



Co-operators General Insurance Company

Management's Discussion and Analysis

For the third quarter ended September 30, 2019

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October 25, 2019

This Management's Discussion and Analysis (MD&A) comments on Co-operators General Insurance Company's operations and financial condition for the third quarter ended September 30, 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 third quarter ended September 30, 2019, second quarter ended June 30, 2019 and the first quarter ended March 31, 2019;
- our MD&A for the second quarter ended June 30, 2019 and 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 September 30, 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 September 30 unless otherwise stated

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

3rd quarter	2019	2018	2017
Key financial data³			
Direct written premium (DWP)	999.7	909.1	746.2
Net earned premium (NEP)	840.6	750.6	656.3
Net income (loss)	12.4	12.9	(7.4)
Total assets ¹	7,275.6	6,698.7	5,922.1
Total liabilities ¹	5,441.5	5,048.8	4,391.0
Shareholders' equity ¹	1,834.2	1,649.9	1,531.1
Key success indicators³			
Direct written premium growth	10.0%	21.8%	8.0%
Net earned premium growth	12.0%	14.4%	6.8%
Underwriting income (loss) - excluding market yield adjustment (MYA)	(24.7)	(31.3)	(58.5)
Earnings (loss) per common share (EPS) ²	\$0.42	\$0.48	(\$0.40)
Return on equity (ROE)	3.1%	3.5%	(2.1%)
Combined ratio - excluding MYA	103.0%	104.1%	108.9%
Combined ratio - including MYA	103.9%	103.1%	108.1%
Minimum Capital Test (MCT) ¹	218%	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

Co-operators General reported net income after tax of \$12.4 million for the three months ended September 30, 2019, a decrease of \$0.5 million compared to the same quarter of 2018. Our return on equity for the quarter was 3.1% versus 3.5% in the third quarter of 2018. Earnings per common share in the quarter was \$0.42 compared to \$0.48 in the same quarter of the prior year.

Excluding MYA, our underwriting loss of \$24.7 million for the third quarter of 2019 improved from our underwriting loss of \$31.3 million in the same quarter of 2018. This was a result of continued premium growth from all lines of business driven by higher average premiums combined and in policies in force. Partially offsetting premium growth was an increase claims costs, concentrated within the auto line of business. In addition, hail and windstorms in the West and Atlantic toward the end of the quarter led to significant claims activity. While total claims costs increased during the period, improved claims experience and premium growth has led to an improvement in our loss ratio, excluding MYA, by 2.6 percentage points.

Net investment income and gains increased by \$7.3 million compared to the same quarter last year primarily due to higher investment income, a result of higher distributions from limited partnership funds and a higher total invested asset base. The MYA had a \$7.9 million unfavourable impact on net income before tax as a result of a significant decrease in the discount rate.

FINANCIAL PERFORMANCE

DIRECT WRITTEN PREMIUM AND NET EARNED PREMIUM

\$ millions	Q3 2019	Q3 2018	% change	YTD 2019	YTD 2018	% change
Direct written premium	999.7	909.1	10.0%	2,807.1	2,450.5	14.6%
Net earned premium	840.6	750.6	12.0%	2,408.3	2,126.1	13.3%

In the third quarter, DWP increased by 10.0% or \$90.6 million to \$999.7 million compared to the same quarter of 2018. The increase in DWP was primarily attributable to rate adjustments and to a lesser extent, policies in force across the auto and home lines of business, particularly in Ontario. NEP increased during the third quarter by 12.0% or \$90.0 million compared to the same quarter last year. The increase in NEP during the quarter was seen throughout all geographic regions and core product lines, except travel and other.

Refer to Note 12 of our unaudited condensed consolidated interim financial statements for the period ended September 30, 2019 for a reconciliation of DWP to NEP.

NEP by line of business

\$ millions	Q3 2019	Q3 2018	% change	YTD 2019	YTD 2018	% change
Auto	415.2	361.9	14.7%	1,178.8	1,019.0	15.7%
Home	231.2	209.2	10.5%	665.8	597.1	11.5%
Commercial	139.7	127.8	9.3%	402.1	366.8	9.6%
Farm	36.5	33.2	9.9%	106.1	96.5	9.9%
Travel and other	18.0	18.5	(2.7%)	55.5	46.7	18.8%
Total	840.6	750.6	12.0%	2,408.3	2,126.1	13.3%

Auto continued to be the largest contributor to NEP growth, increasing by 14.7% over the same quarter in 2018. This was driven by rate adjustment increases and growth in vehicles in force across all regions. NEP increased in the home and commercial lines of business by 10.5% and 9.3% respectively, over the same quarter of 2018. Growth was attributable to rate adjustments, coupled with an increase in policies in force. The farm line of business saw an increase in NEP of 9.9% over the same quarter of 2018, driven by higher average premiums particularly in the Western and Ontario markets. Travel and other lines of business saw a decrease in NEP of \$0.5 million over the same quarter of 2018, attributable to the loss or cancellation of several large client accounts.

