Co-operators General Insurance Company

Management's Discussion and Analysis

For the first quarter ended March 31, 2020

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April 28, 2020

This Management's Discussion and Analysis (MD&A) comments on Co-operators General Insurance Company's operations and financial condition for the first quarter ended March 31, 2020.

Unless otherwise stated or the context otherwise indicates, in this MD&A, "Co-operators General", "we", "us" and "our" refers to the Consolidated Co-operators General Insurance Company including its 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.

Co-operators General's parent company is Co-operators Financial Services Limited (CFSL) and its ultimate parent is The Co-operators Group Limited (CGL), a Canadian co-operative with 45 members.

The information in this MD&A should be read in conjunction with the following documents:

- our unaudited condensed consolidated interim financial statements and accompanying notes for the first quarter ended March 31, 2020; and
- our 2019 Annual Report and Annual Information Form.

These documents are available on SEDAR at www.sedar.com. References to "Note" refer to the notes to the unaudited condensed consolidated interim financial statements.

Except as otherwise noted, all figures in this MD&A are stated in Canadian dollars for the quarter ended March 31, 2020 and are based on financial statements prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting". The financial results presented in this MD&A are unaudited.

We use certain financial performance measures which do not have any standardized meaning prescribed by International Financial Reporting Standards (IFRS) and are therefore unlikely to be comparable to similar measures presented by other issuers. Such measures are defined in our 2019 Annual Report in the *Key Financial Measures (Non-IFRS)* section, or in the same section in this document when disclosed for the first time.

The information in this MD&A 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, including negative growth, the impact of changes in governmental regulation on our company, possible changes in our expense levels, changes in tax laws, anticipated benefits of acquisitions and dispositions, and the impact of the COVID-19 pandemic on our operations and financial position.

With respect to forward-looking statements and information contained in this MD&A, we have made assumptions regarding, among other things: growth rates including negative growth 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, impacts of regulation and tax laws by the Canadian and provincial governments or their agencies, and the occurrence of and response to public health crises including the COVID-19 pandemic and their impact on our investments, operations and claims. Some of the assumptions we have made are described in our 2019 Annual Report.

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: the impact of the COVID-19 pandemic on our investments, operations and claims materially and negatively affecting the results of our operations and financial position; 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. For further information, please refer to our 2019 Annual Report, which outlines in detail certain key factors that may affect our future results. 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.

COVID-19 PANDEMIC

An outbreak of a strain of coronavirus, identified as "COVID-19" was declared a global pandemic by the World Health Organization on March 11, 2020. In response, many countries have required organizations to limit or suspend business operations and implement travel restrictions and quarantine measures. These measures have disrupted the activities of many organizations. Although the operations of Co-operators General are considered essential under the laws of the provinces in which it operates, the uncertain economic environment has resulted in significant losses recognized on our invested asset portfolio and has impacted our claims development. While the full duration and impact of the COVID-19 pandemic is not known at this time, we continue to closely monitor the evolving situation and have considered its impacts on our operations and financial condition in this MD&A and related condensed consolidated interim financial statements.

SUMMARY OF KEY FINANCIAL DATA AND RESULTS OVERVIEW

Three months ended March 31 unless otherwise stated

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

1st quarter	2020	2019	2018[4]
Key financial data[3]			
Direct written premium (DWP)	**829.2**	757.6	599.7
Net earned premium (NEP)	**872.5**	763.0	658.1
Net income (loss)	**(48.9)**	21.8	(27.8)
Total assets[1]	**7,167.8**	7,488.0	6,698.7
Total liabilities[1]	**5,418.4**	5,640.7	5,048.8
Shareholders' equity[1]	**1,749.4**	1,847.3	1,649.9
Key success indicators[3]			
Direct written premium growth	**9.5%**	26.3%	11.0%
Net earned premium growth	**14.4%**	15.9%	8.0%
Underwriting income (loss) - excluding market yield adjustment (MYA)	**49.8**	(33.4)	(49.9)
Earnings (loss) per common share (EPS)[2]	**($1.88)**	$0.84	($1.35)
Return on equity (ROE)	**(11.3%)**	5.7%	(7.7%)
Combined ratio - excluding MYA	**94.3%**	104.4%	107.5%
Combined ratio - including MYA	**96.0%**	106.8%	107.0%
Minimum Capital Test (MCT)[1]	**204%**	209%	208%

