Co-operators General Insurance Company

Management's Discussion and Analysis

For the first quarter ended March 31, 2019

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April 26, 2019

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, 2019.

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, 2019; and
- our 2018 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, 2019 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 2018 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; the impact of changes in governmental regulation on our company; possible changes in our expense levels; changes in tax laws; and anticipated benefits of acquisitions and dispositions.

With respect to forward-looking statements and information contained in this MD&A, we have made assumptions regarding, among other things: growth rates and inflation rates in the Canadian and global economies; the Canadian and U.S. housing markets; the Canadian and global capital markets; the strength of the Canadian dollar relative to the U.S. dollar; employment levels and consumer spending in the Canadian economy; and impacts of regulation and tax laws by the Canadian and provincial governments or their agencies. Some of the assumptions we have made are described in our 2018 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: 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 2018 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.

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	2019	2018[4]	2017
Key financial data[3]			
Direct written premium (DWP)	**757.6**	599.7	540.3
Net earned premium (NEP)	**763.0**	658.1	609.3
Net income (loss)	**21.8**	(27.8)	34.6
Total assets[1]	**6,766.5**	6,698.7	5,922.1
Total liabilities[1]	**5,004.3**	5,048.8	4,391.0
Shareholders' equity[1]	**1,762.2**	1,649.9	1,531.1
Key success indicators[3]			
Direct written premium growth	**26.3%**	11.0%	4.0%
Net earned premium growth	**15.9%**	8.0%	3.5%
Underwriting loss - excluding market yield adjustment (MYA)	**(33.4)**	(49.9)	(15.1)
Earnings (loss) per common share (EPS)[2]	**$0.84**	($1.35)	$1.55
Return on equity (ROE)	**5.7%**	(7.7%)	9.9%
Combined ratio - excluding MYA	**104.4%**	107.5%	102.5%
Combined ratio - including MYA	**106.8%**	107.0%	103.2%
Minimum Capital Test (MCT)[1]	**217%**	208%	216%

[1] Balance sheet data and MCT results for 2018 and 2017 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 include the results of operations and balance sheet of CUMIS General from the date of acquisition, April 1, 2018

Co-operators General reported net income after tax of $21.8 million for the three months ended March 31, 2019, as compared to a net loss of $27.8 million in the same quarter of 2018. Our return on equity for the quarter was 5.7% versus (7.7%) in the first quarter of 2018. Earnings (loss) per common share in the quarter was $0.84 compared to ($1.35) in the same quarter of the prior year.

Excluding MYA, our underwriting loss of $33.4 million for the first quarter of 2019 improved from our underwriting loss of $49.9 million in same quarter of 2018. This was the result of continued premium growth, within all lines of business, driven by higher average premiums and an increase in vehicles and policies in force. Also contributing to the favourable variance was a decrease in the severity of current accident year claims in the home and farm lines of business. However, claims expenses for the auto line of business increased compared to the same quarter of the prior year as a result of an increase in the frequency and severity of current accident year claims, notably in Ontario and the West.

Net investment income and gains increased by $72.9 million compared to the same quarter last year as rising bond and equity markets drove investment gains. The MYA had an $18.6 million unfavourable impact on net income before tax as a result of a decrease in the discount rate.

On April 1, 2018, CGIC entered into an agreement with a company under common control to acquire 100% of the common shares of CUMIS General. Please refer to the 2018 Annual Report for additional information regarding this transaction. As a result of the acquisition, amounts presented in our MD&A and unaudited condensed interim financial statements reflect CUMIS General's operating results since the acquisition date.

FINANCIAL PERFORMANCE

DIRECT WRITTEN PREMIUM AND NET EARNED PREMIUM

$ millions	Q1 2019	Q1 2018	% change
Direct written premium	**757.6**	599.7	26.3%
Net earned premium	**763.0**	658.1	15.9%

In the first quarter, DWP increased by 26.3% or $157.9 million to $757.6 million. The first quarter results of CUMIS General contributed 12.9% or $77.2 million to the overall increase. Excluding the impact of CUMIS General, DWP improved by 13.5% or $80.7 million. This was attributable to rate adjustments across all lines of business combined with growth in vehicle and policy counts, most notably in Ontario.

