# Co-operators General Insurance Company

Unaudited Condensed Consolidated Interim Financial Statements

For the first quarter ended March 31, 2019

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

As at

| (in thousands of Canadian dollars) | **March 31, 2019 $** | December 31, 2018 $ |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **103,869** | 65,372 |
| Invested assets including securities on loan (note 4) | **4,851,991** | 4,728,874 |
| Premiums due | **996,119** | 1,073,368 |
| Income taxes recoverable | **37,547** | 79,857 |
| Reinsurance ceded contracts (note 6) | **184,185** | 174,427 |
| Deferred acquisition expenses | **277,654** | 293,131 |
| Deferred income taxes | **118,418** | 116,749 |
| Intangible assets (note 8) | **86,780** | 82,613 |
| Right-of-use-assets (note 9) | **33,739** | - |
| Other assets (note 10) | **76,203** | 84,330 |
| | **6,766,505** | 6,698,721 |
| **Liabilities** | | |
| Accounts payable and accrued charges | **210,172** | 291,125 |
| Income taxes payable | **39** | 39 |
| Insurance contracts (note 5) | **4,488,315** | 4,481,312 |
| Retirement benefit obligations | **121,751** | 120,501 |
| Deferred income taxes | **4,844** | 3,876 |
| Lease liabilities (note 9) | **33,925** | - |
| Provisions and other liabilities (note 11) | **145,233** | 151,925 |
| | **5,004,279** | 5,048,778 |
| **Shareholders' equity** | | |
| Share capital | **411,298** | 413,452 |
| Contributed capital | **100,874** | 100,874 |
| Retained earnings | **1,064,269** | 1,045,180 |
| Accumulated other comprehensive income | **185,785** | 90,437 |
| | **1,762,226** | 1,649,943 |
| | **6,766,505** | 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)

| **3 months ended March 31, 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 | **-** | **-** | **21,835** | **-** | **21,835** |
| Other comprehensive income | **-** | **-** | **-** | **95,348** | **95,348** |
| Total comprehensive income | **-** | **-** | **21,835** | **95,348** | **117,183** |
| Staff share loan plan | **701** | **-** | **-** | **-** | **701** |
| Preference shares issued | **2,138** | **-** | **-** | **-** | **2,138** |
| Preference shares redeemed | **(4,993)** | **-** | **(1,496)** | **-** | **(6,489)** |
| Dividends declared (note 13) | **-** | **-** | **(1,250)** | **-** | **(1,250)** |
| **Balance, end of period** | **411,298** | **100,874** | **1,064,269** | **185,785** | **1,762,226** |

| 3 months ended March 31, 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 | - | - | (27,781) | - | (27,781) |
| Other comprehensive loss | - | - | - | (7,772) | (7,772) |
| Total comprehensive loss | - | - | (27,781) | (7,772) | (35,553) |
| Staff share loan plan | 429 | - | - | - | 429 |
| Preference shares issued | 2,366 | - | - | - | 2,366 |
| Preference shares redeemed | (1,549) | - | (47) | - | (1,596) |
| Dividends declared (note 13) | - | - | (1,250) | - | (1,250) |
| Balance, end of period | 229,086 | 10,132 | 1,140,245 | 115,961 | 1,495,424 |

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 March 31, 2019 $** | 3 months ended March 31, 2018 $ |
|---|---|---|
| Income | | |
| Net earned premium (note 12) | **763,028** | 658,125 |
| Net investment income and gains (note 4) | **76,939** | 3,972 |
| Fees and other income | **1,693** | 1,552 |
| | **841,660** | 663,649 |
| Expenses | | |
| Claims and benefits | **604,062** | 489,560 |
| Ceded claims and benefits | **(36,943)** | (2,614) |
| Premium and other taxes | **25,945** | 22,132 |
| Commissions and advisor compensation | **168,388** | 116,984 |
| Ceded commissions | **(34,510)** | (1,110) |
| General expenses | **88,092** | 79,484 |
| | **815,034** | 704,436 |
| **Income (loss) before income taxes** | **26,626** | (40,787) |
| Income tax expense (recovery) (note 7) | **4,791** | (13,006) |
| **Net income (loss)** | **21,835** | (27,781) |
| Earnings (loss) per share | **0.84** | (1.35) |
| Weighted average number of common shares | **24,500** | 21,504 |

