Co-operators General Insurance Company

Management's Discussion and Analysis

For the second quarter ended June 30, 2020

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This Management's Discussion and Analysis (MD&A) comments on Co-operators General Insurance Company's operations and financial condition for the second quarter ended June 30, 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 46 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 second quarter ended June 30, 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 June 30, 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. During the current period, jurisdictions in Canada have begun to ease restrictions and tabled pathways to re-open local economies. Co-operators General has successfully implemented a new business-as-usual posture in response to the new realities of the current operating environment, including enhancing connections with our online tools while still meeting client needs. However, considerable uncertainty remains. There continues to be significant volatility of our invested asset portfolio and our claims development has been impacted. 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.

To assist our clients in these challenging times, Co-operators General announced various support measures, including auto premium relief and flexible payment options, in the current period. Our Reduced Driving Refund, which provides a 15% refund on eligible auto premiums paid between April 1 to May 31, is expected to impact premium levels in the second and future quarters by more than $35 million. The final amounts and timing of the support measures provided are dependent on client eligibility and preferences, the length of the lockdown, and the results of the company's operations during the period, which will become known later in the year.

SUMMARY OF KEY FINANCIAL DATA AND RESULTS OVERVIEW

Three months ended June 30 unless otherwise stated

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

2nd quarter	2020	2019	2018
Key financial data[3]			
Direct written premium (DWP)	**1,016.3**	1,049.8	941.7
Net earned premium (NEP)	**836.9**	804.6	717.4
Net income (loss)	**47.9**	79.1	(4.0)
Total assets[1]	**7,736.1**	7,488.0	6,698.7
Total liabilities[1]	**5,853.8**	5,640.7	5,048.8
Shareholders' equity[1]	**1,882.3**	1,847.3	1,649.9
Key success indicators[3]			
Direct written premium growth	**(3.2%)**	11.5%	22.5%
Net earned premium growth	**4.0%**	12.2%	14.1%
Underwriting income (loss) - excluding market yield adjustment (MYA)	**(33.6)**	36.8	(55.8)
Earnings (loss) per common share (EPS)[2]	**$1.65**	$2.84	($0.35)
Return on equity (ROE)	**12.1%**	21.1%	(1.1%)
Combined ratio - excluding MYA	**104.0%**	95.4%	107.8%
Combined ratio - including MYA	**109.1%**	97.1%	107.5%
Minimum Capital Test (MCT)[1]	**210%**	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

Co-operators General reported net income after tax of $47.9 million for the three months ended June 30, 2020, as compared to net income of $79.1 million in the same quarter of 2019. Our return on equity for the quarter was 12.1% versus 21.1% in the second quarter of 2019. Earnings per common share in the quarter was $1.65 compared to earnings per common share of $2.84 in the same quarter of the prior year.

Excluding the market yield adjustment (MYA), Co-operators General reported an underwriting loss of $33.6 million for the second quarter of 2020, in contrast to an underwriting income of $36.8 million in the same quarter of 2019. This was mainly the result of two catastrophic events in Fort McMurray, Alberta and Calgary, Alberta, which had a combined impact to net income before taxes of $115.8 million, net of reinsurance and inclusive of reinsurance reinstatement premiums. As a result, our loss ratio, excluding MYA, deteriorated by 9.2 percentage points.

Excluding these impacts and the MYA, our underwriting result was an income of $82.2 million, a $45.4 million increase as compared to the same quarter of 2019. This was due to a lower frequency of current accident year claims in our auto line of business, coupled with a lower frequency and severity of current accident year claims in our home line of business. In addition, underwriting performance was positively impacted by premium growth attributed to higher average premiums and to a lesser extent, an increase in policies in force. Partially offsetting this growth was the impact of the Reduced Driving Refund in the amount of $35.5 million. The MYA drove a $42.6 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 gains totalled $135.1 million for the quarter, an increase of $57.9 million compared to the same quarter in the prior year. The increase in net investment income and gains was driven by strong performance in the equity markets this quarter, the result of fiscal and monetary stimulus measures enacted to ease the recent volatility in global financial markets driven by the onset of the COVID-19 pandemic.