NEP increased during the first quarter by 15.9% or $104.9 million compared to the same quarter last year. The first quarter results of CUMIS General contributed 5.7% or $37.6 million to the overall increase. Excluding the impact of CUMIS General, NEP grew by 10.2% or $67.3 million. The increase in NEP during the quarter is seen throughout all geographic regions and core product lines. The variance between DWP and NEP growth is attributed to reinsurance on CUMIS General's travel line of business. The results of CUMIS General were also driven by the trends described above, with growth largely driven by an increase in vehicles and policies in force.

Refer to Note 12 of our unaudited condensed consolidated interim financial statements for the period ended March 31, 2019 for a reconciliation of DWP to NEP.

NEP by line of business

$ millions	Q1 2019	Q1 2018	% change
Auto	**369.2**	311.8	18.4%
Home	**213.0**	188.4	13.1%
Commercial	**126.4**	117.0	8.0%
Farm	**34.2**	31.4	8.9%
Travel and other	**20.2**	9.5	112.6%
Total	**763.0**	658.1	15.9%

During the first quarter, the auto line of business remained our largest contributor to NEP growth, increasing by $57.4 million over the same quarter of 2018. Of the total increase, $13.8 million was attributed to the current period results of CUMIS General. Excluding the impact of CUMIS General, the auto line of business grew by 14.0%, driven by an increase in vehicles in force and rate adjustments across all regions.

NEP increased in the home and commercial lines of business by 13.1% and 8.0% over the same quarter of 2018, respectively. Excluding the impact of CUMIS General, the home and commercial lines of business grew by 8.6% and 4.3%, respectively, which was attributable to rate adjustments coupled with an increase in policies in force.

The farm line of business experienced an increase in NEP of $2.8 million compared to the same quarter of 2018, driven by rate adjustments. The first quarter results of CUMIS General did not affect the NEP growth in this line of business.

The travel and other line of business experienced NEP growth of $10.7 million over the same quarter of 2018, which was entirely driven by the acquisition of CUMIS General.

The discrete quarter results of CUMIS General were also driven by the general trends described above.

NEP by geographic region

$ millions	**Q1 2019**	Q1 2018	% change
West	**273.6**	247.1	10.7%
Ontario	**381.0**	317.3	20.1%
Quebec	**36.1**	29.6	22.0%
Atlantic	**72.3**	64.1	12.8%
Total	**763.0**	658.1	15.9%

During the first quarter, the Western region NEP experienced an increase of $26.5 million compared to the same quarter of 2018. Of this increase, $11.7 million was attributable to the first quarter results of CUMIS General, while the remaining increase was primarily driven by rate adjustments across all lines of business.

NEP increased in Ontario by $63.7 million over the same quarter of 2018, of which $22.0 million was contributed by the current quarter results of CUMIS General. Aside from the impact of CUMIS General, growth was driven by an increase in vehicles and policies in force across all lines of business and rate adjustments, most notably in the auto line of business.

Quebec and the Atlantic region experienced NEP growth of 22.0% and 12.8% over the same quarter of the prior year. Excluding the impact of CUMIS General, growth in vehicles and policies in force and increases in average premiums drove the 18.9% and 8.3% increase over the same quarter of 2018 in Quebec and the Atlantic, respectively.

The discrete quarter results of CUMIS General were also driven by the general trends described above.

NET INVESTMENT INCOME AND GAINS

$ millions	**Q1 2019**	Q1 2018	change
Interest income	**23.7**	19.6	4.1
Dividend and other income	**15.4**	9.3	6.1
Investment expenses	**(1.5)**	(1.5)	-
Net investment income	**37.6**	27.4	10.2
Net realized gains (losses)	**28.3**	(11.1)	39.4
Net foreign exchange gains (losses)	**5.1**	(2.9)	8.0
Change in fair value	**7.3**	(5.5)	12.8
Impairment losses	**(1.4)**	(3.9)	2.5
Net investment gains (losses)	**39.3**	(23.4)	62.7
Net investment income and gains	**76.9**	4.0	72.9

Net investment income and gains increased by $72.9 million compared to the same quarter last year as rising bond and equity markets drove investment gains in the bond, common share and preferred share portfolios. CUMIS General's portfolio contributed $2.5 million to the investment income and gains recognized during the first quarter of 2019.

