



Co-operators General Insurance Company

Unaudited Condensed Consolidated Interim Financial Statements

For the second quarter ended June 30, 2020

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

As at

	June 30, 2020	December 31, 2019
(in thousands of Canadian dollars)	\$	\$
Assets		
Cash and cash equivalents	210,689	97,367
Invested assets including securities on loan (note 5)	5,418,342	5,327,160
Premiums due	1,280,767	1,250,904
Income taxes recoverable	2,452	77
Reinsurance ceded contracts (note 7)	188,156	163,667
Deferred acquisition expenses	302,804	313,135
Deferred income taxes	134,422	127,220
Intangible assets (note 9)	103,657	103,995
Right-of-use-assets	27,690	29,165
Other assets (note 10)	67,166	75,280
	7,736,145	7,487,970
Liabilities		
Accounts payable and accrued charges	256,834	324,665
Income taxes payable	13,531	74,147
Insurance contracts (note 6)	5,219,555	4,909,213
Retirement benefit obligations (note 12)	145,938	128,661
Deferred income taxes	6,985	7,544
Lease liabilities	28,742	29,803
Provisions and other liabilities (note 11)	182,264	166,612
	5,853,849	5,640,645
Shareholders' equity		
Share capital	547,291	544,779
Contributed capital	100,874	100,874
Retained earnings	1,023,109	1,029,368
Accumulated other comprehensive income	211,022	172,304
	1,882,296	1,847,325
	7,736,145	7,487,970

See accompanying notes to condensed consolidated interim financial statements.

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

6 months ended June 30, 2020 (in thousands of Canadian dollars)	Share capital \$	Contributed capital \$	Retained earnings \$	Accumulated other comprehensive income \$	Total shareholders' equity \$
Balance, beginning of period	544,779	100,874	1,029,368	172,304	1,847,325
Net loss	-	-	(986)	-	(986)
Other comprehensive income	-	-	-	38,718	38,718
Total comprehensive income (loss)	-	-	(986)	38,718	37,732
Staff share loan plan	(312)	-	-	-	(312)
Preference shares issued	4,806	-	-	-	4,806
Preference shares redeemed	(1,982)	-	-	-	(1,982)
Dividends declared (note 14)	-	-	(5,273)	-	(5,273)
Balance, end of period	547,291	100,874	1,023,109	211,022	1,882,296

6 months ended June 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	-	-	100,943	-	100,943
Other comprehensive income	-	-	-	92,325	92,325
Total comprehensive income	-	-	100,943	92,325	193,268
Staff share loan plan	(4)	-	-	-	(4)
Preference shares issued	4,630	-	-	-	4,630
Preference shares redeemed	(5,894)	-	(1,495)	-	(7,389)
Common shares issued	130,002	-	-	-	130,002
Dividends declared (note 14)	-	-	(5,141)	-	(5,141)
Acquisition of subsidiary from a related party (note 4)	-	-	(130,000)	-	(130,000)
Balance, end of period	542,186	100,874	1,009,487	182,762	1,835,309

See accompanying notes to condensed consolidated interim financial statements.

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

(in thousands of Canadian dollars except for earnings per share and weighted average number of common shares)	3 months ended June 30, 2020 \$	3 months ended June 30, 2019 \$	6 months ended June 30, 2020 \$	6 months ended June 30, 2019 \$
Income				
Net earned premium (note 13)	836,877	804,622	1,709,370	1,567,650
Net investment income and gains (note 5)	135,083	77,186	34,769	154,125
Fees and other income	2,385	2,915	4,396	4,608
	974,345	884,723	1,748,535	1,726,383
Expenses				
Claims and benefits	687,301	538,196	1,279,445	1,142,258
Ceded claims and benefits	(46,466)	(23,127)	(72,562)	(60,070)
Premium and other taxes	31,375	29,504	61,518	55,449
Commissions and advisor compensation	173,980	158,448	340,616	326,836
Ceded commissions	(21,913)	(23,355)	(45,827)	(57,865)
General expenses	88,905	101,909	187,472	190,001
	913,182	781,575	1,750,662	1,596,609
Income (loss) before income taxes	61,163	103,148	(2,127)	129,774
Income tax expense (recovery) (note 8)	13,299	24,040	(1,141)	28,831
Net income (loss)	47,864	79,108	(986)	100,943
Earnings (loss) per share	1.65	2.84	(0.24)	3.85
Weighted average number of common shares	26,620	26,515	26,620	24,879

