Co-operators General Insurance Company

Unaudited Condensed Consolidated Interim Financial Statements

For the third quarter ended September 30, 2019

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS
(unaudited)

As at

(in thousands of Canadian dollars)	September 30, 2019 $	December 31, 2018 $
Assets		
Cash and cash equivalents	**87,925**	65,372
Invested assets including securities on loan (note 4)	**5,175,249**	4,728,874
Premiums due	**1,220,591**	1,073,368
Income taxes recoverable	**8,735**	79,857
Reinsurance ceded contracts (note 6)	**170,110**	174,427
Deferred acquisition expenses	**305,208**	293,131
Deferred income taxes	**117,786**	116,749
Intangible assets (note 8)	**98,535**	82,613
Right-of-use-assets (note 9)	**29,742**	-
Other assets (note 10)	**61,744**	84,330
	7,275,625	6,698,721
Liabilities		
Accounts payable and accrued charges	**251,633**	291,125
Income taxes payable	**15,414**	39
Insurance contracts (note 5)	**4,857,505**	4,481,312
Retirement benefit obligations	**124,346**	120,501
Deferred income taxes	**6,414**	3,876
Lease liabilities (note 9)	**30,228**	-
Provisions and other liabilities (note 11)	**155,919**	151,925
	5,441,459	5,048,778
Shareholders' equity		
Share capital	**543,167**	413,452
Contributed capital	**100,874**	100,874
Retained earnings	**992,662**	1,045,180
Accumulated other comprehensive income	**197,463**	90,437
	1,834,166	1,649,943
	7,275,625	6,698,721

See accompanying notes to condensed consolidated interim financial statements.

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

9 months ended September 30, 2019 (in thousands of Canadian dollars)	**Share capital $**	**Contributed capital $**	**Retained earnings $**	**Accumulated other comprehensive income $**	**Total shareholders' equity $**
Balance, beginning of period	**413,452**	**100,874**	**1,045,180**	**90,437**	**1,649,943**
Net income	**-**	**-**	**113,368**	**-**	**113,368**
Other comprehensive income	**-**	**-**	**-**	**107,026**	**107,026**
Total comprehensive income	**-**	**-**	**113,368**	**107,026**	**220,394**
Staff share loan plan	**656**	**-**	**-**	**-**	**656**
Preference shares issued	**7,120**	**-**	**-**	**-**	**7,120**
Preference shares redeemed	**(8,063)**	**-**	**(1,498)**	**-**	**(9,561)**
Common shares issued	**130,002**	**-**	**-**	**-**	**130,002**
Dividends declared (note 13)	**-**	**-**	**(34,388)**	**-**	**(34,388)**
Acquisition of business from a related party	**-**	**-**	**(130,000)**	**-**	**(130,000)**
Balance, end of period	**543,167**	**100,874**	**992,662**	**197,463**	**1,834,166**

9 months ended September 30, 2018 (in thousands of Canadian dollars)	Share capital $	Contributed capital $	Retained earnings $	Accumulated other comprehensive income $	Total shareholders' equity $
Balance, beginning of period	227,840	10,132	1,169,323	123,733	1,531,028
Net loss	-	-	(18,870)	-	(18,870)
Other comprehensive loss	-	-	-	(340)	(340)
Total comprehensive loss	-	-	(18,870)	(340)	(19,210)
Staff share loan plan	(82)	-	-	-	(82)
Preference shares issued	7,823	-	-	-	7,823
Preference shares redeemed	(4,839)	-	(531)	-	(5,370)
Common shares issued	181,700	-	-	-	181,700
Dividends declared (note 13)	-	-	(6,390)	-	(6,390)
Acquisition of subsidiary from a related party	-	(9,258)	(76,132)	3,036	(82,354)
Balance, end of period	412,442	874	1,067,400	126,429	1,607,145

See accompanying notes to condensed consolidated interim financial statements.

