Co-operators General Insurance Company

Unaudited Condensed Consolidated Interim Financial Statements

For the third quarter ended September 30, 2020

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

As at

(in thousands of Canadian dollars)	September 30, 2020 $	December 31, 2019 $
Assets		
Cash and cash equivalents	**277,612**	97,367
Invested assets including securities on loan (note 5)	**5,653,936**	5,327,160
Premiums due	**1,372,637**	1,250,904
Income taxes recoverable	**89**	77
Reinsurance ceded contracts (note 7)	**163,309**	163,667
Deferred acquisition expenses	**308,678**	313,135
Deferred income taxes	**131,708**	127,220
Intangible assets (note 9)	**103,077**	103,995
Right-of-use-assets	**28,728**	29,165
Other assets (note 10)	**72,182**	75,280
	8,111,956	7,487,970
Liabilities		
Accounts payable and accrued charges	**278,547**	324,665
Income taxes payable	**51,580**	74,147
Insurance contract liabilities (note 6)	**5,389,330**	4,909,213
Retirement benefit obligations (note 12)	**147,442**	128,661
Deferred income taxes	**6,754**	7,544
Lease liabilities	**29,917**	29,803
Provisions and other liabilities (note 11)	**184,381**	166,612
	6,087,951	5,640,645
Shareholders' equity		
Share capital	**549,293**	544,779
Contributed capital	**100,874**	100,874
Retained earnings	**1,174,151**	1,029,368
Accumulated other comprehensive income	**199,687**	172,304
	2,024,005	1,847,325
	8,111,956	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)

9 months ended September 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 income	**-**	**-**	**151,304**	**-**	**151,304**
Other comprehensive income	**-**	**-**	**-**	**27,383**	**27,383**
Total comprehensive income	**-**	**-**	**151,304**	**27,383**	**178,687**
Staff share loan plan	**(126)**	**-**	**-**	**-**	**(126)**
Preference shares issued	**8,211**	**-**	**-**	**-**	**8,211**
Preference shares redeemed	**(3,571)**	**-**	**-**	**-**	**(3,571)**
Dividends declared (note 14)	**-**	**-**	**(6,521)**	**-**	**(6,521)**
Balance, end of period	**549,293**	**100,874**	**1,174,151**	**199,687**	**2,024,005**

9 months ended September 30, 2019 (in thousands of Canadian dollars)	Share capital $	Contributed capital $	Retained earnings $	Accumulated other comprehensive income $	Total shareholders' equity $
Balance, beginning of period	413,452	100,874	1,045,180	90,437	1,649,943
Net income	-	-	113,368	-	113,368
Other comprehensive income	-	-	-	107,026	107,026
Total comprehensive income	-	-	113,368	107,026	220,394
Staff share loan plan	656	-	-	-	656
Preference shares issued	7,120	-	-	-	7,120
Preference shares redeemed	(8,063)	-	(1,498)	-	(9,561)
Common shares issued	130,002	-	-	-	130,002
Dividends declared (note 14)	-	-	(34,388)	-	(34,388)
Acquisition of subsidiary from a related party (note 4)	-	-	(130,000)	-	(130,000)
Balance, end of period	543,167	100,874	992,662	197,463	1,834,166

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 and weighted average number of common shares)	**3 months ended September 30, 2020 $**	3 months ended September 30, 2019 $	**9 months ended September 30, 2020 $**	9 months ended September 30, 2019 $
Income				
Net earned premium (note 13)	**922,209**	840,630	**2,631,579**	2,408,280
Net investment income and gains (note 5)	**145,988**	43,255	**180,757**	197,380
Fees and other income	**2,073**	2,658	**6,469**	7,266
	1,070,270	886,543	**2,818,805**	2,612,926
Expenses				
Claims and benefits	**588,889**	620,265	**1,868,334**	1,762,523
Ceded claims and benefits	**1,459**	(17,816)	**(71,103)**	(77,886)
Premium and other taxes	**32,554**	30,874	**94,072**	86,323
Commissions and advisor compensation	**152,377**	165,420	**492,993**	492,256
Ceded commissions	**(14,660)**	(26,373)	**(60,487)**	(84,238)
General expenses	**106,217**	100,612	**293,689**	290,613
	866,836	872,982	**2,617,498**	2,469,591
Income before income taxes	**203,434**	13,561	**201,307**	143,335
Income tax expense (note 8)	**51,144**	1,136	**50,003**	29,967
Net income	**152,290**	12,425	**151,304**	113,368
Earnings per share	**5.67**	0.42	**5.44**	4.21
Weighted average number of common shares	**26,620**	26,515	**26,620**	25,430

See accompanying notes to condensed consolidated interim financial statements.

