2011 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 2011, LawPRO provided liability insurance to about 23,000 members of the Law Society of Upper Canada. We also insured more than 1,460 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

Three realities dominated the LawPRO agenda in 2011: 1) an accounting and regulatory environment in which the only constant is change itself; 2) a volatile economy, especially when it comes to the investment climate; and 3) a total claims expense that is breaking through the $100-million barrier.

In my 2010 comments, I mentioned that pending changes in financial reporting standards as well as more stringent benchmarks and solvency tests were part of the coming new normal for companies in the financial services sector. In 2011, we got a taste of what is in store in this new world in which "more" is the preferred option.

Preparing to report the company's 2011 results in keeping with International Financial Reporting Standards (IFRS) has been a massive amount of work. All 2010 year-end results had to be re-assessed using the principles of IFRS. Additional disclosure required under IFRS has doubled the amount of information and explanation provided in this annual report.

The result: In addition to references to numbers as of December 31, 2010, and December 31, 2011, you will find references throughout this report to January 1, 2010, as all of the 2010 numbers, including the opening balances, had to be re-evaluated.

The length of notes to the financial statements has more than doubled to 28 from 13 pages and now includes additional tables of data – many of which may be confusing to the untrained eye as the level of detail they provide requires an in-depth understanding of insurance company fundamentals in a long-tail business such as LawPRO's professional liability program.

What's less obvious is the impact that a change in a phrase within this new reporting scheme can have on a company's numbers.

A case in point: Before the implementation of IFRS, there had to be objective evidence of impairment – namely a significant **or** prolonged decline in the value of an investment, and the decline had to be "other than temporary" – before a company had to take a write-down through the income statement. The new test has dropped the reference to "other than temporary," a move that significantly lowers the bar for a write-down.

In other words, even a temporary decline in the value of an investment (and who hasn't seen that happen these days as markets continue their roller coaster rides) can prompt a write-down. And that is exactly what happened to LawPRO at the end of 2011. This change resulted in a small write-down as of December 31, 2011, but could require more such write-downs in the future than we would have seen in the past. Note that write-ups following a recovery in value are not permitted for equity securities!

But as I said earlier, the only constant is change itself these days – and the pending changes may be more profound. The International Accounting Standards Board (IASB) continues to work on the new standards that apply to insurance contracts. As we have reported in the past, suggested changes to the discount rate applied to the claims valuations would mean that more funds will be needed to be set aside for outstanding claims.

In addition, changes to the calculation of the Minimum Capital Test (MCT) continue to evolve and may mean that, in future years, the results of this important solvency test may not look as good as before. LawPRO 's MCT of 220 per cent at year-end was solid, but additional changes to how the MCT is calculated, or the interaction between IFRS and the MCT, could change this picture in the year (or years) to come.

These results are complicated by a significant economic reality: "low for long." This is a term used in some investment circles to summarize market expectations. The prediction is for interest rates (and investment returns) to be at relatively conservative levels for the longer term. For LawPRO, this means investment income, though significant at more than $21 million in 2011, cannot necessarily be counted on to help offset increased claims costs and operational expenses, potentially putting pressure on the insurance premium.

Further complicating the picture are high claims counts and costs. As is more fully discussed in the report of the President and CEO Kathleen Waters, it looks like we are entrenched in a new world in which the annual claims count in the primary professional liability program will top 2,200 consistently and indemnity and legal fee costs for the E&O program itself will be in the $80 to $90 million range. The number gets higher when internal examining costs and the impact of discount rate changes are added.

Given this challenging environment, the company's overall results for 2011 are commendable. Not only was LawPRO able to hold premiums for 2012 at 2011 levels, but the company generally ended the year with stronger-than-budgeted results:

- General administration costs of $17.4 million were $1.6 million less than expected and represent only about 19 per cent of overall costs compared to industry averages of closer to 30 percent.
- Investment income of $21.9 million is more than $3 million above budget.
- Net income of $8.6 million is above budget ($5.5 million).
- Shareholder's equity increased to $168 million.

But our Board is very much aware that we cannot afford to rest on our laurels.

The regulatory, solvency and reporting issues discussed in this message mean we must be ever mindful of the solvency position of the company, watching the drafts released by the regulators and constantly evaluating their potential impact on LawPRO.

We are living in times when all financial services may come to cost more as regulators force financial institutions to build more capital by imposing tougher and tougher tests – even though Canada's financial institutions are praised around the world for their solidity and prudence.

I know that my fellow Board members share with the members of the LawPRO management team a commitment to steer the company wisely and to be stewards of the bar's investment in LawPRO. I thank them all for the dedication exhibited in rising to the challenges of 2011, and look forward to working with them to continue to fulfil the company's vision as a preferred insurer.

Ian D. Croft
Chair

REMARKS OF THE PRESIDENT & CEO

As Chair Ian Croft suggests in his remarks, 2011 tested LawPRO like few years have.

New and constantly evolving accounting and reporting standards, volatile investment markets, ongoing challenges to the legitimacy of our title insurance program from competitors, the need to evaluate more complex and rigorous solvency tests and prepare for new legislation governing accessibility and – of course – rising claims numbers and costs are but some of the issues that made 2011 a very busy, and at times difficult, year.

In this climate, we are particularly proud of our successes.

On the financial front, we are profitable and continue to exceed solvency benchmarks (although here too challenges continue to loom). Improved underwriting and lawyer outreach has helped us bring down TitlePLUS claims costs and our claims paid ratio has held at just over 40 per cent. Our Excess Insurance program continues to attract a solid 20 per cent of our target market (lawyers in firms of 50 or fewer lawyers), and in 2011 provided excess coverage to a record 1,466 firms representing 3,711 lawyers; as well, our retention rate on this program is high, with 97 per cent of firms choosing to stay with LawPRO for their excess coverage in 2012.

We've expanded our outreach and risk management activities, engaging with more emerging lawyer communities to pursue a better understanding of each other's needs. We've moved in a big way into the new Web 2.0 world and are using Twitter, LinkedIn, and electronic newsletters to get our message out to lawyers faster, more efficiently and in the media they increasingly frequent.

What is happening with claims?

But THE story for 2011 is what's happening with claims in the Law Society primary insurance program.

On this front, all signs point one way: up.

- The number of claims reported – 2,468 – is higher than it has been at any point since 2000 and 11 per cent higher than in 2010.
- Similarly, claims frequency (number of claims per 1,000 lawyers – a better barometer of trends) is up to 107 from 99 a year earlier.
- The average cost of a fully reserved claim has increased 40 per cent to just under $42,000 in 2009 from $30,000 in 2001.
- We're seeing more large claims that cost at least $100,000 to resolve: For example, in 2009 we saw 275 of these compared to 132 in 2000.

Given these numbers, it may not come as a surprise that we're projecting that claims costs in the Errors and Omissions program will be in the $90 million range for 2011 – a huge increase from earlier years when consistently claims were in the $50 to 60 million range. Is $90 million – or more – our new reality? Only time will tell.

That this significant increase in claims costs comes lock-step with an environment of modest interest rates compounds the problem. In the past, we were able to rely on the interest income component of investment income to help meet claims payments and operational needs and the need to set aside more money up front for each year of claims as they come on the books. But the weaker returns we see today as long-term investments are renewed means that to have a significant impact on the money needed for the primary insurance program we must stabilize claims costs (dare we dream: reduce claims costs?) and/or increase the premium.

Our ability to hold the line on the insurance premium for two consecutive years (at $3,350 for 2011 and 2012) reflects well on our commitment to managing costs and being as efficient as possible.

We have tackled the other issue – claims costs – in several ways: through proactive risk management efforts (via our practicePRO program); through very principled claims management as is more fully explained in our detailed discussion on E&O claims; and by "ring-fencing" what is and is not covered under the Law Society policy – despite requests from individuals to expand the scope of coverage in some highly specific areas, to suit their specific circumstances. The latter, of course, has the potential to increase claims exposure and claims costs even more and is considered with utmost caution.

But given that total claims costs for 2011 (primary E&O, Excess and title insurance programs) may top the $100-million mark when all claims are paid, we have decided to dedicate significant resources in 2012 to better understand, in detail, why claims costs keep rising. We already know there is not likely a single "Eureka" explanation or solution.

Certainly the implementation of the HST in mid-2010 added eight per cent to our legal fees (which are about 50 per cent of our claims costs). Rising house values, especially in major urban areas, means damage calculations involving real estate continue to increase – and real estate claims account for about 34 per cent of claims costs on average over the past five years.

But why is the count of claims consistently up? How is it that a few lawyers can create pain for so many in terms of big claim dollars? Why – despite a steady stream of information about fraud scams via every channel we know to tap into – do some lawyers still get caught in obvious frauds?

Although I review only a snapshot of our entire claims portfolio, I see a few obvious explanations:

- lawyers abandoning practice to non-lawyers who are not supervised;
- despite Law Society rules and contractual obligations, lawyers giving up control of their Teraview® (electronic real estate title) access credentials;
- lawyers accepting an intermediary (be it mortgage broker, business broker, financial planner) or family member as the spokesperson for the client, meaning inadequate communication with the actual client (sometimes they do this many times over, either for the same ultimate client or for many different clients brought by the intermediary);
- lawyers undertaking many mortgage transactions without considering that there are red flags that need to be brought to the attention of the lender – such as a significant increase in the value of the property in a very short period of time or inexplicable credits.

In at least two of the scenarios above, communication is a central issue. In a world with so many tools to help us work and communicate, why does communication continue to be such a challenge?

Our mission in 2012 will be to further explore these issues. We will work on several fronts to better understand what is happening in practice, why the flow of claims has increased, and how we can meet your information needs and your expectations of LawPRO.

On being a responsible corporate citizen

This commitment to outreach and to be more involved in the networks that you find are most relevant is reflected in LawPRO's new Corporate Social Responsibility Statement, a copy of which is on our website (www.lawpro.ca/csr).

The following is a summary of the four principles that define how LawPRO will conduct itself as a responsible corporate citizen and how we are living those principles today.

1. ***Providing a healthy and rewarding workplace through:***
   - *policies and practices that respect diversity, promote inclusion and fellowship;*
   - *providing opportunities for professional growth through education and service; and*
   - *promoting health, safety and wellness.*

LawPRO has policies that address a wide variety of human resource needs, maintains active health and safety and wellness committees, provides funding for employees' professional and educational development, and has a multi-faceted employee service recognition program.

2. ***Respecting the environment through:***
   - *initiatives that meet the dual mandate of being stewards of both the environment and the bar's financial resources.*

In addition to supporting an employee-led Green Committee, we have an active program of reducing paper waste and developing technology solutions that result in less paper use.

3. ***Fostering the legal community through:***
   - *supporting and/or sponsoring legal-related causes that advance the role/reputation of lawyers and foster access to justice, including those causes supported by the bar;*

- *promoting the bar's enrichment by promoting CLE and fostering ties to the legal community; and*
- *promoting lawyer wellness.*

As well as maintaining an active outreach agenda by encouraging our professional employees to be actively involved with many legal and legal-related organizations, LawPRO helps organize continuing legal education (CLE) conferences and seminars and provides speakers to these events and to individual firms on a wide variety of risk/practice management topics. We promote continuing professional development (CPD) through the LawPRO CPD Credit program that lets lawyers reduce their insurance premiums by up to $100 for taking approved LawPRO-approved CPD programs. Another good example of our support for the legal community is our public awareness campaign which – through a variety of means – educates consumers about the work and value of their lawyer in real estate and other transactions.

4. Supporting the broader Canadian community through:

- *support for employee-selected charities;*
- *support for the insurance industry;*
- *maintaining dialogue with government and regulatory bodies in the interests of the bar and consumers; and*
- *promoting inclusion by expanding our range of materials in both official languages and other languages as needed.*

As well as matching fundraising activities by employees for five charities they select each year, LawPRO encourages volunteerism by letting employees take a day off to work for a registered charity of their choice. We are active members of numerous North American organisations that represent the professional liability, title, general insurance and financial services sectors – not only to share our expertise and learn, but also to ensure our views are well represented.

Similarly, a proactive government relations program ensures the voice of lawyers, and the interests of their clients, are heard in legislative and regulatory circles, on topics where LawPRO believes it can bring insights. To serve the needs of our multi-lingual audience, while also respecting our commitment to cost-containment, we provide all mandatory insurance program materials in both English and French and other materials in selected languages as needed.

Earlier this year we invited LawPRO Magazine readers to share their thoughts on how we can get LawPRO's message heard in the cacophony of messages that come their way daily. We continue to invite feedback on that issue and look forward to your ideas as we pursue new and better ways of serving the insurance needs of the members of the bar and our title insurance clients.

Kathleen A. Waters
President & CEO

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, 2011, in comparison with the year ended December 31, 2010. These comments should be read in conjunction with the corresponding audited financial statements, including the accompanying notes.

Transition to IFRS

The financial statements in this report represent the first annual financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company began applying the new standards effective January 1, 2010. The transition from Canadian GAAP to IFRS did not result in any adjustments to amounts previously reported in equity, comprehensive income and cash flows. For more details regarding the accounting policies the Company established under the new accounting regime see note 2 of the financial statements, and for more details regarding the transition itself see note 3.

