Co-operators General Insurance Company

Management's Discussion and Analysis

For the third quarter ended September 30, 2020

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October 28, 2020

This Management's Discussion and Analysis (MD&A) comments on Co-operators General Insurance Company's operations and financial condition for the third quarter ended September 30, 2020.

Unless otherwise stated or the context otherwise indicates, in this MD&A, "Co-operators General", "we", "us" and "our" refers to the Consolidated Co-operators General Insurance Company including its subsidiaries: The Sovereign General Insurance Company (Sovereign), COSECO Insurance Company (COSECO), CUMIS General Insurance Company (CUMIS General), Co-operators Investment Limited Partnership (CILP), Co-operators Strategic Growth Corporation (CSGC) and Co-operators Insurance Agencies Limited (CIAL). CGIC refers to the non-consolidated Co-operators General Insurance Company.

Co-operators General's parent company is Co-operators Financial Services Limited (CFSL) and its ultimate parent is The Co-operators Group Limited (CGL), a Canadian co-operative with 46 members.

The information in this MD&A should be read in conjunction with the following documents:

- our unaudited condensed consolidated interim financial statements and accompanying notes for the third quarter ended September 30, 2020; and
- our 2019 Annual Report and Annual Information Form.

These documents are available on SEDAR at www.sedar.com. References to "Note" refer to the notes to the unaudited condensed consolidated interim financial statements.

Except as otherwise noted, all figures in this MD&A are stated in Canadian dollars for the quarter ended September 30, 2020 and are based on financial statements prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting". The financial results presented in this MD&A are unaudited.

We use certain financial performance measures which do not have any standardized meaning prescribed by International Financial Reporting Standards (IFRS) and are therefore unlikely to be comparable to similar measures presented by other issuers. Such measures are defined in our 2019 Annual Report in the *Key Financial Measures (Non-IFRS)* section, or in the same section in this document when disclosed for the first time.

The information in this MD&A contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from these forward-looking statements as a result of various factors, including those discussed below or in our Annual Information Form. Please read the cautionary note which follows.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A may contain forward-looking statements and forward-looking information, including statements regarding the operations, objectives, strategies, financial situation and performance of Co-operators General. These statements, which appear in this MD&A (including the documents incorporated by reference herein), generally can be identified by the use of forward-looking words such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "plan", "would", "should", "could", "trend", "predict", "likely", "potential" or "continue" or the negative thereof and similar variations. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the forward-looking statements or information. In addition, this MD&A may contain forward-looking statements and information attributed to third party industry sources. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Such forward-looking statements and information in this MD&A speak only as of the date of this MD&A.

Forward-looking statements and information in this MD&A include, but are not limited to, statements with respect to our growth expectations, including negative growth, the impact of changes in governmental regulation on our company, possible changes in our expense levels, changes in tax laws, anticipated benefits of acquisitions and dispositions, and the impact of the COVID-19 pandemic on our operations and financial position.

With respect to forward-looking statements and information contained in this MD&A, we have made assumptions regarding, among other things: growth rates including negative growth and inflation rates in the Canadian and global economies, the Canadian and U.S. housing markets, the Canadian and global capital markets, the strength of the Canadian dollar relative to the U.S. dollar, employment levels and consumer spending in the Canadian economy, impacts of regulation and tax laws by the Canadian and provincial governments or their agencies, and the occurrence of and response to public health crises including the COVID-19 pandemic and their impact on our investments, operations and claims. Some of the assumptions we have made are described in our 2019 Annual Report.

Although we believe that the expectations reflected in the forward-looking statements and information are reasonable, there can be no assurance that such expectations will prove to be correct. We cannot guarantee future results, levels of activity, performance or achievements. Consequently, we make no representation that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements and information. Some of the risks and other factors, some of which are beyond our control, which could cause results to differ materially from those expressed in the forward-looking statements and information contained in this MD&A and the documents incorporated by reference herein include, but are not limited to: the impact of the COVID-19 pandemic on our investments, operations and claims materially and negatively affecting the results of our operations and financial position; our ability to implement our strategy or operate our business as we currently expect; our ability to accurately assess the risks associated with the insurance policies that we write; unfavourable capital market developments or other factors which may affect our investments; the cyclical nature of the property and casualty insurance industry; our ability to accurately predict future claims frequency; the frequency and severity of weather related events; climate change; government regulations; litigation and regulatory actions; periodic negative publicity regarding the insurance industry; intense competition; our reliance on advisors to sell our products; our ability to successfully pursue our acquisition strategy; actions to be taken in connection with the sale of L'Union Canadienne, Compagnie d'assurances to Roins Financial Services Limited; our participation in the Facility Association (a mandatory pooling arrangement among all industry participants); terrorist attacks and ensuing events; the occurrence of catastrophic events; our ability to maintain our financial strength ratings; our ability to alleviate risk through reinsurance; our ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); our reliance on information technology and telecommunications systems; impacts of new or changing technologies, including those impacting personal transportation; breaches or failure of information system security and privacy, including cyber terrorism; our dependence on key employees; and general economic, financial and political conditions.