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

(in thousands of Canadian dollars)	**3 months ended September 30, 2020 $**	3 months ended September 30, 2019 $	**9 months ended September 30, 2020 $**	9 months ended September 30, 2019 $
Net income	**152,290**	12,425	**151,304**	113,368
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	**42,387**	31,342	**137,821**	227,913
Net reclassification adjustment for gains included in net income	**(58,874)**	(9,172)	**(87,901)**	(79,141)
Items that may be reclassified before income taxes	**(16,487)**	22,170	**49,920**	148,772
Income tax expense (recovery) relating to items that may be reclassified	**(5,050)**	7,469	**11,608**	41,746
	(11,437)	14,701	**38,312**	107,026
Items that will not be reclassified to the consolidated statement of income:				
Remeasurement of the retirement benefit obligations	**-**	-	**(14,186)**	-
Income tax recovery relating to items that will not be reclassified	**(102)**	-	**(3,257)**	-
	102	-	**(10,929)**	-
Other comprehensive income (loss)	**(11,335)**	14,701	**27,383**	107,026
Comprehensive income	**140,955**	27,126	**178,687**	220,394

See accompanying notes to condensed consolidated interim financial statements.

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

(in thousands of Canadian dollars)	**9 months ended September 30, 2020 $**	9 months ended September 30, 2019 $
Operating activities		
Net income	**151,304**	113,368
Items not requiring the use of cash (note 15)	**(30,058)**	(45,852)
Changes in non-cash operating components (note 15)	**351,349**	318,286
Cash provided by operating activities	**472,595**	385,802
Investing activities		
Purchases and advances of:		
Invested assets	**(3,571,594)**	(4,022,631)
Intangible assets	**(2,382)**	(19,185)
Property and equipment	**(1,901)**	(4,085)
Sale and redemption of:		
Invested assets	**3,339,203**	3,781,247
Property and equipment	**-**	2,156
Cash used in investing activities	**(236,674)**	(262,498)
Financing activities		
Share capital - preference shares issued	**8,211**	7,120
Share capital - preference shares redeemed	**(3,571)**	(9,561)
Dividends paid (note 14)	**(9,221)**	(37,097)
Lease liabilities paid	**(7,977)**	(7,835)
Cash used in financing activities	**(12,558)**	(47,373)
Net increase in cash and cash equivalents, net of payments in transit	**223,363**	75,931
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	**277,612**	84,575

Cash	**241,631**	39,373
Cash equivalents	**35,981**	48,552
Net payments in transit, included in accounts payable and accrued charges	**-**	(3,350)
Cash and cash equivalents, net of payments in transit, end of period	**277,612**	84,575

See accompanying notes to condensed consolidated interim financial statements.

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

1. Nature of operations

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

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

The registered office of the Company is 130 Macdonell Street, Guelph, Ontario. The Company is domiciled in Canada and is incorporated under the Insurance Companies Act (Canada). These condensed consolidated interim financial statements of the Company for the nine months ended September 30, 2020 were authorized for issue in accordance with a resolution of the Audit Committee of the Board of Directors on October 28, 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.

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 largely re-opened their economies to varying degrees 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 the impacts to 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 statements, except where specific updates have been disclosed in the notes to assess the impact of COVID-19 for the respective account balances.

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

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
		Classified	Designated	Loans and		
	AFS	FVTPL	FVTPL	receivables	Other	Total
September 30, 2020	$	$	$	$	$	$
Bonds						
Federal	930,799	-	38,904	-	-	969,703
Provincial	1,158,258	-	51,398	-	-	1,209,656
Municipal	30,577	-	-	-	-	30,577
Corporate	931,213	-	44,633	-	-	975,846
Asset-backed securities	86,579	-	-	-	-	86,579
	3,137,426	-	134,935	-	-	3,272,361
Stocks						
Canadian common	497,827	-	-	-	-	497,827
Canadian preferred	-	-	393,113	-	-	393,113
U.S. equities	169,776	-	-	-	-	169,776
	667,603	-	393,113	-	-	1,060,716
Short-term investments	278,867	-	-	-	11,561	290,428
Limited partnerships	235,230	-	-	-	-	235,230
Pooled funds	212,640	-	-	-	-	212,640
Foreign currency forward contracts	-	2,146	-	-	-	2,146
Mortgages	-	-	-	544,584	-	544,584
Other investments	-	-	-	9,765	-	9,765
Investment income due and accrued	-	-	-	26,066	-	26,066
Total invested assets	4,531,766	2,146	528,048	580,415	11,561	5,653,936

