Law Society and its members (2009: 89%). Under the insurance

Notes to Financial Statements

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policy that was in force between July 1, 1990, and December 31, 1994, the Company was responsible for claims in excess of the Law Society and member deductibles. The provision for unpaid claims and adjustment expenses is net of amounts relating to policies for years prior to 1995 that are payable by the Law Society. For 2010, the Company has estimated no additional premium (2009: \$13,568 additional premium) from the Fund pursuant to the retrospective premium rating provisions of its insurance policy.

6. Employee Future Benefits

The Company has a defined contribution pension plan which is available to all its employees upon meeting the eligibility requirements. Each employee is required to contribute 4.5% of yearly maximum pensionable earnings, and 6% in excess thereof, of an employee's annual base earnings. Under the plan, the Company matches all employee contributions. The Company made payments of \$522 in 2010 (2009: \$496) and recorded pension expense of \$539 (2009: \$496)

The Company also has a supplemental defined benefit pension plan. Funding for the supplemental plan commenced in 2005, with payments of \$230 in 2010 (2009: \$1,557) and recorded pension expenses of \$422 in 2010 (2009: \$86). Funding requirements are reviewed annually with an actuarial valuation for funding purposes effective as at December 31. The most recent actuarial valuation for funding purposes was performed effective December 31, 2010. For reporting purposes, all assets and liabilities associated with pension benefits have been measured using values as at December 31.

	2010	2009
Accrued benefit obligation		
Balance, beginning of the year	\$ 3,738	2,938
Current service cost	172	139
Interest cost	234	200
Actuarial loss	383	461
Balance, end of year	<u>\$ 4,527</u>	<u>3,738</u>

	2010	2009
Fair value of plan assets		
Market value of plan assets – beginning of year	\$ 4,833	2,862
Actual return on plan assets, net of expenses	220	413
Employer contribution	230	1,558
Market value of plan assets – end of year	<u>\$ 5,283</u>	<u>4,833</u>

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

Reconciliation of funded status surplus of the benefit plans to the amounts recorded in the financial statements as at December 31:

	2010	2009
Fair value of plan assets	\$ 5,283	4,833
Accrued benefit obligation	(4,527)	(3,738)
Funded status surplus	<u>756</u>	<u>1,095</u>
Unamortized net actuarial loss	312	166
Accrued benefit asset	<u>\$ 1,068</u>	<u>1,261</u>

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

Components of defined benefit costs recognized in the year:

	2010	2009
Current service cost	\$ 172	139
Interest cost	234	200
Actual return on assets	(220)	(412)
Actuarial losses	383	461
Difference between actual and recognized actuarial losses	(217)	(597)
Difference between actual and expected return on assets	70	295
Defined benefit costs recognized in the statement of income	<u>\$ 422</u>	<u>86</u>

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

	2010	2009
Discount rate	5.25%	6.00%
Expected long term rate of return on plan assets	6.00%	6.00%
Rate of compensation increase	3.50%	3.00%

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7. Income Taxes

The following table reconciles the difference between the income taxes that would result solely by applying statutory tax rates to pre-tax income (loss) and the income taxes actually provided in the financial statements for the year ended December 31.

	2010	2009
Net income (loss) before taxes	\$ 22,075	(10,644)
Provision for (recovery of) income taxes at statutory rates	6,843	(3,512)
Increase (decrease) resulting from:		
Unpaid claims	165	(177)
Investments	(90)	(444)
Other	(56)	(34)
Provision for (recovery of) income taxes	\$ 6,862	(4,167)

The Company's statutory income tax rate for the year ended December 31, 2010, is 31.00% (2009: 33.00%).

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 ended December 31 are as follows:

	2010	2009
Investments	\$ (923)	(1,278)
Net provision for unpaid claims and adjustment expenses	4,587	4,863
Other	(158)	(224)
Total	\$ 3,506	3,361

During the year the Company made payments of \$3,396 and received refunds of \$403 from tax authorities.

8. Shareholder's Equity

Capital stock of the Company represents:

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

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

9. Statutory Insurance Information

The Company is the beneficiary of trust accounts in the amount of \$1,277 (2009: \$1,288) which are held as security for reinsurance ceded to unregistered reinsurers. This trust balance is not reflected in these financial statements but is considered in determining statutory capital requirements.