Net investment income increased by $10.2 million as a result of a larger portfolio in the current period paired with higher distributions from limited partnership funds.

Net investment gains increased by $62.7 million compared to the same period of the prior year driven by more favourable fixed income and equity market conditions combined with a higher turnover on the common share portfolio. Declining interest rates during the current quarter, compared to rising interest rates in the first quarter of 2018, led to the $12.8 million favourable change in fair value of preferred shares and bonds. Impairment losses during the quarter were $2.5 million lower than the first quarter of 2018 as a rise in equities was generally seen across all sectors of the market.

OTHER COMPREHENSIVE INCOME

$ millions	Q1 2019	Q1 2018
Other comprehensive income (loss)	**95.3**	(7.8)

Other comprehensive income was $95.3 million in the first quarter of 2019 in contrast to a loss of $7.8 million for the same period of 2018.

Other comprehensive income before tax was $130.7 million in the first quarter of 2019. Improving equity market valuations during the current quarter resulted in unrealized gains on Canadian common shares of $77.1 million. This was attributable to the TSX S&P Index, which increased by 12.4% in the first quarter of 2019, compared to a decrease of 5.2% in the same quarter of the prior year. Rising U.S equities and the impact of a decline in interest rates on bond valuations also contributed to the increase.

EXPENSES

Claims and adjustment expenses – Loss ratio

$ millions, except ratios	Q1 2019	Q1 2018	change
Undiscounted net claims and adjustment expenses	**548.5**	490.5	58.0
Effect of MYA	**18.6**	(3.6)	22.2
Net claims and adjustment expenses	**567.1**	486.9	80.2
Loss ratio (excluding MYA)	**71.9%**	74.5%	(2.6) pts
Loss ratio (including MYA)	**74.3%**	74.0%	0.3 pts

Undiscounted net claims and adjustment expenses increased by $58.0 million or 11.8% compared to the same period of the prior year. The first quarter results of CUMIS General contributed $18.2 million or 3.7% to the increase. Aside from the impact of CUMIS General, the increase was driven mainly by an increase in the frequency and severity of current accident year claims in the auto line of business, most notably in Ontario and the West. This was partially offset by a decrease in the severity of current accident year claims in the home and farm lines of business.

Unpaid claims and adjustment expenses are discounted using the portfolio yield of the bond and commercial mortgage portfolios with consideration provided for the Government of Canada 5-year bond rate plus a credit spread. The portfolio yield on bonds and commercial mortgages decreased in the quarter, which decreased the discount rate. This drove a negative impact to MYA and net income before taxes of $18.6 million in the first quarter of 2019 as compared to a $3.6 million positive impact for the same quarter of 2018. The negative impact of MYA is partially offset by net investment gains of $3.3 million recorded within net investment income and gains related to Co-operators General's asset liability management strategy.

Loss ratio by line of business

% excluding MYA	**Q1 2019**	Q1 2018	change	
Auto	**85.8**	82.6	3.2	
Home	**58.4**	67.3	(8.9)	
Commercial	**63.2**	68.9	(5.7)	
Farm	**60.4**	75.8	(15.4)	
Travel and other	**33.2**	17.0	16.2	
Total	**71.9**	74.5	(2.6)	pts

In the first quarter, we experienced an improvement in our loss ratio in the home, commercial and farm lines of business. This was largely offset by a deterioration of our loss ratio in the auto and travel and other lines of business. Except for the travel and other line of business, loss ratios were not significantly impacted by the acquisition of CUMIS General and the first quarter results of CUMIS General's lines of business are consistent with the trends described below.

The auto loss ratio deteriorated by 3.2 percentage points as compared to the first quarter of 2018. Updated actuarial estimates combined with increased frequency and severity of current accident year claims, most notably in Ontario and the Western region, drove the increase in claims.