NEP by geographic region

\$ millions	Q3	Q3	%	YTD	YTD	%
	2019	2018	change	2019	2018	change
West	293.7	273.2	7.5%	854.0	780.4	9.4%
Ontario	424.7	371.9	14.2%	1,210.5	1045.9	15.7%
Quebec	42.6	33.4	27.5%	116.4	94.2	23.6%
Atlantic	79.6	72.1	10.4%	227.4	205.6	10.6%
Total	840.6	750.6	12.0%	2,408.3	2,126.1	13.3%

During the third quarter, the Western region NEP grew by \$20.5 million compared to the same quarter of 2018 and was primarily driven by rate adjustments within the auto and home lines of business. NEP increased in Ontario by \$52.8 million over the same quarter of 2018 resulting from an increase in vehicles and policies in force across all lines of business and rate adjustments predominantly in the home and auto lines of business. Growth in vehicles and policies in force combined with increases in average premiums were the key drivers of NEP growth in Quebec and the Atlantic region of 27.5% and 10.4%, respectively.

NET INVESTMENT INCOME AND GAINS

\$ millions	Q3	Q3	%	YTD	YTD	%
	2019	2018	change	2019	2018	change
Interest income	24.5	22.1	2.4	71.6	62.9	8.7
Dividend and other income	13.5	10.2	3.3	48.3	31.2	17.1
Investment expenses	(1.5)	(1.8)	0.3	(4.6)	(4.9)	0.3
Net investment income	36.5	30.5	6.0	115.3	89.2	26.1
Net realized gains	9.8	4.3	5.5	78.8	10.3	68.5
Net foreign exchange gains (losses)	(1.9)	3.8	(5.7)	9.0	(0.1)	9.1
Change in fair value	(0.2)	(0.7)	0.5	(1.8)	(9.7)	7.9
Impairment losses	(0.9)	(1.9)	1.0	(3.9)	(7.5)	3.6
Net investment gains (losses)	6.8	5.5	1.3	82.1	(7.0)	89.1
Net investment income and gains	43.3	36.0	7.3	197.4	82.2	115.2

Net investment income and gains increased by \$7.3 million in the current period as compared to the third quarter of 2018 driven by an increase in investment income and a reduction in impairment losses.

Net investment income increased by \$6.0 million driven by a higher invested asset base and an increase in distributions from limited partnerships funds in the current period as compared to the third quarter of 2018.

Net realized gains increased by \$5.5 million primarily driven by an increase in bond gains, offset by a decrease in common share gains from the same quarter of 2018. Higher portfolio turnover drove realized bond gains of \$9.0 million for the quarter which was in contrast with \$2.0 million of losses for the comparative period. Realized common share gains decreased by \$4.3 million as the result of a lower portfolio turnover in third quarter of 2019.

The Canadian dollar depreciated 1.1% during the current period resulting in foreign exchange losses of \$1.9 million, in contrast to gains of \$3.8 million during the third quarter of 2018 when the Canadian dollar appreciated by 1.6%. Impairment losses during the quarter were \$1.0 million lower than the third quarter of 2018 driven by continued strength in equity markets.

OTHER COMPREHENSIVE INCOME

\$ millions	Q3 2019	Q3 2018	YTD 2019	YTD 2018
Other comprehensive income (loss)	14.7	(14.1)	107.0	(0.3)

Other comprehensive income of \$14.7 million in the third quarter was favorable by \$28.8 million as compared to the same period of 2018. Stronger equity markets during the third quarter of 2019 as compared the prior year period resulted in a \$19.2 million increase in unrealized common share gains. Interest rates remained flat in the current period; this contrasted with rising interest rates during the comparative period of 2018 and resulted in a \$16.2 million favorable change in unrealized bond losses. In addition, higher bond portfolio turnover during the current period led to a \$7.1 million increase in reclassification adjustments to profit and loss as compared to the prior year period.