[1] Balance sheet data and MCT results for 2019 and 2018 are as at December 31

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

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

[4] Amounts presented exclude the results of operations and the balance sheet of CUMIS General prior to the date of acquisition, April 1, 2018. The balance sheet and MCT metrics presented as at December 31, 2018 include the results of operations and balance sheet of CUMIS General.

Co-operators General reported a net loss after tax of $48.9 million for the three months ended March 31, 2020, as compared to net income of $21.8 million in the same quarter of 2019. Our return on equity for the quarter was (11.3%) versus 5.7% in the first quarter of 2019. Loss per common share in the quarter was $1.88 compared to earnings per common share of $0.84 in the same quarter of the prior year.

Excluding the market yield adjustment (MYA), Co-operators General reported underwriting income of $49.8 million for the first quarter of 2020, in contrast to an underwriting loss of $33.4 million in the same quarter of 2019. This was the result of premium growth attributed to higher average premiums and to a lesser extent, lower frequency of auto claims. Premium growth and lower frequency of claims also led to an improvement in our loss ratio, excluding MYA, by 8.7 percentage points. The MYA drove a $14.8 million unfavourable impact to our net claims and adjustment expenses as a result of a decrease in the discount rate used to measure our claims liabilities.

Net investment income and losses totalled $100.3 million for the quarter, a decrease of $177.2 million compared to the same quarter in the prior year. This movement was the result of significant volatility in global financial markets driven by the onset of the COVID-19 pandemic.

FINANCIAL PERFORMANCE

DIRECT WRITTEN PREMIUM AND NET EARNED PREMIUM

$ millions	Q1 2020	Q1 2019	% change
Direct written premium	**829.2**	757.6	9.5%
Net earned premium	**872.5**	763.0	14.4%

In the first quarter, DWP increased by 9.5% to $829.2 million compared to the same quarter of 2019. The increase in DWP was attributable to rate adjustments across the auto and home lines of business, particularly in Ontario. NEP increased during the first quarter by 14.4% compared to the same quarter last year. The increase in NEP was attributed to rate adjustments across all geographic regions and lines of business, except for the travel and other product line.

Refer to Note 13 of our unaudited condensed consolidated interim financial statements for the period ended March 31, 2020 for a reconciliation of DWP to NEP.

NEP by line of business

$ millions	Q1 2020	Q1 2019	% change
Auto	**427.1**	369.2	15.7%
Home	**237.8**	213.0	11.6%
Commercial	**152.1**	126.4	20.3%
Farm	**37.1**	34.2	8.5%
Travel and other	**18.4**	20.2	(8.9%)
Total	**872.5**	763.0	14.4%

Auto continues to be the largest contributor to NEP, increasing by 15.7% over the same quarter in 2019. This increase was driven by rate adjustments, particularly in Ontario and the West, as underwriting strategies to achieve sustainable premium growth have begun to materialize. NEP increased in the home and commercial lines of business by 11.6% and 20.3% respectively, over the same quarter of 2019. This growth was attributable to rate adjustments from higher renewal premiums, concentrated in Ontario and the West. The farm line of business saw an increase in NEP of 8.5% over the same quarter of 2019, driven by higher average premium concentrated in the West. The travel and other line of business saw a decrease in NEP of 8.9% over the same quarter of 2019 as a result of the loss of several large client accounts and partner terminations to return the portfolio to profitability.