In accordance with licensing requirements, the Company has deposited securities with the regulatory authorities having a market value of \$51 (2009: \$51).

10. Operating Lease Commitments

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

At December 31, 2010, lease obligations on office premises were as follows:

2011	\$ 1,220
2012	1,220
2013	1,220
2014	1,220
2015	1,220
Thereafter	2,948

11. Fair-Value Measurements

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

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

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes government and agency mortgage-backed debt securities and corporate debt securities.

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

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

	2010			
	Level 1	Level 2	Level 3	Total
Cash & cash equivalents	\$ 16,851	—	—	16,851
Investment – Available for sale				
Fixed income securities	\$ 62,289	24,183	—	86,472
Common equities	53,006	—	—	53,006
Preferred equities	—	194	—	194
	<u>\$ 115,295</u>	<u>24,377</u>	<u>—</u>	<u>139,672</u>
Investment – Held-for-trading under FVO				
Fixed income securities	194,396	142,951	—	337,347
Preferred equities	—	577	—	577
	<u>\$ 194,396</u>	<u>143,528</u>	<u>—</u>	<u>337,924</u>
Total	<u>\$ 326,542</u>	<u>167,905</u>	<u>—</u>	<u>494,447</u>

There were no transfers between any levels during the year.

	2009			
	Level 1	Level 2	Level 3	Total
Cash & cash equivalents	\$ 12,471	—	—	12,471
Investment – Available for sale				
Fixed income securities	\$ 43,880	26,302	—	70,182
Common equities	35,762	—	—	35,762
Preferred equities	—	173	—	173
	<u>\$ 79,642</u>	<u>26,475</u>	<u>—</u>	<u>106,117</u>
Investment – Held-for-trading under FVO				
Fixed income securities	201,533	129,146	—	330,679
Preferred equities	—	463	—	463
	<u>\$ 201,533</u>	<u>129,609</u>	<u>—</u>	<u>331,142</u>
Total	<u>\$ 293,646</u>	<u>156,084</u>	<u>—</u>	<u>449,730</u>

12. Risk Management

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

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

The risk exposure measures expressed below primarily include the sensitivity of the Company’s net income, and OCI as applicable, to the movement of various economic factors. These risk exposures include the sensitivity due to specific changes in market prices and interest rate levels projected using internal models as at a specific date, and are measured relative to a starting level reflecting the Company’s assets and liabilities at that date and the actuarial

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factors, investment returns and investment activity the Company assumes in the future. The risk exposures measure the impact of changing one factor at a time and assume that all other factors remain unchanged. Actual results can differ materially from these estimates for a variety of reasons including the interaction among these factors when more than one changes, changes in actuarial and investment return and future investment activity assumptions, actual experience differing from the assumptions, changes in business mix, effective tax rates and other market factors, and the general limitations of the Company's internal models.

a) Insurance risk

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

b) Credit risk

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

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

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

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

The following table provides a credit risk profile of the Company's applicable investment assets and amounts recoverable from reinsurers, as at December 31.

2010				
	Fixed income securities	Investment income due and accrued	Due from reinsurers	Reinsurers' share of provisions for unpaid claims and adjustment expenses
Government				
AAA	\$ 137,271	611	—	—
AA	60,619	187	—	—
A	52,639	36	—	—
BBB	1,043	13	—	—
Not rated	11,291	19	—	—
Corporate				
AAA	19,825	60	—	—
AA	37,695	412	—	—
A	66,942	296	—	—
BBB	32,918	549	—	—
Not rated	1,554	33	—	—
Reinsurers				
A+	—	—	642	20,876
A	—	—	910	12,867
A-	—	—	392	1,637
BBB and lower	—	—	6	2,433
Not rated	—	—	208	2,562
Total	\$ 421,797	2,216	2,158	40,375

2009				
	Fixed income securities	Investment income due and accrued	Due from reinsurers	Reinsurers' share of provisions for unpaid claims and adjustment expenses
Government				
AAA	\$ 149,738	811	—	—
AA	46,095	139	—	—
A	38,582	22	—	—
BBB	970	13	—	—
Not rated	11,393	1	—	—
Corporate				
AAA	14,098	37	—	—
AA	41,919	478	—	—
A	64,882	258	—	—
BBB	28,463	523	—	—
Not rated	2,544	14	—	—
Reinsurers				
A+	—	—	2,176	24,323
A	—	—	1,294	13,946
A-	—	—	426	2,241
BBB and lower	—	—	7	2,165
Not rated	—	—	279	2,810
Total	\$ 398,684	2,296	4,182	45,485