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

| (in thousands of Canadian dollars) | **3 months ended March 31, 2,019 $** | 3 months ended March 31, 2018 $ |
|---|---|---|
| **Net income (loss)** | **21,835** | (27,781) |
| Other comprehensive income (loss) | | |
| Items that may be reclassified subsequently to the consolidated statement of income: | | |
| Net unrealized gains (losses) on available-for-sale financial assets | **159,507** | (25,274) |
| Net reclassification adjustment for (gains) losses included in net income | **(28,852)** | 14,028 |
| Items that may be reclassified before income taxes | **130,655** | (11,246) |
| Income tax expense (recovery) relating to items that may be reclassified | **35,307** | (3,474) |
| **Other comprehensive income (loss)** | **95,348** | (7,772) |
| **Comprehensive income (loss)** | **117,183** | (35,553) |

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) | 3 months ended March 31, 2019 $ | 3 months ended March 31, 2018 $ |
|---|---|---|
| **Operating activities** | | |
| Net income (loss) | **21,835** | (27,781) |
| Items not requiring the use of cash (note 14) | **(28,422)** | 30,031 |
| Changes in non-cash operating components (note 14) | **53,890** | (17,284) |
| Cash provided by (used in) operating activities | **47,303** | (15,034) |
| **Investing activities** | | |
| Purchases and advances of: | | |
| Invested assets | **(1,245,412)** | (1,209,882) |
| Intangible assets | **(5,244)** | - |
| Property and equipment | **(1,993)** | (652) |
| Sale and redemption of: | | |
| Invested assets | **1,276,377** | 1,179,258 |
| Cash provided by (used in) investing activities | **23,728** | (31,276) |
| **Financing activities** | | |
| Share capital - preference shares issued | **2,138** | 2,366 |
| Share capital - preference shares redeemed | **(6,489)** | (1,596) |
| Dividends paid (note 13) | **(3,970)** | (3,858) |
| Lease liabilities paid | **(2,623)** | - |
| Cash used in financing activities | **(10,944)** | (3,088) |
| Net increase (decrease) in cash and cash equivalents, net of payments in transit | **60,087** | (49,398) |
| Cash and cash equivalents, net of payments in transit, beginning of period | **65,410** | 34,996 |
| **Cash and cash equivalents, net of payments in transit, end of period** | **125,497** | (14,402) |

| | | |
|---|---|---|
| Cash | **96,900** | 7,552 |
| Cash equivalents | **6,969** | 24,375 |
| Net payments in transit, included in accounts payable and accrued charges | **(35,138)** | (46,329) |
| **Cash and cash equivalents, net of payments in transit, end of period** | **68,731** | (14,402) |

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 the Company.

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 three months ended March 31, 2019 were authorized for issue in accordance with a resolution of the Audit Committee of the Board of Directors on April 26, 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 travel insurance underwritten by CUMIS General. CGIC and certain of its subsidiaries are regulated by the federal insurance act. 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 applies the rate implicit in the lease, if known, otherwise it applies 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. Acquisition of subsidiary from a related party

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 |
| **March 31, 2019** | $ | $ | $ | $ | $ | $ |
| **Bonds** | | | | | | |
| Federal | 772,443 | - | 40,950 | - | - | 813,393 |
| Provincial | 842,400 | - | 36,392 | - | - | 878,792 |
| Municipal | 17,742 | - | - | - | - | 17,742 |
| Corporate | 777,014 | - | 56,425 | - | 427 | 833,866 |
| Asset-backed securities | 73,551 | - | 9,048 | - | - | 82,599 |
| | 2,483,150 | - | 142,815 | - | 427 | 2,626,392 |
| **Stocks** | | | | | | |
| Canadian common | 687,311 | - | - | - | - | 687,311 |
| Canadian preferred | - | - | 399,796 | - | - | 399,796 |
| U.S. equities | 192,626 | - | - | - | - | 192,626 |
| Foreign equities | 4,324 | - | - | - | - | 4,324 |
| | 884,261 | - | 399,796 | - | - | 1,284,057 |
| Short-term investments | 128,706 | - | - | - | 4,794 | 133,500 |
| Limited partnerships | 143,280 | - | - | - | - | 143,280 |
| Pooled funds | 187,214 | - | - | - | - | 187,214 |
| Foreign currency forward contracts | - | 88 | - | - | - | 88 |
| Mortgages | - | - | - | 439,146 | - | 439,146 |
| Other investments | - | - | - | 13,938 | - | 13,938 |
| Investment income due and accrued | - | - | - | 24,376 | - | 24,376 |
| **Total invested assets** | 3,826,611 | 88 | 542,611 | 477,460 | 5,221 | 4,851,991 |

(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 $89,615 (2018 - $54,967) in stocks and $285,371 (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. 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.