Readers are cautioned that the foregoing list of factors is not exhaustive. For further information, please refer to our 2019 Annual Report, which outlines in detail certain key factors that may affect our future results. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement. We are not under any duty to update any of the forward-looking statements after the date of this MD&A to conform such statements to actual results or to changes in our expectations except as otherwise required by applicable legislation.

COVID-19 PANDEMIC

An outbreak of a 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 organizations to limit or suspend business operations and implement travel restrictions and quarantine measures. These measures have disrupted the activities of many organizations. During the current period, jurisdictions in Canada have largely re-opened their economies with restrictions of varying degrees in place.

Co-operators General continues to maintain its new business-as-usual posture in response to the realities of the evolving operating environment. To protect the health and safety of our employees, clients and communities, many of our employees continue to work remotely while some offices have reopened on a limited-scale and voluntary basis. However, considerable uncertainty remains on how the pandemic will evolve in the fourth quarter and beyond, including its impact on our invested asset portfolio and our claims development. Co-operators General continues to closely monitor the developing situation and has considered its impacts on our operations and financial condition in this MD&A and related condensed consolidated interim financial statements.

To assist our clients in these challenging times, Co-operators General introduced various support measures, including auto premium relief and flexible payment options in the second quarter. Our Reduced Driving Refund, which provides a 15% refund on eligible auto premiums paid between April 1 to May 31, has impacted premium levels by more than $35 million. The final amounts and timing of the support measures provided are dependent on client eligibility and preferences, which will become known at the end of the year.

SUMMARY OF KEY FINANCIAL DATA AND RESULTS OVERVIEW

Three months ended September 30 unless otherwise stated

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

3rd quarter	2020	2019	2018[4]
Key financial data[3]			
Direct written premium (DWP)	**1,076.3**	999.7	909.1
Net earned premium (NEP)	**922.2**	840.6	750.6
Net income	**152.3**	12.4	12.9
Total assets[1]	**8,112.0**	7,488.0	6,698.7
Total liabilities[1]	**6,088.0**	5,640.7	5,048.8
Shareholders' equity[1]	**2,024.0**	1,847.3	1,649.9
Key success indicators[3]			
Direct written premium growth	**7.7%**	10.0%	21.8%
Net earned premium growth	**9.7%**	12.0%	14.4%
Underwriting income (loss) - excluding market yield adjustment (MYA)	**77.9**	(24.7)	(31.3)
Earnings per common share (EPS)[2]	**$5.67**	$0.42	$0.48
Return on equity (ROE)	**39.7%**	3.1%	3.5%
Combined ratio - excluding MYA	**91.6%**	103.0%	104.1%
Combined ratio - including MYA	**94.0%**	103.9%	103.1%
Minimum Capital Test (MCT)[1]	**232%**	209%	208%

[1] Balance sheet data and MCT results for 2019 and 2018 are as at December 31

[2] All of the common shares of CGIC are owned by CFSL

[3] Refer to Key Financial Measures (Non-IFRS) Section

[4] Amounts presented for DWP growth and NEP growth include the results of operations of CUMIS General from the date of acquisition, April 1, 2018

Co-operators General reported net income after tax of $152.3 million for the three months ended September 30, 2020, compared to net income of $12.4 million in the same quarter of 2019. Our return on equity for the quarter was 39.7% versus 3.1% in the third quarter of 2019. Earnings per common share in the quarter was $5.67 compared to $0.42 in the same quarter of the prior year.

Excluding the market yield adjustment (MYA), Co-operators General reported underwriting income of $77.9 million for the third quarter of 2020, in contrast to an underwriting loss of $24.7 million in the same quarter of 2019. This was the result of premium growth across all lines of business driven primarily by higher average premium from targeted rate adjustments in the auto and home lines of business, and to a lesser extent, an increase in policies in force in auto. In addition, total claims and adjustment expenses decreased during the period, driven by lower frequency of current accident year claims in auto and home. This impact was partially offset by unfavourable claims development in auto and increased frequency of current accident year claims from the commercial and farm product lines. As a result, our loss ratio excluding MYA improved by 9.2 percentage points over the comparative quarter. The MYA drove a $22.5 million unfavourable impact to our net claims and adjustment expenses from a decrease in the discount rate used to measure our claims liabilities.

Net investment income and gains totalled $146.0 million for the quarter, an increase of $102.7 million compared to the same quarter in the prior year. The increase in net investment income and gains was driven by strong performance in the equity markets this quarter, the result of accommodative fiscal and monetary policy introduced earlier this year, coupled with the overall loosening of business restrictions by provincial jurisdictions through the summer months due to a lower prevalence of COVID-19 throughout Canada. Included in net investment income and gains were gains realized from a strategic recalibration of our invested assets to reduce our exposure to common shares.