FINANCIAL PERFORMANCE

DIRECT WRITTEN PREMIUM AND NET EARNED PREMIUM

$ millions	Q2 2020	Q2 2019	% change	YTD 2020	YTD 2019	% change
Direct written premium	**1,016.3**	1,049.8	(3.2%)	**1,845.5**	1,807.4	2.1%
Net earned premium	**836.9**	804.6	4.0%	**1,709.4**	1,567.7	9.0%

In the second quarter, DWP decreased by 3.2% to $1,016.3 million compared to the same quarter of 2019. The decrease in DWP was attributable to the Reduced Driving Refund, and to a lesser extent, a reduction in the travel line of business. These impacts were partially offset by rate adjustments across all lines of business. NEP increased during the second quarter by 4.0% to $836.9 million compared to the same quarter last year. The increase in NEP was attributed to higher average premiums across all geographic regions and lines of business and to a lesser extent, an increase in policies in force for the auto line of business.

Refer to Note 13 of our unaudited condensed consolidated interim financial statements for the period ended June 30, 2020 for a reconciliation of DWP to NEP.

NEP by line of business

$ millions	Q2 2020	Q2 2019	% change	YTD 2020	YTD 2019	% change
Auto	**397.2**	394.4	0.7%	**824.2**	763.6	7.9%
Home	**236.2**	221.6	6.6%	**474.1**	434.6	9.1%
Commercial	**147.8**	135.9	8.8%	**299.9**	262.4	14.3%
Farm	**37.2**	35.4	5.1%	**74.3**	69.6	6.8%
Travel and other	**18.5**	17.3	6.9%	**36.9**	37.5	(1.6%)
Total	**836.9**	804.6	4.0%	**1,709.4**	1,567.7	9.0%

The second quarter NEP for the auto line of business grew slightly by 0.7% over the prior period. Excluding the impacts of the Reduced Driving Refund, NEP for the auto line of business increased by 9.7% over the same quarter in 2019. This increase was driven by higher average premiums, and to a lesser extent, growth in vehicles in force in the Ontario and Quebec regions. NEP increased in the home and commercial lines of business by 6.6% and 8.8%, respectively, over the same quarter of 2019. This growth was attributable to higher average premiums from renewals and was concentrated in Ontario and the West. The farm line of business saw an increase in NEP of 5.1% over the same quarter of 2019, driven by higher average premium across all regions. The travel and other line of business saw an increase in NEP of 6.9% over the same quarter of 2019 and was primarily due to an increase in policies in force for specialized equipment coverage. This was partially offset by a decrease in travel premiums due to strategic management actions to return the portfolio to profitability and to a lesser extent, lower travel activity due to restrictions resulting from COVID-19.

NEP by geographic region

$ millions	Q2 2020	Q2 2019	% change	YTD 2020	YTD 2019	% change
West	**287.0**	286.7	0.1%	**588.0**	560.3	4.9%
Ontario	**423.9**	404.8	4.7%	**866.6**	785.8	10.3%
Quebec	**45.9**	37.6	22.1%	**93.3**	73.8	26.4%
Atlantic	**80.1**	75.5	6.1%	**161.5**	147.8	9.3%
Total	**836.9**	804.6	4.0%	**1,709.4**	1,567.7	9.0%

The Reduced Driving Refund in the auto line of business negatively impacted NEP in all geographic regions. Despite the impact of the Reduced Driving Refund, NEP in the West remained consistent with the comparative quarter of 2019, and increases in NEP were seen in Ontario, Quebec and the Atlantic regions over the same period. NEP in the West remained consistent as a result of higher average premiums in the commercial and farm lines of business. NEP increased in Ontario by 4.7% as a result of higher average premiums across all product lines, particularly in the home line of business. Rate adjustments and to a lesser extent, an increase in policies in force in the commercial and home lines of business, drove NEP growth of 22.1% in Quebec. The Atlantic region saw a NEP increase of 6.1% driven by higher average premiums, particularly in the home line of business.

