

Financial Results Explained

Income statements

A Net premiums: \$120.7 million

Net LAWPRO revenues in 2015 were \$120.7 million. Premiums from the mandatory insurance program were \$5.8 million higher than in 2014, with the increase driven in part by the net increase in the number of insured lawyers purchasing insurance coverage in 2015.

B Net claims: \$80.7 million

Incurred claims and adjustment expenses for 2015 were \$80.7 million, a decrease of \$18.8 million compared to 2014. The 2015 results benefitted from a \$27.5 million net reduction to reserves due to favourable development of prior fund years' loss experience.

The discount rate used to value claims liabilities increased, at December 31, 2015, to 2.18 per cent; up from 1.95 per cent at December 31 of the previous year. Tracking the discount rate causes an adjustment to the amount reserved to pay future claims costs (it reflects current and projected interest rates on investments). The slight increase in the discount rate in 2015 was a beneficial development in that it allows us to set less money aside since we expect to earn slightly more interest on our reserves over time.

Statement of Profit or Loss

Stated in thousands of Canadian dollars

2015 Annual Report

Lawyers' Professional Indemnity Company

	2015	2014
FOR THE YEAR ENDED DECEMBER 31		
Income		
Gross written premiums	\$ 127,842	122,149
Premiums ceded to reinsurers (note 11)	(7,081)	(7,229)
Net written premiums	120,761	114,920
(Increase) decrease in unearned premiums (note 10)	(91)	(20)
A Net premiums earned	120,670	114,900
D Net investment income (note 5)	18,541	26,472
Ceded commissions	1,828	1,679
	\$ 141,039	143,051
Expenses		
Gross claims and adjustment expenses (note 9)	\$ 80,372	104,847
Reinsurers' share of claims and adjustment expenses	373	(5,262)
B Net claims and adjustment expenses	80,745	99,585
C Operating expenses (note 15)	17,999	16,830
Premium taxes	3,836	3,665
	102,580	120,080
Profit (loss) before income taxes	\$ 38,459	22,971
Income tax expense (recovery) (note 14)		
Current	\$ 10,027	6,220
Deferred	(12)	(309)
	10,015	5,911
E Profit (loss)	\$ 28,444	17,060

Accompanying notes are an integral part of the financial statements.

C General expenses: \$18 million

LAWPRO's general expenses in 2015 were \$1.2 million higher than in 2014, but still slightly lower than budgeted, as a result of disciplined cost containment efforts.

D Investment income: \$18.5 million

Investment income in 2015 was \$18.5 million, \$8 million less than the \$26.5 million earned in 2014, but still slightly above what was budgeted for the year. With respect to its investments, LAWPRO was required to report a write-down of \$3.7 million in unrealized losses on equity securities that met the International Financial Reporting Standards (IFRS) definition of "significant or prolonged decline."

E Net income: \$28.4 million

LAWPRO experienced total net income for 2015 of \$28.4 million (compared to net income of \$17 million in 2014). In 2015,

Statement of Comprehensive Income

Stated in thousands of Canadian dollars

2015 Annual Report

Lawyers Professional Indemnity Company

FOR THE YEAR ENDED DECEMBER 31

	2015	2014
Profit (loss)	\$ 28,444	17,060
Other comprehensive income (loss), net of income tax:		
<u>Items that will not be reclassified subsequently to profit or loss:</u>		
Remeasurements of defined benefit obligation, net of income tax expense (recovery) of (\$190) [2014: (\$206)]	(526)	(570)
<u>Items that may be reclassified subsequently to profit or loss:</u>		
<u>Available-for-sale assets</u>		
Net changes unrealized gains (losses), net of income tax expense (recovery) of \$1,054 (2014: \$2,517)	2,923	6,979
Reclassification adjustment for (gains) losses recognized in profit or loss, net of income tax (expense) recovery of (\$1,489) [2014: (\$1,929)]	(4,129)	(5,349)
Reclassification adjustment for impairments, recognized in profit or loss, net of income tax expense of \$979 (2014: \$227) (note 5)	2,716	630
F Other comprehensive income (loss)	\$ 984	1,690
Comprehensive income	\$ 29,428	18,750

Accompanying notes are an integral part of the financial statements.

due to recent stability in claims counts and severity, the Company updated certain assumptions underlying the actuarial valuation approach it uses to predict the future cost of past years' as-yet-unpaid claims and related adjustments. These updates affected projected net cash outflows, and as a result, reduced the amount of reserves required to be retained for affected program years. The net impact of these changes was a \$27.6 million decrease in reserves, which has a corresponding positive impact on net income.

LawPRO experienced total net income for 2015 of \$28.4 million (compared to net income of \$17 million in 2014).

F Other comprehensive income: \$1.0 million (after tax amounts quoted)

In the category of other comprehensive income, LAWPRO earned \$1.0 million in 2015 relating predominantly to the return on its equity securities. This compares to 2014 other comprehensive income of \$1.7 million.

After including \$28.4 million in net income (see E for details), shareholder's equity was \$238.0 million at the end of 2015, up from

\$208.6 million at the end of 2014 – for a year-over-year increase of \$29.4 million.

Minimum Capital Test: a key solvency benchmark

The Minimum Capital Test (MCT) is designed to ensure that a financial institution's assets are sufficient to meet its present and future obligations.

For the MCT calculated at December 31, 2015, LAWPRO's score is 268 per cent – up from 251 per cent on December 31, 2014, and above the 220-230 score for which the company aims.

2015 was the first year of a three year phase-in to new, stricter MCT requirements. Without the benefit of the phase-in, the MCT would have been 242 per cent, closer to the preferred range but still slightly above it. ■