FINANCIAL PERFORMANCE

DIRECT WRITTEN PREMIUM AND NET EARNED PREMIUM

$ millions	Q3 2020	Q3 2019	% change	YTD 2020	YTD 2019	% change
Direct written premium	**1,076.3**	999.7	7.7%	**2,921.8**	2,807.1	4.1%
Net earned premium	**922.2**	840.6	9.7%	**2,631.6**	2,408.3	9.3%

In the third quarter, DWP increased by 7.7% to $1,076.3 million compared to the same quarter of 2019. The increase in DWP was attributable to higher average premium from targeted rate adjustments across all lines of business excluding travel and other, and to a lesser extent, an increase in policies in force in the auto line of business, particularly in Ontario. NEP increased during the third quarter by 9.7% to $922.2 million compared to the same quarter last year. The increase in NEP was attributed to higher average premiums from targeted rate adjustments across all geographic regions and lines of business excluding travel and other, and to a lesser extent, an increase in policies in force for auto.

Refer to Note 13 of our unaudited condensed consolidated interim financial statements for the period ended September 30, 2020 for a reconciliation of DWP to NEP.

NEP by line of business

$ millions	Q3 2020	Q3 2019	% change	YTD 2020	YTD 2019	% change
Auto	**459.0**	415.2	10.5%	**1,283.2**	1,178.8	8.9%
Home	**256.5**	231.2	10.9%	**730.6**	665.8	9.7%
Commercial	**148.7**	139.7	6.4%	**448.6**	402.1	11.6%
Farm	**38.9**	36.5	6.6%	**113.2**	106.1	6.7%
Travel and other	**19.1**	18.0	6.1%	**56.0**	55.5	0.9%
Total	**922.2**	840.6	9.7%	**2,631.6**	2,408.3	9.3%

The auto line of business grew by 10.5% over the prior period; this increase was driven by higher average premium from targeted rate adjustments across all regions and to a lesser extent, growth in vehicles in force in Ontario. Growth in the home and commercial lines of business by 10.9% and 6.4% respectively over the same quarter of 2019 were driven by higher average premium from targeted rate adjustments across all regions.

Meanwhile, the farm line of business grew 6.6% over the same quarter of 2019, driven by higher average premium from targeted rate adjustments across all geographic regions, coupled with policy growth, notably in the West. The travel and other line of business grew 6.1% over the comparative quarter of 2019 and was primarily due to growth in speciality line premiums. This was partially offset by a decrease in travel premiums due to strategic management actions to return the portfolio to profitability and to a lesser extent, lower travel activity due to ongoing restrictions resulting from COVID-19.

NEP by geographic region

$ millions	**Q3 2020**	Q3 2019	% change	**YTD 2020**	YTD 2019	% change
West	**309.8**	293.7	5.5%	**897.8**	854.0	5.1%
Ontario	**476.3**	424.7	12.1%	**1,342.9**	1210.5	10.9%
Quebec	**49.9**	42.6	17.1%	**143.2**	116.4	23.0%
Atlantic	**86.2**	79.6	8.3%	**247.7**	227.4	8.9%
Total	**922.2**	840.6	9.7%	**2,631.6**	2,408.3	9.3%

During the third quarter, NEP grew across all regions compared to the same quarter of 2019. Growth in the West of 5.5% was a result of higher average premiums from targeted rate adjustments across all lines of business, excluding travel and other. Ontario increased 12.1% due to higher average premiums from targeted rate adjustments, particularly in auto and home. Targeted rate adjustments coupled with an increase in policies in force in the auto line of business drove growth of 17.1% in Quebec, while the Atlantic region saw an increase of 8.3% as a result of targeted rate adjustments, particularly in the home line of business.

NET INVESTMENT INCOME AND GAINS

$ millions	**Q3 2020**	Q3 2019	change	**YTD 2020**	YTD 2019	change
Interest income	**23.9**	24.5	(0.6)	**71.8**	71.6	0.2
Dividend and other income	**22.6**	13.5	9.1	**50.5**	48.3	2.2
Investment expenses	**(1.9)**	(1.5)	(0.4)	**(5.6)**	(4.6)	(1.0)
Net investment income	**44.6**	36.5	8.1	**116.7**	115.3	1.4
Net realized gains	**60.0**	9.8	50.2	**99.3**	78.8	20.5
Net foreign exchange gains (losses)	**6.0**	(1.9)	7.9	**(3.0)**	9.0	(12.0)
Change in fair value	**38.0**	(0.2)	38.2	**(11.1)**	(1.8)	(9.3)
Impairment losses	**(2.6)**	(0.9)	(1.7)	**(21.1)**	(3.9)	(17.2)
Net investment gains	**101.4**	6.8	94.6	**64.1**	82.1	(18.0)
Net investment income and gains	**146.0**	43.3	102.7	**180.8**	197.4	(16.6)

During the period, accommodative fiscal and monetary policies in Canada and the US continued to support capital markets. As a result, capital markets in North America continued to appreciate in the period, significantly rebounding after their market correction in March, which was in contrast with the relative market stability in the prior period.

Accordingly, Co-operators General recorded net investment income and gains of $146.0 million in the period, a $102.7 million favourable change from the prior period. This increase was primarily driven by a strategic recalibration to reduce our equity exposure which resulted in realized gains on our common share portfolio, coupled with unrealized gains on our preferred share portfolio.

Net investment income earned in the current period increased by $8.1 million compared to the third quarter of 2019. This was the result of an unplanned dividend distribution received in our common share portfolio and higher distributions from limited partnership funds.