NET INVESTMENT INCOME AND GAINS / (LOSSES)

$ millions	Q2 2020	Q2 2019	change	YTD 2020	YTD 2019	change
Interest income	**23.2**	23.4	(0.2)	**48.0**	47.1	0.9
Dividend and other income	**14.5**	19.4	(4.9)	**27.8**	34.9	(7.1)
Investment expenses	**(1.7)**	(1.5)	(0.2)	**(3.7)**	(3.1)	(0.6)
Net investment income	**36.0**	41.3	(5.3)	**72.1**	78.9	(6.8)
Net realized gains	**34.0**	40.7	(6.7)	**39.4**	69.0	(29.6)
Net foreign exchange gains (losses)	**14.2**	5.8	8.4	**(9.0)**	10.9	(19.9)
Change in fair value	**51.6**	(8.9)	60.5	**(49.2)**	(1.6)	(47.6)
Impairment losses	**(0.7)**	(1.7)	1.0	**(18.5)**	(3.1)	(15.4)
Net investment gains (losses)	**99.1**	35.9	63.2	**(37.3)**	75.2	(112.5)
Net investment income and gains	**135.1**	77.2	57.9	**34.8**	154.1	(119.3)

During the period, the Canadian and US governments and their central banks continued to provide accommodative fiscal and monetary policies to support the capital markets. As a result, the capital markets in North America experienced strong growth in the period, significantly rebounding after their market correction in March. In contrast, the performance of the capital markets in the comparative period was less favourable due to their relative stability in the period.

Accordingly, Co-operators General recorded net investment income and gains of $135.1 million in the period, a $57.9 million favourable change from the prior period. This increase was driven by unrealized gains on our preferred share portfolio, coupled with both realized and unrealized gains on our fixed income portfolio, and to a lesser extent, gains on foreign exchange contracts. This was partially offset by a decline in realized gains on our common share portfolio and lower dividend distributions in the period.

Net investment income earned in the current period decreased by $5.3 million compared to the second quarter of 2019. This was mainly the result of a special one-time dividend distribution received from a strategic investment in the prior period.

Net investment gains of $99.1 million in the current period increased by $63.2 million compared to the second quarter of 2019. This was primarily driven by a favourable $60.5 million change in the fair value of our equity and fixed income portfolios, the result of accommodative fiscal and monetary policies and tightening credit spreads in the quarter. In addition, strengthening of the Canadian dollar versus the U.S. dollar resulted in foreign exchange contract gains of $14.2 million, an increase of $8.4 million compared to the same period of 2019. This was partially offset by a decrease in realized gains of $6.7 million from the prior period, due to lower turnover of our common share portfolio.

OTHER COMPREHENSIVE INCOME

$ millions	Q2 2020	Q2 2019	YTD 2020	YTD 2019
Other comprehensive income (loss)	**88.0**	(3.0)	**38.7**	92.3

Other comprehensive income of $88.0 million was recorded in the current period, a favourable change of $91.0 million from the comparative quarter in 2019. The favourable change is largely attributed to unrealized common share and fixed income gains of $60.3 million and $72.3 million, respectively. This was due to the sharp rebound in the global equity and fixed income markets from monetary and fiscal stimulus aimed at improving economic conditions in response to COVID-19.

These gains were partially offset by reclassification adjustments to the consolidated statements of income of $25.6 million, resulting from the sale of bonds and common shares, and actuarial losses of $19.0 million 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	Q2 2020	Q2 2019	change	YTD 2020	YTD 2019	change
Undiscounted net claims and adjustment expenses	**598.2**	501.3	96.9	**1,149.5**	1,049.8	99.7
Effect of MYA	**42.6**	13.6	29.0	**57.4**	32.1	25.3
Net claims and adjustment expenses	**640.8**	514.9	125.9	**1,206.9**	1,081.9	125.0
Loss ratio (excluding MYA)	**71.5%**	62.3%	9.2 pts	**67.2%**	67.0%	0.2 pts
Loss ratio (including MYA)	**76.6%**	64.0%	12.6 pts	**70.6%**	69.0%	1.6 pts

Severe flooding in Fort McMurray, Alberta and a significant hailstorm in Calgary, Alberta drove the increase in our undiscounted net claims and adjustment expenses of $96.9 million. As a result, our loss ratio, excluding MYA, deteriorated by 9.2 percentage points over the comparative quarter. Excluding the two catastrophic events, undiscounted net claims and adjustment expenses decreased to $482.4 million in the period, an improvement of $18.9 million over the comparative quarter of 2019.

The current period saw a decrease in the frequency of current accident year claims in the auto and home lines of business. These impacts were partially offset by an increase in the frequency of travel interruption claims due to government restrictions on travel and an unfavourable change in prior accident year claims in the commercial line of business.

Unpaid claims and adjustment expenses are discounted using the portfolio yield of the bond and commercial mortgage assets backing the insurance contract liabilities, with consideration provided for the Government of Canada 5-year bond rate plus a credit spread. Tightening of credit spreads in the current period resulted in a decrease to the discount rate used and ultimately drove a negative impact to the MYA, increasing net claims and adjustment expenses by $42.6 million in the second quarter of 2020, an increase of $29.0 million from the same quarter of the prior year.