Notes to Financial Statements

As at December 31, 2010 | Amounts stated in thousands of Canadian dollars (except per share amounts)

Fixed income securities are rated using a composite of Moody's, Standard & Poor and Dominion Bond Rating Service ratings, and reinsurers are rated using A.M. Best ratings.

c) Liquidity risk

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

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

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

The following tables summarize the carrying amounts of financial instruments and insurance assets and liabilities by contractual maturity or expected cash flow dates (the actual repricing dates may differ from contractual maturity because certain securities and debentures have the right to call or prepay obligations with or without call or prepayment penalties) as at December 31.

	2010				Total
	Within one year	One to five years	More than five years	No fixed maturity	
Assets					
Cash and cash equivalents	\$ 16,851	—	—	—	16,851
Investments – held for trading under FVO	58,600	164,349	113,010	570	336,529
Investments – available for sale	17,824	34,549	33,465	53,013	138,851
Investment income due and accrued	2,216	—	—	—	2,216
Due from reinsurers	2,158	—	—	—	2,158
Due from insureds	1,427	—	—	—	1,427
Due from Law Society	4,107	—	—	—	4,107
Reinsurers' share of unpaid claims	11,400	22,750	6,225	—	40,375
Other receivable	609	—	—	—	609
Other assets	1,276	—	—	—	1,276
Total	\$ 116,468	221,648	152,700	53,582	544,399
Liabilities					
Provision for unpaid claims	\$ 89,977	225,273	66,356	—	381,606
Due to reinsurers	1,187	—	—	—	1,187
Due to insureds	302	—	—	—	302
Expenses due and accrued	1,587	—	—	—	1,587
Income taxes due and accrued	5,770	—	—	—	5,770
Total	\$ 98,823	225,273	66,356	—	390,452

Notes to Financial Statements

As at December 31, 2010 | Amounts stated in thousands of Canadian dollars (except per share amounts)

2009

	Within one year	One to five years	More than five years	No fixed maturity	Total
Assets					
Cash and cash equivalents	\$ 12,471	—	—	—	12,471
Investments – held for trading under FVO	79,029	165,219	84,865	456	329,569
Investments – available for sale	1,164	38,528	29,879	35,823	105,394
Investment income due and accrued	2,296	—	—	—	2,296
Due from reinsurers	4,182	—	—	—	4,182
Due from insureds	2,194	—	—	—	2,194
Due from Law Society	19,124	—	—	—	19,124
Reinsurers' share of unpaid claims	11,916	25,461	8,108	—	45,485
Other receivable	644	—	—	—	644
Other assets	1,593	—	—	—	1,593
Total	\$ 134,613	229,208	122,852	36,279	522,952
Liabilities					
Provision for unpaid claims	\$ 78,842	216,814	88,199	—	383,855
Due to reinsurers	568	—	—	—	568
Due to insureds	260	—	—	—	260
Expenses due and accrued	1,963	—	—	—	1,963
Income taxes due and accrued	7	—	—	—	7
Total	\$ 81,640	216,814	88,199	—	386,653

d) Market and interest rate risk

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

Interest rate risk is the potential for financial loss arising from changes in interest rates. The Company is exposed to interest rate price risk on monetary financial assets and liabilities that have a

fixed interest rate and is exposed to interest rate cash flow risk on monetary financial assets and liabilities with floating interest rates that are reset as market rates change.

For held-for-trading assets and other financial assets supporting actuarial liabilities, the Company is exposed to interest rate risk when the cash flows from assets and the policy obligations they support are significantly mismatched, as this may result in the need to either sell assets to meet policy payments and expenses or reinvest excess asset cash flows under unfavourable interest environments. The estimated impact on the Company of an immediate parallel increase of 1% in interest rates as at December 31, 2010, across the yield curve in all markets, would be a decrease in net investment income of \$11,313 (2009: \$9,971) and a decrease in net claims and adjustment expenses of \$10,275 (2009: \$11,212) and conversely, an immediate 1% parallel decrease in interest rates would result in an estimated increase in net investment income of \$12,084 (2009: \$10,402) and an increase in net claims and adjustment expenses of \$11,004 (2009: \$11,776).