Financial highlights

Statement of income and comprehensive income

During 2011 the Company generated a net income of $8.7 million, a decrease of $6.5 million over 2010, and earned comprehensive income of $8.6 million compared to a comprehensive income of $18.2 million during the prior year.

Net premiums earned

Premiums earned, net of reinsurance ceded, increased by $9.3 million to $109.7 million in 2011. Premiums from the mandatory Ontario errors and omissions ("E&O") insurance program were $9.2 million higher than 2010 results, primarily due to a premium rate increase in 2011. Mandatory professional liability premiums came in $0.6 million above budget as a result of a slightly higher than expected number of insured lawyers purchasing insurance coverage in 2011. The optional excess insurance program premiums remained steady in the year, while title insurance premiums declined $0.5 million.

Net claims and adjustment expenses

Incurred claims and adjustment expenses in 2011, net of reinsurance recoveries, increased by $21.1 million from 2010. The 2011 results benefitted from a $10.3 million reduction to reserves for prior years, though this was almost fully offset by a $10.2 million expense due to the significant decline in the discount rate during the year. Prior year results were significantly lower, as the Company experienced net favourable development on earlier years' claims of approximately $23.8 million 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.

Reinsurance

Similar to recent years, the Company purchased excess-of-loss clash reinsurance coverage for 2011, which limits its exposure to one or more large aggregations of multiple claims arising from the same proximate cause. During 2011, the Company maintained a 10 per cent retention in the optional excess program, whereas in prior years the program was fully reinsured. The high level of reinsurance significantly mitigates exposure to the Company from claims in this program.

General expenses

LawPRO's general expenses in 2011 were $1.2 million higher than 2010, but were $1.5 million lower than budgeted, due to continued cost management efforts undertaken by the Company.

Commissions earned

The Company earned reinsurance commissions of $1.4 million on premium ceded in respect of its 2011 optional excess insurance program, representing a $0.1 million decrease from 2010, which resulted primarily due to the Company's retention on this program starting in 2011. In addition, the Company also

earned just over $1.0 million of profit commissions for favourable claims development on the quota share reinsurance arrangements that it had prior to January 1, 2003, up from $0.2 million in 2010. 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 $2.6 million to $21.9 million in 2011. Investment income from interest receipts declined $0.2 million to $15.7 million, despite a growing portfolio, as market yields continued to drop during the year which put downward pressure on investment yields, particularly on securities subject to reinvestment. The declining yields benefitted the fair value of fixed income securities held, resulting in $6.0 million increase in net unrealized gains on the Company's portfolio used to match its claims liabilities, compared to an increase of $1.4 million in 2010. The 2011 results also included net capital gains of $1.6 million realized on disposition of assets, compared to $1.4 million in 2010. In addition, during 2011 the Company crystallized $2.7 million of unrealized losses as an impairment due to the significant or prolonged decline of some of its equity securities, as now required under IFRS.

Other comprehensive loss

During 2011 LawPRO experienced an other comprehensive loss of $0.1 million due to recent volatility in the world equity markets. These results compare to the other comprehensive income of $3.0 million experienced during 2010 due to an increase in net unrealized gains on its surplus investments, driven by a broad-based stock market rally that continued from 2009.

Statement of financial position

Overall, the Company ended the year of 2011 in a favourable position, with shareholder's equity up by $8.6 million year over year, as the net income incurred during the year was only slightly offset by the other comprehensive loss experienced during the same period.

Investments

As at December 31, 2011, the market value of the Company's investment portfolio exceeded its cost by $22.2 million, compared to 2010 where the market value exceeded cost by $19.1 million. Investment assets, inclusive of cash and cash equivalents and investment income due and accrued, increased by $26.4 million to $520.8 million at December 31, 2011. 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 composed of primarily 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 increased by $27.1 million. Reinsurance recoveries have increased by $2.7 million and accordingly the net increase in the provision is $24.4 million. This increase is attributable to the fact that the claims expense relating to the additional risk associated with the 2011 program plus the discount expense experienced during the year more than offset the reductions to the claims provision from both the settlement of claims during 2011 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 of Upper Canada (Law Society) for all of lawyers in private practice in Ontario; 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.

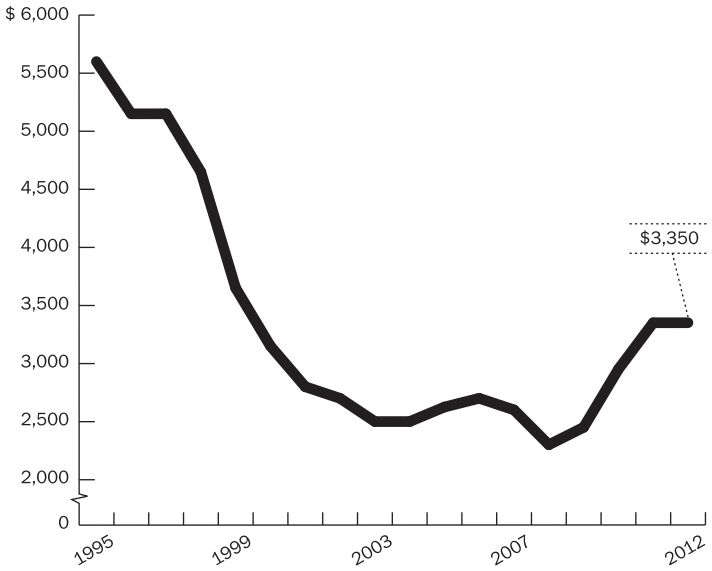
The mandatory E&O insurance program

In each of the last two years, the number of lawyers insured under the LawPRO program has increased about two per cent: In 2011, the Company provided E&O coverage to just over 23,000 lawyers, up from about 22,500 in 2010.

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 $400 to $3,350 per lawyer in 2011. For 2012, the base premium was held at $3,350 per lawyer – a level selected with a view to the longer-term stability and sustainability 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.

Graph 1 – Base premium per lawyer



Coverage option	Feature	No. of lawyers participating as of Jan. 31, 2011	No. of lawyers participating as of Jan. 31, 2012
New call discount	10 to 40 per cent base premium discount for those called in the last one to four years	3,772	3,975
Part-time practice	40 per cent base premium discount for eligible lawyers (50 per cent for 2012)	1,466	1,463
Restricted area of practice option	40 per cent base premium discount for immigration/ criminal law practitioners (50 per cent for 2012)	1,343	1,383
Innocent Party buy-up	Increase in Innocent Party sublimits up to as much as $1 million per claim/ aggregate	3,268 (based on $249/ lawyer)	3,309 (based on $249/ lawyer)
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	867	891
Real Estate practice coverage	Required for all lawyers practising real estate law in Ontario. Sublimit coverage of $250,000 per claim/$1 million aggregate	7,171	7,255

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 97 per cent of lawyers – 21,600 – filed their insurance applications online for the 2011 insurance program; 81 per cent of them did so in time to qualify for the $25 per lawyer e-filing discount. For the 2012 program, those numbers increased again, with 98 per cent of lawyers choosing to e-file applications.

E&O claims

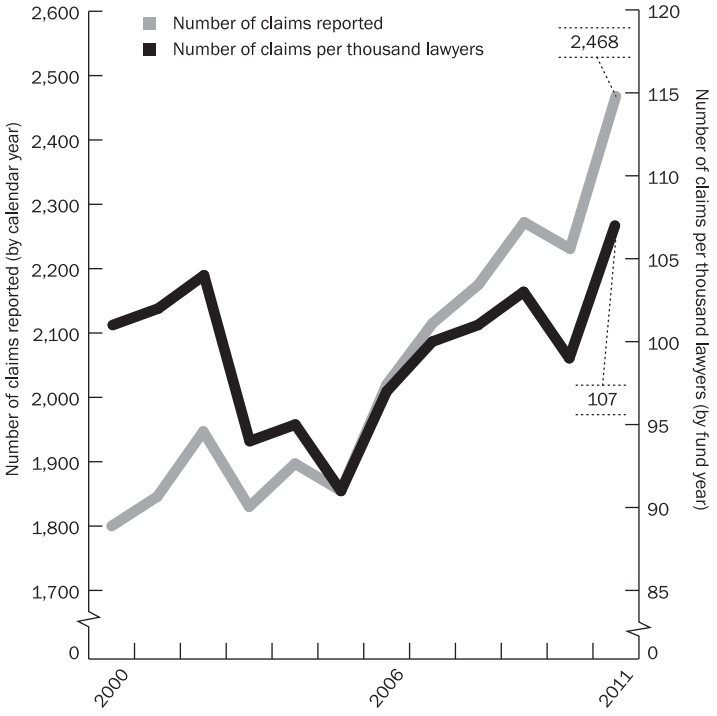
The numbers

The 2011 claim figures reflect a rather troubling ongoing trend – claims costs are high and rising. The number of claims reported to LAWPRO increased significantly to 2,468 (see graph 2). 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 3,200 – 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 on page 13 shows, between 2005 and 2009 the average severity (i.e., the average cost per claim) was close to $38,000, compared to an average severity at the 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, the 2007 through 2010 programs are costing in the $80 to $90 million range in claims expenses; the 2011 program is projected to ultimately cost at the upper end of this range.

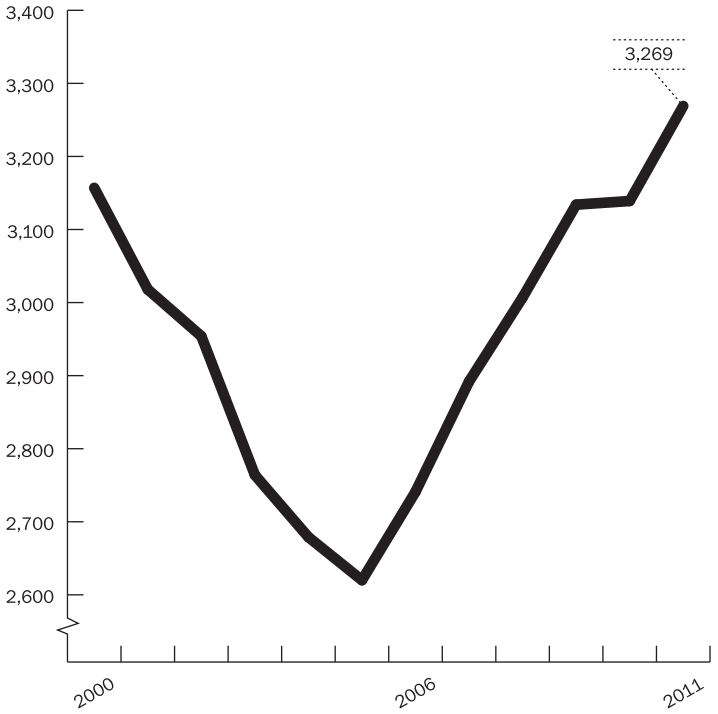
Although the estimated costs attached to 2011 claims are still relatively new at this point, a clear trend is evident. As in the past, real estate and litigation claims continue to account for the bulk of claims costs, with real estate claims representing approximately 34 per cent of claims costs, on average, for the past five years. The rise in the 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).

Graph 2 – Number of claims reported & frequency*

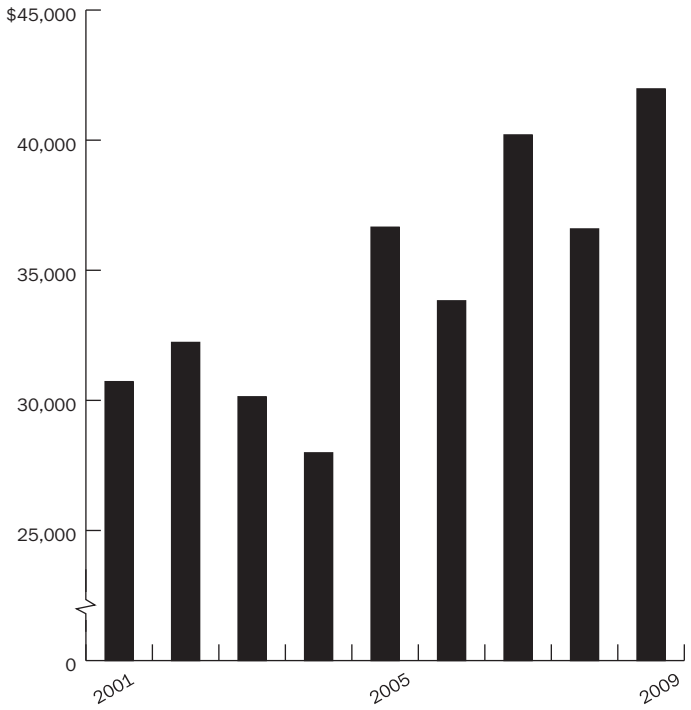


* By calendar year, as at December 31, 2011

Graph 3 – Number of open claims files

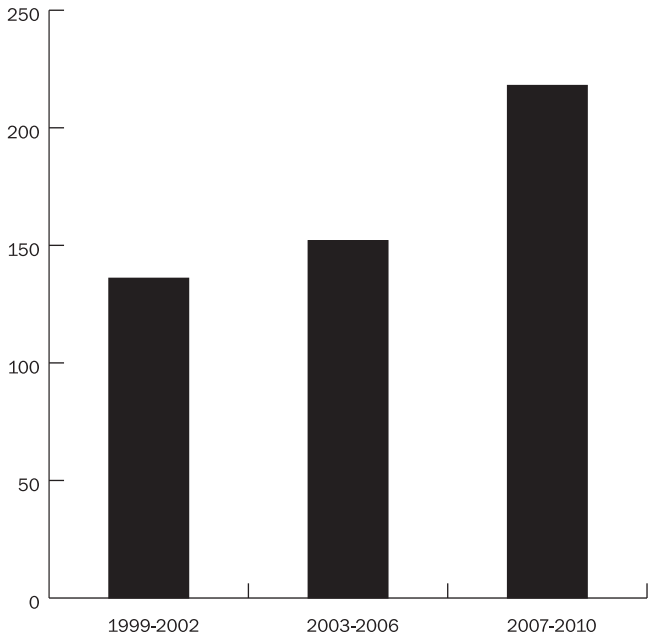


Graph 4 – Average cost per claim at 38 months after start of year in which claim was reported*



