the co-operators®

Co-operators General Insurance Company

Annual Report 2019

Our mission

The Co-operators: financial security for Canadians and their communities.

Our vision

The Co-operators is valued by Canadians as…
> a champion of their prosperity and peace of mind
> a trusted leader in the financial services industry, distinct in its co-operative character
> a catalyst for a sustainable society

Statement of values

At The Co-operators, we:
> act with integrity
> treat our members and clients with respect
> inspire and support our employees in their achievement of excellence
> give life to co-operative principles and values
> balance our economic goals with concern for the environment and the welfare of society

Global co-operative principles

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training and information
6. Co-operation among co-operatives
7. Concern for community

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Company profile

Co-operators General Insurance Company (CGIC) is a leading Canadian-owned multi-product insurance and financial services organization with assets of more than $7.4 billion.

CGIC has 4,072 employees and is supported by a dedicated Financial Advisor network with 2,530 licensed insurance representatives throughout Canada.

Under its primary line of business, Property and Casualty insurance, CGIC protects 896,000 homes, 1.5 million vehicles, 40,000 farms and 269,000 businesses.

Corporate governance

Co-operators General Insurance Company is a member of The Co-operators group of companies. As such, we approach best practices in corporate governance from an enterprise perspective. We disclose our corporate governance practices in significant detail in the Annual Information Form we file on SEDAR (sedar.com) at the end of March each year, and in our Integrated Annual Report.

Annual statement

This Annual Report constitutes the Annual Statement of Co-operators General Insurance Company ("CGIC"), which CGIC is required to deliver to its shareholders in accordance with s.334(1) of the Insurance Companies Act (Canada).

The following list sets out the sections of this Annual Report, which are delivered to shareholders in accordance with s.334(1) of the Insurance Companies Act (Canada) and the page numbers on which such sections are located within the Annual Report:

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Management's Discussion & Analysis

For the year ended December 31, 2019

February 13, 2020

This Management's Discussion and Analysis (MD&A) comments on Co-operators General Insurance Company's operations and financial condition for the year ended December 31, 2019.

Unless otherwise stated or the context otherwise indicates, in this report, "Co-operators General", "we", "us" and "our" refers to the Consolidated Co-operators General Insurance Company including its wholly owned subsidiaries: The Sovereign General Insurance Company (Sovereign), COSECO Insurance Company (COSECO), CUMIS General Insurance Company (CUMIS General), Co-operators Investment Limited Partnership (CILP), Co-operators Strategic Growth Corporation (CSGC) and Co-operators Insurance Agencies Limited (CIAL). CGIC refers to the non-consolidated Co-operators General Insurance Company. CGIC acquired CUMIS General on April 1, 2018; refer to the *Related Party Transaction* section for additional details.

The information in this discussion should be read in conjunction with our consolidated financial statements and notes. References to "Note" refer to the Notes to the consolidated financial statements. All amounts are expressed in Canadian dollars, unless otherwise specified, and are based on consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Additional information relating to Co-operators General, including our Annual Information Form, can be found on SEDAR at www.sedar.com.

We use certain financial performance measures which do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. They should not be viewed as an alternative to measures of financial performance determined in accordance with IFRS. Such measures are defined in this document in the *Key Financial Measures (Non-IFRS)* section.

The information in this discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from these forward-looking statements as a result of various factors, including those discussed below or in our Annual Information Form. Please read the cautionary note which follows.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A may contain forward-looking statements and forward-looking information, including statements regarding the operations, objectives, strategies, financial situation and performance of Co-operators General. These statements, which appear in this MD&A (including the documents incorporated by reference herein), generally can be identified by the use of forward-looking words such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "plan", "would", "should", "could", "trend", "predict", "likely", "potential" or "continue" or the negative thereof and similar variations. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the forward-looking statements or information. In addition, this MD&A may contain forward-looking statements and information attributed to third party industry sources. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Such forward-looking statements and information in this MD&A speak only as of the date of this MD&A.

Forward-looking statements and information in this MD&A include, but are not limited to, statements with respect to: our growth expectations; the impact of changes in governmental regulation on our company; possible changes in our expense levels; changes in tax laws; and anticipated benefits of acquisitions and dispositions.

With respect to forward-looking statements and information contained in this MD&A, we have made assumptions regarding, among other things: growth rates and inflation rates in the Canadian and global economies; the Canadian and U.S. housing markets; the Canadian and global capital markets; the strength of the Canadian dollar relative to the U.S. dollar; employment levels and consumer spending in the Canadian economy; and impacts of regulation and tax laws by the Canadian and provincial governments or their agencies. Some of the assumptions we have made are described in *Outlook, Business Developments and Operating Environment.*

Although we believe that the expectations reflected in the forward-looking statements and information are reasonable, there can be no assurance that such expectations will prove to be correct. We cannot guarantee future results, levels of activity, performance or achievements. Consequently, we make no representation that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements and information. Some of the risks and other factors, some of which are beyond our control, which could cause results to differ materially from those expressed in the forward-looking statements and information contained in this MD&A and the documents incorporated by reference herein include, but are not limited to: our ability to implement our strategy or operate our business as we currently expect; our ability to accurately assess the risks associated with the insurance policies that we write; unfavourable capital market developments or other factors which may affect our investments; the cyclical nature of the property and casualty insurance industry; our ability to accurately predict future claims frequency; the frequency and severity of weather related events; climate change; government regulations; litigation and regulatory actions; periodic negative publicity regarding the insurance industry; intense competition; our reliance on advisors to sell our products; our ability to successfully pursue our acquisition strategy; actions to be taken in connection with the sale of L'Union Canadienne, Compagnie d'assurances to Roins Financial Services Limited; our participation in the Facility Association (a mandatory pooling arrangement among all industry participants); terrorist attacks and ensuing events; the occurrence of catastrophic events; our ability to maintain our financial strength ratings; our ability to alleviate risk through reinsurance; our ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); our reliance on information technology and telecommunications systems; impacts of new or changing technologies, including those impacting personal transportation; breaches or failure of information system security and privacy, including cyber terrorism; our dependence on key employees; and general economic, financial and political conditions.

Readers are cautioned that the foregoing list of factors is not exhaustive. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement. We are not under any duty to update any of the forward-looking statements after the date of this MD&A to conform such statements to actual results or to changes in our expectations except as otherwise required by applicable legislation.

CORPORATE OVERVIEW

ABOUT US

As a leading Canadian-owned multi-line insurer, Co-operators General plays a vital role in providing home, automobile, farm and commercial insurance products to individuals and businesses through a diverse distribution network. We are one of the largest providers of property and casualty (P&C) insurance in Canada with a national market share of approximately 6.1%[1]. Our multi-channel distribution model operates under our four main operating companies:

CGIC - Distributes both personal and commercial insurance products through a dedicated financial advisor network with 2,530 licensed insurance representatives throughout Canada. CGIC also distributes the life insurance and wealth management products of Co-operators Life Insurance Company, an affiliated company. Customers may also obtain quotes for our suite of insurance products by visiting www.cooperators.ca.

Sovereign - Writes complex commercial and specialty risks for Canadian businesses.

COSECO - Provides home and auto insurance to employer, association and affinity groups across Canada.

CUMIS General – Provides personal and commercial insurance products for credit unions and their members.

Co-operators General's parent company is Co-operators Financial Services Limited (CFSL) and its ultimate parent company is The Co-operators Group Limited (CGL), a Canadian-owned co-operative with 45 members. Significant associated companies under common control include Co-operators Life Insurance Company (CLIC), CUMIS Life Insurance Company (CUMIS Life), Addenda Capital Inc. (Addenda), Federated Agencies Limited (FAL), H.B. Group Insurance Management Ltd. (HB Group), Premier Managers Holdings Corporation (PMHC), and The Edge Benefits Limited. "The Co-operators" refers to CGL and its direct and indirect subsidiaries. The majority of Co-operators General's investment portfolio is managed by Addenda, an investment management firm. We also share many other corporate services with affiliated companies in order to maximize synergies amongst the group of companies.

[1] As of December 31, 2018, the latest information available by MSA Research.

CORPORATE STRATEGY

Our strategy continues to be rooted in The Co-operators' mission: financial security for Canadians and their communities. As we end the first year of our four-year strategy, we reflect on the progress we have made against our goals. We have made significant strides in executing on our strategic areas of focus (Client Engagement, Co-operative Identity, Competitiveness, Create the Future and Workforce Capability) and over the next three years, we will continue to build on this foundation as we strive to further enhance and protect the financial security of our members and clients, resiliency of our communities, and the social well-being of Canadians. We are committed to delivering competitive and client focused solutions; delivering relevant, contemporary and compelling solutions to our members; and being the financial services provider of choice to co-operatives and like-minded organizations.

Becoming the industry leader in client engagement within the financial services industry

Our clients are a dynamic range of individuals, families, co-operatives, credit unions, non-profits, corporations and more. The quality of our client engagement depends on our ability to understand and respond to their diverse needs, while providing effective products and solutions that protect their financial security, community resiliency and social well-being.

A cornerstone of our strategy is a commitment to create a guided omni-channel experience for our clients. A guided omni-channel experience tailors our clients' experience based on our understanding of each individual client and their needs. Clients can choose how, when, and where they do business with us, as well as move seamlessly across the channels as they wish. Client engagement will be enhanced through the expansion of our digital capabilities which supports our guided omni-channel approach.

Client engagement encompasses more than 'how' clients interact with us; it also reflects the value, quality and completeness of the products and services they choose to obtain from our group of companies. We will offer advice and customized solutions to truly engage our clients.

Our continued investment in advancing our business intelligence capabilities and segmentation allows us to better understand our clients' needs, price our products, and align our pricing with the insurance risks we take. This information will support our distribution channels with actionable information and will contribute to an outstanding experience for our clients.

How our clients view us is critical to our client engagement success. Each year, we closely monitor our performance to measure the two-way creation of value with our clients across all lines of business. In the 2019 J.D. Power study of client satisfaction for Home and Auto insurance, we were honoured to rank first in the Atlantic/Ontario region for Home and first in the Alberta, Ontario, and Atlantic regions for Auto. Our high ranking is a positive indication that we are meeting clients' needs.

Demonstrating a commitment to bring the co-operative principles to life

Our parent, CGL, is a co-operative and this is core to our identity and to our business. We will continue to be an invaluable part of the co-operative system and to champion for its advancement. We offer Co-op Guard™ and Garde-coop^MC^ (in Quebec), a suite of products and services tailored to the co-operative sector that are the only nationwide products of their kind.

Commitment to our co-operative identity and sustainability principles means not only serving the needs of the co-operative community, but extending the value system through integration and embedment of these principles into our actions, decision making, and business processes as well as the products and services we deliver to all of our clients. Health, wellness, loss prevention and financial literacy are areas where our values as a co-operative financial service provider allow us to take a unique view of advice and advocacy for all our clients.

Developing financial solutions and services that provide access for underserved Canadians is an important part of demonstrating our co-operative identity. Climate change will continue to challenge our industry, and we will remain ahead of this trend by advancing our underwriting capabilities and providing products and advice-based services to inform and educate clients to enhance their resilience. As an example, Comprehensive Water is our answer to what has quickly become Canada's most significant property insurance need. Since our initial deployment in 2015, clients have benefitted from the additional coverage following flooding events that would not otherwise have been covered. Our leadership on flood insurance and community resiliency will be demonstrated by continuing our existing efforts on infrastructure resiliency and other unmet needs with governments at the federal, provincial and municipal levels. We have also contributed to the Canadian Co-operative Investment Fund to further advance co-operative enterprises within Canada.

We continue to demonstrate our commitment to co-operative principles through our investment policy and practices by applying an investing approach that intentionally seeks to create financial return as well as positive social and/or environmental impact that is actively measured. We have committed to focus our impact investing in three main areas: mitigation and adaptation to climate change; health and wellness; and food, agriculture and natural resources. Implementing and continuously improving our sustainable and impact investing practices will support our long-term vision. In 2018, CGL set an ambitious goal to invest twenty per cent of invested assets into impact investments by the end of 2022 and we are on track to achieve this target with more than 19.4 per cent invested as of 2019. These investments provide capital for the world's most pressing environmental and social challenges while generating a competitive risk adjusted financial return. The impact of our investments is being actively measured and reported annually. Refer to *Climate-related financial disclosures* for additional details on this metric.

Enhancing our competitive position in the marketplace

Operational excellence is key to achieving our goals, and our efforts will focus on continued and committed pursuit of profitable operations. We will seek to drive consistent profitability and growth across all business lines, while ensuring efficiency throughout all aspects of our operations. The efficiency of our operations will be supported by enhancing our digital capabilities and refinement of our operating structure. Close management of our expenses is a priority, along with enhancing our organizational agility, speed to market and leveraging our capabilities for business intelligence. A disciplined eye on operational excellence will nurture an environment in which Co-operators General can enhance competitiveness, grow profitably and capture market share.

We will capture, analyze and act on accurate and comprehensive data to improve our decision-making capacity and product service solutions. We are building data and reporting capabilities within our business intelligence unit using leading-edge tools and technologies, which will strengthen our underwriting and decision-making capabilities.

Creating the future we want to see

The pace of change within our industry, and adjacent industries, continues to influence consumer behaviours and create new demands. Digitization, technological advancements and unprecedented connectivity are fueling client behaviour and their expectations are driving the emergence of new business models. We have dedicated resources in place to explore and invest in this area. To illustrate this, The Co-operators has partnered with Slice Labs Inc. (Slice) to deliver a unique value proposition within the emerging digital economy to address unmet needs. In an exclusive arrangement with Slice, The Co-operators will create new insurance products to meet growing customer desires for easy, on-demand insurance solutions that satisfy emerging digital economies. Launched under the brand name duuo by Co-operators™ in 2018, the first product provides pay-per-use homeshare insurance for hosts using home sharing platforms like Airbnb®, HomeAway® and VRBO®. Three more products were launched in 2019, including event insurance reimagined for clients to make it simple, inexpensive and timely to obtain on-demand event coverage. The products are underwritten by CGIC. The duuo by Co-operators™ brand reflects The Co-operators commitment to working together with clients to provide peace of mind in a way that is easy, fast, fair and affordable – a commitment made possible through the Slice platform.

Empowering an adaptable and change ready workforce

We recognize that in this time of unprecedented change, our people are the core source of our long-term competitive advantage. Having a dynamic and diverse workforce that can excel in a rapidly changing environment is of paramount importance. We will continue to ensure we have the structures and practices in place to support this, while ensuring a healthy and inclusive work environment that encourages innovative thinking, cross-collaboration and experimentation.

SUMMARY OF KEY FINANCIAL DATA AND RESULTS OVERVIEW

(in millions of dollars except ROE, EPS and ratios)

	2019	2018[3]	2017
Key financial data[1]			
Direct written premium (DWP)	**3,752.4**	3,295.9	2,740.4
Net earned premium (NEP)	**3,274.7**	2,886.9	2,559.1
Net income (loss)	**174.0**	(37.1)	121.1
Total assets	**7,488.0**	6,698.7	5,922.1
Total liabilities	**5,640.7**	5,048.8	4,391.0
Shareholders' equity	**1,847.3**	1,649.9	1,531.1
Key success indicators[1]			
Direct written premium growth	**13.9%**	20.3%	6.5%
Net earned premium growth	**13.4%**	12.8%	6.6%
Underwriting loss - excluding market yield adjustment (MYA)	**(37.3)**	(152.5)	(81.7)
Earnings (loss) per share (EPS)[2]	**$6.40**	($2.03)	$5.17
Return on equity (ROE)	**10.8%**	(2.5%)	8.5%
Combined ratio - excluding MYA	**101.1%**	105.2%	103.2%
Combined ratio - including MYA	**102.0%**	105.0%	102.4%
Minimum Capital Test (MCT)	**209%**	208%	216%

[1] Refer to Key Financial Measures (Non-IFRS) Section

[2] All of the common shares of CGIC are owned by CFSL

[3] Amounts presented include the results of operations and the balance sheet of CUMIS General from the date of acquisition, April 1, 2018

We experienced continued growth in our core lines of business and in all regions in 2019. Higher average premiums coupled with growth in policies and vehicles in force led to an increase in DWP of 13.9% and an increase in NEP of 13.4% over the prior year. This represents a decrease of 6.4 percentage points from the DWP growth experienced in 2018, reflecting our continued focus on achieving profitable growth. Prior year growth had also been impacted by the acquisition of CUMIS General on April 1, 2018.

Excluding MYA, our underwriting loss of $37.3 million for 2019 improved from our underwriting loss of $152.5 million in 2018. This was primarily the result of premium growth across all lines of business, with our auto and home lines of business being the largest contributors. While our overall net claims and adjustment expenses increased over the prior year, a reduction in major loss events in 2019 from 2018 contributed to our improved underwriting performance.

Our net investment income and gains of $272.1 million increased by $205.4 million compared to the prior year. This was mainly attributable to a rebound in the equity markets from the weakness that was experienced in late 2018, as well as declining long-term interest rates in the current year.

FINANCIAL PERFORMANCE REVIEW

NET RESULTS

	2019	2018	2017
Net income (loss) ($ millions)	**174.0**	(37.1)	121.1
Return on equity (ROE)	**10.8%**	(2.5%)	8.5%

We earned net income of $174.0 million for the year, an increase of $211.1 million from the prior year's net loss of $37.1 million. The increase in our net results improves our ROE to 10.8% as compared to (2.5%) in 2018. Our 2019 results were driven by sustained policy growth across all lines of business, fewer major loss events and an increase in investment returns resulting from rebounding equity markets and declining long-term interest rates.

DIRECT WRITTEN PREMIUM AND NET EARNED PREMIUM

$ millions	2019	2018	% change	2017
Direct written premium	**3,752.4**	3,295.9	13.9%	2,740.4
Net earned premium	**3,274.7**	2,886.9	13.4%	2,559.1

During 2019, DWP increased by 13.9% or $456.5 million over the prior year. The increase in DWP was primarily attributable to higher average premiums across all lines of business and geographical regions and to a lesser extent, increases in policies and vehicles in force in Ontario. NEP growth of 13.4% or $387.8 million over the prior year is also seen across all our lines of business and across all regions.

Refer to Note 22 of the consolidated financial statements for a reconciliation of DWP to NEP.

NEP by line of business

$ millions	2019	2018	% change	2017
Auto	**1,603.8**	1,388.5	15.5%	1,219.2
Home	**902.7**	811.2	11.3%	730.2
Commercial	**551.4**	490.4	12.4%	447.5
Farm	**143.4**	130.5	9.9%	126.7
Travel and other	**73.4**	66.3	10.7%	35.5
Total	**3,274.7**	2,886.9	13.4%	2,559.1

The auto line of business remains our largest line by NEP, increasing by 15.5% or $215.3 million from 2018. This was driven by higher average premiums and to a lesser extent, growth in vehicles in force across all regions, particularly within the Western region and Ontario. The home line of business experienced an increase in NEP of 11.3%. Growth was attributed to higher average premiums in the Ontario and the Western regions. The commercial line of business experienced NEP growth of 12.4% over the prior year. Rate adjustments coupled with policy growth, particularly in Ontario and the West, drove the increases seen in these regions. NEP in the farm line of business increased by 9.9% compared to the prior year and was primarily the result of rate adjustments in the Western and Ontario regions. The travel and other line of business experienced NEP growth of 10.7% over the prior year. Growth over the prior year was mainly driven by the addition of CUMIS General's results for the full year in 2019, as compared to 2018 when CUMIS General contributed the last 8 months of its results to Co-operators General upon its acquisition by CGIC on April 1, 2018.

NEP by geographic region

$ millions	2019	2018	% change	2017
West	**1,155.7**	1,050.0	10.1%	956.2
Ontario	**1,649.0**	1,426.5	15.6%	1,241.7
Quebec	**161.4**	128.4	25.7%	110.4
Atlantic	**308.6**	282.0	9.4%	250.8
Total	**3,274.7**	2,886.9	13.4%	2,559.1

NEP grew in the Western region and in Ontario by $105.7 million and $222.4 million, respectively, over the prior year. The growth in both regions was driven by higher average premiums and policies growth across all lines of business. Higher average premiums in Quebec led to an increase in NEP of $33.0 million. NEP grew in the Atlantic region by $26.6 million as a result of higher average premiums combined with an increase in policies in force over the prior year.

INVESTMENT INCOME AND GAINS

$ millions	2019	2018	2017
Interest income	**97.9**	86.1	77.0
Dividend income	**78.2**	51.1	47.8
Other investment income	**0.3**	0.2	0.2
Investment expense	**(6.8)**	(6.4)	(6.3)
Net investment income	**169.6**	131.0	118.7
Net realized gains	**86.6**	11.3	47.0
Net foreign exchange gains (losses)	**14.0**	(9.0)	19.8
Changes in fair value	**5.8**	(46.3)	24.9
Impairment losses	**(3.9)**	(20.3)	(8.4)
Net investment gains (losses)	**102.5**	(64.3)	83.3
Net investment income and gains	**272.1**	66.7	202.0

Net investment income and gains increased by $205.4 million in 2019 as compared to the prior year. This was mainly the result of net investment gains recognized in the current year as compared to losses incurred in the prior year. The increase was further supported by an increase in net investment income earned in 2019.

Net investment gains of $102.5 million in the current year contrasts with the net investment losses of $64.3 million incurred in the prior year. Net realized gains on common shares increased by $35.0 million over the prior year, which was driven by strength in the equity markets and a higher turnover in the portfolio. Net realized gains on bonds increased by $42.9 million over the prior year as a result of tightening credit spreads. The $23.0 million favourable change in net foreign exchange gains was primarily driven by strength in the Canadian dollar relative to the U.S. dollar, which appreciated by 7.3% in 2019. The $52.1 million positive change in fair value was mainly caused by an absence of a market correction which adversely impacted the prior year portfolio and was not seen in the current period. Impairment losses were $16.4 million lower in the current year than in the prior year, due to strength in the global equity markets in 2019 as compared to the prior year when the markets corrected in the latter part of 2018.

Net investment income was $38.6 million higher than in the prior year and was primarily driven by higher income distributions from limited partnership and pooled fund investments.

Our invested assets mix is discussed in the *Invested Assets* section of the MD&A.

OTHER COMPREHENSIVE INCOME (LOSS)

$ millions	2019	2018	2017
Items that may be reclassified subsequently to the statement of income:			
Net unrealized gain (loss) on available-for-sale financial assets	**203.5**	(66.6)	48.0
Net reclassification adjustment for (gains) losses included in income	**(86.9)**	3.3	(42.2)
Items that may be reclassified before income taxes	**116.6**	(63.3)	5.8
Income tax expense (recovery) relating to items that may be reclassified	**32.3**	(18.7)	1.7
	84.3	(44.6)	4.1
Items that will not be reclassified to the statement of income:			
Remeasurement of the retirement benefit obligations	**(3.2)**	11.4	(11.0)
Income tax (recovery) expense related to items that will not be reclassified	**(0.8)**	3.1	(3.0)
	(2.4)	8.3	(8.0)
Other comprehensive income (loss)	**81.9**	(36.3)	(3.9)

Our other comprehensive income was $81.9 million in the year, a favourable change from the $36.3 million other comprehensive loss in 2018. Driving this result was $203.5 million of unrealized gains from a turnaround in the global equity markets as well as declining long-term interest rates. Of this amount, $144.9 million in unrealized gains on our common share portfolio was consistent with a 19.1% increase in the S&P/TSX common share index and the 22.8% increase in the S&P 500. This result was partially offset by reclassification adjustments of $86.9 million to the consolidated statement of income for the year.

EXPENSES

Claims and adjustment expenses – Loss ratio

$ millions, except ratios	2019	2018	change		2017
Undiscounted net claims and adjustment expenses	**2,243.8**	2,117.3	126.5		1,794.8
Effect of MYA	**30.0**	(7.9)	37.9		(20.9)
Net claims and adjustment expenses	**2,273.8**	2,109.4	164.4		1,773.9
Loss ratio (excluding MYA)	**68.5%**	73.3%	(4.8)	pts	70.1%
Loss ratio (including MYA)	**69.4%**	73.1%	(3.7)	pts	69.3%

Undiscounted net claims and adjustment expenses increased by $126.5 million over the prior year. This was primarily driven by client growth within our auto line of business and large losses in our specialty commercial line of business. The increase was partially offset by our home and farm lines of business, which collectively experienced a reduction in claim expenses through fewer accident year claims and major loss events. While there was an overall increase in our net claims and adjustment expenses, NEP outpaced this and led to an improvement in our loss ratio of 4.8 percentage points.

Unpaid claims and adjustment expenses are discounted using the portfolio market yield of our bond and mortgage portfolios with consideration provided for the Government of Canada 5-year bond rate plus a credit spread. Fluctuations in the portfolio market yield impact the unpaid claims and adjustment expenses and are included within the MYA. The portfolio market yield on bonds and commercial mortgages decreased in the year which decreased the discount rate. This impact was further exacerbated by an increase in unpaid claims and combined, led to a net unfavourable impact to MYA of $30.0 million compared to a favourable impact in 2018 of $7.9 million.

Loss ratio by line of business

% excluding MYA	2019	2018	change		2017
Auto	**78.1**	78.5	(0.4)	pts	74.0
Home	**58.2**	69.9	(11.7)	pts	67.1
Commercial	**63.4**	68.6	(5.2)	pts	63.4
Farm	**61.3**	74.9	(13.6)	pts	84.1
Travel and other	**39.4**	38.9	0.5	pts	33.3
Total	**68.5**	73.3	(4.8)	pts	70.1

In 2019, we experienced an improvement in our loss ratio across all lines of business, except travel and other, which remained largely consistent with the prior year. The overall improvement was the result of premium growth outpacing claims and adjustment expenses, coupled with fewer major event losses through 2019.

Our auto loss ratio improved by 0.4 percentage points over the prior year and was driven by higher average premiums and vehicles in force, offset by an increase in the frequency and severity of current accident year claims in Ontario and Western regions where client growth has been significant. Our home loss ratio improved by 11.7 percentage points over the prior year and was primarily driven by a decrease in current accident year claims and major loss events. The prior period was impacted by multiple severe wind and ice storms in Ontario which did not reoccur in 2019. Higher average premiums and favourable claims development in the Western and Ontario regions resulted in an improvement in our commercial loss ratio by 5.2 percentage points from the prior year. This was partially offset by instances of severe weather in the Atlantic and Quebec regions. NEP growth from higher average premiums and a decrease in the frequency and severity of current accident year claims led to an improvement in our farm loss ratio of 13.6 percentage points. Our loss ratio in our travel and other line of business deteriorated slightly by 0.5 percentage points as a result of an increased frequency in current accident year claims.

Loss ratio by geographic region

% excluding MYA	2019	2018	change		2017
West	**65.9**	67.5	(1.6)	pts	69.2
Ontario	**67.8**	76.4	(8.6)	pts	69.8
Quebec	**78.3**	78.9	(0.6)	pts	83.2
Atlantic	**76.9**	77.0	(0.1)	pts	69.6
Total	**68.5**	73.3	(4.8)	pts	70.1

The Western region's loss ratio improved by 1.6 percentage points compared to the prior year. The improvement is attributable to higher average premium and policies in force, which outpaced an increase in the frequency of current accident year claims specifically within the auto and commercial lines of business.

The improvement in the loss ratio of 8.6 percentage points in Ontario was primarily driven by higher average premium and policies in force across all lines of business. This was partially offset by an increase in the frequency of current accident year claims concentrated mainly within the auto line of business.

Quebec's loss ratio improved over the prior year by 0.6 percentage points. NEP growth in the current period grew at a faster rate than increases in the frequency and severity of accident year claims, which were concentrated in the auto and commercial lines of business.

The loss ratio in the Atlantic region remained consistent with that in the prior year, as NEP growth was offset by the impact of severe weather and an increase in current accident year claims across all lines of business.

Other operating expenses – Expense ratio

%, except total other operating expenses ($ millions)	2019	2018	change		2017
Total other operating expenses	**1,068.1**	922.2	145.9		846.0
Expense ratio	**32.6%**	31.9%	0.7	pts	33.1%
Components of expense ratio					
Premium and other taxes	**3.5**	3.5	-	pts	3.5
Net commissions and advisor compensation	**17.0**	17.0	-	pts	17.1
General expenses	**12.1**	11.4	0.7	pts	12.5
Expense ratio	**32.6**	31.9	0.7	pts	33.1

Other operating expenses are comprised of premium and other taxes, net commissions and advisor compensation and general expenses. These expenses have increased by $145.9 million in the year, contributing to an expense ratio of 32.6%, which is an increase of 0.7 percentage points from 2018. Expenses related to premium and other taxes as well as net commissions and advisor compensation increased over the prior year in line with premium growth. In addition, net commissions and advisor compensation was also impacted by an increase in the advisor transition obligation. The general expense ratio increased by 0.7 percentage points as a result of increased staffing costs coupled with higher project spend in the year.

INCOME TAXES

In 2019, the enacted statutory income tax rate of 27.0% did not change from the prior year. The effective tax rate for the year ended December 31, 2019 was 18.7%, representing a tax expense of $40.1 million. Refer to Note 11 of our consolidated financial statements for the income tax reconciliation between the statutory tax rate and our effective tax rate.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

INVESTED ASSETS

Invested asset mix

% based on fair value	2019	2018	2017
Bonds	**54.9%**	57.2%	51.4%
Stocks	**25.5%**	23.7%	28.4%
Mortgages	**9.8%**	9.4%	9.6%
Pooled Funds	**3.7%**	3.8%	4.3%
Limited Partnerships	**3.5%**	2.9%	2.2%
Other	**2.6%**	3.0%	4.1%
	100.0%	100.0%	100.0%

We have a high quality, well diversified investment portfolio consisting primarily of bonds, equities and commercial mortgages. The bond portfolio makes up $2,925.7 million or 54.9% of our total invested assets. Our investment in bonds is diversified both geographically and by sector, with a large portion invested in Canadian government debt instruments. The credit quality of our bond portfolio is presented below.

% based on fair value	2019	2018	2017
AAA	**37.2%**	40.3%	34.7%
AA	**31.2%**	26.4%	26.0%
A	**17.9%**	19.7%	23.8%
BBB	**10.2%**	10.4%	12.1%
Below BBB	**2.8%**	2.5%	3.4%
Not rated	**0.7%**	0.7%	-
	100.0%	100.0%	100.0%

Our equity portfolio makes up $1,359.2 million or 25.5% of our total invested assets and consists largely of publicly traded common and preferred stocks. It is diversified by industry sector and issuer, with 86.4% of the portfolio in Canadian holdings. We hold mortgages with a carrying value of $521.9 million on Canadian commercial and residential properties. Mortgages make up 9.8% of our total invested assets and are of high credit quality with 99.8% considered investment grade based on Addenda's internal rating system. Pooled funds and limited partnerships collectively make up 7.2% of our total invested assets. Pooled funds consist of units invested in fixed income and equity securities, while our limited partnership units represent investments in multi-residential infrastructure and real estate assets.

We adhere to a conservative investment policy and strategy that is based upon prudence in accordance with regulatory guidelines and, in a broad sense, on premium cash flows and claims settlement patterns by product line. We focus on achieving long-term returns while taking advantage of current market opportunities. This is achieved by investing in a diversified mix of securities and by shifting between asset classes as trends in the market evolve. The credit quality of our portfolio remains high with 96.4% of our bonds considered investment grade and 86.2% rated A or higher. Investment grade bonds are those rated BBB and above. Note 5 of the consolidated financial statements provides an extensive breakdown of invested assets.

The *Risk Management* section and Note 6 of the consolidated financial statements provide information on related credit and interest rate risks.

UNPAID CLAIMS AND ADJUSTMENT EXPENSES

Our underwriting objectives are to write business on a prudent and diversified basis and to achieve profitable underwriting results. We underwrite automobile business after a review of the client's driving record and claims experience. We underwrite property lines based on physical condition, property replacement values, claims experience and other factors affecting risk of loss. Advisors and brokers are compensated, in part, based on the claims experience of their portfolio.

Our unpaid claims and adjustment expenses liability is management's best estimate of the amount required to settle all outstanding and unreported claims incurred. The estimate is determined using accepted actuarial practices. Our approach in calculating our unpaid claims liability is to establish adequate provisions at the original valuation date in a sufficient amount such that the risk of the liability being inadequate in any one year is low.

The initial estimate of unpaid claims and adjustment expenses is made on an undiscounted basis. This process is described in *Significant Accounting Judgments, Estimates and Assumptions*. The discount rate applied to measure the value of unpaid claims and adjustment expenses is based upon the portfolio market yield of assets supporting the claims liabilities as well as considerations for the timing of the relative cash flows of the assets and liabilities.