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

(in thousands of Canadian dollars except for earnings per share)	**3 months ended September 30, 2019 $**	3 months ended September 30, 2018 $	**9 months ended September 30, 2019 $**	9 months ended September 30, 2018 $
Income				
Net earned premium (note 12)	**840,630**	750,617	**2,408,280**	2,126,123
Net investment income and gains (note 4)	**43,255**	36,004	**197,380**	82,157
Fees and other income	**2,658**	2,189	**7,266**	6,363
	886,543	788,810	**2,612,926**	2,214,643
Expenses				
Claims and benefits	**620,265**	538,674	**1,762,523**	1,625,530
Ceded claims and benefits	**(17,816)**	5,055	**(77,886)**	(53,697)
Premium and other taxes	**30,874**	25,953	**86,323**	73,687
Commissions and advisor compensation	**165,420**	151,017	**492,256**	417,122
Ceded commissions	**(26,373)**	(28,656)	**(84,238)**	(56,893)
General expenses	**100,612**	82,286	**290,613**	244,142
	872,982	774,329	**2,469,591**	2,249,891
Income (loss) before income taxes	**13,561**	14,481	**143,335**	(35,248)
Income tax expense (recovery) (note 7)	**1,136**	1,611	**29,967**	(16,378)
Net income (loss)	**12,425**	12,870	**113,368**	(18,870)
Earnings (loss) per share	**0.42**	0.48	**4.21**	(1.08)
Weighted average number of common shares	**26,515**	24,413	**25,430**	23,307

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

(in thousands of Canadian dollars)	**3 months ended September 30, 2019 $**	3 months ended September 30, 2018 $	**9 months ended September 30, 2019 $**	9 months ended September 30, 2018 $
Net income (loss)	**12,425**	12,870	**113,368**	(18,870)
Other comprehensive income (loss)				
Items that may be reclassified subsequently to the statement of income:				
Net unrealized gains (losses) on available-for-sale financial assets	**31,342**	(18,618)	**227,913**	1,994
Net reclassification adjustment for (gains) losses included in net income	**(9,172)**	(1,362)	**(79,141)**	(4,206)
Items that may be reclassified before income taxes	**22,170**	(19,980)	**148,772**	(2,212)
Income tax expense (recovery) relating to items that may be reclassified	**7,469**	(5,879)	**41,746**	(1,872)
Other comprehensive income (loss)	**14,701**	(14,101)	**107,026**	(340)
Comprehensive income (loss)	**27,126**	(1,231)	**220,394**	(19,210)

See accompanying notes to condensed consolidated interim financial statements.

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands of Canadian dollars)	**9 months ended September 30, 2019 $**	9 months ended September 30, 2018 $
Operating activities		
Net income (loss)	**113,368**	(18,870)
Items not requiring the use of cash (note 14)	**(45,850)**	29,369
Changes in non-cash operating components (note 14)	**318,284**	127,088
Cash provided by (used in) operating activities	**385,802**	137,587
Investing activities		
Continuing operations		
Purchases and advances of:		
Invested assets	**(4,022,631)**	(2,530,062)
Intangible assets	**(19,185)**	(45)
Property and equipment	**(4,085)**	(1,975)
Acquisition of a subsidiary from related party, net of cash acquired	**-**	(176,803)
Sale and redemption of:		
Invested assets	**3,781,247**	2,425,374
Property and equipment	**2,156**	-
Cash provided by (used in) investing activities	**(262,498)**	(283,511)
Financing activities		
Share capital - preference shares issued	**7,120**	7,823
Share capital - preference shares redeemed	**(9,561)**	(5,370)
Share capital - common shares issued	**-**	181,700
Dividends paid (note 13)	**(37,097)**	(8,997)
Lease liabilities paid	**(7,835)**	-
Cash provided by (used in) financing activities	**(47,373)**	175,156
Net increase in cash and cash equivalents, net of payments in transit	**75,931**	29,232
Cash and cash equivalents, net of payments in transit, beginning of period	**8,644**	34,996
Cash and cash equivalents, net of payments in transit, end of period	**84,575**	64,228

Cash	**39,373**	51,807
Cash equivalents	**48,552**	39,840
Net payments in transit, included in accounts payable and accrued charges	**(3,350)**	(27,419)
Cash and cash equivalents, net of payments in transit, end of period	**84,575**	64,228

See accompanying notes to condensed consolidated interim financial statements.