Improvement in the home line of business loss ratio of 8.9 percentage points was caused by a decrease in the severity of current accident year claims in all regions except Ontario, combined with rate adjustments. This was partially offset by an increase in the frequency of current accident year claims in Ontario driven by more severe weather compared to the same quarter of the prior year.

The commercial loss ratio improved by 5.7 percentage points driven by less unfavourable claims development in the Western region, which was partially offset by a slight increase in the frequency and severity of current accident year claims.

Improvement in the farm loss ratio of 15.4 percentage points was driven by lower frequency and severity of current accident year claims across all regions.

The loss ratio in our travel and other line of business deteriorated by 16.2 percentage points. This was a result of an increase in the severity of current accident year claims in one of our speciality lines of business, combined with the inclusion of CUMIS General's travel business. Given the size of NEP for the travel and other line of business, minor fluctuations in claims frequency can create a significant impact.

Loss ratio by geographic region

% excluding MYA	**Q1 2019**	Q1 2018	change	
West	**59.0**	67.5	(8.5)	
Ontario	**79.5**	76.1	3.4	
Quebec	**83.1**	79.5	3.6	
Atlantic	**75.3**	91.5	(16.2)	
Total	**71.9**	74.5	(2.6)	pts

Loss ratios by geographic region were not significantly impacted by the acquisition of CUMIS General and the first quarter results of CUMIS General's lines of business are consistent with the trends described below.

The Western region experienced a decrease in the frequency of current accident year claims in the home and commercial lines of business, resulting in a loss ratio improvement of 8.5 percentage points over the prior year. This was partially offset by an increase in the frequency of current accident year claims in the auto line of business.

Deterioration in the Ontario loss ratio of 3.4 percentage points was driven by the auto line of business, which experienced an increase in the frequency and severity of current accident year claims combined with updated actuarial estimates. This was coupled with more severe weather which led to an increase in the frequency of current accident year claims in the home line of business, while increased severity in the commercial lines of business also contributed to the worsening loss ratio.

In Quebec, an increase in the severity of current accident year claims, mainly in the commercial line of business, led to a deterioration in the loss ratio of 3.6 percentage points. Severe weather was a contributing factor in this region as well.

The Atlantic region's loss ratio improved by 16.2 percentage points and was driven by a decrease in the severity of current accident year claims in the home, commercial and farm lines of business, combined with less unfavourable claims development in the auto line of business.

Other operating expenses – Expense ratio

%, except total other operating expenses ($ millions)	**Q1 2019**	Q1 2018	change	
Total other operating expenses	**247.9**	217.5	30.4	
Components of expense ratio				
Premium and other taxes	**3.4**	3.4	-	pts
Net commissions and advisor compensation	**17.6**	17.6	-	pts
General expenses	**11.5**	12.0	(0.5)	pts
Expense ratio	**32.5**	33.0	(0.5)	pts

Other operating expenses are comprised of premium and other taxes, net commissions and advisor compensation and general expenses. The increase of $30.4 million in the current quarter over the same quarter of 2018 is primarily driven by the inclusion of CUMIS General's results in the current quarter which contributed $14.8 million to the overall increase. While expenses increased in the quarter, NEP growth of 10.2% outpaced this resulting in an expense ratio of 32.5%, which is a 0.5 percentage point decrease over the same quarter last year. The current quarter expense ratio was not significantly impacted by CUMIS General.

Income taxes

Refer to Note 7 of our unaudited condensed consolidated interim financial statements for the period ended March 31, 2019 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, 2019**	As at December 31, 2018	% change
Assets			
Invested assets	**4,852.0**	4,728.9	2.6%
Reinsurance ceded contracts	**184.2**	174.4	5.6%
Intangible assets	**86.8**	82.6	5.1%
Other assets	**1,643.5**	1,712.8	(4.0%)
Liabilities			
Insurance contracts	**4,488.3**	4,481.3	0.2%
Retirement benefit obligations	**121.8**	120.5	1.1%
Other liabilities	**394.2**	447.0	(11.8%)
Shareholders' equity	**1,762.2**	1,649.9	6.8%

Our balance sheet remains strong at the end of the first quarter of 2019. The value of our invested assets exceeds insurance contracts net of reinsurance ceded contracts by 12.7%, compared to an excess of

9.8% as at December 31, 2018. Our MCT ratio of 217% at March 31, 2019 also denotes our strong financial condition.

