

# Financial results explained

## INCOME STATEMENTS

### A Net premiums: \$104.7 million

Net LAWPRO revenues in 2012 were \$104.7 million, \$5 million lower than in 2011, even though the base premium remained stable at \$3,350 per lawyer. Of that \$5 million decrease, \$4.8 million was in the mandatory E&O program, and is attributable to the reduction in the Real Estate Practice Option (REPCO) premium, and to increased discounts for newly-called lawyers, lawyers practising part-time, and lawyers practising exclusively criminal and/or immigration law.

### B Net claims: \$106.1 million

Net claims increased by \$5 million over 2011, totalling \$106.1 million for 2012. This total would have been substantially higher were it not for a \$9.4 million reduction made to reserves for prior years. That reduction was made possible by a re-evaluation of the actuarial model used to calculate reserves requirements.

Also with respect to prior years, favourable claims developments led to a \$10.3 million decrease in the estimate of ultimate claims costs. Unfortunately, that reduction was almost completely offset by a \$10.2 million expense prompted by a decline in the discount rate, plus a review of adjustment expenses reserves which resulted in an increase in those reserves of \$1.4 million.

### C General expenses: \$18.3 million

While operating expenses rose by \$0.9 million compared to last year, they came in \$1.5 million under budget at \$18.4 million, and reflect the company's continued success in carefully managing operating costs. LAWPRO ended 2012 with an expense ratio of 21 per cent.

Stated in thousands of Canadian dollars

For the year ended December 31

		STATEMENTS OF INCOME	
		2012	2011
<b>Revenue</b>			
Gross written premiums		\$ 110,676	115,729
Premiums ceded to reinsurers		(5,899)	(5,945)
Net written premiums		104,777	109,784
(Increase) decrease in unearned premiums (note 9)		(60)	(93)
<b>Net premiums earned</b>	<b>A</b>	<b>104,717</b>	<b>109,691</b>
Net investment income (note 5)	<b>D</b>	14,893	21,899
Ceded commissions		3,841	2,449
		<b>\$ 123,451</b>	<b>134,039</b>
<b>Expenses</b>			
Gross claims and adjustment expenses (note 8)		105,721	105,020
Reinsurers' share of claims and adjustment expenses		385	(4,031)
<b>Net claims and adjustment expenses</b>	<b>B</b>	<b>106,106</b>	<b>100,989</b>
Operating expenses (note 14)	<b>C</b>	18,390	17,461
Premium taxes		3,321	3,473
		<b>127,817</b>	<b>121,923</b>
<b>Income (loss) before income taxes</b>		<b>\$ (4,366)</b>	<b>12,116</b>
Income tax expense (recovery) (note 13)			
Current		(856)	3,616
Deferred		(596)	(206)
		<b>(1,452)</b>	<b>3,410</b>
<b>Net income (loss)</b>	<b>E</b>	<b>\$ (2,914)</b>	<b>8,706</b>

Accompanying notes are an integral part of the financial statements.

### D Investment income: \$14.9 million

Investment income for 2012 decreased by \$7 million compared to the previous year. While investment income from interest receipts increased by \$0.5 million to \$16.2 million, the company experienced a \$1.9 million decrease in net unrealized gains on the portfolio that is used to match claims liabilities. Net capital gains on disposition of assets during the year were also lower, at \$1.4 million, than in 2011. Finally, as required by an IFRS accounting change that took effect in 2011, LAWPRO was required to report a write-down of \$2.5 million on certain securities.

### E Net income (loss): \$(2.9) million

LAWPRO experienced a net loss for 2012 of \$2.9 million (compared to net income of \$8.7 million in the previous year). Nevertheless, shareholders' equity for the year increased by \$3.7 million, as the net loss was more than fully offset by other comprehensive income of \$6.6 million (see item F).

## STATEMENTS OF COMPREHENSIVE INCOME

Stated in thousands of Canadian dollars

For the year ended December 31

## Net income (loss)

Other comprehensive income (loss), net of income tax:

Net changes in unrealized gains (losses) on available-for-sale financial assets, net of income tax expense (recovery) of \$2,052 [2011: (\$576)]

Reclassification adjustment for (gains) losses included in net income, net of income tax (expense) recovery of (\$319) [2011: (\$247)]

Reclassification adjustment for impairments on available-for-sale assets, included in net income, net of income tax expense of \$650 (2011: \$770) (note 5)

## Other comprehensive income (loss)

## Comprehensive income

	2012	2011
Net income (loss)	\$ (2,914)	8,706
Other comprehensive income (loss), net of income tax:		
Net changes in unrealized gains (losses) on available-for-sale financial assets, net of income tax expense (recovery) of \$2,052 [2011: (\$576)]	5,693	(1,467)
Reclassification adjustment for (gains) losses included in net income, net of income tax (expense) recovery of (\$319) [2011: (\$247)]	(886)	(626)
Reclassification adjustment for impairments on available-for-sale assets, included in net income, net of income tax expense of \$650 (2011: \$770) (note 5)	1,802	1,956
<b>Other comprehensive income (loss)</b>	<b>6,609</b>	<b>(137)</b>
<b>Comprehensive income</b>	<b>\$ 3,695</b>	<b>8,569</b>

Accompanying notes are an integral part of the financial statements.

## F Other comprehensive income: \$6.6 million

An increase in net unrealized gains on its surplus investments and a change in the reporting of impairments to the value of certain assets garnered “other comprehensive income” of \$6.6 million for LawPRO in 2012. This compares to a loss of \$0.1 million for the same category of income for 2011.

This income, when applied against the \$2.9 million net loss for the year, fully offset that loss for the purpose of calculating shareholders’ equity in the company, such that equity increased from \$167,876 million at the end of 2011 to \$171,571 million at the end of 2012.

## Key benchmarks

These financial results, coupled with favourable changes to the Minimum Capital Test (MCT) calculation for 2012, meant that LawPRO’s MCT stood at 223 per cent as of December 31, 2012, up from 220 per cent at the same time last year. This result continues to meet the MCT benchmarks set by our regulators.

This MCT level is expected to help LawPRO to absorb a degree of financial adversity in the short term; however, regulatory changes on the horizon are expected to place significant pressures on the company’s financial results going forward. Less favourable changes to the MCT calculation will become effective on January 1, 2015, forcing LawPRO to reassess its revenue strategy in the intervening months to prepare for compliance.

**LawPRO experienced a net loss of \$2.9 million for 2012. Nevertheless, shareholders’ equity for the year increased by \$3.7 million, as the net loss was more than fully offset by other comprehensive income of \$6.6 million.**