See accompanying notes to condensed consolidated interim financial statements.

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

	3 months ended June 30, 2020	3 months ended June 30, 2019	6 months ended June 30, 2020	6 months ended June 30, 2019
(in thousands of Canadian dollars)	\$	\$	\$	\$
Net income (loss)	47,864	79,108	(986)	100,943
Other comprehensive income (loss)				
Items that may be reclassified subsequently to the consolidated statement of income:				
Net unrealized gains on available-for-sale financial assets	181,333	37,064	95,434	196,571
Net reclassification adjustment for gains included in net income	(35,062)	(41,117)	(29,027)	(69,969)
Items that may be reclassified before income taxes	146,271	(4,053)	66,407	126,602
Income tax expense (recovery) relating to items that may be reclassified	39,300	(1,030)	16,658	34,277
	106,971	(3,023)	49,749	92,325
Items that will not be reclassified to the consolidated statement of income:				
Remeasurement of the retirement benefit obligations	(25,678)	-	(14,186)	-
Income tax recovery relating to items that will not be reclassified	(6,660)	-	(3,155)	-
	(19,018)	-	(11,031)	-
Other comprehensive income (loss)	87,953	(3,023)	38,718	92,325
Comprehensive income	135,817	76,085	37,732	193,268

See accompanying notes to condensed consolidated interim financial statements.

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

	6 months ended June 30, 2020	6 months ended June 30, 2019
(in thousands of Canadian dollars)	\$	\$
Operating activities		
Net income (loss)	(986)	100,943
Items not requiring the use of cash (note 15)	55,964	(46,282)
Changes in non-cash operating components (note 15)	183,536	118,976
Cash provided by operating activities	238,514	173,637
Investing activities		
Purchases and advances of:		
Invested assets	(2,213,549)	(2,577,865)
Intangible assets	(1,940)	(12,845)
Property and equipment	(1,588)	(2,425)
Sale and redemption of:		
Invested assets	2,142,690	2,474,110
Property and equipment	-	932
Cash used in investing activities	(74,387)	(118,093)
Financing activities		
Share capital - preference shares issued	4,806	4,630
Share capital - preference shares redeemed	(1,982)	(7,389)
Dividends paid (note 14)	(5,202)	(5,208)
Lease liabilities paid	(5,309)	(5,302)
Cash used in financing activities	(7,687)	(13,269)
Net increase in cash and cash equivalents, net of payments in transit	156,440	42,275
Cash and cash equivalents, net of payments in transit, beginning of period	54,249	8,644
Cash and cash equivalents, net of payments in transit, end of period	210,689	50,919
Cash	210,689	39,247
Cash equivalents	-	12,951
Net payments in transit, included in accounts payable and accrued charges	-	(1,279)
Cash and cash equivalents, net of payments in transit, end of period	210,689	50,919

See accompanying notes to condensed consolidated interim financial statements.

CO-OPERATORS GENERAL INSURANCE COMPANY

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

(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 six months ended June 30, 2020 were authorized for issue in accordance with a resolution of the Audit Committee of the Board of Directors on July 30, 2020.

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 and casualty as well as 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 are typically considered to be 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.

CO-OPERATORS GENERAL INSURANCE COMPANY

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(unaudited)

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

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, 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRS). The accounting policies followed in these condensed consolidated interim financial statements are consistent as those applied in the Company's annual consolidated financial statements for the year ended December 31, 2019.