(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, 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 $38,408 (2019 - $75,726) in stocks and $614,031 (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.

Level 2 – Significant other observable inputs

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

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

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

Level 3 – Significant unobservable inputs

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

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

September 30, 2020	Level 1 - Quoted prices $	Level 2 - Significant other observable inputs $	Level 3 - Significant unobservable inputs $	Total fair value $
AFS				
Bonds	-	3,137,426	-	3,137,426
Stocks	665,941	-	-	665,941
Short-term investments	-	278,867	-	278,867
Limited partnerships	-	-	235,230	235,230
Pooled funds	-	212,640	-	212,640
	665,941	3,628,933	235,230	4,530,104
FVTPL				
Bonds	-	134,935	-	134,935
Stocks	393,113	-	-	393,113
Foreign currency forward contracts	-	2,146	-	2,146
	393,113	137,081	-	530,194
Total invested assets at fair value	1,059,054	3,766,014	235,230	5,060,298
FVTPL				
Foreign currency forward contracts (note 11)	-	1,577	-	1,577
Total financial liabilities at fair value	-	1,577	-	1,577

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

December 31, 2019	Level 1 - Quoted prices $	Level 2 - Significant other observable inputs $	Level 3 - Significant unobservable inputs $	Total fair value $
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 $1,662 (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.

9 months ended September 30, 2020	**Limited partnerships $**
Balance, beginning of period	**188,358**
Purchases	**44,652**
Sales and redemptions	**(4,166)**
Gain	
Unrealized included in OCI	**6,386**
Balance, end of period	**235,230**

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

The investments measured at fair value and classified as Level 3 as at September 30, 2020 are limited partnerships, which represent units of third-party managed private equity funds (Funds). The fair values of limited partnership investments are carried at their net asset values (NAV), which approximates fair value. Limited partnership NAV's are derived from each of the individual Funds' most recent quarterly or annual financial statements and through valuation techniques employed by each Funds' management using unobservable inputs. As a result of the timing of the receipt of valuation data from the investment managers, these investments are generally reported on a three-month lag. Sales of these investments are reported within net realized gains (losses). The Company does not assess the sensitivity of the fair value of limited partnerships because the inputs used by each fund manager to determine the NAV are unobservable and not readily available.

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

The fair value of mortgages at September 30, 2020 is $559,512 (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 September 30, 2020 $	3 months ended September 30, 2019 $	**9 months ended September 30, 2020 $**	9 months ended September 30, 2019 $
Interest income	**23,859**	24,547	**71,814**	71,603
Dividend income	**22,634**	13,482	**50,457**	48,337
Investment expense	**(1,855)**	(1,513)	**(5,553)**	(4,564)
Net investment income	**44,638**	36,516	**116,718**	115,376
Net realized gains	**59,969**	9,796	**99,272**	78,802
Net foreign exchange gains (losses)	**5,967**	(1,932)	**(3,007)**	8,965
Change in fair value (note 15)	**38,024**	(234)	**(11,132)**	(1,817)
Impairment losses (note 15)	**(2,610)**	(891)	**(21,094)**	(3,946)
Net investment gains	**101,350**	6,739	**64,039**	82,004
Net investment income and gains	**145,988**	43,255	**180,757**	197,380

In accordance with the Company's policies regarding impairment of financial assets as disclosed in the most recent set of annual consolidated financial statements, the Company has recognized an impairment loss for the three months ended September 30, 2020 of $2,610 (2019 - $891) and for the nine months ended September 30, 2020 of $21,094 (2019 - $3,946) in the Company's AFS invested asset portfolio. 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, given the unprecedented volatility and uncertainty in the worldwide financial markets as a result of COVID-19.

