

Financial results explained

INCOME STATEMENTS

A Net premiums: \$106.5 million

Net LAWPRO revenues in 2013 were \$106.5 million. Premiums from the mandatory insurance program were \$2.1 million higher than in 2012, largely due to a greater-than-expected growth in the number of lawyers joining the mandatory program.

B Net claims: \$96.7 million

Net claims and adjustment expenses for 2013 decreased by \$9.4 million compared to 2012. Part of that decrease was due to a net reduction in reserves of \$11.4 million following the completion of a re-evaluation of the actuarial models used to estimate outstanding losses.

C General expenses: \$16.3 million

LAWPRO's general expenses in 2013 were \$1.1 million lower than in 2012, and \$1.6 million lower than budgeted, due to continued cost containment efforts undertaken by the company.

D Investment income: \$16.3 million

Investment income increased by \$1.4 million to \$16.3 million in 2013. Investment income from interest receipts decreased by \$0.4 million to \$15.8 million as a result of market volatility – also the cause of a \$6.0 million decrease in net unrealized gains on the fixed income security portfolio that the company uses to match claims liabilities (compared to a decrease of \$1.9 million in 2012). Net capital gains on disposition of assets during the year were higher than in 2012: \$5.6 million compared to \$1.4 million. Finally, LAWPRO was required to report a write-down of \$0.9 million in unrealized losses on equity securities that met the International Financial

STATEMENT OF PROFIT OR LOSS		
Stated in thousands of Canadian dollars		
For the year ended December 31	2013	2012 (restated*)
Revenue		
Gross written premiums	\$ 113,561	110,676
Premiums ceded to reinsurers	(7,051)	(5,899)
Net written premiums	106,510	104,777
(Increase) decrease in unearned premiums (note 9)	(26)	(60)
Net premiums earned	106,484	104,717
Net investment income (note 5)	16,255	14,893
Ceded commissions	1,535	3,841
	\$ 124,274	123,451
Expenses		
Gross claims and adjustment expenses (note 8)	\$ 99,178	105,721
Reinsurers' share of claims and adjustment expenses	(2,475)	385
Net claims and adjustment expenses	96,703	106,106
Operating expenses (note 14)	16,330	17,462
Premium taxes	3,408	3,321
	116,441	126,889
Profit (loss) before income taxes	\$ 7,833	(3,438)
Income tax expense (recovery) (note 13)		
Current	\$ 2,126	(856)
Deferred	(226)	(350)
	1,900	(1,206)
Profit (loss)	\$ 5,933	(2,232)
* See Note 3d		
Accompanying notes are an integral part of the financial statements.		
* LAWPRO's financial statements were prepared in accordance with both new and revised International Financial Reporting Standards. These standards were applied effective January 1, 2012 and the transition resulted in adjustments to amounts reported in previous financial statements. See the LAWPRO Annual Report for more details.		

Reporting Standards (IFRS) definition of "significant or prolonged decline."

E Net income: \$5.9 million

LAWPRO experienced total net income for 2013 of \$5.9 million (compared to a net loss

of \$2.2 million in 2012). After including \$12.7 in other comprehensive income (see F, opposite, for details), this resulted in shareholder's equity of \$189.9 million at the end of 2013 – for a year-over-year increase of \$18.6 million (compared to a \$4 million increase in 2012).

LAWPRO experienced total net income for 2013 of \$5.9 million. After including \$12.7 million in other comprehensive income, this resulted in a \$18.6 million year-over-year increase in shareholder's equity.

F Other comprehensive income: \$12.7 million (after tax amounts quoted)

In 2013, the markets rallied and LAWPRO benefited from an increase in net unrealized gains on its surplus investments in the amount of \$12.2 million. The surplus portfolio provided an unrealized return of \$16 million. Securities were sold reflecting a gain of \$4.5 million which was released into investment income (see D, opposite). An additional adjustment to transfer \$0.6 million to investment income was due to the impairment of certain equity securities. In addition to these investments, LAWPRO recognized a \$0.5 million gain on the company defined benefit plan as a result of rising corporate bond yields.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME		
Stated in thousands of Canadian dollars		
For the year ended December 31	2013	2012 (restated*)
Profit (loss)	\$ 5,933	(2,232)
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 \$174 [2012: (\$131)]	480	(363)
<u>Items that may be reclassified subsequently to profit or loss:</u>		
<i>Available-for-sale assets</i>		
Net changes unrealized gains (losses), net of income tax expense (recovery) of \$5,780 (2012: \$2,052)	16,034	5,693
Reclassification adjustment for (gains) losses recognized in profit or loss, net of income tax (expense) recovery of (\$1,618) [2012: (\$319)]	(4,486)	(886)
Reclassification adjustment for impairments, recognized in profit or loss, net of income tax expense of \$226 (2012: \$650) (note 5)	625	1,802
Other comprehensive income (loss)	12,653	6,246
Comprehensive income	\$ 18,586	4,014

Accompanying notes are an integral part of the financial statements.

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.

As the MCT is currently formulated, LAWPRO's score is 233 per cent – up from 223 per cent on December 31, 2012, and well within the company's preferred range.

However, regulatory changes on the horizon are expected to place significant pressures on the company's MCT results going forward. Less favourable changes to the MCT calculation will become effective on January 1, 2015, forcing LAWPRO to reassess its financial strategies in the intervening months to prepare for compliance. ■