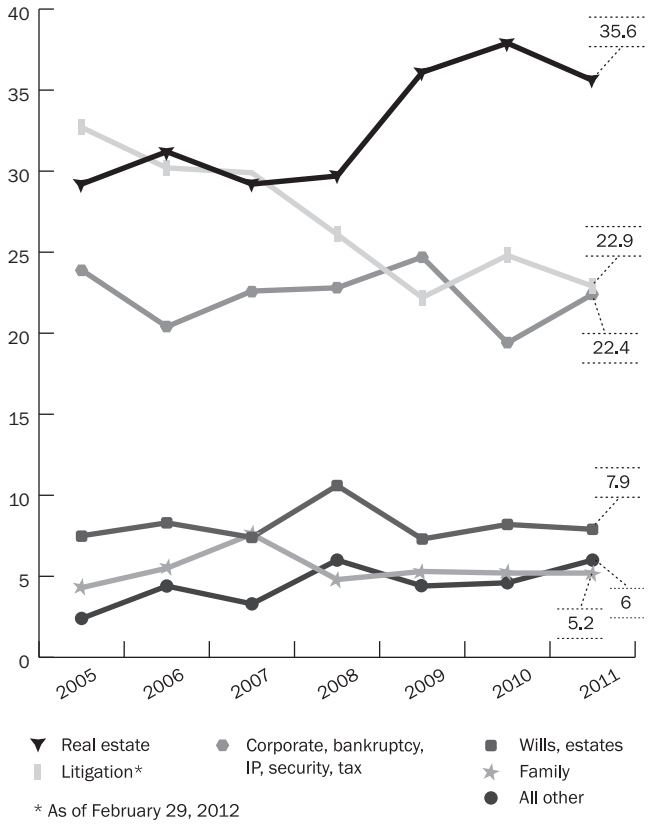
*As at February 29, 2012

Graph 5 – Number of claims reported with a value greater than $100,000*



*As at February 29, 2012

Graph 6 –Distribution of claims by area of practice* (% of gross claims costs)



* As of February 29, 2012

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 2011, LawPRO won 15 of the 19 matters that the Company took to trial and on which a decision was rendered; was successful on eight of the ten matters that went to appeal; and won 22 of 30 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.

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;
- 89 per cent said they were satisfied with our selection of counsel;
- 88 per cent said they would have the defence counsel firm represent them again; and
- 88 per cent said LawPRO received good value for defence monies spent.

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.

A principal tool to communicate risk management content is *LawPRO Magazine*, which is distributed to all practising insured lawyers three times per year. Complementing the printed magazine are extensive web-based materials, electronic newsletters and email alerts on topics ranging from active frauds, evolving risk issues, and insurance program-related information.

In 2011, the practicePRO website recorded a 26.6 per cent increase in traffic to 290,000 visits from 229,000 the previous year. More than 329,000 LawPRO articles and resources were downloaded, up from 287,000 in 2010.

The practicePRO AvoidAClaim 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. It averages 403 visitors a day. Through an active presence on Twitter, LinkedIn and Facebook, 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 2011, the number of those following LawPRO and practicePRO Twitter feeds topped the 1,000 mark.

LawPRO also works behind the scenes to ensure the risk management message is being heard. As a result of the LawPRO 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 2011, the Company approved 208 programs attended by more than 30,000 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 2011, for example, the Company worked with the Law Society to finalize a model file retention policy for large law firms, helped develop area of law-specific file retention guidelines for the real estate and wills/estates bars, and helped the CBA Conflicts of Interest Task Force promote the resources in the Conflicts Toolkit.

Through the practicePRO program, we delivered 40 presentations on risk management related topics to various law associations, law firms and CPD programs. LawPRO's practicePRO director co-chaired the Law Society/Ontario Bar Association's annual Solo and Small Firm Conference (for the sixth year).

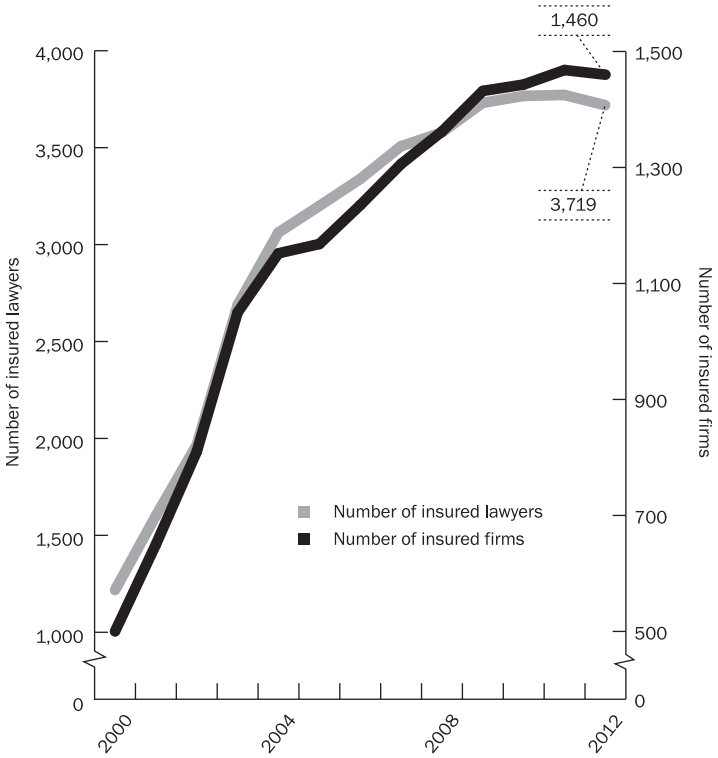
The LawPRO Excess program

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 1,466 firms representing 3,711 lawyers elected LawPRO as their excess insurance provider for 2011 (see graph 7); 118 firms chose the maximum $9 million limit option.

To date we have seen solid results in the 2012 program. The number of firms insured under the LawPRO Excess program for 2012 has decreased slightly to 1,460, representing 3,719 lawyers. Of 39 new firms opting to buy excess coverage from LawPRO for 2012, 80 per cent did not already carry excess coverage. The Company's retention rate on excess business was 97 per cent for the third 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, 20 per cent of lawyers employed in firms of 50 or fewer lawyers.

As of December 31, 2011, the Company had not paid any indemnity amount under its Excess program, a reflection of LawPRO's ability to generally manage costs within the insurance program's primary limits. However, we have made provisions for a number of Excess program claims files and in early 2012 paid out on one such file. Prudent underwriting and solid claims management have helped ensure that our Excess program is a profitable line of business for LawPRO.

Graph 7 – LawPRO Excess Insurance Program*



* As of February 29, 2012

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 2011 compared to 2010. However, there was an increase in policy sales in the second half of 2011.

Our subscriber base at December 31, 2011, remained solid at more than 4,700 lawyers and Quebec notaries, with new applications continuing to be received, and the Company issuing TitlePLUS policies for about 700 lenders across Canada. These results indicate that our vision of real estate practice

resonates with legal professionals and the lending community: 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.

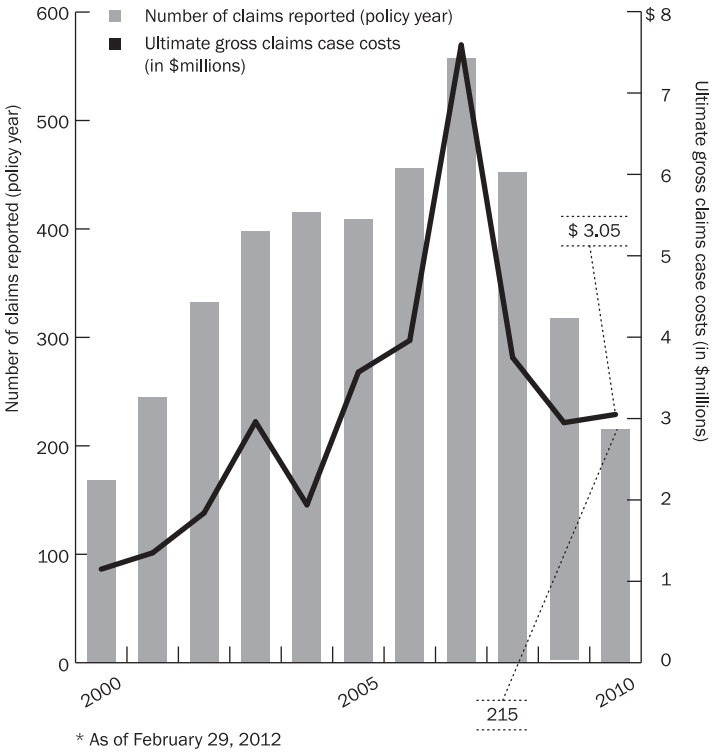
TitlePLUS claims

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: approximately 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 $4,800 (based on claims closed as of December 31, 2011).

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 41 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 977 building compliance-related claims, costing a total of $15.0 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, 47 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.

Graph 8 – TitlePLUS claims*



* As of February 29, 2012

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 International Financial Reporting Standards. 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 22, 2012

Kathleen A. Waters
President & CEO

Steven W. Jorgensen
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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

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

To the Shareholder of Lawyers' Professional Indemnity Company

We have audited the accompanying financial statements of Lawyers' Professional Indemnity Company, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 International Financial Reporting Standards, 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 audits. We conducted our audits 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 in our audits 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, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
February 22, 2012

Eckler

I have valued the policy liabilities of Lawyers' Professional Indemnity Company for its statement of financial position as at December 31, 2011, 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 22, 2012

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

STATEMENTS OF FINANCIAL POSITION

Stated in thousands of Canadian dollars

As at	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Cash and cash equivalents	$ 16,936	16,851	12,471
Investments (note 5)	500,674	475,380	434,963
Investment income due and accrued	3,159	2,216	2,296
Due from reinsurers	2,179	2,158	4,182
Due from insureds	1,570	1,427	2,194
Due from the Law Society of Upper Canada (note 11)	1,118	4,107	19,124
Reinsurers' share of provision for unpaid claims and adjustment expenses (note 8)	43,089	40,375	45,485
Other receivables	864	609	644
Other assets	1,933	1,276	1,593
Property and equipment (note 7)	2,716	3,084	3,373
Income taxes recoverable	2,528	-	-
Deferred income tax asset (note 13)	3,792	3,506	3,361
Total assets	**$ 580,558**	**550,989**	**529,686**
Liabilities			
Provision for unpaid claims and adjustment expenses (note 8)	408,666	381,606	383,855
Unearned premiums	663	570	693
Due to reinsurers	690	1,187	568
Due to insureds	263	302	260
Expenses due and accrued	1,968	1,587	1,963
Income taxes due and accrued	-	5,770	7
Other taxes due and accrued	432	660	1,273
	$ 412,682	**391,682**	**388,619**
Equity			
Capital stock (note 16)	5,000	5,000	5,000
Contributed surplus (note 16)	30,645	30,645	30,645
Retained earnings	125,859	117,153	101,940
Accumulated other comprehensive income	6,372	6,509	3,482
	167,876	159,307	141,067
Total liabilities and equity	**$ 580,558**	**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

Stated in thousands of Canadian dollars

STATEMENTS OF INCOME

For the year ended December 31	2011	2010
Revenue		
Gross written premiums	$ 115,729	106,673
Reinsurers' share of written premiums	(5,945)	(6,358)
Net written premiums	109,784	100,315
(Increase) decrease in unearned premiums	(93)	123
Net premiums earned	**109,691**	**100,438**
Net investment income (note 5)	21,899	19,254
Ceded commissions	2,449	1,704
	$ 134,039	**121,396**
Expenses		
Gross claims and adjustment expenses (note 8)	105,020	76,614
Reinsurers' share of claims and adjustment expenses	(4,031)	3,262
Net claims and adjustment expenses	100,989	79,876
Operating expenses (note 14)	17,461	16,240
Premium taxes	3,473	3,205
	121,923	**99,321**
Income before income taxes	**$ 12,116**	**22,075**
Income tax expense (recovery) (note 13)		
Current	3,616	6,917
Deferred	(206)	(55)
	3,410	6,862
Net income	**$ 8,706**	**15,213**

Accompanying notes are an integral part of the financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

Stated in thousands of Canadian dollars

For the year ended December 31	2011	2010
Net income	**$ 8,706**	**15,213**
Other comprehensive income, net of income tax:		
Net changes in unrealized gains (losses) on available-for-sale financial assets, net of income tax expense (recovery) of ($576) [2010: $1,797]	(1,467)	4,000
Reclassification adjustment for (gains) losses included in net income, net of income tax (expense) recovery of ($247) [2010: ($437)]	(626)	(973)
Reclassification adjustment for impairments on available-for-sale assets, included in net income, net of income tax recovery of $770 [2010: $0] (note 5)	1,956	-
Other comprehensive income	**(137)**	**3,027**
Comprehensive income	**$ 8,569**	**18,240**

Accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

Stated in thousands of Canadian dollars

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Equity
Balance at January 1, 2010	**$ 5,000**	**30,645**	**101,940**	**3,482**	**141,067**
Total comprehensive income for the year	-	-	15,213	3,027	18,240
Balance at December 31, 2010	**5,000**	**30,645**	**117,153**	**6,509**	**159,307**
Total comprehensive income for the year	-	-	8,706	(137)	8,569
Balance at December 31, 2011	**$ 5,000**	**30,645**	**125,859**	**6,372**	**167,876**

The aggregate of retained earnings and accumulated other comprehensive income as at December 31, 2011, is $132,231 (December 31, 2010: $123,662).

