# ANNUAL REPORT 2018

TRISURA® GROUP LTD.

# Letter to Shareholders

2018 was an evolutionary year for Trisura Group, as we concentrated on growing our global specialty insurance platform across our operating jurisdictions. Our Canadian team continued to deliver strong underwriting results and growth, keeping the pace set over the past 13 years. In the U.S. we began to deliver on our operating targets, generating over $50 million in premiums and significant fee income through our hybrid fronting model. As our global business develops, we remain focused on maintaining the culture, principles and standards that have made us preferred partners for our specialty insurance distribution networks in Canada for so many years.

## Financial Highlights

Our specialty P&C insurance business delivered strong performance, with $219 million in gross premiums written, an increase of 49% over 2017. Our growth was broad-based, driven by acceleration of new business from our U.S. platform, as well as increased premiums year over year in each of Surety, Risk Solutions and Corporate insurance. Importantly, profitability also increased year-on-year, generating $8.6 million in net income driven by the strength of our Canadian operations.

Our balance sheet is conservatively managed and growing, with $130 million in capital and a consolidated debt to capital ratio below our 20% target. Each of our regulated subsidiaries are well-capitalized with appropriate regulatory capital positions.

## Insurance Operations

We continue to be a leader in the speciality commercial insurance market. Our Canadian subsidiary is our most mature business line and is led by an experienced and skilled management team. In our Canadian business, we achieved a combined ratio of 86.3%, which coupled with improved investment income drove a 19.1% return on common equity. 2018 was especially strong in our surety business line, a core strength of our organization. Through focused underwriting and a deep history in the industry, our surety team delivered an industry leading loss ratio in 2018. Corporate Insurance and Risk Solutions also contributed to our topline growth and group profitability.

Our primary strategic objective in 2018 was expansion into the U.S. specialty insurance market. Following the receipt of a license and an AM Best A- (Excellent) rating in the fall of 2017, we grew our team to 14 professionals, and bound 14 programs generating $54 million in gross premium. We built on our momentum in every quarter of operations and anticipate accelerating premium growth to continue. Our U.S. company was established as a fronting carrier, ceding the majority of premiums to reinsurance partners in exchange for a fronting fee. We're very excited about the potential of this fee-based platform and expect its growth to continue in 2019. With our AM Best A- rating, and our current capital, we have capacity to write over $200 million in annual premiums.

Our international reinsurance business based in Barbados provides us with an important platform for future international growth. We are in the process of licensing our international entity to act as a captive reinsurer to our U.S. and Canadian subsidiaries and anticipate writing business in 2019. In 2018, a declining European interest rate environment drove reserve strengthening in the last quarter of the year; however, results remained breakeven through the 12-month period.

## Investments

In 2018 we internalized and centralized our investment management and advisory function, broadening the tool kit available to our subsidiary portfolios. We have introduced currency hedging programs to improve diversification and benefit from a global investment posture. We also gained access to an expanded set of securities, including private debt and commercial mortgages; investments that we feel are appropriate and attractive for insurance portfolios. We have already seen the benefit of greater interest and dividend income in our Canadian portfolio and plan to continue enhancing yield selectively across the U.S. and International asset pools. Following the formalization of our advisory function for our international portfolios in Q4, we anticipate improving both the yield and duration matching characteristics of these assets.

The market volatility experienced through the year provided opportunities to re-balance our portfolios, improving yield, diversification and portfolio quality. The majority of our portfolios remain invested in high quality, investment grade bonds and is complemented with preferred shares, private debt, and high quality, dividend paying equities. Corporate spreads expanded significantly in the fourth quarter of 2018, and equity and preferred shares experienced a rapid correction. Although these movements result in near term portfolio volatility, we view them as opportunities to seek out high quality investments that we can hold over the long term. This approach enabled us to selectively add equity and fixed income positions through December at attractive valuations. We continue to believe that we can have success applying principles of prudent investment management in seeking opportunities to enhance investment performance.

## Strategic Priorities

We aim to provide our subsidiaries with the opportunities and resources necessary to grow and to continue to bolster our investment and risk management functions. We intend to expand our reach in Canada and the U.S. through both organic and acquisitive growth while continuing our history of profitability through disciplined underwriting and investment returns. Through this period of transition and growth, we have continued to prioritize our culture and recognize the importance of our people. We're proud of our Canadian subsidiary for once again being recognized as one of Canada's Top Small and Medium Employers, demonstrating the special culture of our organization and providing a strong foundation for Trisura Group’s future.

## Closing

We are well-positioned to continue our trajectory of growth in 2019. Our team is focused on underwriting specialty commercial business alongside our distribution partners and we are actively searching for opportunities to expand. Our U.S. platform is in the early innings of its development and its potential is evident. Our niche focus will serve our shareholders well and we expect that specialty commercial insurance will continue to outperform the boarder P&C market's underwriting results.

As we look forward towards 2019, I would like to thank our partners, shareholders and employees for their continued support!

Sincerely,

David Clare
President and Chief Executive Officer
Trisura Group Ltd.
February 14, 2019

TRISURA®

***CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION***

*This letter to shareholders contains "forward-looking information" within the meaning of Canadian provincial securities laws and "forward-looking statements" within the meaning of any applicable Canadian securities regulations. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of Trisura Group Ltd. and its subsidiaries, as well as the outlook for North American for the current fiscal year and subsequent periods, and include words such as "expects," "anticipates," "plans," "believes," "estimates," "seeks," "intends," "targets," "projects," "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may," "will," "should," "would" and "could."*

*Although we believe that our anticipated future results, performance or achievements expressed or implied by the forward- looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, which may cause the actual results, performance or achievements of Trisura Group Ltd. to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.*

*Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business; the behavior of financial markets, including fluctuations in interest and foreign exchange rates; global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); the ability to appropriately manage human capital; the effect of applying future accounting changes; business competition; operational and reputational risks; technological change; changes in government regulation and legislation within the countries in which we operate; governmental investigations; litigation; changes in tax laws; ability to collect amounts owed; catastrophic events, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments including terrorist acts and cyber terrorism; and other risks and factors detailed from time to time in our documents filed with the securities regulators in Canada.*

*We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by law, Trisura Group Ltd. undertakes no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.*

# Trisura Group Ltd.

## Management's Discussion and Analysis

For the year ended December 31, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our Management's Discussion and Analysis ("MD&A") is provided to enable a reader to assess the results of operations and financial condition of Trisura Group Ltd. for the three and twelve months ended December 31, 2018. This MD&A should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2018.

Unless the context indicates otherwise, references in this MD&A to the "Company" refer to Trisura Group Ltd. and references to "us," "we" or "our" refer to the Company and its subsidiaries and consolidated entities.

The Company's Consolidated Financial Statements are in Canadian dollars and are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. In this MD&A, all references to "$" are to Canadian dollars unless otherwise specified or the context otherwise requires.

This MD&A is dated February 14, 2019. Additional information is available on SEDAR at www.sedar.com.

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# SECTION 1 - OVERVIEW

## OUR BUSINESS

Our Company is a leading international specialty insurance holding company operating in the Surety, Risk Solutions, Corporate Insurance and Reinsurance niche segments of the market. Our operating subsidiaries include a Canadian specialty insurance company, a recently launched US specialty insurance company, and an international reinsurance company. Our Canadian specialty insurance subsidiary started writing business in 2006 and has a strong underwriting track record over its 13 years of operation. Our US specialty insurance company participates as a hybrid fronting entity in the non-admitted markets and is licensed as an excess and surplus lines carrier in Oklahoma with the ability to write business across 50 states.

Our international reinsurance business has been in operation for more than 17 years and although we ceased writing new reinsurance business in 2008, we expect to commence writing new business in support of our US subsidiary.

Our Company benefits from an experienced management team, a strong distribution network and partners, and a specialized underwriting focus. We plan to grow by building our business in the US, and by expanding our Canadian and international businesses both organically and through strategic acquisitions. We believe our Company can capitalize on favourable market conditions through our multi-line and multi-jurisdictional platform.

Significant achievements in 2018 include:

- ✓ Excellent underwriting performance and continued growth in our Canadian Specialty P&C insurance operations, Trisura Guarantee, achieving a 2018 ROE (trailing 12 months) of 19.1% and an 86.3% combined ratio, alongside 12.7% growth in GPW.
- ✓ Establishment of our US Specialty P&C insurer as a preferred partner in the fronting markets, with a strong management team and an efficient operational structure. By partnering with established and well-managed program administrators and strong international reinsurers, Trisura Specialty wrote $54 million GPW in 2018 across 13 programs covering a broad range of surplus lines classes of business. In addition, Trisura Specialty has built a strong pipeline of future business opportunities. AM Best reaffirmed Trisura Specialty's A- (Excellent) rating with a stable outlook in October 2018.
- ✓ Centralizing our in-house investment management and advisory function which now operates across all operating subsidiaries. Selective redeployment, introduction of new asset classes and currency hedging programs have yielded higher investment income in our Canadian operation and is expected to improve.
- ✓ Increased capital flexibility by transitioning debt from a term loan at our Canadian subsidiary to a revolving credit facility at the group level.
- ✓ Best employer awards in 2018 include, Canada's Top Small and Medium Employers by Canada's Top 100 for the second year in a row, and Best Small and Medium Employers in Canada for four years running.
- ✓ Enhanced corporate governance and risk management functions through introduction of risk management and investment committees at subsidiary and group board levels.

## ORGANIZATIONAL STRUCTURE & REGULATORY FRAMEWORK

The Company was incorporated under the *Business Corporations Act* (Ontario) ("OBCA") in January 2017. We have three regulated wholly owned insurance subsidiaries:

(i) Trisura Guarantee Insurance Company ("Trisura Guarantee") is our Canadian specialty insurance company. Trisura Guarantee is federally incorporated in Canada, is licensed in all provinces and territories of Canada and is subject to both prudential regulation by the Office of the Superintendent of Financial Institutions ("OSFI") and market conduct regulation by each of the insurance regulatory authorities of the provinces and territories in which it conducts business.

(ii) Trisura Specialty is our US specialty insurance company. Trisura Specialty was incorporated on May 31, 2017 and is licensed by the Oklahoma Insurance Department as a domestic surplus line insurer and can write business as a non-admitted surplus line insurer in all states within the United States.

(iii) Trisura International Insurance Ltd. ("Trisura International"), is our international reinsurance company for third party risks. Trisura International is incorporated in Barbados, is licensed to write international reinsurance business and is regulated by the Financial Services Commission ("FSC") in Barbados. In January 2019 we established Trisura International Reinsurance Company Ltd. ("TIRCL") as a wholly owned subsidiary of Trisura International in Barbados to act as a reinsurer of our on-shore companies. TIRCL is also regulated by the FSC.

## SECTION 2 – FINANCIAL HIGHLIGHTS IN Q4 2018 AND FULL YEAR 2018

- ✓ Increased Net income in Q4 2018 ($1.6 million, an increase of $1.7 million over Q4 2017) and full year 2018 ($8.6 million, an increase of $3.8 million (excluding Minority Interests)) over 2017 driven by excellent performance at our Canadian Specialty P&C business.
- ✓ Improving consolidated ROE (trailing 12 months of 6.9% at December 31, 2018, 5.6% at September 30, 2018 and 4.1% at June 30, 2018) as US Specialty business continues to grow.
- ✓ $0.24 EPS (basic and diluted) in Q4, $1.29 full year basic EPS ($1.27 diluted EPS) and $19.63 in Book Value per Share, a 7.0% increase over December 2017.
- ✓ Excellent performance from our Canadian Specialty P&C insurance operations, achieving a 2018 ROE (trailing 12 months) of 19.1% and combined ratios of 83.9% in Q4 and 86.3% in 2018.
- ✓ Continued strong premium growth in our Canadian Specialty P&C business, increasing GPW by 6.3% in Q4 and by 12.7% in the full year driven by Risk Solutions and Corporate Insurance.
- ✓ Strong and accelerating premium growth in our US Specialty Insurance platform, with GPW of $27.2 million in Q4 and $53.7 million since commencing business in early 2018.
- ✓ Continued strong capital position across the Group including MCT of 239% in our Canadian subsidiary, capital in our US business to support its AM Best A- Rating (VII size category) and appropriate capital in our international reinsurer.
- ✓ Debt-to-capital ratio of 18.6% at Q4 2018 down from 19.6% at Q4 2017 and below our long-term target of a 20% debt-to-capital ratio.

## SECTION 3 – FINANCIAL REVIEW

### INCOME STATEMENT ANALYSIS

| | Q4 2018 | Q4 2017 | $ variance | % variance | 2018 | 2017 | $ variance | % variance |
|---|---|---|---|---|---|---|---|---|
| **Gross premiums written** | 68,274 | 38,689 | 29,585 | 76.5% | 219,041 | 146,763 | 72,278 | 49.3% |
| Net premiums written | 31,114 | 26,439 | 4,675 | 17.7% | 115,475 | 99,615 | 15,860 | 15.9% |
| **Net premiums earned** | 22,983 | 19,866 | 3,117 | 15.7% | 88,809 | 79,433 | 9,376 | 11.8% |
| Fee income | 675 | 127 | 548 | 431.5% | 4,724 | 3,400 | 1,324 | 38.9% |
| **Total underwriting revenue** | 23,658 | 19,993 | 3,665 | 18.3% | 93,533 | 82,833 | 10,700 | 12.9% |
| Net claims | (5,920) | (5,187) | (733) | 14.1% | (19,402) | (17,653) | (1,749) | 9.9% |
| Net commissions | (6,545) | (5,195) | (1,350) | 26.0% | (29,903) | (24,882) | (5,021) | 20.2% |
| Premium taxes | (1,278) | (1,227) | (51) | 4.2% | (4,758) | (4,463) | (295) | 6.6% |
| Operating expenses | (8,934) | (8,913) | (21) | 0.2% | (35,184) | (32,279) | (2,905) | 9.0% |
| **Net claims and expenses** | (22,677) | (20,522) | (2,155) | 10.5% | (89,247) | (79,277) | (9,970) | 12.6% |
| **Net underwriting income** | 981 | (529) | 1,510 | nm | 4,286 | 3,556 | 730 | 20.5% |
| Net investment income | 2,829 | 1,007 | 1,822 | 180.9% | 10,457 | 5,411 | 5,046 | 93.3% |
| Foreign exchange (losses) gains | (559) | 103 | (662) | nm | (712) | (35) | (677) | 1934.3% |
| Interest expense | (261) | (197) | (64) | 32.5% | (970) | (1,009) | 39 | (3.9%) |
| Change in minority interests | - | - | - | n/a | - | (5,156) | 5,156 | nm |
| **Income before income taxes** | 2,990 | 384 | 2,606 | 678.6% | 13,061 | 2,767 | 10,294 | 372.0% |
| Income tax expense | (1,359) | (461) | (898) | 194.8% | (4,423) | (3,109) | (1,314) | 42.3% |
| **Net income (loss)** | 1,631 | (77) | 1,708 | nm | 8,638 | (342) | 8,980 | nm |
| Other comprehensive income (loss) | 152 | 1,141 | (989) | (86.7%) | (316) | (4,495) | 4,179 | (93.0%) |
| **Comprehensive income (loss)** | 1,783 | 1,064 | 719 | 67.6% | 8,322 | (4,837) | 13,159 | nm |
| **Earnings per common share - basic - in dollars** | 0.24 | (0.01) | 0.25 | nm | 1.29 | 0.37 | 0.92 | nm |
| **Earnings per common share - diluted - in dollars** | 0.24 | (0.01) | 0.25 | nm | 1.27 | 0.37 | 0.90 | nm |
| **Book value per share $** | 19.63 | 18.35 | 1.28 | 7.0% | 19.63 | 18.35 | 1.28 | 7.0% |
| **ROE trailing twelve months** | 6.9% | 3.9%* | n/a | 3.0pts | 6.9% | 3.9%* | n/a | 3.0pts |

**For period June 22, 2017 to December 31, 2017 i.e. after spinoff from Brookfield Asset Management Inc.*

***Premium Revenue and Fee Income***

Very strong premium growth continued in Q4 2018 with a 76.5% increase in GPW driven by $27.2 million of new gross premium from our US Specialty platform and supported by 6.3% quarter over quarter growth in the Canadian business. NPW growth of 17.7% is lower than GPW growth due to an increase in the proportion of our business that is ceded to reinsurers, primarily as a result of our fronting business model in US Specialty and Risk Solutions in Canada. Q4 2018 fee income increased due to growing fronting fees from US Specialty.