Net unpaid claims liability

$ millions	2019	2018	2017
Balance, beginning of year	**2,613.6**	2,340.7	2,232.4
Less: effect of discounting at prior year-end	**103.3**	105.2	126.1
Undiscounted unpaid claims and adjustment expenses at prior year-end	**2,510.3**	2,235.5	2,106.3
Paid on prior years	**(813.8)**	(733.4)	(635.5)
Change in estimate on prior years	**(6.7)**	(50.7)	(88.2)
Incurred on current year	**2,251.7**	2,169.0	1,883.0
Paid on current year	**(1,235.4)**	(1,206.8)	(1,030.1)
Acquisition of a subsidiary from related party	**-**	96.7	-
Undiscounted unpaid claims and adjustment expenses at current year-end	**2,706.1**	2,510.3	2,235.5
Effect of discounting	**133.3**	103.3	105.2
Unpaid claims and adjustment expenses (net)	**2,839.4**	2,613.6	2,340.7

Unpaid claims and adjustment expenses reflect the cost of paying and settling claims and include estimates for the cost of claims not yet settled and claims incurred but not yet reported. Claims and adjustments expenses incurred during the year include development, which is the difference between the prior year's estimate of unpaid claims and adjustment expenses and the claims costs actually paid plus any change in estimates for claims still open or unreported. We experienced favourable discounted claims development in 2019 of $139.1 million on prior years' claims. For more information refer to Note 7 of the consolidated financial statements.

Refer to *Emerging Legislation and Regulatory Events* section for a summary of legislative, judicial and regulatory events that have an impact on both current and future years' estimates.

SHAREHOLDERS' EQUITY

$ millions	2019	2018	2017
Common shares	**359.8**	229.8	48.1
Preferred shares			
Public issue	**100.0**	100.0	100.0
Private issue	**85.0**	83.7	79.8
Contributed capital	**100.9**	100.9	10.1
Retained earnings	**1,029.4**	1,045.1	1,169.4
Accumulated other comprehensive income	**172.3**	90.4	123.7
Total	**1,847.4**	1,649.9	1,531.1

Our consolidated balance sheet as at December 31, 2019 includes over $1.8 billion in shareholders' equity, reflecting continued financial strength. Overall, our shareholders' equity position increased by $197.5 million in 2019 compared to 2018. Contributing to the increase in our shareholders' equity was comprehensive income earned of $255.9 million. Partially offsetting the increase was dividends declared of $58.3 million.

Capital is a critical strategic resource. It reflects the financial well-being of the organization and enables us to pursue strategic business opportunities. A strong capital position also acts as a safety net for possible losses or catastrophic events and provides a basis for confidence in our financial strength by regulators, shareholders, policyholders and others. For more information on capital management refer to Note 21 of the consolidated financial statements.

A summary of our shares both issued and outstanding is included below. For terms and a complete list of all authorized shares refer to Note 17 to the consolidated financial statements.

2019	Authorized	Issued
Class A preference shares, series A	1,440,000	-
Class A preference shares, series B	Unlimited	790,177
Class B preference shares	Unlimited	412
Class D preference shares, series A	Unlimited	13,803
Class D preference shares, series B	Unlimited	42,535
Class D preference shares, series C	Unlimited	43,184
Class E preference shares, series C	Unlimited	4,000,000
Class F preference shares, series A	Unlimited	488,624
Class G preference shares, series A	Unlimited	14,984
Common shares	Unlimited	26,620,395

Our publicly issued preferred shares include our Class E preference shares, Series C; these shares are listed on the Toronto Stock Exchange (TSX) and trade under the symbol CCS.PR.C.

DIVIDENDS AND EARNINGS PER SHARE (EPS)

Dividends declared

$ per share	2019	2018	2017
Class A preference shares			
Series A	**-**	1.88	1.88
Series B	**5.00**	5.00	5.00
Class B preference shares	**2.50**	2.50	2.50
Class D preference shares			
Series A	**5.00**	5.00	5.00
Series B	**5.00**	5.00	5.00
Series C	**5.00**	5.00	5.00
Class E preference shares			
Series C	**1.25**	1.25	1.25
Class F preference shares	**1.88**	1.88	1.88
Class G preference shares	**2.50**	2.50	2.50
Common shares	**1.81**	-	7.45

Earnings per share (EPS)

$ millions, except share data and EPS	2019	2018	2017
Net income (loss)	**174.0**	(37.1)	121.1
Less dividends on preference shares	**10.3**	10.3	10.2
Net income (loss) available to shareholders	**163.7**	(47.4)	110.9
Weighted average number of outstanding common shares[1]	**25,560,160**	23,359,013	21,463,047
Earnings (loss) per common share	**6.40**	(2.03)	5.17

[1] All of the common shares of CGIC are owned by CFSL

MINIMUM CAPITAL TEST

	2019	2018	2017
MCT	**209%**	208%	216%

Co-operators General's MCT of 209% represents $233.5 million of capital in excess of our 180% internal minimum (2018 - $198.0 million). The MCT is impacted by various factors including interest rates, changes in our share capital, equity market performance and the results of our operations.

THIRD PARTY RATINGS

Rating agencies issue several types of ratings. A Financial Strength Rating (FSR) provides guidance to policyholders of an insurance company's ability to meet its payment obligations to policyholders. An Issuer Credit Rating (ICR) provides guidance to investors of a company's ability to meet its senior obligations. A Preferred Share Rating (PSR) provides guidance on the credit worthiness of the preferred shares issued by a company.

Standard & Poor's ratings

	Outlook	2019	2018	2017
Co-operators General - FSR	Stable	**A-**	A-	A-
Co-operators General - ICR	Stable	**A-**	A-	A-
Co-operators General - PSR	n/a	**P-2**	P-2	P-2

A.M. Best ratings

	Outlook	2019	2018	2017
Co-operators General - FSR	Stable	**A-**	A-	A-
Co-operators General - ICR	Stable	**a-**	a-	a-
Sovereign - FSR	Stable	**A-**	A-	A-
Sovereign - ICR	Stable	**a-**	a-	a-

DBRS ratings

	Outlook	2019	2018	2017
Co-operators General - FSR	Stable	**A (low)**	A (low)	A (low)
Co-operators General - ICR	Stable	**A (low)**	A (low)	A (low)
Co-operators General - PSR	Stable	**Pfd-2 (low)**	Pfd-2 (low)	Pfd-2 (low)

CASH FLOWS

$ millions	2019	2018	2017
Cash provided by operating activities	**547.2**	222.0	142.0
Investing activities			
Sales (purchases) of investments, net	**(403.6)**	(340.3)	40.5
Purchases of interest in associates and joint ventures	**-**	-	(0.3)
Purchases of intangibles and property and equipment, net	**(28.5)**	(6.8)	(9.9)
Acquisition of subsidiary from related party, net of cash acquired	**-**	(176.8)	-
Assets held for sale, net	**-**	-	0.5
Cash flows used in investment activities	**(432.1)**	(523.9)	30.8
Financing activities			
Preference shares issued, net	**(0.3)**	4.1	5.6
Common shares issued	**-**	181.7	-
Contribution of capital	**-**	100.0	-
Lease liabilities paid	**(10.8)**	-	-
Dividends paid	**(58.4)**	(10.2)	(170.0)
Cash flows provided by (used in) financing activities	**(69.5)**	275.6	(164.4)
Net increase (decrease) in cash and cash equivalents	**45.6**	(26.3)	8.4

Cash generated from insurance operations and investment returns normally exceeds our claims and operating expense requirements, and sufficiently funds our commitments and growth initiatives. Our commitments consist primarily of unfunded capital contributions, as disclosed in the *Off-Balance Sheet Arrangements and Contractual Commitments* section.

KEY FINANCIAL MEASURES (NON-IFRS)

We measure and evaluate the performance of the consolidated operations using several financial measurements. These measurements help the reader understand business volumes, the quality of risk underwriting, management reserving practices, and the financial strength and financial leverage of Co-operators General.

These measures are non-IFRS measurements but are derived from elements of the IFRS consolidated financial statements, and are consistent with financial measures used in the P&C insurance industry.

Direct written premium (DWP) is a component of revenue which represents the insurance sales transactions in the year written directly by the insurer. DWP does not include reinsurance policies assumed or ceded and it does not represent premium earned during the year which is referred to as net earned premium. Measuring DWP growth year-over-year is useful in assessing business volume trends.

Loss ratio (also referred to as the claims ratio and a component of the combined ratio) is the ratio of net claims and adjustment expenses to net earned premium, expressed as a percentage.

Expense ratio, also a component of the combined ratio, is the ratio of the total premium and other taxes, commissions and advisor compensation and general expenses to net earned premium, expressed as a percentage.

Combined ratio is the ratio of total expenses to net earned premium, expressed as a percentage. In the insurance business, the combined ratio is used to understand a company's profitability from underwriting insurance risks. The combined ratio is the sum of the loss ratio and the expense ratio.

Underwriting gain or loss is the profit or loss from the activity of taking on insurance risks, excluding the impact of the MYA.

Market yield adjustment (MYA) is the impact of changes in the discount provision on claims liabilities. It includes the impact of changes in the discount rate used to discount claims liabilities based on the change in the market-based yield of the underlying assets. MYA also includes adjustments made to the provisions for adverse deviation (PFADs) and other discounting assumptions.

Claims development is essential to understanding the reasonableness of a company's claims reserving practices. It represents the difference between any prior estimates in the claims costs and the claims costs actually paid on closed claims, plus any change in estimates for claims still open or unreported. Favourable claims development contributes positively to net income, while unfavourable development contributes negatively. Consistent favourable claims development generally indicates strength in a company's reserving practices.

Return on equity (ROE) is the ratio of net income to the average of opening and closing shareholders' equity excluding accumulated other comprehensive income.

Minimum Capital Test (MCT) is a regulatory defined, formula-driven, risk-based test of capital available over capital required. The formula looks at the various elements of assets and liabilities on the balance sheet and assigns risk weightings to establish a required capital level. Capital available is total shareholders' equity plus or minus certain adjustments as prescribed by the Office of the Superintendent of Financial Institutions (OSFI). The supervisory target capital ratio established by OSFI for the industry, which we are expected to operate above, is 150% of capital required.

UNDERWRITING RESULTS

$ millions, except ratios	**2019**	2018	2017
Net earned premium, before reinstatement premiums	**3,274.3**	2,891.0	2,557.3
Reinstatement premiums expense (recovery)	**(0.4)**	4.1	(1.8)
Net earned premium, as reported	**3,274.7**	2,886.9	2,559.1
Undiscounted net claims and adjustment expenses (excluding MYA)	**2,243.8**	2,117.3	1,794.8
Loss ratio (excluding MYA)	**68.5%**	73.3%	70.1%
Other operating expenses	**1,068.2**	922.1	846.0
Expense ratio	**32.6%**	31.9%	33.1%
Underwriting loss	**(37.3)**	(152.5)	(81.7)
Combined ratio (excluding MYA)	**101.1%**	105.2%	103.2%

CLAIMS DEVELOPMENT

$ millions	**2019[1]**	2018[1]	2017
Unpaid claims and adjustment expenses (net)	**2,839.4**	2,613.6	2,340.7
Add: investment income on unpaid claims		122.2	83.2
Less: net paid claims		813.8	1,104.1
Less: re-estimate of unpaid claims at December 31		1,782.9	1,162.7
Claims development - favourable		139.1	157.1
1st year		139.1	111.4
2nd year			45.7
Claims development - favourable		139.1	157.1

[1] Amount includes CUMIS General's net unpaid claims and adjustment expenses

RETURN ON EQUITY (ROE)

$ millions, except ratios	**2019**	2018[1]	2017
Net income (loss)	**174.0**	(37.1)	121.1
Average shareholders' equity excluding accumulated other comprehensive income	**1,617.3**	1,483.5	1,429.4
Return on equity (ROE)	**10.8%**	(2.5%)	8.5%

[1] Amounts presented include the results of operations and balance sheet of CUMIS General, acquired as of April 1, 2018

QUARTERLY RESULTS

The quarterly results reflect the seasonality of our business. Premiums are generally written in annual renewal cycles, most often in the second quarter, and extreme weather conditions historically impact the loss ratio in the first and third quarters.

The timing of claims can be difficult to predict due to uncontrollable factors, such as governmental regulatory actions, weather, or changes in estimates related to investment provisions. Results are also affected by more predictable factors such as the timing of major expenditures, changes in estimates related to claims reserves, and purchase and sale decisions made with respect to our investment portfolio.

(in millions of dollars except EPS and ratios)

2019	**1st Qtr**	**2nd Qtr**	**3rd Qtr**	**4th Qtr**	**Annual**
Direct written premium	**757.6**	**1,049.8**	**999.7**	**945.3**	**3,752.4**
Net earned premium	**763.0**	**804.6**	**840.6**	**866.5**	**3,274.7**
Net income	**21.8**	**79.1**	**12.4**	**60.7**	**174.0**
Other comprehensive income (loss)	**95.3**	**(3.0)**	**14.7**	**(25.1)**	**81.9**
Key statistics					
Earnings per share (EPS)	**$0.84**	**$2.84**	**$0.42**	**$2.30**	**$6.40**
Loss ratio (excluding MYA)	**71.9%**	**62.3%**	**70.8%**	**64.5%**	**68.5%**
Expense ratio	**32.5%**	**33.1%**	**32.2%**	**32.7%**	**32.6%**
Combined ratio (excluding MYA)	**104.4%**	**95.4%**	**103.0%**	**97.3%**	**101.1%**

2018	1st Qtr[1]	2nd Qtr	3rd Qtr	4th Qtr	Annual
Direct written premium	599.7	941.7	909.1	845.4	3,295.9
Net earned premium	658.1	717.4	750.6	760.8	2,886.9
Net income (loss)	(27.8)	(4.0)	12.9	(18.2)	(37.1)
Other comprehensive income (loss)	(7.8)	21.5	(14.1)	(35.9)	(36.3)
Key statistics					
Earnings (loss) per share (EPS)	($1.35)	($0.35)	$0.48	($0.81)	($2.03)
Loss ratio (excluding MYA)	74.5%	75.7%	73.4%	70.0%	73.3%
Expense ratio	33.0%	32.1%	30.7%	32.1%	31.9%
Combined ratio (excluding MYA)	107.5%	107.8%	104.1%	102.2%	105.2%

[1] Amounts presented do not include the results of CUMIS General, acquired on April 1, 2018

In 2019, our quarterly DWP results followed a consistent pattern with 2018 results, with the second quarter representing the largest quarter, followed by the third quarter. In the first quarter of 2019, we saw a 2.6 percentage point improvement in the loss ratio to 71.9% compared to the same quarter in 2018. This was the result of lower frequency and severity of current accident year claims in the Western and Atlantic regions. The second quarter loss ratio improved by 13.4 percentage points due to the non-recurrence of ice and windstorms in Ontario and Quebec that occurred during the prior period. The third quarter loss ratio improved by 2.6 percentage points and was driven primarily by premium growth; this impact was partially offset by an increase in claims expenses and adjustments resulting from the impact of severe weather.

Review of fourth quarter 2019 results

Net income for the quarter amounted to $60.7 million, in contrast to a net loss of $18.2 million in the same quarter of last year. This produced an earnings per common share in the quarter of $2.30 as opposed to a loss per common share of $0.81 in 2018. The turnaround in results was largely attributable to strong NEP growth, which grew by 13.9% or $105.7 million from the prior quarter. This was driven by strong policy growth and higher average premiums and retention within the auto line of business. Partially offsetting this impact was rising claims costs attributable to higher current accident year claims in the Western and Ontario regions within the auto line of business.

Fourth quarter DWP increased 11.8% over the same period of 2018 to $945.3 million while NEP grew by 13.9% compared to the fourth quarter of prior year to $866.5 million. DWP and NEP growth was attributable to higher average premiums and sustained policy growth in all lines of business and across all regions, particularly in Ontario for the auto line of business where client growth has significantly increased.

The loss ratio for the quarter, excluding MYA, was 64.5% compared to 70.0% from the same period of 2018, an improvement of 5.5 percentage points. This was a result of NEP growth outpacing an increase in the frequency and severity of accident year claims in the quarter, particularly for the auto line of business.

Fourth quarter operating expenses increased by $18.1 million over the same quarter of last year, the result of higher commissions and advisor compensation attributed to premium growth and movements in the advisor transition obligation, coupled with higher staffing costs and project spend.

The fourth quarter of 2019 saw strong performance from our investments, recording net investment income of $74.7 million and representing a $90.2 million favourable change from the same quarter of last year. This result was mainly driven by unrealized preferred share gains of $8.6 million and realized net foreign exchange gains of $5.0 million in the current quarter, in contrast with losses of $37.9 million and $8.9 million, respectively, recognized in the same quarter of last year.

We recognized an other comprehensive loss for the quarter of $25.1 million, an improvement of $10.8 million compared to the comparative quarter in 2018. Much of the quarter's loss can be attributed to unrealized losses in our bond portfolio of $58.3 million as interest rates rose in the period, coupled with $12.4 million in reclassification adjustments to the consolidated statement of income. In addition, adverse changes in the discount rate and other actuarial assumptions resulted in a $3.1 million remeasurement of our retired benefit obligation. This was partially offset by unrealized gains on our common shares of $12.0 million as a result of continued strength in the S&P/TSX and S&P 500 common share indexes.

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL COMMITMENTS

Securities lending

We lend securities in our investment portfolio to other institutions for short periods to generate additional fee income. We receive securities of superior credit quality and value as collateral for securities loaned. As at December 31, 2019, the value of the securities on loan consisted of $75.7 million in stocks and $715.7 million in bonds. Securities with a fair value of $849.5 million were received as collateral. The collateral received has not been recorded in Co-operators General's consolidated balance sheet.

Investment commitments

We have entered into commitments with private equity funds to invest additional funds of $71.7 million and US$177.5 million into limited partnership structures. The timing and the amount of capital contributions that are called is determined by the General Partner. As at December 31, 2019, we had provided capital contributions of $162.5 million towards these commitments.

Structured settlements

In the normal course of claims adjudication, we settle certain obligations to claimants through the purchase of annuities from third party life insurance companies under structured settlement arrangements. This business is placed with several licensed Canadian insurance companies. Our net risk is the credit risk related to the life insurance companies the annuities are purchased from. To manage this risk, we enter into structured settlements with life insurance companies with a credit rating of A or higher. This risk is further reduced to the extent of coverage provided by Assuris, the life insurance compensation plan that funds most policy liabilities of an insolvent Canadian life insurer. As at December 31, 2019, we have guaranteed the life insurers' obligations under these annuities, totaling $794.8 million, based on the net present value of the projected future cash flow of these guarantees. No default has occurred, and we consider the possibility of default to be remote.

CONTINGENCIES

We are subject to litigation arising in the normal course of conducting our insurance business. We are of the opinion that current litigation will not have a significant effect on the financial position, results of operations, or cash flows of Co-operators General. As at December 31, 2019, no other material contingencies have been identified.

RELATED PARTY TRANSACTIONS

On May 27, 2019, CGIC entered into an agreement with a company under common control, H.B. Group Insurance Management Ltd., to acquire a line of business that provides brokerage services for group home and auto insurance across Canada. Both parties to the agreement are owned 100% by CFSL. CGIC applied the predecessor accounting method and recorded the acquisition at the carrying values of the net assets. The difference between the carrying value and the consideration exchanged was recorded through shareholders' equity in our consolidated financial statements. The fair value of the consideration exchanged of $130.0 million was funded by CGIC through the issuance of common shares to its immediate parent, CFSL. The carrying value of net assets acquired was $nil. The acquisition provides CGIC with direct access to HB's customer base.

In the normal course of business, we obtain services from our ultimate and immediate parent companies as well as from related companies that are under the common ownership of our ultimate parent company. Note 25 of the consolidated financial statements provides additional information on related party transactions.

Services we receive:

Corporate services from Co-operators Financial Services Limited (2019 - $151.6 million, 2018 - $126.6 million)

Corporate services are provided by the parent company, CFSL. CFSL recovers the cost for services including corporate procurement, human resources, costs related to the Board of Directors, annual meeting, senior executives, general counsel, compliance, enterprise risk management, corporate actuarial, corporate reinsurance, strategic planning, enterprise project portfolio office, corporate finance, financial accounting services, tax, audit, marketing and corporate communications, enterprise information technology and workplace services. The management fee charges are set on a cost-recovery basis and are shared amongst the various subsidiaries of the parent company based on estimated usage of services provided. This contract renews annually.

Executive services from The Co-operators Group Limited (2019 - $8.7 million, 2018 - $8.3 million)

Executive services are provided by certain senior executives of the ultimate parent company, CGL. The executive fee charges are allocated to the various subsidiaries of the parent company based on the compensation costs incurred by CGL related to these employees. This contract renews annually.

Product distribution from HB Group Insurance Management Ltd. (2019 - $73.3 million, 2018 - $67.3 million)

HB Group is the primary distribution channel for COSECO and provides distribution for CUMIS General as well. HB Group charges a commission for its distribution services. This contract renews annually.

Product distribution from Premier Managers Holdings Corporation (2019 - $23.9 million, 2018 - $19.1 million)

Premier is one of the distribution channels for Sovereign. Premier charges a commission for its distribution services. This contract renews annually.

Reinsurance from Co-operators Life Insurance Company (premiums: 2019 - $68.3 million, 2018 - $86.7 million; commissions: 2019 - $36.9 million, 2018 - $45.1 million)

CUMIS General cedes a portion of the accident and sickness premium and the related commission expense within the travel line of business to CLIC. The reinsurance contract is set at terms and conditions similar to those of other third-party reinsurance contracts.

Employee and retiree benefits administration from Co-operators Life Insurance Company (2019 - $9.1 million, 2018 - $7.1 million)

Employee life and long-term disability benefits are insured and medical and dental benefits are provided for under an administrative services only contract. These contracts are set at terms and conditions similar to those CLIC establishes for its third-party client base. This contract renews annually.

Investment management services from Addenda Capital Inc. (2019 - $5.1 million, 2018 - $5.1 million)

Addenda provides investment management services for our portfolio of invested assets. The fees are charged in a manner that is consistent with Addenda's external clients. This contract renews annually.

Members and members of members service agreement with Federated Agencies Limited (2019 - $2.3 million, 2018 - $2.6 million)

Federated Agencies Limited holds applicable licenses to provide products and services to CGL's members and members of CGL's members. A commission is charged for broker and underwriting services. This contract renews annually.

Services we provide:

We provide product distribution services (2019 - $44.0 million, 2018 - $42.4 million) and marketing services (2019 - $8.8 million, 2018 - $8.7 million) to CLIC for insurance and wealth management products. We compensate the advisors directly and receive payments based on the production level from CLIC. The compensation rate is negotiated on a fair and equitable basis by using industry comparatives. We also charge CLIC for the portion of the marketing program deemed to benefit the life insurance business. This contract is periodically renegotiated.

CUMIS General assumes a portion of the accident and sickness business premium (2019 - $3.8 million, 2018 - $3.6 million) and the related commission expense (2019 - $2.2 million, 2018 - $2.2 million) within the travel line of business from CLIC. The reinsurance contract is set at terms and conditions similar to those of other third-party reinsurance contracts.

OUTLOOK, BUSINESS DEVELOPMENTS AND OPERATING ENVIRONMENT

GENERAL BUSINESS AND ECONOMIC CONDITIONS

The last year of the 2010 decade was an eventful one. Financial markets' fears fueled by geopolitical and economic uncertainty triggered varying approaches to monetary policy. In Canada, the economy expanded at a 1.7% pace after three quarters without the benefit of monetary policy support. Indeed, the rate of inflation in Canada has matched, even exceeded the central bank's 2% target, leading the Bank of Canada to leave its policy rate unchanged at 1.75%. We expect the Canadian central bank to leave its policy rate unchanged in 2020 and the economy to expand by 1.8% this year.

The Federal Reserve of the United States reversed part of the 100 basis points increase in the Fed's funds target rate in 2018 by lowering it by 75 basis points in 2019. This "mid-cycle adjustment" was needed, according to the US central bank, to offset the potential hurdles of a trade war and their impact on economic activity. The Fed's change in approach weighed on the bond market, leading to the inversion of the yield curve in August and bringing many market participants to discount an imminent recession. As the second half of the year unfolded, progress was made on the trade front with the United States and China seemingly agreeing on a trade war truce. Economic data invalidated the markets' fears of an impending recession and the yield curve steepened and bond yields generally increased at year-end.

Most central banks across the world have followed in the Fed's easing footsteps to ensure that this long business cycle extends throughout 2020. Additionally, uncertainties surrounding trade seem to be taking a back seat alleviating the fears of a global slowdown. Even the European economy, in the midst of Brexit, is showing signs of stabilization. After three quarters in 2019, the US economy has expanded by 2.3% and we are expecting that the "mid-cycle adjustment" will result in a 2.1% growth rate in 2020. The US central bank is keen to see the rate of inflation and inflation expectations move up towards its 2% target. We expect the Fed to keep monetary policy accommodative and to remain on the sidelines in this US electoral year, enhancing the probabilities of reaching its inflation target in the context of a low unemployment rate.

The respite on the trade front has improved the likelihood that the global economy, particularly the North American economies, will continue to expand in 2020. In addition to the geopolitical risks that could alter this view, accommodative monetary policy in economies operating at or above capacity could push inflation higher. The reaction of central banks will determine how much longer this economic cycle can last.

We consulted with our investment management company, Addenda, to create these assumptions and we include them in our planning process. We also work within the parameters of our investment policy to take advantage of the opportunities and mitigate the threats in the market to deliver an adequate return on our invested assets while protecting our capital.

PROPERTY AND CASUALTY INDUSTRY

Outlined below are some of the issues expected to affect the industry in 2020 and beyond, as well as our strategic response.

Climate change and severe weather events - The frequency and severity of climate change related weather events has been steadily increasing. As a result of this trend, insurers have experienced a marked increase in extreme weather-related payouts. The costs of rebuilding have increased as a result of more frequent extreme weather events, inadequate infrastructure and rising property values.

However, addressing this extreme weather trend has also brought about a better understanding of how changing weather patterns impact the risks we face, along with innovative solutions to help everyone deal with them (from both a risk mitigation and indemnification perspective). We have been proactive in further segmenting our policy base to provide our clients with the coverage they need and priced at a level to ensure competitiveness and profitability.

Severe weather events can often result in flooding, leaving our cities and homes increasingly vulnerable to uninsured risks. The existing government policy places too much emphasis on recovery at the expense of mitigation. We are dedicated to finding sustainable solutions that better protect our communities and our economy. We will continue to support efforts to engage governments and other stakeholders to help identify solutions to manage, mitigate, and transfer risks associated with overland flooding.

New approaches to distribution - The dominant retail distribution model for home and auto insurance has historically existed between P&C manufacturers and small independent retail brokers. This is now shifting as independent brokers are increasingly either amalgamating or being purchased by manufacturers. Manufacturers are looking to new channels to distribute, either through digital offerings or through other partnerships. We are committed to delivering an guided omni-channel distribution model for our clients to give them the flexibility to choose when, where and how they interact with us. We will also expand client relationships through partners who complement our core competencies, and/or provide us with a competitive advantage. We intentionally pursue market segments that position us to provide the best offerings and are equally intentional about building partnerships where better offerings or capabilities are available.

Investing in digitization - Insurers are increasingly investing in the channels, tools and platforms to enhance all areas of the insurance value chain. Clients are increasingly turning to digital tools for self-service. Digitization also allows carriers to offer new products, such as top-ups to existing insurance products and other more simplified products. Increasing automation and technology-assisted decision-making is helping insurers streamline their back-office functions, from underwriting to claims. Enhancing our digital capabilities is a core element of building our guided omni-channel distribution model.

Diversifying the product portfolio - P&C insurers, especially those with a concentration in the auto market, are increasingly looking to diversify their portfolio to transform their business and operating models, and to gain access to innovation capabilities and emerging technologies. Insurers are looking to grow outside their core portfolio, either through organic growth or acquisition. Insurers who have historically concentrated on the retail market are increasingly looking to the commercial insurance market as an area of expansion.

Increased concentration on underwriting profit - Claims costs are rising as the result of climate change, rising house prices, and increased vehicle repair costs as a result of new technology. On the other hand, new safety technologies in cars should drive down auto accident frequency and new houses are increasingly resistant to fires, theft and other perils. In the face of these opposing forces, as well as a decline in the returns from investments and increased market volatility, insurers are increasingly focused on achieving profitability from their underwriting activities. We have placed significant effort on achieving underwriting profitability through 2019 initiatives and this will continue to be a primary focus for us over our four-year strategy.

Emerging technologies and cyber dependency - Industry trends are increasingly driven by heightened consumer expectations and emerging technological capabilities. There is potential for transformation of our business through artificial intelligence, the internet of things, big data and analytics to bolster underwriting, pricing, claims, regulatory compliance and client experience. There is also a potential growth opportunity because as more data is tracked and analyzed, it may be possible to underwrite new products and price risks more accurately.

The number of connected devices, and the amount of data transmitted, is projected to rise drastically. Data generated from the internet of things has potential application across the full range of products and lines of business.

The emergence of autonomous vehicle technology is compounding the uncertainty around the auto insurance market. The economic and social impacts of autonomous, connected and electric vehicles will be transformative. A key component of this evolution is the transition from personally owned modes of transport to the concept of mobility as a service. There are still unknowns with respect to the speed at which the technology will be developed and adopted, and how regulations will respond.

As the dependency on technology and connectivity increases, cyber risk is becoming a growing risk that impacts all Canadians in their personal and corporate lives. While this introduces operational risks for our business, it also presents an opportunity to provide innovative product solutions for this emerging risk exposure.

EMERGING LEGISLATION AND REGULATORY EVENTS

Legislative, judicial and regulatory events have an impact on our claims reserving practices. Changes to legislation which occurred in previous periods will likely have an ongoing impact in our business in future periods. Legislative and regulatory changes, both current and future, are discussed below.

Ontario auto

Auto insurance is heavily regulated by the Financial Services Regulatory Authority of Ontario (FSRA). FSRA administers the Insurance Act and its regulations, and approves any auto rate changes. We actively monitor legislative developments and seek to engage with the government and its agencies on important issues. An update on several current issues is as follows:

Financial Services Regulatory Authority

In June, the Financial Services Regulatory Authority of Ontario (FSRA) assumed regulatory duties, replacing the Financial Services Commission of Ontario (FSCO). FSRA intends to take a principles-based approach to regulation, and recently implemented a new "file-and-use" standard rate filing process that is intended to streamline the rate regulation process. We continue to engage with FSRA, participating on several advisory committees related to property and casualty insurance.

Auto insurance reform

In the 2019-20 budget, the Ontario government released its Putting Drivers First blueprint, a framework for auto insurance reform focused on affordability and accessibility. We have actively participated in several government consultations and advisory groups related to the blueprint. To date, no reform legislation has been introduced.

Alberta auto

Auto insurance is heavily regulated by the Office of the Superintendent and the Automobile Insurance Rate Board (AIRB). The former administers the Insurance Act and its regulations, while the AIRB approves all auto rate changes. Alberta's market has presented challenges, and we have actively engaged with the government and regulators to address these issues.

Rate regulations

In September 2019, following two separate periods where cumulative rate increases were capped at 5% in each period, the second-rate cap expired without the introduction of a third. We filed and were approved for a rate increase above the previous cap amount. This was an important step towards addressing the profitability challenges facing the company and the industry at large. However, cost pressures persist, and results continue to deteriorate, leaving rate increases as a short-term solution only. We remain committed to working with the government and the AIRB to achieve common auto insurance reform objectives that will benefit drivers.

Auto insurance reform

Over the last year, we have engaged with government and regulators to advocate on the urgent need for auto insurance reform to address the significant challenges within the system. We are pleased with the recent announcement that the government has established an auto insurance advisory committee and will be sharing our reform recommendations with committee members. Legislative changes have not yet been introduced.

Auto insurance system review in Newfoundland and Labrador

This year, two pieces of auto insurance reform legislation were introduced, which notably increased the deductible for bodily injury claims, announced treatment protocols for common injuries as the primary payer, and introduced direct compensation for property damage (DCPD). Regulations on DCPD coverage were released in the fall of 2019, coming into effect at the beginning of 2020. The treatment protocol section of the legislation has not yet been brought into force. We do not expect these changes to have a significant impact on loss costs associated with accident benefit or bodily injury claims.

RISK MANAGEMENT

Effective risk management is vital to making and executing sound business decisions, both strategically and operationally. It involves identifying and understanding the risks that the organization is exposed to, making an assessment as to its materiality and taking measures to manage the risks within acceptable tolerances. We recognize the importance of a strong risk management culture where the efficient and effective assessment of material risks forms the basis of all decision-making and strategic planning.