EXPENSES

Claims and adjustment expenses – Loss ratio

\$ millions, except ratios	Q3 2019	Q3 2018	change	YTD 2019	YTD 2018	change
Undiscounted net claims and adjustment expenses	594.8	551.3	43.5	1,644.6	1,585.0	59.6
Effect of MYA	7.9	(7.5)	15.4	40.0	(13.1)	53.1
Net claims and adjustment expenses	602.7	543.8	58.9	1,684.6	1,571.9	112.7
Loss ratio (excluding MYA)	70.8%	73.4%	(2.6) pts	68.3%	74.5%	(6.2) pts
Loss ratio (including MYA)	71.7%	72.4%	(0.7) pts	69.9%	73.9%	(4.0) pts

Undiscounted net claims and adjustment expenses increased by \$43.5 million or 7.9% compared to the same period of the prior year. The increase in claims and adjustment expenses was driven by higher frequency and severity of current accident year claims in auto, particularly in the West and Ontario. This was partially offset by decreases in claims and adjustment expenses across all other lines of business. While overall net claims and adjustment expenses, which includes the impacts of severe hail and windstorms in the Western and Atlantic regions, increased during the period, improved claims experience and premium growth has led to an improvement in the loss ratio, excluding MYA, by 2.6 percentage points.

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 \$7.9 million in the third quarter of 2019 as compared to a \$7.5 million positive impact for the same quarter of 2018. The negative impact of MYA is partially offset by net investment gains of \$7.3 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	Q3			YTD		
	2019	2018	change	2019	2018	change
Auto	82.3	77.6	4.7	77.7	77.0	0.7
Home	61.8	71.8	(10.0)	59.5	77.2	(17.7)
Commercial	54.9	64.4	(9.5)	60.9	67.5	(6.6)
Farm	71.0	90.4	(19.4)	63.3	79.5	(16.2)
Travel and other	42.0	43.0	(1.0)	36.9	31.9	5.0
Total	70.8	73.4	(2.6) pts	68.3	74.5	(6.2) pts

The third quarter saw an improvement in the loss ratio across all lines of business except automobile. Increased frequency and severity of current accident year claims drove an increase in claims in the auto line of business. As claims outpaced NEP growth, this led to a deterioration in the auto loss ratio by 4.7 percentage points compared to the third quarter of 2018. For home, frequency of current year accident claims decreased in the current quarter, leading to an improvement in the loss ratio by 10.0 percentage points. This was partially offset by the impact of Hurricane Dorian which led to a 36.4 percentage point increase to the loss ratio in the Atlantic region.

The commercial line of business experienced a decrease in the frequency of current accident year claims compared to the same quarter of the prior year, most notably in Ontario and Quebec. Combined with NEP growth which outpaced claims, this led to an improvement in the commercial loss ratio of 9.5 percentage points. NEP growth and a decrease in the frequency and severity of current accident year claims led to an improvement in the farm loss ratio of 19.4 percentage points. The loss ratio in our travel and other line of business improved by 1.0 percentage points as a result of decreased frequency in current accident year claims.

Loss ratio by geographic region

% excluding MYA	Q3			YTD		
	2019	2018	change	2019	2018	change
West	76.0	71.9	4.1	62.8	69.6	(6.8)
Ontario	66.0	73.3	(7.3)	69.9	77.0	(7.1)
Quebec	54.6	74.1	(19.5)	73.3	73.3	-
Atlantic	85.3	79.5	5.8	77.8	81.4	(3.6)
Total	70.8	73.4	(2.6) pts	68.3	74.5	(6.2) pts

Severe hailstorms in the Western region led to an increase in the frequency and severity of current accident year claims across all lines of business except for farm. The impact was particularly felt in the auto line of business, resulting in a loss ratio deterioration of 4.1 percentage points over the prior quarter. Improvement in Ontario's loss ratio by 7.3 percentage points was driven by NEP growth outpacing accident year claims increases; this also holds true for Quebec, which recorded a significant improvement in the loss ratio across all lines of business by 19.5 percentage points. The effects of severe weather, in part from Hurricane Dorian, was felt in the Atlantic, particularly in the home line of business where the loss ratio deteriorated 36.4 percentage points over the prior quarter. This was partially offset by lower frequency and severity of accident year claims in auto, an overall deterioration in the loss ratio in the Atlantic of 5.8 percentage points.

Other operating expenses – Expense ratio

% , except total other operating expenses (\$ millions)	Q3			YTD		
	2019	2018	change	2019	2018	change
Total other operating expenses	270.5	230.6	39.9	785.0	678.0	107.0
Components of expense ratio						
Premium and other taxes	3.7	3.5	0.2 pts	3.6	3.5	0.1 pts
Net commissions and advisor compensation	16.5	16.3	0.2 pts	16.9	16.9	- pts
General expenses	12.0	10.9	1.1 pts	12.1	11.5	0.6 pts
Expense ratio	32.2	30.7	1.5 pts	32.6	31.9	0.7 pts

Other operating expenses are comprised of premium and other taxes, net commissions, advisor compensation and general expenses. The increase of \$39.9 million in the current quarter over 2018 was primarily driven by higher commission expenses and advisor compensation resulting from NEP growth. Despite NEP growth in the quarter, the expense ratio increased by 1.5 percentage points over the same quarter last year, the result of higher general expenses from staffing costs coupled with the timing of project spend.