For the full year 2018, US Specialty wrote $53.7 million in GPW which contributed significantly to consolidated GPW growth of 49.3%. NPW growth of 15.9% was supported by Risk Solutions and Corporate Insurance in Canada, as well as new premiums from US Specialty P&C. Fee income increased by 38.9% in 2018 driven by fronting fees from our US Specialty platform and the transition of RSA's surety book to Trisura Guarantee in late 2017. As a result of these factors, 2018 underwriting revenue grew 12.9% compared to 2017.

***Net Claims***

Net claims in Q4 2018 and full year 2018 were $0.7 million and $1.7 million higher than the same periods in 2017. This was the result of growth in our Canadian Corporate Insurance and US Specialty P&C businesses together with reserve increases in the life component of the Reinsurance business and adverse prior year claim development in Canadian Corporate Insurance. In both Q4 and full year these increases were offset by a low level of claims activity in the Canadian Surety business (see Section 4 Underwriting Performance Review).

***Operating Expenses***

Operating expenses in Q4 2018 were in line with Q4 2017. On a full year basis, the increase in 2018 over 2017 arose mainly from expenses at US Specialty P&C as it commenced active underwriting.

***Net Underwriting Income***

Net underwriting income in Q4 2018 was $1.5 million higher than Q4 2017 due to strong underwriting performance from the Canadian Specialty P&C platform, which achieved a combined ratio of 83.9% compared to 93.7% in Q4 2017. This more than offset underwriting losses in our Reinsurance business and losses during the development of our US specialty P&C business.

These same factors contributed to the 20.5% increase in 2018 net underwriting income.

***Minority Interests***

The $5.2 million increase in Minority interests in 2017 reflected the 40% minority interest in Trisura Guarantee which was owned by its management team. In late 2017 we acquired full ownership of Trisura Guarantee through the issuance of common shares at Trisura Group Ltd. Consequently, we now own 100% of Trisura Guarantee and no longer reflect minority interests in our financial statements.

***Net Investment Income and Other Comprehensive Income***

See Section 5 – Investment Performance Review.

***Net Income***

The increase in Net income of $1.7 million in Q4 and $3.8 million in the full year (excluding Minority Interests) arose from strong performance in our Canadian Specialty P&C operations offset by the early stage costs of our US Specialty P&C platform and net losses in the life component of the Reinsurance business.

***EPS, Book Value per Share and ROE***

We provide performance metrics including EPS, book value per share and ROE from June 22, 2017 when the Company effected a spin-off from Brookfield Asset Management Inc. and commenced regular way trading on the TSX. Q4 2018 EPS (basic and diluted) was $0.24 compared to ($0.01) in Q4 2017 and full year 2018 EPS was $1.29 (basic) and $1.27 (diluted). Book value per share at December 31, 2018 of $19.63 represented 7.0% growth since December 31, 2017. ROE on a trailing 12 months basis was 6.9% which represented an increase on previous quarters (5.6% as at September 30, 2018 and 4.1% as at June 30, 2018) but reflected the early developmental drag of the US business.

## BALANCE SHEET ANALYSIS

| As at | December 31, 2018 | December 31, 2017 | $ variance |
|---|---|---|---|
| Cash and cash equivalents | 95,212 | 165,675 | (70,463) |
| Investments | 282,874 | 190,641 | 92,233 |
| Premiums and accounts receivable, and other assets | 46,276 | 23,172 | 23,104 |
| Deferred acquisition costs | 63,715 | 40,266 | 23,449 |
| Recoverable from reinsurers | 109,567 | 65,254 | 44,313 |
| Capital assets and intangible assets | 2,512 | 2,612 | (100) |
| Deferred tax assets | 826 | 740 | 86 |
| **Total assets** | 600,982 | 488,360 | 112,622 |
| Accounts payable, accrued and other liabilities | 24,167 | 19,795 | 4,372 |
| Reinsurance premiums payable | 41,406 | 17,555 | 23,851 |
| Unearned premiums | 182,623 | 115,357 | 67,266 |
| Unearned reinsurance commissions | 19,137 | 5,566 | 13,571 |
| Unpaid claims and loss adjustment expenses | 173,997 | 178,885 | (4,888) |
| Loan payable | 29,700 | 29,700 | - |
| **Total liabilities** | 471,030 | 366,858 | 104,172 |
| **Shareholders' equity** | 129,952 | 121,502 | 8,450 |
| **Total liabilities and shareholders' equity** | 600,982 | 488,360 | 112,622 |

Total assets at December 31, 2018 were $112.6 million higher than at December 31, 2017 as a result of growth at our US and Canadian Specialty P&C businesses. This growth led to increases across a number of assets categories including investments, premiums and accounts receivable and other assets, deferred acquisitions costs and recoverables from reinsurers. The increase in investments arose primarily from the redeployment of cash in the US Specialty P&C investment portfolio. Cash and cash equivalents reduced correspondingly.

The main drivers of liability changes were unearned premiums, reinsurance premiums payable and unearned reinsurance commissions as a result of business growth. The on-going run-off of the in-force Reinsurance business and some large claim settlements in the fronting arrangements of our Canadian Specialty P&C business in Q1 2018 resulted in a reduction in unpaid claims and loss adjustment expenses.

Shareholder's equity increased due to an increase in retained earnings.

## SHARE CAPITAL

Our authorized share capital consists of: (i) an unlimited number of common shares; (ii) an unlimited number of non-voting shares; and (iii) an unlimited number of preference shares (issuable in series).

As at December 31, 2018, 6,621,680 common shares and 64,000 preferred shares of the Company were issued and outstanding which is unchanged from December 31, 2017.

## LIQUIDITY

Liquidity sources immediately available to the Company include: (i) cash and cash equivalents; (ii) our portfolio of highly rated, highly liquid investments (iii) cash flow from operating activities which include receipt of net premiums, fee income and investment income and; (iv) bank loan facilities including our revolving credit facility. These funds are used primarily to pay claims and operating expenses, service the Company's banking facility and purchase investments to support claims reserves and capital requirements.

## CAPITAL

The MCT ratio of Trisura Guarantee was 239% at December 31, 2018 (255% as at December 31, 2017), which comfortably exceeds the 150% regulatory requirements prescribed by OSFI.

Trisura Specialty's capital and surplus of $66.5 million as at December 31, 2018 ($56.5 million as at December 31, 2017) was in excess of the minimum Risk Based Capital Ratio requirement of the Oklahoma Insurance Department.

Trisura International's capital of $28.7 million as at December 31, 2018 ($26.6 million as at December 31, 2017) was sufficient to meet the FSC's regulatory capital requirement.

We had a debt-to-capital ratio of 18.6% as at December 31, 2018 (19.6% as at December 31, 2017), below our long-term target debt-to-capital ratio of 20%.

The Company is well capitalized and we expect to have sufficient capital to meet our regulatory capital requirements, fund our operations and support our current business plans.

# SECTION 4 – UNDERWRITING PERFORMANCE REVIEW

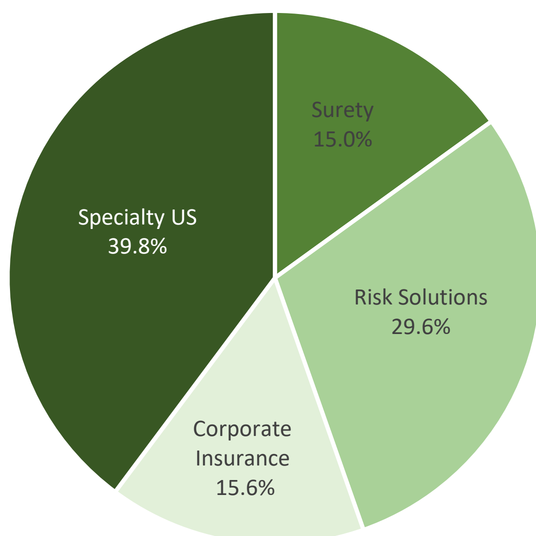
## SPECIALTY P&C

Our Specialty P&C business consists of our Surety, Risk Solutions and Corporate Insurance business lines which we write in Canada through Trisura Guarantee and a broad range of surplus lines in the United States written through Trisura Specialty.

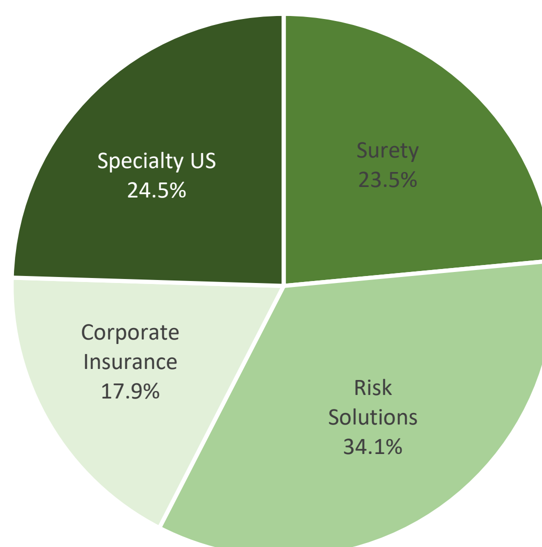
The tables and charts below provide a segmentation of our Specialty P&C GPW and NPW for the fourth quarters and full years of 2018 and 2017 respectively. Corporate Insurance and Risk Solutions grew strongly during 2018. US Specialty P&C commenced writing business in early 2018 and contributed meaningfully to premium growth by writing $27.2 million GPW in Q4 2018 and $53.7 million in 2018.

| GPW | Q4 2018 | % of total | Q4 2017 | % of total | 2018 | % of total | 2017 | % of total |
|---|---|---|---|---|---|---|---|---|
| Surety | 10,201 | 15.0% | 10,014 | 25.9% | 51,535 | 23.5% | 49,690 | 33.9% |
| Risk Solutions | 20,222 | 29.6% | 20,055 | 51.9% | 74,614 | 34.1% | 64,190 | 43.8% |
| Corporate Insurance | 10,644 | 15.6% | 8,573 | 22.2% | 39,073 | 17.9% | 32,718 | 22.3% |
| Specialty US | 27,194 | 39.8% | n/a | n/a | 53,731 | 24.5% | n/a | n/a |
| **Total GPW** | 68,261 | 100.0% | 38,642 | 100.0% | 218,953 | 100.0% | 146,598 | 100.0% |
| % growth over prior year period | | 76.6% | | 15.8% | | 49.4% | | 17.5% |

**Gross Premiums Written**
**Q4 2018**

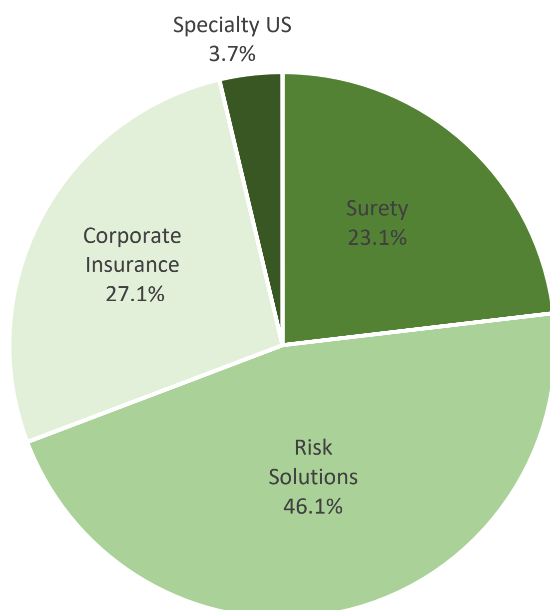


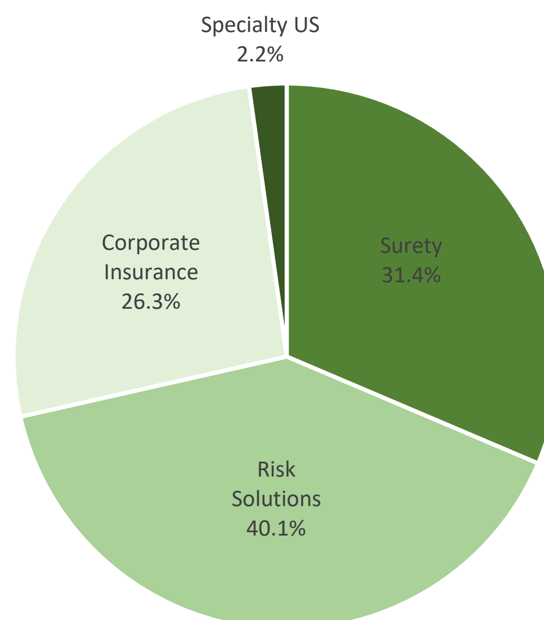

**Gross Premiums Written**
**2018**



NPW grew by 17.8% in Q4 2018 and by 16.0% during 2018 compared to the corresponding periods in 2017. Growth was principally driven by Corporate Insurance and Risk Solutions in Canada and from US Specialty P&C in recent quarters.

| NPW | Q4 2018 | % of total | Q4 2017 | % of total | 2018 | % of total | 2017 | % of total |
|---|---|---|---|---|---|---|---|---|
| Surety | 7,194 | 23.1% | 7,429 | 28.1% | 36,228 | 31.4% | 34,251 | 34.4% |
| Risk Solutions | 14,338 | 46.1% | 12,140 | 46.0% | 46,238 | 40.1% | 39,746 | 40.0% |
| Corporate Insurance | 8,415 | 27.1% | 6,825 | 25.9% | 30,378 | 26.3% | 25,456 | 25.6% |
| Specialty US | 1,155 | 3.7% | n/a | n/a | 2,548 | 2.2% | n/a | n/a |
| **Total NPW** | 31,102 | 100.0% | 26,394 | 100.0% | 115,392 | 100.0% | 99,453 | 100.0% |
| % growth over prior year period | | 17.8% | | 21.1% | | 16.0% | | 14.4% |



## SPECIALTY P&C – CANADA

The table below presents financial highlights for our Canadian Specialty P&C business.

