

Financial results explained

Income Statements

A Net premiums: \$115.8 million

LAWPRO net earned premiums in 2016 were \$115.8 million. Premiums from the mandatory insurance program were lower than in 2015, though still higher than budgeted. The E&O Fund did not make a premium contribution to LAWPRO in 2016 as it did in 2015. And although the number of practising lawyer full-time-equivalents (FTEs) was slightly lower than expected, a robust real estate market lifted transaction levy income \$3 million over budget.

B Net claims: \$100.7 million

Incurred claims and adjustment expenses for 2016 were \$100.7 million. This increase of \$20 million over 2015 reflects a higher number of claims as compared to 2015 and a smaller 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, 2016, to 2.40 per cent; up from 2.18 per cent at December 31 of the previous year. In other words, given there was an increase in investment yields, reserves could be lowered as more investment income will be earned between collection of premiums and payment of claims.

C General expenses: \$19 million

LAWPRO's general expenses of \$19 million in 2016 were in-line with budget. Carefully managing general expenses is a key value we offer our insureds. Our expense ratio of 20 per cent is below the 28 per cent industry average for similar small insurance companies that don't pay commissions.

Statement of Profit or Loss		2016 Annual Report	
Stated in Thousands of Canadian dollars		Lawyers' Professional Indemnity Company	
FOR THE YEAR ENDED DECEMBER 31	2016	2015	
Income			
Gross written premiums	\$ 123,329	127,842	
Premiums ceded to reinsurers (note 11)	(7,386)	(7,081)	
Net written premiums	115,943	120,761	
(Increase) decrease in unearned premiums (note 10)	(167)	(91)	
A Net premiums earned	115,776	120,670	
D Net investment income (note 5)	17,409	18,541	
Ceded commissions	1,721	1,828	
	\$ 134,906	141,039	
Expenses			
Gross claims and adjustment expenses (note 9)	\$ 101,707	80,372	
Reinsurers' share of claims and adjustment expenses (note 9)	(995)	373	
B Net claims and adjustment expenses	100,712	80,745	
C Operating expenses (note 15)	19,015	17,999	
Premium taxes	3,701	3,836	
	123,428	102,580	
Profit (loss) before income taxes	\$ 11,478	38,459	
Income tax expense (recovery) (note 14)			
Current	2,852	10,027	
Deferred	(13)	(12)	
	2,839	10,015	
E Profit (loss)	\$ 8,639	28,444	

Accompanying notes are an integral part of the financial statements.

D Investment income: \$17.4 million

Investment income in 2016 was \$17.4 million, \$1.1 million less than in 2015, as rising market investment yields caused bonds to decline in value.

E Net income: \$8.6 million

LAWPRO experienced total net income of \$8.6 million in 2016, nearly \$20 million less than our net income of \$28.4 million in 2015, but still above budget for the year. (Income results for 2015 were exceptional, due to a number of factors, including the implementation of updated actuarial assumptions that allowed for a reduction in reserves retained for future years.)

Statement of Comprehensive Income		2016 Annual Report	
Stated in thousands of Canadian dollars		Lawyers' Professional Indemnity Company	
FOR THE YEAR ENDED DECEMBER 31		2016	2015
Profit (loss)		\$ 8,639	28,444
Other comprehensive income (loss), net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit obligation, net of income tax expense (recovery) of \$36 [2015: (\$190)] (note 13)		99	(326)
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale assets			
Net changes unrealized gains (losses), net of income tax expense (recovery) of \$3,834 (2015: \$1,054)		10,632	2,923
Reclassification adjustment for (gains) losses recognized in profit or loss, net of income tax (expense) recovery of (\$1,663) [2015: (\$1,489)]		(4,612)	(4,129)
Reclassification adjustment for impairments, recognized in profit or loss, net of income tax expense of \$236 (2015: \$979) (note 5)		655	2,716
F Other comprehensive income (loss)		\$ 6,774	984
Comprehensive income		\$ 15,413	29,428

Accompanying notes are an integral part of the financial statements.

F Other comprehensive income: **\$6.8 million (after tax amounts quoted)**

In the category of other comprehensive income, LAWPRO earned \$6.8 million in 2016, \$5.8 million more than in 2015, due to robust returns in the equities markets.

After including \$8.6 million in net income (see E for details), shareholder’s equity was \$253.4 million at the end of 2016, up from \$238 million at the end of 2015 – for a year-over-year increase of \$15.4 million.

LAWPRO expects that its MCT score may continue to decrease in coming years as steps are taken to bring its score into the 215-240 per cent range.

Minimum Capital Test: On track in 2016

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, 2016, LAWPRO’s score is 253 per cent – down from 268 per cent on December 31, 2015, but still well above the 215-240 per cent range for which the company aims.

2016 was the second year of a three year phase-in to new MCT requirements. Without the benefit of the phase-in, the MCT would have been 242 per cent. LAWPRO expects that its MCT score may continue to decrease in coming years as steps are taken to bring its score into the 215-240 per cent range. ■