Invested assets increased by $123.1 million primarily as a result of unrealized gains on the portfolio driven by strength in the fixed income and equity markets. Insurance contract liabilities increased by $7.0 million, which was attributable to an increase in discounted unpaid claims and adjustment expenses and was partially offset by lower unearned premiums which is typical for the first quarter.

Our 2018 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 $2,626.4 million or 54.1% 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 $1,284.1 million or 26.5% 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 84.7% 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 96.3% of our bonds are considered investment grade, rated BBB or higher.

MINIMUM CAPITAL TEST

	March 31, 2019	December 31, 2018
MCT	**217%**	208%

Co-operators General's MCT of 217% at March 31, 2019 represents $278.3 million of capital in excess of our 180% internal minimum compared to an excess of $198.0 million at December 31, 2018. The MCT is impacted by various factors including interest rates, invested asset mix, dividends, 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, 2019, 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, 2019, or for the comparative period ended March 31, 2018.

EARNINGS PER SHARE

$ millions, except share data and EPS	Q1 2019	Q1 2018
Net income (loss)	**21.8**	(27.8)
Less: dividends on preference shares	**1.3**	1.3
Net income (loss) available to shareholders	**20.5**	(29.1)
Weighted average number of outstanding common shares[1]	**24,499,925**	21,503,693
Earnings (loss) per common share	**$0.84**	($1.35)

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

CASH FLOWS

$ millions	Q1 2019	Q1 2018
Cash provided by (used in) operating activities	**47.3**	(15.0)
Investing activities		
Net purchase of investments	**31.0**	(30.6)
Purchases of intangibles & property and equipment	**(7.2)**	(0.7)
Cash flows provided by (used in) investment activities	**23.8**	(31.3)
Financing activities		
Net preference shares issued (redeemed)	**(4.4)**	0.8
Dividends paid	**(4.0)**	(3.9)
Lease liabilities paid	**(2.6)**	-
Cash flows used in financing activities	**(11.0)**	(3.1)
Net increase in cash and cash equivalents	**60.1**	(49.4)

Cash generated from insurance operations and investment returns normally exceeds our claims and operating expense requirements, and sufficiently funds our commitments and growth initiatives.

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 2018 Annual Report.

UNDERWRITING RESULTS

$ millions, except ratios	Q1 2019	Q1 2018
Net earned premium, as reported	**763.0**	658.1
Undiscounted net claims and adjustment expenses (excluding MYA)	**548.5**	490.5
Loss ratio (excluding MYA)	**71.9%**	74.5%
Other operating expenses	**247.9**	217.5
Expense ratio	**32.5%**	33.0%
Underwriting loss	**(33.4)**	(49.9)
Combined ratio (excluding MYA)	**104.4%**	107.5%

CLAIMS DEVELOPMENT

Our 2018 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 2019	Q1 2018
Net income (loss)	**21.8**	(27.8)
Shareholders' equity excluding AOCI at March 31,	**1,576.4**	1,379.5
Shareholders' equity excluding AOCI at December 31 of prior year	**1,559.5**	1,407.3
ROE	**5.7%**	(7.7%)

SELECTED QUARTERLY INFORMATION

(in millions of dollars except for EPS and ratios)

	2019 1st qtr[1]	2018 4th qtr[1]	2018 3rd qtr[1]	2018 2nd qtr[1]	2018 1st qtr
Direct written premium	**757.6**	845.4	909.1	941.7	599.7
Net earned premium	**763.0**	760.8	750.6	717.4	658.1
Net income (loss)	**21.8**	(18.2)	12.9	(4.0)	(27.8)
Other comprehensive income (loss)	**95.3**	(35.9)	(14.1)	21.5	(7.8)
Key statistics					
Earnings (loss) per common share	**$0.84**	($0.81)	$0.48	($0.35)	($1.35)
Loss ratio (excluding MYA)	**71.9%**	70.0%	73.4%	75.7%	74.5%
Expense ratio	**32.5%**	32.1%	30.7%	32.1%	33.0%
Combined ratio	**104.4%**	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