Net investment gains of $101.4 million in the current period increased by $94.6 million compared to the third quarter of 2019. This was primarily driven by a $53.4 million increase in realized gains due to higher turnover of our common share portfolio, a result of a strategic reduction in common share exposure. In addition, there was a $39.5 million increase in unrealized gains on our preferred share portfolio, the result of appreciation in preferred share valuations. Strengthening of the Canadian dollar versus the U.S. dollar resulted in foreign exchange contract gains of $6.0 million, an increase of $7.9 million compared to the same period of 2019. This was partially offset by an increase in impairment losses of $1.7 million.

OTHER COMPREHENSIVE INCOME

$ millions	Q3 2020	Q3 2019	YTD 2020	YTD 2019
Other comprehensive income (loss)	**(11.3)**	14.7	**27.4**	107.0

Other comprehensive losses of $11.3 million were recorded in the current period, an unfavourable change of $26.0 million from the comparative quarter in 2019. The unfavourable change is largely attributed to reclassification adjustments to the consolidated statements of income of $42.7 million resulting from the sale of bonds and common shares. These losses were partially offset by unrealized common share and fixed income gains of $16.0 million and $15.2 million, respectively. These gains were the result of a rebound in the global equity and fixed income markets from monetary and fiscal stimulus aimed at improving economic conditions in response to COVID-19.

EXPENSES

Claims and adjustment expenses – Loss ratio

$ millions, except ratios	Q3 2020	Q3 2019	change	YTD 2020	YTD 2019	change
Undiscounted net claims and adjustment expenses	**567.8**	594.8	(27.0)	**1,717.3**	1,644.6	72.7
Effect of MYA	**22.5**	7.9	14.6	**79.9**	40.0	39.9
Net claims and adjustment expenses	**590.3**	602.7	(12.4)	**1,797.2**	1,684.6	112.6
Loss ratio (excluding MYA)	**61.6%**	70.8%	(9.2) pts	**65.3%**	68.3%	(3.0) pts
Loss ratio (including MYA)	**64.0%**	71.7%	(7.7) pts	**68.3%**	69.9%	(1.6) pts

Undiscounted net claims and adjustment expenses decreased to $567.8 million in the period, an improvement of $27.0 million over the comparative quarter of 2019. The decrease was driven by fewer major events and fewer current year accident claims in the auto line of business. This was partially offset by a higher frequency in current accident year claims in the farm line of business, coupled with unfavourable claims development in the auto and commercial lines of business.

Unpaid claims and adjustment expenses are discounted using the portfolio yield of the bond and commercial mortgage assets backing the insurance contract liabilities, with consideration provided for the Government of Canada 5-year bond rate plus a credit spread. Tightening of credit spreads in the current period resulted in a decrease to the discount rate used and ultimately drove a negative impact to the MYA, increasing net claims and adjustment expenses by $22.5 million in the third quarter of 2020, $14.6 million more unfavourable than the adjustment from the same quarter of the prior year.

Loss ratio by line of business

% excluding MYA	**Q3 2020**	Q3 2019	change		**YTD 2020**	YTD 2019	change	
Auto	**64.6**	82.3	(17.7)		**68.9**	77.7	(8.8)	
Home	**53.0**	61.8	(8.8)		**53.3**	59.5	(6.2)	
Commercial	**60.0**	54.9	5.1		**72.3**	60.9	11.4	
Farm	**105.5**	71.0	34.5		**80.6**	63.3	17.3	
Travel and other	**27.9**	42.0	(14.1)		**50.6**	36.9	13.7	
Total	**61.6**	70.8	(9.2)	pts	**65.3**	68.3	(3.0)	pts

Compared to the same period last year, the third quarter saw an improvement in the loss ratio by 9.2 percentage points to 61.6%. This was a result of premium growth combined with lower claims activity for the auto, home, and travel and other lines of business. Partially offsetting this impact was a deterioration in the commercial and farm loss ratios.

The auto loss ratio improved significantly by 17.7 percentage points over the same period last year. This was attributable to premium growth from targeted rate adjustments and lower frequency of current accident year claims across all regions, which was partially offset by unfavourable prior year claims development. The auto loss ratio on a year-to-date basis improved by 8.8 percentage points to 68.9% over the same period last year; the ratio was impacted by the Reduced Driving Refund recorded in the second quarter, and more closely reflects our long-term loss ratio target. The loss ratio for home improved by 8.8 percentage points due to premium growth and fewer major events across all regions. The loss ratio for commercial deteriorated 5.1 percentage points as premium growth was more than offset by unfavourable claims development in the West. Despite premium growth, the farm loss ratio experienced a deterioration of 34.5 percentage points over the prior period due to increased frequency of current accident year claims, particularly in Ontario. Meanwhile, travel and other improved by 14.1 percentage points compared to the prior quarter as a result of lower claims activity due to government-mandated travel restrictions and to a lesser extent, premium growth for specialized equipment coverage.

