

FINANCIAL RESULTS

EXPLAINED

Statement of Profit or Loss

Stated in thousands of Canadian dollars

FOR THE YEAR ENDED DECEMBER 31

	2018	2017
Income		
Gross written premiums	\$ 114,784	115,655
Premiums ceded to reinsurers (note 11)	(7,202)	(7,150)
Net written premiums	107,582	108,505
(Increase) decrease in unearned premiums (note 10)	(43)	(41)
Net premiums earned	107,539	108,464
Net investment income (note 5)	19,711	20,470
Ceded commissions	1,862	1,543
\$ 129,112	130,477	
Expenses		
Gross claims and adjustment expenses (note 9)	\$ 84,767	102,080
Reinsurers' share of claims and adjustment expenses (note 9)	(3,775)	4,090
Net claims and adjustment expenses	80,992	106,170
Operating expenses (note 15)	22,138	20,315
Premium taxes	3,445	3,471
106,575	129,956	
Profit (loss) before income taxes	\$ 22,537	521
Income tax expense (recovery) (note 14)		
Current	5,598	230
Deferred	87	(325)
5,685	(95)	
Profit (loss)	\$ 16,852	616

Accompanying notes are an integral part of the financial statements.

A Net premiums: \$107.5 million

We kept our base premium unchanged this year, and that consistency is reflected in 2018's net earned premiums of \$107.5 million being only slightly below last year's result. Since the number of practising lawyer full-time-equivalents (FTEs) is a solid 27,323, which is slightly higher than expected, the small reduction in net earned premiums is primarily due to fewer real estate transaction levies caused by a cooling real estate market in Ontario.

B Net claims: \$80.9 million

Total claims expenses of \$80.9 million came in significantly below expectations and more than \$25 million below last year's

claims. This was not caused by a reduction in reported claims, which remained substantially unchanged from last year. Instead, the reduced expenses are primarily due to an acceleration of the favourable severity trend recognition, which resulted from an updated blend of loss valuation models used in the reserving process by the actuaries.

C General expenses: \$22.1 million

Thanks to prudent management, our general expenses of \$22.1 million once again came in slightly below budget. Our continued success in maintaining a favourable expense ratio compared to the industry average for similar insurance companies has put us in a strong financial position moving forward.

Statement of Comprehensive Income

Stated in thousands of Canadian dollars

FOR THE YEAR ENDED DECEMBER 31

	2018	2017
Profit (loss)	\$ 16,852	616
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 (\$143) [2017: \$44] (note 13)	(397)	(122)
<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 (\$4,836) (2017: \$1,693)	(13,417)	4,694
Reclassification adjustment for (gains) losses recognized in profit or loss, net of income tax (expense) recovery of (\$2,027) [2017: (\$2,256)]	(5,622)	(6,256)
Reclassification adjustment for impairments, recognized in profit or loss, net of income tax expense of \$853 (2017: \$461) (note 5)	2,368	1,280
Other comprehensive income (loss)	\$ (17,068)	(404)
Comprehensive income (loss)	\$ (216)	212

F

Accompanying notes are an integral part of the financial statements.

D Investment income: \$19.7 million

Volatile market conditions in 2018 did not substantially compromise our investment income, as it is \$1.3 million above budget at \$19.7 million. The market downturn at year end did lead to a \$3.2 million write down on impaired securities, but this was mostly offset by a lower change in unrealized losses compared with last year.

E Profit: \$16.9 million

Our after-tax net income of \$16.9 million was above both expectations and last year's results, primarily due to the year-over-year reduction in claims expenses. The substantial portion of this net income was attributable to our investments, with before-tax underwriting income contributing \$2.8 million, reflecting our successful balancing of claims with underwriting.

F Other comprehensive loss: (\$17.07 million)

The volatile market conditions experienced during the latter portion of 2018 negatively impacted the value of securities at year end. These poor market conditions contributed to our comparatively high unrealized investment losses. However, favourable market trends in the first two months of 2019 have largely reversed these losses as of February 28, 2019.

At the end of 2018, LAWPRO shareholders equity remained largely unchanged at \$253.5 million, compared with \$253.7 million at the end of 2017.

Minimum capital test: Right on target

Between 2015-2017, LAWPRO phased in new Minimum Capital Test (MCT) calculation requirements. The MCT is intended to ensure that a financial institution's assets are sufficient to meet its present and future obligations. The MCT ratio is influenced by credit risks (investments and receivables) and liability risks (both in terms of unpaid claims as well as unearned premiums).

As of December 31, 2018, our MCT is 237 per cent, exactly the same as year-end 2017. This is once again within the preferred operating range of 215 per cent to 240 per cent established by the Board.

Another year, another strong financial rating

This year, LAWPRO was pleased to receive its 18th consecutive "A" rating for financial strength and "a" issuer credit rating from A.M. Best Co. This independent rating is provided to companies that have an "excellent" ability to meet ongoing insurance obligations and reflects our long-term financial stability. ■