Loss ratio by line of business

% excluding MYA	Q2 2020	Q2 2019	change		YTD 2020	YTD 2019	change	
Auto	**64.7**	65.2	(0.5)		**71.3**	75.2	(3.9)	
Home	**60.5**	58.1	2.4		**53.5**	58.3	(4.8)	
Commercial	**102.7**	65.0	37.7		**78.4**	64.1	14.3	
Farm	**87.4**	58.3	29.1		**67.6**	59.4	8.2	
Travel and other	**75.6**	35.7	39.9		**62.4**	34.4	28.0	
Total	**71.5**	62.3	9.2	pts	**67.2**	67.0	0.2	pts

Compared to the same period last year, the second quarter saw a deterioration in the loss ratio across all lines of business except for the auto line of business. The catastrophic events in Fort McMurray, Alberta and Calgary, Alberta contributed to the overall loss ratio deterioration of 9.2 percentage points. Excluding the impacts of the catastrophic events, the overall loss ratio improved by 5.3 percentage points to 57.0%.

The auto line of business loss ratio remained consistent over the same period last year. An increase in current accident year claims from the impacts of the catastrophic events were offset by a lower frequency of current accident year claims across all regions, excluding the West. Increased severity of current accident year claims for the home line of business were driven entirely by the catastrophic events across the Western region, and were partially offset by strong NEP growth; this resulted in a deterioration of the loss ratio of 2.4 percentage points over the comparative quarter of 2019. The commercial line of business experienced a deterioration in the loss ratio of 37.7 percentage points and was driven entirely by the impacts of the catastrophic events; this impact was partially offset by NEP growth in the quarter. Meanwhile, the loss ratio for the farm line of business experienced a deterioration of 29.1 percentage points compared to the same quarter of 2019 due to increased severity of current year accident claims in the West from the Calgary hailstorm, and to a lesser extent, higher frequency of current accident year claims in Ontario. These impacts were partially offset by lower large loss activity compared to the prior period. The travel and other line of business loss ratio deteriorated by 39.9 percentage points compared to the same quarter of 2019 due to increased travel interruption claims from government-mandated travel restrictions.

Loss ratio by geographic region

% excluding MYA	Q2 2020	Q2 2019	change		YTD 2020	YTD 2019	change	
West	**89.7**	52.9	36.8		**71.5**	55.9	15.6	
Ontario	**63.1**	64.9	(1.8)		**64.9**	72.0	(7.1)	
Quebec	**59.1**	85.3	(26.2)		**60.0**	84.2	(24.2)	
Atlantic	**57.9**	72.2	(14.3)		**68.1**	73.7	(5.6)	
Total	**71.5**	62.3	9.2	pts	**67.2**	67.0	0.2	pts

The Western region's loss ratio experienced a deterioration of 36.8 percentage points compared to the second quarter of 2019 and was attributable to the recent catastrophic events in Fort McMurray, Alberta and Calgary, Alberta. The Western region's loss ratio, excluding the impacts of the catastrophic events, improved by 5.1 percentage points due to a decrease in frequency in current year accident claims, particularly within the auto and home lines of business. Improvement in Ontario's loss ratio of 1.8 percentage points was driven by lower current accident year claims for the auto and home lines of business, coupled with lower severity and frequency for the commercial line of business. These impacts were 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 26.2 percentage points in Quebec was the result of reduced frequency of current accident year claims from the auto and home lines of business and to a lesser extent, NEP growth in the period. This was partially offset by an increase in the severity of home and commercial claims in the region for the current period. The Atlantic region improved by 14.3 percentage points over the prior quarter, the result of reduced frequency in current accident year claims most notably in the home and auto lines of business.

Other operating expenses – Expense ratio

%, except total other operating expenses ($ millions)	**Q2 2020**	Q2 2019	change		**YTD 2020**	YTD 2019	change	
Total other operating expenses	**272.3**	266.5	5.8		**543.8**	514.4	29.4	
Components of expense ratio								
Premium and other taxes	**3.7**	3.7	-	pts	**3.6**	3.5	0.1	pts
Net commissions and advisor compensation	**18.2**	16.8	1.4	pts	**17.2**	17.2	-	pts
General expenses	**10.6**	12.6	(2.0)	pts	**11.0**	12.1	(1.1)	pts
Expense ratio	**32.5**	33.1	(0.6)	pts	**31.8**	32.8	(1.0)	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 0.6 percentage points to 32.5% from the comparative quarter in 2019. This improvement was a result of NEP growth outpacing an increase in other operating expenses in the current period.