| | Q4 2018 | Q4 2017 | $ variance | % variance | 2018 | 2017 | $ variance | % variance |
|---|---|---|---|---|---|---|---|---|
| Gross premiums written | 41,067 | 38,642 | 2,425 | 6.3% | 165,222 | 146,598 | 18,624 | 12.7% |
| Net premiums written | 29,947 | 26,394 | 3,553 | 13.5% | 112,844 | 99,453 | 13,391 | 13.5% |
| Net premiums earned | 22,448 | 19,821 | 2,627 | 13.3% | 87,852 | 79,270 | 8,582 | 10.8% |
| Fee income | 80 | 127 | (47) | (37.0%) | 3,812 | 3,400 | 412 | 12.1% |
| Net underwriting revenue | 22,528 | 19,948 | 2,580 | 12.9% | 91,664 | 82,670 | 8,994 | 10.9% |
| Net underwriting income | 3,621 | 1,246 | 2,375 | 190.6% | 11,984 | 8,839 | 3,145 | 35.6% |
| Net investment income | 2,047 | 833 | 1,214 | 145.7% | 6,629 | 3,931 | 2,698 | 68.6% |
| Net income | 4,195 | 1,619 | 2,576 | 159.1% | 14,105 | 9,657 | 4,448 | 46.1% |
| Comprehensive (loss) income | (916) | 2,588 | (3,504) | nm | 7,091 | 10,579 | (3,488) | (33.0%) |
| Loss ratio: current accident year | 25.3% | 35.1% | | (9.8pts) | 26.5% | 29.0% | | (2.5pts) |
| Loss ratio: Prior years' development | (5.4%) | (7.0%) | | 1.6pts | (4.9%) | (5.0%) | | 0.1pts |
| Loss ratio | 19.9% | 28.1% | | (8.2pts) | 21.6% | 24.0% | | (2.4pts) |
| Expense ratio | 64.0% | 65.6% | | (1.6pts) | 64.7% | 64.9% | | (0.2pts) |
| Combined ratio | 83.9% | 93.7% | | (9.8pts) | 86.3% | 88.9% | | (2.6pts) |
| ROE trailing twelve months | 19.1% | 13.7% | | 5.4pts | 19.1% | 13.7% | | 5.4pts |

Our Canadian Specialty P&C business produced strong growth in GPW in 2018, increasing by 6.3% in Q4 2018 and 12.7% for the full year, driven by Risk Solutions and Corporate Insurance. Fee income increased by 12.1% in part due to the contribution from the surety business transitioned from RSA to Trisura Guarantee in late 2017. Overall, net underwriting revenue increased by 12.9% in Q4 2018 and 10.9% in full year 2018 compared to the corresponding periods in 2017.

Net underwriting income in Q4 2018 was $3.6 million, an increase of $2.4 million over Q4 2017 driven by favorable claims experience in Surety and Risk Solutions which resulted in an overall Canadian loss ratio of 19.9% compared to 28.1% in Q4 2017. The Canadian expense ratio in Q4 2018 of 64.0% was in line with Q4 2017.

For 2018, net underwriting income of $12.0 million was $3.1 million higher than 2017, driven by higher profitable earned premiums and strong performance in Surety. The combined ratio of 86.3% in 2018 improved by 2.6 points over 2017.

Investment income increased significantly in Q4 and for the full year as assets were strategically redeployed. See Section 5 – Investment Performance Review for further discussion.

2018 ROE (trailing 12 months) was excellent at 19.1% compared to 13.7% for 2017.

***Surety***

The main products offered by our Surety business line are:

- ✓ Contract surety bonds, such as performance and labour and material payment bonds, primarily for the construction industry;
- ✓ Commercial surety bonds, such as license and permit, tax and excise, and fiduciary bonds, which are issued on behalf of commercial enterprises and professionals to governments, regulatory bodies or courts to guarantee compliance with legal or fiduciary obligations; and
- ✓ Developer surety bonds, comprising mainly bonds to secure real estate developers' legislated deposit and warranty obligations on residential projects.

In Q4 2018, Surety accounted for 15% and 23% of our overall GPW and NPW, respectively. For 2018, Surety accounted for 24% and 31% of overall GPW and NPW, respectively.

| | Q4 2018 | Q4 2017 | $ variance | % variance | 2018 | 2017 | $ variance | % variance |
|---|---|---|---|---|---|---|---|---|
| Gross premiums written | 10,201 | 10,014 | 187 | 1.9% | 51,535 | 49,690 | 1,845 | 3.7% |
| Net premiums written | 7,194 | 7,429 | (235) | (3.2%) | 36,228 | 34,251 | 1,977 | 5.8% |
| Net premiums earned | 8,611 | 8,403 | 208 | 2.5% | 35,965 | 32,784 | 3,181 | 9.7% |
| Fee income | 80 | 127 | (47) | (37.0%) | 3,802 | 3,385 | 417 | 12.3% |
| Net underwriting revenue | 8,691 | 8,530 | 161 | 1.9% | 39,767 | 36,169 | 3,598 | 10.0% |
| Net underwriting income | 3,016 | 1,417 | 1,599 | 112.8% | 9,879 | 6,301 | 3,578 | 56.8% |
| Loss ratio: current accident year | 6.2% | 30.0% | | (23.8pts) | 15.6% | 21.4% | | (5.8pts) |
| Loss ratio: Prior years' development | (8.0%) | (9.5%) | | 1.5pts | (8.4%) | (6.3%) | | (2.1pts) |
| Loss ratio | (1.8%) | 20.5% | | (22.3pts) | 7.2% | 15.1% | | (7.9pts) |
| Expense ratio | 66.7% | 62.6% | | 4.1pts | 65.4% | 65.7% | | (0.3pts) |
| Combined ratio | 64.9% | 83.1% | | (18.2pts) | 72.6% | 80.8% | | (8.2pts) |

Surety GPW grew by 1.9% in Q4 2018 and by 3.7% in the full year. Some increased retention as a result of business mix changes compared to 2017 has led to higher percentage growth in NPW than GPW on a full year basis. NPE also grew strongly, by 9.7% in the full year. The increase in fee income in 2018 was partly attributable to underwriting fees from the surety business transitioned from RSA in late 2017. In Surety, fee income generally represents fees charged to insureds to maintain their bonding facility with the Company. These fees are typically collected at the beginning of the year.

Claims experience was strong through 2018. In Q4 2018 favourable PYD exceeded current year claims leading to a negative loss ratio of (1.8%) compared to 20.5% in Q4 2017. The full year 2018 loss ratio was 7.2% compared to 15.1% in 2017 driven by lower current year claims and more favorable PYD.

Expense ratio for Q4 2018 increased by 4 points. For 2018 the expense ratio was in line with 2017.

The increases in net underwriting income of $1.6 million in Q4 2018 and $3.6 million in 2018 were driven by the lower claims experience which also led to the significant improvement in combined ratios. In Q4 2018, the combined ratio was 64.9% compared to 83.1% in Q4 2017 and 72.6% in full year 2018 compared to 80.8% in full year 2017.

***Risk Solutions***

Risk Solutions includes specialty insurance contracts which are structured, including through fronting arrangements, to meet the specific requirements of program administrators, managing general agencies, captive insurance companies, affinity groups and reinsurers. Our Risk Solutions business line consists primarily of warranty programs.

In Q4 2018, Risk Solutions accounted for 30% and 46% of our overall GPW and NPW respectively. For 2018, Risk Solutions accounted for 34% and 40% of overall GPW and NPW respectively.

| | Q4 2018 | Q4 2017 | $ variance | % variance | 2018 | 2017 | $ variance | % variance |
|---|---|---|---|---|---|---|---|---|
| Gross premiums written | 20,222 | 20,055 | 167 | 0.8% | 74,614 | 64,190 | 10,424 | 16.2% |
| Net premiums written | 14,338 | 12,140 | 2,198 | 18.1% | 46,238 | 39,746 | 6,492 | 16.3% |
| Net premiums earned | 6,459 | 4,953 | 1,506 | 30.4% | 24,164 | 21,498 | 2,666 | 12.4% |
| Fee income | - | - | n/a | n/a | 10 | 15 | (5) | (33.3%) |
| Net underwriting revenue | 6,459 | 4,953 | 1,506 | 30.4% | 24,174 | 21,513 | 2,661 | 12.4% |
| Net underwriting income (loss) | 372 | (441) | 813 | nm | 2,265 | 1,547 | 718 | 46.4% |
| Loss ratio: current accident year | 37.1% | 39.6% | | (2.5pts) | 29.9% | 29.6% | | 0.3pts |
| Loss ratio: Prior years' development | (10.3%) | (3.5%) | | (6.8pts) | (7.5%) | (1.7%) | | (5.8pts) |
| Loss ratio | 26.8% | 36.1% | | (9.3pts) | 22.4% | 27.9% | | (5.5pts) |
| Expense ratio | 67.4% | 72.9% | | (5.5pts) | 68.2% | 64.9% | | 3.3pts |
| Combined ratio | 94.2% | 109.0% | | (14.8pts) | 90.6% | 92.8% | | (2.2pts) |

The diversity of structure and earnings profiles in the Risk Solution transactions creates variability in gross versus net premium growth trends. In Q4 2018 NPE grew by 30.4% while GPW was flat. In 2018 GPW growth was 16.2% with 12.4% growth in NPE. The strong growth in GPW in 2018 was the result of the increased premium volume in fronting and warranty programs.

Q4 2018 and full year 2018 loss ratios benefitted from higher favourable PYD than the corresponding 2017 periods. The 2018 expense ratio increased due to higher commissions on the business mix booked in 2018.

Net underwriting income and the combined ratios in Q4 2018 and full year 2018 improved over the corresponding periods last year primarily due to more favourable claims experience.

***Corporate Insurance***

The main products offered by our Corporate Insurance business line are D&O insurance for public, private and non-profit enterprises, E&O liability insurance for both enterprises and professionals, business office package insurance for both enterprises and professionals and fidelity insurance for both commercial and financial institutions.

In Q4 2018, Corporate Insurance accounted for 16% and 27% of our overall GPW and NPW respectively. For 2018, Corporate Insurance accounted for 18% and 26% of overall GPW and NPW respectively.

| | Q4 2018 | Q4 2017 | $ variance | % variance | 2018 | 2017 | $ variance | % variance |
|---|---|---|---|---|---|---|---|---|
| Gross premiums written | 10,644 | 8,573 | 2,071 | 24.2% | 39,073 | 32,718 | 6,355 | 19.4% |
| Net premiums written | 8,415 | 6,825 | 1,590 | 23.3% | 30,378 | 25,456 | 4,922 | 19.3% |
| Net premiums earned | 7,378 | 6,465 | 913 | 14.1% | 27,723 | 24,988 | 2,735 | 11.0% |
| Net underwriting revenue | 7,378 | 6,465 | 913 | 14.1% | 27,723 | 24,988 | 2,735 | 11.0% |
| Net underwriting income (loss) | 232 | 278 | (46) | (16.5%) | (159) | 1,022 | (1,181) | nm |
| Loss ratio: current accident year | 37.0% | 38.0% | | (1.0pts) | 37.8% | 38.5% | | (0.7pts) |
| Loss ratio: Prior years' development | 2.0% | (6.3%) | | 8.3pts | 1.9% | (6.1%) | | 8.0pts |
| Loss ratio | 39.0% | 31.7% | | 7.3pts | 39.7% | 32.4% | | 7.3pts |
| Expense ratio | 57.8% | 63.9% | | (6.1pts) | 60.9% | 63.6% | | (2.7pts) |
| Combined ratio | 96.8% | 95.6% | | 1.2pts | 100.6% | 96.0% | | 4.6pts |

GPW grew strongly in Q4 2018 at 24.2% and at 19.4% in 2018 compared to the same periods in 2017. This was due to a combination of new business, better retention rates and an increase in multi-year premiums where the entire premiums are recognized at the time these multi-year policies are written but are earned over the policy terms. This can cause differences in written and earned premium growth rates, as has occurred in 2018 when NPE has grown at lower rates than NPW.

Corporate Insurance had similar underwriting results in Q4 2018 and Q4 2017, with net underwriting income of $0.2 million and $0.3 million and combined ratios of 97% and 96% respectively.

Corporate Insurance had a breakeven underwriting year in 2018, with a small loss of $0.2 million and a combined ratio of 100.6%, compared to an underwriting profit of $1.0 million and a combined ratio of 96.0% in 2017. In 2018 our net claims experience was higher than 2017, in part due to adverse PYD on some older claims on business written with higher net retentions than have applied in more recent years.

## SPECIALTY P&C – UNITED STATES

Our US specialty insurance business is now operational as a non-admitted surplus line insurer in all states, primarily as a hybrid fronting carrier with a fee-based business model.

US Specialty P&C has grown strongly since starting to write business in 2018 with substantial quarter-on-quarter increases in GPW ($27.2 million in Q4, $17.7 million in Q3, $7.6 million in Q2 and $1.3 million in Q1). Full year 2018 GPW was $53.7 million which accounted for 25% of consolidated GPW in 2018. We retained 4.7% of our 2018 GPW, the remainder of which was ceded to reinsurance partners.

Fee income in our US Specialty P&C business is comprised of fronting fees received from reinsurers. In 2018 these fronting fees were 5.8% of written premium ceded to reinsurers. These fees are recognized over the life of the insurance contracts they are associated with, similar to the premium earning profile. Given the early stage of our US business, the majority of this fee income is unearned at year end 2018. Fronting fees are not reflected in underwriting ratios for the US Specialty P&C business.

The net loss in 2018 arose, as expected, from earned premium, fee income and investment income lagging operating expenses during Trisura Specialty's early development stage.

| | Q4 2018 | 2018 |
|---|---|---|
| Gross premiums written | 27,194 | 53,731 |
| Net premiums written | 1,155 | 2,548 |
| Net premiums earned | 523 | 874 |
| Fee income | 595 | 912 |
| Net underwriting revenue | 1,118 | 1,786 |
| Net underwriting loss | (607) | (3,039) |
| Net investment income | 309 | 1,402 |
| Net loss | (298) | (1,637) |

## REINSURANCE

Our international reinsurance business ceased writing new business in 2008 but previously wrote quota share reinsurance (prospective), loss portfolio transfers (retrospective) and niche, specialty contracts covering international risks across multiple commercial lines. Currently our international reinsurance business is managing its remaining portfolio of in-force reinsurance contracts and is preparing to write new business through a newly established Barbados company in support of our on-shore subsidiaries.

The remaining in-force portfolio of reinsurance contracts is dominated by one large life annuity reinsurance contract denominated in euros. We measure the performance of our reinsurance business by reference to net income in order to capture (i) the change in annuity reserves which is included in net underwriting income; and (ii) the offsetting change in the value of the supporting assets, which is included in net investment income as these supporting assets are designated FVTPL.

| | Q4 2018 | Q4 2017 | $ variance | 2018 | 2017 | $ variance |
|---|---|---|---|---|---|---|
| Net underwriting (loss) income | (1,644) | 361 | (2,005) | (2,116) | (659) | (1,457) |
| Net investment income | 471 | 29 | 442 | 2,399 | 1,205 | 1,194 |
| Net (loss) income | (1,507) | 451 | (1,958) | (170) | 545 | (715) |
| Operating expenses | 534 | 550 | (16) | 2,129 | 2,636 | (507) |

The Q4 2018 net loss arose from reserve increases on the life annuity contract due to the fall in European interest rates which outweighed the increase in supporting asset values as yields on some sovereign bond holdings and cash did not move in line with the broader market. The full year 2018 net loss of $0.2 million was impacted by the Q4 performance of life annuity contract but benefited from favourable reserve development on our P&C transactions and lower operating expenses.