The Co-operators has an enterprise-wide approach to the identification, assessment, quantification, monitoring, reporting and mitigation of risks across the organization which also applies to Co-operators General. The Board of Directors, directly or through the Risk and Compensation Committee (RCC) of the Board, ensures that senior management has put appropriate risk management policies in place and that risk management processes are effective. Regular reports on our risk profile relative to our Board-approved risk appetite are provided to the RCC and senior management by our Chief Risk Officer (CRO).

We have identified and considered a variety of risk issues when engaging in our organizational activities. We also monitor emerging risks that are evolving in uncertain ways, have been forgotten in their dormancy, or are new. We continuously assess our risk environment and the potential impact on our corporate strategy, business plan, competitive position, operational results, reputation and financial condition. The risks identified within our risk universe are not presumed to be exhaustive and previously unidentified risks or material changes in the exposure to a known risk may occur resulting in a re-assessment of their relative effect on Co-operators General.

At least annually we conduct an Own Risk and Solvency Assessment (ORSA). ORSA is a tool used to enhance our understanding of the interrelationships between our risk profile and capital needs. It is designed to be congruent with our business strategy and operational business plan. As part of the ORSA process, we consider all reasonably foreseeable and relevant material risks. ORSA incorporates stress testing over the business planning period in order to be forward-looking and reflect the dynamic nature of our business and operating environment. As an output of the assessment, we determine the level of capital needed to cover our risks, including those risks covered in the regulatory capital guidelines.

RISK MANAGEMENT STRUCTURE

Board of Directors: Most of the Enterprise Risk Management (ERM) Board oversight is delegated to the RCC of the CGL Board. However, the full Board maintains responsibility for approving the ERM Framework and the Risk Appetite Framework after reviewing the RCC's recommendations. The Board also reviews and approves the results of the ORSA annually and approves CGIC's minimum internal capital target.

Risk and Compensation Committee of the Board: The RCC is comprised of a subset of members of the CGL Board of Directors. RCC's mandate includes setting the "tone at the top" for a strong ERM culture, and oversight of our ERM Framework. The RCC monitors ERM processes to ensure their effectiveness by approving risk limits for significant risks, reviewing regular reporting on our risk profile relative to our Board-approved risk appetite, and understanding action taken by management in response to identified issues. In addition, the RCC oversees the strategy for the use of risk and capital modelling methods and tools as well as our stress testing program. The RCC is also responsible for determining risk impacts of climate change within ORSA and stress testing.

Management Risk Committee (MRC): The MRC includes all members of the Co-operators Management Group (CMG, which includes the Chief Executive Officer and his direct reports), the CRO, and the VP Strategic Planning. The MRC meets at least quarterly and is a strategic decision-making body responsible for planning, directing and controlling the impact of all significant risks faced by the organization. The MRC also helps to set the tone for a strong ERM culture, supports the ERM vision across the organization and acts as the authoritative escalation body for risk-related issues.

Management Capital Committee (MCC): The MCC is a subcommittee that monitors, evaluates, and recommends capital allocation and strategy decisions to CMG. The MCC ensures capital management practices align with all regulatory expectations and requirements. Its responsibilities include understanding the impact of stress events on capital and ensuring adequate capital contingency plans are in place to deal with remote but plausible stress scenarios.

Management Investment Committee (MIC): The MIC is a subcommittee that reviews and advises management on the lending and investment programs. MIC develops and recommends adoption of the lending and investment risk management policies and provides risk measurement, assessment, monitoring and reporting of investment policies.

Reinsurance & Insurance Counterparty Standards Committee (RICS): The RICS is a subcommittee that sets and communicates standards to be applied in assessing counterparties with whom we currently, or may in the future, engage in financial business relationships. The RICS is also accountable for monitoring counterparties' credit and default risk against these standards.

Functional and Business Unit Risk Management: Functions that operate across the group of companies and business units that operate within their respective companies are responsible for managing the risks related to their own operations. While these risks may be specific to their function or business unit, the ERM framework provides a common language and common tools to identify, assess, quantify and manage these risks.

Oversight Functions: Areas with independent oversight accountabilities reside in functions such as ERM, Compliance, Corporate Governance, Financial Controllership, Legal, Human Resources, Tax, Information Technology, Corporate Actuarial and other areas within control and group functions. They are not actively involved in the management of the business. They provide oversight of risks, provide guidance in their area of expertise, and help to build and monitor risk controls.

Audit Services: Audit Services performs periodic risk-based reviews to ensure adherence to risk policies and practices thereby providing independent assurance that risk controls are in place and are operating effectively.

RISK APPETITE

Our purpose in setting our risk appetite is to define the types and amount of risk we are willing and able to responsibly accept in the pursuit of earning an appropriate return and fulfilling our strategic goals. Our risk appetite statements describe, at a broad level, the risks we will avoid, the risks we are prepared to assume and the limits we will place on those risks.

Our risk appetite is informed by these principles:

- We cannot be in business without taking risks;
- The risks we take must further our mission and be consistent with our vision and values;
- As a co-operative, we have limited access to new capital. To develop and sustain our business, we must earn a reasonable return on the capital we have;
- We must manage risk in a way that balances short and long-term objectives in order to allow us to compete in the marketplace and ensure our sustainability;
- We desire to both evaluate opportunities for appropriate risk-taking and prevent excessive risk-taking; and
- The risks we face are multiple, complex and often inter-related. Some are readily measurable, others are not. While models provide a useful means for understanding our risks, and controls provide valuable mitigation in the management of risks, they do not eliminate the need for the application of informed judgment and common sense.

The development and establishment of our risk appetite is a dynamic and iterative process that requires ongoing dialogue throughout our organization. Our risk appetite may change over time in line with our changing capabilities for managing risk. Our actual risk profile relative to our desired risk appetite is monitored and reported quarterly to senior management, the RCC and the Board.

Our risk appetite shapes our organization's risk profile, influences the development and implementation of our strategy, and determines the risks we undertake in relation to our organization's risk capacity.

RISK UNIVERSE

We categorize our risks using a common taxonomy referred to as our risk universe:

- Investment Risk – The risk of loss resulting from the quality of invested assets, movements in the capital markets, and/or the relationship between insurance assets and liabilities. It includes credit, liquidity, market and real estate risk.
- Insurance Risk – The risk of potential financial loss that may arise where the amount, timing and/or frequency of benefit and/or premium payments under insurance or reinsurance contracts is different than what was expected at the time of pricing and/or reserving for the insurance contract. Insurance risk is distinct from investment, operational, strategic or reputation risk where those risks are ancillary to or accompany the risk transfer.
- Operational Risk – The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal and regulatory risk but excludes strategic and reputation risk. External events include global issues such as climate change risk.
- Strategic Risk – The risk arising from our inability to adopt and execute effective business plans and tactics, to allocate resources appropriately, and to adapt to changes in our business environment. We research and consider the implications of emerging strategic trends in our strategic planning processes and build our plans accordingly.
- Reputation Risk – The risk of loss resulting from an activity of CGL or its representatives that impairs our image in the community, or public confidence. This may result in loss of business, legal action, an increased cost of capital, and/or additional regulatory oversight. We conscientiously influence our reputation by being authentic to who we are, by assuming responsibility for our actions, and by proactively communicating and conducting our business activities in an ethical, fair, honest and transparent manner.

The sections that follow highlight some of the risks that fall within these categories.

INVESTMENT (FINANCIAL) RISKS

Credit risk

Credit risk is the risk resulting from the failure of a counterparty/debtor to honour its obligation to us.

Our credit risk exposures include mortgage default, reinsurance counterparty and other asset impairments (for example, relating to short-term investments, bonds, limited partnerships, mortgages, loans and receivables). Our RICS sets and monitors adherence to standards for counterparties so that The Co-operators is not exposed to excessive or unacceptable counterparty risk. Our Investment Policies put limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, single issuer limits, corporate sector limits and general guidelines for geographic exposure. Co-operators General also has a comprehensive mortgage investment policy which includes, among other factors, single loan limits, diversification by type of property limits, and geographic diversification limits. For more information on credit risk refer to Note 6 to the consolidated financial statements.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk includes credit spread, equity, foreign exchange and interest rate risk. There are several strategies that we employ to ensure that our market risk remains within our risk appetite including: limiting our exposure to certain types of assets, reducing or exiting businesses with unacceptable levels of market risk, managing net duration with asset liability management (ALM) strategies, using derivative instruments, or placing limits on the credit quality of fixed-income assets.

Credit spread risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of movements in credit spreads. Credit spread risk is distinct from the risk of default of a counterparty or debtor.

Equity risk results from movements in and/or the volatility of equity markets, including equity prices and indices. Diversification techniques are employed to minimize risk. Our Investment Policies limit total investment in any entity or group of related entities to a maximum of 5% of our assets. Our stock portfolio is benchmarked to the indices noted in the table below. A 10% movement in the indices, with all other variables held constant, would have the following estimated effect on the fair values of our stock holdings as at December 31, 2019.

$ millions Stock Portfolio	Benchmark	2019	2018
Canadian common	S&P/TSX Composite Index	**69.7**	54.1
U.S. equities	S&P 500 Index (CDN $)	**18.8**	15.9
Foreign equities[1]	MSCI EAFE Index (CDN $)	**-**	0.4

[1]Co-operators General divested its foreign equity portfolio in December 2018

Our foreign exchange risk is primarily related to our investment holdings. Our policies limit investments in foreign denominated securities to a maximum value of 15% of invested assets. We partially mitigate this currency risk by buying or selling foreign exchange forward contracts. Foreign exchange forward contracts are commitments to buy or sell foreign currencies for delivery at a specified date in the future at a fixed rate. For more information on currency risk refer to Note 6 to the consolidated financial statements.

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of movements in and/or the volatility of interest rates. When asset cash flows do not coincide with the cash flows arising from the liabilities, this may result in the need to either sell assets to meet policy obligations or reinvest excess asset cash flows in unfavourable interest rate environments.

Historical data and current information are used to profile the ultimate claims settlement pattern by class of insurance, which is then used to develop an Investment Policy and strategy. To mitigate a portion of our interest rate risk, Co-operators General deploys an ALM strategy. A portion of the assets backing our unpaid claims and adjustment expenses are designated as FVTPL under the fair value option with the objective of offsetting a targeted portion of the financial impact of interest rate changes and avoiding an accounting mismatch. While interest rate increases tend to have a positive effect on our net income, they tend to weaken our overall financial position due to the impact on bond values. A 1% movement in the interest rate, with all other variables held constant, would have the following estimated effect on the fair values of our holdings as at December 31, 2019:

$ millions	**December 31, 2019**		December 31, 2018	
	AFS	**FVTPL**	AFS	FVTPL
Bonds	**131.9**	**7.1**	120.9	6.3
Canadian preferred stocks	**-**	**16.9**	-	16.0
Pooled funds	**17.7**	**-**	14.6	-

Liquidity risk

Liquidity risk refers to the risk resulting from holding inadequate liquid assets to meet our obligations as they come due. It includes operational and strategic liquidity.

Liquidity risk can arise from adverse conditions in financial markets that could negatively affect our ability to convert invested assets into cash in a timely and cost-effective manner, or policyholder behavior in the form of cash demands as a result of claims, contractual commitments, or other outflows. Claims payments are funded by current revenue cash flow which normally exceeds cash requirements. Refer to the *Off Balance Sheet Arrangements and Contractual Commitments* section of the MD&A for a discussion of our commitments.

We do not have other material liabilities that can be called unexpectedly at the demand of a lender or client. We do not have material commitments for capital expenditures, and there is no need for such expenditures in the normal course of business. In addition, we measure our liquidity needs under both normal and stressed conditions ensuring that we have a sufficient level of liquid invested assets at all times. We have $19.0 million in available credit facilities as well as access to financial support from our parent company. For more information on liquidity risk refer to Note 6 to the consolidated financial statements.

INSURANCE RISKS

For P&C insurers, this represents the risk that policyholders will experience a higher frequency and/or severity of auto, home, commercial business and/or travel related losses. This results in higher than expected claims payments for bodily injury, liability coverages and/or coverages related to the damage to, or loss of, a physical asset. This includes catastrophe, claims, product design and pricing, reinsurance, reserve valuation, and underwriting risks. For more information on insurance risk refer to Note 7 to the consolidated financial statements.

Catastrophe risk

Catastrophe risk is the risk that a catastrophic event severely impairs our financial position.

P&C insurers are subject to catastrophes which are a series of property and automobile physical damage claims arising from a single event. Catastrophes are caused by various perils such as earthquake, tornado, wind, hail, winter storm, flood or fire. Catastrophes can have a significant effect on our operating results and financial condition. The incidence and severity of catastrophes are inherently unpredictable. To limit our potential impact, we purchase reinsurance which will reimburse us for claims related to a single occurrence event, up to a maximum of $1.4 billion. The deductible and maximum limit for catastrophe reinsurance applies to all P&C operations on a group-wide basis. After the application of the catastrophe program, Co-operators General retention is $70.0 million in incurred claims, which represents approximately 4.2% of our capital. For the purpose of capital management, we define capital as shareholders' equity excluding AOCI.

The increasing incidence and severity of extreme weather-related events is a growing challenge faced by the insurance industry. This challenge is intensified by aging municipal infrastructures that are unable to cope with intense storms, greater concentrations of people living in vulnerable areas and higher property values at risk. As an organization whose mission is to provide financial security for Canadians and their communities, it is our duty to continue to enhance our understanding of the potential impacts of climate change and its associated risks, while striving to develop and promote solutions that offer protection to our clients and enhance their financial resiliency. While many of the impacts associated with climate change are beyond our direct control, we have an opportunity to incentivize sustainable behaviour amongst our clients, mitigate risks through pricing and product development, and promote sustainable decision-making in our communities through various advocacy efforts. Refer to the *Climate-related financial disclosures* section of the MD&A for additional information on this topic.

We write business that is broadly diversified in terms of lines of business and geographic location. There is no guarantee that a catastrophe would not result in claims in excess of our maximum reinsurance coverage; however, based on our catastrophic loss models our protection is in excess of regulatory guidelines and at a level that management considers prudent and in line with our risk appetite.

Reinsurance risk

Reinsurance risk is the risk that the organization's reinsurance program (ceded and/or assumed) does not operate as intended.

Reinsurance is purchased to limit our exposure to an individual risk, category of risk or geographic risk area. We review our reinsurance limit and scope of cover requirements annually. After these requirements have been determined, we carefully negotiate reinsurance contract terms with selected entities. The availability and cost of this reinsurance is subject to prevailing market conditions. In managing reinsurance risk, we also assess and monitor the financial strength of our reinsurers on a regular basis. There have been no material defaults with reinsurers in the past ten years. Refer to Note 9 of the consolidated financial statements for further information regarding reinsurance.

Product Design and Pricing risk

Product design and pricing risk is the risk resulting from the pricing or features of our products, where revenues and/or costs experienced differ from those expected at the time of pricing.

We price our products taking into account numerous factors including historical claims frequency and severity trends, product line expense ratios, cashflow payment patterns, special risk factors, the capital required to support the product line, and the investment income earned on that capital. Our pricing process is designed to ensure an appropriate return on equity while also providing long-term rate stability. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

We strive to ensure our pricing will produce an appropriate return on invested capital; however, various external factors like market realities or regulations can have an impact on our ability to do so. For example, in provinces that mandate pricing for automobile insurance, pricing must be submitted to each provincial government regulator. It is possible that, in spite of our best efforts, regulatory decisions may impede automobile rate increases or other actions that we may wish to undertake. Also, during periods of intense competition for any product line, our competitors may price their products below the rates we consider acceptable, which would have an impact on our ability to maintain our rates where we want them. Additionally, changes in our natural environment exacerbated by climate change are making it more difficult to rely on historical claims frequency and severity as a predictor of future claims patterns. In order to continue to develop and offer products that meet the needs of Canadians and their communities, we have invested in the development of internal business intelligence and predictive models to provide us with further insight into hazard-prone areas.

Underwriting risk

Underwriting risk is the risk resulting from the selection and approval of risks to be insured.

Our underwriting objective is to develop business with sufficient scale within our target market on a prudent and diversified basis and to achieve profitable underwriting results. We underwrite automobile business based on annual reviews of the client's driving record and claims experience. We underwrite property lines based on location, physical condition, property replacement values, claims experience and other relevant factors. Highly trained and experienced underwriters manually underwrite complex risks using comprehensive underwriting manuals which detail the practices and procedures used in the determination of the insurance risk and the decision of whether to offer coverage. We also leverage our business intelligence system which gives us the tools to better segment and underwrite. All employees in the underwriting area are trained and their work is audited on a regular basis. Advisors and brokers are compensated, in part, based on the profitability of their portfolio.

Claims risk

Claims risk is the risk that the level of actual ultimate claims paid on settlement is different from what was expected.

We employ more than 1,000 claims personnel across Canada, with the majority of claims being handled internally and the remainder handled through independent adjusters. Each employee has an authority limit, which is based on related education, skills and work experience. They are supported by training and comprehensive reference materials which have been compiled to identify investigations and information required before a claim can be paid. Our claims handling approach results in an appropriate control of claims costs.

Reserve Valuation risk

Reserve valuation risk is the risk of misestimating reserve liabilities, where actual cashflows experienced differ from those expected at the time of reserve valuation. It is dependent on the actuarial reserve valuation, as well as claims reserving practices.

We maintain provisions for unpaid claims and adjustment expenses to cover our estimated ultimate liability for claims. There is the potential for significant variability in the amount of ultimate settlement from the current amounts recorded. Our practice is to maintain an adequate margin to ensure future years' earnings are not negatively affected by prior years' claims development and other variable factors, such as inflation. We also monitor fluctuations in reserve adequacy on an ongoing basis, and periodically seek an external peer review of reserve levels. We are subject to some exposure in the fluctuation of long-term portfolio yield rates in the valuation of our discounted unpaid claims. Our claims development table and sensitivity analysis are in Note 7 to the consolidated financial statements.

OPERATIONAL RISKS

Business Continuity and Resilience risk

Business continuity and resilience risk is the risk of a prolonged interruption in the business operations or the ability to restore operations after a disruption.

There are many events that could result in the interruption of our business operations. These can range from sudden catastrophes, such as power outages, cyber-attacks, earthquakes, floods and hurricanes, to slower moving events such as pandemics. We have plans and actions in place to maintain resilience and maintain service standards to our clients as much as possible. We have building evacuation procedures in place that are evaluated and tested on a regular basis, as well as inclement weather guidelines, telework guidelines, crisis communications procedures and a staff emergency line. Business Continuity and Infectious Disease Plans are created, maintained and tested to a set of established standards. Compliance with these standards is monitored and reported to Senior Management and the Board of Directors at least annually.

Financial Accounting risk

The risk of failing to record, maintain and present financial information and accounting transactions in accordance with IFRS, professional and/or industry requirements.

IFRS 17 "Insurance Contracts" along with IFRS 9 "Financial Instruments" will become effective on January 1st, 2022. These new standards bring with them an unprecedented wave of new financial reporting and regulatory requirements that will significantly impact the actuarial, risk, and accounting data, processes and systems within our organization. We are preparing for and managing this transition and implementation risk through an integrated operating model and technology platform for finance and actuarial that enables us to work as one unified team with one seamless calculation and reporting system.

For additional information on these standards as well as other financial accounting changes expected to impact our business, refer to *Future Accounting Changes* section.

Global Issues risk

Global issues risk is the risk of global trends and external issues that impact our clients and their communities, affect the nature of the insurance industry overall and/or affect our ability to remain relevant to our member organizations and clients. It includes the natural, political, legal, regulatory and social environment, as well as systemic risks.

We consider the implications of potential changes to our natural, political, legal and regulatory, economic and social environment in our strategic planning processes to understand the impacts and adjust our plans if necessary. Risks present in our natural environment as a result of changing climate patterns have long-term implications in our operating environment. Consistent with our vision of The Co-operators as a catalyst for a sustainable society, we aspire to provide insurance and investment management solutions for individuals and businesses who wish to exert a positive influence on the social or natural environment. We advocate for sustainable behaviour and strive to incorporate sustainable practices within our own organization through impact investments and carbon emissions reduction. Refer to the *Climate-related financial disclosures* section of the MD&A for a discussion of our commitment to manage this risk.

Regulatory Compliance risk

Regulatory compliance risk is the risk of failing to comply with applicable laws and regulations, including bribery, business conduct, consumer protection, employment practices, market conduct, privacy and tax.

P&C insurance companies are subject to significant regulation by governments. We monitor our compliance with all relevant regulations for the jurisdictions in which we operate. As in any regulated industry, it is possible that future regulatory changes or developments may prevent us from raising rates or taking other action to enhance our operating results. As well, future regulatory changes, novel or unexpected judicial interpretations or political developments could fundamentally change the business environment in which we operate. We actively participate in discussions with regulators, governments, and industry groups to ensure we are well-informed of contemplated changes and that our concerns are understood.

For regulatory changes expected to impact our business, refer to *Emerging Legislation and Regulatory Events* section of the MD&A above.

Information Technology risk

Information technology risk is the risk that we cannot secure, develop, adopt, operate and support the technology required to meet current and future business objectives and client expectations. It includes risks related to access security, computer operations, resolution management, and IT system changes.

The cyber threat landscape is continually evolving and new vulnerabilities are being identified across all aspects of the technology spectrum. As a member of the financial services industry, our organization is exposed to threat agents looking for technical weaknesses and exploitable vulnerabilities. A cyber-incident has the potential to result in material consequences for our organization and our clients including loss of system availability, loss of data or data integrity, breaches or distribution of confidential information, as well as impacts to our overall reputation and brand. Our goal is to maintain strong control processes and a resilient technological environment that can safeguard our systems and client information.

To mitigate and manage our exposure to a cyber breach, our organization has implemented a security risk management program with both governance and operational components, including training and awareness at all levels. Our internal technology governance has been designed to meet both regulatory requirements and industry best practices. Our program is designed to protect systems with consideration of confidentiality, integrity, and availability of information. Key activities include monitoring our systems for events to detect and prevent system intrusions, as well as conducting scans of the internal and external environments to identify and remediate vulnerabilities. Along with an extensive business continuity management program, we continually assess our cyber security program to ensure we continue to be well-positioned to meet the needs of our business and clients.

Third-Party and Outsourcing risk

Third-party and outsourcing risk is the risk of failure to effectively manage service providers (third-party or intra-group).

We recognize that these relationships present both risk and opportunity. Through our third-party relationships and outsourced arrangements, the nature of the risk of a potential failure in processes or controls (e.g. cyber breaches, business continuity issues) is changing. Through our Vendor Risk Management Program, we assess third parties and the quality of their risk controls. We also deliberately engage third parties for their subject matter expertise and/or superior controls, to mitigate other risks that we are exposed to and to meet the needs and preferences of our clients.

STRATEGIC RISKS

Client Preferences and Behaviours Risk: The risk of not understanding and adapting to our clients' needs and expectations.

Competition Risk: The risk of the organization's relative market position being impacted by our strategic choices and those of our competitors in the same markets. Competition risk can arise within or outside the financial or insurance sector, and from traditional or non-traditional competitors. This risk includes diseconomies of scale and inefficiencies that threaten our ability to provide cost-effective, quality products and services in a timely and efficient manner.

Business Landscape Risk: The risk of not understanding and adapting to fundamental changes in the financial services operating environment, e.g., the emergence of autonomous vehicles and the ensuing transformation of the transportation service platform.

We research and consider the implications of emerging strategic trends in our strategic planning processes and build our plans accordingly.

CLIMATE-RELATED FINANCIAL DISCLOSURES

Canadians, our communities, and our businesses will bear the impacts of a changing climate. A recent Canadian study has shown that Canada, on average, is experiencing warming at twice the rate of the rest of the world. These warming effects are causing greater volatility in weather patterns and affecting the livability of many regions across the country. We can already see the effects within the property and casualty industry with stark increases in catastrophic losses in recent decades, fuelled primarily by the increasing risk of extreme weather and natural disasters.

In 2015, the Financial Stability Board (FSB), a UK-based international body that monitors and makes recommendations about the global financial system, established an industry-led Task Force for Climate-related Financial Disclosures (TCFD). The TCFD develops voluntary, consistent climate-related financial disclosures that may be useful to lenders, insurers and investors in understanding material risks and building climate risk into their decision-making. In June 2017, the TCFD released its final report, which we publicly endorsed. Our organization welcomes the new disclosure recommendations and developed a three-year roadmap to fully adopt the TCFD recommendations which cover the areas of governance, strategy, risk management, and metrics and targets. These disclosures cover a reporting period from January 1, 2019 to December 31, 2019, representing the second disclosure under the framework and provide an overview of our organization's approach to identifying and managing climate-related risks and opportunities.

These disclosures have the support of our Executive Vice-President, Finance and Chief Financial Officer (CFO) and the Executive Vice-President of Member Relations, Governance and Corporate Services, along with other senior leaders at the company. Our ultimate parent company, CGL, will be releasing its inaugural standalone TCFD report in April 2020.

GOVERNANCE

At The Co-operators, climate change is a shared area of concern with our members and accordingly, our active engagement of the Board of Directors on this topic has been well supported. At the Board level, the Risk Management Committee (RCC) and the Sustainability and Citizenship Committee (SCC) oversee our management of climate-related risks and strategy. The process of understanding climate risk, which is integral to these efforts, is overseen by the Sustainability & Citizenship and Risk & Compensation Committees, who have amended their terms of reference to include monitoring climate-related issues. To build additional capacity around the Board table, climate-related knowledge and skills have been added to the Board Skills Matrix and the Board's 2019 governance assessment. Annually, the RCC and SCC hold a joint half-day meeting to review our status on climate risk and progress on the TCFD recommendations as well as understand external developments. The Board also receives updates on the topic of climate change at each Board meeting through the SCC and RCC chairperson updates.

The Co-operators Management Group is accountable for maintaining our overall risk policy framework, which include specific climate change considerations. The TCFD Advisory Group, consisting of leaders across the organization, was formed in 2017 to review the recommendations from the TCFD and to develop an action plan for implementation. The advisory group provides insight into strategic business decisions and overall direction on the TCFD. Our President and CEO participates in an annual Joint Sustainability Meeting with the Chairperson of the Board of Directors, the SCC, and the senior sustainability management committee, which provides an opportunity for shared learning, cross-organizational collaboration, strategic planning and monitoring of our sustainability practice.

Our first Climate Commitment, published in November 2018, may be found on our website at www.cooperators.ca/en/About-Us/about-sustainability/our-climate-commitment. The Commitment provides information on our approach to prioritizing actions we will take to address these challenges further.

STRATEGY

Co-operators General has a long-term 2030 strategy which was developed through the lens of sustainability. As a subsidiary of CGL, we are committed to honouring that strategy which reflects our commitment to integrate sustainability into our thinking and strategy. The strategy expresses the outcomes that we aim to realize by 2030 which include supporting the United Nations Sustainable Development Goals (SDGs) where meaningful and relevant. Co-operators General endorses all 17 SDGs, with a focus on 9 SDGs, including Climate Action, among others. Dedicated resources towards the Climate Action SDG will allow us to:

- **Develop and set clear company-wide climate objectives addressing key parts of our organization that reflect our future goals** – Our 2019 to 2022 corporate strategy has been finalized and includes climate considerations, with the Board and management currently working to identify and define key performance indicators and associated targets/metrics to measure our progress.

- **Continue to develop innovative products and services to address gaps in climate-related coverage** – As part of our Climate Change Adaptation Project, we will position Co-operators General as an early mover and innovator developing tangible, insurance-specific expertise on climate-related risks and perils.

- **Strengthen our investment policies by explicitly including the consideration of climate-related risks and opportunities** – In collaboration with Addenda, we employ an impact investing strategy which is regularly reviewed and use company disclosures and third-party research to assess our investments' exposure to climate-related risks and opportunities.

- **Help our clients understand and manage their climate-related risks** – We will continue to expand our efforts to inform and equip Canadians with the tools they need to adapt to a changing climate. This includes using our distribution channels, including public documents such as CGL's Integrated Annual Report as well as social media, to highlight the economic and social impacts of a changing climate. We also partner with not-for-profit organizations and contribute funding to communities across the country to build resiliency.

- **To be a strong leader and effective steward and advocates of climate change** – We are proud of our history as a leader in climate advocacy and environmental stewardship. We have advocated for carbon pricing since 2015, played an instrumental role in supporting the creation of a national flood advisory council, and joined the United Nations Environment Programme Finance Initiative (UNEP-FI) TCFD pilot group for investors to build relevant and reliable scenario testing tools.

Below is a summary of climate-related risks and opportunities, both physical and transition, that we have identified:

Risks	Type	Response	Time Horizon
Increase in frequency and severity of extreme weather events	Physical	Climate change is leading to rising claims and uncertainty in our P&C insurance portfolio. These trends will inevitably lead to an increasing gap between insured and total economic losses. Closing this protection gap by passing these additional costs on to policyholders is not a sustainable business model. Therefore, our ability to generate positive returns is highly dependent on our ability to accurately estimate and price for these weather-related events and to mitigate them effectively.	Short-term (1-3 years) and ongoing
Asset depreciation and lower investment returns	Transition	Climate change may impact the value of our investment portfolio, as investee companies are further impacted by climate-related changes in technology, consumer preferences or regulation. This may directly lead to adverse financial performance for those companies and by extension, ourselves.	Long-term (5+ years)
Regulatory	Transition	Despite the slow development of carbon policy in Canada and globally, the adequate pricing of carbon will eventually lead to higher direct and indirect costs. Over time, these costs will increase pressure on our ability to generate positive returns.	Long-term (5+ years)

Opportunities	Type	Response	Time Horizon
Innovative product solutions	Product offering	Designing innovative product solutions to enable and empower community resilience is mandated through our Climate Commitment. We developed Canada's first and only comprehensive water product that covers all Canadians, despite their level of flood risk. This product includes storm surge coverage, and is available to all risk types and property types (including cottages and seasonal dwellings, apartments and condos).	Current
Developing new tools to mitigate climate-related risks for clients	Client resiliency	In 2018, we launched the Climate Change Adaptation Project to assess and mitigate climate-related risks over the lifetime of our P&C products to clients. This initiative encompasses several programs, including accurately tracking wildfire progression to enable more timely underwriting actions; expanding and targeting our efforts to notify users of impending extreme weather events; and building tools to more precisely monitor risk accumulation to identify clients at a high-risk of being impacted by climate change.	Medium-term (3-5 years)
Advance advocacy and enhance involvement by government stakeholders	Client resiliency	As part of an ongoing effort to build resilient communities, we have partnered across sectors to create a community-based Disaster Risk Reduction Program. This program will empower people to prepare and act ahead of climate-related events like floods and wildfires. We also play a key role in convening industry peers and advocating for improvement of flood resiliency as part of Public Safety Canada's Advisory Council on Flood.	Current

One of the TCFD recommendations involves describing the resilience of a company's strategy under different climate-related scenarios, including one of a 2°C increase or less. We are currently taking action to address this requirement and are committed to continuing our efforts on this front in order to achieve disclosures in line with industry developments with the goal of being a leader amongst similar-sized insurers. Through our active participation and thought leadership in the UNEP-FI pilot groups for insurers and asset managers, we aim to contribute to the development of consistent practices and disclosures to better quantify the impact of this scenario.

RISK MANAGEMENT

Climate-related issues have large-scale and broad implications across the financial services industry and permeate the insurance, investment, strategic, reputation and operational risks that influence our risk profile. We view climate change as a complex risk issue but one that is also a source of opportunity for us to meet the needs of Canadians and their communities.

To support our climate commitment, we have an integrated climate change strategy that focuses activity across three key areas:

- Portfolio evaluation – testing the resilience of our insurance portfolio and strategy
- Mitigation – reducing the risks presented by climate change impacts
- Adaptation – building the resilience of our operations, communities and ecosystems to climate change impacts

Portfolio Evaluation

We continually monitor and analyze the potential impacts of climate-related risks in our property and casualty (P&C) portfolio. We stress test the resilience of our products for plausible future economic, political and environmental states. We proactively evaluate the financial impacts and our strategic response if the climate change scenario were to materialize. For example, we monitor our geographical risk accumulations to better understand and manage our property risk concentration across the country.

Climate change has increased our insurance risk as it affects our ability to appropriately price, underwrite and reserve for claims by rendering our historical patterns as no longer predictive of future experience. Our stress testing program includes scenarios that contemplate an increased frequency and severity of claims that could be caused by extreme weather events or other drivers.

Mitigation

The insurance industry will be impacted by climate change in ways that are complex and difficult to predict. We continue to dedicate resources to anticipate and prepare for the many impacts of climate change.