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

*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:

| March 31, 2019 | Level 1 - Quoted prices $ | Level 2 - Significant other observable inputs $ | Level 3 - Significant unobservable inputs $ | Total fair value $ |
|---|---|---|---|---|
| **AFS** | | | | |
| **Bonds** | - | 2,483,150 | - | 2,483,150 |
| **Stocks** | 882,381 | - | - | 882,381 |
| **Short-term investments** | - | 128,706 | - | 128,706 |
| **Limited partnerships** | - | - | 143,280 | 143,280 |
| **Pooled funds** | - | 187,214 | - | 187,214 |
| | 882,381 | 2,799,070 | 143,280 | 3,824,731 |
| **FVTPL** | | | | |
| **Bonds** | - | 142,815 | - | 142,815 |
| **Stocks** | 399,796 | - | - | 399,796 |
| **Foreign currency forward contracts** | - | 88 | - | 88 |
| | 399,796 | 142,903 | - | 542,699 |
| **Total invested assets at fair value** | 1,282,177 | 2,941,973 | 143,280 | 4,367,430 |
| **FVTPL** | | | | |
| **Foreign currency forward contracts (note 11)** | - | 2,033 | - | 2,033 |
| **Total financial liabilities at fair value** | - | 2,033 | - | 2,033 |

(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.

| **3 months ended March 31, 2019** | **Limited partnerships $** |
|---|---|
| Balance, beginning of period | **137,433** |
| Purchases | **9,277** |
| Sales and redemptions | **(2,144)** |
| Losses | |
| Unrealized included in OCI | **(1,286)** |
| **Balance, end of period** | **143,280** |

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

The investments measured at fair value and classified as Level 3 as at March 31, 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 March 31, 2019 is $442,452 (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 March 31, 2019 $** | 3 months ended March 31, 2018 $ |
|---|---|---|
| Interest income | **23,676** | 19,629 |
| Dividend income | **15,448** | 9,255 |
| Investment expense | **(1,549)** | (1,548) |
| Net investment income | **37,575** | 27,336 |
| Net realized gains (losses) | **28,334** | (11,082) |
| Net foreign exchange gains (losses) | **5,111** | (2,893) |
| Change in fair value (note 14) | **7,315** | (5,527) |
| Impairment losses (note 14) | **(1,396)** | (3,862) |
| Net investment gains (losses) | **39,364** | (23,364) |
| **Net investment income and gains** | **76,939** | 3,972 |

## 5. Insurance contracts

Insurance contracts are comprised of the following balances:

| | **As at March 31, 2019 $** | As at December 31, 2018 $ |
|---|---|---|
| Undiscounted unpaid claims and adjustment expenses | **2,739,833** | 2,667,071 |
| Effect of time value of money | **(140,068)** | (145,666) |
| Provisions for adverse deviation (PFADs) | **261,932** | 249,615 |
| Effect of discounting | **121,864** | 103,949 |
| Discounted unpaid claims and adjustment expenses | **2,861,697** | 2,771,020 |
| Unearned premiums | **1,612,999** | 1,697,482 |
| Experience rated refund pool | **13,619** | 12,810 |
| | **4,488,315** | 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 March 31, 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 with a limit of $1,800 and 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 March 31, 2019 $** | As at December 31, 2018 $ |
|---|---|---|
| **Reinsurance ceded assets** | | |
| Reinsurers' share of unearned premiums | **55,491** | 70,122 |
| Reinsurers' share of unpaid claims and adjustment expenses | **168,008** | 157,384 |
| Reinsurer receivables | **12,470** | 15,495 |
| | **235,969** | 243,001 |
| **Reinsurance ceded liabilities** | | |
| Unearned reinsurance commissions | **29,201** | 37,165 |
| Payable to reinsurers | **3,560** | 5,176 |
| Unlicensed reinsurer deposits | **19,023** | 26,233 |
| | **51,784** | 68,574 |
| **Reinsurance ceded contracts** | **184,185** | 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:

| | **3 months ended March 31, 2019** | | 3 months ended March 31, 2018 | |
|---|---|---|---|---|
| | **$** | **%** | $ | % |
| Income (loss) before income taxes | **26,626** | | (40,787) | |
| Income tax expense (recovery) at statutory rates | **7,189** | **27.0** | (11,012) | 27.0 |
| Effects of: | | | | |
| Non-taxable investment income | **(2,626)** | **(9.9)** | (2,160) | 5.3 |
| Non-deductible expenses | **170** | **0.6** | 151 | (0.4) |
| Change in income tax rates | **(41)** | **(0.2)** | 2 | - |
| Difference in effective tax rate of subsidiaries | **(5)** | **-** | 1 | - |
| Other | **104** | **0.4** | 12 | - |
| Income tax expense (recovery) | **4,791** | **17.9** | (13,006) | 31.9 |

## 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 | - | - | - | 4,232 | - | 1,012 | 5,244 |
| **March 31, 2019** | **6,806** | **55,000** | **800** | **36,503** | **18,756** | **4,440** | **122,305** |
| **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 | - | - | - | 1,019 | 58 | - | 1,077 |
| **March 31, 2019** | - | **-** | **-** | **17,152** | **18,373** | - | **35,525** |
| **Net carrying value** | | | | | | | |
| December 31, 2018 | 6,806 | 55,000 | 800 | 16,138 | 441 | 3,428 | 82,613 |
| **March 31, 2019** | **6,806** | **55,000** | **800** | **19,351** | **383** | **4,440** | **86,780** |

(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 March 31, 2019 $ |
|---|---|
| Balance at January 1, 2019 | **35,765** |
| Additions | **782** |
| Amortization | **(2,808)** |
| **Balance at March 31, 2019** | **33,739** |

### *Lease liabilities*

| | As at March 31, 2019 $ |
|---|---|
| **Undiscounted cash flows** | |
| Less than one year | **11,459** |
| One to three years | **16,343** |
| Four to five years | **7,069** |
| Six to nine years | **999** |
| **Undiscounted balance at March 31, 2019** | **35,870** |
| Effect from discounting | **(1,945)** |
| **Lease Liabilities included in the consolidated balance sheets** | **33,925** |

Potential future undiscounted cash outflows of $51,360 have not been included in the lease liability as it is not reasonably certain that the leases will be extended.

### *Expenses included in the consolidated statement of income*

| | 2019 $ |
|---|---|
| Interest on lease liabilities | **245** |
| Variable lease payments not included in the measurement of lease liabilities | **1,426** |
| **Lease expenses included in the consolidated statements of income** | **1,671** |

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

## 10. Other assets

| | As at March 31, 2019 $ | As at December 31, 2018 $ |
|---|---|---|
| Due from related parties | **30,484** | 42,535 |
| Loans to related parties | **300** | 300 |
| Reinsurance assumed receivables | **1,295** | 1,435 |
| Property and equipment | **18,311** | 18,118 |
| Due from risk sharing pools | **10,084** | 4,192 |
| Investments in associates and joint ventures | **7,732** | 7,925 |
| Prepaid expenses | **3,911** | 4,126 |
| Other | **4,086** | 5,699 |
| | **76,203** | 84,330 |

## 11. Provisions and other liabilities

| | As at March 31, 2019 $ | As at December 31, 2018 $ |
|---|---|---|
| Provision for advisor transition commissions | **117,828** | 116,161 |
| Advisor transition commission payable | **16,730** | 16,774 |
| Other provisions | **5,669** | 5,455 |
| Foreign currency forward contracts (note 4) | **2,033** | 10,790 |
| Other liabilities | **2,973** | 2,745 |
| | **145,233** | 151,925 |