NEP by geographic region

$ millions	Q1 2020	Q1 2019	% change
West	**301.0**	273.6	10.0%
Ontario	**442.7**	381.0	16.2%
Quebec	**47.4**	36.1	31.3%
Atlantic	**81.4**	72.3	12.6%
Total	**872.5**	763.0	14.4%

During the first quarter, NEP in the West grew by 10.0% compared to the same quarter of 2019 and was driven by rate adjustments within the auto and home lines of business. NEP increased in Ontario by 16.2% over the same quarter of 2019 as a result of higher average premiums in the auto and home lines of business. Rate adjustments in the commercial and auto lines of business drove NEP growth of 31.3% in Quebec, while the Atlantic region saw a NEP increase of 12.6% driven by higher average premiums in the auto and home lines of business.

NET INVESTMENT INCOME AND GAINS / (LOSSES)

$ millions	Q1 2020	Q1 2019	change
Interest income	**24.8**	23.7	1.1
Dividend and other income	**13.3**	15.4	(2.1)
Investment expenses	**(2.0)**	(1.5)	(0.5)
Net investment income	**36.1**	37.6	(1.5)
Net realized gains	**5.2**	28.3	(23.1)
Net foreign exchange gains (losses)	**(23.2)**	5.1	(28.3)
Change in fair value	**(100.7)**	7.3	(108.0)
Impairment losses	**(17.7)**	(1.4)	(16.3)
Net investment gains (losses)	**(136.4)**	39.3	(175.7)
Net investment income and gains (losses)	**(100.3)**	76.9	(177.2)

The uncertain economic and political environment caused by the COVID-19 pandemic has led to a decline in our invested asset portfolio. Net investment income and losses of $100.3 million were recognized in the current period and represents a $177.2 million unfavourable change from the first quarter of 2019.

Net investment income earned in the current period remained consistent with the income earned from the comparative period of the prior year.

Net investment losses of $136.4 million in the current period were mainly driven by an unfavourable $100.7 million change in the fair value of our equity and fixed income portfolios from the first quarter in 2019, resulting from significant volatility in the global equity markets and widening corporate spreads during the current period, in contrast with tightening spreads in the comparative quarter of 2019. Net foreign exchange losses of $23.2 million contributed to the overall loss by a lesser extent and were the result of the weakening in the Canadian dollar versus U.S. dollar in the period. Weakness in the global financial markets also led to the recognition of impairment losses in our equity portfolio of $17.7 million.

OTHER COMPREHENSIVE INCOME

$ millions	Q1 2020	Q1 2019
Other comprehensive income (loss)	**(49.2)**	95.3

Other comprehensive loss of $49.2 million was recorded in the current period, an unfavourable change of $144.5 million from the comparative quarter in 2019. The unfavourable change is largely attributed to unrealized common share losses of $124.8 million, the result of significant weakness in the global equity market caused by the COVID-19 pandemic. These losses were partially offset by reclassification adjustments to the consolidated statements of income of $6.0 million, resulting from the sale of bonds and common shares, as well as actuarial gains of $8.0 million after tax, arising from an update in the discount rate used to value our post-retirement benefit plans obligation.

EXPENSES

Claims and adjustment expenses – Loss ratio

$ millions, except ratios	Q1 2020	Q1 2019	change
Undiscounted net claims and adjustment expenses	**551.3**	548.5	2.8
Effect of MYA	**14.8**	18.6	(3.8)
Net claims and adjustment expenses	**566.1**	567.1	(1.0)
Loss ratio (excluding MYA)	**63.2%**	71.9%	(8.7) pts
Loss ratio (including MYA)	**64.9%**	74.3%	(9.4) pts

Undiscounted net claims and adjustment expenses remained consistent with the comparative quarter of 2019. The current period saw an increased frequency of travel interruption claims and an increased severity of claims in the Atlantic region, the result of storm activity. This impact was largely offset by a decrease in the frequency of current accident year claims in the home, commercial and farm lines of business. Our loss ratio, excluding MYA, improved by 8.7 percentage points over the comparative quarter, primarily the result of premium growth and favourable claims development during the period.

Unpaid claims and adjustment expenses are discounted using the portfolio yield of the bond and commercial mortgage assets which back insurance contract liabilities. This rate represents the Government of Canada 5-year bond rate plus a credit spread. Rate reductions announced by the Bank of Canada in March 2020 resulted in a decrease to the discount rate used and ultimately drove a negative impact to MYA, increasing net claims and adjustment expenses by $14.8 million in the first quarter of 2020.