The Company has the following updates to information provided in the consolidated financial statements ended December 31, 2019 about the standards issued but not yet effective.

IFRS 17 "Insurance Contracts" and IFRS 9 "Financial Instruments"

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

3. Significant events in the current reporting period

An outbreak of a novel strain of coronavirus, identified as "COVID-19", was declared a global pandemic by the World Health Organization on March 11, 2020. In response, many countries have required entities to limit or suspend business operations and implemented travel restrictions and quarantine measures. These measures have disrupted the activities of many entities and has led to significant volatility in the global markets. Although jurisdictions in Canada have begun to ease restrictions and tabled pathways to reopen local economies during the current period, significant uncertainty remains. The Company has provided additional disclosures in the notes to these condensed consolidated interim financial statements where the impact of COVID-19 on the amounts presented is significant. While the Company's operations are considered to be an essential service under the laws of the provinces in which it operates, the Company continues to monitor and actively manage the developing impacts from COVID-19, including but not limited to, the potential future effects on its invested asset portfolio and its insurance contract liabilities, and will continue to assess impacts to the its operations, going concern assumption, and the value of assets and liabilities reported in these statements.

Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the consolidated balance sheet date and the reported amounts of revenues and expenses during the year. The preparation of the consolidated financial statements also requires management to exercise its judgment in the process of applying the Company's accounting policies. The Company's most recent set of annual consolidated financial statements provide a summary of the significant estimates and assumptions used within these condensed consolidated interim financial

CO-OPERATORS GENERAL INSURANCE COMPANY
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statements, except where specific updates have been disclosed in the notes to assess the impact of COVID-19 for the respective account balances.

4. Business combinations under common control

On May 27, 2019, CGIC entered into an agreement with a company under common control, H.B Group Insurance Management Ltd. (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 the 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 of \$130,002 was funded by CGIC through the issuance of common shares to its parent, CFSL. The carrying value of net assets acquired was \$nil. The acquisition provides CGIC with direct access to HB's customer base.

5. Invested assets and net investment income and gains

a) Invested assets

	Fair value			Amortized cost		Carrying value
	AFS	Classified FVTPL	Designated FVTPL	Loans and receivables	Other	Total
June 30, 2020	\$	\$	\$	\$	\$	\$
Bonds						
Federal	787,600	-	33,941	-	-	821,541
Provincial	1,098,273	-	38,089	-	-	1,136,362
Municipal	30,347	-	-	-	-	30,347
Corporate	906,413	-	61,295	-	342	968,050
Asset-backed securities	85,409	-	9,072	-	-	94,481
	2,908,042	-	142,397	-	342	3,050,781
Stocks						
Canadian common	682,666	-	-	-	-	682,666
Canadian preferred	-	-	372,402	-	-	372,402
U.S. equities	164,287	-	-	-	-	164,287
	846,953	-	372,402	-	-	1,219,355
Short-term investments	149,814	-	-	-	5,624	155,438
Limited partnerships	232,575	-	-	-	-	232,575
Pooled funds	209,591	-	-	-	-	209,591
Foreign currency forward contracts	-	8,158	-	-	-	8,158
Mortgages	-	-	-	502,871	-	502,871
Other investments	-	-	-	9,811	-	9,811
Investment income due and accrued	-	-	-	29,762	-	29,762
Total invested assets	4,346,975	8,158	514,799	542,444	5,966	5,418,342