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

1. Nature of operations

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

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

The registered office of the Company is 130 Macdonell Street, Guelph, Ontario. The Company is domiciled in Canada and is incorporated under the Insurance Companies Act (Canada). These condensed consolidated interim financial statements of the Company for the nine months ended September 30, 2019 were authorized for issue in accordance with a resolution of the Audit Committee of the Board of Directors on October 25, 2019.

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

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

2. Summary of significant accounting policies

Basis of preparation and statement of compliance

These condensed consolidated interim financial statements of the Company have been prepared in accordance with International Accounting Standard (IAS) 34, “Interim Financial Reporting”.

The consolidated balance sheets are presented on a non-classified basis. Assets expected to be realized and liabilities expected to be settled within the Company’s normal operating cycle of one year would typically be considered as current. Certain balances are comprised of both current and non-current amounts.

Seasonality

The property and casualty (P&C) insurance business is seasonal in nature. Premiums are generally written in annual renewal cycles, often in the second quarter each year. Weather conditions can vary significantly between quarters, with extreme weather conditions historically having an impact on the first and third quarters.

Segmented information

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

Significant accounting policies

These condensed consolidated interim financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies followed in these condensed consolidated interim financial statements are consistent as those applied in the Company's audited consolidated financial statements for the year ended December 31, 2018, except for the adoption of IFRS 16 "Leases" as noted below.

Effective January 1, 2019, the company has adopted IFRS 16 on its condensed consolidated interim financial statements. 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, the Company determines whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To determine whether a contract contains the right to control the use of an identified asset for a period of time, the Company determines whether it has the right to obtain substantially all the economic benefits from the use of the identified asset and has the right to direct the use of the identified asset. An identified asset is physically distinct and can be specified explicitly or implicitly.

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

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

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

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

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

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

Policy applicable before January 1, 2019

Leases of property and equipment where the Company was not exposed to substantially all of the risks and rewards of ownership were 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 to the Company, the lease was classified as a finance lease. In these cases, a liability and an asset were recognized based on the present value of the future minimum lease payments and the balances were amortized over the lease term and useful life, respectively.

Measurement at transition

IFRS 16 was issued in January 2016 and replaced IAS 17 "Leases", and related IFRICs. The standard provides a single lessee accounting model, requiring lessees to recognize right-of-use assets and related liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019.

The standard has been adopted by the Company on January 1, 2019. The Company has elected to apply IFRS 16 on its condensed consolidated interim financial statements using the modified retrospective approach. As a result, comparative information has not been restated and continues to be reported under IAS 17. The impact to the condensed consolidated interim balance sheet of the Company as at January 1, 2019 was an increase to assets and liabilities of $35,765.

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

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

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

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

The following table shows the lease liability reconciliation for January 1, 2019:

	$
Off-balance sheet lease obligation, December 31, 2018	**40,786**
Leases transferred to a related party	**(2,838)**
Operating lease obligation, before effect of discounting, January 1, 2019	**37,948**
Base rent	**33,319**
Reasonably certain extension options	**4,629**
Effect from discounting, January 1, 2019	**(2,183)**
Operating lease obligations, January 1, 2019	**35,765**

The additional disclosures related to the right-of-use assets and lease liabilities can be found in note 9.

3. Business combinations under common control

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

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

The fair value of the consideration exchanged was $130,002 in common shares and the carrying value of net assets acquired was $nil. The acquisition provides CGIC with direct access to HB's customer base.

Acquisition of CUMIS General

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

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

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

4. Invested assets and net investment income and gains

a) Invested assets

	Fair value			Amortized cost		Carrying value
		Classified	Designated	Loans and		
	AFS	FVTPL	FVTPL	receivables	Other	Total
September 30, 2019	$	$	$	$	$	$
Bonds						
Federal	761,218	-	39,145	-	-	800,363
Provincial	923,843	-	36,845	-	-	960,688
Municipal	10,748	-	-	-	-	10,748
Corporate	737,384	-	57,800	-	351	795,535
Asset-backed securities	71,394	-	9,054	-	-	80,448
	2,504,587	-	142,844	-	351	2,647,782
Stocks						
Canadian common	676,622	-	-	-	-	676,622
Canadian preferred	-	-	390,835	-	-	390,835
U.S. equities	152,754	-	-	-	-	152,754
Foreign equities	-	-	-	-	-	-
	829,376	-	390,835	-	-	1,220,211
Short-term investments	403,060	-	-	-	13,394	416,454
Limited partnerships	172,846	-	-	-	-	172,846
Pooled funds	196,128	-	-	-	-	196,128
Foreign currency forward contracts	-	971	-	-	-	971
Mortgages	-	-	-	483,564	-	483,564
Other investments	-	-	-	13,305	-	13,305
Investment income due and accrued	-	-	-	23,988	-	23,988
Total invested assets	4,105,997	971	533,679	520,857	13,745	5,175,249