Loss ratio by line of business

% excluding MYA	**Q1 2020**	Q1 2019	change	
Auto	**77.4**	85.8	(8.4)	
Home	**46.5**	58.4	(11.9)	
Commercial	**54.8**	63.2	(8.4)	
Farm	**47.6**	60.4	(12.8)	
Travel and other	**49.1**	33.2	15.9	
Total	**63.2**	71.9	(8.7)	pts

The first quarter saw an improvement in the loss ratio across all lines of business except travel and other. An increase in travel interruption claims from government-mandated travel restrictions, combined with a decrease in premium from the loss of several large client accounts, led to a decline in the travel and other loss ratio by 15.9 percentage points as compared to the same quarter of 2019.

The auto line of business loss ratio improved by 8.4 percentage points over the same period last year, as NEP growth outpaced unfavourable development on prior accident year claims. Lower frequency of current year accident claims across all regions, coupled with lower severity in Ontario, combined with premium growth, led to an improvement in the home loss ratio by 11.9 percentage points over the comparative quarter in 2019. The commercial line of business experienced a decrease in the frequency of current accident year claims compared to the same quarter of the prior year, most notably in Ontario and the West. The favourable claims variance, coupled with commercial business growth, contributed to a loss ratio improvement of 8.4 percentage points. NEP growth and a decrease in the frequency and severity of current accident year claims led to an improvement in the farm loss ratio of 12.8 percentage points compared to the first quarter of 2019.

Loss ratio by geographic region

% excluding MYA	**Q1 2020**	Q1 2019	change	
West	**54.3**	59.0	(4.7)	
Ontario	**66.7**	79.5	(12.8)	
Quebec	**60.9**	83.1	(22.2)	
Atlantic	**78.2**	75.3	2.9	
Total	**63.2**	71.9	(8.7)	pts

There was an improvement in the loss ratio across all geographic locations except for the Atlantic where higher major event losses from storm activity and unfavourable development on prior accident year claims resulted in a decline in the loss ratio by 2.9 percentage points.

In the West, decreases in the frequency and severity of current accident year claims coupled with NEP growth for the farm line of business drove an improvement of 4.7 percentage points to the loss ratio. Improvement in Ontario's loss ratio of 12.8 percentage points was driven by lower current accident year claims for the home line of business, partially offset by an increase in unfavourable claims development of prior accident year claims in the auto line of business. The loss ratio improvement of 22.2 percentage points in Quebec was the result of NEP growth in the auto and commercial lines of business, and to a lesser extent, lower frequency in current accident year claims in the home and commercial lines of business.

Other operating expenses – Expense ratio

%, except total other operating expenses ($ millions)	Q1 2020	Q1 2019	change	
Total other operating expenses	**271.4**	247.9	23.5	
Components of expense ratio				
Premium and other taxes	**3.4**	3.4	-	pts
Net commissions and advisor compensation	**16.4**	17.6	(1.2)	pts
General expenses	**11.3**	11.5	(0.2)	pts
Expense ratio	**31.1**	32.5	(1.4)	pts

Other operating expenses are comprised of premium and other taxes, net commissions, advisor compensation and general expenses. During the current period, the expense ratio improved by 1.4 percentage points to 31.1% from the comparative quarter in 2019. This improvement was primarily the result of NEP growth outpacing increases in other operating expenses. Other operating expenses rose by $23.5 million in the current period and was driven by increased expenses related to premium and other taxes as well as net commissions and advisor compensation, in line with premium growth. Partially offsetting the increase was a reduction in the advisor transition obligation due to changes in the discount rate; widening corporate credit spreads at the end of the quarter resulted in a higher discount rate used to value the liability.