Loss ratio by geographic region

% excluding MYA	**Q3 2020**	Q3 2019	change		**YTD 2020**	YTD 2019	change	
West	**64.1**	76.0	(11.9)		**69.0**	62.8	6.2	
Ontario	**59.6**	66.0	(6.4)		**63.1**	69.9	(6.8)	
Quebec	**57.5**	54.6	2.9		**59.1**	73.3	(14.2)	
Atlantic	**65.7**	85.3	(19.6)		**67.3**	77.8	(10.5)	
Total	**61.6**	70.8	(9.2)	pts	**65.3**	68.3	(3.0)	pts

The Western region’s loss ratio improved by 11.9 percentage points compared to the third quarter of 2019 and was attributable to reduced frequency of current accident year claims in auto, and to a lesser extent, premium growth across all product lines. This was partially offset by increased frequency of current accident year claims for farm. Improvement in Ontario’s loss ratio of 6.4 percentage points was driven by premium growth and an overall decrease in frequency of current accident year claims, which were partially offset by increased current accident year claims in the home and farm lines of business. The Quebec loss ratio deteriorated by 2.9 percentage points over the prior period as a result of increased severity of commercial claims outpacing premium growth. Meanwhile, the Atlantic region improved by 19.6 percentage points over the prior quarter, the result of lower major events and favourable claims development, combined with premium growth which outpaced claims.

Other operating expenses – Expense ratio

%, except total other operating expenses ($ millions)	Q3 2020	Q3 2019	change		YTD 2020	YTD 2019	change	
Total other operating expenses	**276.5**	270.5	6.0		**820.4**	785.0	35.4	
Components of expense ratio								
Premium and other taxes	**3.5**	3.7	(0.2)	pts	**3.6**	3.6	-	pts
Net commissions and advisor compensation	**14.9**	16.5	(1.6)	pts	**16.4**	16.9	(0.5)	pts
General expenses	**11.6**	12.0	(0.4)	pts	**11.2**	12.1	(0.9)	pts
Expense ratio	**30.0**	32.2	(2.2)	pts	**31.2**	32.6	(1.4)	pts

Other operating expenses are comprised of premium and other taxes, net commissions, advisor compensation and general expenses. During the current period, the expense ratio improved by 2.2 percentage points to 30.0% from the comparative quarter in 2019. This improvement was a result of NEP growth outpacing the increase in other operating expenses in the quarter.

Other operating expenses rose by $6.0 million in the third quarter as compared to the same period of the prior year. This was driven by increases in advertising spend, staffing costs and software licensing expenses. The increase was partially offset by lower advisor transition expenses due to an unfavourable change in the discount rate which was of a lower magnitude than the unfavourable discount rate change in the comparative quarter.

Income taxes

Refer to Note 8 of our unaudited condensed consolidated interim financial statements for the period ended September 30, 2020 for our income tax reconciliation between the statutory tax rate and our effective tax rate.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

$ millions	As at September 30, 2020	As at December 31, 2019	% change
Assets			
Invested assets	**5,653.9**	5,327.2	6.1%
Reinsurance ceded contracts	**163.3**	163.7	(0.2%)
Intangible assets	**103.1**	104.0	(0.9%)
Other assets	**2,191.7**	1,893.1	15.8%
Liabilities			
Insurance contracts	**5,389.3**	4,909.2	9.8%
Retirement benefit obligations	**147.4**	128.7	14.5%
Other liabilities	**551.3**	602.8	(8.5%)
Shareholders' equity	**2,024.0**	1,847.3	9.6%

Despite the economic volatility in the global financial markets earlier in the year, our balance sheet and capital position remain strong at the end of the third quarter of 2020. We continue to closely monitor our liquidity and capital positions to ensure we meet the needs of our clients while also supporting our strategic areas of focus in this period of uncertainty.

The value of our invested assets exceeds insurance contracts net of reinsurance ceded contracts by 8.2%, compared to an excess of 12.3% as at December 31, 2019. Our MCT ratio of 232% at September 30, 2020 is well above our internal minimum of 175%.

Our invested assets increased by $326.7 million in line with the rebound of the global equity markets after their sharp correction in March, while our insurance contract liabilities increased by $480.1 million as a result of two catastrophic events experienced in the second quarter.

Our other liabilities decreased by $51.5 million due to the timing of payments made for trade payables and accrued charges; premium and other taxes also fluctuate with the seasonality of premiums written.

Our 2019 Annual Report provides a summary of our off-balance sheet arrangements and contractual commitments.

INVESTED ASSETS

Co-operators General has a high quality, well diversified investment portfolio consisting primarily of high-quality bonds, equities, and commercial mortgages. The bond portfolio is $3,272.4 million or 57.9% of our total invested assets. Our investment in bonds is diversified both geographically and by sector, with a large portion invested in Canadian government debt instruments. The equity portfolio makes up $1,060.7 million or 18.8% of our total invested assets and consists largely of publicly traded common and preferred stocks diversified by industry sector and issuer. Our equity portfolio is 84.0% weighted to Canadian stocks.