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

	Fair Value			Amortized Cost		Carrying Value
	AFS	Classified FVTPL	Designated FVTPL	Loans and receivables	Other	Total
December 31, 2019	\$	\$	\$	\$	\$	\$
Bonds						
Federal	840,643	-	38,085	-	-	878,728
Provincial	1,045,533	-	36,386	-	-	1,081,919
Municipal	10,489	-	-	-	-	10,489
Corporate	814,994	-	57,205	-	348	872,547
Asset-backed securities	73,011	-	9,053	-	-	82,064
	2,784,670	-	140,729	-	348	2,925,747
Stocks						
Canadian common	744,208	-	-	-	-	744,208
Canadian preferred	-	-	430,025	-	-	430,025
U.S. equities	184,964	-	-	-	-	184,964
	929,172	-	430,025	-	-	1,359,197
Short-term investments	75,944	-	-	-	14,874	90,818
Limited partnerships	188,358	-	-	-	-	188,358
Pooled funds	195,510	-	-	-	-	195,510
Foreign currency forward contracts	-	4,882	-	-	-	4,882
Mortgages	-	-	-	521,887	-	521,887
Other investments	-	-	-	9,867	-	9,867
Investment income due and accrued	-	-	-	30,894	-	30,894
Total invested assets	4,173,654	4,882	570,754	562,648	15,222	5,327,160

The value of the securities on loan included in invested assets above consists of \$86,536 (2019 - \$75,726) in stocks and \$459,681 (2019 - \$715,678) 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.

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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.

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:

	Level 1 - Quoted prices \$	Level 2 - Significant other observable inputs \$	Level 3 - Significant unobservable inputs \$	Total fair value \$
June 30, 2020				
AFS				
Bonds	-	2,908,042	-	2,908,042
Stocks	845,073	-	-	845,073
Short-term investments	-	149,814	-	149,814
Limited partnerships	-	-	232,575	232,575
Pooled funds	-	209,591	-	209,591
	845,073	3,267,447	232,575	4,345,095
FVTPL				
Bonds	-	142,397	-	142,397
Stocks	372,402	-	-	372,402
Foreign currency forward contracts	-	8,158	-	8,158
	372,402	150,555	-	522,957
Total invested assets at fair value	1,217,475	3,418,002	232,575	4,868,052
FVTPL				
Foreign currency forward contracts (note 11)	-	2,609	-	2,609
Total financial liabilities at fair value	-	2,609	-	2,609

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(unaudited)

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

	Level 1 - Quoted prices \$	Level 2 - Significant other observable inputs \$	Level 3 - Significant unobservable inputs \$	Total fair value \$
December 31, 2019				
AFS				
Bonds	-	2,784,670	-	2,784,670
Stocks	927,292	-	-	927,292
Short-term investments	-	75,944	-	75,944
Limited partnerships	-	-	188,358	188,358
Pooled funds	-	195,510	-	195,510
	927,292	3,056,124	188,358	4,171,774
FVTPL				
Bonds	-	140,729	-	140,729
Stocks	430,025	-	-	430,025
Foreign currency forward contracts	-	4,882	-	4,882
	430,025	145,611	-	575,636
Total invested assets at fair value	1,357,317	3,201,735	188,358	4,747,410
FVTPL				
Foreign currency forward contracts (note 11)	-	71	-	71
Total financial liabilities at fair value	-	71	-	71

Excluded from these totals are available-for-sale (AFS) investments of \$1,880 (2019 - \$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.

	Limited partnerships \$
6 months ended June 30, 2020	
Balance, beginning of period	188,358
Purchases	33,415
Sales and redemptions	(2,992)
Gain	
Unrealized included in OCI	13,794
Balance, end of period	232,575

No investments were transferred between levels during the period (2019 - \$nil).

The investments measured at fair value and classified as Level 3 as at June 30, 2020 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 Fund's most recent quarterly or annual financial statements. Limited partnership NAV's are derived by valuation techniques employed by each Fund's management using unobservable inputs. The Company assesses the NAV disclosed in each Fund's 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.