Income taxes

Refer to Note 8 of our unaudited condensed consolidated interim financial statements for the period ended March 31, 2020 for our income tax reconciliation between the statutory tax rate and our effective tax rate.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

$ millions	As at March 31, 2020	As at December 31, 2019	% change
Assets			
Invested assets	**5,077.9**	5,327.2	(4.7%)
Reinsurance ceded contracts	**168.8**	163.7	3.1%
Intangible assets	**104.0**	104.0	0.0%
Other assets	**1,817.1**	1,893.1	(4.0%)
Liabilities			
Insurance contracts	**4,862.3**	4,909.2	(1.0%)
Retirement benefit obligations	**118.7**	128.7	(7.8%)
Other liabilities	**437.4**	602.8	(27.4%)
Shareholders' equity	**1,749.4**	1,847.3	(5.3%)

Despite significant losses in the global financial markets negatively impacting the value of our invested assets, our balance sheet and capital position remain strong at the end of the first quarter of 2020. We continue to closely monitor our liquidity and capital positions to continue to serve the needs of our clients while also supporting our strategic areas of focus in this period of economic uncertainty.

The value of our invested assets exceeds insurance contracts net of reinsurance ceded contracts by 8.2%, compared to an excess of 12.3% as at December 31, 2019. Our MCT ratio of 204% at March 31, 2020, which is well above our internal minimum of 175%, also denotes our strong financial condition.

Invested assets decreased by $249.3 million, the result of significant volatility in the global equity markets, while insurance contract liabilities decreased by $46.9 million, and is attributed to the seasonality of premiums received. In addition, the timing of payments made for trade payables and fluctuations in premium and other taxes, which are in line with the seasonality of premiums written, contributed to a decrease in other liabilities of $165.4 million.

Our 2019 Annual Report provides a summary of our off-balance sheet arrangements and contractual commitments.

INVESTED ASSETS

Co-operators General has a high quality, well diversified investment portfolio consisting primarily of high-quality bonds, equities, and commercial mortgages. The bond portfolio is $2,887.6 million or 56.9% 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 equity portfolio makes up $1,100.5 million or 21.7% of our total invested assets and consists largely of publicly traded common and preferred stocks diversified by industry sector and issuer. Our equity portfolio is 86.0% weighted to Canadian stocks.

We adhere to a conservative investment policy and strategy that is based on prudence in accordance with regulatory guidelines, and in a broad sense, premium cash flows and claims settlement patterns by product line. 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 87.1% rated A or higher and 97.0% of our bonds are considered investment grade, rated BBB or higher, and is consistent with the credit quality of our portfolio in the prior period. We continue to closely monitor the evolving situation and actively manage our financial risk management policies in response to the COVID-19 pandemic. For more details around our financial risk management policies, please refer to Note 6 in our 2019 Annual Report.

MINIMUM CAPITAL TEST

	March 31, 2020	December 31, 2019
MCT	**204%**	209%

Co-operators General's MCT of 204% at March 31, 2020 remains strong and represents $221.9 million of capital in excess of our 175% internal minimum. During the first quarter of 2020, we revised our internal minimum from 180% to 175%. This was an outcome of the annual risk profile assessment we complete as part of the Own Risk and Solvency Assessment (ORSA) process. The MCT is impacted by various factors including interest rates, invested asset mix, dividend payments, and the results of our operations.

SHARE CAPITAL

Our capital includes Class E, Series C Preference Shares, which trade on the Toronto Stock Exchange (TSX) under the trading symbol CCS.PR.C.

DIVIDENDS

Dividends declared on preference shares were $1.3 million in the first quarter ended March 31, 2020, compared to $1.3 million declared in the same quarter last year. There were no dividends declared on common shares during the quarter ended March 31, 2020, or for the comparative period ended March 31, 2019.