We preserve our capital by managing our risk exposure through group reinsurance risk transfer mechanisms. We minimize our credit risk exposure by spreading our program across many trusted partners and setting robust financial standards for eligibility. We have designed a robust and resilient capital management framework which allows us to maintain the strength of our balance sheet by ensuring climate-related impacts are accounted for.

Material climate-related risks and opportunities are incorporated into investment decisions, considering companies' exposure to climate-related risks and how those risks are being managed.

Adaptation

In the medium to long-term time horizon, climate change is likely to have an impact on both our insurance and investment portfolios. We are developing methods to identify how our business and our clients can deploy adaptative measures to combat the growing physical and transition threats of climate change.

Our extensive innovation work with subject matter experts has provided valuable insight into climate change risk management knowledge and practices. Our data scientists and expert catastrophe modelers have developed a risk accumulation geospatial tool to help management understand and effectively manage our geographical risk accumulations.

As a co-operative, we are committed to community engagement, and advocate for societal and behavioural change and adaption. We proudly participate in various community awareness days and social media campaigns to inform and empower Canadians and their communities.

For additional information regarding our risk management practices, refer to the *Risk Management* section of our MD&A.

METRICS AND TARGETS

There are several metrics that we have implemented and targets we have set to help us manage our climate-related risks and opportunities relating to our business operations, our investing activities and our community activities.

Metric	Target	Explanation	2019	2018	2017
Carbon intensity (tCO2e per employee)[1]	n/a	Tonnes of CO2 equivalent emitted per employee	1.5 t CO2e	1.6 t CO2e	1.7 t CO2e
Net carbon emissions reduced from 2010 levels (as a %)	100%[2] by the end of 2020	Tonnes of CO2 equivalent we have reduced from 2010 baseline levels	80.0%	81.0%	81.0%
Impact investing (as a %)	20%[3] by the end of 2022	Invested assets in securities which focus on climate change, health and wellness among others	19.4%	14.8%	7.7%
Major event loss claims	n/a	Includes extreme weather and other significant natural disasters	111.4 million	179.5 million	137.1 million
Number of major event claims recorded	n/a	The number of claims triggering a major event loss	29	17	36
Number of comprehensive water endorsements[4]	n/a	The number of home policies with comprehensive water coverage	483,879	295,733	250,297

[1]Tonnes of CO2 equivalent emitted per employee

[2]Tonnes of CO2 equivalent as a percentage we have reduced from 2010 levels - metric is calculated at CGL

[3]The percentage of our invested assets in securities that have both compelling investment returns and a measurable, positive environmental and/or social impact. This demonstrates our commitment to embedding co-operative and sustainability principles into our investment decisions, and helps build resilient, sustainable communities for future generations

[4]Our Comprehensive Water product is Canada's only flood product to cover overland flooding, storm surge, and sewer back up, even for those at the highest risk of flooding.

Scope 1, Scope 2 and Scope 3 GHG Emissions and Related Risks

Greenhouse gas (GHG) emissions are a prime driver of rising global temperatures and, as such, are a key focal point of policy, regulatory, market and technology responses to limit climate change. As a result, organizations with significant emissions are likely to be more strongly impacted by transition risk than other organizations.

At The Co-operators, we track, monitor and report on the carbon footprint of our investments to better understand the investment implications of climate change. Our invested assets impact and influence global carbon emissions and climate-related risk. In 2014, we were the first Canadian Insurance company to sign onto the Montreal Carbon Pledge, and Addenda became the first Canadian asset manager to sign the pledge and disclose the carbon impact of all its equity pooled funds in 2015.

The carbon footprint of our investments represents the GHG emissions of our owned equity, preferred share and corporate bond portfolios, which is calculated in tonnes of C02 equivalent. We include both Scope 1 emissions (direct GHG emissions) and Scope 2 emissions (GHG emissions from electricity, steam, heat and cooling). Scope 3 emissions, which are all indirect emissions not included in Scope 2, do not apply to us.

Our Scope 1 and Scope 2 GHG emissions in 2019 were 5,299 t C02e (2018 – 5,117 t C02e; 2017 – 4,856 t C02e).

CONTROLS AND PROCEDURES

Disclosure controls and procedures

Management is responsible for designing and maintaining adequate disclosure controls and procedures to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and CEO and the Executive Vice-President, Finance and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at December 31, 2019, an evaluation of the effectiveness of our disclosure controls and procedures, as defined under National Instrument 52-109, was carried out with management's participation and under the supervision of the CEO and CFO. Based on that evaluation, the CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective.

Internal control over financial reporting

Management is responsible for designing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS. However, due to inherent limitations, these controls may not prevent or detect all material misstatements on a timely basis. Projections of any control effectiveness evaluation to future periods are subject to the risk that the controls may become inadequate due to potential changes in conditions or possible deteriorations in the degree of compliance with policies or procedures.

No changes were made to our internal control over financial reporting during the year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

As at December 31, 2019, an evaluation of the effectiveness of our internal control over financial reporting, as defined under National Instrument 52-109, was carried out with management's participation and under the supervision of the CEO and CFO. Based on that evaluation, the CEO and CFO concluded that the design and operation of our internal control over financial reporting was effective.

ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The following accounting estimates are considered particularly significant to understanding our financial performance. We have established detailed policies and control procedures that are intended to ensure these judgments are controlled, independently reviewed and consistently applied. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

Use of estimates and judgments

Unpaid claims and adjustment expenses

We make estimates for the amount of unpaid claims and the timing of future claims payments based on assumptions that reflect the expected set of economic conditions and planned courses of action. Uncertainty exists on reported claims in that all information may not be available at the reporting date. In addition, claims may not be reported to us immediately, therefore estimates are made as to the value of claims incurred but not yet reported, a value which may take years to finally determine. In establishing the provision for unpaid claims, we also take into account estimated recoveries relating to salvage and subrogation.

The initial actuarial estimate of unpaid claims and adjustment expenses is an undiscounted amount. In order to determine the undiscounted liability, assumptions are developed considering the characteristics of the class of business, historical trends, the amount of data available on individual claims and any other pertinent factors. This estimate is then discounted to recognize the time value of money.

The interest rate used to discount the liabilities for CGIC, Sovereign and COSECO is 2.49% (2018 - 2.84%) and for CUMIS General is 2.33% (2018 – 2.79%) based on our projected rate of return on the investment portfolios supporting these liabilities. The discount rate is adjusted on a regular basis based on changes in the projected rate of return. If the discount rate increases, the result would be a reduction in total unpaid claims and adjustment expenses, which would have a positive impact on our underwriting income, with all else being equal. A decrease in the discount rate would have the opposite effect. A 1.0% increase in the discount rate would have an approximate impact on after-tax net income of $41.7 million (2018 - $37.0 million).

The discounted unpaid claims and adjustment expenses incorporates assumptions concerning future investment income, projected cash flows, and appropriate PFADs. As the estimates for unpaid claims are subject to measurement uncertainty and the variability could be material in the near term, we include PFADs in our assumptions for claims development, reinsurance recoveries and future investment income. The incorporation of PFADs is in accordance with accepted actuarial practice in order to ensure that the actuarial liabilities are adequate to pay future benefits. The selected PFADs are within the ranges recommended by the Canadian Institute of Actuaries.

In 2019, our discounted claims development experience was $139.1 million favourable, indicating that our unpaid claims reserves were more than adequate to cover the actual losses that were settled. For more information refer to the *Key Financial Measures (Non-IFRS)* section of this document and also Note 7 of the consolidated financial statements for our claims development table and sensitivity analysis.

Advisor transition commissions

Co-operators General's advisors are eligible for a transition commission payout upon a qualifying termination. The transition commission is based upon the number of years of service as an advisor and the average trailing commission volume of their book of business. Payments to terminated advisors are funded in part from reduced commission payments which are made to new advisors acquiring the book of business during the first 3 years of their agency relationship. Our accounting policy is to recognize the cost of transition commissions payable to active advisors over their estimated working lives and to recognize the benefit of reduced commissions payable to new advisors at the time when reduced commissions are paid. The obligation to active advisors is determined by accruing for the benefits earned to date on a present value basis assuming the cash flows associated with the earned benefits are paid out at the expected termination date. Significant assumptions used in the calculation of advisor transition commissions are the discount rate of 2.80% (2018 - 3.67%) and an average termination age of 56 (2018 - 57). A 1.0% decrease in the discount rate would increase the provision for advisor transition commissions by $9.0 million (2018 - $8.1 million) and decrease net income by $6.5 million (2018 - $5.9 million). A two-year decrease in the average termination age would increase the provision for advisor transition commissions by $4.1 million (2018 - $5.3 million) and decrease net income by $3.0 million (2018 - $3.9 million). Larger rate and age changes would have a corresponding impact to net income.

Retirement benefit obligations

Measurement uncertainty exists in valuing the components of retirement benefit obligations. Each assumption is determined by management, based on current market conditions and experiential information available at the time. Due to the long-term nature of the plans, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, medical and dental care cost trend rates, retirement age and mortality and termination rates. Actual experience that differs from the actuarial assumptions will affect the amounts recorded for the accrued benefit obligation and benefit expense. Assumed medical and dental care cost trend rates have a significant effect on the amount reported for the medical and dental benefit plans. A 1.0% increase in assumed medical and dental benefit cost trend rates would increase the accrued benefit obligation for 2019 by $25.7 million (2018 - $21.9 million). A 1.0% decrease in the discount rate would have the approximate effect of increasing the accrued benefit obligation for 2019 by $29.1 million (2018 - $24.0 million). Significant assumptions used in the calculation of employee future benefits are presented in Note 15 to the consolidated financial statements.

Significant judgments

Impairment of investments

At a minimum, we review investments at the end of each quarter to identify and evaluate investments that show indication of possible impairment. An investment is considered impaired if there is objective evidence of impairment. Objective evidence of impairment includes a significant or prolonged decline in the fair value or net asset value below cost, or when a loss event that has a reliably estimable impact on future cash flows of the financial instrument has occurred. Such impairments are recorded as a charge to earnings in the period that the determination is made. The determination of what is significant or prolonged requires judgment. In making this judgment, we evaluate factors including, but not limited to: a decline in current financial position, defaults on debt obligations, failure to meet debt covenants, significant downgrades of credit status, and severity and/or duration of the decline in value. Previously impaired investments continue to be reviewed quarterly.

ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRS. CGIC and certain of its subsidiaries are insurance companies and must also comply with the accounting and reporting requirements of regulators. The significant accounting policies used in the preparation of the consolidated financial statements are described in Note 2 of the consolidated financial statements. The accounting policies used are consistent with those applied in our audited consolidated financial statements for the year ended December 31, 2018 except for the adoption of IFRS 16 "*Leases"* adopted by Co-operators General effective January 1, 2019.

IFRS 16 "Leases" – IFRS 16 was issued in January 2016 to replace IAS 17 "Leases" and related interpretations by the International Financial Reporting Interpretations Committee (IFRIC). The standard provides a single lessee accounting model, requiring lessees to recognize right-of-use assets and related liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has a low value. The standard has been adopted by the Co-operators General on January 1, 2019. Co-operators General has elected to apply IFRS 16 on its consolidated financial statements using the modified retrospective approach.

As of January 1, 2019, Co-operators General determined the impact to the consolidated balance sheet included an increase to assets and liabilities of $35.8 million. In determining the lease liability on January 1, 2019, Co-operators General used the rate implicit in the lease if known, otherwise it applied the incremental borrowing rate to the portfolio of leases. The weighted average discount rate as of January 1, 2019 was 2.82%. For a more detailed analysis on the impacts of IFRS 16 *"Leases"* please refer to *Note 3 Adoption of new and amended accounting standards* in our consolidated financial statements.

There were no other new accounting standards which have a significant impact on our consolidated financial statements. For a complete listing of new and amended accounting standards refer to Note 3 of our consolidated financial statements.

FUTURE ACCOUNTING CHANGES

The IASB has continued to issue a number of amendments and new accounting pronouncements that will be applicable to Co-operators General. Included below are the details of select accounting standards issued but not yet applied. For a complete listing as well as their estimated impacted, refer to Note 4 of our consolidated financial statements.

IFRS 7 "Financial Instruments: Disclosures"

In December 2011, IFRS 7 was amended to require additional financial instrument disclosures upon transition from IAS 39 to IFRS 9. The amendments are effective upon adoption of IFRS 9, which is effective for annual periods beginning on or after January 1, 2018. However, in September 2016, IFRS 4 was amended to provide an option of a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities will have the option to adopt IFRS 9 upon the adoption of IFRS 17. Co-operators General qualifies for a temporary exemption; thus, IFRS 7 is effective for annual periods beginning on or after January 1, 2022. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

IFRS 9 "Financial Instruments"

IFRS 9 was issued in July 2014 and is intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 is a three part standard aimed at reducing complexity in reporting financial instruments. The project has been divided into three phases: Phase 1 Classification and measurement, Phase 2 Impairment and Phase 3 Hedge accounting. Phase 1 was issued in November 2009 and amended in October 2010. It requires financial assets to be recorded at amortized cost or fair value depending on the entity's business model for managing the assets and their associated cash flow characteristics. All financial assets are to be measured at fair value on the balance sheet if they are not measured at amortized cost. At initial recognition, an entity may irrevocably designate a financial asset as measured at (FVTPL) if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. Phase 2 was completed in July 2014 and introduced a new expected loss impairment methodology that will result in more timely recognition of impairment losses. Phase 3 was completed in November 2013. This phase replaces the rule-based hedge accounting requirements in IAS 39 to more closely align the accounting with risk management activities.

The standard is effective for annual periods beginning on or after January 1, 2018. However, in September 2016, IFRS 4 was amended to provide an option of a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities will have the option to adopt IFRS 9 upon the adoption of IFRS 17. Co-operators General qualifies for temporary exemption; thus, IFRS 9 is expected effective for annual periods beginning on or after January 1, 2022. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

IFRS 17 "Insurance Contracts"

IFRS 17 was issued in May 2017 and will replace IFRS 4 "Insurance Contracts". The intent of the standard is to establish consistent recognition, measurement, presentation and disclosure principles to provide relevant and comparable reporting of insurance contracts across jurisdictions.

The standard requires entities to measure insurance contract liabilities as the risk-adjusted present value of the cash flows plus the contractual service margin, which represents the unearned profit the entity will recognize as future service is provided. This is referred to as the general model. Expedients are specified, provided the insurance contracts meet certain conditions. If, at initial recognition or subsequently, the contractual service margin becomes negative, the contract is considered onerous and the excess is recognized immediately in the consolidated statement of income (loss). The standard also includes significant changes to the presentation and disclosure of insurance contracts within entities' financial statements.

In December 2018, the IASB voted in favour of deferring the effective date of IFRS 17 from annual reporting periods beginning on or after January 1, 2021 to January 1, 2022 (expected). The standard is to be applied retrospectively unless impracticable, in which case a modified retrospective approach or fair value approach is to be used for transition. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

IFRS 3 "Business Combinations"

IFRS 3 was amended in October 2018 to revise the definition of a business and provide a simplified assessment of whether an acquired set of activities and assets qualifies as a business. The amendment is effective for annual periods beginning on or after January 1, 2020. We are currently evaluating the impact that this standard will have on our consolidated financial statements in the event of a business acquisition.

IAS 1 "Presentation of Financial Statements and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"

Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" were issued in October 2018. The amendments are effective for annual periods beginning on or after January 1, 2020. The amendments update the definition of 'material' and the meaning of 'primary users of general-purpose financial statements'. We are currently evaluating the impact that these amendments will have on our consolidated financial statements.

Conceptual Framework of Reporting

In March 2018, the IASB revised its conceptual framework for financial reporting. The revised framework includes a new chapter on measurement, guidance on reporting financial performance, improved definitions and guidance, and clarifications on important topics (e.g., the roles of stewardship, prudence, and measurement uncertainty in financial reporting). The IASB has also issued amendments that update references to the framework in certain standards. The amendments are effective for annual periods beginning on or after January 1, 2020. We are currently evaluating the impact these amendments will have on our consolidated financial statements.

GLOSSARY OF TERMS

Certain terms used in this MD&A have the meanings set forth below that tend to be specific to the Canadian insurance industry or to Co-operators General.

Advisor - an insurance advisor who sells insurance products exclusively for CGIC.

Assume - reinsurance term to describe an insurer taking on a risk, for a premium, from the primary insurer, to cover all or part of a risk insured by the primary insurer who has then ceded the risk.

Broker - an intermediary who negotiates policies of insurance or reinsurance with insurers on behalf of the insured or reinsured, receiving a commission from the insurer or the reinsurer for placement and other services rendered.

Catastrophe reinsurance - a form of insurance, which subject to specified limits, indemnifies the ceding company for the amount of loss in excess of a specified retention amount with respect to an accumulation of losses resulting from a catastrophic event.

Cede - reinsurance term to describe a primary insurer purchasing insurance from a reinsurer who assumes the risk, to cover all or part of a risk insured by the primary insurer.

Claim - the amount owed by an insurer or reinsurer pursuant to a policy of insurance or reinsurance arising from the loss relating to an insured event.

Claims development - a non-IFRS measure representing the change in reserve balance on unpaid claims through the process of adjudication from the initial estimate to the ultimate amount paid.

Claims experience - the realized claims loss record for a defined block of business.

Claims incurred - the aggregate monetary amount of all claims paid during an accounting period adjusted by the change in the provision for unpaid claims for that accounting period together with the related loss adjustment expenses, net of recoveries from reinsurers.

Combined ratio - a non-IFRS measure representing the percentage the claims and adjustment expenses plus the acquisition expenses and the administrative expenses are to net earned premium.

Direct written premium (DWP) - a non-IFRS measure representing the total amount of premiums for new and renewal policies written during a specified period.

Expense ratio - a non-IFRS measure representing the acquisition expenses plus administrative expenses to net earned premium, expressed as a percentage.

Frequency of claims - the ratio of the number of claims files opened in a period to the total number of policies in force.

General insurance - all types of insurance excluding life insurance and governmental insurance. Also known as property and casualty insurance.

Government automobile insurers - automobile insurers owned or controlled by the governments of the provinces of Quebec, Manitoba, Saskatchewan and British Columbia.

Incurred but not reported (IBNR) - the estimate of claims incurred but not yet reported by policyholders.

Industry pools - consist of the "residual market" as well as mandatory risk-sharing pools (RSP) in Alberta, Ontario, Quebec, New Brunswick and Nova Scotia. These pools, managed by the Facility Association (FA), except for the Quebec RSP, provide automobile insurance to individuals who are otherwise unable to purchase such coverage from private insurers acting voluntarily. All insurance companies share in the results of the pool according to their market share.

Liability insurance - insurance that serves to protect the insured from the financial consequences of damages claimed by third parties.

Line of business - the major product groupings offered to the public. Co-operators General's major lines of business are: automobile, home, commercial, and farm.

Loss ratio - a non-IFRS measure representing the percentage incurred losses plus loss-adjustment expenses are to net earned premium; may be referred to as claims ratio.

Market yield adjustment (MYA) - a non-IFRS measure representing the impact of changes in the discount provision on claims liabilities, the provision for adverse deviation (PFADs) and other discounting assumptions based on the change in the market-based yield of the underlying assets.

Minimum Capital Test (MCT) - a non-IFRS measure representing the minimum and supervisory target capital standards established by OSFI for property and casualty insurance companies.

Net earned premium (NEP) - the net written premium during the period, plus the unearned premiums reserve at the beginning of the period, less the unearned premiums reserve at the end of the period, net of any reinsurance.

OSFI - Office of the Superintendent of Financial Institutions (Canada), the government body responsible for the regulation and supervision of financial institutions and private pension plans subject to federal oversight.

Property and casualty (P&C) insurance - all types of insurance excluding life insurance and governmental insurance. Also known as general insurance.

Provision for adverse deviation (PFAD) - margins that are added to loss reserves to provide for adverse deviation from claims reserve estimates; this includes provisions covering claims development variability and risks associated with interest rate and reinsurance recoveries.

Unpaid claims and adjustment expenses - the amount provided as a liability to cover the estimated ultimate cost of settling claims, including claims incurred but not reported arising out of events, which have occurred by the end of an accounting period, less amounts paid with respect to those claims; also referred to as 'provision for unpaid claims' or 'claims reserves.'

Reinstatement premium - the premium paid to restore the original reinsurance policy limit as a result of a reinsurance loss payment under a catastrophe cover. Reinstatement premiums are reported as a reduction in net earned premium.

Reinsurer - an insurer who assumes all or part of a risk originally assumed by a primary insurer.

Retention - has two meanings: (1) in respect of reinsurance, the amount of risk not ceded to reinsurers; (2) in respect to policies in force, the number of policyholders who renew for a subsequent term.

Return on equity (ROE) - a non-IFRS measure representing net income as a percentage of average opening and closing shareholders' equity excluding accumulated other comprehensive.

Severity of claims - the average cost of each claim, based on the total claims cost and number of claims opened in a period.

Salvage and subrogation recoverable - Salvage recoverable is the estimated value of damaged property that may be retrieved, reconditioned, and sold to reduce the amount of an insured loss. Subrogation recoverable is the estimate of the amount the insurer will collect from a negligent third party or their insurer after assuming the insured's legal right to collect damages.

Underwriting - the selection and assumption of risk for designated loss or damage arising from specified events by issuing a policy of insurance in respect thereof.

Underwriting gain or loss - a non-IFRS measure calculating the profit or loss from the activity of taking on insurance risks, excluding the impact of the MYA.

RESPONSIBILITY FOR FINANCIAL REPORTING

Management and the appointed actuary

Management is responsible for the preparation of the accompanying consolidated financial statements and the accuracy, integrity and objectivity of the information they contain. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of Canadian insurance regulators. The financial information presented elsewhere in the annual report is consistent with the consolidated financial statements. These consolidated financial statements, which necessarily include some amounts that are based on management's best estimates and the opinion of the appointed actuary, have been prepared using careful judgment.

To assist management in the discharge of these responsibilities, Co-operators General Insurance Company and its wholly owned subsidiaries, collectively known as "the Company", maintain a system of internal controls designed to provide reasonable assurance that assets are safeguarded; that only valid and authorized transactions are executed; and that accurate, timely and comprehensive financial information is prepared. These controls are supported by policies and procedures and the careful selection and training of qualified staff. Further, management has a process in place to evaluate disclosure controls and procedures and internal controls over financial reporting.

The appointed actuary is appointed by the Board of Directors pursuant to the Insurance Companies Act (Canada). Among the appointed actuary's responsibilities is the requirement to carry out an annual valuation of the Company's insurance contracts in accordance with accepted actuarial practice and regulatory requirements for the purpose of reporting to shareholders and the Office of the Superintendent of Financial Institutions, Canada. Management is responsible for providing the appointed actuary the information necessary for completion of the annual valuations. The appointed actuary's report follows.

Audit Committee of the Board of Directors

The Audit Committee of the Board of Directors, consisting entirely of non-executive, independent directors, is responsible for reviewing the accounting principles and practices employed by the Company and reviewing the Company's annual consolidated financial statements prior to their submission to the Board of Directors for final approval. The Audit Committee meets no less than quarterly with the internal and external auditors, and management to review and discuss accounting, reporting and internal control matters. Both the internal and external auditors have full and unrestricted access to the Audit Committee, with and without the presence of management. The Audit Committee is responsible for recommending to the Board of Directors the appointment of the Company's external auditors, the approval of their remuneration and the terms of their engagement.

The consolidated financial statements have been examined independently by PricewaterhouseCoopers LLP, on behalf of the Company's shareholders. The Independent Auditor's Report is presented below and outlines the scope of their examination and expresses their opinion on the consolidated financial statements of the Company.

(Signed)

Robert Wesseling
President and Chief Executive Officer

(Signed)

Karen Higgins
Executive Vice-President, Finance
and Chief Financial Officer

February 13, 2020

Independent auditor's report

To the Shareholders of Co-operators General Insurance Company

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Co-operators General Insurance Company and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of income (loss) for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Claire Cornwall.

(Signed) "PricewaterhouseCoopersLLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
February 13, 2020

APPOINTED ACTUARY'S REPORT

To the Directors and Shareholders of Co-operators General Insurance Company:

I have valued the policy liabilities of Co-operators General Insurance Company for its consolidated balance sheet as at December 31, 2019 and their change in the consolidated statement of income (loss) for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policy obligations and the financial statements fairly present the results of the valuation.

(Signed)

Apundeep Lamba
Fellow, Canadian Institute of Actuaries

Guelph, Ontario
February 13, 2020

CONSOLIDATED FINANCIAL STATEMENTS

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS
As at December 31

(in thousands of Canadian dollars)	2019 $	2018 $
Assets		
Cash and cash equivalents	**97,367**	65,372
Invested assets including securities on loan (note 5)	**5,327,160**	4,728,874
Premiums due	**1,250,904**	1,073,368
Income taxes recoverable	**77**	79,857
Reinsurance ceded contracts (note 9)	**163,667**	174,427
Deferred acquisition expenses (note 10)	**313,135**	293,131
Deferred income taxes (note 11)	**127,220**	116,749
Intangible assets (note 12)	**103,995**	82,613
Right-of-use assets (note 13)	**29,165**	-
Other assets (note 14)	**75,280**	84,330
	7,487,970	6,698,721
Liabilities		
Accounts payable and accrued charges	**324,665**	291,125
Income taxes payable	**74,147**	39
Insurance contracts (note 8)	**4,909,213**	4,481,312
Retirement benefit obligations (note 16)	**128,661**	120,501
Deferred income taxes (note 11)	**7,544**	3,876
Lease liabilities (note 13)	**29,803**	-
Provisions and other liabilities (note 15)	**166,612**	151,925
	5,640,645	5,048,778
Shareholders' equity		
Share capital (note 17)	**544,779**	413,452
Contributed capital	**100,874**	100,874
Retained earnings	**1,029,368**	1,045,180
Accumulated other comprehensive income (note 20)	**172,304**	90,437
	1,847,325	1,649,943
	7,487,970	6,698,721

Contingencies, commitments and guarantees (note 28)

Approved by the Board of Directors:

(Signed)

John Harvie
Chairperson

(Signed)

Robert Wesseling
President and Chief Executive Officer

See accompanying notes to the consolidated financial statements.

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31

2019 (in thousands of Canadian dollars)	Share capital $	Contributed capital $	Retained earnings $	Accumulated other comprehensive income $	Total shareholders' equity $
Balance, beginning of year	**413,452**	**100,874**	**1,045,180**	**90,437**	**1,649,943**
Net income	**-**	**-**	**174,026**	**-**	**174,026**
Other comprehensive income	**-**	**-**	**-**	**81,867**	**81,867**
Comprehensive income	**-**	**-**	**174,026**	**81,867**	**255,893**
Staff share loan plan	**123**	**-**	**-**	**-**	**123**
Preference shares issued	**10,171**	**-**	**-**	**-**	**10,171**
Preference shares redeemed	**(8,969)**	**-**	**(1,499)**	**-**	**(10,468)**
Common shares issued	**130,002**	**-**	**-**	**-**	**130,002**
Dividends declared (note 17)	**-**	**-**	**(58,339)**	**-**	**(58,339)**
Acquisition of subsidiary from a related party (note 26)	**-**	**-**	**(130,000)**	**-**	**(130,000)**
Balance, end of year	**544,779**	**100,874**	**1,029,368**	**172,304**	**1,847,325**

2018 (in thousands of Canadian dollars)	Share capital $	Contributed capital $	Retained earnings $	Accumulated other comprehensive income $	Total shareholders' equity $
Balance, beginning of year	227,840	10,132	1,169,323	123,733	1,531,028
Net loss	-	-	(37,107)	-	(37,107)
Other comprehensive loss	-	-	-	(36,332)	(36,332)
Comprehensive loss	-	-	(37,107)	(36,332)	(73,439)
Staff share loan plan	(720)	-	-	-	(720)
Preference shares issued	9,990	-	-	-	9,990
Preference shares redeemed	(5,358)	-	(555)	-	(5,913)
Common shares issued	181,700	-	-	-	181,700
Dividends declared (note 17)	-	-	(10,348)	-	(10,348)
Acquisition of subsidiary from a related party (note 26)	-	(9,258)	(76,133)	3,036	(82,355)
Contribution of capital	-	100,000	-	-	100,000
Balance, end of year	413,452	100,874	1,045,180	90,437	1,649,943

See accompanying notes to the consolidated financial statements.

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Years ended December 31

(in thousands of Canadian dollars except for earnings per share and weighted average number of common shares)	2019 $	2018 $
Income		
Net earned premium (note 7, 8, 22)	**3,274,723**	2,886,877
Net investment income and gains (note 5)	**272,084**	66,679
Fees and other income	**9,251**	8,458
	3,556,058	2,962,014
Expenses		
Claims and benefits	**2,380,022**	2,191,331
Ceded claims and benefits (note 9)	**(106,183)**	(81,940)
Premium and other taxes	**116,253**	99,825
Commissions and advisor compensation	**665,109**	576,368
Ceded commission (note 9)	**(108,952)**	(85,073)
General expenses (note 23)	**395,658**	331,040
	3,341,907	3,031,551
Income (loss) before income taxes	**214,151**	(69,537)
Income tax expense (recovery) (note 11)	**40,125**	(32,430)
Net income (loss)	**174,026**	(37,107)
Earnings (losses) per share (note 18)	**6.40**	(2.03)
Weighted average number of common shares (note 18)	**25,560**	23,359

See accompanying notes to the consolidated financial statements.

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31

(in thousands of Canadian dollars)	2019 $	2018 $
Net income (loss)	**174,026**	(37,107)
Other comprehensive income (loss)		
Items that may be reclassified subsequently to the consolidated statement of income:		
Net unrealized gains (losses) on available-for-sale financial assets	**203,476**	(66,604)
Net reclassification adjustment for (gains) losses included in net income (note 5)	**(86,938)**	3,263
Items that may be reclassified before income taxes	**116,538**	(63,341)
Income tax expense (recovery) relating to items that may be reclassified (note 11)	**32,348**	(18,677)
	84,190	(44,664)
Items that will not be reclassified to the consolidated statement of income:		
Remeasurement of the retirement benefit obligations (note 16)	**(3,170)**	11,421
Income tax expense (recovery) related to items that will not be reclassified (note 11)	**(847)**	3,089
	(2,323)	8,332
Other comprehensive income (loss)	**81,867**	(36,332)
Comprehensive income (loss)	**255,893**	(73,439)

See accompanying notes to the consolidated financial statements.

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

(in thousands of Canadian dollars)	2019 $	2018 $
Operating activities		
Net income (loss)	**174,026**	(37,107)
Items not requiring the use of cash (note 24)	**(66,528)**	86,268
Changes in non-cash operating components (note 24)	**439,726**	172,820
Cash provided by operating activities	**547,224**	221,981
Investing activities		
Purchases and advances of:		
Invested assets	**(5,362,903)**	(3,455,952)
Property and equipment	**(5,035)**	(3,158)
Intangible assets	**(25,634)**	(5,216)
Acquisition of a subsidary from related party, net cash acquired (note 26)	**-**	(176,803)
Sales and redemptions of:		
Invested assets	**4,959,271**	3,115,688
Property and equipment	**2,156**	1,578
Cash used in investing activities	**(432,145)**	(523,863)
Financing activities		
Share capital - preference shares issued (note 17)	**10,171**	9,990
Share capital - preference shares redeemed (note 17)	**(10,468)**	(5,913)
Share capital - common shares issued (note 17)	**-**	181,700
Contribution of capital	**-**	100,000
Dividends paid (note 17)	**(58,347)**	(10,247)
Lease liabilities paid	**(10,830)**	-
Cash provided by (used in) financing activities	**(69,474)**	275,530
Net increase (decrease) in cash and cash equivalents, net of payments in transit	**45,605**	(26,352)
Cash and cash equivalents, net of payments in transit, beginning of year	**8,644**	34,996
Cash and cash equivalents, net of payments in transit, end of year	**54,249**	8,644
Cash	**77,447**	21,411
Cash equivalents	**19,920**	43,961
Net payments in transit, included in accounts payable and accrued charges	**(43,118)**	(56,728)
Cash and cash equivalents, net of payments in transit, end of year	**54,249**	8,644

Supplemental information (note 24)

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of operations

Unless noted or the context indicates otherwise, in these notes "Company" refers to the Consolidated Co-operators General Insurance Company. CGIC refers to the Non-Consolidated Co-operators General Insurance Company.

The Company is comprised of CGIC and its wholly owned subsidiaries: The Sovereign General Insurance Company (Sovereign), COSECO Insurance Company (COSECO), CUMIS General Insurance Company (CUMIS General), Co-operators Investment Limited Partnership (CILP), Co-operators Strategic Growth Corporation (CSGC) and Co-operators Insurance Agencies Limited (CIAL). 100% of the voting rights attached to all the outstanding voting shares or partnership interests of each of Sovereign, COSECO, CUMIS General, CILP, CSGC and CIAL are held by CGIC. CGIC acquired CUMIS General on April 1, 2018; refer to note 26 for further details.