We adhere to a conservative investment policy and strategy that is based on prudence in accordance with regulatory guidelines, and in a broad sense, premium cash flows and claims settlement patterns by product line. This is achieved by investing in a diversified mix of securities and by shifting between asset classes as trends in the market evolve. The credit quality of our portfolio remains high with 85.7% rated A or higher and 97.3% of our bonds are considered investment grade, rated BBB or higher; this is consistent with the credit quality of our portfolio in the prior period. We continue to closely monitor the evolving situation and actively manage our financial risk management policies in response to the COVID-19 pandemic. For more details around our financial risk management policies, please refer to Note 5 in our 2019 Annual Report.

MINIMUM CAPITAL TEST

	September 30, 2020	December 31, 2019
MCT	**232%**	209%

Co-operators General's MCT of 232% at September 30, 2020 remains strong and represents $473.3 million of capital in excess of our 175% internal minimum. The MCT is impacted by various factors including interest rates, invested asset mix, dividend payments, and the results of our operations.

SHARE CAPITAL

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

DIVIDENDS

Dividends declared on preference shares were $1.3 million in the third quarter ended September 30, 2020, compared to $1.3 million declared in the same quarter last year. There were no dividends declared on common shares during the quarter ended September 30, 2020, compared to a $28.0 million common share dividend declared for the period ended September 30, 2019.

EARNINGS PER SHARE

$ millions, except share data and EPS	Q3 2020	Q3 2019	YTD 2020	YTD 2019
Net income	**152.3**	12.4	**151.3**	113.4
Less: dividends on preference shares	**1.3**	1.3	**6.5**	6.4
Net income available to shareholders	**151.0**	11.1	**144.8**	107.0
Weighted average number of outstanding common shares[1]	**26,620**	26,515	**26,620**	25,430
Earnings per common share	**$5.67**	$0.42	**$5.44**	$4.21

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

CASH FLOWS

$ millions	Q3 2020	Q3 2019	YTD 2020	YTD 2019
Cash provided by operating activities	**234.1**	212.2	**472.6**	385.8
Investing activities				
Net purchases of investments	**(161.5)**	(137.6)	**(232.4)**	(241.4)
Net purchases of intangibles & property and equipment	**(0.8)**	(6.8)	**(4.3)**	(21.1)
Cash flows used in investment activities	**(162.3)**	(144.4)	**(236.7)**	(262.5)
Financing activities				
Net preference shares issued (redeemed)	**1.8**	0.4	**4.6**	(2.4)
Dividends paid	**(4.0)**	(31.9)	**(9.2)**	(37.1)
Lease liabilities paid	**(2.6)**	(2.5)	**(7.9)**	(7.8)
Cash flows used in financing activities	**(4.8)**	(34.0)	**(12.5)**	(47.3)
Net increase in cash and cash equivalents	**67.0**	33.8	**223.4**	76.0

Cash generated from insurance operations and investment returns normally exceeds our claims and operating expense requirements, and sufficiently funds our commitments and growth initiatives. We continue to monitor our cashflow closely in light of the volatile economic conditions faced from the COVID-19 pandemic.

KEY FINANCIAL MEASURES (NON-IFRS)

We measure and evaluate the performance of the consolidated operations using a number of financial measurements. These measurements help the reader understand business volumes, the quality of risk underwriting, management reserving practices, and the financial strength and financial leverage of Co-operators General.

These measures are non-IFRS measurements but are derived from elements of the IFRS consolidated financial statements and are consistent with financial measures used in the P&C insurance industry. Detailed definitions of the measures used can be found within the *Key Financial Measures (Non-IFRS)* section of our 2019 Annual Report.

UNDERWRITING RESULTS

$ millions, except ratios	Q3 2020	Q3 2019	YTD 2020	YTD 2019
Net earned premium, before reinstatement premiums	**917.7**	840.6	**2,638.8**	2,408.3
Reinstatement premiums expense (recovery)	**(4.5)**	-	**7.2**	-
Net earned premium, as reported	**922.2**	840.6	**2,631.6**	2,408.3
Undiscounted net claims and adjustment expenses (excluding MYA)	**567.8**	594.8	**1,717.3**	1,644.6
Loss ratio (excluding MYA)	**61.6%**	70.8%	**65.3%**	68.3%
Other operating expenses	**276.5**	270.5	**820.4**	785.0
Expense ratio	**30.0%**	32.2%	**31.2%**	32.6%
Underwriting income (loss)	**77.9**	(24.7)	**93.9**	(21.3)
Combined ratio (excluding MYA)	**91.6%**	103.0%	**96.5%**	100.9%

CLAIMS DEVELOPMENT

Co-operators General continues to monitor and assess claims development, especially as it relates to the uncertainty brought forward by the COVID-19 pandemic. While there is an improved understanding on the impacts of COVID-19, significant uncertainty remains. As such, it remains early to gauge the full impact of the pandemic on our claims and adjustment expenses. As at September 30, 2020, we have estimated a direct $42.2 million impact to our net claims and adjustment expenses for the year as it relates to COVID-19. As time progresses, we expect claims development to be impacted by, but not limited to, the following direct and indirect factors: changes in frequency of auto claims in response to provincial jurisdictions reopening or closing their economies; inflationary costs due to delays in construction projects, shortage of labour and supply chain disruptions; increased business interruption claims and related class actions; and a change in the frequency of travel interruption claims.