EARNINGS PER SHARE

$ millions, except share data and EPS	Q1 2020	Q1 2019
Net income (loss)	**(48.9)**	21.8
Less: dividends on preference shares	**1.3**	1.3
Net income (loss) available to shareholders	**(50.2)**	20.5
Weighted average number of outstanding common shares[1]	**26,620**	24,500
Earnings (loss) per common share	**($1.88)**	$0.84

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

CASH FLOWS

$ millions	Q1 2020	Q1 2019
Cash provided by (used in) operating activities	**(40.8)**	47.3
Investing activities		
Net sales of investments	**42.6**	31.0
Purchases of intangibles & property and equipment	**(1.2)**	(7.2)
Cash flows provided by investment activities	**41.4**	23.8
Financing activities		
Net preference shares issued (redeemed)	**1.0**	(4.4)
Dividends paid	**(4.0)**	(4.0)
Lease liabilities paid	**(2.6)**	(2.6)
Cash flows used in financing activities	**(5.6)**	(11.0)
Net increase (decrease) in cash and cash equivalents	**(5.0)**	60.1

Cash generated from insurance operations and investment returns normally exceeds our claims and operating expense requirements, and sufficiently funds our commitments and growth initiatives. We continue to monitor our cashflow closely in light of the hardening economic conditions faced from the COVID-19 pandemic.

KEY FINANCIAL MEASURES (NON-IFRS)

We measure and evaluate the performance of the consolidated operations using a number of 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. Detailed definitions of the measures used can be found within the *Key Financial Measures (Non-IFRS)* section of our 2019 Annual Report.

UNDERWRITING RESULTS

$ millions, except ratios	Q1 2020	Q1 2019
Net earned premium, as reported	**872.5**	763.0
Undiscounted net claims and adjustment expenses (excluding MYA)	**551.3**	548.5
Loss ratio (excluding MYA)	**63.2%**	71.9%
Other operating expenses	**271.4**	247.9
Expense ratio	**31.1%**	32.5%
Underwriting income (loss)	**49.8**	(33.4)
Combined ratio (excluding MYA)	**94.3%**	104.4%

CLAIMS DEVELOPMENT

Co-operators General continues to monitor and assess claims development, especially as it relates to the uncertainty brought forward by the COVID-19 pandemic. Given the many unknowns related to COVID-19, it is too soon to gauge the full impact of the outbreak on our claims and adjustment expenses. As at March 31, 2020, we have estimated an additional $12.9 million impact to our net claims and adjustment expenses for the quarter. As time progresses, we expect claims development to be impacted by, but not limited to, the following: reduced frequency of auto claims driven by physical distancing measures; inflationary costs due to delays in construction projects, shortage of labour and supply chain disruptions; increased business interruption claims; and a considerable increase in the frequency of travel interruption claims.

Our 2019 Annual Report provides a summary of our unpaid claims and adjustment expense provision and revised estimates of prior year net unpaid claims and adjustment expense provisions relative to their original valuation as at December 31.

RETURN ON EQUITY

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

$ millions, except ratios	Q1 2020	Q1 2019
Net income (loss)	**(48.9)**	21.8
Shareholders' equity excluding AOCI at March 31	**1,626.3**	1,576.4
Shareholders' equity excluding AOCI at December 31 of prior year	**1,675.0**	1,559.5
ROE	**(11.3%)**	5.7%

SELECTED QUARTERLY INFORMATION

(in millions of dollars except for EPS and ratios)

	2020 1st qtr	2019 4th qtr	2019 3rd qtr	2019 2nd qtr	2019 1st qtr
Direct written premium	**829.2**	945.3	999.7	1,049.8	757.6
Net earned premium	**872.5**	866.5	840.6	804.6	763.0
Net income (loss)	**(48.9)**	60.7	12.4	79.1	21.8
Other comprehensive income (loss)	**(49.2)**	(25.1)	14.7	(3.0)	95.3
Key statistics					
Earnings (loss) per common share	**($1.88)**	$2.30	$0.42	$2.84	$0.84
Loss ratio (excluding MYA)	**63.2%**	64.5%	70.8%	62.3%	71.9%
Expense ratio	**31.1%**	32.7%	32.2%	33.1%	32.5%
Combined ratio	**94.3%**	97.3%	103.0%	95.4%	104.4%

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

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

The quarterly results reflect the seasonality of our business. Premiums are generally written in annual renewal cycles, 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 and severe weather events. Results are also affected by 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.