Other operating expenses rose by $5.8 million in the second quarter as compared to the same period of the prior year, and was primarily driven by an increase in the advisor transition obligation due to changes in the discount rate from tightening corporate credit spreads experienced in the current period. In addition, premium and other taxes rose in-line with premium growth for the period. Partially offsetting these impacts were lower consulting costs and reduced travel spend in response to COVID-19.

Income taxes

Refer to Note 8 of our unaudited condensed consolidated interim financial statements for the period ended June 30, 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 June 30, 2020	As at December 31, 2019	% change
Assets			
Invested assets	**5,418.3**	5,327.2	1.7%
Reinsurance ceded contracts	**188.2**	163.7	15.0%
Intangible assets	**103.7**	104.0	(0.3%)
Other assets	**2,025.9**	1,893.1	7.0%
Liabilities			
Insurance contracts	**5,219.6**	4,909.2	6.3%
Retirement benefit obligations	**145.9**	128.7	13.4%
Other liabilities	**488.3**	602.8	(19.0%)
Shareholders' equity	**1,882.3**	1,847.3	1.9%

Despite recent economic volatility in the global financial markets, our balance sheet and capital position remain strong at the end of the second 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 uncertainty.

The value of our invested assets exceeds insurance contracts net of reinsurance ceded contracts by 7.7%, compared to an excess of 12.3% as at December 31, 2019. Our MCT ratio of 210% at June 30, 2020, which is well above our internal minimum of 175%, also denotes our strong financial condition.

Our invested assets increased by $91.1 million in line with the rebound of the global equity markets after their sharp correction in March, while our insurance contract liabilities increased by $310.4 million as a result of the Fort McMurray and Calgary catastrophic events and the seasonality of premiums received. Our other liabilities decreased by $114.4 million due to the timing of payments made for trade payables and accrued charges; premium and other taxes also fluctuate with the seasonality of premiums written.

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 $3,050.8 million or 56.3% 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 $1,219.4 million or 22.5% 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 86.5% 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 85.3% rated A or higher and 97.0% of our bonds are considered investment grade, rated BBB or higher; this 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 5 in our 2019 Annual Report.

MINIMUM CAPITAL TEST

	June 30, 2020	December 31, 2019
MCT	**210%**	209%

Co-operators General's MCT of 210% at June 30, 2020 remains strong and represents $290.5 million of capital in excess of our 175% internal minimum. 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 $4.0 million in the second quarter ended June 30, 2020, compared to $3.9 million declared in the same quarter last year. There were no dividends declared on common shares during the quarter ended June 30, 2020, or for the comparative period ended June 30, 2019.

EARNINGS PER SHARE

$ millions, except share data and EPS	Q2 2020	Q2 2019	YTD 2020	YTD 2019
Net income (loss)	**47.9**	79.1	**(1.0)**	100.9
Less: dividends on preference shares	**4.0**	3.9	**5.3**	5.1
Net income (loss) available to shareholders	**43.9**	75.2	**(6.3)**	95.8
Weighted average number of outstanding common shares[1]	**26,620**	26,515	**26,620**	24,879
Earnings (loss) per common share	**$1.65**	$2.84	**($0.24)**	$3.85

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

CASH FLOWS

$ millions	Q2 2020	Q2 2019	YTD 2020	YTD 2019
Cash provided by operating activities	**279.3**	126.3	**238.5**	173.6
Investing activities				
Net purchases of investments	**(113.5)**	(134.8)	**(70.9)**	(103.8)
Purchases of intangibles & property and equipment	**(2.3)**	(7.1)	**(3.5)**	(14.3)
Cash flows used in investment activities	**(115.8)**	(141.9)	**(74.4)**	(118.1)
Financing activities				
Net preference shares issued (redeemed)	**1.8**	1.6	**2.8**	(2.8)
Dividends paid	**(1.2)**	(1.2)	**(5.2)**	(5.2)
Lease liabilities paid	**(2.7)**	(2.7)	**(5.3)**	(5.3)
Cash flows used in financing activities	**(2.1)**	(2.3)	**(7.7)**	(13.3)
Net increase (decrease) in cash and cash equivalents	**161.4**	(17.9)	**156.4**	42.2