The registered office of the Company is 130 Macdonell Street, Guelph, Ontario. The Company is domiciled in Canada and is incorporated under the Insurance Companies Act (Canada). These consolidated financial statements of the Company for the year ended December 31, 2019 were authorized for issue by the Board of Directors on February 13, 2020.

CGIC and certain of its subsidiaries are licensed to write insurance in all provinces and territories in Canada. With the exception of CUMIS General, CGIC and certain of its subsidiaries are licensed to write all classes of insurance, other than life. CUMIS General is licensed to write property and casualty as well as accident and sickness insurance. AZGA Service Canada Inc. (AZGA Canada), an associate of Co-operators Life Insurance Company (CLIC), a company under common control, acts as Managing General Underwriter (MGU) with respect to the travel insurance underwritten by CUMIS General. CGIC and certain of its subsidiaries are regulated by the federal Insurance Companies Act and the various provincial insurance acts. The Company must comply with the accounting and reporting requirements of its regulator the Office of the Superintendent of Financial Institutions, Canada (OSFI).

The Company's common shares are 100% owned by Co-operators Financial Services Limited (CFSL), which in turn is owned 100% by The Co-operators Group Limited (CGL). The Class E preference shares, Series C are traded on the Toronto Stock Exchange under the symbol CCS.PR.C.

2. Summary of significant accounting policies

Basis of preparation and statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). References to IFRS are based on Canadian Generally Accepted Accounting Principles for publicly accountable enterprises as set out in Part 1 of the Chartered Professional Accountants of Canada (CPA) Handbook - Accounting. Part 1 of the CPA Handbook incorporates IFRS and International Accounting Standards (IAS) as issued by the International Accounting Standards Board (IASB).

The consolidated balance sheet is presented on a non-classified basis. Assets expected to be realized and liabilities expected to be settled within the Company's normal operating cycle of one year are typically considered to be current. Certain balances are comprised of both current and non-current amounts. The current and non-current portions of such balances are disclosed, where applicable, throughout the notes to the consolidated financial statements.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention excluding certain financial instruments and insurance contract liabilities whose basis of measurement is disclosed in the following accounting policies.

Insurance contracts

Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Company agrees to compensate a policyholder if a specified uncertain future event, other than a change in a financial variable, adversely affects the policyholder. Any contracts, including reinsurance contracts that do not meet the definition of an insurance contract under IFRS are classified as investment contracts, or service contracts, as appropriate. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime until all rights and obligations are extinguished or expire. The Company does not have investment contracts.

Revenue recognition

Premiums written for property and casualty insurance contracts are deferred as unearned premiums and recognized in the consolidated statements of income (loss) over the terms of the underlying policies. Premiums written are gross of any premium taxes and commissions.

Fees and other income include commission revenue from the sale of insurance policies.

Insurance contract liabilities

Unearned premiums represent the portion of the premiums written relating to the period of insurance coverage subsequent to the consolidated balance sheet date.

The provision for unpaid claims and adjustment expenses represents the estimated amount required to settle all reported and unreported claims incurred to the end of the year. These estimates are determined using the best information available for claims settlement patterns, inflation, expenses, changes in the legal and regulatory environment and other matters. The provision reflects the time value of money and is discounted based on the projected market yield of the assets backing the claims liability.

Anticipated recoveries of amounts relating to reported and unreported claims for salvage and subrogation, net of any required provision for impairment, are included as an allowance in the measurement of the claims provision. Estimation of the amount of these recoveries is based on principles consistent with the Company's method for establishing the related liability.

Differences between the estimated cost and subsequent settlement of claims are recognized in the consolidated statements of income (loss) in the period in which they are settled or in which the provisions for claims outstanding are re-estimated.

In the normal course of claims adjudication, the Company settles certain obligations to claimants through the purchase of annuities from third party life insurance companies under structured settlement arrangements (structured settlements). In accordance with OSFI Guideline D-5, these contracts are categorized as either Type 1 or Type 2 based on the characteristics of the claim settlement. When the Company does not retain a reversionary interest under the contractual arrangement to any current or future benefits of the annuity, and the Company has obtained a legal release of the obligation from the claimant, it will be classified as a Type 1 structured settlement. For such contracts, any gain or loss arising on the purchase of an annuity is recognized in the consolidated statements of income (loss) at the date of purchase and the related claims liabilities are derecognized. All other structured settlements that do not meet these criteria are classified as Type 2, with the Company recognizing the annuity contract in other investments within invested assets. A corresponding liability representing the outstanding obligation to the claimant is recognized in insurance contracts.

The Company has established an experienced rated refund pool as part of its fidelity program. This program provides a mechanism for the accumulation and redistribution of funds if favourable experience exists within the program over a period of years. Refunds are determined based on the adequacy of the pool and the results of the fidelity operation.

Liability adequacy test

At each consolidated balance sheet date, an assessment is made of whether the insurance contract liabilities are adequate, using current estimates of future cash flows. If that assessment shows that the carrying amount of the liabilities is insufficient in light of the estimated future cash flows, the premium deficiency is recognized in the consolidated statements of income (loss). An additional liability is set-up if a reduction in deferred acquisition expenses is insufficient.

Premiums due

Premiums due represent receivables that are recognized when owed pursuant to the terms of the related insurance contract. Premiums due are measured on initial recognition at the fair value of the consideration receivable and are recorded on the consolidated balance sheets net of any impairment losses. Premiums due are classified as loans and receivables.

Acquisition expenses

Acquisition expenses are comprised of commissions and premium taxes, which relate directly to the acquisition of premiums. These expenses are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the anticipated claims, expenses and investment income related to the unearned premiums. If a premium deficiency arises, any deferred acquisition expenses would be written off first, then a liability would be recorded on the consolidated balance sheets for any remainder.

Reinsurance

Premiums payable in respect of reinsurance ceded are recognized over the period in which the reinsurance contract is entered into and are based on the underlying insurance contracts to which they relate. Ceded premiums are expensed in the consolidated statements of income (loss) on a pro-rata basis over the term of the reinsurance contract.

Reinsurance ceded assets and liabilities are recognized and together reflect the net amount estimated to be recoverable under the Company's reinsurance contracts in respect of outstanding claims reported within insurance contracts. The amount recoverable is initially valued on the same basis as the underlying insurance contract. The amount recoverable is reduced when events or conditions arise after the initial recognition of the asset that provide objective evidence that the Company may not receive all amounts due under the contract.

Reinsurance commissions are recognized in the consolidated statements of income (loss) over the term of the reinsurance contract using principles consistent with the Company's method of recording acquisition expenses. The Company has in place certain reinsurance contracts in which the commission has a floor and a ceiling based on the loss experience on the business ceded under the contract. Commissions are estimated based on the experience of these contracts.

The Company also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognized as revenue or expenses in the same manner as they would be if the reinsurance contract was considered direct business. Liabilities arising under these contracts are estimated in a manner consistent with the related insurance contract and are included as components of insurance contracts.

Financial instrument contracts

Classification and designation

Financial assets are classified as fair value through profit or loss (FVTPL), available-for-sale (AFS), held-to-maturity (HTM), or loans and receivables based on their characteristics and purpose of their acquisition. Certain financial assets may be designated as FVTPL at the Company's option. Financial liabilities are required to be classified as FVTPL or other financial liabilities.

The Company has classified its investment in stocks, bonds, pooled funds and derivatives as either AFS or FVTPL with the exception of private debt bonds which are classified as HTM. Investments in limited partnerships are classified as AFS. Certain bonds backing unpaid claims and adjustment expenses have been designated as FVTPL. Certain shares that contain embedded derivatives are designated as FVTPL. The fair value option may be used when such a designation eliminates or significantly reduces an accounting mismatch caused by measuring assets and liabilities on different bases or when instruments are measured and managed on a fair value basis in accordance with a documented risk management strategy. If a contract contains embedded derivatives, the entire combined hybrid contract may be designated as FVTPL. The Company's FVTPL designations comply with these requirements.

Mortgages and other investments are classified as loans and receivables. Short-term investments, which include money market instruments with a maturity of greater than three months from the date of acquisition, are classified as AFS and HTM. Currency derivatives and cash and cash equivalents are classified as FVTPL. Accounts payable and accrued charges, as well as borrowings are classified as other financial liabilities with interest expense, if any, recorded in general expenses.

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Presentation

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognized amounts and there is the ability and intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Recognition and measurement

Purchases and sales of invested assets classified as FVTPL, AFS, HTM or loans and receivables are recorded on a trade date basis, the date on which the Company commits to purchase or sell the investment.

Financial assets are measured at fair value, with the exception of HTM assets and loans and receivables. Assets classified as HTM or loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment losses, if any. Any premium or discount on the acquisition of bonds is included in the calculation of the effective interest rate. Financial liabilities are measured at fair value when they are classified as FVTPL. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

Changes in the fair value of FVTPL financial assets and financial liabilities are recognized in net income (loss) for the year, while changes in the fair value of AFS financial assets are reported within other comprehensive income (loss) (OCI), until the related instrument is disposed of or becomes impaired. Net foreign exchange gains and losses for FVTPL and monetary AFS financial instruments are recognized in net income (loss), while net foreign exchange gains and losses for non-monetary financial instruments classified as AFS are recognized in OCI.

Accumulated other comprehensive income (AOCI) is included in the consolidated balance sheets as a separate component of shareholders' equity (net of income taxes) and includes unrealized gains and losses on AFS financial assets. The cumulative gains or losses in the fair values of investments previously recognized in AOCI are reclassified to net income (loss) when they are realized or impaired.

Financial assets are derecognized when the rights to receive cash flows from them have expired or when the Company has transferred substantially all of the risks and rewards of ownership.

Fair value

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Fair value measurements for invested assets are categorized into levels within a fair value hierarchy based on the nature of valuation inputs (Level 1, 2 or 3).

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the instrument's interest rate approximates current observable market rates. Where other financial assets and financial liabilities are of longer duration, fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates.

Impairment of financial assets

The Company reviews its AFS investment portfolio on a quarterly basis, at a minimum, for any declines in fair value below cost, and recognizes any losses in net income (loss) where there is objective evidence of impairment.

The Company assesses whether there is potential impairment of an AFS financial asset by assessing whether there is a significant or prolonged decline in fair value below cost. For equity instruments, the Company considers a decline of 20% to be significant and a period of twelve months to be prolonged. When assessing whether there is potential impairment of instruments other than equity instruments, factors that are considered include, but are not limited to: a decline in current financial position; defaults on debt obligations; failure to meet debt covenants; significant downgrades of credit status, and severity and/or duration of the decline in value. An impairment loss is recorded through a reclassification adjustment to the consolidated statements of income (loss).

Impairments of AFS equity instruments cannot be reversed through the consolidated statements of income (loss) until the instrument is disposed of. Impairments of AFS debt instruments are only reversed if, in a subsequent period, the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income (loss).

Financial assets include mortgages and other investments classified as loans and receivables that are also evaluated for impairment. These financial assets are considered impaired when there is objective evidence of deterioration in credit quality that indicates the Company no longer has reasonable assurance that the full amount of principal and interest will be collected. The Company then establishes specific provisions for losses and balances are subsequently measured at their net realizable amount based on discounting the cash flows at the original effective interest rate inherent in the loan or the fair value of the underlying security. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it collectively assesses the assets for impairment. Assets that are individually assessed for impairment, and for which an impairment loss is or continues to be recognized, are not included in a collective assessment of impairment. Changes in present value of estimated future cash flows of impaired loans are recognized in net investment income and gains as a credit or charge to impairment losses.

Derivative financial instruments

Derivatives are classified as FVTPL and transactions are recorded on a trade date basis. There are no derivatives designated as a hedge for accounting purposes. Derivatives are recognized at fair value in the consolidated balance sheets. The gains and losses arising from remeasuring the derivatives at fair value are recognized in the consolidated statements of income (loss) in net investment income and gains. Positive fair values are reported in invested assets as foreign currency forward contracts, and negative fair values are reported in provisions and other liabilities.

Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract. Some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified financial variable. Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when: (i) their economic characteristics and risks are not closely related to those of the host contract; (ii) the terms of the embedded derivative are the same as those of a free standing derivative; (iii) the combined instrument or contract is not measured at fair value with the changes in fair value being recognized in net income (loss); and (iv) the fair value of the embedded derivative can be reliably measured on a separate basis. These embedded derivatives are classified as FVTPL financial assets and liabilities with changes in fair value recognized in net income (loss) as a component of net investment income and gains.

Investments under securities lending program

Securities lending transactions are entered into on a collateralized basis. The securities lent are not derecognized on the Company's consolidated balance sheets given that the risks and rewards of ownership are not transferred from the Company to the counterparties in the course of such transactions. Securities received from counterparties as collateral are not recorded on the Company's consolidated balance sheets given that the risks and rewards of ownership are not transferred from the counterparties to the Company in the course of such transactions.

Revenue and expense recognition

Included within net investment income and gains are dividend and interest income. Dividend income is recorded on the ex-dividend date and interest income, which includes amortization of premiums or discounts, is recognized using the effective interest method. Realized gains and losses on the sale of investments are computed using the average cost of investments, net of any impairment charges, and are recognized in net investment income and gains on the date of sale.

Transaction costs for AFS financial assets and loans and receivables are recorded as part of the purchase cost of the asset. Transaction costs for financial liabilities classified as other than FVTPL are included in the value of the instrument at issue. Transaction costs for FVTPL financial instruments are expensed as incurred in the consolidated statements of income (loss).

Other significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include short-term investments with a maturity of three months or less from the date of acquisition.

Property and equipment

Computer equipment, furniture and equipment, and leasehold improvements are carried at cost less accumulated amortization and accumulated impairment losses. Subsequent costs are included in the asset's carrying value when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. All repairs and maintenance costs are charged to the consolidated statements of income (loss) during the year in which they occur.

Property and equipment balances are amortized on a straight-line basis over their estimated useful lives as follows:

	Term
Computer equipment	3 years
Furniture and equipment	10 years
Leasehold improvements	Lesser of 5 years and terms of related lease

Leasehold projects in progress are carried at cost and amortization commences upon completion of the project.

Impairment reviews are performed when there are indicators that the carrying value of an asset may exceed its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Impairment losses are recognized in the consolidated statements of income (loss) as an expense. In the event that the value of a previously impaired asset recovers, the previously recognized impairment loss is recovered in the consolidated statements of income (loss) at that time.

Property and equipment are derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing the proceeds with the net carrying value and are recorded in the consolidated statements of income (loss). Fully depreciated property and equipment are retained in cost and accumulated amortization accounts until such assets are removed from service.

Useful lives, amortization rates and residual values are reviewed annually and are taken into consideration when determining the depreciable amounts of the property and equipment.

Leases

Effective January 1, 2019, the Company has adopted IFRS 16 in its consolidated financial statements. Below is a discussion of the current accounting policy, and the accounting policy applicable before January 1, 2019. The impact of the changes and the Company's elections on transition are disclosed in note 3.

Policy applicable on and after January 1, 2019

At the inception of a contract, the Company determines whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To determine whether a contract contains the right to control the use of an identified asset for a period of time, the Company determines whether it has the right to obtain substantially all the economic benefits from the use of the identified asset and has the right to direct the use of the identified asset. An identified asset is physically distinct and can be specified explicitly or implicitly.

The Company has elected not to separate lease components from non-lease components in a lease. This policy applies to contracts entered into, or changed, on or after January 1, 2019.

At the commencement of a lease, the Company recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost. Cost includes the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle or restore the underlying asset, less any lease incentives received.

The right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the lease term. The lease term includes the non-cancellable period of the lease including extension and termination options if the Company is reasonably certain to exercise the option. The right-of-use asset is adjusted for certain remeasurements of the lease liability and impairment losses.

The lease liability is initially measured at the present value of the lease payments for the remainder of the lease term, discounted using the interest rate implicit in the lease if known or, if that rate is not readily determinable, the Company's incremental borrowing rate. Payments that are variable in nature and do not represent in-substance fixed payments have been excluded from the lease payments and are included in the consolidated statements of income (loss) under general expenses.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. The lease term includes the non-cancellable period of the lease including extension and termination options if the Company is reasonably certain to exercise the option.

The lease liability is amortized using the interest rate implicit in the lease if known, or if that rate is not readily determinable, the Company's incremental borrowing rate. It is remeasured when there is a change in the Company's estimate of whether it will exercise an extension or termination option. If the lease liability is remeasured, a corresponding adjustment is made to the right-of-use asset.

Policy applicable before January 1, 2019

Leases of property and equipment where the Company was not exposed to substantially all of the risks and rewards of ownership were classified as operating leases. Incentives received from the lessor were deferred and amortized to the consolidated statements of income (loss) on a straight-line basis over the term of the lease. Where substantially all of the risks and rewards had been transferred to the Company, the lease was classified as a finance lease. In these cases, a liability and an asset were recognized based on the present value of the future minimum lease payments and the balances were amortized over the lease term and useful life, respectively.

Business acquisitions and consolidation

The Company measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in net income (loss).

The Company elects, on a transaction-by-transaction basis, whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date. Transaction costs that the Company incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

IFRS 3 "Business Combinations" excludes from its scope the combination of entities or businesses under common control. Therefore, in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors", the Company has considered various other sources of guidance and has elected to record the acquisition of businesses under common control using the pre-acquisition date book values for their assets and liabilities and will not apply the measurement principles of IFRS 3; the difference between fair value and book value will be recorded through equity. Consistent with IFRS 3, the results of the Company prior to the acquisition date will not be restated.

Subsidiaries
Subsidiaries are all entities over which CGIC has control. CGIC controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by CGIC.

	Place of business	Ownership interest and voting rights held by the Company	Principal activities
The Sovereign General Insurance Company	Canada	100%	Property & casualty insurance
COSECO Insurance Company	Canada	100%	Property & casualty insurance
CUMIS General Insurance Company	Canada	100%	Property & casualty insurance
Co-operators Investment Limited Partnership	Canada	100%	Investment partnership
Co-operators Insurance Agencies Limited	Canada	100%	Licensed insurance agency
Co-operators Strategic Growth Corporation	Canada	100%	Licensed insurance agency

Investments in associates and joint ventures
Associates are those entities over which the Company has significant influence, but not control. Significant influence is considered to be held where the Company has the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control over those policies. Significant influence is generally presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity.

Joint ventures are joint arrangements where the parties have rights to the net assets of the arrangement. A joint arrangement is where two or more parties have joint control. Joint control is the contractually agreed sharing of control, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The Company's investment includes goodwill identified on acquisition and is presented net of any accumulated impairment losses. The consolidated financial statements include the Company's share of the income, expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation
Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, unless the transaction provides evidence of impairment.

Intangible assets

Goodwill is not amortized but is evaluated for impairment annually or more frequently when an event or circumstance occurs that indicates goodwill might be impaired. Testing for impairment is accomplished by determining if the carrying value of a cash-generating unit (CGU) exceeds its recoverable amount at the assessment date. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Each of those CGUs represents the Company's investment by legal entity. The assets constituting the CGU to which goodwill has been allocated are tested for impairment prior to testing the goodwill for impairment. Any impairment loss on these assets is recognized in the consolidated statements of income (loss) prior to testing the CGU containing goodwill for impairment.

If the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount, the amount of the goodwill impairment is measured as the excess of the carrying amount of the CGU over its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell or its value in use. Should the carrying value exceed the recoverable amount, an impairment loss is recognized in the consolidated statements of income (loss) at that time. The estimate of recoverable amount required for the impairment test is sensitive to the cash flow projections and the assumptions used in the valuation model. Previously recorded impairment losses for goodwill are not reversed in future periods.

Finite life intangible assets are amortized on a straight-line basis over their estimated useful lives and are carried at cost less accumulated amortization and impairment. Finite life intangible assets are tested for impairment when events or circumstances indicate that the carrying value may not be recoverable. Indefinite life intangible assets are not amortized but are evaluated for impairment annually or more frequently when an event or circumstance occurs that indicates impairment. An impairment loss is recognized as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, which are CGUs.

For intangible assets excluding goodwill, an assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset's or CGU's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset or CGU is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset or CGU in prior years.

The details of the Company's accounting policy as it applies to each intangible asset group is as follows:

	Term
Goodwill	Indefinite life, not amortized
Licenses	Indefinite life, not amortized
Brand	Indefinite life, not amortized
Customer relationships	5 - 10 years
Software	2 - 5 years

Software consists primarily of internally generated software development costs.

Assets held for sale and discontinued operations

Non-current assets and disposal groups are classified as assets held for sale when the Company expects the carrying amount to be recovered through a sales transaction rather than through continuing use. This condition is satisfied when the asset or disposal group is available for immediate sale in its present condition and the sale is highly probable. Non-current assets and disposal groups classified as held for sale are measured at the lower of their previous carrying amounts, prior to being reclassified, and fair value less costs to sell. Liabilities directly associated with the held for sale assets of a disposal group are presented separately from liabilities related to continuing operations.

A disposal group is classified as a discontinued operation if it meets the following conditions: (i) it is a component that can be distinguished operationally and financially from the rest of the Company's operations, and (ii) it represents either a separate major line of business or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations. Disposal groups classified as discontinued operations are presented separately from the Company's continuing operations in its consolidated statements of income (loss), consolidated statements of comprehensive income (loss) and consolidated statements of cash flows.

Retirement benefit obligations

Retirement benefit obligations include pensions, medical and dental benefits and certain other benefits to qualifying individuals. The primary pension plan is a defined contribution plan.

A defined contribution plan is a post-employment benefit plan under which an entity pays specified contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in general expenses in the consolidated statements of income (loss) in the periods during which services are rendered by employees.

The other benefit plans are benefit obligations which are accounted for using the projected unit credit method. The expected costs of retirement benefit obligations are expensed during the years that the employees render services and an accrued post-employment benefit obligation is recognized. The obligation is determined by application of the terms of the plans together with relevant actuarial assumptions. There are no employee contributions to the other-than-pension benefits plan. The plans are not funded. Net interest on the accrued benefit liability is recognized in general expenses in the consolidated statements of income (loss).

The effects of remeasurement of retirement benefit obligations, including differences between the actual return on plan assets and the interest income on plan assets, and actuarial gain and loss, are recognized permanently in OCI. Past service costs are recognized in the consolidated statements of income (loss) at the earlier of when the amendment or curtailment occurs or when the Company recognizes related restructuring or termination benefits, where applicable.

Borrowings

Borrowings are initially recognized at fair value, net of any transaction costs incurred. Subsequently, borrowings are carried at amortized cost. Debt issuance transaction costs are amortized over the term of the related debt using the effective interest method.

Provisions

Provisions are recognized when: (i) the Company has a present legal or constructive obligation as a result of past events, (ii) it is more likely than not that an outflow of resources will be required to settle the obligation, (iii) and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense and classified as a general expense in the consolidated statements of income (loss).

Provision for advisor transition commissions

The Company's advisors are eligible for a transition commission payout on a qualifying termination. The transition commission liability is based on the number of years of service as an advisor and the advisor's average trailing commission volume. Payments to terminated advisors are funded in part from reduced commission payments which are made to advisors assuming the rights to the book of business during the first three years of their agency relationship. The obligation to active advisors is determined by accruing for the benefits earned to date on a present value basis assuming the cash flows associated with the earned benefits are paid out at the expected termination date.

Foreign currency translation

Functional and presentation currency
Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Canadian dollars, which is CGIC's functional and the Company's presentation currency.

Transactions and balances
The Company translates all foreign currency monetary assets and liabilities into Canadian dollars at year-end foreign exchange rates. Revenue and expenses are translated at the prevailing foreign exchange rate on the date of the transaction. Exchange gains and losses are recognized in the consolidated statements of income (loss) with the exception of unrealized gains and losses associated with non-monetary financial assets, such as equities classified as AFS, which are recorded in OCI.

Income taxes

The Company accounts for income taxes using the asset and liability method. Under this method, the provision for income taxes is calculated based on income tax laws and rates enacted and substantively enacted as at the consolidated balance sheet date. The income tax provision is comprised of current and deferred income taxes. Current income taxes are amounts expected to be payable or recoverable as a result of current year operations. Deferred income tax assets and liabilities arise from temporary differences between the accounting and tax basis of assets and liabilities. A deferred income tax asset is recognized to the extent that it is probable the benefit of losses and deductions will be available to be carried forward to future years for income tax purposes. Current and deferred income taxes are recorded in the consolidated statements of income (loss), except for those items that are associated with components of OCI. In those cases, the applicable tax is also recorded in OCI.

Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in shareholders' equity as a deduction from the proceeds, net of tax.

Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the consolidated balance sheet date and the reported amounts of revenues and expenses during the year. The preparation of the consolidated financial statements also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in the notes for the respective account balances.

Significant estimates and assumptions include the following:

Valuation of insurance contracts
The Company makes certain assumptions, which include discount rates and the future development of claims. Note 7(b) discloses the revised estimate of prior year unpaid claims and adjustment expenses. The Company's sensitivity of unpaid claims and after-tax net income to changes in best estimate assumptions are disclosed in note 7(f).

Provision for advisor transition commissions
The provision for advisor transition commissions includes an obligation to active advisors determined by accruing for the benefits earned to date. The Company makes certain assumptions in determining the present value of the cash flows associated with the earned benefits. Note 15 discloses the significant assumptions used to estimate the provision, which include discount rate and average termination age.

Valuation of other benefit plan obligation
The cost of the other benefit plan obligation is calculated by the Company's independent actuaries using assumptions determined by management. The actuarial valuation involves making assumptions about discount rates, future inflation, mortality rates, and health and dental cost trends. If actuarial experience differs from the assumptions used, the expected obligation could increase or decrease in future years. Note 16 discloses the significant assumptions used to estimate the defined benefit obligation.

Significant judgments include the following:

Impairment of financial instruments
The Company assesses AFS financial instruments for objective evidence of impairment at each reporting date. Objective evidence of impairment includes a significant or prolonged decline in the fair value or net asset value below cost or when a loss event that has a reliably estimable impact on the future cash flows of the financial instrument has occurred. The determination of what is significant or prolonged requires judgment. In making this judgment, we evaluate factors including, but not limited to: a decline in current financial position; defaults on debt obligations; failure to meet debt covenants; significant downgrades of credit status, and severity and/or duration of the decline in value.

3. Adoption of new and amended accounting standards

Effective January 1, 2019, the Company adopted the following new and amended accounting standards:

IFRS 16 "Leases"

IFRS 16 was issued in January 2016 to replace IAS 17 "Leases" and related interpretations by the International Financial Reporting Interpretations Committee (IFRIC). The standard provides a single lessee accounting model, requiring lessees to recognize right-of-use assets and related liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has a low value.

The standard has been adopted by the Company on January 1, 2019. The Company has elected to apply IFRS 16 on its consolidated financial statements using the modified retrospective approach. As a result, comparative information has not been restated and continues to be reported under IAS 17.

As of January 1, 2019, the Company determined the impact to the consolidated balance sheet included an increase to assets and liabilities of $35,764.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Elected to grandfather the assessment of which transactions are leases. The Company did not reassess whether a contract is, or contains, a lease at the date of initial application, but rather applied IFRS 16 to contracts that were previously identified as leases under IAS 17;
- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Relied on its assessment of the whether leases were onerous immediately before the date of initial application in accordance with IAS 37, as an alternative to performing an impairment review;
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in its determination of the right-to-use asset and lease liability in determining if the lease term of the contract contains an option to extend or terminate the lease.

In determining the lease liability on January 1, 2019, the Company used the rate implicit in the lease if known, otherwise it applied the incremental borrowing rate to the portfolio of leases. The weighted average discount rate as of January 1, 2019 was 2.82%.

The additional disclosures related to the right-of-use assets and lease liabilities can be found in note 13.

IFRIC 23 "Uncertainty of Income Tax Treatment"

IFRIC 23 was issued in June 2017 and is intended to clarify the accounting for uncertainties in income taxes. The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers whether tax treatments should be considered collectively; assumptions for taxation authorities' examinations; the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and the effect of changes in facts and circumstances. The Company has determined there are no impacts of these amendments on its consolidated financial statements.

IAS 19 "Employee Benefits"

IAS 19 was amended in February 2018 and clarifies that if a plan amendment, curtailment or settlement occurs, it will be mandatory that the current service cost and the net interest for the period after the remeasurement be determined using the assumptions used in the remeasurement. The amendments also clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The Company has determined there are no impacts of these amendments on its consolidated financial statements.

Annual Improvements 2015–2017 Cycle

Annual Improvements 2015–2017 Cycle was issued in December 2017 by the IASB and included minor amendments to IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Taxes", and IAS 23 "Borrowing Costs". The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The amendments issued are all effective for annual periods beginning on or after January 1, 2019. The Company has determined there are no impacts of these amendments on its consolidated financial statements.

4. Accounting standards issued but not yet applied

IFRS 7 "Financial Instruments: Disclosures"

In December 2011, IFRS 7 was amended to require additional financial instrument disclosures upon transition from IAS 39 to IFRS 9. The amendments are effective upon adoption of IFRS 9, which is effective for annual periods beginning on or after January 1, 2018. However, in September 2016, IFRS 4 was amended to provide an option of a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities will have the option to adopt IFRS 9 upon the adoption of IFRS 17. The Company qualifies for a temporary exemption; thus, IFRS 7 is effective for annual periods beginning on or after January 1, 2022 (expected). The Company is currently evaluating the impact that this standard will have on its consolidated financial statements.

IFRS 9 "Financial Instruments"

IFRS 9 was issued in July 2014 and is intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 is a three part standard aimed at reducing complexity in reporting financial instruments. The project has been divided into three phases: Phase 1 Classification and measurement, Phase 2 Impairment and Phase 3 Hedge accounting. Phase 1 was issued in November 2009 and amended in October 2010. It requires financial assets to be recorded at amortized cost or fair value depending on the entity's business model for managing the assets and their associated cash flow characteristics. All financial assets are to be measured at fair value on the balance sheet if they are not measured at amortized cost. At initial recognition, an entity may irrevocably designate a financial asset as measured at (FVTPL) if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. Phase 2 was completed in July 2014 and introduced a new expected loss impairment methodology that will result in more timely recognition of impairment losses. Phase 3 was completed in November 2013. This phase replaces the rule-based hedge accounting requirements in IAS 39 to more closely align the accounting with risk management activities.

The standard is effective for annual periods beginning on or after January 1, 2018. However, in September 2016, IFRS 4 was amended to provide an option of a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities will have the option to adopt IFRS 9 upon the adoption of IFRS 17. The Company qualifies for temporary exemption; thus, IFRS 9 is expected effective for annual periods beginning on or after January 1, 2022 (expected). The Company is currently evaluating the impact that this standard will have on its consolidated financial statements.

IFRS 17 "Insurance Contracts"

IFRS 17 was issued in May 2017 and will replace IFRS 4 "Insurance Contracts". The intent of the standard is to establish consistent recognition, measurement, presentation and disclosure principles to provide relevant and comparable reporting of insurance contracts across jurisdictions.

The standard requires entities to measure insurance contract liabilities as the risk-adjusted present value of the cash flows plus the contractual service margin, which represents the unearned profit the entity will recognize as future service is provided. This is referred to as the general model. Expedients are specified, provided the insurance contracts meet certain conditions. If, at initial recognition or subsequently, the contractual service margin becomes negative, the contract is considered onerous and the excess is recognized immediately in the consolidated statements of income (loss). The standard also includes significant changes to the presentation and disclosure of insurance contracts within entities' financial statements.

In December 2018, the IASB voted in favour of deferring the effective date of IFRS 17 from annual reporting periods beginning on or after January 1, 2021 to January 1, 2022 (expected). The standard is to be applied retrospectively unless impracticable, in which case a modified retrospective approach or fair value approach is to be used for transition. The Company is currently evaluating the impact that this standard will have on its consolidated financial statements.

IFRS 3 "Business Combinations"

IFRS 3 was amended in October 2018 to revise the definition of a business and provide a simplified assessment of whether an acquired set of activities and assets qualifies as a business. The amendment is effective for annual periods beginning on or after January 1, 2020. The Company is currently evaluating the impact that this standard will have on its consolidated financial statements in the event of a business acquisition.

IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"

Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" were issued in October 2018. The amendments are effective for annual periods beginning on or after January 1, 2020. The amendments update the definition of 'material' and the meaning of 'primary users of general purpose financial statements'. The Company is currently evaluating the impact that these amendments will have on its consolidated financial statements.