In contrast, Q4 2017 net income was driven mainly by favourable annuity reserve development and reduced operating expenses. These factors were also the main contributors to net income in the full year 2017.

## CORPORATE

Our corporate results represent operating expenses that do not relate specifically to any one business line of the Company as well as debt servicing costs and, in 2017, changes in the valuation of the Minority interests.

2018 corporate expenses were in line with our normalized expectations. A significant portion of 2017 expenses comprised one-off costs related to initial formation and development of the Company and our US subsidiary, Trisura Specialty.

The $5.2 million increase in Minority interests in 2017 reflected the 40% minority interest in Trisura Guarantee which was owned by its management team at that time. In late 2017 we acquired full ownership of Trisura Guarantee following the issuance of common shares at Trisura Group in exchange for this Minority interest. Consequently, we now own 100% of Trisura Guarantee and we no longer reflect minority interests in our financial statements.

| | Q4 2018 | Q4 2017 | $ variance | 2018 | 2017 | $ variance |
|---|---|---|---|---|---|---|
| Corporate expenses | 389 | 2,137 | (1,748) | 2,545 | 4,625 | (2,080) |
| Increase in minority interests | - | - | - | - | 5,156 | (5,156) |
| Debt servicing | 261 | 197 | 64 | 970 | 1,009 | (39) |
| Corporate | 650 | 2,334 | (1,684) | 3,515 | 10,790 | (7,275) |

# SECTION 5 – INVESTMENT PERFORMANCE REVIEW

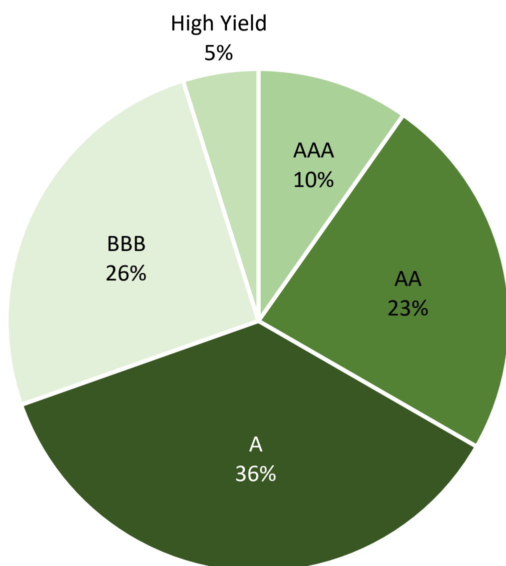
## OVERVIEW

The Company's investment policy seeks to achieve attractive total returns without incurring an undue level of investment risk while supporting our liabilities and maintaining strong regulatory and economic capital levels. In 2018 we internalized our investment management and advisory function, allowing the Group to take a centralized investment stance across all subsidiary portfolios. We now have the ability to invest globally through our hedging facilities and have introduced new products selectively to our portfolios.

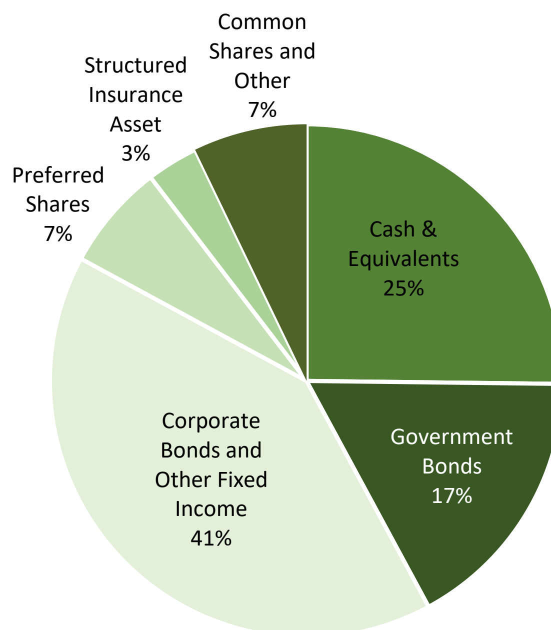
## SUMMARY OF INVESTMENT PORTFOLIO

Our $378 million investment portfolio consists of cash and cash equivalents, government and corporate bonds, preferred shares, common shares and a small amount of fund investments. Ninety-five percent of our fixed income holdings are highly liquid, investment grade bonds. A significant portion of the consolidated investment portfolio remains invested in cash and cash equivalents, reflective of capital in our international entity, a significant portion of which is held as collateral supporting our reinsurance policies.

**Fixed Income Securities by Rating**




**Investment Portfolio by Asset Class**



## INVESTMENT PERFORMANCE

***Net Investment Income***

| | Q4 2018 | Q4 2017 | $ variance | 2018 | 2017 | $ variance |
|---|---|---|---|---|---|---|
| Specialty P&C - Canada | 2,047 | 833 | 1,214 | 6,629 | 3,931 | 2,698 |
| Specialty P&C - US | 309 | - | 309 | 1,402 | - | 1,402 |
| Reinsurance | 473 | 174 | 299 | 2,426 | 1,480 | 946 |
| Net investment income | 2,829 | 1,007 | 1,822 | 10,457 | 5,411 | 5,046 |

The Company's operations currently include Specialty P&C insurance (Surety, Risk Solutions, and Corporate Insurance business lines) in Canada, Specialty P&C insurance in the US and international reinsurance through Trisura International. These businesses focus on different market segments, geographic regions and risks and can be subject to different regulatory investment requirements and accordingly, hold different assets and currencies to support their liabilities. Consequently, investment returns are most appropriately viewed at a business unit level.

Canadian Specialty P&C net investment income is driven by interest and dividend income on portfolio assets. Interest and dividend income in Q4 2018 was improved over Q4 2017, driven by a rotation to higher-yielding securities, combined with realized gains from continued portfolio rotation, primarily in the equity portfolio. The market-based yield of the Canadian Specialty P&C portfolio as at December 31, 2018 was 4.0%. We introduced alternative investments to the Canadian Specialty P&C portfolio in Q4, including private debt products which are expected to enhance portfolio yield.

We began deploying capital in our US P&C portfolio in February, following dramatic movements in US interest rates. Currently the portfolio is limited to investment grade bonds, as we prioritize maintaining minimum capital levels and lower volatility in the start-up phase of the business. The market-based yield of the US Specialty P&C portfolio as at December 31, 2018 was 4.0%. Investment income is driven by interest income on this portfolio of investment grade bonds.

Euro-denominated bonds supporting the annuity reserves are held at FVTPL. Investment returns on these assets were higher in Q4 2018 compared with Q4 2017 due to the decrease in European interest rates, which had a positive impact on the valuation of these assets. The market-based yield of the Reinsurance portfolio as at December 31, 2018 was 1.2%.

***Other Comprehensive Income ("OCI")***

| | Q4 2018 | Q4 2017 | $ variance | 2018 | 2017 | $ variance |
|---|---|---|---|---|---|---|
| Unrealized (losses) gains in OCI | (4,726) | 719 | (5,445) | (7,849) | 949 | (8,798) |
| Cumulative translation | 4,878 | 422 | 4,456 | 7,533 | (5,444) | 12,977 |
| OCI | 152 | 1,141 | (989) | (316) | (4,495) | 4,179 |

The Company records unrealized gains and losses in the market value of its AFS assets through OCI. The mark to market impact of these assets on OCI was negative in Q4. This was driven by unrealized losses in the Canadian preferred share and common share holdings, a result of volatility in Q4. Our full year results continue to reflect the weakness of the Canadian equity and global fixed income markets experienced through 2018.

Foreign exchange differences arising from the translation of the financial statements of Trisura International and Trisura Specialty to Canadian dollars are recognized as cumulative translation gains or losses, which are a constituent part of overall OCI. The cumulative translation gains in Q4 2018 were due to the weakening of the Canadian currency against the US dollar, driving high Canadian dollar valuations of capital and securities held outside of Canada.

Refer to Note 20 Investment income in the Consolidated Financial Statements for more detail on the components of investment returns.

# SECTION 6 – OUTLOOK & STRATEGY

## INDUSTRY

The specialty insurance market offers products and services that are not written by most insurance companies. The risks covered by specialty insurance policies generally require specialist underwriting knowledge and technical financial and actuarial expertise. Specialty lines are niche segments of the market that tend to involve more complex risks and a more concentrated set of competitors. Consequently, these risks are difficult to place in the standard insurance market where many carriers are unable or unwilling to underwrite them. As a result, specialty insurers have more pricing and policy form flexibility than traditional market insurers whose prices and policy forms are subject to authorization and approval by insurance regulators. Specialty lines are less commoditized areas of the market where relationships, product expertise and product structure are not easily replicated. For this reason, specialty insurers have historically, and are expected to continue to outperform the standard markets by having lower claims ratios and combined ratios than traditional insurance companies.

In contrast to the standard P&C insurance market, which is divided almost evenly between personal and commercial lines, specialty insurers are focused almost exclusively on commercial lines. Even within the commercial sector, the business mix of the specialty insurers can vary significantly from that of the overall P&C industry. Although no standard definition for the specialty insurance market exists, some common examples of business written by specialty insurers include: non-standard insurance, niche market segments (such as Surety, D&O and E&O) and products that require tailored underwriting. Many insurance groups with a specialty focus have several different carriers and licenses and allocate business between these carriers depending on market conditions and regulatory requirements. The agency channel is the primary distribution channel for specialty insurance. Managing general agents often serve an important role in helping carriers distribute specialty insurance products.

In the US, the specialty P&C insurance industry is more fragmented than the standard marketplace. It is estimated that the top ten players capture just under 40% of market share, with the top 25 players averaging one to two percent market share positions. An estimated $150 to $200 billion of specialty insurance direct premiums (including excess and surplus) were written in 2016. Excess and surplus lines continue to demonstrate significant growth vs. the broader P&C industry, expanding by 43% in 2017. From 2000 until 2017, the average combined ratio for excess and surplus markets was 96.6% versus 102% for the P&C industry.

## OUTLOOK AND STRATEGY

Our Company has an experienced management team with strong industry relationships and excellent reputations with rating agencies, insurance regulators and business partners. We have operated in the Canadian specialty P&C insurance market for more than 12 years and in the international specialty reinsurance market for over 16 years, establishing a conservative underwriting and investing track record.

In Canada, we have built our brand through Trisura Guarantee to serve our clients, brokers and institutional partners as a leading provider of niche specialty insurance products. Trisura Guarantee will continue to build out its product offerings in existing and new niche segments of the market with suitably skilled underwriters and professionals. Trisura Guarantee remains committed to its broker distribution channel to promote and sell its insurance products. Trisura Guarantee is selective in partnering with a limited brokerage force, focusing its efforts on leading brokerage firms in the industry with expertise in specialty lines. This distribution network currently comprises over 150 major international, national and regional brokerage firms operating across Canada in all provinces and territories as well as boutique niche brokers with a focus on specialty lines.

Our US specialty insurance business, Trisura Specialty, is fully operational and commenced binding transactions in 2018. It is licensed as a domestic excess and surplus lines insurer in Oklahoma. Trisura Specialty can operate as a non-admitted surplus lines insurer in all states and is rated A- (Excellent) by A.M. Best with stable outlook. It is our belief that the conditions are favourable for the continued growth of Trisura Specialty, which operates as a hybrid fronting carrier using a fee-based business model. Its focus is to source high quality business opportunities by partnering with a core base of established and well-managed program administrators. From our business activity to date these program administrators welcome our new capacity as there is currently a lack of fronting carriers and the products and arrangements currently offered to them by the existing market do not always meet the needs of their business and clients.

Furthermore, we continue to believe there is a strong supply of highly rated international reinsurance capacity keen to gain exposure to this business, allowing Trisura Specialty to cede the majority of the risk on its policies to these reinsurers on commercially favourable terms. This belief has been supported by our experience in the market through 2018. We are confident that this platform will generate attractive, stable fee income while maintaining a small risk position, limiting underwriting risk and aligning our interests with our program distribution partners and reinsurers. As Trisura Specialty grows, we expect that our US operations will become a more significant component of our Company.

We will continue to develop our distribution network, building on our existing partner network in Canada and our core base of program administrators in the US. Our Company will strive to increase the penetration of our products in our partner network by providing the support they require to enhance the effectiveness of their sales and marketing efforts.

We also intend to consider acquisitions on an opportunistic basis and pursue those that fit with our strategic plan. Building on the knowledge and expertise of our existing operations, we intend to initially target businesses in the US that operate in similar niches of the specialty insurance market. Additionally, our reinsurance business is preparing to write new business in support of our on-shore subsidiaries and will continue to evaluate writing third party new business in the context of market conditions.

# SECTION 7 – OTHER INFORMATION

## RATINGS

Trisura Guarantee has been rated A- (Excellent) by A.M. Best since 2012. This rating was reaffirmed with stable outlook by A.M. Best in October 2018. Trisura Specialty obtained an A- (Excellent) rating with stable outlook from A.M. Best in September 2017, which was reaffirmed in October 2018. A.M Best increased the financial size category of Trisura Specialty from VI to VII (US $45 million to US $50 million capital) in May 2018.

## CASH FLOW SUMMARY

| | Q4 2018 | Q4 2017 | $ variance | 2018 | 2017 | $ variance |
|---|---|---|---|---|---|---|
| **Net income (loss) from operating activities** | 1,631 | (77) | 1,708 | 8,638 | (342) | 8,980 |
| Non-cash items to be deducted | 509 | 1,288 | (779) | 3,598 | 2,497 | 1,101 |
| Change in working capital operating items | 6,081 | 3,000 | 3,081 | 13,091 | 23,722 | (10,631) |
| Realized gains (losses) on AFS investments | 96 | (228) | 324 | (686) | (932) | 246 |
| Income taxes paid | (987) | (967) | (20) | (3,354) | (7,090) | 3,736 |
| Interest paid | (270) | (232) | (38) | (995) | (1,042) | 47 |
| **Net cash from operating activities** | 7,060 | 2,784 | 4,276 | 20,292 | 16,813 | 3,479 |
| Proceeds on disposal of investments | 18,004 | 18,664 | (660) | 99,729 | 39,050 | 60,679 |
| Purchases of investments | (35,632) | (7,539) | (28,093) | (196,363) | (139,403) | (56,960) |
| Net purchases of capital and intangible assets | (82) | (925) | 843 | (666) | (1,070) | 404 |
| **Net cash used in investing activities** | (17,710) | 10,200 | (27,910) | (97,300) | (101,423) | 4,123 |
| Change in minority interests | - | - | - | - | 5,156 | (5,156) |
| Dividends paid | (24) | (8) | (16) | (96) | (8) | (88) |
| Common shares issued | - | - | - | - | 140,270 | (140,270) |
| Common shares redeemed | - | (4,031) | 4,031 | - | (4,031) | 4,031 |
| Issuance of new loan payable | - | - | - | 29,700 | - | 29,700 |
| Repayment of note payable | (30) | - | (30) | (30) | (355) | 325 |
| Repayment of loan payable | - | (200) | 200 | (29,700) | (4,400) | (25,300) |
| **Net cash (used in) from financing activities** | (54) | (4,239) | 4,185 | (126) | 136,632 | (136,758) |
| **Net (decrease) increase in cash** | (10,704) | 8,745 | (19,449) | (77,134) | 52,022 | (129,156) |
| Cash at beginning of the period | 102,688 | 156,321 | (53,633) | 165,675 | 122,096 | 43,579 |
| Currency translation | 3,228 | 609 | 2,619 | 6,671 | (8,443) | 15,114 |
| **Cash at the end of the period** | 95,212 | 165,675 | (70,463) | 95,212 | 165,675 | (70,463) |

The main cash flow activities in Q4 2018 were investing activities and reflected the purchase and disposal of investments, primarily related to activity in our bond portfolios, and to a lesser extent our common share and preferred share portfolios. A significant component of the bond purchases in 2018 included US Specialty P&C deploying cash and cash equivalents from its initial capital injection, as well a reallocation of investments within the bond portfolio of Trisura Guarantee. In 2017, purchases of investments were primarily related to the purchase of Trisura International and Trisura Guarantee from Brookfield. In Q4 2017 investing activities were primarily related to purchases and sales of investments at Trisura Guarantee and Trisura International.