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The fair value of mortgages at June 30, 2020 is \$510,010 (December 31, 2019 - \$526,119). 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 June 30, 2020 \$	3 months ended June 30, 2019 \$	6 months ended June 30, 2020 \$	6 months ended June 30, 2019 \$
Interest income	23,154	23,380	47,955	47,056
Dividend income	14,510	19,407	27,823	34,855
Investment expense	(1,712)	(1,502)	(3,698)	(3,051)
Net investment income	35,952	41,285	72,080	78,860
Net realized gains	34,058	40,672	39,303	69,006
Net foreign exchange gains (losses)	14,224	5,786	(8,974)	10,897
Change in fair value (note 15)	51,591	(8,898)	(49,156)	(1,583)
Impairment losses (note 15)	(742)	(1,659)	(18,484)	(3,055)
Net investment gains (losses)	99,131	35,901	(37,311)	75,265
Net investment income and gains	135,083	77,186	34,769	154,125

In accordance with the Company's policies regarding impairment of financial assets as disclosed in the most recent set of annual consolidated financial statements, and considering the impact of COVID-19 on the equity markets, the Company has recognized an impairment loss for the three months ended June 30, 2020 of \$742 (2019 - \$1,659) and for the six months ended June 30, 2020 of \$18,484 (2019 - \$3,055) in the Company's AFS invested asset portfolio this period. The Company continues to closely monitor and actively manage its financial risk management policies as outlined in the Company's most recent set of annual consolidated financial statements.

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(unaudited)

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

6. Insurance contracts

Insurance contracts are comprised of the following balances:

	As at June 30, 2020 \$	As at December 31, 2019 \$
Undiscounted unpaid claims and adjustment expenses	3,093,731	2,853,686
Effect of time value of money	(128,409)	(141,929)
Provisions for adverse deviation (PFADs)	320,950	276,966
Effect of discounting	192,541	135,037
Discounted unpaid claims and adjustment expenses	3,286,272	2,988,723
Unearned premiums	1,922,437	1,909,860
Experience rated refund pool	10,846	10,630
	5,219,555	4,909,213

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.

COVID-19 has the potential to alter estimates and assumptions used in the valuation of insurance contracts, including claims development. The extent to which COVID-19 alters the Company's estimates and assumptions in the valuation of its insurance contract liabilities will depend on future developments that are highly uncertain, including new information which may emerge concerning the duration and severity of government interventions. For the six months ended June 30, 2020, the Company has recognized an increase to unpaid claims and adjustment expenses of \$39,779 as a result of COVID-19. The Company continues to closely monitor and actively manage its insurance risk management policies as outlined in the Company's most recent set of annual consolidated financial statements.

7. 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.

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

The Company's net retentions are as follows:

	As at June 30, 2020 \$	As at December 31, 2019 \$
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	1,450,000	1,400,000
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. Trip cancellation reinsurance is purchased for \$1,800 of protection with a retention of \$450.

During the six months ended June 30, 2020, the Company required the use of the catastrophic reinsurance coverage as described above. Premiums will be paid to reinsurers to the extent necessary to fully reinstate the coverage.

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 June 30, 2020 \$	As at December 31, 2019 \$
Reinsurance ceded assets		
Reinsurers' share of unearned premiums	41,228	53,262
Reinsurers' share of unpaid claims and adjustment expenses	178,337	149,331
Reinsurer receivables	10,785	8,586
	230,350	211,179
Reinsurance ceded liabilities		
Unearned reinsurance commissions	17,031	25,968
Payable to reinsurers	12,105	6,373
Unlicensed reinsurer deposits	13,058	15,171
	42,194	47,512
Reinsurance ceded contracts	188,156	163,667

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8. Income taxes

Reconciliation to statutory income tax rate

In the consolidated statements of income (loss), income tax expense (recovery) reflects an effective tax rate which differs from the statutory tax rate for the following reasons:

	6 months ended June 30, 2020		6 months ended June 30, 2019	
	\$	%	\$	%
Income (loss) before income taxes	(2,127)		129,774	
Income tax expense (recovery) at statutory rates	(564)	26.5	35,039	27.0
Effects of:				
Non-taxable investment income	(4,964)	233.4	(6,678)	(5.1)
Non-deductible expenses	306	(14.4)	567	0.4
Change in income tax rates	4,354	(204.7)	(179)	(0.1)
Difference in effective tax rate of subsidiaries	(9)	0.4	(8)	-
Adjustment to tax expense in respect of prior years	(473)	22.2	(168)	(0.1)
Other	209	(9.8)	258	0.2
Income tax expense (recovery)	(1,141)	53.6	28,831	22.3

9. Intangible assets

	Goodwill	Licenses	Brand	Customer relationships	Software	Software under development	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
January 1, 2019	6,806	55,000	800	32,271	18,756	3,428	117,061
Additions	-	-	-	18,165	-	7,469	25,634
December 31, 2019	6,806	55,000	800	50,436	18,756	10,897	142,695
Additions	-	-	-	-	-	1,940	1,940
June 30, 2020	6,806	55,000	800	50,436	18,756	12,837	144,635
Accumulated amortization							
January 1, 2019	-	-	-	16,133	18,315	-	34,448
Amortization	-	-	-	4,070	182	-	4,252
December 31, 2019	-	-	-	20,203	18,497	-	38,700
Amortization	-	-	-	2,242	36	-	2,278
June 30, 2020	-	-	-	22,445	18,533	-	40,978
Net carrying value							
December 31, 2019	6,806	55,000	800	30,233	259	10,897	103,995
June 30, 2020	6,806	55,000	800	27,991	223	12,837	103,657

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10. Other assets

	As at June 30, 2020 \$	As at December 31, 2019 \$
Due from related parties	23,738	35,714
Loans to related parties	300	300
Reinsurance assumed receivables	2,802	3,040
Property and equipment	13,623	14,438
Due from risk sharing pools	9,874	3,879
Investments in associates and joint ventures	6,796	7,061
Prepaid expenses	4,917	3,540
Other	5,116	7,308
	67,166	75,280

11. Provisions and other liabilities

	As at June 30, 2020 \$	As at December 31, 2019 \$
Provision for advisor transition commissions	151,656	137,873
Advisor transition commission payable	18,019	17,300
Other provisions	7,642	8,767
Foreign currency forward contracts (note 5)	2,609	71
Other liabilities	2,338	2,601
	182,264	166,612

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12. Retirement benefit obligations

	As at June 30, 2020 \$	As at December 31, 2019 \$
Accrued benefit obligation		
Balance, beginning of year	128,661	120,501
Current service cost	2,905	4,302
Interest on accrued benefits	2,060	4,738
Benefits paid	(1,874)	(4,050)
Remeasurement (gain) loss		
Actuarial losses arising from changes in financial assumptions	14,186	16,745
Actuarial gains arising from changes in demographic assumptions	-	(13,575)
Balance, end of year	145,938	128,661
Elements of defined benefit cost recognized in the year		
Current service cost	2,905	4,302
Interest on accrued benefits	2,060	4,738
Components of defined benefit costs recorded in net income (loss)	4,965	9,040
Remeasurements on the net defined benefit liability:		
Actuarial losses arising from changes in financial assumptions	14,186	16,745
Actuarial gains arising from changes in demographic assumptions	-	(13,575)
Components of defined benefit costs recorded in OCI	14,186	3,170
Total components of defined benefit costs	19,151	12,210

The annual consolidated financial statements provide a summary of the Company's policies and significant assumptions used in the valuation of its retirement benefit obligations. Due to the fiscal and monetary response to COVID-19 in the period, the discount rate used to value the Company's medical, dental and life insurance benefits obligations was updated to 2.75% (December 31, 2019 – 3.25%). All other significant assumptions remain unchanged from the most recent set of annual consolidated financial statements.