Income taxes

Refer to Note 7 of our unaudited condensed consolidated interim financial statements for the period ended September 30, 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	As at	% change
	September 30, 2019	December 31, 2018	
Assets			
Invested assets	5,175.2	4,728.9	9.4%
Reinsurance ceded contracts	170.1	174.4	(2.5%)
Intangible assets	98.5	82.6	19.2%
Other assets	1,831.8	1,712.8	6.9%
Liabilities			
Insurance contracts	4,857.5	4,481.3	8.4%
Retirement benefit obligations	124.3	120.5	3.2%
Other liabilities	459.7	447.0	2.8%
Shareholders' equity	1,834.2	1,649.9	11.2%

Our balance sheet remains strong at the end of the third quarter of 2019. The value of our invested assets exceeds insurance contracts net of reinsurance ceded contracts by 10.4%, compared to an excess of 9.8% as at December 31, 2018. Our MCT ratio of 218% at September 30, 2019 also denotes our strong financial condition.

Invested assets increased by \$446.3 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 \$376.2 million; this can be attributed to an both an increase in discounted unpaid claims and adjustment expenses and higher unearned premiums, the latter of which is consistent with increased premium growth during the third 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 \$2,647.8 million or 51.2% 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 \$1,220.2 million or 23.6% 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 87.5% 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 85.8% rated A or higher and 96.4% of our bonds are considered investment grade, rated BBB or higher.

MINIMUM CAPITAL TEST

	September 30, 2019	December 31, 2018
MCT	218%	208%

Co-operators General's MCT of 218% at September 30, 2019 represents \$294.4 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, dividend payments, and the results of our operations.

SHARE CAPITAL

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

DIVIDENDS

Dividends declared on preference shares were \$1.3 million in the third quarter ended September 30, 2019, compared to \$1.3 million declared in the same quarter last year. A \$28.0 million common share dividend was declared to the Company's parent, CFSL on August 26, 2019. There were no dividends declared on common shares for the comparative period ended September 30, 2018.

EARNINGS PER SHARE

\$ millions, except share data and EPS	Q3 2019	Q3 2018	YTD 2019	YTD 2018
Net income (loss)	12.4	12.9	113.4	(18.9)
Less: dividends on preference shares	1.3	1.3	6.4	6.4
Net income (loss) available to shareholders	11.1	11.6	107.0	(25.3)
Weighted average number of outstanding common shares ¹	26,515	24,413	25,430	23,307
Earnings (loss) per common share	\$0.42	\$0.48	\$4.21	(\$1.08)

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

CASH FLOWS

\$ millions	Q3 2019	Q3 2018	YTD 2019	YTD 2018
Cash provided by operating activities	212.2	126.7	385.8	137.5
Investing activities				
Net purchase of investments	(137.6)	(187.0)	(241.4)	(104.7)
Acquisition of subsidiary from related party, net of cash acquired	-	(40.5)	-	(176.8)
Purchases of intangibles & property and equipment	(6.8)	(0.6)	(21.1)	(2.0)
Cash flows used in investment activities	(144.4)	(228.1)	(262.5)	(283.5)
Financing activities				
Net preference shares issued (redeemed)	0.4	1.2	(2.4)	2.5
Common shares issued	-	-	-	181.7
Dividends paid	(31.9)	(3.9)	(37.1)	(9.0)
Lease liabilities paid	(2.5)	-	(7.8)	-
Cash flows provided by (used) in financing activities	(34.0)	(2.7)	(47.3)	175.2
Net increase (decrease) in cash and cash equivalents	33.8	(104.1)	76.0	29.2

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

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	Q3 2019	Q3 2018	YTD 2019	YTD 2018
Net earned premium, as reported	840.6	750.6	2,408.3	2,126.1
Undiscounted net claims and adjustment expenses (excluding MYA)	594.8	551.3	1,644.6	1,585.0
Loss ratio (excluding MYA)	70.8%	73.4%	68.3%	74.5%
Other operating expenses	270.5	230.6	785.0	678.0
Expense ratio	32.2%	30.7%	32.6%	31.9%
Underwriting income (loss)	(24.7)	(31.3)	(21.3)	(136.9)
Combined ratio (excluding MYA)	103.0%	104.1%	100.9%	106.4%

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).