## 12. Net earned premium

| | 3 months ended March 31, 2019 $ | 3 months ended March 31, 2018 $ |
|---|---|---|
| Direct written premium | **757,606** | 599,686 |
| Assumed written premium | **6,281** | 1,785 |
| Gross written premium | **763,887** | 601,471 |
| Ceded written premium | **(70,712)** | (19,833) |
| Net written premium | **693,175** | 581,638 |
| Change in gross unearned premium | **84,483** | 76,880 |
| Change in ceded unearned premium | **(14,630)** | (393) |
| Net earned premium | **763,028** | 658,125 |

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

## 13. Share capital

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

For the three months ended March 31, 2019, the Company issued 22,851 (2018 – 23,659) Class A preference shares, series B for $2,285 (2018 - $2,366) and redeemed 21,447 shares (2018 – 14,554) for $2,142 (2018 - $1,455). In addition, the Company issued nil (2018 - nil) common shares to its parent for $nil (2018 - $nil). The Company redeemed 119,818 (2018 – 3,753) Class A preference shares, series A for $2,998 (2018 - $94).

Dividends are as follows:

| | **3 months ended March 31, 2019** | | | | 3 months ended March 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Declared $** | **Declared per share $** | **Paid $** | **Paid per share $** | Declared $ | Declared per share $ | Paid $ | Paid per share $ |
| Class A, series A | **-** | **-** | **113** | **1.00** | - | - | 154 | 0.94 |
| Class A, series B | **-** | **-** | **$ 1,880** | **3.00** | - | - | 1,727 | 2.50 |
| Class B | **-** | **-** | **1** | **1.00** | - | - | 1 | 1.25 |
| Class D, series A | **-** | **-** | **35** | **3.00** | - | - | 35 | 2.50 |
| Class D, series B | **-** | **-** | **106** | **3.00** | - | - | 106 | 2.50 |
| Class D, series C | **-** | **-** | **108** | **3.00** | - | - | 108 | 2.50 |
| Class E, series C | **1,250** | **0.31** | **1,250** | **0.31** | 1,250 | 0.31 | 1,250 | 0.31 |
| Class F, series A | **-** | **-** | **458** | **1.00** | - | - | 458 | 0.94 |
| Class G, series A | **-** | **-** | **19** | **1.00** | - | - | 19 | 1.25 |
| Common shares | **-** | **-** | **-** | **-** | - | - | - | - |
| | **1,250** | | **3,970** | | 1,250 | | 3,858 | |

During the three months ended March 31, 2019, the Company declared and paid common dividends to its parent for $nil (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

| | **3 months ended March 31, 2019 $** | 3 months ended March 31, **2018** $ |
|---|---|---|
| **i) Items not requiring the use of cash** | | |
| Investing activities (gains) losses | **(33,445)** | 13,975 |
| Impairment losses (note 4) | **1,396** | 3,862 |
| Amortization and depreciation of: | | |
| Bond premium/discount | **4,419** | 3,670 |
| Mortgage accretion | **95** | 58 |
| Intangible assets | **1,077** | 725 |
| Property and equipment | **1,800** | 2,121 |
| Right-of-use assets (note 9) | **2,808** | - |
| Change in fair value of FVTPL invested assets (note 4) | **(7,315)** | 5,527 |
| Deferred income taxes | **(700)** | (1,315) |
| Retirement benefit obligations | **1,250** | 1,139 |
| Loss from investments in joint ventures | **193** | 269 |
| | **(28,422)** | 30,031 |
| **ii) Changes in non-cash operating components** | | |
| Other | | |
| Insurance contracts | **7,003** | (22,438) |
| Reinsurance ceded contracts | **(9,759)** | 3,199 |
| Premiums due | **77,249** | 64,625 |
| Deferred acquisition expenses | **15,477** | 8,761 |
| Staff share loan plan | **701** | 429 |
| Accounts receivable and other assets | **10,790** | 4,103 |
| Accounts payable and accrued charges | **(56,639)** | (55,780) |
| Income taxes payable/recoverable | **7,002** | (21,607) |
| Provisions and other liabilities | **2,066** | 1,424 |
| | **53,890** | (17,284) |

| | **3 months ended March 31, 2019 $** | 3 months ended March 31, 2018 $ |
|---|---|---|
| Interest and dividends received | **49,417** | 34,108 |
| Income taxes paid (net of recoveries) | **(386)** | 9,879 |
| Interest paid | **246** | 1 |