Bonds designated as available for sale generally do not support actuarial liabilities. Changes in fair value of available-for-sale fixed income securities are recorded to OCI. For the Company's available-for-sale fixed income securities, an immediate 1% parallel increase in interest rates at December 31, 2010, across the entire yield curve, would result in an estimated after-tax decrease in OCI of \$2,662 (2009: \$2,496). Conversely, an immediate 1% parallel decrease in interest rates would result in an estimated after-tax increase in OCI of \$2,472 (2009: \$2,799).

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

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The Company's equities are designated as available for sale and generally do not support actuarial liabilities. Assuming all other variables held constant, an immediate 10% increase in stock prices at December 31, 2010, would result in an estimated after-tax increase in OCI of \$3,658 (2009: \$2,507), and conversely, an immediate 10% decrease in stock prices would result in an estimated after-tax decrease in OCI of \$3,658 (2009: \$2,507).

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates, in particular when an asset and liability mismatch exists in a different currency than the currency in which they are measured. As the Company does not hold significant liabilities in foreign currencies, the resulting currency risk is borne by the

Notes to Financial Statements

As at December 31, 2010 | Amounts stated in thousands of Canadian dollars (except per share amounts)

Company and forms part of its overall investment income. The table below details the effect of a 10% movement of the currency rate against the Canadian dollar as at December 31, with all other variables held constant.

Currency	2010		2009	
	Effect on Income before taxes (+/-)	Effect on OCI (+/-)	Effect on Income before taxes (+/-)	Effect on OCI (+/-)
US Dollar	\$ 1	1,161	1	747
Euro	—	577	—	417
Other	—	479	—	172
	\$ 1	2,217	1	1,336

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

The following tables summarize the carrying amounts of financial instruments by geographical location of the issuer, as at December 31.

	2010					
	Cash and cash equivalents	Fixed income securities	Investment income due and accrued	Equities	Total	% of total
Canada	\$ 16,777	412,053	21,516	2,108	452,454	91.5%
USA	61	—	12,837	36	12,934	2.6%
France	—	—	3,224	16	3,240	0.7%
United Kingdom	1	—	2,634	23	2,658	0.5%
Others	12	9,744	13,372	33	23,161	4.7%
Total	\$ 16,851	421,797	53,583	2,216	494,447	100.0%

	2009					
	Cash and cash equivalents	Fixed income securities	Investment income due and accrued	Equities	Total	% of total
Canada	\$ 12,453	398,684	17,288	2,246	430,671	95.8%
USA	17	—	8,649	12	8,678	1.9%
Netherlands	—	—	2,182	—	2,182	0.5%
Germany	—	—	1,926	—	1,926	0.4%
Others	1	—	6,234	38	6,273	1.4%
Total	\$ 12,471	398,684	36,279	2,296	449,730	100.0%

13. Capital Management

Capital is comprised of the Company's shareholder's equity. As at December 31, 2010, the Company's shareholder's equity was \$159,307 (2009: \$141,067). The Company's objectives when managing capital are to maintain financial strength and protect its claims paying abilities, to maintain creditworthiness and to maximize returns for the shareholder over the long term. In conjunction with the Company's Board of Directors and its Audit Committee, senior management develops the capital strategy and oversees the capital management processes of the Company. Capital is managed using both regulatory capital measures and internal metrics.

FSCO, the Company's primary insurance regulator, along with other provincial insurance regulators, regulate the capital required in the Company using two key measures, i.e., Minimum Capital Test ("MCT") and the Dynamic Capital Adequacy Test ("DCAT"). The minimum solvency ratio targeted by the Company is 185% (2009: 175%), which is higher than the regulatory MCT requirement of 150%. To monitor current and future capital requirements, the Company's appointed actuary models the Company's expected financial position under various adverse scenarios. The appointed actuary must present both an annual report and the DCAT report to management and the Audit Committee. During the year ended December 31, 2010, the Company complied with the various provincial regulators' guidelines and as at December 31, 2010, the Company has a MCT ratio of 226% (2009: 206%).