Accompanying notes are an integral part of the financial statements.

Stated in thousands of Canadian dollars

STATEMENTS OF CASH FLOWS

For the year ended December 31	2011	2010
Operating Activities		
Net income	$ 8,706	15,213
Items not affecting cash:		
Deferred income taxes	(206)	(55)
Amortization of property and equipment	753	764
Realized (gains) losses	1,096	(1,383)
Amortization of premiums and discounts on bonds	(2,213)	(567)
Changes in unrealized (gains) losses	(6,002)	(1,356)
	2,134	12,616
Changes in non-cash working capital balances:		
Investment income due and accrued	(943)	80
Due from reinsurers	(518)	2,643
Due from insureds	(182)	809
Due from the Law Society of Upper Canada	2,989	15,017
Reinsurers' share of provision for unpaid claims and adjustment expenses	(2,714)	5,110
Other receivables	(255)	35
Other assets	(657)	317
Income taxes due and accrued (recoverable)	(8,326)	4,314
Provision for unpaid claims and adjustment expenses	27,060	(2,249)
Unearned premiums	93	(123)
Expenses due and accrued	381	(376)
Other taxes due and accrued	(228)	(613)
Net cash inflow from operating activities	**$ 18,834**	**37,580**
Investing Activities		
Purchases of property and equipment	(385)	(475)
Purchases of investments	(241,357)	(237,784)
Proceeds from sales and maturities of investments	222,993	205,059
Net cash outflow from investing activities	**$ (18,749)**	**(33,200)**
Net change in cash and cash equivalents during the year	85	4,380
Cash and cash equivalents, beginning of year	16,851	12,471
Cash and cash equivalents, end of year	**$ 16,936**	**16,851**
Cash and cash equivalents at end of year consists of:		
Cash	10,094	6,203
Cash equivalents	6,842	10,648
	$ 16,936	**16,851**
Supplemental disclosure of cash flow information:		
Income taxes paid	12,057	3,396
Interest received	12,627	15,454
Dividends received	2,114	1,213

Accompanying notes are an integral part of the financial statements.

1. Nature of Operations

Lawyers' Professional Indemnity Company (the "Company") is an insurance company, incorporated on March 14, 1990, under the *Corporations Act* (Ontario) and licensed to provide lawyers professional liability insurance in Ontario and title insurance in all provinces and territories in Canada. The Company is a wholly-owned subsidiary of the Law Society of Upper Canada (the "Law Society"), which is the governing body for lawyers in Ontario. The Company's registered office is located at 250 Yonge Street, Toronto, Ontario, Canada.

These financial statements were approved by the Company's Board of Directors on February 22, 2012.

2. Basis of Preparation and Significant Accounting Policies

These financial statements have been prepared under the *Insurance Act* (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 as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to issue financial reports based on such standards effective for fiscal periods beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in its March 31, 2011, regulatory filings. These financial statements represent the first annual financial statements of the Company prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"). In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These financial statements have been prepared in accordance with final accounting standards issued and effective on or before December 31, 2011. The Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010, and throughout all periods presented, as if these policies had always been in effect. Note 3 provides details of the transition from Canadian GAAP to IFRS.

The significant accounting policies used in the preparation of these financial statements are summarized below. These accounting policies conform, in all material respects, to IFRS.

Basis of measurement

The financial statements have been prepared under the historical cost accounting convention, except for the revaluation of certain financial instruments to fair value, including cash and cash equivalents and investments.

Use of estimates and judgments made by management

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the reporting period in which they are determined. Key estimates are discussed in the following accounting policies and applicable notes.

Key areas where management has made difficult, complex or subjective judgments in the process of applying the Company's accounting policies, often as a result of matters that are inherently uncertain, include: investment impairment; valuation techniques for fair value measurements of investments; the provision for unpaid claims and adjustment expenses; employee future benefit obligations; and income taxes. For additional information on these judgments, see the following notes:

Impairment	Note 5
Fair value measurements	Note 6
Unpaid claims and adjustment expenses	Note 8
Employee future benefits	Note 12
Income taxes	Note 13

Financial instruments – recognition and measurement

Financial assets are classified as fair value through profit and loss ("FVTPL"), available-for-sale, held to maturity or loans and receivables. Financial liabilities are classified as FVTPL 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, a company has the ability to designate any financial instrument irrevocably, on initial recognition or adoption of the standards, as FVTPL provided certain criteria are met.

The Company's financial assets and liabilities are measured on the statement of financial position 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 where available on quoted market prices in active markets using bid prices for financial assets and ask prices for financial liabilities, and where needed on valuations utilizing market inputs (see note 6).

Transaction costs for FVTPL investments are expensed in the current period, and for all other categories of investments are capitalized and, when applicable, amortized over the expected life of the investment. The Company accounts for the purchase and sale of securities using trade date accounting. Realized gains or losses on disposition are determined on an average cost basis. The effective interest method is used to calculate amortization/accretion of premiums or discounts on fixed income securities.

Financial assets at fair value through profit and loss

Financial assets at FVTPL are measured at fair value in the statement of financial position, 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 an investment portfolio, referred to as the cash-flow matched portfolio, which is designated as FVTPL. This portfolio is invested with the primary objective of matching the cash inflows from fixed income investment securities with 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 FVTPL 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 a significant portion of these changes.

Cash and cash equivalents are also classified as FVTPL. Cash and cash equivalents consist of cash on deposit and short-term investments that mature in three months or less from the date of acquisition. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset.

Available-for-sale financial assets

Financial assets classified as available-for-sale are measured at fair value in the statement of financial position. Interest income, including amortization of premiums and the accretion of discounts, are recorded in investment income in the statement of income. Dividend income on common and preferred shares is included in investment income on the ex-dividend date. Changes in fair value of available-for-sale fixed income securities resulting from changes to foreign exchange rates are recognized in investment income as incurred. Changes in the fair value of available-for-sale fixed income securities related to the underlying investment in its issued currency, as well as all elements of fair value changes of available-for-sale equity securities, are recorded to unrealized gains and losses in accumulated other comprehensive income ("AOCI") until disposition or impairment is recognized, at which time the cumulative gain or loss is reclassified to investment income in the statement of income. When a reliable estimate of fair value cannot be determined for equity securities that do not have quoted market prices in an active market, the security is valued 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 equities includes a significant or prolonged decline in fair value of the equity 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 indicates the cost of the security may not be recovered.

Where there is objective evidence that an available-for-sale asset is impaired, the loss accumulated in AOCI is reclassified to net investment income. Once an impairment loss is recorded to income, the loss can only be reversed into income 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, further decreases in fair value are recorded as an impairment loss to the income statement, while a subsequent recovery in fair value for equity securities, and fixed income securities that do not qualify for loss reversal treatment, are recorded to other comprehensive income ("OCI"). Interest continues to be accrued, but at the effective rate of interest based on the fair value at impairment, and dividends of equity securities are recognized in income when the Company's right to receive payment has been established.

Foreign currency translation

The Canadian dollar is the functional and presentation currency of the Company. Transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Monetary assets and liabilities are translated at current rates of exchange, with all translation differences recognized in investment income in the current period. Non-monetary assets and liabilities are translated at the date the fair value is determined, with the translation differences recognized in AOCI until disposition or impairment of the underlying asset or liability.

Premium-related balances

The Company issues two types of professional liability policies: a primary lawyers' errors and omissions ("E&O") policy and an excess policy increasing the 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 primary policy; and a title insurance policy. Insurance policies written 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, which is generally one year, except for policies for retired lawyers, which have terms of up to five years. Title insurance premiums are earned at the inception date of the policies.

Unearned premiums reported on the statement of financial position represent the portion of premiums written that relate to the unexpired risk portion of the policy at the end of the reporting period.

Premiums receivable are recorded in the statement of financial position as amounts due from insureds, 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 statement of financial position.

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 statement of financial position.

Unpaid claims and adjustment expenses

The provision for unpaid claims and adjustment expenses includes an estimate of the cost of projected final settlements of insurance claims incurred on or before the date of the statement of financial position, consisting of case estimates prepared by claims adjusters and a provision for incurred but not reported claims ("IBNR") calculated based on accepted actuarial practice in Canada as required by the Canadian Institute of Actuaries ("CIA"). These estimates include the full amount of all expected expenses, including related investigation, settlement and adjustment expenses, net of any anticipated salvage and subrogation recoveries. The professional liability insurance policy requires insureds to pay deductibles to the maximum extent of $25,000 on each individual claim. 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.

The provision takes into consideration the time value of money using discount rates based on the estimated market value based yield to maturity of the underlying assets backing these liabilities, with reductions for estimated investment-related expense and credit risk. A provision for adverse deviations ("PfAD") is then added to the discounted liabilities, to allow for possible deterioration of experience in claims development, recoverability of reinsurance balances and investment risk, in order to generate the actuarial present value.

These estimates of future claims payments and adjustment expenses are subject to uncertainty and are selected from a wide range of possible outcomes. All provisions are periodically reviewed and evaluated in light of emerging claims experience and changing circumstances. The resulting changes in estimates of the ultimate liability are reported as net claims and adjustment expenses in the reporting period in which they are determined.

Reinsurance

In the normal course of business, the Company enters into per claim and excess of loss reinsurance contracts with other insurers in order to limit its net exposure to significant losses. Amounts relating to reinsurance in respect of the premiums and claims-related balances in the statements of financial position and income are recorded separately. Premiums ceded to reinsurers are presented before deduction of broker commission and any premium-based taxes or duty. 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. Amounts recoverable from reinsurers are assessed for indicators of impairment at the end of each reporting period. An impairment loss is recognized and the amount recoverable from reinsurers is reduced by the amount by which the carrying value exceeds the expected recoverable amount under the impairment analysis.

Ceding commissions, which relate to amounts received from the Company's reinsurers on the placement of its reinsurance contracts, is earned into income on a *pro rata* basis over the contract period.

Property and equipment

Property and equipment are recorded in the statement of financial position at cost less accumulated amortization. Amortization is charged to operating expense on a straight-line basis over the estimated useful lives of the assets as follows:

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

Property and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount.

Income taxes

Income tax expense is recognized in the statement of income and the statement of comprehensive income. Current tax is based on taxable income which differs from net income as reported in the statement of income and statement of comprehensive income because of items

of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Current tax includes any adjustments in respect of prior years.

Deferred tax assets are generally recognized for all deductible temporary income tax differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets and liabilities are determined based on the enacted or substantively enacted tax laws and rates that are anticipated to apply in the period of realization. The measurement of deferred tax assets and liabilities utilizes the liability method, reflecting the tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of the related assets and liabilities. The carrying amount of the deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Income tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and there is a legally enforceable right to offset current tax assets with current tax liabilities.

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 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 management's assumptions about discount rates, expected assets performance, salary growth and retirement ages of employees. The discount rate is determined based on the market yields of high-quality, long-duration corporate fixed income securities.

Defined contribution plan expenses are recognized in the reporting period in which services are rendered. Adjustments for supplemental defined benefit pension plan amendments are recognized fully in income in the year to which they relate, while 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.

3. Adoption of International Financial Reporting Standards

The adoption of IFRS involved a full retrospective application of these accounting standards to all historical transactions prior to the first date on which IFRS was applied, which was January 1, 2010 ("transition date"), subject to possible elected exemptions and mandatory exemptions contained in IFRS 1 "*First-Time Adoption of International Financial Reporting Standards.*"

Exemptions from full retrospective application of IFRS

In preparing these financial statements, the Company did not elect to apply any optional exemptions as permitted by IFRS 1, but has applied, as required by IFRS 1, certain mandatory exemptions from full retrospective application of IFRS, as follows:

(a) Estimates

Hindsight was not used to create or revise estimates. Except where necessary to reflect any different accounting policies, estimates previously made by the Company at the transition date in accordance with Canadian GAAP are consistent with their application in accordance with IFRS at the transition date.

(b) Derecognition of financial assets and financial liabilities

Non-derivative financial assets and non-derivative financial liabilities that were derecognized before January 1, 2004, under Canadian GAAP were not recognized at the transition date.