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

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

The value of the securities on loan included in invested assets above consists of $67,630 (2018 - $54,967) in stocks and $584,990 (2018 - $395,210) in bonds.

b) Investments - measured at fair value

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

Level 1 - Quoted prices

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

Level 2 - Significant other observable inputs

Includes directly or indirectly observable inputs other than quoted prices for identical instruments exchanged in active markets. These inputs include quoted prices for similar instruments exchanged in active markets; quoted prices for identical or similar instruments exchanged in inactive markets; inputs other than quoted prices that are observable for the instruments, such as interest rates and yield curves, volatilities, prepayment spreads, credit risks and default rates where available; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

Consistent with market participants, the Company determines the fair values of foreign exchange forward contracts by using a discounted cash flow valuation technique using observable market data.

Level 3 - Significant unobservable inputs

Includes inputs that are not based on observable market data. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these assets or liabilities or related observable inputs that can be corroborated at the measurement date. Unobservable inputs require significant management judgement or estimation to make certain projections and assumptions about the information that would be used by market participants in pricing assets or liabilities. To verify pricing, the Company assesses the reasonability of the fair values by comparing to industry accepted valuation models, to movements in credit spreads and to recent transaction prices for similar assets where available.

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

September 30, 2019	Level 1 - Quoted prices $	Level 2 - Significant other observable inputs $	Level 3 - Significant unobservable inputs $	Total fair value $
AFS				
Bonds	-	2,504,587	-	2,504,587
Stocks	827,496	-	-	827,496
Short-term investments	-	403,060	-	403,060
Limited partnerships	-	-	172,846	172,846
Pooled funds	-	196,128	-	196,128
	827,496	3,103,775	172,846	4,104,117
FVTPL				
Bonds	-	142,844	-	142,844
Stocks	390,835	-	-	390,835
Foreign currency forward contracts	-	971	-	971
	390,835	143,815	-	534,650
Total invested assets at fair value	1,218,331	3,247,590	172,846	4,638,767
FVTPL				
Foreign currency forward contracts (note 11)	-	520	-	520
Total financial liabilities at fair value	-	520	-	520

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

December 31, 2018	Level 1 - Quoted prices $	Level 2 - Significant other observable inputs $	Level 3 - Significant unobservable inputs $	Total fair value $
AFS				
Bonds	-	2,569,200	-	2,569,200
Stocks	725,268	-	-	725,268
Short-term investments	-	89,274	-	89,274
Limited partnerships	-	-	137,433	137,433
Pooled funds	-	179,484	-	179,484
	725,268	2,837,958	137,433	3,700,659
FVTPL				
Bonds	-	134,357	-	134,357
Stocks	395,598	-	-	395,598
Foreign currency forward contracts	-	1,683	-	1,683
	395,598	136,040	-	531,638
Total invested assets at fair value	1,120,866	2,973,998	137,433	4,232,297
FVTPL				
Foreign currency forward contracts (note 11)	-	10,790	-	10,790
Total financial liabilities at fair value	-	10,790	-	10,790

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

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

9 months ended September 30, 2019	**Limited partnerships $**
Balance, beginning of period	**137,433**
Purchases	**47,627**
Sales and redemptions	**(9,295)**
Losses	
Unrealized included in OCI	**(2,919)**
Balance, end of period	**172,846**

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

The investments measured at fair value and classified as Level 3 as at September 30, 2019 are limited partnerships, which represent units of third-party managed private equity funds (Funds). The fair values of limited partnership investments are based on the net asset value (NAV) from each of the individual Funds most recent quarterly or annual financial statements. Limited partnership NAV’s are derived by valuation techniques employed by each Funds’ management using unobservable inputs. The Company assesses the NAV disclosed in each Funds most recent financial statement using independent analytical procedures to ensure the amount is a reasonable representation of fair value. The Company does not assess the sensitivity of the fair value of limited partnerships because the inputs used by each fund manager to determine the NAV are unobservable and not readily available.