Conceptual Framework for Financial Reporting

In March 2018, the IASB revised its conceptual framework for financial reporting. The revised framework includes a new chapter on measurement, guidance on reporting financial performance, improved definitions and guidance, and clarifications on important topics (e.g., the roles of stewardship, prudence, and measurement uncertainty in financial reporting). The IASB has also issued amendments that update references to the framework in certain standards. The amendments are effective for annual periods beginning on or after January 1, 2020. The Company is currently evaluating the impact these amendments will have on its consolidated financial statements.

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

5. Invested assets and net investment income and gains (losses)

a) Invested assets

	Fair value			Amortized cost		Carrying value
		Classified	Designated	Loans and		
	AFS	FVTPL	FVTPL	receivables	Other	Total
December 31, 2019	$	$	$	$	$	$
Bonds						
Federal	840,643	-	38,085	-	-	878,728
Provincial	1,045,533	-	36,386	-	-	1,081,919
Municipal	10,489	-	-	-	-	10,489
Corporate	814,994	-	57,205	-	348	872,547
Asset-backed securities	73,011	-	9,053	-	-	82,064
	2,784,670	-	140,729	-	348	2,925,747
Stocks						
Canadian common	744,208	-	-	-	-	744,208
Canadian preferred	-	-	430,025	-	-	430,025
U.S. equities	184,964	-	-	-	-	184,964
	929,172	-	430,025	-	-	1,359,197
Short-term investments	75,944	-	-	-	14,874	90,818
Limited partnerships	188,358	-	-	-	-	188,358
Pooled funds	195,510	-	-	-	-	195,510
Foreign currency forward contracts	-	4,882	-	-	-	4,882
Mortgages	-	-	-	521,887	-	521,887
Other investments	-	-	-	9,867	-	9,867
Investment income due and accrued	-	-	-	30,894	-	30,894
Total invested assets	4,173,654	4,882	570,754	562,648	15,222	5,327,160

	Fair value			Amortized cost		Carrying value
	AFS	Classified FVTPL	Designated FVTPL	Loans and receivables	Other	Total
December 31, 2018	$	$	$	$	$	$
Bonds						
Federal	799,140	-	40,182	-	-	839,322
Provincial	854,380	-	35,438	-	-	889,818
Municipal	30,116	-	-	-	-	30,116
Corporate	812,132	-	49,761	-	430	862,323
Asset-backed securities	73,432	-	8,976	-	-	82,408
	2,569,200	-	134,357	-	430	2,703,987
Stocks						
Canadian common	567,307	-	-	-	-	567,307
Canadian preferred	-	-	395,598	-	-	395,598
U.S. equities	155,929	-	-	-	-	155,929
Foreign equities	3,912	-	-	-	-	3,912
	727,148	-	395,598	-	-	1,122,746
Short-term investments	89,274	-	-	-	10,178	99,452
Limited partnerships	137,433	-	-	-	-	137,433
Pooled funds	179,484	-	-	-	-	179,484
Foreign currency forward contracts	-	1,683	-	-	-	1,683
Mortgages	-	-	-	443,059	-	443,059
Other investments	-	-	-	13,990	-	13,990
Investment income due and accrued	-	-	-	27,040	-	27,040
Total invested assets	3,702,539	1,683	529,955	484,089	10,608	4,728,874

At December 31, 2019, the fair value of the securities on loan included in invested assets above consists of $75,726 (2018 - $54,967) in stocks and $715,678 (2018 - $395,210) in bonds.

b) Investments - measured at fair value

The Company is responsible for determining the fair value of its investment portfolio by utilizing market-driven measurements obtained from active markets where available, by considering other observable and unobservable inputs and by employing valuation techniques that make use of current market data. Assets and liabilities recorded at fair value in the consolidated balance sheets are measured and classified in a hierarchy consisting of three levels for disclosure purposes. The three levels are based on the significance and reliability of the inputs to the respective valuation techniques. The input levels are defined as follows:

Level 1 - Quoted prices

Represents unadjusted quoted prices for identical instruments exchanged in active markets. The fair value is determined based on quoted prices in active markets obtained from external pricing sources.

Level 2 - Significant other observable inputs

Includes directly or indirectly observable inputs other than quoted prices for identical instruments exchanged in active markets. These inputs include quoted prices for similar instruments exchanged in active markets; quoted prices for identical or similar instruments exchanged in inactive markets; inputs other than quoted prices that are observable for the instruments, such as interest rates and yield curves, volatilities, prepayment spreads, credit risks and default rates where available; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Consistent with market participants, the Company determines the fair values of foreign exchange forward contracts by using a discounted cash flow valuation technique using observable market data.

Level 3 - Significant unobservable inputs

Includes inputs that are not based on observable market data. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these assets or liabilities or related observable inputs that can be corroborated at the measurement date. Unobservable inputs require significant management judgment or estimation to make certain projections and assumptions

about the information that would be used by market participants in pricing assets or liabilities. To verify pricing, the Company assesses the reasonability of the fair values by comparing to industry accepted valuation models, to movements in credit spreads and to recent transaction prices for similar assets where available. Mortgages are measured at amortized cost and their fair value, valuation technique and inputs are disclosed under note 5(e).

The following summarizes how fair values were determined for recurring measurements:

December 31, 2019	Level 1 - Quoted prices $	Level 2 - Significant other observable inputs $	Level 3 - Significant unobservable inputs $	Total fair value $
AFS				
Bonds	-	2,784,670	-	2,784,670
Stocks	927,292	-	-	927,292
Short-term investments	-	75,944	-	75,944
Limited partnerships	-	-	188,358	188,358
Pooled funds	-	195,510	-	195,510
	927,292	3,056,124	188,358	4,171,774
FVTPL				
Bonds	-	140,729	-	140,729
Stocks	430,025	-	-	430,025
Foreign currency forward contracts	-	4,882	-	4,882
	430,025	145,611	-	575,636
Total invested assets at fair value	1,357,317	3,201,735	188,358	4,747,410
FVTPL				
Foreign currency forward contracts (note 15)	-	71	-	71
Total financial liabilities at fair value	-	71	-	71

December 31, 2018	Level 1 - Quoted prices $	Level 2 - Significant other observable inputs $	Level 3 - Significant unobservable inputs $	Total fair value $
AFS				
Bonds	-	2,569,200	-	2,569,200
Stocks	725,268	-	-	725,268
Short-term investments	-	89,274	-	89,274
Limited partnerships	-	-	137,433	137,433
Pooled funds	-	179,484	-	179,484
	725,268	2,837,958	137,433	3,700,659
FVTPL				
Bonds	-	134,357	-	134,357
Stocks	395,598	-	-	395,598
Foreign currency forward contracts	-	1,683	-	1,683
	395,598	136,040	-	531,638
Total invested assets at fair value	1,120,866	2,973,998	137,433	4,232,297
FVTPL				
Foreign currency forward contracts (note 15)	-	10,790	-	10,790
Total financial liabilities at fair value	-	10,790	-	10,790

Excluded from these totals are AFS investments of $1,880 (2018 - $1,880) in shares of other co-operative entities which are carried at cost as they do not have quoted market prices in active markets and their fair value cannot be measured reliably.

The investments measured at fair value and classified as Level 3 are limited partnerships, which represent units of third-party managed private equity funds (Funds). The fair values of limited partnership investments are based on the net asset value (NAV) from each of the individual Funds most recent quarterly or annual financial statements. Limited partnership NAV's are derived by valuation techniques employed by each Funds management using unobservable inputs. The Company assesses the NAV disclosed in each Funds most recent financial statement using independent analytical procedures to ensure the amount is a reasonable representation of fair value. The Company does not assess the sensitivity of the fair value of limited partnerships because the inputs used by each fund manager to determine the NAV are unobservable and not readily available.

The following table is a reconciliation of the Level 3 fair value measurements.

2019	Limited partnerships $
Balance, beginning of year	**137,433**
Purchases	**68,969**
Sales and redemptions	**(11,835)**
Losses	
Unrealized included in OCI	**(6,209)**
Balance, end of year	**188,358**

2018	Limited partnerships $
Balance, beginning of year	93,800
Purchases	28,165
Sales and redemptions	(1,376)
Acquisition of subsidiary from related party	5,469
Gains	
Unrealized included in OCI	11,375
Balance, end of year	137,433

No investments were transferred between levels during the year (2018 - $nil).

c) Net investment income and gains

December 31, 2019	AFS $	Classified FVTPL $	Designated FVTPL $	Loans and receivables $	Other $	Total $
Interest income	**73,047**	**-**	**4,338**	**18,110**	**2,444**	**97,939**
Dividend income	**56,328**	**-**	**21,871**	**-**	**-**	**78,199**
Other investment income	**-**	**-**	**-**	**-**	**318**	**318**
Investment expense	**(4,728)**	**-**	**(977)**	**(1,112)**	**-**	**(6,817)**
Net investment income	**124,647**	**-**	**25,232**	**16,998**	**2,762**	**169,639**
Net realized gains (losses)	**87,318**	**-**	**(1,109)**	**387**	**-**	**86,596**
Net foreign exchange gains (losses)	**3,566**	**10,446**	**(40)**	**-**	**-**	**13,972**
Change in fair value (note 24)	**-**	**-**	**5,823**	**-**	**-**	**5,823**
Impairment losses (note 24)	**(3,946)**	**-**	**-**	**-**	**-**	**(3,946)**
Net investment gains	**86,938**	**10,446**	**4,674**	**387**	**-**	**102,445**
Net investment income and gains	**211,585**	**10,446**	**29,906**	**17,385**	**2,762**	**272,084**

December 31, 2018	AFS $	Classified FVTPL $	Designated FVTPL $	Loans and receivables $	Other $	Total $
Interest income	65,487	-	3,534	16,221	843	86,085
Dividend income	30,611	-	20,472	-	-	51,083
Other investment income	-	-	-	-	222	222
Investment expense	(4,468)	-	(924)	(1,009)	-	(6,401)
Net investment income	91,630	-	23,082	15,212	1,065	130,989
Net realized gains	10,401	-	647	272	-	11,320
Net foreign exchange gains (losses)	6,634	(15,505)	(140)	-	-	(9,011)
Change in fair value (note 24)	-	-	(46,321)	-	-	(46,321)
Impairment losses (note 24)	(20,298)	-	-	-	-	(20,298)
Net investment gains (losses)	(3,263)	(15,505)	(45,814)	272	-	(64,310)
Net investment income and gains (losses)	88,367	(15,505)	(22,732)	15,484	1,065	66,679

d) Maturity profile of invested assets

December 31, 2019	< 1 Year $	1 - 3 Years $	4 - 5 Years $	6 - 9 Years $	> 10 Years $	No fixed $	Total $
Bonds	**104,164**	**894,710**	**1,003,897**	**530,816**	**392,160**	**-**	**2,925,747**
Stocks	**-**	**-**	**-**	**-**	**-**	**1,359,197**	**1,359,197**
Short-term investments	**90,818**	**-**	**-**	**-**	**-**	**-**	**90,818**
Limited partnerships	**-**	**-**	**-**	**-**	**-**	**188,358**	**188,358**
Pooled funds	**-**	**-**	**-**	**-**	**-**	**195,510**	**195,510**
Foreign currency forward contracts	**4,882**	**-**	**-**	**-**	**-**	**-**	**4,882**
Mortgages	**119,189**	**241,353**	**122,818**	**35,590**	**2,937**	**-**	**521,887**
Other investments	**-**	**-**	**-**	**-**	**9,765**	**102**	**9,867**
Investment income due and accrued	**30,894**	**-**	**-**	**-**	**-**	**-**	**30,894**
	349,947	**1,136,063**	**1,126,715**	**566,406**	**404,862**	**1,743,167**	**5,327,160**
	7%	**21%**	**21%**	**11%**	**8%**	**32%**	**100%**

December 31, 2018	< 1 Year $	1 - 3 Years $	4 - 5 Years $	6 - 9 Years $	> 10 Years $	No fixed $	Total $
Bonds	49,821	834,414	708,719	875,087	235,946	-	2,703,987
Stocks	-	-	-	-	-	1,122,746	1,122,746
Short-term investments	99,452	-	-	-	-	-	99,452
Limited partnerships	-	-	-	-	-	137,433	137,433
Pooled funds	-	-	-	-	-	179,484	179,484
Foreign currency forward contracts	1,683	-	-	-	-	-	1,683
Mortgages	83,974	252,341	89,467	12,928	4,349	-	443,059
Other investments	-	-	-	-	9,765	4,225	13,990
Investment income due and accrued	27,040	-	-	-	-	-	27,040
	261,970	1,086,755	798,186	888,015	250,060	1,443,888	4,728,874
	6%	23%	17%	19%	5%	30%	100%

e) Mortgage diversification

Creditor concentration	December 31, 2019 $	December 31, 2018 $
Insured residential	**8,445**	15,528
Uninsured residential	**132,734**	81,475
Commercial	**380,708**	346,056
	521,887	443,059

Geographic concentration	December 31, 2019 $	December 31, 2018 $
Atlantic	**38,987**	45,116
Quebec	**69,221**	38,845
Ontario	**198,298**	157,376
West	**215,381**	201,722
	521,887	443,059
Fair Value	**526,119**	447,699

Mortgages measured at fair value, for disclosure purposes only, are classified as Level 3. The fair value of the mortgages has been calculated by discounting the expected cash flows of each instrument. The discount rate is determined using the Government of Canada benchmark bond yield for instruments of similar maturity, adjusted for specific credit risk. In determining the adjustment for credit risk, Addenda Capital Inc. (Addenda), a company under common control and responsible for managing the Company's investment portfolio, considers market conditions, the value of the properties that the mortgage is secured by and other indicators of creditworthiness.

f) Unconsolidated structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities, (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors, (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Company has interests in various structured entities included in invested assets on the consolidated balance sheets. These entities include asset-backed investment vehicles, pooled funds and limited partnerships. The Company does not consolidate these structured entities as the Company does not hold significant ownership or does not control the entity that manages these structured entities.

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

The Company's interests in unconsolidated structured entities at end of the year are as follows:

December 31, 2019	Carrying value $	Maximum exposure to loss $
Asset-backed securities	**82,064**	**82,064**
Pooled funds	**195,510**	**195,510**
Limited partnerships	**188,358**	**188,358**

December 31, 2018	Carrying value $	Maximum exposure to loss $
Asset-backed securities	82,408	82,407
Pooled funds	179,484	179,484
Limited partnerships	137,433	137,433

Asset-backed securities

Investment in third-party asset-backed securities consists of mortgage-backed securities, auto loan receivables and credit card receivables. Financing and support is limited to the investment made.

Pooled funds

Investments in pooled funds consist of units invested in underlying fixed income and equity securities managed by Addenda and other third-party managers. The pooled funds are perpetual private trusts created under trust agreements. Pooled funds provide investors with access to the underlying portfolio with the objective of reducing volatility risk through balanced portfolios and achieving increased yields. Financing and support is only provided to the pooled funds through the purchase of units and therefore, the Company's maximum exposure in the pooled funds is limited to the total fair value of its investments in these funds.

Limited partnerships

The Company owns units of the Funds with a mandate to generate capital appreciation and yield through investments in infrastructure assets. Limited partnership investments are structured to give the third-party sponsor the exclusive right to manage and control the Funds. These limited partnerships are financed by the capital commitments and contributions of the limited partners of the Funds. The Company's maximum exposure to loss is limited to the total capital contributed to these Funds by the Company. The Company has committed to providing future capital contributions which are disclosed in note 28.

g) Other investments

	December 31, 2019 $	December 31, 2018 $
Structured settlement annuities	**9,676**	9,765
Loan receivable	**191**	4,225
	9,867	13,990
Fair Value	**9,867**	13,990

h) Temporary deferral of IFRS 9

The Company has temporarily deferred the adoption of IFRS 9. The Company qualified for temporary deferral from IFRS 9 based on the following reasons: (1) the Company has not previously applied any version of IFRS 9, and (2) the Company's activities were predominantly connected with insurance as at December 31, 2015, and there have been no significant changes in its activities since that date. The conclusion that the Company's activities were predominantly connected with insurance was made on the basis that the carrying value of the Company's liabilities arising from insurance contracts, within the scope of IFRS 4, comprised of more than 90 percent of the Company's total liabilities.

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

In accordance with the requirements of the temporary deferral, the Company has disclosed the following information to allow for comparability with entities that have adopted IFRS 9.

Solely payments of principal and interest

The below table categorizes the Company's financial assets between two groups: a) financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) and b) all other financial assets.

December 31, 2019	**Fair Value** $	**Change in fair value during the year** $
SPPI	**3,386,394**	**285,131**
Other	**1,944,998**	**312,747**

December 31, 2018	Fair Value $	Change in fair value during the year $
SPPI	3,101,263	460,883
Other	1,632,251	(29,074)

Credit risk exposure related to financial assets categorized as SPPI

The below table describes the credit risk exposure and credit risk concentrations for financial assets categorized as SPPI.

December 31, 2019	**Fair value** $	**Carrying value** $
AAA	**1,126,872**	**1,126,872**
AA	**886,490**	**885,876**
A	**886,953**	**883,729**
BBB	**397,015**	**396,750**
Below BBB	**68,728**	**68,599**
Not rated	**20,336**	**20,336**
	3,386,394	**3,382,162**

December 31, 2018	Fair value $	Carrying value $
AAA	1,139,519	1,139,518
AA	690,781	690,039
A	812,700	809,585
BBB	364,800	363,977
Below BBB	73,986	74,027
Not rated	19,477	19,477
	3,101,263	3,096,623

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

6. Financial risk management

The Company has established risk management policies and practices covering key aspects of the operations. The Board of Directors approves these policies and management is responsible for ensuring the policies are properly maintained and implemented. The Board of Directors receives confirmation that the risks are being appropriately managed through regular reporting, as well as annual compliance reporting and by reviews conducted by the Company's internal audit department.

Credit risk

Credit risk refers to the risk of financial loss from the failure of a debtor/counterparty to meet its payment obligations to the Company. Credit risk is increased when there is a concentration of investments made in similar industry sectors, in the same geographical area or within a single entity. The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, single issuer limits, corporate sector limits and general guidelines for geographic exposure. The Company monitors all positions within these concentration limits.

The Company limits its investment concentration in any one corporate investee or control group to 5% of total assets and a maximum of 20% of the bond portfolio can be invested in bonds rated below A. At December 31, 2019, the largest corporate credit exposure was 1.5% of invested assets (2018 - 1.4%) or 4.3% of total equity (2018 - 4.0%), and the bond portfolio includes 86.2% (2018 – 86.4%) of bonds rated A or better.

The Company's mortgage portfolio represents 9.8% (2018 - 9.4%) of invested assets carrying value. The Company has a comprehensive mortgage policy which includes, among other factors, single loan limits, diversification by type of property limits, and geographic diversification limits. Each mortgage is secured by real estate and related contracts. The largest single mortgage balance was $12,313 (2018 - $10,840). All commercial mortgages greater than $2,000 are risk rated on an annual basis.

Concentrations of credit risk for insurance contracts can arise from reinsurance ceded contracts as insurance ceded does not relieve the ceding company of its primary obligation to the policyholder. The Company has established a Reinsurance and Insurance Counterparty Standards Committee that evaluates the financial condition of its reinsurers to minimize its exposure to significant loss from any one reinsurer's insolvencies. Reinsurers are typically required to have a minimum financial strength rating of A- at the inception of the treaty; rating agencies used are A.M. Best and Standard & Poor's. Concentration guidelines are also in place to establish the maximum amount of business that can be placed with a single reinsurer. There were no material defaults on transactions with reinsurers during the year. Based on management's review of creditworthiness of its reinsurers, no allowance, other than as required by actuarial standards, is included in the consolidated financial statements.

Another potential source of credit risk for insurance contracts is premiums due from policyholders. The Company's credit exposure to any one individual policyholder is not material. The Company's policies, however, are distributed by advisors, program managers, or brokers who manage cash collection.

The table below provides information regarding the overall credit risk of the Company by classifying assets according to the credit ratings of the counterparties. AAA is the highest possible rating, and those assets that fall outside the range of AAA to BBB are classified as speculative grade.

Bonds, short-term investments and selected cash equivalent amounts are based on external ratings provided by Dominion Bond Rating Services, Standard & Poor's and Moody's Investors Services.

Reinsurance ceded contracts and other receivables are classified based on financial strength ratings provided by A.M. Best and Standard & Poor's. Mortgages are classified using Addenda's internal rating system which monitors the credit related exposures. Addenda considers experience, judgment and other qualitative and quantitative factors in assigning an internal credit rating.

December 31, 2019	AAA $	AA $	A $	BBB $	Below BBB $	Not rated $	Total $
Cash and cash equivalents	19,921	-	-	-	-	77,446	97,367
Bonds	1,088,152	911,856	522,959	297,440	84,656	20,684	2,925,747
Short-term investments	85,858	4,960	-	-	-	-	90,818
Limited partnerships	-	-	-	-	-	188,358	188,358
Pooled funds	-	-	-	-	-	195,510	195,510
Foreign currency forward contracts	-	4,882	-	-	-	-	4,882
Mortgages and other investments	-	8,445	382,351	137,370	3,486	102	531,754
Investment income due and accrued	-	-	-	-	-	30,894	30,894
Reinsurance ceded contracts	4,977	97,265	56,856	(269)	-	4,839	163,667
Premiums due	-	-	-	-	-	1,250,904	1,250,904
Other receivables	-	-	6,585	2,874	-	40,782	50,241
	1,198,908	1,027,408	968,751	437,415	88,142	1,809,519	5,530,142

December 31, 2018	AAA $	AA $	A $	BBB $	Below BBB $	Not rated $	Total $
Cash and cash equivalents	43,962	-	-	-	-	21,410	65,372
Bonds	1,089,225	712,920	533,774	281,077	67,084	19,907	2,703,987
Short-term investments	99,452	-	-	-	-	-	99,452
Limited partnerships	-	-	-	-	-	137,433	137,433
Pooled funds	-	-	-	-	-	179,484	179,484
Foreign currency forward contracts	-	1,683	-	-	-	-	1,683
Mortgages and other investments	-	15,528	304,860	125,494	6,943	4,224	457,049
Investment income due and accrued	-	-	-	-	-	27,040	27,040
Reinsurance ceded contracts	287	95,899	71,227	(574)	-	7,588	174,427
Premiums due	-	-	-	-	-	1,073,368	1,073,368
Other receivables	-	-	5,494	2,262	-	46,404	54,160
	1,232,926	826,030	915,355	408,259	74,027	1,516,858	4,973,455

Management has interpolated short-term investments ratings as follows: AAA = R-1 (high); AA = R-1 (middle); A = R-1 (low); BBB = R-2 (high, middle, low); below BBB = R-3 (high, middle, low).

The total amounts outlined in the tables above represent the Company's maximum credit exposure based on a worst case scenario, except for structured settlements, and do not take into account any collateral held or other credit enhancements attached to the assets.

During the year, the Company changed the presentation of fixed income pooled funds held and currently discloses these investments with a credit risk of "not rated". This change provides more relevant information about the nature of the pooled funds. In 2018, investments in fixed income pooled funds of $58,353 were presented with a credit risk of "A" and other pooled funds of $121,131 were presented with a credit risk of "not rated".

In the normal course of claims adjudication, the Company settles certain obligations to claimants through the purchase of annuities from third party life insurance companies under structured settlement arrangements. The Company guarantees the life insurers' obligations under these annuities, which are $794,804 as at December 31, 2019 (2018 - $740,051), based on the net present value of the projected future cash flow of these guarantees. $9,676 (2018 - $9,765) of the total value is classified as Type 2 structured settlements and recorded in other investments within invested assets. This business is placed with several licensed Canadian companies. The net risk to the Company is the credit risk related to the life insurance companies from which the annuities are purchased from. To manage this risk, the Company enters structured settlements with life insurance companies with a credit rating of A or higher. No defaults occurred in 2019 and 2018 and the Company considers the possibility of default to be remote. Credit risk is further reduced to the extent of coverage provided by Assuris, the life insurance compensation insurance plan that funds most policy liabilities of an insolvent Canadian life insurer.

The Company participates in a securities lending program managed by a federally regulated financial institution whereby the Company lends securities it owns to other financial institutions to allow them to meet delivery commitments. The Company receives securities of superior credit quality and value as collateral for securities loaned. Securities with a fair value of $849,524 (2018 - $478,993) were received as collateral. The collateral received has not been recorded in the Company's consolidated balance sheet.
The Company is the assigned beneficiary of collateral consisting of cash, trust accounts and letters of credit totaling $112,652 as at December 31, 2019 (2018 - $119,319) as security from unlicensed reinsurers. This collateral is held in support of policy liabilities of $74,309 as at December 31, 2019, (2018 - $92,205) and could be used should these reinsurers be unable to meet their obligations. The cash portion of the collateral $15,171 (2018 - $26,233) has been recorded in the Company's consolidated balance sheet.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of three types of risks: equity risk, currency risk and interest rate risk.

a) Equity risk

Equity risk arises whenever financial results are adversely affected by changes in the capital markets.

An investment policy is in place and its application is monitored by the Board of Directors on a quarterly basis. Diversification techniques are employed to minimize risk. Policies limit investments in any entity or group of related entities to a maximum of 5% of the Company's assets.

The Company's stock portfolio is benchmarked to the indices noted in the table below. A 10% movement in the indices, with all other variables held constant, would have the following estimated effect on the fair values and OCI before taxes of the Company's stock holdings.

Stock Portfolio	Benchmark	December 31, 2019 AFS $	December 31, 2018 AFS $
Canadian common	S&P/TSX Composite Index	69,716	54,076
U.S. equities	S&P 500 Index (CDN $)	18,773	15,885
Foreign equities	MSCI EAFE Index (CDN $)	-	372

b) Currency risk

Currency risk is the risk that the value of the foreign denominated financial instruments that is not offset by corresponding liabilities will fluctuate as a result of changes in foreign exchange rates.

The majority of the Company's currency risk is related to its investment holdings. Policies limit investments in foreign denominated securities to a maximum value of 15% of invested assets. A 10% change in the value of the foreign currency would be offset in net income (loss) by a change in the fair value of foreign currency forward contract hedges of $20,147 (2018 - $11,975). A 10% change in the value of the foreign currency would affect the fair value of investments by $37,332 (2018 - $33,133). For AFS foreign denominated investments, a 10% change in the value of the foreign currency would result in an increase or decrease in OCI of $27,253 (2018 - $24,187).

The Company mitigates a portion of currency risk by buying or selling foreign exchange forward contracts. Foreign exchange forward contracts are commitments to buy or sell foreign currencies for delivery at a specified date in the future at a fixed rate. Foreign exchange forward contracts are transacted in over-the-counter markets. Foreign exchange forward contracts with positive fair values are included in invested assets (note 5) and those with negative fair values are included in provisions and other liabilities (note 15).

The counterparty risk of default for these derivative financial instruments is limited to their positive replacement cost, which is substantially lower than their notional amount. The replacement cost of over-the-counter derivative financial instruments is an estimate and is determined using valuation models that incorporate prevailing foreign exchange rates and prices on underlying instruments with similar maturities and characteristics. The replacement cost reflects the estimated amount that the Company would receive, or might have to pay, to terminate the contracts as at December 31, 2019. The Company would receive $4,811 to terminate the contracts as at December 31, 2019 (2018 - pay $9,107). The maturity date for the Company's contracts range from January 23 to April 30, 2020. The notional amounts of the foreign currency forward contracts total $252,625 (2018 - $215,564). The counterparties are federally regulated financial institutions.

OSFI requires disclosure of the replacement cost, credit equivalent amount and the risk-weighted equivalent for each type of derivative instrument. The credit equivalent amount is the replacement cost of an instrument plus an additional amount representing potential future credit

exposure, as defined by OSFI. The risk-weighted equivalent is determined by applying a risk-weighted factor to the credit equivalent amount based on OSFI guidelines.

The credit equivalent amount and risk-weighted equivalent by type of derivative instrument is as follows:

	December 31, 2019		December 31, 2018	
	Credit Equivalent Amount	Risk-weighted Equivalent	Credit Equivalent Amount	Risk-weighted Equivalent
	$	$	$	$
Foreign currency forward contracts	4,931	24	1,700	8

Exposure to currency fluctuations on insurance contract liabilities is not considered to be material.

c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is significantly exposed to changes in interest rates. Movements in short-term and long-term interest rates, including changes in credit spreads, cause changes in the realized and unrealized gains and losses.

To manage this risk, historical data and current information that profiles the ultimate claims settlement pattern by class of insurance, is used as a basis to develop a Board-approved and monitored investment policy and strategy. The policy and strategy is based upon prudence, regulatory guidelines and claims settlement patterns by product line. The policy provides conservative investment limits which balance the Company's long-term focus with market opportunities as they arise. This is achieved by investing in a diversified mix of securities and by shifting between asset classes as trends in capital markets develop.

Interest rate risk also causes income volatility as a result of the discounting of the unpaid claims and adjustment expenses on the projected portfolio yield of the assets backing the claims liabilities. Changes in the value of the unpaid claims and adjustment expenses resulting from fluctuations in interest rates flow through claims and adjustment expenses in the consolidated statements of income (loss). The corresponding change in asset values will either flow through the consolidated statements of income (loss) or through OCI based on the designation of assets held to settle future claims obligations. If the assets backing the liabilities are classified as AFS, the gains and losses due to interest rate fluctuations flow through OCI. If the assets backing the liabilities are designated under the fair value option as FVTPL, the gains and losses due to interest rate fluctuations flow through the consolidated statements of income (loss).

To mitigate the impact of interest rate risk, the Company utilizes an asset liability management (ALM) strategy. A portion of the assets backing the Company's unpaid claims and adjustment expense liabilities are designated as FVTPL under the fair value option with the objective of offsetting a targeted proportion of the financial impact of interest rate changes and avoiding an accounting mismatch between the impact of interest rate changes on assets and liabilities in the consolidated statements of income (loss).

A 1% movement in the interest rate, with all other variables held constant, would have the following estimated effect on the fair values, and net income (loss) or OCI before taxes, of the Company's holdings:

	December 31, 2019		December 31, 2018	
	AFS	FVTPL	AFS	FVTPL
	$	$	$	$
Bonds	131,949	7,097	120,906	6,336
Canadian preferred stocks	-	16,882	-	16,037
Pooled funds	17,682	-	14,588	-

Liquidity risk

Liquidity risk refers to the ability of the Company to access sufficient funds to meet financial obligations as they fall due. The Company's obligations arise as a result of claims, contractual commitments, or other outflows. The Company has no material commitments for capital expenditures and there is normally no need for such expenditures in the normal course of business.

Claims, contractual commitments and other outflows payments are funded by current revenue cash flow which normally exceeds cash requirements. At December 31, 2019 the Company had $97,367 (2018 - $65,372) of cash and cash equivalents, and $90,818 (2018 - $99,452) of short-term investments. In addition, the Company had a combination of lines of credit and a liquid investment portfolio. Together, the bond

portion of the portfolio, which consists primarily of Canadian fixed-income securities issued or guaranteed by governments and investment grade corporate bonds, and publicly traded Canadian and U.S. equities had a December 31, 2019 fair value of $4,177,724 (2018 - $3,733,950).
Along with internally generated funds, the Company has credit facilities of $19,000 (2018 - $19,000) that provide it with additional financial flexibility to fulfill cash requirements on an ongoing basis. The Company had utilized $nil (2018 - $nil) as at the balance sheet date.

The Company's estimated maturities of its financial liabilities, insurance contracts and other commitments are shown in the following table on an undiscounted basis. Financial liabilities and contractual commitments are presented based on their estimated contractual maturities. Insurance contacts and provisions and other liabilities are presented based on expectations of the timing of future cash flows and/or the duration of the contract.

Contractual commitments are not reported on the consolidated balance sheet.

December 31, 2019	< 1 Year $	1 - 3 Years $	4 - 5 Years $	6 - 9 Years $	> 10 Years $	Total $
Accounts payable and accrued charges	324,665	-	-	-	-	324,665
Income taxes payable	74,147	-	-	-	-	74,147
Insurance contracts	2,970,593	980,413	488,732	278,105	56,333	4,774,176
Provisions and other liabilities						
Provision for advisor transition commissions	45,737	42,440	12,833	24,255	40,816	166,081
Advisor transition commission payable	9,537	8,214	-	-	-	17,751
Other provisions	8,267	500	-	-	-	8,767
Foreign currency forward contracts	71	-	-	-	-	71
Other liabilities	1,619	822	160	-	-	2,601
	3,434,636	1,032,389	501,725	302,360	97,149	5,368,259
Contractual commitments						
Mortgage funding	8,631	6,674	61	-	-	15,366

December 31, 2018	< 1 Year $	1 - 3 Years $	4 - 5 Years $	6 - 9 Years $	> 10 Years $	Total $
Accounts payable and accrued charges	291,125	-	-	-	-	291,125
Income taxes payable	39	-	-	-	-	39
Insurance contracts	2,736,785	904,407	445,872	239,306	50,993	4,377,363
Provisions and other liabilities						
Provision for advisor transition commissions	33,140	36,914	15,095	22,401	43,754	151,304
Advisor transition commission payable	8,421	8,890	-	-	-	17,311
Other provisions	4,955	500	-	-	-	5,455
Foreign currency forward contracts	10,790	-	-	-	-	10,790
Other liabilities	1,406	945	394	-	-	2,745
	3,086,661	951,656	461,361	261,707	94,747	4,856,132
Contractual commitments						
Operating lease commitments	12,014	18,579	8,680	1,513	-	40,786
Mortgage funding	2,155	2,171	-	-	-	4,326
	14,169	20,750	8,680	1,513	-	45,112

The mortgage funding commitments have interest rates ranging from 3.54% to 6.45% (2018 – 4.00% to 6.70%).