	Q3 2019	Q3 2018
\$ millions, except ratios		
Net income	12.4	12.9
Shareholders' equity excluding AOCI at September 30,	1,636.7	1,480.7
Shareholders' equity excluding AOCI at June 30,	1,652.5	1,467.5
ROE	3.1%	3.5%

SELECTED QUARTERLY INFORMATION

(in millions of dollars except for EPS and ratios)

	2019 3rd qtr	2019 2nd qtr	2019 1st qtr	2018 4th qtr ¹	2018 3rd qtr ¹
Direct written premium	999.7	1,049.8	757.6	845.4	909.1
Net earned premium	840.6	804.6	763.0	760.8	750.6
Net income (loss)	12.4	79.1	21.8	(18.2)	12.9
Other comprehensive income (loss)	14.7	(3.0)	95.3	(35.9)	(14.1)
Key statistics					
Earnings (loss) per common share	\$0.42	\$2.84	\$0.84	(\$0.81)	\$0.48
Loss ratio (excluding MYA)	70.8%	62.3%	71.9%	70.0%	73.4%
Expense ratio	32.2%	33.1%	32.5%	32.1%	30.7%
Combined ratio	103.0%	95.4%	104.4%	102.2%	104.1%

	2018 2nd qtr ¹	2018 1st qtr	2017 4th qtr	2017 3rd qtr
Direct written premium	941.7	599.7	685.2	746.2
Net earned premium	717.4	658.1	664.8	656.3
Net income (loss)	(4.0)	(27.8)	64.8	(7.4)
Other comprehensive income (loss)	21.5	(7.8)	4.9	(23.7)
Key statistics				
Earnings (loss) per common share	(\$0.35)	(\$1.35)	\$2.84	(\$0.40)
Loss ratio (excluding MYA)	75.7%	74.5%	67.7%	76.8%
Expense ratio	32.1%	33.0%	32.6%	32.1%
Combined ratio	107.8%	107.5%	100.3%	108.9%

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

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

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

OUTLOOK, BUSINESS DEVELOPMENTS AND OPERATING ENVIRONMENT

GENERAL BUSINESS AND ECONOMIC CONDITIONS

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. Solid economic data so far in 2019 have failed to soothe markets' concerns about geopolitical issues leading the Fed to further ease monetary policy in the third quarter while the Bank of Canada stayed put. 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

Auto insurance reform

Following the *Putting Drivers First* blueprint released in the 2019-20 budget, the provincial government has begun to implement its auto reform measures. The government has indicated that its reform priorities over the next year include the introduction of driver care cards, reforming the medical assessment process, amending the default benefit limit and implementing a "care, not cash" clause. The intent of the reforms are to streamline access to services and ensure that insurance resources are used to pay for accident victim's treatment of injuries rather than administrative costs. We were pleased to have participated in several government consultations and advisory groups related to these changes.

Financial Services Regulatory Authority

The Financial Services Regulatory Authority (FSRA) assumed regulatory duties as of June 8th in the prior quarter. Core priorities, which we support, include streamlining the rate regulation process, adopting the auto reform strategy discussed above, reviewing health service provider regulation, and developing a fraud and abuse reduction strategy. Under the first two priorities, FSRA continues to consult with the industry on its review of all existing guidance including plans to eliminate a significant number of interpretation bulletins. With the help of an advisory group consisting of senior industry professionals, including ourselves, FSRA recently implemented a new "file and use" standard rate filing process that is intended to streamline the rate regulation process.

Auto insurance system review in Newfoundland and Labrador

The regulations associated with the recent auto insurance reform legislation were released in September. They provide direction on changes to usage based technology, winter tire rate reductions and direct compensation for property damage coverage. The regulations come into effect on January 1, 2020. We do not expect these changes to have a significant impact on loss costs associated with accident benefit or bodily claims.

Alberta auto

Rate regulations

Effective August 31, the ministerial order mandating a five percent rate cap has expired. While the current state of the market is challenging, we remain committed to working with the government and the Alberta Automobile Insurance Rate Board (AIRB) to achieve common objectives that will benefit drivers.

RELATED PARTY TRANSACTIONS

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 100% owned by our parent, CFSL. The fair value of the consideration exchanged was \$130.0 million in common shares and the difference between the carrying value and the consideration exchanged was recorded directly through equity.

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 4.2% 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.

No changes were made to our internal controls over financial reporting during the third quarter of 2019 that have materially affected, or are reasonably likely to materially affect, our 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 2018 Annual Report.

The accounting policies used in our third 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 September 30, 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 September 30, 2019.

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