In Q4 2018 and Q4 2017 cash from operating activities was primarily related to positive changes in working capital operating items, particularly at Trisura Guarantee. Cash from operating activities in 2018 and 2017 both increased primarily as a result of increases in working capital operating items in Trisura Guarantee.

During 2018, the Company replaced the outstanding Loan payable of $29.7 million held at an intermediary holding company, with a new credit facility with an outstanding balance of $29.7 million (see Note 17 in the Consolidated Financial Statements). The net impact of this transaction was $nil. In 2017 the Company reflected the impact of the change in value of the Minority interests in its financial statements, however in Q4 2017 the Minority interests were purchased by the Company and therefore this movement in financing activity is no longer reflected in the statements of cash flows in 2018 (see Note 18 in the Consolidated Financial Statements). In 2017 cash from financing activities was primarily from the Company issuing common shares to Brookfield for cash. In Q4 2017 the Company entered into a transaction which reduced cash and share capital by $4.0 million (see Note 18 in the Consolidated Financial Statements).

## SEGMENTED REPORTING

| As at | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Trisura Guarantee | Trisura International[1] | Trisura Specialty | Corporate[2] | Total[3] |
| Assets | 349,356 | 103,113 | 150,966 | (2,453) | 600,982 |
| Liabilities | 274,770 | 81,703 | 84,421 | 30,136 | 471,030 |
| Shareholder's Equity | 74,586 | 21,410 | 66,545 | (32,589) | 129,952 |
| Book Value Per Share, $[4] | 11.26 | 3.23 | 10.05 | (4.91) | 19.63 |

*(1) Subsidiary includes the assets and liabilities of its holding company and adjustments for intercompany loans.*
*(2) Corporate includes consolidation adjustments and intercompany loans.*
*(3) Total reflects the Group's Assets, Liabilities, and Book Value Per Share after consolidation adjustments.*
*(4) Number of common shares used in the calculation of book value per share equals to the Group's total number of common shares outstanding as at December 31, 2018.*

| As at | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Trisura Guarantee[1] | Trisura International[1][2] | Trisura Specialty | Corporate[3] | Total[4] |
| Assets | 317,124 | 114,608 | 56,888 | (260) | 488,360 |
| Liabilities | 243,979 | 92,658 | 426 | 29,795 | 366,858 |
| Shareholder's Equity | 73,145 | 21,950 | 56,462 | (30,055) | 121,502 |
| Book Value Per Share, $[5] | 11.05 | 3.31 | 8.53 | (4.54) | 18.35 |

*(1) Operating companies include the assets and liabilities of their holding companiess, except for the loans payable of $29,700 held in 6436978 Canada Limited which is included in Corporate.*
*(2) Subdiary results include adjustments for intercompany loans.*
*(3) Corporate includes consolidation adjustments and intercompany loans.*
*(4) Total reflects the Group's Assets, Liabilities, and Book Value Per Share after consolidation adjustments.*
*(5) Number of common shares used in the calculation of book value per share equals to the Group's total number of common shares outstanding as at December 31, 2017.*

## CONTRACTUAL OBLIGATIONS

| As at December 31, 2018 | Payments due by period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1 - 3 years | 3 - 5 years | Thereafter |
| Loans payable | 29,700 | - | - | 29,700 | - |
| Interest payments on debt[1] | 4,638 | 1,105 | 2,210 | 1,323 | - |
| Lease commitments | 5,118 | 1,320 | 2,026 | 951 | 821 |
| **Total contractual obligations** | 39,456 | 2,425 | 4,236 | 31,974 | 821 |

*(1) Based on the Company's most recent borrowing rate on the outstanding loan payable.*

## FINANCIAL INSTRUMENTS

See Note 4 to the Company's Consolidated Financial Statements.

## RELATED PARTY TRANSACTIONS

See Note 23 to the Company's Consolidated Financial Statements.

## OPERATING METRICS

We use operating metrics to assess our operating performance. The combined ratio is the sum of the loss ratio and the expense ratio. The difference between 100% and the combined ratio represents underwriting income as a percentage of net premiums earned, or underwriting margin. A combined ratio under 100% indicates a profitable underwriting result. A combined ratio over 100% indicates an unprofitable underwriting result. The loss ratio is claims and loss adjustment expenses incurred as a percentage of net premiums earned. The expense ratio is all expenses incurred (net of fee income in Trisura Guarantee) as a percentage of net premiums earned. In our MD&A, for Q1 through Q3 2017, the expense ratio was all expenses incurred net of commissions on fee income as a percentage of net premiums earned.

We use ROE as a measure of operating performance. ROE is calculated based on net income, divided by the average amount of shareholders' equity of the Company for a given time period.

We report the results of our MCT as prescribed by OSFI's *Guideline A — Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies*, as amended, restated or supplemented from time to time. MCT determines the supervisory regulatory capital levels required by Trisura Guarantee.

These operating metrics are operating performance measures that highlight trends in our core business or are required ratios used to measure compliance with OSFI and other regulatory standards. Our Company also believes that securities analysts, investors and other interested parties use these operating metrics to compare our Company's performance against others in the specialty insurance industry. Our Company's management also uses these operating metrics in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation. Such operating metrics should not be considered as the sole indicators of our performance and should not be considered in isolation from, or as a substitute for, analysis of our financial statements prepared in accordance with IFRS.

## SECTION 8 – RISK MANAGEMENT

Our Company has developed and embraces a comprehensive and effective enterprise risk management framework and internal controls processes to identify, measure, monitor and mitigate risk. This framework is central to our decision making in regard to the business we choose to write and the business we choose to decline. Furthermore, for the business we write the risk management framework informs our determination of whether to retain the risk fully or to apply risk mitigation features including reinsurance.

The Board of Directors is responsible for oversight of risk management and internal control systems and policies. In 2018 the Board enhanced corporate governance and risk management through introduction of board level risk committees at group and subsidiary levels. These committees meet quarterly to oversee the development and effectiveness of risk management frameworks and priorities and to review risk reporting. The Group Risk Management function, under the direction of the Group Chief Risk Officer, assists the group risk committee in fulfilling its responsibilities and in liaising with risk committees and risk management functions at subsidiary levels coordinating its review and oversight of the Company's risk management framework. All Risk Officers at group and subsidiary levels report directly to their relevant risk committees.

## KEY RISKS

The following represent key risks, which the Company has identified, which broadly fall into the categories of Insurance risk and Financial risk (see Note 12 in the Consolidated Financial Statements):

**Insurance Risks:**

Insurance risk is the risk that the ultimate cost of claims and loss adjustment expense, as well as acquisition expenses, related to insurance contracts will exceed premiums received in respect of those contracts. This could occur because either the frequency or severity of claims is greater than expected. For Life and Annuity policies, insurance risk may also include differences between expected and actual experience for policyholder behaviour, lapse, timing of claims longevity, mortality and morbidity. The following list sets out some of the key insurance risks, which the Company has identified:

***1 - Product and Pricing***

The pricing process relies on many estimates of future loss costs and loss adjustment expenses. If we do not accurately assess and price for the risks assumed in our insurance policies, profitability could be negatively affected. On the other hand, setting premiums too high could impact competitiveness and growth. We price our products considering numerous factors, including claims frequency and severity trends, product line expense ratios, special risk factors, the capital required to support the product line, reinsurance costs, the investment income earned on that capital, and the competitive landscape of the insurance markets that we compete in. Our Company's pricing process is designed to ensure an appropriate return on capital and long-term rate stability, avoiding wide fluctuations in such rate unless necessary. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

***2 - Exposure to Losses Resulting from Underwriting and Claims***

Our Company is exposed to losses resulting from the underwriting of risks being insured and the exposure to financial loss resulting from greater than anticipated adjudication, settlement and claims costs. Our success depends upon our ability to accurately assess the risks associated with the insurance policies that we write and our ability to manage claims arising from these policies. Our underwriting objectives are to develop business within our target markets on a prudent and diversified basis and to achieve profitable underwriting results.

Unexpected large losses may result from events such as the unforeseen failure of a large contractor, exposure to mass torts, future changes in the legal environment that could broaden our insurance coverage beyond the policy's original intent, terrorism and natural or man-made catastrophes. When a large loss is identified, we may be required to strengthen reserves which could decrease earnings in that period.

***3 - Estimates of Loss Reserves and Claims Management***

The amounts established and to be established by our Company for loss and loss adjustment expense reserves are estimates of future costs based on various assumptions, including actuarial projections of the cost of settlement and the administration of claims, estimates of future trends in claims severity and frequency, inflation, and the level of insurance fraud. For Life and Annuity policies, the reserve process typically includes estimates of lapse, future policyholder behaviour, longevity, mortality, and morbidity. Most or all of these factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact our Company's ability to accurately assess the risks of the policies that we write. In addition, future adjustments to loss reserves and loss adjustment expenses that are unanticipated by management could have an adverse impact upon the financial condition and results of operations of our Company.

Although our Company's management believes our overall reserve levels as at the date of the financial statements are adequate to meet our obligations under existing policies, actual losses may deviate, perhaps substantially, from the reserves reflected in our Company's financial statements. To the extent reserves prove to be inadequate, our Company would have to increase such reserves and incur a charge to earnings.

**Financial Risks:**

The significant financial risks are credit risk, liquidity risk and market risk (comprising currency risk, interest rate risk and other price risks such as equity risk). The following describes how the Company manages these risks.

***1 - Credit Risk***

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation and cause the Company to incur a financial loss. Credit risk arises mainly from investments in bonds and short-term securities. Our investment policies mitigate credit risk through requirements relating to, inter alia, type, credit quality, size and duration of permitted investments. Management monitors credit quality on an ongoing basis and reviews the investment portfolio regularly with the Board.

***2 – Liquidity Risk***

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk may arise from a number of potential areas including, for example, duration mismatch between assets and liabilities.

To manage its liquidity requirements, the Company maintains a minimum balance of cash and cash equivalents and a highly rated, highly liquid investment portfolio. The Company's investment policy sets out minimum criteria for the credit quality of each class of investment held. In addition, the investment policy stipulates average duration of bonds. For common shares, preferred shares and income and investment trusts limitations are placed on exposure to any one issuer.

The Company also manages the liquidity risk associated with its assumed reinsurance liabilities through its asset liability matching processes. The long-tailed nature of much of the Company's reinsurance business also reduces the likelihood of sudden or unexpected spikes in claim payment requirements.

***3 - Market Risk***

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes currency risk, interest rate risk and other price risks such as equity risk.

*i) Currency Risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company has operations in the United States and Canada, as well as European exposure through its reinsurance operations and therefore has exposure to currency risk arising from fluctuations in exchange rates of the Canadian and Euro against the United States dollar. The foreign currency positions of the Company are monitored quarterly, and the Company uses derivatives to manage foreign exchange risks where a material unmatched foreign exchange position exists.

*ii) Interest Rate Risk*

Interest rate risk is the potential for financial loss resulting from changes in interest rates. Bonds, structured insurance assets and preferred shares are subject to interest rate risk although, in the case of bonds, to the extent they are held to maturity, the risk is limited to the reinvestment yield being different from the original yield to maturity. The fair value of bonds, change inversely with changes in market rates of interest, with greater impact to bonds with longer durations. The Company's unpaid claims balance is also subject to interest rate risk, in particular the Company's life reserves which have longer durations.

The Company manages its interest rate risk through its investment policy which considers average duration of bonds held and maximum maturity limit as well as asset liability matching.

*iii) Equity Price Risk*

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets.

The Company's exposure to equity price risk is managed and mitigated through its investment policy which sets out maximum exposures to equities at aggregate and per issuer levels as well as requiring diversification across different industry sectors.

Descriptions of additional risk factors can be found in the Risk Factor's section of the company's Annual Information Form.

## SECTION 9 – SUMMARY OF RESULTS

### SELECTED QUARTERLY RESULTS

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Gross premiums written | 68,274 | 57,282 | 58,661 | 34,824 | 38,689 | 36,123 | 43,336 | 28,615 |
| Net premiums written and other revenue | 31,789 | 30,442 | 30,781 | 27,187 | 26,566 | 26,958 | 27,096 | 22,395 |
| Total underwriting revenue | 23,658 | 25,651 | 21,694 | 22,530 | 19,993 | 22,206 | 20,076 | 20,558 |
| Net income (loss) attributable to shareholders (1) | 1,631 | 4,160 | 984 | 1,863 | (77) | 2,010 | 285 | n/a |
| EPS, basic (in dollars)(1) | 0.24 | 0.62 | 0.14 | 0.28 | (0.01) | 0.35 | 0.05 | n/a |
| EPS, diluted (in dollars)(1) | 0.24 | 0.62 | 0.14 | 0.27 | (0.01) | 0.35 | 0.05 | n/a |

*(1) Net income (loss) attributable to shareholders represents the amount allocated to the shareholders post-spin-off for the period on and after June 22, 2017. EPS is calculated based on the post-spin-off Net income (loss) attributable to the Group's shareholders.*

## SECTION 10 – ACCOUNTING AND DISCLOSURE MATTERS

### DISCLOSURE CONTROLS AND PROCEDURES

We maintain appropriate information systems,procedures and controls to ensure that new information disclosed externally is complete, reliable and timely. Management of the Company, at the direction and under the supervision of the Chief Executive Officer and the Chief Financial Officer of the Company evaluated the effectiveness of the Company's "disclosure controls and procedures" (as defined in "National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings"* ("NI 52-109")) as at December 31, 2018, and have concluded that the disclosure controls and procedures are operating effectively.

### INTERNAL CONTROLS OVER FINANCIAL REPORTING

We maintain appropriate "internal control over financial reporting" (as defined in NI 52-109) and the Chief Executive Officer and the Chief Financial Officer of the Company have concluded that the internal controls have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management has evaluated whether there were changes in our internal control over financial reporting during the year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting and has determined that there have been no such changes.

### SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" within the meaning of Canadian provincial securities laws and "forward-looking statements" within the meaning of applicable Canadian securities regulations. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of Trisura Group Ltd. and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, and include words such as "expects," "anticipates," "plans," "believes," "estimates," "seeks," "intends," "targets," "projects," "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may," "will," "should," "would" and "could".

Although we believe that our anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, which may cause the actual results, performance or achievements of Trisura Group Ltd. to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.

Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business; the behaviour of financial markets, including fluctuations in interest and foreign exchange rates; global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); the ability to appropriately manage human capital; the effect of applying future accounting changes; business competition; operational and reputational risks; technological change; changes in government regulation and legislation within the countries in which we operate; governmental investigations; litigation; changes in tax laws; ability to collect amounts owed; catastrophic events, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments including terrorist acts and cyberterrorism; and other risks and factors detailed from time to time in our documents filed with securities regulators in Canada.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by law, Trisura Group Ltd. undertakes no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.

## GLOSSARY OF ABBREVIATIONS

| Abbreviation | Description |
|---|---|
| AFS | Available for Sale Financial Asset |
| CTA | Cumulative Translation Adjustment |
| D&O | Directors' and Officers' insurance |
| E&O | Errors and Omissions Insurance |
| EPS | Earnings Per Share |
| FVTPL | Fair Value Through Profit & Loss |
| GPW | Gross Premium Written |
| MCT | Minimum Capital Test |
| Minority interests | The liability to participating shareholders |
| n/a | not available |
| NII | Net Investment Income |
| nm | not meaningful |
| NPE | Net Premium Earned |
| NPW | Net Premium Written |
| NUI | Net Underwriting Income |
| OCI | Other Comprehensive Income |
| pts | Percentage points |
| PYD | Prior Years' Net Reserve Development |
| Q1, Q2, Q3, Q4 | The three months ended March 31, June 30, September 30 and December 31 respectively |
| Q2 YTD | The six months ended June 30 |
| Q3 YTD | The nine months ended September 30 |
| Q4 YTD | The twelve months ended December 31 |
| ROE | Return on Shareholders' Equity |
| YTD | Year to Date |

# Trisura Group Ltd.

## Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

Deloitte.

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# Independent Auditor’s Report

To the Shareholders of
Trisura Group Ltd.

## Opinion

We have audited the consolidated financial statements of Trisura Group Ltd. and its subsidiaries (the “Company”), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (“IFRS”).

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Information

Management is responsible for the other information. The other information comprises:

- The information, other than the financial statements and our auditor’s report thereon, in the Annual Report
- Management’s Discussion and Analysis
- Financial Supplement

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor’s report. We have nothing to report in this regard.

The Financial Supplement is expected to be made available to us after the date of the auditor’s report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ratan Ralliaram.

Chartered Professional Accountants
Licensed Public Accountants
February 14, 2019

# TRISURA GROUP LTD.
# Consolidated Financial Statements

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# TRISURA GROUP LTD.
## Consolidated Statements of Financial Position
(in thousands of Canadian dollars, except as otherwise noted)

| As at December 31, | Note | 2018 | 2017 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | **95,212** | 165,675 |
| Investments | *4* | **282,874** | 190,641 |
| Premiums and accounts receivable, and other assets | *10* | **46,276** | 23,172 |
| Deferred acquisition costs | *7* | **63,715** | 40,266 |
| Recoverable from reinsurers | *13* | **109,567** | 65,254 |
| Capital assets and intangible assets | *14,15* | **2,512** | 2,612 |
| Deferred tax assets | *28* | **826** | 740 |
| **Total assets** | | **600,982** | 488,360 |
| **Liabilities** | | | |
| Accounts payable, accrued and other liabilities | *11* | **24,167** | 19,795 |
| Reinsurance premiums payable | | **41,406** | 17,555 |
| Unearned premiums | *8* | **182,623** | 115,357 |
| Unearned reinsurance commissions | *7* | **19,137** | 5,566 |
| Unpaid claims and loss adjustment expenses | *9* | **173,997** | 178,885 |
| Loan payable | *17* | **29,700** | 29,700 |
| | | **471,030** | 366,858 |
| **Shareholders' equity** | | | |
| Common shares | *18* | **163,582** | 163,582 |
| Preferred shares | *18* | **1,600** | 1,600 |
| Contributed surplus | | **313** | 89 |
| Accumulated deficit | | **(33,307)** | (41,849) |
| Accumulated other comprehensive loss | | **(2,236)** | (1,920) |
| | | **129,952** | 121,502 |
| **Total liabilities and shareholders' equity** | | **600,982** | 488,360 |

*See accompanying notes to the Consolidated Financial Statements*

On behalf of the Board:

**George Myhal**
Director

**David Clare**
Director

# TRISURA GROUP LTD.
## Consolidated Statements of Comprehensive Income (Loss)
(in thousands of Canadian dollars, except as otherwise noted)

| For the years ended December 31, | Note | 2018 | 2017 |
|---|---|---|---|
| **Gross premiums written** | | **219,041** | 146,763 |
| Reinsurance premiums ceded | | **(103,405)** | (46,980) |
| Retrospective premiums refund | | **(161)** | (168) |
| **Net premiums written** | | **115,475** | 99,615 |
| Change in unearned premiums | | **(26,666)** | (20,182) |
| **Net premiums earned** | | **88,809** | 79,433 |
| Fee income | | **4,724** | 3,400 |
| **Total underwriting revenue** | | **93,533** | 82,833 |
| **Claims and expenses** | | | |
| Claims and loss adjustment expenses | | **(58,617)** | (42,215) |
| Reinsurers' share of claims and loss adjustment expenses | | **39,215** | 24,562 |
| Commissions | | **(45,314)** | (34,969) |
| Reinsurance commissions | | **15,411** | 10,087 |
| Premium taxes | | **(4,758)** | (4,463) |
| Operating expenses | | **(35,184)** | (32,279) |
| **Total claims and expenses** | | **(89,247)** | (79,277) |
| **Net underwriting income** | | **4,286** | 3,556 |
| Net investment income | *20* | **10,457** | 5,411 |
| Foreign exchange loss | | **(712)** | (35) |
| Interest expense | *17* | **(970)** | (1,009) |
| Change in minority interests | | **-** | (5,156) |
| **Income before income taxes** | | **13,061** | 2,767 |
| Income tax expense | *28* | **(4,423)** | (3,109) |
| **Net income (loss)** | | **8,638** | (342) |
| Net income attributable to common shareholders | *1, 2.2* | **8,638** | 2,218 |
| Weighted average number of common shares outstanding during the year (in thousands) – basic | | **6,622** | 5,959 |
| Earnings per common share (in dollars) – basic | *19* | **1.29** | 0.37 |
| Earnings per common share (in dollars) – diluted | *19* | **1.27** | 0.37 |
| **Net income (loss)** | | **8,638** | (342) |
| Net unrealized (losses) gains on available-for-sale investments | | **(8,699)** | 1,135 |
| Income tax benefit (expense) | | **2,258** | (297) |
| Items that may be reclassified subsequently to net income (loss) | | **(6,441)** | 838 |
| Net realized losses | | **(2,042)** | (185) |
| Impairment adjustment | | **325** | 321 |
| Income tax benefit (expense) | | **309** | (25) |
| Items reclassified to net income (loss) | | **(1,408)** | 111 |
| Items other than cumulative translation gain (loss) | | **(7,849)** | 949 |
| Items that will not be reclassified subsequently to net income (loss) – Cumulative translation gain (loss) | | **7,533** | (5,444) |
| **Other comprehensive loss** | | **(316)** | (4,495) |
| **Total comprehensive income (loss)** | | **8,322** | (4,837) |

*See accompanying notes to the Consolidated Financial Statements*

# TRISURA GROUP LTD.

## Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars, except as otherwise noted)

| | ***Note*** | **Common shares** | **Preferred shares** | **Contributed surplus** | **Accumulated deficit** | **Accumulated other comprehensive loss (net of income taxes)** | **Total** |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2018 | | 163,582 | 1,600 | 89 | (41,849) | (1,920) | **121,502** |
| Net income | | - | - | - | 8,638 | - | **8,638** |
| Other comprehensive loss | | - | - | - | - | (316) | **(316)** |
| Comprehensive income (loss) | | - | - | - | 8,638 | (316) | **8,322** |
| Share-based payments | *29* | - | - | 224 | - | - | **224** |
| Dividends paid | *18* | - | - | - | (96) | - | **(96)** |
| **Balance at December 31, 2018** | | **163,582** | **1,600** | **313** | **(33,307)** | **(2,236)** | **129,952** |

| | *Note* | Common shares | Preferred shares | Contributed surplus | Retained earnings (accumulated deficit) | Accumulated other comprehensive income (loss) (net of income taxes) | Total |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2017 | | 9,618 | - | - | 58,695 | 2,575 | 70,888 |
| Net loss | | - | - | - | (342) | - | (342) |
| Other comprehensive loss | | - | - | - | - | (4,495) | (4,495) |
| Comprehensive loss | | - | - | - | (342) | (4,495) | (4,837) |
| Share issuance | *1, 18* | 167,613 | 1,600 | - | (9,303) | - | 159,910 |
| Share redemptions | *18* | (4,031) | - | - | - | - | (4,031) |
| Share-based payments | *29* | - | - | 89 | - | - | 89 |
| Dividends paid | *18* | - | - | - | (8) | - | (8) |
| Adjustment on reorganization | *18* | (9,618) | - | - | (90,891) | - | (100,509) |
| Balance at December 31, 2017 | | 163,582 | 1,600 | 89 | (41,849) | (1,920) | 121,502 |

*See accompanying notes to the Consolidated Financial Statements*

# TRISURA GROUP LTD.
## Consolidated Statements of Cash Flow
(in thousands of Canadian dollars, except as otherwise noted)

| For the years ended December 31, | 2018 | 2017 |
|---|---|---|
| **Operating activities** | | |
| Net income (loss) | **8,638** | (342) |
| Items not involving cash: | | |
| Depreciation and amortization | **1,544** | 839 |
| Unrealized gains | **1,505** | 1,194 |
| Impairment loss on available-for-sale investments | **325** | 321 |
| Stock options granted | **224** | 143 |
| Change in working capital and other | **13,091** | 23,722 |
| Realized loss on available-for-sale investments | **(686)** | (932) |
| Income taxes paid | **(3,354)** | (7,090) |
| Interest paid | **(995)** | (1,042) |
| **Net cash flows from operating activities** | **20,292** | 16,813 |
| **Investing activities** | | |
| Proceeds on disposal of investments | **99,729** | 39,050 |
| Purchases of investments | **(196,363)** | (139,403) |
| Purchases of capital assets | **(531)** | (115) |
| Disposal of capital assets | **-** | 23 |
| Purchases of intangible assets | **(135)** | (978) |
| **Net cash flows used in investing activities** | **(97,300)** | (101,423) |
| **Financing activities** | | |
| Change in minority interests | **-** | 5,156 |
| Dividends paid | **(96)** | (8) |
| Common shares issued | **-** | 140,270 |
| Shares redeemed | **-** | (4,031) |
| Repayment of notes payable | **(30)** | (355) |
| Loans received | **29,700** | - |
| Repayment of loans payable | **(29,700)** | (4,400) |
| **Net cash flows (used in) from financing activities** | **(126)** | 136,632 |
| **Net (decrease) increase in cash and cash equivalents during the year** | **(77,134)** | 52,022 |
| Cash, beginning of year | **83,137** | 113,409 |
| Cash equivalents, beginning of year | **82,538** | 8,687 |
| Cash and cash equivalents, beginning of year | **165,675** | 122,096 |
| Impact of foreign exchange on cash and cash equivalents | **6,671** | (8,443) |
| Cash, end of year | **93,152** | 83,137 |
| Cash equivalents, end of year | **2,060** | 82,538 |
| **Cash and cash equivalents, end of year** | **95,212** | 165,675 |

*See accompanying notes to the Consolidated Financial Statements*

### Note 1 – The Company

Trisura Group Ltd. (the "Company") was incorporated under the *Business Corporations Act* (Ontario) (the "Act") on January 27, 2017. The Company's head office is located at 333 Bay Street, Suite 1610, Box 22, Toronto Ontario, M5H 2R2.

The Company owns three principal subsidiaries, in some instances through wholly-owned intermediary holding companies, through which it conducts insurance operations. These subsidiaries are Trisura Guarantee Insurance Company ("Trisura Guarantee"), Trisura International Insurance Ltd. ("Trisura International"), which is wholly-owned through the intermediary holding company Trisura International Holdings Ltd. ("TIHL") and Trisura Specialty Insurance Company ("Trisura Specialty"). Trisura Guarantee was previously held through an intermediary holding company, 6436978 Canada Limited ("643 Can Ltd"), which was wound up in June 2018 (see Note 26).

Trisura Guarantee operates as a Canadian property and casualty insurance company. Trisura International is currently managing its in-force portfolio of specialty reinsurance contracts. Trisura Specialty was incorporated on May 31, 2017 and was licensed by the Oklahoma Insurance Department as a domestic surplus lines insurer and can write business as a non-admitted surplus line insurer in all states within the United States.

#### 1.1 Reorganization Transaction

On June 15, 2017, Brookfield Asset Management Inc. ("Brookfield") subscribed for 5,813,312 common shares of the Company in exchange for approximately $140,270. On June 15, 2017, the Company used the $140,270 to acquire: (i) Brookfield's 100% interest in TIHL for approximately $50,132; (ii) Brookfield's 60% interest in 643 Can Ltd for approximately $50,329; and (iii) Brookfield's interest in a note payable from 643 Can Ltd to Brookfield for approximately $185, leaving the Company with approximately $39,624 in additional cash (collectively, the "Reorganization Transaction"). See Note 18 for the impact of the Reorganization Transaction on share capital.

#### 1.2 Spin-off

On June 22, 2017, Brookfield completed the spin-off of the Company (the "Spin-off"), which was effected by way of a special dividend of all of the common shares of the Company to holders of Brookfield's Class A and B limited voting shares as of June 1, 2017. Each holder of Brookfield's Class A and B limited voting shares received one common share of the Company for every 170 Class A or Class B shares of Brookfield. The common shares of the Company are publicly traded on the Toronto Stock Exchange under the symbol "TSU".

### Note 2 – Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were authorized for issuance by the Company's Board of Directors on February 14, 2019.

#### 2.1 Basis of presentation

For the period from January 1 to June 14, 2017, the combined financial statements are comprised of the financial results of the Company, 643 Can Ltd and its subsidiary, TIHL and its subsidiary, and Trisura Specialty, on a combined basis of presentation. All intra-group transactions, balances, income and expenses were eliminated in full on combination.

For the period beginning June 15, 2017, the consolidated financial statements comprise the financial results of the Company and all entities controlled by the Company, on a consolidated basis of presentation. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

In accordance with IFRS, presentation of assets and liabilities on the consolidated statements of financial position is in order of liquidity.

### 2.2 Continuity of interests

To reflect the continuity of interests, these consolidated financial statements provide comparative information of the Company for the periods prior to the Spin-off. Accordingly, the financial information for the period from January 1, 2017 to June 22, 2017 is presented based on the historical financial information for the Company. For the period after completion of the Spin-off, the results are based on the actual results of the Company, including the adjustments associated with the Spin-off. Therefore, net income (loss) and comprehensive income (loss) have been allocated to Brookfield for the period prior to June 22, 2017 and allocated to the post-Spin-off shareholders for the period on and after June 22, 2017. For 2017, the earnings per share ("EPS") calculations have been presented for the period from June 22 to December 31, 2017.

### 2.3 Cash and cash equivalents

Cash and cash equivalents include short-term investments with original maturities of 90 days or less. The Company has classified cash and cash equivalents along with loans and receivables, at amortized cost, which approximates fair value.