7. Insurance risk management

a) Nature of risks arising from insurance contracts

There is uncertainty whether an insured event occurs and to what degree for each policy. By the very nature of an insurance contract, the risk is random and therefore unpredictable. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of insurance risk. The Company is at risk for losses in the event that incomplete or incorrect assumptions or information are used when pricing, issuing or reserving for insurance products.

The principal risk to the Company under its insurance contracts is that the actual claims and benefit payments arising may exceed the carrying amount of the insurance liabilities because the frequency and/or severity of the actual claims were greater than expected.

Being a property and casualty insurer, catastrophes could have a significant effect on the Company's operating results and financial condition. Catastrophic loss risk is the exposure to loss resulting from multiple claims arising out of a single catastrophic event. Potential events include perils such as earthquake, tornado, wind, hail, flood or fire.

Underwriting risk, claims risk and product design and pricing risk are also important to the proper management of insurance risk. Underwriting risk is the exposure to financial loss resulting from the selection and approval of risks to be insured or the inappropriate application of underwriting rules to risks being insured. Claims risk is the exposure to financial loss resulting from a change in the frequency and/or severity of claims; inadequate claim adjudication; or inappropriate claim settlement. Product design and pricing risk is the exposure to financial loss from transacting insurance business where costs and liabilities experienced in respect of a product line exceed the expectation in pricing it. Policies, processes and other internal controls have been established to manage these risks to within tolerable levels.

In managing certain insurance risks, reinsurance is employed by the Company; however, the Company is still exposed to reinsurance risk. Reinsurance risk is the risk of financial loss due to inadequacies in reinsurance coverage or the default of a reinsurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder.

Other external factors play a role in the Company's management of insurance risk. Property and casualty insurers are subject to significant regulation by governments. As in any regulated industry, it is possible that future regulatory changes or developments may prevent the Company from raising rates or taking other actions to enhance operating results. As well, future regulatory changes, novel or unexpected judicial interpretations or political developments could impact the ultimate amount of claims that must be paid out. Macroeconomic risks such as fluctuations in the long-term portfolio yields used in the valuation of the Company's insurance contracts or changes in the Company's forecasts of expected inflation levels are also important considerations in developing the estimated liability.

b) Sources of uncertainty and processes used to determine assumptions for insurance contracts

The Company establishes an unpaid claims and adjustment expense provision to cover claims incurred but not settled at the end of the reporting period. The unpaid claims provision contains both individual claims estimates and an incurred but not reported (IBNR) provision.

Individual claims estimates are set by internal claims adjusters on a case-by-case basis. These specialists apply their knowledge and expertise, after taking available information regarding the circumstances of the claim into account, to set individual case reserve estimates. The Company has documented policy and procedures by which case reserve estimates are set. The claims reserving strategy and monitoring of their application and effectiveness falls under the accountability of the Company's National Claims department except for travel insurance, which is completed by the MGU's actuarial department. Additional monitoring is provided over the travel insurance through a quarterly meeting of the Canada Statutory Reserve Committee, which includes members of the Company and the MGU. The claims reserves are reviewed by the committee, and the Company's actuarial department subsequently performs a quarterly peer review.

The IBNR is a provision intended to cover future development on both reported claims and claims that have occurred but have yet to be reported. Uncertainty exists on reported claims in that all information may not be available at the valuation date. Claims that have occurred may not be reported to the Company immediately; therefore, estimates are made as to their value, an amount which may take years to finally determine.

The total unpaid claims and adjustment expense provision is an estimate that is determined using a range of accepted actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. These techniques use the Company's historical claims development patterns to predict future claims development. In situations where there has been a significant change in the environment or underlying risks, the historical data is adjusted to account for expected differences.

The initial actuarial estimate of unpaid claims and adjustment expenses is an undiscounted amount. This estimate is then discounted to recognize the time value of money. The discount rate applied to measure the value of unpaid claims and adjustment expenses is based upon

the portfolio market yield of assets supporting the claims liabilities as well as considerations for the timing of the relative cash flows of the assets and liabilities. This rate could fluctuate significantly based on changes in interest rates and credit spreads. The interest rates used to discount the claims liabilities for each of the operating companies are as follows:

	2019	2018
CGIC, Sovereign, COSECO	**2.49%**	**2.84%**
CUMIS General	**2.33%**	**2.79%**

The discounted unpaid claims and adjustment expenses incorporates assumptions concerning future investment income, projected cash flows, and appropriate provisions for adverse deviations (PFADs). As the estimates for unpaid claims are subject to measurement uncertainty and the variability could be material in the near term, the Company includes PFADs in its assumptions for claims development, reinsurance recoveries and future investment income. The incorporation of PFADs is in accordance with accepted actuarial practice in order to ensure that the actuarial liabilities are adequate to pay future benefits. The selected PFADs are within the ranges recommended by the Canadian Institute of Actuaries (CIA).

The following table represents the discounted development of the claims net of reinsurance.

Accident year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	$	$	$	$	$	$	$	$	$	$	$
Estimate of ultimate claims costs:[1]											
At end of accident year	1,438,417	1,451,371	1,369,236	1,595,650	1,584,753	1,637,924	1,757,030	1,882,990	2,181,340	**2,251,704**	
One year later	1,281,611	1,382,851	1,345,293	1,562,625	1,541,947	1,588,473	1,749,824	1,897,698	**2,153,872**		
Two years later	1,257,183	1,338,812	1,306,988	1,525,744	1,510,417	1,567,564	1,782,620	**1,878,246**			
Three years later	1,238,647	1,325,881	1,282,392	1,516,796	1,496,184	1,572,105	**1,770,003**				
Four years later	1,218,537	1,303,524	1,269,019	1,497,580	1,491,529	**1,558,292**					
Five years later	1,218,888	1,308,161	1,268,875	1,514,138	**1,495,807**						
Six years later	1,204,957	1,294,171	1,255,413	**1,494,589**							
Seven years later	1,196,048	1,289,072	**1,251,151**								
Eight years later	1,195,147	**1,288,264**									
Nine years later	**1,192,446**										
Current year estimate of cumulative claims	1,192,446	1,288,264	1,251,151	1,494,589	1,495,807	1,558,292	1,770,003	1,878,246	2,153,872	2,251,704	**16,334,374**
Cumulative payments to date	(1,179,404)	(1,262,678)	(1,219,681)	(1,435,308)	(1,386,700)	(1,398,439)	(1,530,477)	(1,523,557)	(1,615,290)	(1,235,418)	**(13,786,952)**
Provision recognized	**13,042**	**25,586**	**31,470**	**59,281**	**109,107**	**159,853**	**239,526**	**354,689**	**538,582**	**1,016,286**	**2,547,422**
Provision with respect to 2009 and prior accident years											**158,662**
Effect of discounting											**133,308**
Net unpaid claims and adjustment expenses											**2,839,392**

[1] The 2018 estimate of net unpaid claims and adjustment expenses have been adjusted to incorporate the ultimate claims costs from the 2018 acquisition of a subsidiary from a related party which was previously disclosed on a separate line.

c) Changes in assumptions used in measuring insurance contracts

Assumptions used to develop this estimate are selected by class of business and geographic location. Consideration is given to the characteristics of the risks, historical trends, amount of data available on individual claims, inflation and any other pertinent factors. Some assumptions require a significant amount of judgment such as the expected impacts of future judicial decisions and government legislation. The diversity of these considerations result in it not being practicable to identify and quantify all individual assumptions that are more likely than others to have a significant impact on the measurement of the Company's insurance contracts. There were no new assumptions identified in the year or the preceding year as having a potential or identifiable material impact on the overall claims estimate.

d) Objectives, policies and processes for managing risks arising from insurance contracts

The Company's underwriting objective is to develop business within the Company's target market on a prudent and diversified basis and to achieve profitable underwriting results.

The Company uses comprehensive underwriting manuals which detail the practices and procedures used in the determination of the insurance risk for each item to be insured and the decision of whether or not to insure the item. The Company underwrites automobile business after annual reviews of the client's driving record and claims experience. The Company underwrites property lines based on physical condition, property replacement values, claims experience, geography and other relevant factors. All employees in the underwriting area are trained and

their work is subject to underwriting reviews by the Company. Advisors and brokers are compensated, in part, based on the profitability of their portfolio.

In setting the provision for unpaid claims and adjustment expenses required to cover the estimated liability for claims, the Company's practice is to maintain an adequate margin to ensure future years' earnings are not negatively affected by prior years' claims development and other variable factors such as inflation. The Company, in accordance with OSFI requirements, seeks a full peer review every three years accompanied by an annual methodology and assumption review in the intervening years.

The Company's pricing policies take into account numerous factors including claims frequency and severity trends, product line expense rates, special risk factors, the capital required to support the product line and the investment income earned on that capital. The Company's pricing process is designed to ensure an appropriate return on equity while also providing long-term rate stability. These factors are reviewed annually and adjusted periodically to ensure they reflect the current environment.

The Company monitors its compliance with all relevant regulations and actively participates in discussions with regulators, governments and industry groups to ensure that it is well-informed of contemplated changes and that its concerns are understood. In its strategic planning process, the Company considers the implications of potential changes to its regulatory and political environment and adjusts its plans if necessary.

e) Objectives, policies and processes for managing insurance risk through reinsurance

The Company's strategy is to retain underwriting risk where it is financially prudent. The Company reviews its insurance requirements annually to assess the level of reinsurance coverage required. Reinsurance is purchased to limit the Company's exposure to a particular risk, category of risk or geographic risk area. To manage reinsurance counterparty risk, the Company assesses and monitors the financial strength of its reinsurers on a regular basis.

The Company writes business that is broadly diversified in terms of the lines of business and geographic location. There is no guarantee that a catastrophe will not result in claims against the Company in excess of its maximum reinsurance coverage; however, based on the Company's catastrophic loss models, protection is in excess of regulatory guidelines and at a level that management considers prudent.

The Company follows the policy of underwriting and reinsuring contracts of insurance which limits the liability of the Company to a maximum amount on any one loss. In addition, the Company has obtained reinsurance which limits the Company's liability in the event of a series of claims arising out of a single occurrence, with the exception of travel insurance which is described in further detail below.

The Company's net retentions are as follows:

	2019 $	2018 $
Individual loss		
Property	**7,500**	7,500
General liability	**5,000**	5,000
Automobile	**5,000**	5,000
Fidelity and Director's liability	**3,000**	3,000
Catastrophe		
Maximum limit	**1,400,000**	1,300,000
Company retention	**70,000**	70,000

For certain special classes of business or types of risk, the retention for single risk events may be lower through specific treaties or the use of facultative reinsurance. The maximum limit for catastrophe reinsurance is applied to all property and casualty insurance operations ultimately owned by CGL. After application of the catastrophe program, the Company's retention is $70,000 (2018 - $70,000) in incurred claims.

CUMIS General's accident and sickness travel insurance, underwritten by the MGU is fully ceded; 45% to CLIC and 55% to an external reinsurer. In addition, 55% of the property travel insurance is ceded to an external reinsurer; the Company's maximum exposure per person is $56 (2018 - $56). Catastrophe reinsurance is purchased for $1,800 (2018 - $,1800) of protection with a retention of $450 (2018 - $450).

The underwriting impact of the Company's use of reinsurance programs on the year's results is described in note 9.

f) Sensitivity analysis

The Company has exposures to risks in each class of business that may develop and that could have a material impact on the Company's financial position. The correlation of assumptions has a significant effect in determining the ultimate claims liability and movements in assumption are non-linear; also, it is not possible to quantify the sensitivity of certain key assumptions such as future legislative changes.

To ensure that the Company has sufficient capital to withstand a variety of significant and plausible adverse event scenarios, the Company performs Dynamic Capital Adequacy Testing (DCAT) on the capital adequacy of the Company. DCAT is performed annually, as required by the CIA, and is prepared by the appointed actuary. The adverse event scenarios are reviewed annually to ensure that the appropriate risks are included in the DCAT process. Plausible adverse event scenarios used in the most recent DCAT process included consideration of claims frequency and severity risk, inflation risk, premium risk, reinsurance risk and investment risk. The exposure of the peril of earthquake with default of reinsurers was also applied in a stress test analysis, as outlined in note 7(g). The most recent results indicated that the Company's future financial and capital positions are satisfactory under the assumptions applied.

The Company's estimated sensitivity of insurance contract unpaid claims and after-tax net income to changes in best estimate assumptions in the insurance contract is as follows:

		Insurance contract - claims		After-tax net income impact	
Assumption	Sensitivity	December 31, 2019 $	December 31, 2018 $	December 31, 2019 $	December 31, 2018 $
Discount rate	+100 bps	**(57,058)**	(50,738)	**41,652**	37,039
Discount rate	-100 bps	**60,124**	53,408	**(43,891)**	(38,988)
Net loss ratio	+10%	**227,502**	211,629	**(166,076)**	(154,489)
Misestimate	1% deficiency	**28,394**	26,136	**(20,728)**	(19,079)

The impacts related to the discount rate sensitivities are approximately linear within this range.

g) Concentrations of insurance risk

The Company has catastrophe exposures arising from the property and automobile comprehensive policies it writes across the country. Exposures to concentrations of insurance risk subject to catastrophe losses are evaluated, and the Company has adopted a reinsurance strategy to reduce such exposures to an acceptable level.

A particular focus is the exposure to the peril of earthquake in British Columbia, Quebec, and Eastern Ontario. The Company utilizes industry-accepted earthquake modeling techniques to understand its exposures and applies this information to establish the catastrophe coverage outlined in note 7(e). In addition to earthquake, other catastrophe perils such as hail and windstorm are also modeled, and reinsurance is purchased based on the peril that generates the largest loss. As the catastrophe reinsurance purchased is not peril specific, the Company is thereby provided with a high level of protection for catastrophic loss from other perils. The stress tests completed on the Company's capital are based on 1 in 500 year events; this exceeds the regulatory requirements established by OSFI.

The Company's net earned premium split by line of business and geographic area is as follows:

	2019 $	2018 $
Auto	**1,603,822**	1,388,566
Home	**902,713**	811,157
Farm	**143,384**	130,458
Commercial	**551,374**	490,433
Travel and other	**73,430**	66,263
Net earned premium (note 8, 22)	**3,274,723**	2,886,877

	2019	2018
	$	$
West	**1,155,743**	1,050,026
Ontario	**1,648,926**	1,426,448
Quebec	**161,421**	128,372
Atlantic	**308,633**	282,031
Net earned premium (note 8, 22)	**3,274,723**	2,886,877

h) Financial risks in insurance contracts

Information about credit risk, liquidity risk and market risk for insurance contracts is disclosed in note 6.

8. Insurance contracts

Insurance contracts are comprised of the following balances:

	December 31, 2019	December 31, 2018
	$	$
Undiscounted unpaid claims and adjustment expenses	**2,853,686**	2,667,071
Effect of time value of money	**(141,929)**	(145,666)
PFADs	**276,966**	249,615
Effect of discounting	**135,037**	103,949
Discounted unpaid claims and adjustment expenses	**2,988,723**	2,771,020
Unearned premiums	**1,909,860**	1,697,482
Experience rated refund pool	**10,630**	12,810
	4,909,213	4,481,312

a) Profile of unearned premiums

	December 31, 2019			December 31, 2018		
	Gross	Ceded	Net	Gross	Ceded	Net
	$	$	$	$	$	$
Auto	**865,419**	**296**	**865,123**	753,198	211	752,987
Home	**527,513**	**106**	**527,407**	472,390	91	472,299
Farm	**79,018**	**99**	**78,919**	73,150	103	73,047
Commercial	**367,381**	**14,387**	**352,994**	311,088	8,625	302,463
Travel and other	**70,529**	**38,374**	**32,155**	87,656	61,092	26,564
	1,909,860	**53,262**	**1,856,598**	1,697,482	70,122	1,627,360

Ceded unearned premiums are included in reinsurance ceded contracts on the balance sheet (note 9).

b) Reconciliation of unearned premiums

	2019			2018		
	Gross	Ceded	Net	Gross	Ceded	Net
	$	$	$	$	$	$
Balance, beginning of year	**1,697,482**	**70,122**	**1,627,360**	1,399,757	6,475	1,393,282
Written premium	**3,780,168**	**276,207**	**3,503,961**	3,315,810	253,159	3,062,651
Less: earned premium	**3,567,790**	**293,067**	**3,274,723**	3,126,601	239,724	2,886,877
Acquisition of a subsidiary from related party	**-**	**-**	**-**	108,516	50,212	58,304
Balance, end of year	**1,909,860**	**53,262**	**1,856,598**	1,697,482	70,122	1,627,360

c) Profile of net unpaid claims and adjustment expenses

	December 31, 2019			December 31, 2018		
	Gross	Ceded	Net	Gross	Ceded	Net
	$	$	$	$	$	$
Auto	**1,893,830**	**10,084**	**1,883,746**	1,721,122	11,311	1,709,811
Home	**279,255**	**22,854**	**256,401**	294,578	34,274	260,304
Farm	**56,196**	**898**	**55,298**	58,214	2,160	56,054
Commercial	**685,525**	**65,328**	**620,197**	619,294	56,494	562,800
Travel and other	**73,917**	**50,167**	**23,750**	77,812	53,145	24,667
Discounted provision	**2,988,723**	**149,331**	**2,839,392**	2,771,020	157,384	2,613,636

d) Reconciliation of net unpaid claims and adjustment expenses

	2019			2018		
	Gross	Ceded	Net	Gross	Ceded	Net
	$	$	$	$	$	$
Balance, beginning of year	**2,771,020**	**157,384**	**2,613,636**	2,475,952	135,236	2,340,716
Less: effect of discounting at prior year-end	**103,949**	**662**	**103,287**	105,568	334	105,234
Undiscounted unpaid claims and adjustment expenses at prior year-end	**2,667,071**	**156,722**	**2,510,349**	2,370,384	134,902	2,235,482
Paid on prior years	**(869,116)**	**(55,271)**	**(813,845)**	(781,047)	(47,607)	(733,440)
Change in estimate on prior years	**(28,721)**	**(22,015)**	**(6,706)**	(78,897)	(28,161)	(50,736)
Incurred on current year	**2,378,834**	**127,130**	**2,251,704**	2,279,319	110,345	2,168,974
Paid on current year	**(1,294,382)**	**(58,964)**	**(1,235,418)**	(1,278,142)	(71,299)	(1,206,843)
Acquisition of a subsidiary from related party	**-**	**-**	**-**	155,454	58,542	96,912
Undiscounted unpaid claims and adjustment expenses at current year-end	**2,853,686**	**147,602**	**2,706,084**	2,667,071	156,722	2,510,349
Effect of discounting	**135,037**	**1,729**	**133,308**	103,949	662	103,287
Balance, end of year	**2,988,723**	**149,331**	**2,839,392**	2,771,020	157,384	2,613,636
Current	**1,142,648**	**98,397**	**1,044,251**	1,103,290	110,936	992,354
Non-current	**1,846,075**	**50,934**	**1,795,141**	1,667,730	46,448	1,621,282
Balance, end of year	**2,988,723**	**149,331**	**2,839,392**	2,771,020	157,384	2,613,636

9. Reinsurance programs

a) Underwriting impact of reinsurance contracts

Ceded	December 31, 2019 $	December 31, 2018 $
Written premium (note 22)	**276,207**	253,159
Earned premium	**293,067**	239,724
Claims and benefits	**106,183**	81,940
Commission	**108,952**	85,073
Cost of reinsurance ceded program	**77,932**	72,711

Assumed	December 31, 2019 $	December 31, 2018 $
Written premium (note 22)	**27,778**	19,946
Earned premium	**25,169**	19,549
Claims and benefits	**14,378**	9,632
Commission	**10,351**	7,158
Underwriting gain from assumed reinsurance	**440**	2,759

b) Reinsurance ceded contracts

The amounts presented under reinsurance ceded contracts in the consolidated balance sheet represent the Company's net contractual rights under reinsurance contracts and consist of the following:

	December 31, 2019 $	December 31, 2018 $
Reinsurance ceded assets		
Reinsurers' share of unearned premiums (note 8)	**53,262**	70,122
Reinsurers' share of unpaid claims & adjustment expenses (note 8)	**149,331**	157,384
Reinsurer receivables	**8,586**	15,495
	211,179	243,001
Reinsurance ceded liabilities		
Unearned reinsurance commissions	**25,968**	37,165
Payable to reinsurers	**6,373**	5,176
Unlicensed reinsurer deposits	**15,171**	26,233
	47,512	68,574
Reinsurance ceded contracts	**163,667**	174,427
Current	**117,890**	135,700
Non-current	**45,777**	38,727
	163,667	174,427

10. Deferred acquisition expenses

Details of deferred acquisition expenses are as noted below:

	2019 $	2018 $
Balance, beginning of year	**293,131**	224,504
Acquisition expenses deferred	**695,357**	625,957
Amortization expense	**(675,353)**	(596,420)
Acquistion of a subsidiary from related party	**-**	39,090
Balance, end of year	**313,135**	293,131

11. Income taxes

a) Reconciliation to statutory income tax rate

In the consolidated statements of income (loss), income tax expense reflects an effective tax rate which differs from the statutory tax rate for the following reasons:

	2019		2018	
	$	%	$	%
Income (loss) before income taxes	**214,151**		(69,537)	
Income tax at statutory rates	**57,821**	**27.0**	(18,775)	27.0
Effects of :				
Non-taxable investment income	**(18,789)**	**(8.8)**	(14,476)	20.8
Non-deductible expenses	**722**	**0.3**	585	(0.8)
Change in income tax rates	**(143)**	**(0.1)**	(13)	-
Difference in effective tax rate of subsidiaries	**(11)**	**-**	2	-
Adjustment to tax expense in respect of prior years	**(101)**	**-**	(49)	0.1
Other	**626**	**0.3**	296	(0.4)
Income tax expense (recovery)	**40,125**	**18.7**	(32,430)	46.7

b) Income taxes included in the consolidated statements of income (loss)

	2019 $	2018 $
Current tax expense (recovery)		
Current period	**46,855**	(21,407)
Change in tax rates	**(208)**	(45)
Adjustment for prior periods	**3,158**	(151)
	49,805	(21,603)
Deferred tax recovery		
Origination and reversal of temporary differences	**(6,486)**	(10,961)
Change in tax rates	**65**	32
Adjustment for prior periods	**(3,259)**	102
	(9,680)	(10,827)
Income tax expense (recovery)	**40,125**	(32,430)

c) Income taxes included in OCI

	2019 $	2018 $
Current income tax expense (recovery)	**33,034**	(20,303)
Deferred income tax expense (recovery)	**(1,533)**	4,715
Total income tax expense (recovery) included in OCI	**31,501**	(15,588)

	2019 $	2018 $
Items that may be reclassified subsequently to the consolidated statements of income (loss):		
Net unrealized gains (losses) on available-for-sale financial assets	**55,611**	(19,701)
Net reclassification adjustment for (gains) losses included in income	**(23,263)**	1,024
Total items that may be reclassified subsequently to the consolidated statements of income (loss)	**32,348**	(18,677)
Items that will not be reclassified subsequently to the consolidated statements of income (loss):		
Remeasurement of the retirement benefit obligations	**(847)**	3,089
Total income tax expense (recovery) included in OCI	**31,501**	(15,588)

d) Components of deferred income taxes

December 31, 2019	**Assets** **$**	**Liabilities** **$**	**Net** **$**
Bonds and mortgages	**436**	**-**	**436**
Stocks	**(2,987)**	**-**	**(2,987)**
Intangible assets	**657**	**(7,612)**	**(6,955)**
Property and equipment	**183**	**(10)**	**173**
Right-of-use assets	**(7,269)**	**-**	**(7,269)**
Insurance contracts	**43,359**	**-**	**43,359**
Retirement benefit obligations	**34,764**	**-**	**34,764**
Lease liabilities	**7,441**	**-**	**7,441**
Provisions and other liabilities	**43,700**	**-**	**43,700**
Loss carry-forwards and credits	**6,936**	**78**	**7,014**
	127,220	**(7,544)**	**119,676**

December 31, 2018	Assets $	Liabilities $	Net $
Bonds and mortgages	763	-	763
Stocks	(3,639)	-	(3,639)
Intangible assets	383	(3,968)	(3,585)
Property and equipment	101	4	105
Insurance contracts	40,717	-	40,717
Retirement benefit obligations	32,583	-	32,583
Provisions and other liabilities	38,026	-	38,026
Loss carry-forwards and credits	7,815	88	7,903
	116,749	(3,876)	112,873

The net movement of the deferred income taxes is as follows:

	2019 $	2018 $
Balance, beginning of year	**112,873**	101,935
Income statement recovery (note 24)	**9,680**	10,827
Other comprehensive income recovery (expense)	**1,533**	(4,715)
Acquisition of a subsidiary from related party (note 26)	**-**	4,961
Other items	**(4,410)**	(135)
Balance, end of year	**119,676**	112,873

e) Loss carry-forwards

The Company has non-capital loss carry-forwards of $26,006 (2018 - $28,843) of which deferred income taxes of $7,014 (2018 - $7,799) has been recognized. The non-capital loss carry-forwards expire as follows:

	$
2036	175
2037	359
2038	344
2039	25,128

12. Intangible assets

	Goodwill $	Licenses $	Brand $	Customer relationships $	Software $	Software under development $	Total $
Cost							
January 1, 2018	1,076	53,750	-	26,394	18,395	-	99,615
Additions	-	1,250	-	177	361	3,428	5,216
Acquisition of a subsidiary from a related party	5,730	-	800	5,700	-	-	12,230
December 31, 2018	6,806	55,000	800	32,271	18,756	3,428	117,061
Additions	-	-	-	18,165	-	7,469	25,634
December 31, 2019	**6,806**	**55,000**	**800**	**50,436**	**18,756**	**10,897**	**142,695**
Accumulated amortization							
January 1, 2018	-	-	-	8,180	18,127	-	26,307
Amortization (note 24)	-	-	-	3,251	188	-	3,439
Acquisition of a subsidiary from a related party	-	-	-	4,702	-	-	4,702
December 31, 2018	-	-	-	16,133	18,315	-	34,448
Amortization (note 24)	-	-	-	4,070	182	-	4,252
December 31, 2019	**-**	**-**	**-**	**20,203**	**18,497**	**-**	**38,700**
Net carrying value							
December 31, 2018	6,806	55,000	800	16,138	441	3,428	82,613
December 31, 2019	**6,806**	**55,000**	**800**	**30,233**	**259**	**10,897**	**103,995**

The carrying amount of goodwill that was allocated to CGUs as at December 31, 2019 is as follows:

Cash-generating unit	Total $
CUMIS General	5,730
CGIC	1,076
	6,806

13. Right-of-use assets and lease liabilities

Effective January 1, 2019, the company has applied IFRS 16 to the consolidated financial statements.

The Company leases real estate, which is primarily comprised of leases for advisor and service offices across the country. Lease terms range from less than three years to nine years.

Right-of-use assets

	Buildings $
Balance at January 1, 2019	**35,764**
Additions	**4,869**
Depreciation	**(11,468)**
Balance at December 31, 2019	**29,165**

Lease liabilities

	Building $
Off-balance sheet lease obligation, December 31, 2018	**40,786**
Leases transferred to a related party	**(2,839)**
Operating lease obligation, before effect of discounting, January 1, 2019	**37,947**
Base Rent	**33,318**
Reasonably certain extension options	**4,629**
Effect from discounting, January 1, 2019	**(2,183)**
Operating lease obligations, January 1, 2019	**35,764**

	$
Undiscounted cash flows	
Less than one year	**10,992**
One to three years	**14,097**
Four to five years	**6,081**
Six to nine years	**580**
Undiscounted balance at December 31, 2019	**31,750**
Effect from discounting	**(1,947)**
Lease liabilities at December 31, 2019	**29,803**
Current	**10,992**
Non-Current	**18,811**
Lease liabilities at December 31, 2019	**29,803**

Potential future undiscounted cash outflows of $64,027 have not been included in the lease liability as it is not reasonably certain that the leases will be extended. The lease liability also does not include future undiscounted cash flows of $580 for leases the Company is committed to but has not yet commenced.

Expenses included in the consolidated statements of income (loss)

	2019 $
Interest on lease liabilities	**861**
Variable lease payments not included lease liabilities	**5,725**
Lease expenses included in the consolidated statements of income (loss)	**6,586**

14. Other assets

	December 31, 2019 $	December 31, 2018 $
Due from related parties (note 25)	**35,714**	42,535
Loans to related parties (note 25)	**300**	300
Reinsurance assumed receivables	**3,040**	1,435
Property and equipment	**14,438**	18,118
Due from risk sharing pools	**3,879**	4,192
Investments in associates and joint ventures	**7,061**	7,925
Prepaid expenses	**3,540**	4,126
Other	**7,308**	5,699
	75,280	84,330

Details of property and equipment are as noted below:

	Computer equipment $	Furniture and equipment $	Leasehold improvements $	Projects in progress $	Total $
Cost					
January 1, 2018	44,017	36,666	59,704	1,385	141,772
Additions	11	368	2,484	295	3,158
Disposals	(1,578)	-	-	-	(1,578)
Transfers	-	-	1,079	(1,079)	-
December 31, 2018	42,450	37,034	63,267	601	143,352
Additions	24	2,813	1,206	992	5,035
Disposals	-	-	(1,014)	-	(1,014)
Transfers	-	(1,142)	1,004	(1,004)	(1,142)
December 31, 2019	**42,474**	**38,705**	**64,463**	**589**	**146,231**
Accumulated amortization					
January 1, 2018	40,526	29,554	48,174	-	118,254
Amortization	2,259	1,556	4,455	-	8,270
Disposals	(1,290)	-	-	-	(1,290)
December 31, 2018	41,495	31,110	52,629	-	125,234
Amortization	905	1,379	4,275	-	6,559
December 31, 2019	**42,400**	**32,489**	**56,904**	**-**	**131,793**
Net carrying value					
December 31, 2018	955	5,924	10,638	601	18,118
December 31, 2019	**74**	**6,216**	**7,559**	**589**	**14,438**

15. Provisions and other liabilities

	December 31, 2019 $	December 31, 2018 $
Provision for advisor transition commissions	**137,873**	116,161
Advisor transition commission payable	**17,300**	16,774
Other provisions	**8,767**	5,455
Foreign currency forward contracts (note 5)	**71**	10,790
Other liabilities	**2,601**	2,745
	166,612	151,925

The provision for advisor transition commissions is an obligation to active advisors determined by accruing for the benefits earned to date on a present value basis assuming the cash flows associated with the earned benefits are paid out at the expected termination date. The provision is discounted at a rate of 2.80% (2018 - 3.67%) and assumes an average termination age of 56 (2018 - 57). A reconciliation of the provision for advisor transition commissions is provided below.

	2019 $	2018 $
Balance, beginning of year	**116,161**	109,610
Additional provision charged to income		
Earning of advisor benefits	**16,590**	13,795
Interest expense	**4,662**	3,917
Settlements for advisor terminations	**(9,616)**	(7,910)
Change in assumptions	**10,076**	(3,251)
Balance, end of year	**137,873**	116,161

A 1% decrease in the discount rate would increase the provision for advisor transition commissions $8,957 (2018 - $8,100) and decrease net income by $6,539 (2018 - $5,913). A 2 year decrease in the average termination age would increase the provision for advisor transition commissions $4,146 (2018 - $5,275) and decrease net income by $3,026 (2018 - $3,851). Larger rate and age changes would have a corresponding impact to net income.

16. Retirement benefit obligations

The Company offers a defined contribution and medical, dental and life insurance plans for qualifying individuals. The primary pension plan is a defined contribution plan, which has no legal or constructive obligation to pay further amounts.

a) Medical, dental and life insurance benefits

The Company offers medical, dental and life insurance benefits for qualifying retirees and certain other individuals. The accrued benefit obligation has been determined as at December 31, 2019, based on updated actuarial assumptions from the valuation completed as at January 1, 2019. The plan is unfunded and the Company meets its obligation as it falls due. The next triennial valuation is due to be completed as at January 1, 2022.