Impact of transition of the financial statements

The transition from Canadian GAAP to IFRS did not result in any adjustments to amounts previously reported in equity, comprehensive income and cash flows. As such, no reconciliation of equity and comprehensive income is presented.

4. Future Accounting and Reporting Changes

(a) Amendments to IAS 1 "*Presentation of Financial Statements*"

An amendment to IAS 1 was issued in June 2011 requiring changes to the presentation of items of OCI. Under the amendments, presentation of items within OCI will be separately presented based on whether or not the item will be subsequently reclassified into income. The amendments are effective for the Company for annual periods beginning on or after January 1, 2013. The Company does not expect the adoption of these amendments to have a significant impact on its financial statements.

(b) Amendments to IFRS 7 "*Financial Instruments: Disclosures*"

The amendments, IFRS 7 "*Disclosures – Transfer of Financial Assets,*" issued in October 2010, increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing involvement in the asset. The amendments also require disclosures where transfers of financial assets do not occur evenly throughout the period. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company does not expect that the adoption of these amendments will have a significant impact on its financial statements.

(c) IFRS 9 "*Financial Instruments*"

IFRS 9 "*Financial Instruments*" issued in November 2009 and amended in October 2010 is the first phase of a three-phase project to replace IAS 39 "*Financial Instruments: Recognition and Measurement*". As currently drafted, IFRS 9 provides that financial assets are measured at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. For investments measured at fair value, subject to a company making an irrevocable election for equity securities upon initial recognition to have changes in fair value flow through OCI until disposition ("FVTOCI election"), all changes in fair value will be recognized in income as incurred. The classification and measurement for financial liabilities remains generally unchanged, but revisions have been made in the accounting for changes in fair value of a financial liability attributable to changes in the credit risk of that liability. The other phases of this project which are currently under development include impairment and hedge accounting. IFRS 9 is currently effective for annual periods beginning on or after January 1, 2015.

The Company is assessing the full impact of IFRS 9 on its financial statements in conjunction with the completion of the other phases of this project. As the standard is currently written, subject to making the FVTOCI election, the Company expects upon adoption that its available-for-sale fixed income securities will be measured at amortized cost with the net unrealized gains/losses removed from both the asset and equity balances in the statement of financial position until either disposition or impairment occurs, and its available-for-sale equity securities to become classified as FVTPL, with changes in unrealized gains/losses recognized in the statement of income as incurred. At December 31, 2011, the Company's available-for-sale fixed income and equity investments had after-tax net unrealized gains of $4,157,716 and $2,214,607, respectively, which if persisted at the date of adoption would be immediately reallocated as described above.

(d) IFRS 13 "*Fair Value Measurement*"

IFRS 13 "*Fair Value Measurement*" was issued in May 2011 and replaces existing IFRS guidance on fair value measurement with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of IFRS 13 on its financial statements.

(e) Amendments to IAS 19 "*Employee Benefits*"

The amendments to IAS 19 "*Employee Benefits*" were issued in June 2011. The amendments require the full funded status of the plan to be reflected in the statement of financial position for the immediate recognition of actuarial gains and losses in other comprehensive income. Past service costs will be recognized when a plan is amended with no deferral over the vesting period. The net benefit cost for defined benefit plans will be disaggregated into service cost and finance cost components in the statement of income. Finance cost will be calculated using interest rates based on high-quality corporate bond yields. Further, these amendments include enhanced disclosures about the characteristics of defined benefit plans and the risks to which the entity is exposed through participation in those plans. The amendments to IAS 19 are effective for fiscal years beginning on or after January 1, 2013.

At December 31, 2011, the unamortized net actuarial loss for the Company's defined benefit pension was $817,651, which if persisted at the date of adoption would be reflected in equity upon adoption.

5. Investments

a) Summary

The tables below provide details of the amortized cost and fair value of the Company's investments, classified by accounting category and investment type:

	December 31, 2011				December 31, 2010				January 1, 2010			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses and impairments	Fair value	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses and impairments	Fair value	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses and impairments	Fair value
Available-for-sale												
Fixed income securities	$ 96,266	5,996	(67)	102,195	82,997	2,859	(18)	85,838	68,201	1,740	(370)	69,571
Common equities	58,150	7,938	(7,421)	58,667	46,368	7,865	(1,414)	52,819	32,093	4,504	(947)	35,650
Preferred equities	-	-	-	-	125	69	-	194	125	48	-	173
	$ 154,416	13,934	(7,488)	160,862	129,490	10,793	(1,432)	138,851	100,149	6,292	(1,317)	105,394
Designed as FVTPL												
Fixed income securities	323,427	16,154	(278)	339,303	326,146	10,400	(587)	335,959	320,542	9,351	(780)	329,113
Preferred equities	615	-	(106)	509	615	-	(45)	570	615	-	(159)	456
	324,042	16,154	(384)	339,812	326,761	10,400	(632)	336,529	321,157	9,351	(939)	329,569
Total	**$ 478,458**	**30,088**	**(7,872)**	**500,674**	**456,251**	**21,193**	**(2,064)**	**475,380**	**421,576**	**15,643**	**(2,256)**	**434,963**
Reconciled in aggregate to asset classes as follows:												
Fixed income securities	419,693	22,150	(345)	441,498	409,143	13,259	(605)	421,797	388,743	11,091	(1,150)	398,684
Equities	58,765	7,938	(7,527)	59,176	47,108	7,934	(1,459)	53,583	32,833	4,552	(1,106)	36,279
Total	**$ 478,458**	**30,088**	**(7,872)**	**500,674**	**456,251**	**21,193**	**(2,064)**	**475,380**	**421,576**	**15,643**	**(2,256)**	**434,963**

"Gross unrealized losses and impairments" in the above table includes an amount of $2,725,787 (December 31, 2010: $nil; January 1, 2010: $nil) relating to impairment of certain common equity securities. For greater details, see note 5c.

b) Maturity profile of fixed income securities

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

	December 31, 2011				December 31, 2010				January 1, 2010			
	Within 1 year	1 to 5 years	Over 5 years	Total	Within 1 year	1 to 5 years	Over 5 years	Total	Within 1 year	1 to 5 years	Over 5 years	Total
Available-for-sale												
Issued or guaranteed by:												
Canadian federal government	$ 4,966	13,904	1,986	20,856	15,100	11,793	1,723	28,616	150	23,862	1,494	25,506
Canadian provincial and municipal government	848	39,371	19,806	60,025	966	20,389	17,812	39,167	120	11,075	10,720	21,915
Mortgage backed securities	-	776	1,756	2,532	-	858	2,245	3,103	-	285	3,252	3,537
Corporate debt	773	3,969	14,040	18,782	1,758	1,509	11,685	14,952	894	3,306	14,413	18,613
	$ 6,587	58,020	37,588	102,195	17,824	34,549	33,465	85,838	1,164	38,528	29,879	69,571
Designated as FVTPL												
Issued or guaranteed by:												
Canadian federal government	47,525	35,389	-	82,914	25,718	72,802	-	98,520	42,065	63,277	11,075	116,417
Canadian provincial and municipal government	2,749	54,223	39,794	96,766	2,388	47,552	45,577	95,517	7,193	36,839	38,896	82,928
Mortgage backed securities	873	6,683	5,787	13,343	-	5,904	2,815	8,719	-	1,165	1,275	2,440
Corporate debt	17,795	60,046	68,439	146,280	30,494	38,091	64,618	133,203	29,771	63,938	33,619	127,328
	68,942	156,341	114,020	339,303	58,600	164,349	113,010	335,959	79,029	165,219	84,865	329,113
Fixed income securities	**$ 75,529**	**214,361**	**151,608**	**441,498**	**76,424**	**198,898**	**146,475**	**421,797**	**80,193**	**203,747**	**114,744**	**398,684**
Percent of total	17%	49%	34%	100%	18%	47%	35%	100%	20%	51%	29%	100%

The weighted average duration of fixed income securities at December 31, 2011, is 3.11 years (December 31, 2010: 3.58 years, January 1, 2010: 3.52 years). The effective yield on fixed income securities as at December 31, 2011, is 2.79% (December 31, 2010: 3.22%, January 1, 2010: 3.67%).

c) Impairment analysis

Management performs a quarterly analysis of the Company's available-for-sale investments to determine whether there is objective evidence that the estimated cash flows of the investments have been affected. The analysis includes the following procedures as deemed appropriate by management:

- identifying all security holdings in unrealized loss positions that have existed for a length of time that management believes may impact the recoverability of the investment;
- identifying all security holdings in unrealized loss positions that have an unrealized loss magnitude that management believes may impact the recoverability of the investment;
- reviewing the trading range of certain investments over the preceding calendar period;
- assessing whether any credit losses are expected for those investments. This assessment includes consideration of, among other things, all available information and factors having a bearing upon collectability such as changes to credit rating by rating agencies, financial condition of the issuer, expected cash flows and value of any underlying collateral;
- assessing whether declines in fair value for any fixed income securities represent objective evidence of impairment based on their investment grade credit ratings from third party security rating agencies;
- assessing whether declines in fair value for any fixed income securities with non-investment grade credit rating represent objective evidence of impairment based on the history of its debt service record; and
- obtaining a valuation analysis from third party investment managers regarding the intrinsic value of these holdings based on their knowledge, experience and other market based valuation techniques.

As a result of the impairment analysis performed by management, $2,725,787 in write-downs to various equity securities were required for the year ended December 31, 2011 (2010: $nil).

The movements in cumulative impairment write-downs on available-for-sale investments for the years ended December 31 were as follows:

	2011	2010
Balance, as at January 1	-	-
Increase for the year charged to the income statement	$ 2,726	-
Write back following sale or reimbursement	-	-
Balance, as at December 31	**$ 2,726**	-

d) Net investment income

Investment income arising from investments designated as FVTPL and classified as available-for-sale recorded in net income for the year ended December 31 is as follows:

	2011			2010		
	Designated as FVTPL	Available-for-sale	Total	Designated as FVTPL	Available-for-sale	Total
Interest	$ 12,635	3,062	15,697	13,092	2,775	15,867
Dividends	26	2,174	2,200	27	1,260	1,287
Net realized gains (losses)	767	863	1,630	(27)	1,410	1,383
Change in net unrealized gains (losses)	6,002	1	6,003	1,356	-	1,356
Impairments	-	(2,726)	(2,726)	-	-	-
	19,430	3,374	22,804	14,448	5,445	19,893
Less: Investment expenses	(364)	(541)	(905)	(348)	(291)	(639)
Net investment income	**$ 19,066**	**2,833**	**21,899**	**14,100**	**5,154**	**19,254**

e) 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 recorded in OCI for the year ended December 31 are as follows:

	2011						2010					
	Net realized gains (losses)			Increase (decrease) in unrealized gains and losses			Net realized gains (losses)			Increase (decrease) in unrealized gains and losses		
	Gross	Tax	Net	Gross	Tax	Net	Gross	Tax	Net	Gross	Tax	Net
Fixed income securities	$ 60	(17)	43	3,088	(873)	2,215	654	(203)	451	1,471	(455)	1,016
Equities	813	(230)	583	(3,278)	926	(2,352)	756	(234)	522	2,915	(904)	2,011
Total	**$ 873**	**(247)**	**626**	**(190)**	**53**	**(137)**	**1,410**	**(437)**	**973**	**4,386**	**(1,359)**	**3,027**

6. Fair Value Measurements

The Company is responsible for determining the fair value of its financial assets and liabilities carried at fair value. The Company considers fair value to represent the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The valuation process includes utilizing market-driven fair value measurements from active markets where available, considering other observable and unobservable inputs and employing valuation techniques which make use of current market data. Considerable judgement may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented in these financial statements are not necessarily indicative of the amounts that would be realized in a current market exchange.

The Company utilizes a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value, which prioritizes these inputs into three broad levels. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is 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 are:

Level 1 **– Quoted market prices in active markets**
Inputs to Level 1, the highest level of the hierarchy, reflect fair values that are quoted prices (unadjusted) in active markets for identical assets and liabilities. An active market is considered to be one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 assets and liabilities include debt and equity securities, quoted unit trusts 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 **– Modelled with significant observable market inputs**
Inputs to Level 2 fair values are inputs, other than quoted prices within Level 1 prices, that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 inputs include: quoted prices for similar (i.e. not identical) assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly; inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment spreads, loss severities, credit risks, and default rates); and inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market corroborated inputs). Valuations incorporate credit risk by adjusting the spread above the yield curve for government treasury securities for the appropriate amount of credit risk for each issuer, based on observed market transactions. To the extent observed market spreads are either not used in valuing a security, or do not fully reflect liquidity risk, the valuation methodology reflects a liquidity premium. Examples of these are securities measured using discounted cash flow models based on market observable swap yields, and listed debt or equity securities in a market that is inactive. This category generally includes government and agency mortgage-backed debt securities and corporate debt securities.

Level 3 **– Modelled with significant unobservable market inputs.**
Inputs to Level 3 are unobservable, supported by little or no market activity, and are significant to the fair value of the assets or liabilities. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions the business unit considers that market participants would use in pricing the asset or liability. Examples are certain private equity investments and private placements. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible. Level 3 assets and liabilities generally include certain private equity investments, certain asset-backed securities, highly structured, complex or long-dated derivative contracts, and certain collateralized debt obligations 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 assets that have been measured at fair value on a recurring basis. The items presented below include related accrued interest or dividends, as appropriate.