### 2.4 Financial Instruments

*a) Categories of financial instruments*

i) Fair Value Through Profit or Loss ("FVTPL")

FVTPL financial instruments are carried at fair value and recognized on the trade date, with the changes in fair value recognized in net income (loss). Certain investments are designated as FVTPL to reduce the volatility within net income (loss) associated with the movement of the underlying claims which are supported by these investments. If an investment incorporates an embedded derivative that is otherwise required to be accounted for separately, the Company designates that investment as FVTPL and does not separately account for the embedded derivative. Structured insurance assets consisting of purchased commission arrangements are designated on inception as FVTPL. Transaction costs related to FVTPL financial instruments are expensed in investment income.

ii) Available-for-sale ("AFS")

AFS financial instruments are carried at fair value and recognized on the trade date, with changes in fair value recorded as unrealized gains (or losses) in other comprehensive income (loss). Fixed income securities and equities are classified as AFS, unless they have been classified or designated otherwise. Transaction costs related to financial instruments classified as AFS are capitalized on initial recognition and, where applicable, amortized to interest income using the effective interest method.

iii) Loans and receivables

Financial instruments are categorized as Loans and receivables when they have fixed or determinable payments and are not quoted in an active market. Loans and receivables are carried at amortized cost. Transaction costs are capitalized on initial recognition and are recognized in investment income using the effective interest rate method. The Company has classified Premiums and accounts receivable, and other assets as Loans and receivables, with the exception of derivative assets which are grouped with Premiums and accounts receivable, and other assets but are carried at fair value. The Company has also classified certain investments as Loans and receivables, which meet the criteria to do so.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in realized gains (losses) on investments.

iv) Other financial liabilities

Other financial liabilities are measured at amortized cost. Loan payable, Reinsurance premiums payable, are both classified as Other financial liabilities. Accounts payable, accrued and other liabilities, is also classified as Other financial liabilities, with the exception of derivative liabilities, cash-settled share based payments and deferred share units, which are grouped with Accounts payable, accrued and other liabilities but are carried at fair value.

**2.4 Financial Instruments (continued)**

*b) Measurement of fair values*

The Company has an established control framework with respect to the measurement of fair values which includes input from the Company's investment managers who report directly to management.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques.

Investments carried at fair value are classified in accordance with a valuation hierarchy that reflects the significance of the inputs used in determining their fair value. Under Level 1 of this hierarchy, fair value is derived from unadjusted quoted prices in active markets for identical investments. Under Level 2, fair value is derived from market inputs that are directly or indirectly observable, other than unadjusted quoted prices for identical investments. Under Level 3, fair value is derived from inputs, some of which are not based on observable market data.

Significant unobservable inputs and valuation adjustments are regularly reviewed. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the evidence obtained from the third parties is assessed in light of the requirements of IFRS, including the level in the fair value hierarchy in which such investments should be classified.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

*c) Derivative financial instruments*

Derivative financial instruments are classified as held for trading. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Derivative financial instruments held for trading are typically entered into with the intention to settle in the near future. These instruments are recorded at fair value. Based on market prices, fair value adjustments and realized gains and losses are recognized in Foreign exchange loss in the consolidated statements of comprehensive income (loss) (Note 5).

*d) Impairment of financial assets*

The Company's financial assets are assessed at each reporting date to determine whether there is any objective evidence that they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

When an unrealized loss on an available-for-sale investment results from objective evidence of impairment, the difference between the acquisition cost (net of any principal repayment and amortization) of the investment and its fair value is recognized as a realized loss in net income (loss) and a corresponding adjustment is made to other comprehensive income (loss). For debt securities, impairment could occur if there is objective evidence of impairment as a result of a loss event and that loss event has an impact on future cash flows, and for equity securities, impairment could occur as a result of a significant or prolonged decline in the fair value below its cost. In determining whether there is objective evidence of impairment, the factors considered are, primarily, the term of the unrealized loss and the amount of the unrealized loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net income (loss), the impairment loss is reversed, with the amount of the reversal recognized in net income (loss).

The carrying amounts of the Company's non-financial assets are assessed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and the carrying value is reduced to the estimated recoverable amount by means of an impairment charge to net income (loss). The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use.

### 2.4 Financial Instruments (continued)

*e) Offsetting of financial assets and financial liabilities*

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously.

### 2.5 Insurance contracts

When significant insurance risk exists, the Company's products are classified at contract inception as insurance contracts, in accordance with IFRS 4, *Insurance Contracts* ("IFRS 4"). Significant insurance risk exists when the Company agrees to compensate policyholders of the contract or ceding companies for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown. The level of insurance risk is assessed by considering whether there are any scenarios with commercial substance in which the Company is required to pay significant additional benefits. These benefits are those which exceed the amounts payable if no insured or reinsured event were to occur. In the absence of significant insurance risk, the contract is classified as an investment contract.

*a) Premiums and premiums receivable*

Premiums are earned over the terms of the related policies or surety bonds, generally on a pro rata basis. There are some instances where premiums are earned over the term of the policy in accordance with the risk profile of those policies with more premiums being earned when the risk exposure from the policy is greatest. Unearned premiums represent the unexpired portion of premiums written. Gross premiums written are presented gross of retrospective premium refunds to insureds. Retrospective premium refunds are accounted for on an accrual basis.

In the normal course of business, the Company enters into fronting arrangements with third parties, whereby the Company assumes the insurance risk but then cedes all or most of the risk to other insurers and reinsurers. Where appropriate, security arrangements are established to offset the Company's risk exposure. Premiums related to those fronting arrangements are recognized over the term of the related policies on a pro rata basis.

Premiums receivable consist of premiums due to the Company for insurance contracts sold.

*b) Fees*

Effective January 1, 2018, the Company adopted the new revenue standard IFRS 15 *Revenue from contracts with customers* ("IFRS 15"). Fees charged by Trisura Guarantee to insureds are recognized in the period in which they are charged provided that no significant obligations to insureds exist and reasonable assurance exists regarding collectability. Fees charged by Trisura Specialty to reinsurers are recognized over the same period as the related insurance contract.

*c) Deferred acquisition costs*

Acquisition costs comprise commissions and premium taxes. These costs are deferred to the extent they are recoverable from unearned premiums and are amortized on the same basis as the related premiums are earned. If unearned premiums are not sufficient to pay expected claims and expenses, including the deferred acquisition costs, after taking into consideration anticipated investment income, the resulting premium deficiency is recognized in the current period by first reducing, to a corresponding extent, the deferred amount of the acquisition costs. Any residual amount is recorded in Deferred acquisition costs in the consolidated statements of financial position as a provision for premium deficiency.

**2.5 Insurance contracts (continued)**

*d) Unpaid claims and loss adjustment expenses*

The liability for unpaid claims and loss adjustment expense ("LAE") represents an estimate of the ultimate cost of all claims incurred but not paid by the statement of financial position date. The reserving process employed in determining future claims and LAE payments includes consideration of individual case estimates of future claims and LAE payments on reported claims as well as provisions for future development of case estimates, and claims and LAE related to incurred but not reported claims ("IBNR"). In some instances further provisions are made for the time value of money by applying discount rates based on projected investment income from the assets supporting this liability. Unpaid claims and LAE of Trisura Specialty are not discounted. The unpaid claims and LAE related to the property and casualty reserves of Trisura International are not discounted. The unpaid claims and LAE of Trisura Guarantee and the life reserves of Trisura International are discounted. The Company uses qualified actuaries in its reserving processes.

In estimating unpaid claims and LAE, a range of actuarial techniques are used. Typically these techniques consider historical loss development factors and payment patterns. They require the use of assumptions relating to future development of claims and LAE, future rates of claims frequency and severity, claims inflation, payment patterns and reinsurance recoveries, taking into consideration the circumstances of the Company and the nature of the insurance policies. Typically the delay to ultimate settlement of claims increases the uncertainty of the estimate of the ultimate cost of those claims and LAE. The uncertainty in estimation tends to be higher for long-tail lines where information typically emerges over time. For the reinsurance business, the time lag in obtaining information from ceding insurers as well as the differing reserve practices employed by ceding insurers can further increase the uncertainty of the estimate. In certain circumstances, explicit actuarial margins are included in the liability in recognition of the inherent uncertainty of the estimates and the possibility of deterioration in experience relative to expectation in relation to claims development, investment return rates and recoverability of reinsurance balances.

As a result of the uncertainly in estimation, actual future claims and LAE payments may deviate in quantum and timing, perhaps materially, from the liability recorded in the Company's current provision for unpaid claims and LAE and investment contract liabilities as recorded on the consolidated statements of financial position. The liability for unpaid claims and LAE is reviewed regularly and evaluated in light of emerging claims experience and changing circumstances. Any resulting adjustments to the estimates of the ultimate liability are recorded as claims and LAE in the period in which such changes are made.

*e) Recoverable from reinsurers and Unearned reinsurance commissions*

The reinsurers' share of unearned premiums and their estimated share of unpaid claims and LAE are presented as Recoverable from reinsurers on a basis consistent with the methods used to determine the unearned premium liability and the unpaid claims liability, respectively.

Unearned reinsurance commissions are deferred and earned using principles consistent with the method used for deferring and amortizing acquisition costs.

*f) Investment contracts*

Contracts issued to policyholders that transfer financial risk, but do not transfer significant insurance risk to the Company are classified as investment contract liabilities. The contributions received from policyholders on these contracts are recorded as investment contract liabilities, and not as premiums written, and claim payments made are recorded as adjustments to the investment contract liabilities.

Investment contract liabilities are carried at amortized cost and are measured at the date of initial recognition as the fair value of consideration received, less payments for transaction related costs. At each reporting period, the liability is measured based on the estimated future cash flows relating to all claims expected to be settled on the contracts. Gains or losses associated with the measurement are recorded in Claims and LAE. Investment contract liabilities are included in Accounts payable, accrued and other liabilities in the consolidated statements of financial position.

**2.6 Capital assets**

Capital assets are carried at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of these assets using the following rates and methods:

| | |
|---|---|
| Office equipment | 40%, declining balance |
| Furniture and fixtures | 25%, declining balance |
| Leasehold improvements | 5 to 10 years, straight-line over the term of the lease |

**2.7 Intangible assets**

Intangible assets are carried at cost less accumulated amortization. Amortization is provided over the estimated useful lives of those assets. A 40% amortization rate and the declining balance method of amortization are applied to computer software. A 20% amortization rate and the declining balance method of amortization are applied to the customer lists recorded as intangible assets.

**2.8 Income taxes**

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities, and are measured using the tax rates and laws that are expected to be in effect in the periods in which the deferred income tax assets or liabilities are expected to be settled or realized, where those tax rates and laws have been substantively enacted.

Deferred tax assets are only recognized to the extent that it is probable that they will be realized. Estimates are used to determine the value of the deferred tax asset balance based on the assumption that the Company will generate taxable income in future years. Estimates are used to determine the taxes payable balance based on applicable tax legislation. For items in other comprehensive loss, the related tax is also presented in other comprehensive loss.

**2.9 Foreign currency**

*a) Functional and presentation currency*

The Company's functional and presentation currency is Canadian dollars. Foreign currency transactions are translated into Canadian dollars at the foreign exchange rate in effect on the date of the transaction.

Foreign denominated monetary assets and liabilities are translated into the functional currency at the exchange rate in effect at the statement of financial position date. Foreign exchange differences arising on translation are recognized in net income (loss). Foreign currency non-monetary assets and liabilities which are measured at historical cost are recorded at the exchange rate in effect at the date of transaction. Foreign currency non-monetary assets and liabilities which are measured at fair value are recorded at the exchange rate in effect at the date that fair value was determined.

For fixed maturities classified as available-for-sale, foreign exchange differences resulting from changes in amortized cost are recognized in net income (loss), while foreign exchange differences arising from unrealized fair value gains and losses are included as unrealized gains (losses) within other comprehensive income (loss). For other financial instruments classified as available-for-sale, foreign exchange differences are included as unrealized gains (losses) within other comprehensive loss.

### 2.9 Foreign currency (continued)

*b) Financial statements of foreign operations*

For foreign operations that have a functional currency other than Canadian dollars, the results and financial position of such operations are translated into Canadian dollars. Assets and liabilities of the foreign operations are translated at the foreign exchange rates in effect at the statement of financial position date, and income and expenses are translated at average rates approximating the foreign exchange rates in effect at the dates of the transactions.

Foreign exchange differences arising from the translation to Canadian dollars are recognized as cumulative translation adjustment (“CTA”) in other comprehensive loss.

### 2.10 Share-based compensation

The Company’s accounting policies with respect to share-based compensation are in accordance with IFRS 2, *Share based payment*, for which the Company has adopted the amendments early.

*a) Equity-settled stock option plan*

The Company maintains an equity-settled stock option plan, which is described in Note 29.1. The value of equity-settled stock options is measured at the grant date, and the cost is recognized in Operating expenses as an expense over the period from the issue date to the vesting date. Obligations related to equity-settled stock options plans are recorded in shareholders’ equity as contributed surplus. Any consideration paid by stock option holders to exercise the options increases share capital. The Company uses the Black-Scholes model to measure the fair value of stock options. Inputs to the model include a volatility measure, a risk free rate, and expected life of the options.

*b) Cash-settled share based plan*

The Company maintains a cash-settled share based plan, which is described in Note 29.2. The cost of cash-settled share based options is recognized in Operating expenses as an expense over the period from the issue date to the vesting date. Obligations related to cash-settled share based plans are recorded as liabilities at fair value in Accounts payable, accrued and other liabilities. At each reporting date, obligations related to the plan are re-measured at fair value with reference to the fair value of the Company’s stock price and the number of units that have vested. The corresponding share-based compensation expense or recovery is recognized over the vesting period. The Company uses the Black-Scholes model to measure the fair value of cash-settled share based options. Inputs to the model include a volatility measure, a risk free rate, and expected life of the options.

*c) Deferred share units plan*

The Company has adopted a non-employee director Deferred Share Units (“DSU”) plan, which is described in Note 29.3. This entitles the participants to receive, following the end of the director’s tenure as a member of the Board, an amount equivalent to the value of a common share at settlement, for each DSU unit that the participant holds. Obligations related to the plan are recorded as liabilities at fair value in Accounts payable, accrued and other liabilities, and re-measured at each reporting date at fair value with reference to the fair value of the Company’s stock price and the number of units that have vested. The cost of the DSUs is recognized in Operating expenses in the period they are awarded.

### 2.11 Future accounting policy changes

*a) IFRS 9 Financial Instruments ("IFRS 9")*

In November 2009, the IASB issued IFRS 9 as part of its plan to replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 requires financial assets, including hybrid contracts, to be measured at either fair value or amortized cost. In October 2010, the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities previously included in IAS 39. Another revised version of IFRS 9 was issued in July 2014 to include impairment requirements for financial assets and limited amendments by introducing a "fair value through other comprehensive income" measurement category. It also removed the mandatory effective date of January 1, 2015 and replaced it with a new effective date of January 1, 2018. This notwithstanding, the Company has elected to defer implementation of IFRS 9 to coincide with the implementation of IFRS 17 *Insurance Contracts* ("IFRS 17").

*Deferral of IFRS 9*

The Company has adopted the amendments of IFRS 4, which addresses the deferral of the implementation of IFRS 9 for insurance companies.