OUTLOOK, BUSINESS DEVELOPMENTS AND OPERATING ENVIRONMENT

GENERAL BUSINESS AND ECONOMIC CONDITIONS

As the new decade began, many economic indicators had pointed to slower growth for the global economy, with North American economies expanding close to their long-term potential. In Canada and the United States, the labour market was sound, leading to strong job creation, a decline in the unemployment rate and increases in wages. The US Federal Reserve had announced at the end of 2019 that it would cease easing monetary policy and that economic growth and financial markets in 2020 would respond favourably. However, the rapid emergence of COVID-19 that began in China in late 2019 had became a full-fledged pandemic, as declared by the World Health Organization, on March 11, 2020.

In response to the outbreak, governments worldwide had quickly taken measures to reduce the spread of the virus, which led to an overall shutdown of economic activity in many industries. To protect the functioning of financial markets, the Bank of Canada, along with most major central banks, brought policy rates close to 0%. Accordingly, the Canadian central bank had reduced the overnight funding rate to 0.25%.

Up until early March, economic indicators for Canada and the United States had been showing little sign of deterioration. However, unemployment rates for March in Canada and in the United States increased sharply from 5.6% to 7.8% and 3.5% to 4.4%, respectively, as the number of employed persons declined by one million and close to three million, respectively. We expect the second quarter will confirm higher unemployment rates and a significant shrinking of output. Further, while we also believe government programs to preserve most of the economy's production capacity will be successful and for employment to gradually recover, we expect an overall deterioration of economic output for the year. Accordingly, we anticipate negative 3% growth for Canada and negative 1.8% growth for the United States in 2020. In this context, monetary policy rates are likely to remain anchored at these low levels. We do not expect to see employment growth return to their pre-pandemic levels until the pandemic is largely contained and restrictive measures begin to lift.

PROPERTY AND CASUALTY INDUSTRY

The onset of the COVID-19 pandemic in Canada presents a significant threat to many businesses in Canada, including those in the financial services industry. In response, The Co-operators instituted its Business Continuity Plan to address the immediate effects of the pandemic. To prioritize the safety of our clients and employees, we have made temporary changes to support physical distancing and to do our part to help prevent the spread of COVID-19. As a result, all our locations have been temporarily closed and virtually all our employees have moved to work from home remotely. Our advisor network continues to serve clients remotely which remains a top focus for our organization.

At this time, the eventual business and financial impact of the COVID-19 crisis on our operations are far from clear. However, we expect our claims will be affected by a number of factors resulting from the pandemic (see "Claims Development") and our investments to be impacted by any continued volatility in the global equity markets, downgrades of the credit ratings of issuers, and widening corporate spreads during the current period (see "Net Investment Income and Gains/Losses"). Given the many unknowns related to the pandemic, it is too soon to gauge the full impact on our claims and investments. What is clear, however, is our ongoing commitment to The Co-operators' mission: financial security for Canadians and their communities. 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). We continue to strive to enhance and protect the financial security of our members and clients, the resiliency of our communities, and the social well-being of Canadians.

As part of our commitment to provide financial security for Canadians and their communities, we have instituted a number of changes which include, but are not limited to, rate relief and payment deferral, to support our clients and members as they navigate the new economic realities driven by COVID-19. Please visit www.cooperators.ca for further details.

EMERGING LEGISLATION AND REGULATORY EVENTS

Emerging legislation and regulatory events are detailed in our 2019 Annual Report and an update is provided below:

Auto insurance emergency relief measures

In response to the COVID-19 pandemic, we have worked with regulatory bodies in all jurisdictions to introduce automobile emergency relief measures for our clients including payment relief, premium relief, and our reduced driving discount.

Ontario auto

Auto insurance is heavily regulated by the Financial Services Regulatory Authority of Ontario (FSRA). FSRA administers the Insurance Act 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 current issues is as follows:

Financial Services Regulatory Authority

We continue to engage with FSRA, participating on several advisory committees related to property and casualty insurance. The business of these committees has been deferred for the time being, to allow all parties to focus on the evolving situation as it relates to COVID-19.