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

The fair value of mortgages at September 30, 2019 is $490,236 (December 31, 2018 - $447,699). Mortgages measured at fair value, for disclosure purposes only, are classified as Level 3. The fair value of the mortgages has been calculated by discounting the expected cash flows of each instrument. The discount rate is determined using the Government of Canada benchmark bond yield for instruments of similar maturity adjusted for specific credit risk. In determining the adjustment for credit risk, the Company considers market conditions, the value of the properties that the mortgage is secured by and other indicators of creditworthiness.

c) Net investment income and gains

	3 months ended September 30, 2019 $	3 months ended September 30, 2018 $	**9 months ended September 30, 2019 $**	9 months ended September 30, 2018 $
Interest income	**24,547**	22,078	**71,603**	62,896
Dividend income	**13,482**	10,199	**48,337**	31,211
Investment expense	**(1,513)**	(1,736)	**(4,564)**	(4,916)
Net investment income	**36,516**	30,541	**115,376**	89,191
Net realized gains (losses)	**9,796**	4,320	**78,802**	10,286
Net foreign exchange gains (losses)	**(1,932)**	3,759	**8,965**	(139)
Change in fair value (note 14)	**(234)**	(669)	**(1,817)**	(9,724)
Impairment losses (note 14)	**(891)**	(1,947)	**(3,946)**	(7,457)
Net investment gains (losses)	**6,739**	5,463	**82,004**	(7,034)
Net investment income and gains	**43,255**	36,004	**197,380**	82,157

5. Insurance contracts

Insurance contracts are comprised of the following balances:

	As at September 30, 2019 $	As at December 31, 2018 $
Undiscounted unpaid claims and adjustment expenses	**2,813,000**	2,667,071
Effect of time value of money	**(129,682)**	(145,666)
Provisions for adverse deviation (PFADs)	**273,913**	249,615
Effect of discounting	**144,231**	103,949
Discounted unpaid claims and adjustment expenses	**2,957,231**	2,771,020
Unearned premiums	**1,887,725**	1,697,482
Experience rated refund pool	**12,549**	12,810
	4,857,505	4,481,312

The most recent set of annual consolidated financial statements provides a summary of the Company's unpaid claims and adjustment expense provision and unearned premiums by type of insurance contract both before and after reinsurance.

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

6. Reinsurance contracts

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

The Company's net retentions are as follows:

	As at September 30, 2019 $	As at December 31, 2018 $
Individual loss		
Property	**7,500**	7,500
General liability	**5,000**	5,000
Automobile	**5,000**	5,000
Fidelity and director's liability	**3,000**	3,000
Catastrophe		
Maximum limit	**1,400,000**	1,300,000
Company retention	**70,000**	70,000

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

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

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

	As at September 30, 2019 $	As at December 31, 2018 $
Reinsurance ceded assets		
Reinsurers' share of unearned premiums	**48,108**	70,122
Reinsurers' share of unpaid claims and adjustment expenses	**150,773**	157,384
Reinsurer receivables	**15,978**	15,495
	214,859	243,001
Reinsurance ceded liabilities		
Unearned reinsurance commissions	**22,859**	37,165
Payable to reinsurers	**6,291**	5,176
Unlicensed reinsurer deposits	**15,599**	26,233
	44,749	68,574
Reinsurance ceded contracts	**170,110**	174,427

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

7. Income taxes

Reconciliation to statutory income tax rate

In the consolidated statements of income, the income taxes reflect an effective tax rate which differs from the statutory tax rate for the following reasons:

	9 months ended September 30, 2019		9 months ended September 30, 2018	
	$	**%**	$	%
Income (loss) before income taxes	**143,335**		(35,248)	
Income tax expense (recovery) at statutory rates	**38,700**	**27.0**	(9,517)	27.0
Effects of:				
Non-taxable investment income	**(9,384)**	**(6.5)**	(7,133)	20.2
Non-deductible expenses	**736**	**0.5**	598	(1.7)
Change in income tax rates	**(190)**	**(0.1)**	(48)	0.1
Difference in effective tax rate of subsidiaries	**(10)**	**-**	(11)	-
Adjustment to tax expense in respect of prior years	**(168)**	**(0.1)**	(195)	0.6
Other	**283**	**0.2**	(72)	0.2
Income tax expense (recovery)	**29,967**	**21.0**	(16,378)	46.4

8. Intangible assets

	Goodwill	Licenses	Brand	Customer relationships	Software	Software under development	Total
	$	$	$		$	$	$
Cost							
January 1, 2018	1,076	53,750	-	26,394	18,395	-	99,615
Additions	-	1,250	-	177	361	3,428	5,216
Acquisition of a subsidiary from a related party	5,730	-	800	5,700	-	-	12,230
December 31, 2018	6,806	55,000	800	32,271	18,756	3,428	117,061
Additions	-	-	-	13,438	-	5,747	19,185
September 30, 2019	**6,806**	**55,000**	**800**	**45,709**	**18,756**	**9,175**	**136,246**
Accumulated amortization							
January 1, 2018	-	-	-	8,180	18,127	-	26,307
Amortization	-	-	-	3,251	188	-	3,439
Acquisition of a subsidiary from a related party	-	-	-	4,702	-	-	4,702
December 31, 2018	-	-	-	16,133	18,315	-	34,448
Amortization	-	-	-	3,103	160	-	3,263
September 30, 2019	-	**-**	**-**	**19,236**	**18,475**	-	**37,711**
Net carrying value							
December 31, 2018	6,806	55,000	800	16,138	441	3,428	82,613
September 30, 2019	**6,806**	**55,000**	**800**	**26,473**	**281**	**9,175**	**98,535**

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

9. Right-of-use assets and lease liabilities

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

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

Right-of-use assets

	As at September 30, 2019 $
Balance at January 1, 2019	**35,765**
Additions	**2,298**
Amortization	**(8,321)**
Balance	**29,742**

Lease liabilities

	As at September 30, 2019 $
Undiscounted cash flows	
Less than one year	**958**
One to three years	**18,890**
Four to five years	**9,314**
Six to nine years	**2,447**
Undiscounted balance	**31,609**
Effect from discounting	**(1,381)**
Lease Liabilities included in the consolidated balance sheets	**30,228**

Potential future undiscounted cash outflows of $52,666 have not been included in the lease liability as it is not reasonably certain that the leases will be extended.

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

Expenses included in the consolidated statement of income

	2019
	$
Interest on lease liabilities	**664**
Variable lease payments not included in the measurement of lease liabilities	**4,414**
Lease expenses included in the consolidated statements of income	**5,078**

10. Other assets

	As at September 30, 2019	As at December 31, 2018
	$	$
Due from related parties	**27,282**	42,535
Loans to related parties	**300**	300
Reinsurance assumed receivables	**1,157**	1,435
Property and equipment	**14,958**	18,118
Due from risk sharing pools	**4,131**	4,192
Investments in associates and joint ventures	**7,464**	7,925
Prepaid expenses	**1,234**	4,126
Other	**5,218**	5,699
	61,744	84,330

11. Provisions and other liabilities

	As at September 30, 2019	As at December 31, 2018
	$	$
Provision for advisor transition commissions	**130,650**	116,161
Advisor transition commission payable	**16,047**	16,774
Other provisions	**6,019**	5,455
Foreign currency forward contracts (note 4)	**520**	10,790
Other liabilities	**2,683**	2,745
	155,919	151,925

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

12. Net earned premium

	3 months ended September 30, 2019	3 months ended September 30, 2018	**9 months ended September 30, 2019**	9 months ended September 30, 2018
	$	$	**$**	$
Direct written premium	**999,653**	909,125	**2,807,088**	2,450,518
Assumed written premium	**5,518**	5,654	**17,784**	13,100
Gross written premium	**1,005,171**	914,779	**2,824,872**	2,463,618
Ceded written premium	**(63,014)**	(74,309)	**(204,337)**	(170,829)
Net written premium	**942,157**	840,470	**2,620,535**	2,292,789
Change in gross unearned premium	**(91,188)**	(91,779)	**(190,242)**	(170,933)
Change in ceded unearned premium	**(10,339)**	1,926	**(22,013)**	4,267
Net earned premium	**840,630**	750,617	**2,408,280**	2,126,123