	2017 4th qtr	2017 3rd qtr	2017 2nd qtr	2017 1st qtr
Direct written premium	685.2	746.2	768.7	540.3
Net earned premium	664.8	656.3	628.7	609.3
Net income (loss)	64.8	(7.4)	29.1	34.6
Other comprehensive income (loss)	4.9	(23.7)	(10.8)	25.7
Key statistics				
Earnings (loss) per common share	$2.84	($0.40)	$1.18	$1.55
Loss ratio (excluding MYA)	67.7%	76.8%	67.8%	68.0%
Expense ratio	32.6%	32.1%	33.2%	34.5%
Combined ratio	100.3%	108.9%	101.0%	102.5%

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, weather, or changes in estimates related to investment provisions. Results are also affected by more predictable factors such as the timing of major expenditures, changes in estimates related to claims reserves, and purchase and sale decisions made with respect to our investment portfolio.

OUTLOOK, BUSINESS DEVELOPMENTS AND OPERATING ENVIRONMENT

GENERAL BUSINESS AND ECONOMIC CONDITIONS

In the course of setting our strategic priorities and objectives for 2019 we made assumptions about the general business and economic environment in 2019 and beyond. These assumptions are outlined in detail in our 2018 Annual Report, and we continue to expect them to materialize through 2019. Data released after the end of the year confirmed that the pace of economic activity slowed in the last quarter of 2018 in both Canada and the United States. Given the slowdown toward their longer-term potential growth rates, both central banks are expected to pause before deciding on any further changes to monetary policy rates in 2019. There have been no other material changes in our assumptions. We consult with our investment manager, Addenda Capital Inc., in creating and monitoring these assumptions.

PROPERTY AND CASUALTY INDUSTRY

Trends and environmental factors, as well as our strategic responses, are consistent with those discussed in our 2018 Annual Report.

EMERGING LEGISLATION AND REGULATORY EVENTS

Emerging legislation and regulatory events are detailed in our 2018 Annual Report and an update is provided below:

Ontario auto

Budget Announcement

Ontario's 2019-20 budget was released on April 11. The budget contains a blueprint for the auto insurance system entitled Putting Drivers First, which will include an increase of auto insurance coverage choices, a Driver Care Plan focused on treatment and care of injuries, and approval of electronic proof of auto insurance. Specific details, including a timeline, have not yet been released.

Financial Services Regulatory Authority

The Financial Services Regulatory Authority of Ontario (FSRA) continues its work towards its full implementation, which is now set for June 2019. We continue to work with FSRA, participating in consultations and providing input on its proposed rules and processes.

Rate regulations

In March, the FSRA launched a Rate Regulation Advisory Group, of which we are a participant. The Advisory Group will provide industry insight on FSRA's proposed approach to streamlining the auto insurance rate regulation filing process and is expected to complete its work in June 2019.

Private Members' Bills - Territorial Segmentation & Auto Insurance Rates

Bill 42, *Ending Discrimination in Automobile Insurance Act*, 2019, passed second reading in March and was referred to the Standing Committee on Finance and Economic Affairs. The bill was introduced by PC MPP Parm Gill and aims to eliminate factors primarily relating to a postal code or an area code as a rating variable used in determining risk for auto insurance premiums. The bill would also amend the *Automobile Insurance Rate Stabilization Act* to rescind the Financial Services Commission of Ontario's Bulletin A-01/05, which sets out guidelines for insurers to use when proposing changes to rating by territory. The bill may now be studied in detail by the Committee, where amendments could be proposed.

We will continue to monitor the development of Bill 42 and work with the Ontario government to find solutions that will modernize regulations, drive further competition and meet the needs of Ontario drivers.

Auto insurance system review in Newfoundland and Labrador

At the end of January, the Newfoundland and Labrador Board of Commissioners of Public Utilities submitted its Review of Automobile Insurance in Newfoundland and Labrador report. This report is the culmination of the Public Utility Board's (PUB) auto insurance system review, of which we were a participant in May 2018. Our feedback was well represented in the PUB's report to government.