Information regarding the plan's costs, liabilities and actuarial assumptions is as follows:

	2019 $	2018 $
Accrued benefit obligation		
Balance, beginning of year	**120,501**	126,686
Current service cost	**4,302**	4,749
Interest on accrued benefits	**4,738**	4,366
Benefits paid	**(4,050)**	(3,879)
Remeasurement (gain) loss		
Actuarial gains and losses arising from changes in financial assumptions	**16,745**	(11,421)
Actuarial losses arising from changes in demographic assumptions	**(13,575)**	-
Balance, end of year	**128,661**	120,501
Elements of defined benefit cost recognized in the year		
Current service cost	**4,302**	4,749
Interest on accrued benefits	**4,738**	4,366
Components of defined benefit costs recorded in net income (loss)	**9,040**	9,115
Remeasurements on the net defined benefit liability:		
Actuarial gains and losses arising from changes in financial assumptions	**16,745**	(11,421)
Actuarial losses arising from changes in demographic assumptions	**(13,575)**	-
Components of defined benefit costs recorded in OCI	**3,170**	(11,421)
Total components of defined benefit costs	**12,210**	(2,306)

Measurement uncertainty exists in valuing the components of retirement benefit obligations. Each assumption is determined by management based on current market conditions and experiential information available at the time; however, the long-term nature of the exposure and future fluctuations in the actual results makes the valuation uncertain.

The significant actuarial assumptions were as follows:

Significant assumptions	2019	2018
Discount rate	**3.25%**	4.00%
Assumed medical care cost trend rates as at December 31		
Medical care cost trend rate	**5.25%**	5.50%
Cost trend rate declines to	**4.50%**	4.50%
Year that the rate reaches the rate it is assumed to remain at	**2022**	2022
Mortality		
Retiring at the end of the reporting period:		
Average life expectancy for male retiring at age 65	**22.0**	21.8
Average life expectancy for female retiring at age 65	**24.3**	24.2
Retiring 20 years after the end of the reporting period:		
Average life expectancy for male retiring at age 65	**23.1**	22.9
Average life expectancy for female retiring at age 65	**25.3**	25.1

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics.

The sensitivity of the other benefit plan obligation to changes in the weighted principal assumptions is:

		Impact on other benefit plan obligation	
Significant assumptions	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%	Decrease by $21,703	Increase by $29,195
Medical and dental cost trend rates	1.00%	Increase by $25,702	Decrease by $20,775
Life expectancy	1 year	Increase by $7,402	Decrease by $7,233

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the obligation to significant actuarial assumptions, the same projected unit credit method has been applied as when calculating the retirement benefit obligation recognized within the balance sheet.

The weighted average duration of the accrued benefit liability is 21.7 years.

Through its medical, dental and life insurance benefit plan, the Company is exposed to standard risks including changes in bond yields and life expectancy. The discount rate is derived from corporate bond yields and a decrease in the bond yields will increase the accrued benefit obligation. The medical and dental benefits are provided for the life of the member, so increases in life expectancy will increase the accrued benefit obligation. The ultimate cost of the plans will depend upon actual future events rather than the assumptions made.

b) Defined contribution pension plan

The Company has a defined contribution pension plan for all of its employees. The total cost recognized for the Company's defined contribution plans is $16,846 (2018 - $15,447), which is recognized in general expenses in the consolidated statements of income (loss).

17. Share capital

The number of shares and the amounts per share are not in thousands.

Authorized senior preference shares

Class A preference shares, Class B preference shares and Class E preference shares rank equally, and in priority to all other classes of preference and common shares.

1,440,000	Class A preference shares, series A, non-cumulative dividend to be determined semi-annually by the Board of Directors subject to a minimum rate of 5% of the redemption value if declared, redeemable at the redemption value of $37.50 per share, with a stated value of $25 per share. Convertible to Class F preference shares, series A. The Company may redeem or purchase at any time, at its option, all or part of the shares for the redemption value in accordance with the terms and conditions set out in the Company's By-law No. 2.
Unlimited	Class A preference shares, series B, non-cumulative dividend to be determined semi-annually by the Board of Directors subject to a minimum rate of 5% of the redemption value if declared, redeemable at the redemption value of $100 per share, with a stated value of $100 per share. The Company may redeem or purchase at any time, at its option, all or part of the shares for the redemption value in accordance with the terms and conditions set out in the Company's By-law No. 2.
Unlimited	Class B preference shares, non-cumulative dividend to be determined semi-annually by the Board of Directors subject to a minimum rate of 5% of the redemption value if declared, redeemable at the redemption value of $50 per share, with a stated value of $25 per share. Convertible to Class G preference shares, series A. The Company may redeem or purchase at any time, at its option, all or part of the shares for the redemption value in accordance with the terms and conditions set out in the Company's By-law No. 2.
Unlimited	Class E preference shares, series A, non-cumulative dividend, if declared, payable quarterly, the rate being 5.75% per annum until June 30, 2002. After June 30, 2002, dividends are the greater of 90% of the prime rate or 5.50%. On June 30, 2002 and thereafter on every fifth anniversary, the holder has the right to convert the Class E preference shares, series A preference shares into non-cumulative redeemable Class E preference shares, series B on a share for share basis. On June 30, 2002 and thereafter on every fifth anniversary, the Company may redeem the whole issue at $25 per share. After June 30, 2002 at any date other than the anniversary dates, the Company may redeem the shares in whole or part for $25.50 per share. On June 30, 2007 the Company redeemed all of the Class E preference shares, series A at a cash redemption price per share of [illegible]
Unlimited	Class E preference shares, series B, issued June 30, 2002 and every fifth year thereafter, only on conversion of Class E preference shares, series A. Non-cumulative dividend, if declared, payable quarterly. On the twenty-first day prior to June 30, 2002 and every fifth anniversary thereafter, the dividend rate will be set at a minimum of 95% of the Government of Canada yield. On June 30, 2007 and every fifth anniversary, the Company may redeem the whole issue at $25 per share.
Unlimited	Class E preference shares, series C, non-cumulative dividend, if declared, payable quarterly, the rate being $0.3125 per share, to yield 5.00% per annum. The initial dividend was declared and paid on September 30, 2007 and amounted to $0.3767 per share. On June 30, 2012 and thereafter, the Company may redeem at any time all or from time to time any part of the outstanding Class E preference shares, series C at the Company's option, by payment of an amount in cash for each Class E preference shares, series C of $26.00 if redeemed during the 12 months commencing June 30, 2012, $25.75 if redeemed during the 12 months commencing June 20, 2013, $25.50 per share if redeemed during the 12 months commencing June 30, 2014, $25.25 per share if redeemed during the 12 months commencing June 30, 2015, and $25.00 per share if redeemed on or after June 30, 2016, together in each case with an amount equal to all declared and unpaid preferential dividends up to but excluding the date fixed for redemption.
Unlimited	Class E preference shares, series D, non-cumulative dividend, if declared, payable quarterly, the rate being $1.8125 per share, to yield 7.25% per annum. The initial dividend was declared and paid on September 30, 2009 for $0.6505 per share. On June 30, 2014 and on June 30 every five year thereafter, the dividend rate will reset to be equal to the then current five-year Government of Canada bond yield plus 5.21%. The Class E preference shares, series D were not redeemable prior to June 30, 2014. On June 30, 2014 the Company redeemed all of the Class E preference shares, series D at a cash redemption price per share of $25.00.
Unlimited	Class E preference shares, series E, issued June 30, 2014 and on every fifth year thereafter, only on the conversion of Class E preference shares, series D. Non-cumulative quarterly floating rate dividend, as and when declared, equal to the then current three-month Government of Canada Treasury Bill yield plus 5.21%. The Company may redeem all or part of the outstanding Class E preference shares, series E at its option without the consent of the holder, by the payment of an amount in cash for each Class E preference shares, series E so redeemed of (i) $25.00 per share together with an amount equal to the sum of all declared and unpaid dividends up to, but excluding, the date fixed for redemption in the case of redemptions on June 30, 2019 and on June 30 every fifth year after such date, or (ii) $25.50 per share together with an amount equal to the sum of all declared and unpaid dividends up to, but excluding, the date fixed for redemption in the case of redemptions on any other date after June 30, 2014 that is not a Class E preference shares, series E conversion date.

Authorized junior preference shares

Unlimited	Class C, preference shares issuable in series
100,000	Class C preference shares, series A, non-cumulative 6% dividend and a participating dividend up to 5%, each to be determined annually by the Board of Directors with a stated value of $100
Unlimited	Class D preference shares, series A, non-cumulative dividend to be determined annually by the Board of Directors, redeemable at $100 per share, with a stated value of $100 per share
Unlimited	Class D preference shares, series B, non-cumulative dividend to be determined annually by the Board of Directors, redeemable at $100 per share, with a stated value of $100 per share
Unlimited	Class D preference shares, series C, non-cumulative dividend to be determined annually by the Board of Directors, redeemable at $100 per share, with a stated value of $100 per share
Unlimited	Class F preference shares, series A, non-cumulative dividend subject to a minimum rate of 5% if declared to be determined annually by the Board of Directors, redeemable at $37.50 per share, with a stated value of $25 per share
Unlimited	Class G preference shares, series A, non-cumulative dividend subject to a minimum rate of 5% if declared to be determined annually by the Board of Directors, redeemable at $50 per share, with a stated value of $25 per share
Unlimited	Class H, Class I and Class J preference shares, these have been authorized but have been given no attributes and have not yet been issued. The Board of Directors has the right to define the attributes and issue as required

Authorized common shares

Unlimited	Common Shares

The redemption of any share must be approved in advance by OSFI.

The changes and the number of shares issued and outstanding are as follows:

	Beginning of year		Issued during the year		Redeemed during the year		End of year	
2019	**Number of Shares**	**Amount $**	**Number of Shares**	**Amount $**	**Number of Shares**	**Amount $**	**Number of Shares**	**Amount $**
Class A preference shares, series A	119,818	2,998	-	-	119,818	2,998	-	-
Class A preference shares, series B	748,168	74,816	101,705	10,171	59,696	5,970	790,177	79,017
Class B preference shares	422	11	-	-	10	1	412	10
Class D preference shares, series A	13,803	1,380	-	-	-	-	13,803	1,380
Class D preference shares, series B	42,535	4,254	-	-	-	-	42,535	4,254
Class D preference shares, series C	43,184	4,318	-	-	-	-	43,184	4,318
Class E preference shares, series C	4,000,000	100,000	-	-	-	-	4,000,000	100,000
Class F preference shares, series A	488,624	12,216	-	-	-	-	488,624	12,216
Class G preference shares, series A	14,984	375	-	-	-	-	14,984	375
Common shares	24,499,925	229,776	2,120,470	130,002	-	-	26,620,395	359,778
		430,144		140,173		8,969		561,348
Less staff share loan plan		16,692						16,569
		413,452						544,779

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

	Beginning of year		Issued during the year		Redeemed during the year		End of year	
2018	Number of Shares	Amount $	Number of Shares	Amount $	Number of Shares	Amount $	Number of Shares	Amount $
Class A preference shares, series A	164,287	4,107	-	-	44,469	1,109	119,818	2,998
Class A preference shares, series B	690,759	69,075	99,896	9,990	42,487	4,249	748,168	74,816
Class B preference shares	426	11	-	-	4	-	422	11
Class D preference shares, series A	13,803	1,380	-	-	-	-	13,803	1,380
Class D preference shares, series B	42,535	4,254	-	-	-	-	42,535	4,254
Class D preference shares, series C	43,184	4,318	-	-	-	-	43,184	4,318
Class E preference shares, series C	4,000,000	100,000	-	-	-	-	4,000,000	100,000
Class F preference shares, series A	488,624	12,216	-	-	-	-	488,624	12,216
Class G preference shares, series A	14,984	375	-	-	-	-	14,984	375
Common shares	21,503,693	48,076	2,996,232	181,700	-	-	24,499,925	229,776
		243,812		191,690		5,358		430,144
Less staff share loan plan		15,972						16,692
		227,840						413,452

The staff share loan plan consists of loans to employees of the Company's ultimate parent and its subsidiaries for the purchase of the Company's Class A, Series B preference shares. Loans are offered on an interest free basis to all employees at pre-determined intervals and are repaid through payroll withholdings and dividend payments. Loans are generally settled within ten years and are secured by the preference shares. The carrying value of the preferred shares closely approximates the fair value of the staff share loan plan.

During 2019, the Company issued 2,120,470 (2018 – 2,996,232) common shares with a value of $130,002 (2018 - $181,700) to its parent as a result of the acquisition of a business from a related party (note 26).

Dividends are as follows:

	2019				2018			
	Declared	**Declared per Share**	**Paid**	**Paid per share**	Declared	Declared per Share	Paid	Paid per share
Dividends	**$**	**$**	**$**	**$**	$	$	$	$
Class A, series A	**-**	**-**	**113**	**0.94**	232	1.88	274	1.88
Class A, series B	**3,887**	**5.00**	**3,782**	**5.00**	3,664	5.00	3,521	5.00
Class B	**1**	**2.50**	**1**	**2.50**	1	2.50	1	2.50
Class D, series A	**69**	**5.00**	**69**	**5.00**	69	5.00	69	5.00
Class D, series B	**213**	**5.00**	**213**	**5.00**	213	5.00	213	5.00
Class D, series C	**216**	**5.00**	**216**	**5.00**	216	5.00	216	5.00
Class E, series C	**5,000**	**1.25**	**5,000**	**1.25**	5,000	1.25	5,000	1.25
Class F, series A	**916**	**1.88**	**916**	**1.88**	916	1.88	916	1.88
Class G, series A	**37**	**2.50**	**37**	**2.50**	37	2.50	37	2.50
Common shares	**48,000**	**1.81**	**48,000**	**1.81**	-	-	-	-
	58,339		**58,347**		10,348		10,247	

18. Earnings per share

Earnings per share is calculated by dividing net income, after deducting total preferred share dividends, by the weighted average number of fully paid common shares outstanding throughout the year.

	2019 $	2018 $
Net income (loss)	**174,026**	(37,107)
Less dividends on preference shares declared	**10,339**	10,348
Net income (loss) available to common shareholders	**163,687**	(47,455)
Weighted average number of outstanding common shares	**25,560**	23,359
Earnings (losses) per share	**6.40**	(2.03)

19. Retained earnings

The Company has charged $6,493 (2018 - $7,992) to retained earnings for the difference between the carrying value and the redemption amount of preferred shares.

	2019 $	2018 $
Class A preference shares, series A	**-**	1,498
Class B preference shares	**10**	11
Class F preference shares, series A	**6,108**	6,108
Class G preference shares, series A	**375**	375
	6,493	7,992

20. Accumulated other comprehensive income

	December 31, 2019 $	December 31, 2018 $
Unrealized gains on available-for-sale financial assets	**210,575**	123,349
Cumulative remeasurement of the retirement benefit obligations	**(38,271)**	(35,948)
Acquisition of a subsidiary from related party	**-**	3,036
	172,304	90,437

21. Capital management

The Company views capital as a scarce and strategic resource. This resource protects the financial well-being of the organization, and is also critical in enabling the Company to pursue strategic business opportunities. Adequate capital also acts as a safeguard against possible unexpected losses, and as a basis for confidence in the Company by shareholders, policyholders, creditors and others.

For the purpose of capital management, the Company has defined capital as shareholders' equity excluding AOCI. The Company has a Capital Management Policy that is approved by the Board of Directors. The purpose of this policy is to protect and evaluate the allocation of capital as a scarce and strategic resource, maximize the return on invested capital, and to plan ahead for future capital needs. Capital is monitored by the Management Capital Committee at the Company's ultimate parent level.

Reinsurance is utilized to protect the Company's capital from catastrophic loss arising from perils such as earthquake, tornado, wind, hail, flood or fire. The incidence and severity of catastrophic losses are inherently unpredictable. To limit the Company's potential impact, it purchases reinsurance which will reimburse the Company for claims. Details of the Company's reinsurance program are disclosed in note 7(e). The Company's retention on any single event is $70,000 (2018 - $70,000), which represents approximately 4.2% (2018 - 4.5%) of the Company's capital.

On an annual basis, the appointed actuary prepares the DCAT analysis which projects and analyzes trends of capital adequacy under a variety of plausible adverse scenarios. Also on an annual basis, the Company performs stress testing in accordance with OSFI Guideline E-18. This testing evaluates the potential effects on the Company's financial condition of a set of specified changes in risk factors, corresponding to exceptional but plausible adverse events. At least annually, the Company performs an Own Risk and Solvency Assessment (ORSA) to determine the minimum amount of capital the Company can hold and still be within its risk appetite (ORSA Capital). The results of this assessment are provided to the Board of Directors.

CGIC and some of its subsidiaries are subject to regulatory capital requirements defined by OSFI and the Insurance Companies Act (Canada). OSFI measures the financial strength of property and casualty insurers using the Minimum Capital Test (MCT). The MCT compares a company's capital, including AOCI, against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, insurance contracts, structured settlements, letters of credit, derivatives, unlicensed reinsurance and other exposures, by applying varying factors.

The Company's internal target or Minimum Internal MCT is determined through the ORSA Capital, while giving consideration to DCAT, internal stress testing results and OSFI's supervisory target MCT. OFSI's supervisory target is 150%. The Company's Minimum Internal MCT, established by the Board of Directors is 180%. As at December 31, 2019, the Company and its subsidiaries held capital in excess of both OSFI's target ratio and internal minimums.

22. Net earned premium

	2019 $	2018 $
Direct written premium	**3,752,390**	3,295,864
Assumed written premium (note 9)	**27,778**	19,946
Gross written premium	**3,780,168**	3,315,810
Ceded written premium (note 9)	**(276,207)**	(253,159)
Net written premium	**3,503,961**	3,062,651
Change in gross unearned premium	**(212,378)**	(189,209)
Change in ceded unearned premium	**(16,860)**	13,435
Net earned premium (note 7, 8)	**3,274,723**	2,886,877

23. Supplemental expense information

	2019 $	2018 $
Compensation costs	**356,441**	310,693
Retirement benefit obligations	**9,040**	9,115
Amortization expense	**10,811**	10,220
Interest expense	**49**	2
Other	**19,317**	1,010
	395,658	331,040

24. Consolidated statements of cash flows

a) Other non-cash items

	2019	2018
	$	$
i) Items not requiring the use of cash		
Investing activities gains	**(100,568)**	(2,309)
Impairment losses (note 5)	**3,946**	20,298
Amortization and depreciation of:		
Bond premium/discount	**17,140**	16,377
Mortgage accretion	**324**	273
Intangible assets (note 12)	**4,252**	3,439
Property and equipment	**6,559**	6,980
Right-of-use assets (note 13)	**11,468**	-
Change in fair value of FVTPL invested assets (note 5)	**(5,823)**	46,321
Deferred income taxes (note 11)	**(9,680)**	(10,827)
Retirement benefit obligations	**4,990**	5,236
Loss from investments in joint ventures	**864**	480
	(66,528)	86,268
ii) Changes in non-cash operating components		
Insurance contracts	**427,901**	318,329
Reinsurance ceded contracts	**10,760**	20,463
Premiums due	**(177,536)**	(104,302)
Deferred acquisition expenses	**(20,004)**	(29,402)
Staff share loan plan	**123**	(720)
Accounts receivable and other assets	**652**	(13,161)
Accounts payable and accrued charges	**47,160**	28,114
Income taxes payable/recoverable	**120,854**	(54,991)
Deferred income taxes (note 11)	**4,410**	-
Provisions and other liabilities	**25,406**	8,491
	439,726	172,821

b) Supplemental information

	2019	2018
	$	$
Interest and dividends received	**201,379**	160,798
Interest paid	**908**	-
Income taxes paid (net of recoveries)	**(50,290)**	33,382

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

25. Related party transactions

The following transactions were carried out with related parties:

2019	Associates and joint ventures	Associates of companies under common control	Companies under common control	Parents	Total
	$	$	$	$	$
Income					
Reinsurance premium	-	-	(71,933)	-	(71,933)
Other investment income	-	-	-	318	318
Income from associates and joint ventures	(864)	-	-	-	(864)
Investment counselling services	-	-	(5,100)	-	(5,100)
	(864)	-	(77,033)	318	(77,579)
Expenses					
Reinsurance	-	-	(74,900)	-	(74,900)
Corporate services	-	-	84	151,638	151,722
Agency force support	-	-	21	-	21
Employee benefit insurance	-	-	9,078	-	9,078
Product distribution and underwriting services	-	94,935	44,686	-	139,621
	-	94,935	(21,031)	151,638	225,542
Dividends declared	-	-	-	49,451	49,451
Balances outstanding at year-end					
Reinsurance assets	-	-	30,411	-	30,411
Reinsurance liabilities	-	-	3,580	-	3,580
Premiums due	-	-	17,202	-	17,202
Due from related parties (note 14)	2,568	-	13,390	19,756	35,714
Loans to related parties (note 14)	300	-	-	-	300
Due to related parties	-	3,626	9,292	12,993	25,911

2018	Associates and joint ventures $	Associates of companies under common control $	Companies under common control $	Parents $	Total $
Income					
Reinsurance premium	-	-	(54,446)	-	(54,446)
Other investment income	-	-	-	222	222
Net realized gains	-	-	-	6,303	6,303
Income from associates and joint ventures	(829)	-	-	-	(829)
Investment counselling services	-	-	(5,123)	-	(5,123)
	(829)	-	(59,569)	6,525	(53,873)
Expenses					
Reinsurance	-	-	(56,306)	-	(56,306)
Corporate services	-	-	107	126,594	126,701
Employee benefit insurance	-	-	7,088	-	7,088
Product distribution and underwriting services	-	126,050	38,457	-	164,507
	-	126,050	(10,654)	126,594	241,990
Dividends declared	-	-	-	1,451	1,451
Balances outstanding at year-end					
Reinsurance assets	-	-	49,174	-	49,174
Reinsurance liabilities	-	-	15,671	-	15,671
Premiums due	-	-	15,110	-	15,110
Due from related parties (note 14)	7,811	-	9,639	25,085	42,535
Loans to related parties (note 14)	300	-	-	-	300
Due to related parties	-	17	1,069	14,725	15,811

In the table above, the use of the term ‘Parents’ includes all related party transactions with the immediate and ultimate parent companies, as defined in note 1. Included in ‘Companies under common control’ are all related party transactions between companies that are controlled by the same ultimate parent company. Included in ‘Associates and joint ventures’ are all related party transactions where the Company has significant influence or joint control. All transactions between CGIC and its subsidiaries have been eliminated on consolidation and are not disclosed in this note, except for those transactions with CUMIS General occurring before the acquisition date of April 1, 2018; refer to note 26 for further detail.

During the year, the Company changed the presentation of “Corporate services” (previously named ‘Management services’) received by the Parents. Corporate services currently includes all significant shared services received, including shared information technology and workplace services costs. This change provides more relevant information about the nature of the corporate services received. In 2018, corporate services were presented as management services and excluded shared information technology and workplace services costs of $81,764.

With the exception of the management services, which are based on an internal contract, all other services are in the normal course of business and are established at agreed upon terms and conditions.

During the year, the Company recognized the benefit of $6,785 (2018 - $4,872) in its income tax expense relating to income tax losses of a related party which the Company purchased from CFSL by issuing 105,559 common shares (2018 – 87,341) for a nominal value (2018 - nominal value).

The amounts due to/from related parties represent current accounts with related parties and are generally settled within 30 days.

Key management personnel of the Company includes all directors and executive and senior management. The summary of compensation to key management personnel for the year is as follows:

	2019 $	2018 $
Salaries and other short-term benefits	**17,534**	14,474
Post-employment benefits	**2,282**	1,928
Other long-term benefits	**2,098**	2,211
Total compensation of key management personnel	**21,914**	18,613

26. Business combinations under common control

Acquisition of business from H.B Group Insurance Management Ltd. (HB)

On May 27, 2019, CGIC entered into an agreement with a company under common control, HB, to acquire a line of business that provides brokerage services for group home and auto insurance across Canada. Both parties to the agreement are owned 100% by CFSL. The Company has applied the predecessor accounting method and recorded the acquisition at the carrying values of the net assets. The difference between the carrying value and the consideration exchanged was recorded through shareholders’ equity in the Company’s consolidated financial statements.

The fair value of the consideration exchanged of $130,002 was funded by CGIC through the issuance of common shares to its parent, CFSL. The carrying value of net assets acquired was $nil. The acquisition provides CGIC with direct access to HB’s customer base.

Acquisition of CUMIS General

On April 1, 2018, CGIC entered into an agreement with a company under common control, CUMIS Services Incorporated, to acquire 100% of the common shares of CUMIS General, a property and casualty insurance company. Both parties to the agreement are owned 100% by CFSL. The Company has applied the predecessor accounting method and recorded the acquisition at the carrying value of CUMIS General. As of the date of the acquisition, the results of the operations of CUMIS General are included in these consolidated financial statements. The difference between the carrying value and the consideration exchanged was recorded through shareholders’ equity in the Company’s consolidated financial statements.

The fair value of consideration exchanged of $179,160 was paid in cash. CGIC funded this transaction through the issuance of common shares to its parent, CFSL. The internal reorganization simplifies the overall structure of CGL by aligning the property and casualty operations under a common legal entity.

The table below summarizes the consideration paid for CUMIS General and the amounts recognized for the assets acquired, liabilities assumed, and through equity as at the acquisition date.

	As at April 1, 2018 $
Carrying value of assets acquired	
Cash and cash equivalents	2,357
Invested assets including securities on loan	219,741
Premiums due	30,938
Reinsurance ceded contracts	82,713
Deferred acquisition expenses	39,225
Deferred income taxes	4,961
Income taxes recoverable	481
Intangible assets	7,528
Other assets	2,985
	390,929
Carrying value of liabilities acquired	
Accounts payable and accrued charges	6,748
Insurance contracts	287,274
Provisions and other liabilities	102
	294,124
Net assets acquired	96,805
Fair value of consideration exchanged	179,160
Difference allocated through equity	(82,355)
Allocated to:	
Contributed capital	(9,258)
Retained earnings	(76,133)
Accumulated other comprehensive income	3,036
Difference allocated through equity	(82,355)

For the year ended December 31, 2018, CUMIS General contributed net earned premium of $109,672 and income before taxes of $2,648 to the Company's consolidated statements of income (loss). Had CUMIS General been acquired on January 1, 2018, it would have contributed net earned premium of $145,045 and income before taxes of $5,085 to the Company's consolidated statements of income (loss).

27. Segmented information

The Company's results of operations are reviewed by senior management and the Board of Directors based on one operating and reporting segment, property and casualty operations.

Regulatory information

The carrying amount of the Company's subsidiaries' aggregate share capital are as follows:

	December 31, 2019 $	December 31, 2018 $
Sovereign	**45,953**	45,953
COSECO	**105,507**	105,507
CUMIS General	**109,672**	109,672
CIAL	**67,801**	63,301
CSGC	**14,959**	11,373
Total carrying amount of subsidiaries' share capital	**343,892**	335,806

Related party revenue

Less than 1% (2018 - 1%) of revenue is generated from related parties.

Geographic information

The Company operates exclusively in Canada, writing business in all provinces and territories.

Major customers

The Company derives its source of revenue from many policyholders, none of which generate more than 10% of the revenue total.

28. Contingencies, commitments and guarantees

The Company is subject to litigation arising in the normal course of conducting its insurance business. The Company is of the opinion that this litigation will not have a significant effect on the financial position, results of operations or cash flows of the Company. In addition, the Company is from time to time subject to litigation other than the litigation relating to claims under its policies. Legal proceedings are often subject to numerous uncertainties and it is not possible to predict the outcome of individual cases. In management's opinion, the Company has made adequate provision for, or has adequate insurance to cover all claims and legal proceedings. Consequently, any settlements reached should not have a material adverse effect on the consolidated financial position of the Company.

The Company provides indemnification agreements for directors and certain officers acting as directors on behalf of the Company, to the extent permitted by law, against certain claims made against them as a result of their services to the Company. The Company purchases directors and officers insurance to mitigate the potential financial impact associated with these commitments. The limits of insurance purchased are compared to Canadian benchmarks obtained from the financial institutions practice of the Company's broker and other industry sources. They are consistent with limits purchased by organizations of similar size and are in amounts management believes to be adequate and reasonable.

The Company has entered into commitments with private equity funds to invest $71,701 (2018 - $51,676) as well as US$177,500 (2018 - US$115,000) of capital contributions into limited partnership structures. Capital contributions may be called upon by the General Partner in such amounts and at such times as the General Partner shall deem appropriate. At December 31, 2019, the Company has provided capital contributions of $162,548 (2018 - $121,460) to finance these limited partnership investments, which are included in note 5.

29. Rate regulated entities

Automobile insurance is regulated as to the nature and extent of benefits in all provinces. Additionally, the establishment and management of rating structures and algorithms, as well as underwriting rules, are regulated in the provinces of Alberta, Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador where private insurance systems exist. The Company's access to write automobile insurance is limited and regulated in those provinces with publicly-run automobile insurance programs.

The Company's claims costs are influenced by governments to the extent they pass legislation or regulations that change the nature and extent of benefits and other requirements that impact claims costs and the settlement process.

The Company is subject to three types of regulatory processes, known as rate filings, to modify their rating structures and algorithms. Depending on the content and/or impact of the filing, one process is prescribed in the regulation as follows:

Category	Description
File and use	Insurers file their rates with the regulatory authority and wait a specific amount of time before implementing them
File and approve	Insurers file their rates with the regulatory authority and wait for approval before implementing them
Use and file	Insurers file their rates with the regulatory authority within a specified period after they are implemented

The following table lists the provincial authorities which regulate automobile insurance rates. For the year ended December 31, 2019, automobile direct written premium in these provinces comprised 45.4% (2018 - 44.8%) of the Company's total direct written premiums during the year.

Jurisdiction	Regulatory authority	Regulatory process
Alberta	Alberta Automobile Insurance Rate Board	File and approve
Newfoundland and Labrador	Public Utilities Board	File and use or file and approve
New Brunswick	New Brunswick Insurance Board	File and approve
Nova Scotia	Nova Scotia Utility and Review Board	File and use or file and approve
Ontario	Financial Services Regulatory Authority	File and use
Prince Edward Island	Island Regulatory and Appeals Commission	File and use
Quebec	Authorite des Marches Financiers	Use and file

Corporate directory

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SHARE LISTINGS
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Gilles Colbert
Collette Robertson

Member organizations

The membership of The Co-operators Group Limited consists primarily of co-operative organizations, credit union centrals and representative farm organizations.

Alberta
> Alberta Federation of Agriculture
> Alberta Federation of Rural Electrification Associations
> Credit Union Central Alberta Limited
> Federation of Alberta Gas Co-ops Ltd.
> UFA Co-operative Limited

Atlantic
> Amalgamated Dairies Limited
> Atlantic Central
> Atlantic Retail Co-operatives Federation
> Canadian Worker Co-operative Federation†
> Newfoundland-Labrador Federation of Co-operatives
> Northumberland Cooperative Limited
> Scotian Gold Cooperative Limited
> UNI Coopération Financière

British Columbia
> Agrifoods International Cooperative Limited†
> BC Agriculture Council
> BC Tree Fruits Cooperative
> Central 1 Credit Union†
> Modo Co-operative
> Mountain Equipment Co-op†
> PBC Health Benefits Society
> Realize Strategies Co-op

Manitoba
> Arctic Co-operatives Limited
> Caisse Populaire Groupe Financier Ltée
> Credit Union Central of Manitoba Limited
> Granny's Poultry Cooperative (Manitoba) Ltd.
> Keystone Agricultural Producers

Ontario
> Caisse Populaire Alliance Limitée
> Co-operative Housing Federation of Canada†
> Gay Lea Foods Co-operative Limited
> GROWMARK, Inc.
> Ontario Federation of Agriculture
> Ontario Organic Farmers Co-operative Inc.
> St-Albert Cheese Co-operative Inc.
> United Steelworkers – District 6†

Quebec
> Fédération des coopératives d'alimentation du Québec
> Fédération des coopératives funéraires du Québec
> Fédération québécoise des coopératives en milieu scolaire/COOPSCO
> La Coop fédérée
> La Fédération des coopératives du Nouveau-Québec
> william.coop

Saskatchewan
> Access Communications Co-operative Limited
> Agricultural Producers Association of Saskatchewan
> Credit Union Central of Saskatchewan
> Federated Co-operatives Limited†
> Regina Community Clinic

† Multi-region member

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