6. Insurance contract liabilities

Insurance contract liabilities are comprised of the following balances:

	As at September 30, 2020 $	As at December 31, 2019 $
Undiscounted unpaid claims and adjustment expenses	**3,128,695**	2,853,686
Effect of time value of money	**(118,332)**	(141,929)
Provisions for adverse deviation (PFADs)	**333,396**	276,966
Effect of discounting	**215,064**	135,037
Discounted unpaid claims and adjustment expenses	**3,343,759**	2,988,723
Unearned premiums	**2,033,874**	1,909,860
Experience rated refund pool	**11,697**	10,630
	5,389,330	4,909,213

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

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 contract liabilities, 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 as the outcome of the pandemic continues to evolve. For the nine months ended September 30, 2020, the Company has recognized a direct increase to unpaid claims and adjustment expenses of $42,163 as a result of COVID-19. In addition, the effects of COVID-19 on emerging coverage issues and claims, including certain class actions pertaining to business interruption coverage and related defense costs, could further negatively impact our claims reserves. 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.

The Company's net retentions are as follows:

	As at September 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 nine months ended September 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.

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

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

	As at September 30, 2020 $	As at December 31, 2019 $
Reinsurance ceded assets		
Reinsurers' share of unearned premiums	**39,013**	53,262
Reinsurers' share of unpaid claims and adjustment expenses	**154,686**	149,331
Reinsurer receivables	**11,844**	8,586
	205,543	211,179
Reinsurance ceded liabilities		
Unearned reinsurance commissions	**15,618**	25,968
Payable to reinsurers	**8,505**	6,373
Unlicensed reinsurer deposits	**18,111**	15,171
	42,234	47,512
Reinsurance ceded contracts	**163,309**	163,667

8. Income taxes

Reconciliation to statutory income tax rate

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

	9 months ended September 30, 2020		9 months ended September 30, 2019	
	$	**%**	$	%
Income before income taxes	**201,307**		143,335	
Income tax expense at statutory rates	**52,742**	**26.2**	38,700	27.0
Effects of:				
Non-taxable investment income	**(8,598)**	**(4.3)**	(9,384)	(6.5)
Non-deductible expenses	**303**	**0.2**	736	0.5
Change in income tax rates	**5,588**	**2.8**	(190)	(0.1)
Difference in effective tax rate of subsidiaries	**13**	**-**	(10)	-
Adjustment to tax expense in respect of prior years	**(367)**	**(0.2)**	(168)	(0.1)
Other	**322**	**0.2**	283	0.2
Income tax expense	**50,003**	**24.9**	29,967	21.0

In fiscal 2020, the enacted statutory tax rate for the Company decreased from 27.0% to 26.2%.

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

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	-	-	-	17	-	2,365	2,382
September 30, 2020	**6,806**	**55,000**	**800**	**50,453**	**18,756**	**13,262**	**145,077**
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	-	-	-	3,246	54	-	3,300
September 30, 2020	-	**-**	**-**	**23,449**	**18,551**	-	**42,000**
Net carrying value							
December 31, 2019	6,806	55,000	800	30,233	259	10,897	103,995
September 30, 2020	**6,806**	**55,000**	**800**	**27,004**	**205**	**13,262**	**103,077**

10. Other assets

	As at September 30, 2020 $	As at December 31, 2019 $
Due from related parties	**26,532**	35,714
Loans to related parties	**300**	300
Reinsurance assumed receivables	**2,116**	3,040
Property and equipment	**12,730**	14,438
Due from risk sharing pools	**17,935**	3,879
Investments in associates and joint ventures	**6,636**	7,061
Prepaid expenses	**1,645**	3,540
Other	**4,288**	7,308
	72,182	75,280

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

11. Provisions and other liabilities

	As at September 30, 2020 $	As at December 31, 2019 $
Provision for advisor transition commissions	**156,181**	137,873
Advisor transition commission payable	**16,936**	17,300
Other provisions	**7,477**	8,767
Foreign currency forward contracts (note 5)	**1,577**	71
Other liabilities	**2,210**	2,601
	184,381	166,612

12. Retirement benefit obligations

	As at September 30, 2020 $	As at December 31, 2019 $
Accrued benefit obligation		
Balance, beginning of year	**128,661**	120,501
Current service cost	**4,359**	4,302
Interest on accrued benefits	**3,091**	4,738
Benefits paid	**(2,855)**	(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	**147,442**	128,661
Elements of benefit costs recognized in the year		
Current service cost	**4,359**	4,302
Interest on accrued benefits	**3,091**	4,738
Components of benefit costs recorded in net income	**7,450**	9,040
Remeasurements on the net 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 benefit costs recorded in OCI	**14,186**	3,170
Total components of benefit costs	**21,636**	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, 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.