With the report now finalized, two pieces of auto reform legislation have been passed, with most changes coming into effect January 2020. The full implications of these changes may be impacted by the upcoming provincial election set for May 16.

Alberta auto

Rate regulations

A new ministerial order was issued in February, replacing the second ministerial order which had been issued on October 31, 2018. The new order states that the Automobile Insurance Rate Board will continue to review and decide upon all rate filing applications of up to and including 5% and the Minister will decide upon rate filing applications greater than 5%. In considering applications requesting a rate increase greater than 5%, the Minister provided five criteria which must be met. Therefore, in addition to the rate filing application, evidence supporting the five criteria must be submitted. Immediately upon the announcement of the provincial election the Minister stopped his review of rate filing applications requesting a rate increase greater than 5%. There is significant uncertainty regarding this process following the election of a new government on April 16. We will continue to assess the impact as we conduct outreach with the new government.

Alberta auto insurance claims and costs study

The second phase of the Alberta Claims and Costs Study launched in February, and our participation is ongoing. Alberta Treasury Board and Finance tasked J.S. Cheng & Partners Inc. to perform the study, which aims to assess the rising costs affecting Alberta's automobile insurance industry. The second phase of the study is focused on collecting and analyzing data on cost drivers and will culminate in a final report to government which is expected at the end of November.

We remain supportive of the study but are concerned that no subsequent regulatory and/or legislative changes will be addressed until late 2019/20. The provincial election could impact the direction of future changes.

Saskatchewan Insurance Act revision

The Government of Saskatchewan has postponed the implementation of *The Insurance Act* to January 2020. In the interim, *The Insurance Amendment Regulations,* 2019, were posted in January. These regulations amend *The Insurance Regulations*, which will come into effect when *The Insurance Act* comes into force.

We continue to work with our partners to analyze the impacts of the anticipated changes and share recommendations for additional amendments.

British Columbia

With an objective to curb escalating loss costs, additional changes to BC Auto insurance took effect April 1, 2019. Changes include increased medical benefits retroactive to January 1, 2018, enhanced accident benefit coverages and the introduction of a cap for minor injuries effective April 1, 2019. We are monitoring the impact this may have regarding residents from other provinces involved in accidents in British Columbia.

RELATED PARTY TRANSACTIONS

Co-operators General has ongoing transactions with related parties primarily consisting of product distribution services, management and advisory services and reinsurance. There have been no material changes in our ongoing related party transaction arrangements during the period ended March 31, 2019. Please refer to our 2018 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 2018 Annual Report and an update is included below.

For 2019, in line with a change in our assessment of our risk exposure, our catastrophe maximum limit increased by $100.0 million to $1.4 billion while our retention remains at $70.0 million. The net retained amount of $70.0 million represents approximately 4.4% 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 control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

No changes were made to our internal control over financial reporting during the first quarter of 2019 that have materially affected, or are reasonably likely to materially affect, our internal control 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 2018 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, 2018, except for the adoption of IFRS 16 "Leases" as noted below. 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, 2018.

Effective January 1, 2019, we adopted IFRS 16. We have elected to apply IFRS 16 using the modified retrospective approach. As a result, comparative information has not been restated and continues to be reported under IAS 17, the former lease standard. The impact to our condensed consolidated interim balance sheet as at January 1, 2019 was an increase to assets and liabilities of $35,765. Below is a discussion of the current accounting policy, and the accounting policy applicable before January 1, 2019.

Policy applicable on and after January 1, 2019

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

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

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

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

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

The lease liability is amortized using the effective interest method. It is remeasured when there is a change in our estimate of whether we will exercise an extension or termination option. If the lease liability is remeasured, a corresponding adjustment is made to the right-of-use asset.

Policy applicable before January 1, 2019

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

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 2018 Annual Report within the notes for the respective account balances.

The estimates used for the unaudited condensed consolidated interim financial statements for the period ended March 31, 2019, are consistent with those used in the 2018 Annual Report. As discussed in our 2018 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.

For further information, please refer to our 2018 Annual Report and the notes to our unaudited condensed consolidated interim financial statements for the quarter ended March 31, 2019.

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