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	Q2 2020	Q2 2019	YTD 2020	YTD 2019
Net earned premium, before reinstatement premiums	**845.7**	804.6	**1,718.2**	1,567.7
Reinstatement premiums expense	**8.8**	-	**8.8**	-
Net earned premium, as reported	**836.9**	804.6	**1,709.4**	1,567.7
Undiscounted net claims and adjustment expenses (excluding MYA)	**598.2**	501.3	**1,149.5**	1,049.8
Loss ratio (excluding MYA)	**71.5%**	62.3%	**67.2%**	67.0%
Other operating expenses	**272.3**	266.5	**543.8**	514.4
Expense ratio	**32.5%**	33.1%	**31.8%**	32.8%
Underwriting income (loss)	**(33.6)**	36.8	**16.1**	3.5
Combined ratio (excluding MYA)	**104.0%**	95.4%	**99.0%**	99.8%

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. While there is an improved understanding on the impacts of COVID-19, significant uncertainty remains. As such, it remains early to gauge the full impact of the pandemic on our claims and adjustment expenses. As at June 30, 2020, we have estimated an additional $39.8 million impact to our net claims and adjustment expenses for the year. As time progresses, we expect claims development to be impacted by, but not limited to, the following: changes in frequency of auto claims in response to provincial jurisdictions reopening or closing their economies; 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	Q2 2020	Q2 2019
Net income	**47.9**	79.1
Shareholders' equity excluding AOCI at June 30	**1,671.3**	1,652.5
Shareholders' equity excluding AOCI at March 31	**1,626.3**	1,576.4
ROE	**12.1%**	21.1%

SELECTED QUARTERLY INFORMATION

(in millions of dollars except for EPS and ratios)

	2020 2nd qtr	2020 1st qtr	2019 4th qtr	2019 3rd qtr	2019 2nd qtr
Direct written premium	**1,016.3**	829.2	945.3	999.7	1,049.8
Net earned premium	**836.9**	872.5	866.5	840.6	804.6
Net income (loss)	**47.9**	(48.9)	60.7	12.4	79.1
Other comprehensive income (loss)	**88.0**	(49.2)	(25.1)	14.7	(3.0)
Key statistics					
Earnings (loss) per common share	**$1.65**	($1.88)	$2.30	$0.42	$2.84
Loss ratio (excluding MYA)	**71.5%**	63.2%	64.5%	70.8%	62.3%
Expense ratio	**32.5%**	31.1%	32.7%	32.2%	33.1%
Combined ratio	**104.0%**	94.3%	97.3%	103.0%	95.4%

	2019 1st qtr	2018 4th qtr	2018 3rd qtr	2018 2nd qtr
Direct written premium	757.6	845.4	909.1	941.7
Net earned premium	763.0	760.8	750.6	717.4
Net income (loss)	21.8	(18.2)	12.9	(4.0)
Other comprehensive income (loss)	95.3	(35.9)	(14.1)	21.5
Key statistics				
Earnings (loss) per common share	$0.84	($0.81)	$0.48	($0.35)
Loss ratio (excluding MYA)	71.9%	70.0%	73.4%	75.7%
Expense ratio	32.5%	32.1%	30.7%	32.1%
Combined ratio	104.4%	102.2%	104.1%	107.8%

The quarterly results reflect the seasonality of our business. Premiums are generally written in annual renewal cycles, often in the second quarter. Despite the catastrophic events in the current period, 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

Economic activity experienced a significant decline in the period following government interventions to mitigate the spread of the COVID-19 pandemic. Data from the first quarter showed annualized GDP contracting more than 8% for Canada and 5% for the United States, while unemployment rates increased substantially. Data for the second quarter show that a recovery may tentatively be underway as jobs affected by government mandates to shelter in place show some signs of returning. The unemployment rate in Canada, which peaked in May at 13.7%, has receded slightly to 12.3% in June. Of the 3 million jobs lost since the onset of the pandemic, more than 40% have returned as of end of the second quarter. It is remains unclear as to whether the recovery will continue for the latter half of the year.