	December 31, 2011				December 31, 2010				January 1, 2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash & cash equivalents	$ 16,936	-	-	16,936	16,851	-	-	16,851	12,471	-	-	12,471
Investment – available-for-sale												
Fixed income securities	73,964	28,816	-	102,780	62,289	24,183	-	86,472	43,880	26,302	-	70,182
Common equities	58,940	-	-	58,940	53,006	-	-	53,006	35,762	-	-	35,762
Preferred equities	-	-	-	-	-	194	-	194	-	173	-	173
	132,904	28,816	-	161,720	115,295	24,377	-	139,672	79,642	26,475	-	106,117
Investment – designated as FVTPL												
Fixed income securities	179,955	161,643	-	341,598	194,396	142,951	-	337,347	201,533	129,146	-	330,679
Preferred equities	-	515	-	515	-	577	-	577	-	463	-	463
	179,955	162,158	-	342,113	194,396	143,528	-	337,924	201,533	129,609	-	331,142
Total	**$ 329,795**	**190,974**	**-**	**520,769**	**326,542**	**167,905**	**-**	**494,447**	**293,646**	**156,084**	**-**	**449,730**

There were no transfers between any levels during the year.

7. Property and Equipment

During the years ending December 31, details of the movement in the carrying values by class of property and equipment are as follows:

	Furniture and fixtures	Computer equipment	Computer software	Leasehold improvements	Total
January 1, 2010:	$ 815	188	65	2,305	3,373
Additions	3	321	9	142	475
Amortization	(265)	(173)	(43)	(283)	(764)
December 31, 2010:	553	336	31	2,164	3,084
Additions	4	170	200	11	385
Amortization	(265)	(162)	(34)	(292)	(753)
December 31, 2011	292	344	197	1,883	2,716

Details of the cost and accumulated amortization of property and equipment are as follows:

	December 31, 2011			December 31, 2010			January 1, 2010		
	Cost	Accumulated amortization	Carrying value	Cost	Accumulated amortization	Carrying value	Cost	Accumulated amortization	Carrying value
Furniture and fixtures	$ 1,328	(1,036)	292	1,324	(771)	553	1,321	(506)	815
Computer equipment	1,513	(1,169)	344	1,343	(1,007)	336	1,023	(835)	188
Computer software	473	(276)	197	273	(242)	31	264	(199)	65
Leasehold improvements	2,932	(1,049)	1,883	2,921	(757)	2,164	2,778	(473)	2,305
Total	**$ 6,246**	**(3,530)**	**2,716**	**5,861**	**(2,777)**	**3,084**	**5,386**	**(2,013)**	**3,373**

8. Provision for Unpaid Claims and Adjustment Expenses

a) Nature of unpaid claims and adjustments 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. These factors include the Company's own experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims and adjustment expenses, product mix and concentration, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claim departments' personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, investment rates of return, court decisions and economic conditions. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the settlement of the claims, the more potential for variation in the ultimate settlement amount. Accordingly, short-tailed claims, such as property claims, tend to be more reasonably predictable than long-tailed claims, such as professional liability and title claims.

The process of establishing the provision relies on the judgment and opinions of a large number of individuals, on historical precedents and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The provision reflects expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, together with a review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors.

Consequently, the measurement of the ultimate settlement costs of claims 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, significant changes in severity or frequency of claims from historical trends, and inclusion of exposures not contemplated at the time of policy inception. 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.

b) Methodologies and assumptions

The best estimates of future claims payments and adjustment expenses are determined based on one or more of the following actuarial methods: the Adler-Kline method, the chain ladder method, the frequency and severity method and the expected loss ratio method. Considerations in the choice of methods to estimate ultimate claims include, among other factors, the line of business, the number of years experience and the relative maturity of the experience, and, as such, reflect methods for lines of business with long settlement patterns and which are subject to the occurrence of large claims.

Each method involves tracking claims data by "policy year," which is the year in which such claims are made for the Company's professional liability policies, and the year in which such policies were written for its title policies. Claims paid and reported, gross and net of reinsurance recoveries and net of salvage and subrogation, are tracked by lines of business, policy years and development periods in a format known as claims development triangles.

A description of each of these methods is as follows:

i. Adler-Kline method

This is a form of frequency and severity method which involves estimation of the closing pattern for current open and estimated unreported claims, which is combined with estimates of the average severity across successive intervals of percentage claims closed, based on consideration of historical claim settlement patterns and average amounts paid on closed claims.

ii. Chain ladder method

The distinguishing characteristic of this form of development method is that ultimate claims for each policy year are projected from recorded values assuming the future claim development is similar to the prior years' development.

iii. Frequency and severity method

This method assumes that, for each identified homogenous claims type group, claims count reported to date will develop to ultimate in a similar manner to historical patterns and settle at predictable average severity amounts. This method involves applying the developed estimated ultimate claims count to selected estimated ultimate average claim severities.

iv. Expected loss ratio method

Using the expected loss ratio method, ultimate claims projections are based upon *a priori* measures of the anticipated claims. An expected loss ratio is applied to the measure of exposure to determine estimated ultimate claims for each year. This method is commonly used in lines of business with a limited experience history.

Claims data includes external claims adjustment expenses, and for a portion of the portfolio includes internal claims adjustment expenses ("IAE"). A provision for IAE has been determined based on the Mango-Allen claim staffing technique, a transaction-based method which utilizes expected future claims handler workload per claim per handler, claims closure rates and ultimate claims count. The IAE provision is included in the IBNR balances.

The provision for unpaid claims and adjustment expenses is discounted using an interest rate based on the estimated market value based yield to maturity, inherent credit risk and related investment expense of the Company's fixed income securities supporting the provision for unpaid claims and adjustment expense as at December 31, 2011, which was 2.54% (December 31, 2010: 3.37%; January 1, 2010: 3.46%). Reinsurance recoverable estimates and claims recoverable from other insurers are discounted in a manner consistent with the method used to establish the related liability. Based on published guidance from the CIA, as at December 31, 2011, the PfAD was calculated at 11% (December 31, 2010: 11%; January 1, 2010: 9%) of the net discounted claim liabilities, 1.5% (December 31, 2010: 1.5%; January 1, 2010: 1.5%) of the ceded discounted claim liabilities, and a 0.50% reduction to the discount rate (December 31, 2010: 0.50%; January 1, 2010: 0.50%).

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.

The following table shows unpaid claims and adjustment expenses on an undiscounted basis and a discounted basis:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Undiscounted	Discounted	Undiscounted	Discounted	Undiscounted	Discounted
Unpaid claims and adjustment expenses	$ 394,129	408,666	378,164	381,606	393,166	383,855
Recoverable from reinsurers	(42,089)	(43,089)	(40,311)	(40,375)	(46,669)	(45,485)
Net	**$ 352,040**	**365,577**	**337,853**	**341,231**	**346,497**	**338,370**

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

	December 31, 2011			December 31, 2010			January 1, 2010		
	Gross	Ceded	Net	Gross	Ceded	Net	Gross	Ceded	Net
Professional Liability	$ 394,675	(42,940)	351,735	367,672	(40,153)	327,519	370,026	(45,270)	324,756
Title	13,991	(149)	13,842	13,934	(222)	13,712	13,829	(215)	13,614
Total	**$ 408,666**	**(43,089)**	**365,577**	**381,606**	**(40,375)**	**341,231**	**383,855**	**(45,485)**	**338,370**

The provision for unpaid claims and adjustments expenses by case reserves and IBNR are as follows:

	December 31, 2011			December 31, 2010			January 1, 2010		
	Gross	Ceded	Net	Gross	Ceded	Net	Gross	Ceded	Net
Case reserves	$ 245,606	(9,234)	236,372	233,940	(9,700)	224,240	225,488	(11,745)	213,743
IBNR	163,060	(33,855)	129,205	147,666	(30,675)	116,991	158,367	(33,740)	124,627
Total	**$ 408,666**	**(43,089)**	**365,577**	**381,606**	**(40,375)**	**341,231**	**383,855**	**(45,485)**	**338,370**

An evaluation of the adequacy of claims liabilities is completed at the end of each financial quarter. This evaluation includes a re-estimation of the liability for unpaid claims and adjustment expenses compared to the liability that was originally established. As adjustments to estimated claims liabilities become necessary, they are reflected in current operations.

c) Changes in basis of selection of assumptions

Based on the Company's actuarial valuation process, at each valuation the Company's claims data is analyzed to determine whether the current basis of selection of actuarial assumptions continues to be appropriate for the determination of the IBNR provision. As a result, the Company revised the basis of selection of some key assumptions used in its actuarial valuation methods as at December 31, 2011, and December 31, 2010.

For the December 31, 2011, actuarial valuation, the current year claims frequency development factor was decreased judgementally from historical levels, to account for a change in the Company's claims handling process which accelerated initial claim recognition, resulting in the current year professional liability claims provision being reduced by $10,359,980.

In 2010, the Company performed a detailed re-evaluation of the methodologies and basis of selection of key assumptions 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 resulted in a change to projected net cash outflows and, therefore, to the provision. The net impact of the changes in the basis of selection of assumptions and model enhancements was a $8,460,076 decrease in the provision, before reinsurance, as at December 31, 2010, which included a net decrease of $20,195,333 relating to severity assumptions, an increase of $990,000 relating to claim frequency assumptions, an increase of $4,697,473 relating to refinements to the modeling of expected future net cash flows, and an increase of $6,047,784 relating to a revision to the PfAD. This total impact has been allocated by policy year as a $5,531,256 increase related to the current year and a $13,991,332 decrease related to the prior years, and by line of business as a $10,794,104 net decrease to professional liability and a $2,334,028 increase to title.

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

	December 31, 2011			December 31, 2010		
	Gross	Ceded	Net	Gross	Ceded	Net
Claims & external adjustment expenses paid	$ 71,717	1,316	70,401	72,902	1,901	71,001
Change in case reserves	5,039	(666)	5,705	873	(2,366)	3,239
Change in IBNR	10,982	2,444	8,538	(15,643)	(4,043)	(11,600)
Discount expense	11,095	936	10,159	12,753	1,248	11,505
IAE paid	6,242	-	6,242	5,964	-	5,964
Change in provision for IAE	(56)	-	(56)	(233)	-	(233)
	$ 105,019	**4,030**	**100,989**	**76,616**	**(3,260)**	**79,876**

Changes in the provision for unpaid claims and adjustment expenses, including IAE, recorded in the statements of financial position during the year is comprised of the following:

	2011	2010
Provision for unpaid claims and adjustment expenses – January 1 – net	$ 341,231	338,370
Change in net provisions for claims and adjustment expenses due to:		
Prior years' incurred claims	(10,928)	(24,634)
Current year's incurred claims	101,759	93,005
Net claims and adjustment expenses paid in relation to:		
Prior years	(66,668)	(69,591)
Current year	(9,975)	(7,424)
Impact of discounting	10,158	11,505
Provision for unpaid claims and adjustment expenses – December 31 – net	365,577	341,231
Reinsurers' share of provisions for unpaid claims and adjustment expenses	43,089	40,375
Provision for unpaid claims and adjustment expenses – December 31 – gross	**$ 408,666**	**381,606**

d) Loss development tables

The tables on the following pages show the development of claims, excluding IAE, by policy year over a period of time. The first table reflects development for gross claims, which excludes any reductions for reinsurance recoverables. The second table reflects development for net claims, which is gross claims less reinsurance recoverables. The top triangle in each table shows how the estimates of total claims for each policy year develop over time as more information becomes known regarding individual claims and overall claims frequency and severity. Claims are presented on an undiscounted basis in the top triangle. The bottom triangle in each table presents the cumulative amounts paid for claims and external loss adjustment expenses for each policy year at the end of each successive year. At the bottom of each table, the provision for IAE as well as the effect of discounting and the PfAD, as at December 31, 2011, is presented based on the net amounts of the two triangles.