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.

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 recently shared our reform recommendation with the government-appointed auto insurance advisory committee and expect its final report will be released in the coming months. Legislative changes have not yet been introduced.

RELATED PARTY TRANSACTIONS

Co-operators General has ongoing transactions with related parties primarily consisting of product distribution services, management advisory services and reinsurance. There have been no material changes in our ongoing related party transaction arrangements during the period ended March 31, 2020. Please refer to our 2019 Annual Report for further details.

RISK MANAGEMENT

Effective risk management is vital to making sound business decisions. In our on-going efforts to optimize the organizational risk profile against our risk appetite, we have identified and continuously assess key risks relative to their potential impact on our corporate strategy, competitive position, operational results and financial condition. Risks, and the practices used to manage risk, are discussed in our 2019 Annual Report and an update is included below.

In response to the COVID-19 pandemic, Co-operators General has activated its Business Continuity Plan, which, among other management protocols, involves the suspension of all work travel, and a mandatory work from home policy to implement physical distancing guidelines in accordance with federal and provincial public health agencies. In response to a work from home posture, we have deployed additional technology resources to strengthen cyber security and operational resiliency and we continue to maintain all critical functions required to continue business for the foreseeable future. Management is continually monitoring and assessing the potential impact to the business, operations and capital resources under a number of different scenarios. As our environment has changed and continues to evolve, we have put in place new processes and structures to enable us to effectively manage the current situation and have the appropriate velocity of decision making.

For 2020, in line with a change in our assessment of our risk exposure, our catastrophe maximum limit increased by $50.0 million to $1.45 billion while our retention remains at $70.0 million. The net retained amount of $70.0 million represents approximately 4.3% of our capital. For the purpose of capital management, we define capital as shareholders' equity excluding AOCI.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for maintaining adequate internal controls 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.

The COVID-19 pandemic has impacted staff throughout the organization. As a result, high risk internal controls over financial reporting have been tested and there are no changes to our high risk internal controls over financial reporting during the first quarter of 2020 that have materially affected, or are reasonably likely to materially affect internal controls over financial reporting.

OTHER ACCOUNTING MATTERS

ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting”. The unaudited condensed consolidated interim financial statements should be read in conjunction with our 2019 Annual Report.

The accounting policies used in our first quarter unaudited condensed consolidated interim financial statements are consistent with those applied in our audited consolidated financial statements for the year ended December 31, 2019. IFRS future accounting pronouncements, as well as their estimated impact, are described in Note 4 of our audited consolidated financial statements for the year ended December 31, 2019, with the following exception noted below.

In March 2020, the IASB voted in favour of delaying the effective date of IFRS 17, “Insurance Contracts” and IFRS 9, “Financial Instruments” from annual reporting periods beginning on or after January 1, 2022 to January 1, 2023. Co-operators General is currently evaluating the impact that this standard will have on its consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of our unaudited condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statement and the reported amounts of revenues and expenses during the period. The preparation of our unaudited condensed consolidated interim financial statements also requires management to exercise its judgment in the process of applying our 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 2019 Annual Report within the notes for the respective account balances, with specific updates to assess the impact of the COVID-19 pandemic for certain account balances in our unaudited condensed consolidated interim financial statements and accompanying notes for the first quarter ended March 31, 2020.

As discussed in our 2019 Annual Report, we make estimates for the amount of unpaid claims and timing of future claims based on assumptions that reflect the expected set of economic conditions and planned course of actions. 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 cost of the claims incurred but not yet reported, a value which can take years to determine. We acknowledge there is heightened uncertainty in the assumptions and estimates discussed above as they relate to the ongoing COVID-19 pandemic. We have included in our valuation of insurance contract liabilities the risks and data available on individual claims that have been impacted by COVID-19 and have updated the estimates and assumptions that are expected to be impacted by COVID-19. We continue to closely monitor and actively manage our insurance risk management policies as well as financial risk management policies as outlined our 2019 Annual Report.

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