A common measure of capital adequacy in the property and casualty industry used by management is the ratio of net premiums to surplus (or shareholder's equity). The higher the ratio, the greater is the potential risk borne by the Company in relation to the surplus available to absorb loss variations. The net premiums written to surplus ratio at December 31, 2010 was 0.63 (2009: 0.72).

The Company may use reinsurance to manage its capital position.

14. Comparative Figures

The Company restated the prior year's credit risk table in note 12b and liquidity risk table in note 12c to conform to the current year's presentation.

Board of Directors



Ian D. Croft
Board Chair
Chartered Accountant



James R. Caskey, QC*
Board Vice-Chair
Partner, Siskinds LLP



Kathleen A. Waters
President & CEO
LAWPRO



George D. Anderson, CM
Retired President and CEO
Insurance Bureau of Canada



Constance B. Backhouse,
CM, OOnt, LSM*
Professor
Faculty of Law, University of Ottawa



Randall S. Bocock
Partner
Evans, Philp LLP



Douglas F. Cutbush
Insurance Consultant
Arbitrator & Mediator



Lawrence A. Eustace*
Principal
Lawrence A. Eustace



Frederick W. Gorbet, CM
Associate Director,
Financial Services Program
Schulich School of Business



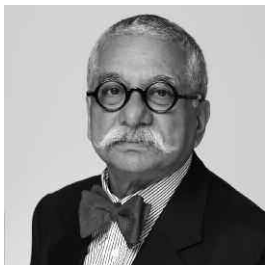
Malcolm L. Heins, LSM
CEO
Law Society of Upper Canada



Paul J. Henderson*
Principal
Paul J. Henderson
(served until August)



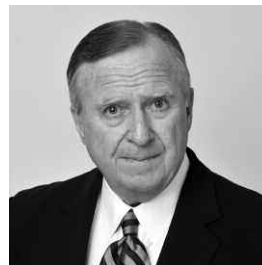
Rita Hoff
Retired Investment Industry
Senior Executive



Vern Krishna CM, QC,
FRSC, FCGA
Professor, Faculty of Law,
University of Ottawa
Tax Counsel, Borden Ladner
Gervais (effective December)



Andrew N. Smith
President
Natnook Inc.



John C. Thompson, FCA
Retired Certified Accountant



Bradley H. Wright*
Principal
The Wright Law Firm

* Bencher, Law Society of Upper Canada
CM denotes Member of the Order of Canada
FCA denotes Fellow Chartered Accountant
FRSC denotes Fellow of the Royal Society of Canada
FCGA denotes Fellow Certified General Accountant

Management



Kathleen A. Waters
President & CEO
LawPRO



Duncan D. Gosnell
Executive Vice-President
& Secretary



Steven W. Jorgensen
Vice-President, Finance
& Treasurer



Raymond G. Leclair
Vice-President, TitlePLUS



David M. Reid
Chief Information Officer



Stephen R. Freedman
Director, Compliance Risk
& Chief Privacy Officer



Straughn Inman
Director, Human Resources



Dagmar Kanzler
Director, Communications



Daniel E. Pinnington
Director, practicePRO



Jerzy Y. Adamowicz
Vice-President, Specialty
Claims



Jack N. Daiter
Vice-President, Primary
Professional Liability Claims



B. Mark Farrish
Director, Sales & Marketing
TitlePLUS

Committees of the Board

Executive

Ian D. Croft^c
George D. Anderson
James R. Caskey
Douglas F. Cutbush
Malcolm L. Heins (A)
Kathleen A. Waters (A)

Audit/Conduct Review

Frederick W. Gorbet^c
Randall S. Boccock
Douglas F. Cutbush
Andrew N. Smith
John C. Thompson
Bradley H. Wright

Investment

Rita Hoff^c
George D. Anderson
Lawrence A. Eustace
Malcolm L. Heins (A)
Vern Krishna
Andrew N. Smith

Governance

Ian D. Croft^c
George D. Anderson
Constance B. Backhouse
Frederick W. Gorbet
Malcolm L. Heins (A)
Rita Hoff

Special Advisory

George D. Anderson^c
Frederick W. Gorbet
Rita Hoff
Andrew N. Smith
John C. Thompson

^c Committee Chair

(A) Affiliated Director within meaning of Ontario *Insurance Act*

Corporate Governance

The Board of Directors, either directly or through its committees, bears responsibility for the stewardship of the Company. To discharge that responsibility, the Board supervises the management of the business and the affairs of the Company, including the oversight or monitoring of all significant aspects of the operation, so that the Company effectively and efficiently fulfills its mission, vision and values.