Before the effect of reinsurance, the loss development table is as follows:

		Policy year										
	All prior years	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Estimate of ultimate claims												
At end of policy year		74,819	71,674	86,224	76,338	82,043	88,720	91,567	94,936	90,778	98,870	
One year later		78,578	71,028	84,723	77,704	81,820	90,139	99,776	95,781	90,585		
Two years later		78,428	71,179	80,693	78,736	82,040	95,375	94,086	97,708			
Three years later		73,771	67,729	75,159	72,246	78,097	93,715	93,942				
Four years later		69,923	60,125	72,727	74,959	72,438	93,424					
Five years later		68,426	60,190	69,390	71,851	70,399						
Six years later		67,244	60,315	65,672	68,675							
Seven years later		66,385	56,673	63,553								
Eight years later		64,889	55,656									
Nine years later		63,356										
Cumulative claims paid												
At end of policy year		(3,578)	(4,739)	(5,938)	(3,792)	(4,811)	(4,100)	(5,593)	(6,726)	(4,628)	(6,868)	
One year later		(15,746)	(14,256)	(17,846)	(14,771)	(15,829)	(21,723)	(19,886)	(21,366)	(16,553)		
Two years later		(24,391)	(23,220)	(29,814)	(26,437)	(25,463)	(37,033)	(32,641)	(35,997)			
Three years later		(34,895)	(30,970)	(38,240)	(35,268)	(35,114)	(51,509)	(47,582)				
Four years later		(42,480)	(36,918)	(42,468)	(43,306)	(44,050)	(59,136)					
Five years later		(47,743)	(42,371)	(46,728)	(50,379)	(49,252)						
Six years later		(52,394)	(46,355)	(49,342)	(53,878)							
Seven years later		(55,344)	(49,604)	(52,017)								
Eight years later		(57,009)	(50,947)									
Nine years later		(57,822)										
Estimate of ultimate claims		63,356	55,656	63,553	68,675	70,399	93,424	93,942	97,708	90,585	98,870	
Cumulative claims paid		(57,822)	(50,947)	(52,017)	(53,878)	(49,252)	(59,136)	(47,582)	(35,997)	(16,553)	(6,868)	
Undiscounted claims liabilities	17,530	5,534	4,709	11,536	14,797	21,147	34,288	46,360	61,711	74,032	92,002	**383,646**
Provision for IAE	111	73	95	145	227	385	668	1,087	1,599	2,295	3,778	**10,483**
Discounting (including PfAD)	877	125	89	367	566	882	1,516	1,916	2,534	2,760	2,905	**14,537**
Present Value recognized in the Statement of Financial Position	18,518	5,732	4,893	12,048	15,590	22,414	36,492	49,363	65,844	79,087	98,685	**408,666**

After the effect of reinsurance, the loss development table is as follows:

		Policy year										
	All prior years	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Estimate of ultimate claims												
At end of policy year		44,728	67,631	75,255	72,615	78,076	84,240	86,762	89,886	86,458	94,874	
One year later		47,171	67,386	74,954	73,981	77,873	85,659	94,971	91,732	86,265		
Two years later		47,724	67,137	71,725	75,013	78,093	90,895	90,242	93,660			
Three years later		45,348	62,886	66,990	68,523	74,150	90,130	90,098				
Four years later		44,588	57,725	64,559	71,236	69,280	89,840					
Five years later		43,682	57,790	61,221	68,873	67,241						
Six years later		42,961	57,915	58,548	65,696							
Seven years later		42,365	54,273	56,429								
Eight years later		40,531	53,176									
Nine years later		39,545										
Cumulative claims paid												
At end of policy year		(2,236)	(4,561)	(4,910)	(3,792)	(4,811)	(4,100)	(5,593)	(6,726)	(4,628)	(6,868)	
One year later		(10,011)	(13,897)	(15,239)	(14,771)	(15,829)	(21,723)	(19,886)	(21,366)	(16,553)		
Two years later		(15,535)	(22,745)	(26,057)	(26,437)	(25,463)	(37,033)	(32,641)	(35,997)			
Three years later		(22,253)	(30,409)	(34,117)	(35,268)	(35,114)	(51,509)	(47,582)				
Four years later		(27,126)	(34,969)	(38,233)	(43,306)	(44,050)	(59,136)					
Five years later		(30,495)	(40,371)	(42,438)	(50,379)	(49,252)						
Six years later		(33,337)	(44,338)	(45,242)	(53,878)							
Seven years later		(35,238)	(47,374)	(47,875)								
Eight years later		(36,308)	(48,707)									
Nine years later		(36,822)										
Estimate of ultimate claims		39,545	53,176	56,429	65,696	67,241	89,840	90,098	93,660	86,265	94,874	
Cumulative claims paid		(36,822)	(48,707)	(47,875)	(53,878)	(49,252)	(59,136)	(47,582)	(35,997)	(16,553)	(6,868)	
Undiscounted claims liabilities	7,403	2,723	4,469	8,554	11,818	17,989	30,704	42,516	57,663	69,712	88,006	**341,557**
Provision for IAE	111	73	95	145	227	385	688	1,087	1,599	2,295	3,778	**10,483**
Discounting (including PfAD)	554	102	89	320	499	801	1,414	1,818	2,430	2,666	2,844	**13,537**
Present Value recognized in the Statement of Financial Position	8,068	2,898	4,653	9,019	12,544	19,175	32,806	45,421	61,692	74,673	94,628	**365,577**

9. Unearned Premiums

The following changes have occurred in the provision for unearned premiums during the years ended December 31:

	2011	2010
Balance, as at January 1	$ 570	693
Net premiums written during the year	109,784	100,315
Less: Net premiums earned during the year	(109,691)	(100,438)
(Increase) decrease in unearned premiums	93	(123)
Balance, as at December 31	**$ 663**	**570**

The estimates for unearned premium liabilities have been actuarially tested to ensure that they are sufficient to pay for future claims and expenses in servicing the unexpired policies as of the valuation dates.

10. Reinsurance

The Company's reinsurance program consists of a 90% quota share cession on its excess professional liability policies (2010: 100%), and a $10 million in excess of $5 million per occurrence clash reinsurance arrangement which provides protection for single events that bring about multiple professional liability and/or title claims. Reinsurance does not relieve the Company of its primary liability as the originating insurer. In the event that a reinsurer is unable to meet obligations assumed under reinsurance agreements, the Company is liable for such amounts. Reinsurance treaties typically renew annually and the terms and conditions are reviewed by senior management and reported to the Company's Board of Directors. Reinsurance agreements are negotiated with reinsurance companies that have an independent credit rating of "A-" or better and that the Company considers creditworthy. 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.

11. 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. The annual policy limits for each of the years effective January 1, 1995 to December 31, 2011, are $1 million per claim and $2 million in aggregate per member. Under the insurance policy that was in force between July 1, 1990, and December 31, 1994, the Company was responsible for claims in excess of the Law Society and member deductibles. The provision for unpaid claims and adjustment expenses is net of amounts relating to policies for years prior to 1995 that are payable by the Law Society.

For the year ended December 31, 2011, $104,020,605 of the gross premiums written related to mandatory insurance coverage provided to the Law Society and its members (2010: $94,785,726). As at December 31, 2011, the Law Society had a balance due to the Company of $1,118,045 (December 31, 2010: $4,107,326; January 1, 2010: $19,124,346).

The total compensation to Company personnel classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including directors of the Company, is as follows:

	2011	2010
Short-term compensation and benefits	$ 2,584	2,360
Post-employment benefits	295	262
	$ 2,879	**2,622**

12. 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. In 2011, the Company made payments of $601,843 (2010: $522,057) and recorded pension expense of $602,938 (2010: $538,538).

The Company also has a supplemental defined benefit pension plan, which provides pension benefits on a final salary or fixed schedule basis, depending on certain criteria. Measurements and funding requirements of this plan are based on valuations prepared by an external actuary. For reporting purposes, the plan is measured using the projected unit credit method, which involves calculating the actuarial

present value of the past service liability to members including an allowance for their projected future earnings. Funding requirements for the plan are determined using the solvency method, which utilizes the estimated cost of securing each member's benefits with an insurance company or alternative buy-out provider as at the valuation date. The valuation methods are based on a number of assumptions, which vary according to economic conditions including prevailing market interest rates, and changes in these assumptions can significantly affect the measurement of the pension obligations. Funding for the supplemental plan commenced in 2005, with payments of $1,365,790 in 2011 (2010: $229,856) and recorded pension expenses of $573,136 in 2011 (2010: $422,477). 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, the following represents the assets and liabilities associated with pension benefits measured using values as at December 31:

	2011	2010	2009	2008	2007
Accrued benefit obligation					
Balance, as at January 1	$ 4,527	3,738	2,938	2,312	2,164
Current service cost	198	172	139	191	145
Interest cost	248	234	200	162	115
Actuarial loss	696	383	461	(461)	(76)
Special termination benefit	-	-	-	-	373
Curtailment	-	-	-	-	(409)
Plan amendment	-	-	-	734	-
Balance, as at December 31	$ 5,669	4,527	3,738	2,938	2,312
Plan assets					
Fair value, as at January 1	5,283	4,833	2,862	2,346	1,560
Actual return on assets, net of expenses	63	220	413	(240)	(37)
Employer contribution	1,366	230	1,558	756	823
Fair value, as at December 31	$ 6,712	5,283	4,833	2,862	2,346

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. The pooled fund contains the following financial instrument allocation:

	December 31, 2011	December 31, 2010	January 1, 2010
Equity securities	54.2%	66.5%	68.3%
Fixed income securities	39.2%	32.6%	30.3%
Cash and cash equivalents	6.6%	0.9%	1.4%
	100%	**100%**	**100%**

Reconciliation of funded status surplus of the benefit plans to the amounts recorded in the financial statements is as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Fair value of plan assets	$ 6,712	5,283	4,833
Accrued benefit obligation	(5,669)	(4,527)	(3,738)
Funded status surplus	1,043	756	1,095
Unamortized net actuarial loss	818	312	166
Accrued benefit asset	**$ 1,861**	**1,068**	**1,261**

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 statement of financial position.

Components of defined benefit costs recognized in the year ended December 31:

	2011	2010
Current service cost	$ 198	172
Interest cost	248	234
Expected return on assets	(185)	(150)
Actuarial (gain) loss	312	166
Defined benefit costs recognized in the statement of income	**$ 573**	**422**

The significant assumptions used by the Company for year-end measurement purposes are as follows (weighted average):

	2011	2010
Discount rate	4.50%	5.25%
Expected long term rate of return on plan assets	6.00%	6.00%
Rate of compensation increase	3.50%	3.50%

13. Income Taxes

a) Income tax expense recognized in the statement of income

The total income tax expense recognized in the statement of income is comprised as follows:

	2011	2010
Current tax		
Expensed (recovered) during the year	$ 3,628	6,909
Prior year adjustments	(12)	8
Total current tax expense	**$ 3,616**	**6,917**
Deferred tax		
Origination and reversal of temporary differences	(333)	(214)
Changes in statutory tax rates	127	159
Total deferred tax expense	**$ (206)**	**(55)**
Total income tax expense	**$ 3,410**	**6,862**

Deferred income tax expense recognized in the statement of income represents movements on the following items:

	2011	2010
Unpaid claims and adjustment expenses	$ (54)	276
Investments	(302)	(266)
Pensions	188	(54)
Property and equipment	(38)	(11)
	$ (206)	**(55)**

b) Income tax expense recognized in the statement of comprehensive income

The total income tax expense recognized in OCI is comprised as follows:

	2011	2010
Current tax		
Unrealized investment gains and losses on available-for-sale portfolio	$ 28	1,449
Pensions	-	-
Total current tax expense	**28**	**1,449**
Deferred tax		
Unrealized investment gains and losses on available-for-sale portfolio	(81)	(89)
Pensions	-	-
Total deferred tax expense	**$ (81)**	**(89)**
Total income tax expense in OCI	**$ (53)**	**1,360**

c) Income tax reconciliation

The following is a reconciliation of income taxes, calculated at the statutory income tax rate, to the income tax provision included in the statement of income.

	2011	2010
Net income (loss) before taxes	$ 12,116	22,075
Statutory income tax rate	28.25%	31.00%
Provision for (recovery of) income taxes at statutory rates	3,423	6,843
Increase (decrease) resulting from:		
Unpaid claims	148	165
Investments	(169)	(194)
Pension	(25)	5
Property and equipment	5	4
Non-deductible meals and entertainment	28	20
Other non-deductible items	-	19
Provision for (recovery of) income taxes	**$ 3,410**	**6,862**

The statutory rate applicable to the Company decreased from December 31, 2010, to December 31, 2011, due to substantively enacted rate reductions relating to the Canadian federal government and the province of Ontario.

d) Net deferred income tax asset

The Company's net deferred 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 are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred tax assets			
Net provision for unpaid claims and adjustment expenses	$ 4,641	4,587	4,863
Property and equipment	147	109	98
	4,788	4,696	4,961
Deferred tax liabilities			
Investments	(541)	(923)	(1,278)
Pension	(455)	(267)	(322)
	(996)	(1,190)	(1,600)
Total net deferred tax assets	**$ 3,792**	**3,506**	**3,361**

During the year the Company made income tax payments of $12,056,758 (2010: $3,396,438) and received refunds of $115,735 (2010: $403,309) from the various taxing authorities.

14. Operating Expenses

The following table summarizes the Company's operating expenses by nature:

	2011	2010
Salaries and benefits	$ 9,920	9,119
Administrative expenses	3,446	3,285
Professional fees	1,099	1,028
Occupancy lease	864	613
Communication	1,022	1,059
Information systems	613	619
Amortization of property and equipment	497	517
Total	**$ 17,461**	**16,240**

Included in salaries and benefits are amounts for future employee benefits under a defined contribution plan of $601,843 (2010: $522,057) and a supplementary defined benefit plan of $573,136 (2010: $422,477).

15. Operating lease commitments

The Company entered into a ten-year lease effective February 1, 2008, for premises at 250 Yonge Street. The Company has an option to extend the lease period for five additional years under the current general terms and conditions.

At December 31, 2011, lease obligations on office premises were as follows:

	2012	2013	2014	2015	2016	Thereafter
Lease obligations on office premises	1,220	1,220	1,220	1,220	1,220	1,728

16. Capital Stock and Contributed Surplus

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.

The Preferred Shares meet the definition of equity in accordance with the criteria outlined in IAS 32 "*Financial Instruments: Presentation.*"

Contributed surplus represents additional capitalization funding provided by the Law Society.