13. Share capital

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

For the nine months ended September 30, 2019, the Company issued 71,196 (2018 - 78,228) Class A preference shares, series B for $7,120 (2018 - $7,823) and redeemed 50,645 shares (2018 - 37,754) for $5,065 (2018 - $3,775). In addition, the Company issued 2,014,911 (2018 - 2,908,891) common shares to its parent for $130,002 (2018 - $181,700). In 2019, the share issuance was due to the acquisition of business from a related party (note 3). The Company redeemed 119,818 (2018 - 42,559) Class A preference shares, series A for $2,998 (2018 - $1,063).

Dividends are as follows:

	9 months ended September 30, 2019				9 months ended September 30, 2018			
	Declared	**Declared per share**	**Paid**	**Paid per share**	Declared	Declared per share	Paid	Paid per share
	$	**$**	**$**	**$**	$	$	$	$
Class A, series A	**-**	**-**	**113**	**0.94**	119	0.94	274	1.88
Class A, series B	**1,911**	**2.50**	**$ 3,782**	**5.00**	1,794	2.50	3,521	5.00
Class B	**1**	**1.25**	**1**	**2.50**	1	1.25	1	2.50
Class D, series A	**35**	**2.50**	**69**	**5.00**	35	2.50	69	5.00
Class D, series B	**106**	**2.50**	**213**	**5.00**	106	2.50	213	5.00
Class D, series C	**108**	**2.50**	**216**	**5.00**	108	2.50	216	5.00
Class E, series C	**3,750**	**0.94**	**3,750**	**0.94**	3,750	0.94	3,750	0.94
Class F, series A	**458**	**0.94**	**916**	**1.88**	458	0.94	916	1.88
Class G, series A	**19**	**1.25**	**37**	**2.50**	19	1.25	37	2.50
Common shares	**28,000**	**1.00**	**28,000**	**1.06**	-	-	-	-
	34,388		**37,097**		6,390		8,997	

During the nine months ended September 30, 2019, the Company declared and paid common dividends to its parent for $28,000 (2018 - $nil).

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

14. Statement of cash flows - other non-cash items

	9 months ended September 30, 2019 $	9 months ended September 30, 2018 $
i) Items not requiring the use of cash		
Investing activities (gains)	**(87,767)**	(10,147)
Impairment losses (note 4)	**3,946**	7,457
Amortization and depreciation of:		
Bond premium/discount	**12,181**	12,157
Mortgage accretion	**282**	331
Intangible assets	**3,263**	2,461
Property and equipment	**5,088**	6,298
Right-of-use assets (note 9)	**8,321**	-
Acquisition of business from a related party (note 3)	**(130,000)**	-
Share capital - common shares issued (note 3)	**130,002**	-
Change in fair value of FVTPL invested assets (note 4)	**1,817**	9,724
Deferred income taxes	**2,711**	(3,544)
Retirement benefit obligations	**3,845**	4,012
Loss from investments in joint ventures	**461**	620
	(45,850)	29,369
ii) Changes in non-cash operating components		
Other		
Insurance contracts	**376,193**	290,021
Reinsurance ceded contracts	**4,317**	19,477
Premiums due	**(147,223)**	(135,931)
Deferred acquisition expenses	**(12,077)**	(24,994)
Staff share loan plan	**656**	(82)
Accounts receivable and other assets	**22,016**	5,584
Accounts payable and accrued charges	**16,596**	2,640
Income taxes payable/recoverable	**43,542**	(36,689)
Provisions and other liabilities	**14,264**	7,062
	318,284	127,088

	9 months ended September 30, 2019 $	9 months ended September 30, 2018 $
Interest and dividends received	**145,261**	115,487
Income taxes paid (net of recoveries)	**(13,202)**	23,817
Interest paid	**711**	2