The Company's corporate governance processes, structures and information are designed to strengthen the ability of the Board to oversee management, and to enhance long-term policyholder value. Every director has a duty to guide the Company's affairs in a manner that achieves the Company's objectives.

The corporate governance processes and mandate are derived, in part, from the Ontario *Insurance Act* and regulatory "best practices."

Board independence

Demonstrable evidence of independence is at the heart of effective governance. Independence is normally a matter of a board demonstrating its ability to act independently of management when appropriate. Currently, only the chief executive officers of LAWPRO and the Law Society of Upper Canada are "affiliated" to the Company within the meaning of applicable legislation. A minority of directors are Benchers or employees of the Law Society of Upper Canada.

Board composition

Annually, the Board reviews its composition to determine whether or not the Board is optimally structured to ensure the achievement of the corporate strategy and business plan. Also important is a regular assessment of the skills, experience and independence of those on the Board.

Board responsibilities

The basic oversight responsibilities of the Board include:

- **Corporate performance oversight:** The Board ensures that corporate management continuously and effectively strives to meet the two opposing goals of minimizing premiums and achieving a satisfactory financial result, taking account of risk.
- **Appointment of CEO and related human resources issues:** The Board appoints the CEO and approves the CEO's objectives, assesses his or her performance and determines compensation of the CEO. As well, the Board approves key appointments reporting to the CEO, reviews key executive performance and approves compensation policy and succession plans.
- **Strategic direction and policy:** The Board reviews and approves management's proposed strategic direction and policy matters, and ensures that policies on key issues, including exposure to various risks, are in place, are appropriate and are reviewed to ensure compliance with same.
- **Budgeting and planning:** The Board approves the Company's proposed budgets and other performance goals, reviews performance against goals and recommends corrective actions.
- **Regulatory compliance and financial monitoring:** Through an independent audit committee, the Board requires and monitors regulatory compliance, appoints the auditor, oversees the audit process and reviews and approves financial reports. The Board also ensures that financial systems produce accurate and timely information, and that appropriate controls are in place.
- **Ensuring its own effectiveness:** The Board establishes committee structures that assist the effective operations of the Board, and enable a review and assessment of the Board's own performance.

Board committees

The members of the Board are assisted in fulfilling the responsibilities explained above through the following committees:

Audit Committee

The Audit Committee assists the Board in monitoring:

- the integrity of the Company's financial reporting process,
- risks that the Company is exposed to,
- the controls for managing those risks, and
- the independence and performance of the Company's external auditor and actuary.

Conduct Review Committee

The Conduct Review Committee oversees the Company's compliance with the related party provisions of the Ontario insurance legislation.

Executive Committee

The Executive Committee has the authority of the Board, subject to the limitations of law and those set forth in the Company's bylaws, to consider urgent matters that require action prior to the next Board meeting. Actions taken by the Executive Committee are reported to the full Board at the next meeting.

Governance Committee

The Governance Committee:

- assists the Board in its oversight role with respect to: a) the development of the Company's corporate governance policies, practices and processes; and b) the effectiveness of the Board and its committees;

- identifies individuals qualified and suitable to become Board members and recommends the director nominees to each annual meeting of the shareholder;
- assists the Board in its oversight role with respect to: a) the Company's human resources strategy, policies and programs; and b) all matters relating to proper deployment of human resources within the Company, with special focus on management succession, development and compensation;
- oversees procedures for resolving conflicts of interest, restricting the use of confidential information and dealing with customer complaints; and
- assists the Board in liaising with the shareholder.

Investment Committee

The Investment Committee:

- assists the Board and management in managing the invested assets of the Company;
- develops and monitors investment policies and guidelines;
- provides recommendations to the Board in connection with the hiring of external investment managers; and
- meets with and monitors the performance of external investment managers.

Special Advisory Committee

The Special Advisory Committee assists the Board in monitoring and enhancing the Company's stakeholder relations policies and programs, in order to promote effective and beneficial stakeholder engagement and superior reputation management.

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