17. Statutory Insurance Information

The Company is the beneficiary of trust accounts in the amount of $1,267,157 as at December 31, 2011 (December 31, 2010: $1,276,851; January 1, 2010: $1,286,762) 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 $52,395 as at December 31, 2011 (December 31, 2010: $51,517; January 1, 2010: $50,741).

18. Capital Management

Capital is comprised of the Company's equity. As at December 31, 2011, the Company's equity was $167,876,272 (December 31, 2010: $159,307,159; January 1, 2010: $141,067,267). The Company's objectives when managing capital are to maintain financial strength and protect its claims paying abilities, to maintain creditworthiness and to provide a reasonable return to 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% (2010: 185%), 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, 2011, the Company complied with the various provincial regulators' guidelines and as at December 31, 2011, the Company has a MCT ratio of 220% (December 31, 2010: 226%; January 1, 2010: 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 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 for the year ended December 31, 2011 was 65% (2010: 63%).

The Company may use reinsurance to manage its capital position.

19. Risk Management

By virtue of the nature of the insurance company business, financial instruments comprise the majority of the Company's statement of financial position as at both December 31, 2011, and 2010. The most significant identified risks to the Company which arise from holding financial instruments and insurance contract liabilities include insurance risk, credit risk, liquidity risk and market risk. The market risk exposure of the Company is primarily related to changes in interest rates and adverse movement in equity prices.

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 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 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. The Company has identified pricing risk, concentration of risk and reserving risk as its most significant sources of insurance risks. The Company's underwriting objective is to develop business within its target market on a prudent and diversified basis and to achieve profitable operating results.

Pricing risk

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. Historically, the underwriting results of the property and casualty industry have fluctuated significantly due to the cyclicality of the insurance market. The market cycle is affected by the frequency and severity of claims, levels of capacity and demand, general economic conditions and price competition. The Company focuses on profitable underwriting using a combination of experienced underwriting staff, pricing models and price adequacy monitoring tools. The Company prices its products taking into account numerous factors including claims frequency and severity trends, product line expense ratios, special risk factors associated with the product line, and the investment income earned on premiums held until the payment of claims and expenses. The Company's pricing is designed to ensure an appropriate return while also providing long-term rate stability. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

Concentration of risk

A concentration of risk represents the exposure to increased losses associated with an inadequately diversified portfolio of policy coverages. The Company has a reinsurance program to limit its exposure to catastrophic losses from any one event or set of events. The Company has approximately 99% of its business in Ontario and 95% in professional liability, and consequently is exposed to trends, inflation, judicial changes and regulatory changes affecting these segments. The geographical diversity by location of the underlying insurance risk for the year ended December 31 is summarized below:

	2011			2010		
Gross written premium	Ontario	All other provinces	Total	Ontario	All other provinces	Total
Professional liability	$ 109,663	-	109,663	100,071	-	100,071
Title	5,752	314	6,066	6,156	446	6,602
Total	**$ 115,415**	**314**	**115,729**	**106,227**	**446**	**106,673**

Reserving risk

Reserving risk arises because actual claims experience can differ adversely from the assumptions included in setting reserves, in large part due to the length of time between the occurrence of a loss, the reporting of the loss to the insurer and the ultimate resolution of the claim. Claims provisions reflect expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors. Reserve changes associated with claims of prior periods are recognized in the current period, which could have a significant impact on current year earnings. In order to mitigate this risk the Company utilizes information systems in order to maintain claims data integrity, and the claims provision valuations are prepared by an internal actuary on a quarterly basis, and are reviewed separately by, and must be acceptable to, management of the Company every quarter and the external Appointed Actuary at midyear and year-end.

Sensitivity analyses

Risks associated with property and casualty insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company considers that the provision for its unpaid claims and adjustment expenses recognized in the statement of financial position is adequate. However, actual experience will differ from the expected outcome. Among the Company's lines of business, the professional liability line of business has the largest provision for unpaid claims and adjustment expenses. Given this line of business and the actuarial methods utilized to estimate the related provision for unpaid claims and adjustment expenses, the reported claims count development factors and average claim severity selections are the most critical of the assumptions used. If the reported claims count development factors were increased such that the estimate of unreported claims was 20% higher, the net provision for unpaid claims and adjustment expenses would be increased by $1,338,164, and after income taxes the net effect on equity would be a reduction of $960,133. If the average claim severity selections were 1% higher, the net provision for unpaid claims and adjustment expenses would be increased by $3,497,829, and after income taxes the net effect on equity would be a reduction of $2,509,692. Other changes in assumptions are considered to be less material.

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 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 to reflect both current exposure and potential future exposure to 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.

	December 31, 2011						
	AAA	AA	A	BBB	BB and lower	Not rated	Carrying value
Cash and cash equivalents	$ 524	-	-	-	-	16,412	16,936
Fixed income securities	147,596	113,946	133,113	34,476	-	12,367	441,498
Investment income due and accrued	443	614	1,215	772	1	114	3,159
Due from reinsurers	-	-	1,982	-	8	189	2,179
Due from insureds	-	-	-	-	-	1,570	1,570
Due from the Law Society of Upper Canada	-	-	-	-	-	1,118	1,118
Reinsurers' share of provisions for unpaid claims and adjustment expenses	-	-	37,281	-	3,071	2,737	43,089
Other receivables	-	-	-	-	-	864	864
Other assets	-	-	-	-	-	1,933	1,933

	December 31, 2010						
	AAA	AA	A	BBB	BB and lower	Not rated	Carrying value
Cash and cash equivalents	$ -	-	-	-	-	16,851	16,851
Fixed income securities	157,096	98,314	119,581	33,961	-	12,845	421,797
Investment income due and accrued	671	599	332	562	-	52	2,216
Due from reinsurers	-	-	1,944	-	6	208	2,158
Due from insureds	-	-	-	-	-	1,427	1,427
Due from the Law Society of Upper Canada	-	-	-	-	-	4,107	4,107
Reinsurers' share of provisions for unpaid claims and adjustment expenses	-	-	35,380	-	2,433	2,562	40,375
Other receivables	-	-	-	-	-	609	609
Other assets	-	-	-	-	-	1,276	1,276

	January 1, 2010						
	AAA	AA	A	BBB	BB and lower	Not rated	Carrying value
Cash and cash equivalents	$ -	-	-	-	-	12,471	12,471
Fixed income securities	163,836	88,014	103,464	29,433	-	13,937	398,684
Investment income due and accrued	848	617	280	536	-	15	2,296
Due from reinsurers	-	-	3,896	-	7	279	4,182
Due from insureds	-	-	-	-	-	2,194	2,194
Due from the Law Society of Upper Canada	-	-	-	-	-	19,124	19,124
Reinsurers' share of provisions for unpaid claims and adjustment expenses	-	-	40,510	-	2,165	2,810	45,485
Other receivables	-	-	-	-	-	644	644
Other assets	-	-	-	-	-	1,593	1,593

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. The balances in the above tables do not contain any amounts that are past due.

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 5b). 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 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, 2011					
		Within one year	One to five years	More than five years	No fixed maturity	Total
Assets						
Cash and cash equivalents	$	16,936	-	-	-	16,936
Investments – designated as FVTPL		68,942	156,341	114,020	509	339,812
Investments – available-for-sale		6,587	58,020	37,588	58,667	160,862
Investment income due and accrued		3,159	-	-	-	3,159
Due from reinsurers		2,179	-	-	-	2,179
Due from insureds		1,570	-	-	-	1,570
Due from Law Society		1,118	-	-	-	1,118
Reinsurers' share of unpaid claims		12,171	23,655	5,710	1,553	43,089
Other receivable		864	-	-	-	864
Other assets		1,933	-	-	-	1,933
Total	**$**	**115,459**	**238,016**	**157,318**	**60,729**	**571,522**
Liabilities						
Provision for unpaid claims	$	98,510	243,305	47,850	19,001	408,666
Due to reinsurers		690	-	-	-	690
Due to insureds		263	-	-	-	263
Expenses due and accrued		1,968	-	-	-	1,968
Income taxes due and accrued		-	-	-	-	-
Total	**$**	**101,431**	**243,305**	**47,850**	**19,001**	**411,587**

	December 31, 2010				
	Within one year	One to five years	More than five years	No fixed maturity	Total
Assets					
Cash and cash equivalents	$ 16,851	-	-	-	16,851
Investments – designated as FVTPL	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**	**53,583**	**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**

	January 1, 2010				
	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 – designated as FVTPL	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 impacted by movements in capital markets, interest rates, and to a lesser extent, foreign currency exchange rates. Accordingly, the Company considers these risks together in managing its asset and liability positions and ensuring that risks are properly addressed. These risks are referred to collectively as market price and interest rate risk – the risk of loss resulting from movements in market price, interest rate, credit spreads and foreign currency rates.

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

For FVTPL 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, 2011, across the yield curve in all markets, would be a decrease in net investment income of $9,877,456 (2010: $11,312,660) and a decrease in net claims and adjustment expenses of $10,882,022 (2010: $10,274,610) and conversely, an immediate 1% parallel decrease in interest rates would result in an estimated increase in net investment income of $8,963,170 (2010: $12,083,683) and an increase in net claims and adjustment expenses of $9,917,904 (2010: $11,004,372).

Bonds designated as available-for-sale generally do not support actuarial liabilities. Changes in fair value, other than foreign exchange rate gains and losses, 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, 2011, across the entire yield curve, would result in an estimated after-tax decrease in OCI of $3,224,566 (2010: $2,661,878). Conversely, an immediate 1% parallel decrease in interest rates would result in an estimated after-tax increase in OCI of $1,937,493 (2010: $2,472,374).

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, 2011, would result in an estimated after-tax increase in OCI of $4,209,329 (2010: $3,657,918), and conversely, an immediate 10% decrease in stock prices would result in an estimated after-tax decrease in OCI of $4,209,329 (2010: $3,657,918).

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

	2011		2010	
Currency	Effect on income before taxes (+/-)	Effect on OCI (+/-)	Effect on income before taxes (+/-)	Effect on OCI (+/-)
US Dollar	8	1,329	1	1,161
Euro	-	824	-	577
Other	-	671	-	479
	8	**2,824**	**1**	**2,217**

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, 2011					
	Cash and cash equivalents	Fixed income securities	Equities	Investment income due and accrued	Total	% of total
Canada	$ 16,869	421,977	19,993	2,944	461,783	88.8%
USA	66	-	14,673	35	14,774	2.8%
France	-	-	5,307	-	5,307	1.0%
Netherlands	-	-	3,278	-	3,278	0.6%
Others	1	19,521	15,925	180	35,627	6.8%
Total	**$ 16,936**	**441,498**	**59,176**	**3,159**	**520,769**	**100.0%**

	December 31, 2010					
	Cash and cash equivalents	Fixed income securities	Equities	Investment income due and accrued	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%**

	January 1, 2010					
	Cash and cash equivalents	Fixed income securities	Equities	Investment income due and accrued	Total	% of total
Canada	$ 12,453	398,684	17,288	2,246	430,671	95.8%
USA	17	-	8,649	12	8,678	1.9%
Netherlands	-	-	2,182	-	2,182	0.5%
Germany	-	-	1,926	-	1,926	0.4%
Others	1	-	6,234	38	6,273	1.4%
Total	**$ 12,471**	**398,684**	**36,279**	**2,296**	**449,730**	**100.0%**

20. Comparative Figures

The Company restated the prior year's operating expenses to include other expense of $672, 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

Clare A. Brunetta
Principal
Clare A. Brunetta

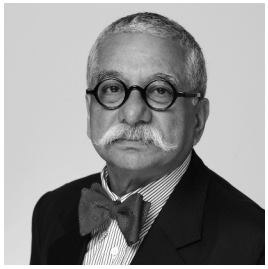
Douglas F. Cutbush
Insurance Consultant
Arbitrator & Mediator

Robert F. Evans*
Principal
Evans & Evans

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

Malcolm L. Heins, LSM
Lawyer & Director

Rita Hoff
President
R. Hoff Financial Management Ltd.



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

Susan T. McGrath*
Principal
Susan T. McGrath

Barbara J. Murchie*
Partner
Bennett Jones LLP

Andrew N. Smith
President
Natnook Inc.

John C. Thompson, FCA
Chartered Accountant
Retired KPMG partner

* 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

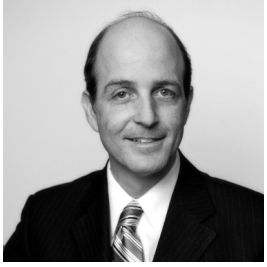
Kathleen A. Waters
President & CEO
LawPRO

Duncan D. Gosnell
Executive Vice-President
& Secretary

Steven W. Jorgensen
Chief Financial Officer

Raymond G. Leclair
Vice-President (Acting)
Public Affairs

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

Simon D. Bernstein
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]
Douglas F. Cutbush
Susan T. McGrath
Andrew N. Smith
John C. Thompson

Investment

Rita Hoff[c]
George D. Anderson
Malcolm L. Heins (A)
Vern Krishna
Barbara J. Murchie
Andrew N. Smith

Governance

Ian D. Croft[c]
George D. Anderson
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*

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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