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13. Net earned premium

	3 months ended June 30, 2020 \$	3 months ended June 30, 2019 \$	6 months ended June 30, 2020 \$	6 months ended June 30, 2019 \$
Direct written premium	1,016,279	1,049,829	1,845,508	1,807,435
Assumed written premium	6,968	5,985	14,995	12,266
Gross written premium	1,023,247	1,055,814	1,860,503	1,819,701
Ceded written premium	(58,262)	(70,611)	(126,521)	(141,323)
Net written premium	964,985	985,203	1,733,982	1,678,378
Change in gross unearned premium	(117,322)	(183,537)	(12,578)	(99,054)
Change in ceded unearned premium	(10,786)	2,956	(12,034)	(11,674)
Net earned premium	836,877	804,622	1,709,370	1,567,650

In response to COVID-19, the Company announced financial relief measures for clients including premium reductions and flexible payment options during the period. For the three months ended June 30, 2020, the Company recognized premium reductions of \$35,507 granted to eligible policyholders.

14. Share capital

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

For the six months ended June 30, 2020, the Company issued 48,064 (2019 – 46,295) Class A preference shares, series B for \$4,806 (2019 - \$4,630) and redeemed 19,822 shares (2019 – 28,951) for \$1,982 (2019 - \$2,895). In addition, the Company issued nil (2019 – 2,014,911) common shares to its parent for \$nil (2019 - \$130,002). The Company redeemed nil (2019 – 119,818) Class A preference shares, series A for \$nil (2019 - \$2,998).

Dividends are as follows:

	6 months ended June 30, 2020				6 months ended June 30, 2019			
	Declared \$	Declared per share \$	Paid \$	Paid per share \$	Declared \$	Declared per share \$	Paid \$	Paid per share \$
Class A, series A	-	-	-	-	-	-	113	0.94
Class A, series B	2,046	2.50	1,975	2.50	1,914	2.50	1,868	2.50
Class B	1	1.25	1	1.25	1	1.25	1	1.25
Class D, series A	35	2.50	35	2.50	35	2.50	35	2.50
Class D, series B	106	2.50	106	2.50	106	2.50	106	2.50
Class D, series C	108	2.50	108	2.50	108	2.50	108	2.50
Class E, series C	2,500	0.63	2,500	0.63	2,500	0.62	2,500	0.62
Class F, series A	458	0.94	458	0.94	458	0.94	458	0.94
Class G, series A	19	1.25	19	1.25	19	1.25	19	1.25
	5,273		5,202		5,141		5,208	

During the six months ended June 30, 2020, the Company declared and paid common dividends to its parent of \$nil (2019 - \$nil).

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15. Consolidated statements of cash flows

a) Other non-cash items

	6 months ended June 30, 2020 \$	6 months ended June 30, 2019 \$
i) Items not requiring the use of cash		
Investing activities gains	(30,329)	(79,903)
Impairment losses (note 5)	18,484	3,055
Amortization and depreciation of:		
Bond premium/discount	10,087	8,394
Mortgage accretion	92	231
Intangible assets	2,278	2,091
Property and equipment	2,402	3,501
Right-of-use assets	5,722	5,641
Change in fair value of FVTPL invested assets (note 5)	49,156	1,583
Deferred income taxes	(5,284)	6,237
Retirement benefit obligations	3,091	2,553
Loss from investments in joint ventures	265	335
	55,964	(46,282)
ii) Changes in non-cash operating components		
Other		
Insurance contracts	310,342	190,773
Reinsurance ceded contracts	(24,489)	(7,819)
Premiums due	(29,863)	(81,941)
Deferred acquisition expenses	10,331	(6,360)
Staff share loan plan	(312)	(4)
Accounts receivable and other assets	8,166	21,729
Accounts payable and accrued charges	(24,780)	(26,845)
Income taxes payable/recoverable	(78,973)	24,778
Provisions and other liabilities	13,114	4,665
	183,536	118,976

b) Supplemental information

	6 months ended June 30, 2020 \$	6 months ended June 30, 2019 \$
Interest and dividends received	91,425	107,643
Income taxes paid (net of recoveries)	82,888	(167)
Interest paid	416	480