Our 2019 Annual Report provides a summary of our unpaid claims and adjustment expense provision and revised estimates of prior year net unpaid claims and adjustment expense provisions relative to their original valuation as at December 31.

RETURN ON EQUITY

Return on equity is the annualized ratio of net income to the average of opening and closing shareholders' equity excluding accumulated other comprehensive income (AOCI).

$ millions, except ratios	Q3 2020	Q3 2019
Net income	**152.3**	12.4
Shareholders' equity excluding AOCI at September 30	**1,824.3**	1,636.7
Shareholders' equity excluding AOCI at June 30	**1,671.3**	1,652.5
ROE	**39.7%**	3.1%

SELECTED QUARTERLY INFORMATION

(in millions of dollars except for EPS and ratios)

	2020 3rd qtr	2020 2nd qtr	2020 1st qtr	2019 4th qtr	2019 3rd qtr
Direct written premium	**1,076.3**	1,016.3	829.2	945.3	999.7
Net earned premium	**922.2**	836.9	872.5	866.5	840.6
Net income (loss)	**152.3**	47.9	(48.9)	60.7	12.4
Other comprehensive income (loss)	**(11.3)**	88.0	(49.2)	(25.1)	14.7
Key statistics					
Earnings (loss) per common share	**$5.67**	$1.65	($1.88)	$2.30	$0.42
Loss ratio (excluding MYA)	**61.6%**	71.5%	63.2%	64.5%	70.8%
Expense ratio	**30.0%**	32.5%	31.1%	32.7%	32.2%
Combined ratio	**91.6%**	104.0%	94.3%	97.3%	103.0%

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

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

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

OUTLOOK, BUSINESS DEVELOPMENTS AND OPERATING ENVIRONMENT

GENERAL BUSINESS AND ECONOMIC CONDITIONS

Economic conditions continued to rebound during the third quarter. The severe economic contraction in the first quarter was followed by an initial recovery phase that was unexpectedly strong. The current period saw a drop in the Canadian unemployment rate from a high of 13.7% in May to 9.0% in September. A sharp decline in the unemployment rate was also seen in the United States, from a peak of 14.7% in April to 7.9% in September. Coupled with robust consumer and business spending during the period, the possibility of a strong turnaround in economic activity in the United States remains.

Much of the recovery in both countries can be attributed to expansionary fiscal and monetary policies enacted by the Bank of Canada and the U.S. Federal Reserve. Both banks have confirmed that their policy rates will remain anchored at their effective lower bounds (0.25% in Canada and 0.125% in the United States) for as long as excess capacity in the economy remains and inflation stays below their 2% targets. Central banks have also engaged in buying government debt to shield the bond market from a deluge of supply, with the Bank of Canada buying upwards of 75% of the Canadian federal government deficit and the U.S. Federal Reserve buying up to one-third of its federal government deficit. As a result, bond yields have fluctuated only slightly, with the largest movements observed for longer dated maturities.

The abundance of liquidity and the decline in COVID-19 cases for most of the third quarter has led investors to look beyond the pandemic. During the period, the S&P 500 and S&P TSX indices gained 8.9% and 3.9%, respectively, while crude oil prices remained relatively stable. As significant as it was, the third quarter rebound in economic activity should give way to a tangible slowdown in the coming quarters as uncertainty about the COVID-19 has not yet fully dissipated as several countries are experiencing a flare-up in new cases.

PROPERTY AND CASUALTY INDUSTRY

The second quarter of 2020 was a period of transition for the insurance industry as insurers enacted work-from-home policies, shored up their capital positions, and instituted a variety of premium relief measures concentrated in the auto line of business. The third quarter of 2020 saw P&C insurers adjust to their new normal as driving returns to pre-pandemic levels while business restrictions gradually relaxed across the country. Despite premium relief measures, the overall P&C insurance sector is expected to continue to harden.

Prior to the pandemic, the P&C market had begun to harden in both the personal and commercial markets. Rate increases were largely paused in the second quarter; however, the current period saw an attempt by insurers to return to rate adequacy in response to consistently high combined ratios in the personal home and auto markets, as well as large losses experienced in the commercial markets during the second quarter.

Much of the recent focus by the industry has been on its response to COVID-19. However, the challenging market conditions that existed prior to the pandemic have not disappeared; carriers remain focused on underwriting discipline, ensuring they secure the right terms and pricing on lines of coverage that have historically not performed well.

EMERGING LEGISLATION AND REGULATORY EVENTS

Emerging legislation and regulatory events are detailed in our 2019 Annual Report and an update is provided below:

Auto insurance emergency relief measures

In response to the COVID-19 pandemic, we have worked with regulatory bodies in all jurisdictions to introduce auto relief measures for our clients on an as needed basis including payment relief, premium relief, and our Reduced Driving Refund. Our Reduced Driving Refund is 15% and has been applied to April and May monthly premiums for private passenger and light commercial vehicles for all eligible auto clients. To maximize premium relief payouts to our clients, the sign-up deadline has been extended to October 31.