13. Net earned premium

	3 months ended September 30, 2020 $	3 months ended September 30, 2019 $	**9 months ended September 30, 2020 $**	9 months ended September 30, 2019 $
Direct written premium	**1,076,250**	999,653	**2,921,758**	2,807,088
Assumed written premium	**7,276**	5,518	**22,271**	17,784
Gross written premium	**1,083,526**	1,005,171	**2,944,029**	2,824,872
Ceded written premium	**(47,666)**	(63,014)	**(174,187)**	(204,337)
Net written premium	**1,035,860**	942,157	**2,769,842**	2,620,535
Change in gross unearned premium	**(111,435)**	(91,188)	**(124,013)**	(190,242)
Change in ceded unearned premium	**(2,216)**	(10,339)	**(14,250)**	(22,013)
Net earned premium	**922,209**	840,630	**2,631,579**	2,408,280

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 nine months ended September 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 nine months ended September 30, 2020, the Company issued 82,113 (2019 – 71,196) Class A preference shares, series B for $8,211 (2019 - $7,120) and redeemed 35,713 shares (2019 – 50,645) for $3,571 (2019 - $5,065). 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:

	9 months ended September 30, 2020				9 months ended September 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**	**4,021**	**5.00**	1,911	2.50	3,782	5.00
Class B	**1**	**1.25**	**1**	**2.50**	1	1.25	1	2.50
Class D, series A	**35**	**2.50**	**69**	**5.00**	35	2.50	69	5.00
Class D, series B	**106**	**2.50**	**213**	**5.00**	106	2.50	213	5.00
Class D, series C	**108**	**2.50**	**216**	**5.00**	108	2.50	216	5.00
Class E, series C	**3,748**	**(1.06)**	**3,748**	**(1.06)**	3,750	0.94	3,750	0.94
Class F, series A	**458**	**0.94**	**916**	**1.88**	458	0.94	916	1.88
Class G, series A	**19**	**1.25**	**37**	**2.50**	19	1.25	37	2.50
Common shares	**-**	**-**	**-**	**-**	28,000	1.00	28,000	1.06
	6,521		**9,221**		34,388		37,097	

During the nine months ended September 30, 2020, the Company declared and paid common dividends to its parent of $nil (2019 - $28,000).

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

15. Consolidated statements of cash flows

a) Other non-cash items

	9 months ended September 30, 2020	9 months ended September 30, 2019
	$	$
i) Items not requiring the use of cash		
Investing activities gains	**(96,265)**	(87,767)
Impairment losses (note 5)	**21,094**	3,946
Amortization and depreciation of:		
Bond premium/discount	**16,119**	12,181
Mortgage accretion	**132**	282
Intangible assets	**3,300**	3,263
Property and equipment	**3,608**	5,088
Right-of-use assets	**8,527**	8,321
Change in fair value of FVTPL invested assets (note 5)	**11,132**	1,817
Deferred income taxes	**(2,724)**	2,711
Retirement benefit obligations	**4,594**	3,845
Loss from investments in joint ventures	**425**	461
	(30,058)	(45,852)
ii) Changes in non-cash operating components		
Other		
Insurance contracts	**480,117**	376,193
Reinsurance ceded contracts	**358**	4,317
Premiums due	**(121,733)**	(147,223)
Deferred acquisition expenses	**4,457**	(12,077)
Staff share loan plan	**(126)**	656
Accounts receivable and other assets	**5,794**	22,016
Accounts payable and accrued charges	**(295)**	16,598
Income taxes payable/recoverable	**(33,486)**	43,542
Provisions and other liabilities	**16,263**	14,264
	351,349	318,286

b) Supplemental information

	9 months ended September 30, 2020	9 months ended September 30, 2019
	$	$
Interest and dividends received	**150,365**	145,261
Income taxes paid (net of recoveries)	**87,099**	(13,202)
Interest paid	**615**	711