Throughout the second quarter, the Bank of Canada maintained its historically low overnight target rate at 0.25%. It is expected that the target rate will remain at these levels for the foreseeable future. The Bank of Canada's balance sheet grew significantly in the current period, engaging in bond buying programs, which were designed to shield the bond market from an influx of bonds resulting from corporate and personal income support programs and thereby exerting control on bond yields, which generally declined during the quarter. As at the end of June, bond yields remain in a tight range.

Despite expectations of weak earnings, strong economic data during the second quarter has led to a significant rebound of the equity markets after their sharp correction in late March. The S&P TSX gained 16.0% during the second quarter while the S&P 500 gained 15.1%, which were also buoyed by government and central bank stimulus. Crude oil contract prices, after trading at negative prices in April, also recovered, reflecting better demand prospects and stronger producer discipline.

PROPERTY AND CASUALTY INDUSTRY

The progression of the COVID-19 pandemic in Canada during the second quarter has resulted in a clearer understanding of its impact to the P&C industry. Despite swift and marked declines in interest rates and volatility in the financial markets, insurers' capital positions remained higher than regulatory minimums. Many insurers (including Co-operators General's parent company, CFSL), took steps to secure additional capital, either by accessing the capital markets or through establishing or increasing credit facilities with banks.

Virtually all insurers enacted work from home protocols at the onset of the pandemic. By the end of the second quarter, as some restrictions have lifted in parts of Canada, brokers and advisors have gradually begun to return to the office. Corporate offices, however, are mostly continuing with remote work. Co-operators General continues to take a responsible, cautious approach to re-opening advisor offices, ensuring that re-opening decisions are aligned with provincial restrictions and public health guidelines. In addition, Co-operators General has successfully implemented a new business-as-usual approach (see "Risk Management" section) in response to the evolving operating realities as they relate to COVID-19.

The primary response from P&C insurers to their clients related to COVID-19 has been concentrated on premium relief for auto insurance. Announced premium relief varied, from percentages, to one-month complete relief, to relying on clients to call-in to discuss. Most insurers have also announced the ability to defer premium payments. The Financial Services Regulatory Authority of Ontario (FSRA), the Ontario insurance regulator, noted that approximately 70% of the 6.6 million auto insurance policies in the province were benefitting from pandemic-related relief measures.

Despite premium relief measures, the overall P&C insurance sector is expected to continue to harden. Vehicle usage is on a steady rise from mid-April and exceeded pre-pandemic levels as of the end of the quarter. Regular insurable events continue, including severe flooding in Fort McMurray and a damaging hailstorm in Calgary. We are also seeing rising condominium insurance rates, particularly in B.C's lower mainland.

As an outcome of the COVID-19 pandemic, there is concern in the industry of business interruption policies being retroactively reinterpreted by courts or legislative bodies to override pandemic exclusions or read pandemic coverage into existing coverage.

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 auto emergency relief measures for our clients on an emergency basis including payment relief, premium relief, and our Reduced Driving Refund. Our Reduced Driving Refund is 15% and has been applied to April and May monthly premiums for private passenger and light commercial vehicles for all eligible auto clients.

Ontario auto

Auto insurance is heavily regulated by the 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

Co-operators General has recently engaged with the government on its legislative review of the Consumer Protection Act with regards to tow and storage services and welcomes the recent establishment of a provincial tow truck task force.

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 June 30, 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.

During the second quarter, Co-operators General has successfully implemented a new business-as-usual posture in response to the COVID-19 operating environment. Among other management protocols, we have continued with the suspension of all work travel, and a mandatory work from home policy to implement physical distancing guidelines in accordance with federal, provincial and local public health agencies.

To support working from home, we have deployed additional technologies to strengthen cyber security and operational resiliency to enable us to operate all functions required to continue business virtually 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 governance structures and processes to enable us to effectively manage the ongoing COVID-19 operating environment.

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 4.2% 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 second 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 second 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 June 2020, the International Accounting Standards Board (IASB) issued amendments to IFRS 17 which were designed to simplify certain requirements in the standard, make financial performance easier to explain and confirm the two-year deferral of the effective date of the standard including the temporary exemption of IFRS 9 for insurers. Thus, IFRS 17 will be effective for annual reporting periods beginning on or after January 1, 2023. As Co-operators General qualifies for the temporary exemption of IFRS 9, this standard will also be effective for its annual reporting period beginning on or after January 1, 2023. Co-operators General is currently evaluating the impact that these standards and their amendments 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 period ended June 30, 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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