Ontario auto

We actively monitor legislative developments and seek to engage with the government and its agencies on important issues. An update on current issues is as follows:

Financial Services Regulatory Authority (FSRA)

Auto insurance is heavily regulated by the FSRA. FSRA administers the Insurance Act and approves any auto rate changes. We continue to engage with FSRA, participating on several advisory committees related to property and casualty insurance.

Auto insurance reform

Co-operators General continues to engage with the government on its legislative review of the Consumer Protection Act with regards to tow and storage services and recently participated in a meeting of the newly-formed provincial tow truck task force.

Alberta auto

Auto insurance is heavily regulated by the Office of the Superintendent and the Automobile Insurance Rate Board (AIRB). The former administers the Insurance Act and its regulations, while the AIRB approves all auto rate changes. Alberta's market has presented challenges, and we have actively engaged with the government and regulators in an effort to address these issues.

Rate regulation

Co-operators General recently participated in the AIRB's annual review of industry experience to help inform industry benchmarks to be used in the review of insurers' private passenger vehicles rate filings for basic and additional coverage.

British Columbia home

The B.C. government and the Financial Services Authority (BCFSA) have undertaken significant work on reforming strata legislation and regulation, including a focus on insurance. As a provider of property insurance for strata unit owners, Co-operators General is participating in these reform efforts.

RELATED PARTY TRANSACTIONS

Co-operators General has ongoing transactions with related parties primarily consisting of product distribution services, management advisory services and reinsurance. There have been no material changes in our ongoing related party transaction arrangements during the period ended September 30, 2020. Please refer to our 2019 Annual Report for further details.

RISK MANAGEMENT

Effective risk management is vital to making sound business decisions. In our on-going efforts to optimize the organizational risk profile against our risk appetite, we have identified and continuously assess key risks relative to their potential impact on our corporate strategy, competitive position, operational results and financial condition. Risks, and the practices used to manage risk, are discussed in our 2019 Annual Report. A quarterly update on how we are adapting to COVID-19 is included below.

During the third quarter, Co-operators General has fully adjusted to its new business-as-usual posture in response to the COVID-19 operating environment. This includes, among other management protocols, the continued suspension of all work travel, and the work from home policy to implement physical distancing guidelines in accordance with federal, provincial and local public health agencies. We commenced a phased, voluntary return-to-office work plan for our advisors and corporate staff and are following various evolving provincial guidelines regarding a gradual return to office strategy.

To support working from home, we continue to deploy additional technologies to strengthen cyber security and operational resiliency to enable us to operate all functions required to continue business virtually for the foreseeable future. Management is continually monitoring and assessing the evolving nature of the pandemic and its potential impact to the business, operations and capital resources under a number of different stress scenarios. Early in the pandemic outbreak, we put in place new governance structures and processes which have enabled us to effectively manage the ongoing COVID-19 operating environment.

For 2020, in line with a change in our assessment of our risk exposure, our catastrophe maximum limit increased by $50.0 million to $1.45 billion while our retention remains at $70.0 million. The net retained amount of $70.0 million represents approximately 3.8% of our capital. For the purpose of capital management, we define capital as shareholders' equity excluding AOCI.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The COVID-19 pandemic has impacted staff throughout the organization. As a result, high risk internal controls over financial reporting have been tested and there are no changes to our high risk internal controls over financial reporting during the third quarter of 2020 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

OTHER ACCOUNTING MATTERS

ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting". The unaudited condensed consolidated interim financial statements should be read in conjunction with our 2019 Annual Report.

The accounting policies used in our third quarter unaudited condensed consolidated interim financial statements are consistent with those applied in our audited consolidated financial statements for the year ended December 31, 2019. IFRS future accounting pronouncements, as well as their estimated impact, are described in Note 4 of our audited consolidated financial statements for the year ended December 31, 2019, with the following exception noted below.

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 Co-operators General 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. Co-operators General is currently evaluating the impact that these standards and their amendments will have on its consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of our unaudited condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statement and the reported amounts of revenues and expenses during the period. The preparation of our unaudited condensed consolidated interim financial statements also requires management to exercise its judgment in the process of applying our accounting policies.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in the 2019 Annual Report within the notes for the respective account balances, with specific updates to assess the impact of the COVID-19 pandemic for certain account balances in our unaudited condensed consolidated interim financial statements and accompanying notes for the period ended September 30, 2020.

As discussed in our 2019 Annual Report, we make estimates for the amount of unpaid claims and timing of future claims based on assumptions that reflect the expected set of economic conditions and planned course of actions. Uncertainty exists on reported claims in that all information may not be available at the reporting date.

In addition, claims may not be reported to us immediately; therefore, estimates are made as to the cost of the claims incurred but not yet reported, a value which can take years to determine. We acknowledge there is heightened uncertainty in the assumptions and estimates discussed above as they relate to the ongoing COVID-19 pandemic.

We have included in our valuation of insurance contract liabilities the risks and data available on individual claims that have been impacted by COVID-19 and have updated the estimates and assumptions that are expected to be impacted by COVID-19. We continue to closely monitor and actively manage our insurance risk management policies as well as financial risk management policies as outlined our 2019 Annual Report.

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