The Company is applying the temporary exemption from IFRS 9 as its activities are predominantly connected with insurance as the percentage of liabilities connected with insurance contracts over total liabilities is greater than the 80% threshold as described in IFRS 4 and the Company does not engage in a significant activity not connected with insurance. Based on this analysis, the Company meets the criteria to defer implementation of IFRS 9.

The Company must also disclose certain elements related to the classification and fair value (see Note 4.2), as well as credit rating (see Note 12.2(c)) of financial assets.

The Company is assessing the impact that IFRS 9 will have on its consolidated financial statements.

*b) IFRS 16 Leases ("IFRS 16")*

In January 2016, the IASB published IFRS 16. The new standard brings most leases on to the statements of financial position, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 *Leases* and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 has also been applied. The Company has assessed the impact that IFRS 16 will have on its consolidated financial statements, and determined that the impact will result in the addition of a Right-of-use asset valued at approximately $8,229, as well as a corresponding Lease liability of $8,229, which will be reflected on the consolidated statement of financial position as at January 1, 2019.

*c) IFRS 17*

On May 18, 2017, the IASB issued the new standard IFRS 17 which allows insurance entities to elect one of the following two approaches with respect to financial instruments: (a) the deferral approach, which provides entities whose predominant activities are to issue insurance contracts within the scope of IFRS 4 a temporary exemption to continue using IAS 39, instead of IFRS 9, until January 1, 2021; and (b) the overlay approach, which can be applied to eligible financial assets and provides an option for all issuers of insurance contracts to reclassify from profit or loss to other comprehensive income any additional accounting volatility that may arise from applying IFRS 9 before IFRS 17 is applied. IFRS 17 requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. IFRS 17 supersedes IFRS 4 and related interpretations and is effective for fiscal years beginning on or after January 1, 2021. On November 14, 2018, the IASB tentatively decided to defer the effective date of IFRS 17, along with IFRS 9, to fiscal years beginning on or after January 1, 2022. The Company is assessing the impact that IFRS 17 will have on its consolidated financial statements.

**Note 3 – Critical accounting judgments and estimates in applying accounting policies**

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the years presented.

**3.1 Critical accounting judgments in applying the Company's accounting policies**

Judgments are used in applying the accounting policies used to prepare financial statements. Those judgments affect the carrying amount of certain assets and liabilities and the reported amounts of revenues and expenses recorded during the year.

*a) Insurance Contracts*

Judgments are used to determine whether contracts should be classified as insurance or investment contracts (see Note 2.5(f)).

*b) Financial assets*

Judgments are used in determining the classification of financial assets as AFS, FVTPL or Loans and receivables (see Note 2.4(a)).

*c) Unpaid claims and LAE*

Judgments are used in establishing provisions for unpaid claims and LAE (see Note 2.5(d)).

**3.2 Assumption and estimation uncertainty**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended December 31, 2018 is included below. Any changes in estimates are recorded in the period in which they are determined. Accordingly, actual results may differ from these and other estimates thereby impacting future financial statements:

*a) Valuation of claims liabilities*

Assumptions and estimation uncertainties exist related to the valuation of unpaid claims and LAE (see Note 2.5(d)), as well as significant risk factors associated with insurance and reinsurance (see Note 12 and Note 13).

*b) Valuation of structured insurance assets*

Assumptions and estimation uncertainties exist related to the valuation of the structured insurance assets (see Note 4.4 and Note 6).

*c) Measurement of income taxes*

Assumptions and estimates are used in measuring the provision for incomes taxes (see Note 2.8 and Note 28).

## Note 4 – Investments

### 4.1 Classification of cash and investments

The following table presents the classification of cash and investments.

| **As at December 31, 2018** | **AFS** | **Designated FVTPL** | **Cash, loans and receivables** | **Total** |
|---|---|---|---|---|
| **Cash and cash equivalents** | **-** | **-** | **95,212** | **95,212** |
| **Investments** | | | | |
| **Fixed income** | **195,966** | **18,302** | **3,959** | **218,227** |
| **Income and investment trust units** | **2,338** | **-** | **-** | **2,338** |
| **Common shares** | **24,702** | **-** | **-** | **24,702** |
| **Preferred shares** | **25,307** | **-** | **-** | **25,307** |
| **Structured insurance assets** | **-** | **12,300** | **-** | **12,300** |
| **Total cash and investments** | **248,313** | **30,602** | **99,171** | **378,086** |

| As at December 31, 2017 | AFS | Designated FVTPL | Cash, loans and receivables | Total |
|---|---|---|---|---|
| Cash and cash equivalents | - | - | 165,675 | 165,675 |
| Investments | | | | |
| Fixed income | 106,453 | 22,014 | - | 128,467 |
| Income and investment trust units | 2,928 | - | - | 2,928 |
| Common shares | 31,249 | - | - | 31,249 |
| Preferred shares | 15,431 | - | - | 15,431 |
| Structured insurance assets | - | 12,566 | - | 12,566 |
| Total cash and investments | 156,061 | 34,580 | 165,675 | 356,316 |

### 4.2 Unrealized gains and losses and carrying value of investments

The amortized cost and carrying value of investments as at December 31, 2018 and December 31, 2017 were as follows:

| **As at December 31, 2018** | **FVTPL investments** | **Other investments** | | | | **Total investments** |
|---|---|---|---|---|---|---|
| | **At carrying value** | **Amortized cost** | **Unrealized gains** | **Unrealized losses** | **Carrying value** | **At carrying value** |
| **Government** | **18,302** | **45,418** | **389** | **(90)** | **45,717** | **64,019** |
| **Corporate** | **-** | **152,757** | **113** | **(2,621)** | **150,249** | **150,249** |
| **Total bonds** | **18,302** | **198,175** | **502** | **(2,711)** | **195,966** | **214,268** |
| **Other loans** | **-** | **3,959** | **-** | **-** | **3,959** | **3,959** |
| **Total fixed income** | **18,302** | **202,134** | **502** | **(2,711)** | **199,925** | **218,227** |
| **Income and investment trust units** | **-** | **1,605** | **765** | **(32)** | **2,338** | **2,338** |
| **Common shares** | **-** | **22,702** | **4,505** | **(2,505)** | **24,702** | **24,702** |
| **Preferred shares** | **-** | **28,456** | **108** | **(3,257)** | **25,307** | **25,307** |
| **Structured insurance assets** | **12,300** | **-** | **-** | **-** | **-** | **12,300** |
| | **30,602** | **254,897** | **5,880** | **(8,505)** | **252,272** | **282,874** |

| As at December 31, 2017 | FVTPL investments | Other investments | | | | Total investments |
|---|---|---|---|---|---|---|
| | At carrying value | Amortized cost | Unrealized gains | Unrealized losses | Carrying value | At carrying value |
| Government | 22,014 | 25,436 | 634 | (30) | 26,040 | 48,054 |
| Corporate | - | 80,121 | 407 | (465) | 80,063 | 80,063 |
| Total bonds | 22,014 | 105,557 | 1,041 | (495) | 106,103 | 128,117 |
| Mortgage backed securities | - | 332 | - | (18) | 314 | 314 |
| Asset backed securities | - | 55 | 36 | (55) | 36 | 36 |
| Total fixed income | 22,014 | 105,944 | 1,077 | (568) | 106,453 | 128,467 |
| Income and investment trust units | - | 2,115 | 935 | (122) | 2,928 | 2,928 |
| Common shares | - | 25,668 | 6,780 | (1,199) | 31,249 | 31,249 |
| Preferred shares | - | 14,441 | 1,165 | (175) | 15,431 | 15,431 |
| Structured insurance assets | 12,566 | - | - | - | - | 12,566 |
| | 34,580 | 148,168 | 9,957 | (2,064) | 156,061 | 190,641 |

The Company is currently assessing the cash flow characteristics test, to determine if the securities the Company holds would pass the solely payments of principal and interest ("SPPI") test. Based on a preliminary assessment, most of the debt securities would pass the test, however the composition of debt securities may change significantly by the time IFRS 9 is adopted.

### 4.2 Unrealized gains and losses and carrying value of investments (continued)

Management has reviewed currently available information regarding those investments with a fair value less than carrying value. During the year ended December 31, 2018, management recognized an impairment of $325 (2017 –$321). Assumptions are used when estimating the value of impairment based on the Company's impairment policy, which involves comparing fair value to carrying value.

### 4.3 Pledged assets

In the normal course of insurance and reinsurance operations, the Company must secure its obligations under certain insurance and reinsurance contracts by collateralizing them with letters of credit or trust arrangements. These trusts and letters of credit may, in turn, be secured by the Company's fixed income investments. As at December 31, 2018, the Company has pledged cash amounting to $43,775, and pledged fixed maturity investments amounting to $27,407 (December 31, 2017 – $52,767 and $30,646, respectively), under insurance and reinsurance trust arrangements and are therefore not readily available for general use by the Company.

As at December 31, 2018, the Company pledged $401 (December 31, 2017 – $nil) of fixed income investments as security deposit to the Oklahoma Insurance Department to be held in trust for and pledged to the State of Oklahoma.

### 4.4 Structured insurance assets

The structured insurance assets represent the Company's purchase of the rights to collect commission income on portfolios of long-term care insurance policies issued by investment grade insurance companies. The commissions are paid into trusts, from which the amounts due to the Company, being the commissions net of expenses of the trusts, are paid. The commission income for the year ended December 31, 2018 amounted to $1,874 (December 31, 2017 – $2,379), which has been recorded within net investment income (see Note 20).

## Note 5 – Fair value and notional amount of derivatives

The following sets out the fair value and notional amount of derivatives as at December 31, 2018 and December 31, 2017:

| As at December 31, 2018 | **2018** | | | 2017 | | |
|---|---|---|---|---|---|---|
| | | **Fair value** | | | Fair value | |
| | **Notional amount** | **Asset** | **Liability** | Notional amount | Asset | Liability |
| **Foreign currency contracts** | | | | | | |
| Forwards | **24,101** | **-** | **380** | 10,085 | 152 | - |
| **Term to maturity** | | | | | | |
| Less than one year | **24,101** | **-** | **380** | 10,085 | 152 | - |

The Company entered into foreign currency forward contracts to reduce its book value exposure to fluctuations in the USD and EUR exchange rates that could arise from its USD and EUR denominated investments. The notional amount of the derivatives are $16,819 USD and $1 million EUR. These derivatives are recorded at fair value and gains and losses are recorded in foreign exchange losses.

### Note 6 – Fair value measurement

The following sets out the financial instruments classified in accordance with the fair value hierarchy as at December 31, 2018 and December 31, 2017:

| **As at December 31, 2018** | **Total fair value** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| **Government** | **64,019** | **-** | **64,019** | **-** |
| **Corporate** | **150,249** | **-** | **150,249** | **-** |
| **Total bonds** | **214,268** | **-** | **214,268** | **-** |
| **Income and investment trust units** | **2,338** | **2,338** | **-** | **-** |
| **Common shares** | **24,702** | **23,897** | **-** | **805** |
| **Preferred shares** | **25,307** | **25,307** | **-** | **-** |
| **Structured insurance assets** | **12,300** | **-** | **-** | **12,300** |
| **Total investments** | **278,915** | **51,542** | **214,268** | **13,105** |
| **Derivative financial liabilities** | **(380)** | **-** | **(380)** | **-** |
| | **278,535** | **51,542** | **213,888** | **13,105** |

| As at December 31, 2017 | Total fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Government | 48,054 | - | 48,054 | - |
| Corporate | 80,063 | - | 80,063 | - |
| Total bonds | 128,117 | - | 128,117 | - |
| Mortgage backed securities | 314 | - | - | 314 |
| Asset backed securities | 36 | - | - | 36 |
| Total fixed income | 128,467 | - | 128,117 | 350 |
| Income and investment trust units | 2,928 | 2,928 | - | - |
| Common shares | 31,249 | 30,942 | - | 307 |
| Preferred shares | 15,431 | 15,431 | - | - |
| Structured insurance assets | 12,566 | - | - | 12,566 |
| Total investments | 190,641 | 49,301 | 128,117 | 13,223 |
| Derivative financial assets | 152 | - | 152 | - |
| | 190,793 | 49,301 | 128,269 | 13,223 |

During the years 2018 and 2017 there were no transfers between levels.

**Note 6 – Fair value measurement (continued)**

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the hierarchy for the years ended December 31, 2018 and December 31, 2017:

| | **2018** | 2017 |
|---|---|---|
| Balance at beginning of year | **13,223** | 15,646 |
| Unrealized losses | **(982)** | (1,705) |
| Amortization of premium | **(63)** | (38) |
| Purchase of securities | **205** | 318 |
| Sale of securities | **(363)** | - |
| Foreign exchange | **1,085** | (998) |
| Balance at end of year | **13,105** | 13,223 |

Included within the Level 3 assets are the structured insurance assets. The structured insurance assets are valued using a proprietary discounted cash flow valuation model. The fair value of this investment is based on discounting the expected future commission using a U.S. Treasury yield curve adjusted for credit risk associated with the receipt of future commission payments from the insurance companies. The credit risk adjustment is done since the Company takes on the credit risk of the insurance companies who have the ultimate commission obligations. The majority of commissions are received from insurance companies with an A.M. Best Company, Inc. ("A.M. Best") long-term issuer credit ratings of A or better.

Expected future cash flows are projected taking into account the probability of the policy being cancelled by the insured (referred to as lapse), the insured becoming sick and making a claim under the insurance policy (referred to as morbidity) and having future premium payments waived, or the insured dying (referred to as mortality). These actuarial risks are modeled using data drawn from the insurance companies and the Society of Actuaries Long Term Care Studies, as well as data from other public and non-public sources supplemented, as appropriate, by assistance from external actuarial consultants. Mortality rates used in the valuation of the Structured insurance assets are derived from the 2012 Individual Annuity Mortality table developed by the Society of Actuaries in the United States. The assumptions used are reviewed on a regular basis.

The following table shows the sensitivity of the valuation to a 1% change in the lapse rate.

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Sensitivity factor | Impact on comprehensive income (loss) from change in average reserve | |
| 100 basis point increase in lapse rate | **(587)** | (587) |
| 100 basis point decrease in lapse rate | **632** | 631 |

The following tables present quantitative information about the significant fair value inputs utilized by the Company for Level 3 assets:

| | **Fair value as at December 31, 2018** | **Valuation technique** | **Unobservable inputs** | **Range** |
|---|---|---|---|---|
| **Structured insurance assets** | **12,300** | **Discounted cash flow** | **Discount rate load (1)** | **0.25% - 3%** |
| | | | **Morbidity rates (2)** | **0.3% - 25.3%** |
| | | | **Lapse rates (3)** | **2.5%** |
| **Private equity fund investments** | **805** | **Net asset value (5)** | **n/a** | **n/a** |

**Note 6 – Fair value measurement (continued)**

| | Fair value as at December 31, 2017 | Valuation technique | Unobservable inputs | Range |
|---|---|---|---|---|
| Structured insurance assets | 12,566 | Discounted cash flow | Discount rate load (1) | 0.5% - 6% |
| | | | Morbidity rates (2) | 0.3% - 28.6% |
| | | | Lapse rates (3) | 1.25% |
| Fixed income | 350 | Dealer quotes | n/a (4) | n/a |
| Private equity fund investments | 307 | Net asset value (5) | n/a | n/a |

(1) The discount rate used by the Company consists of three components:
- Risk free rate: based on U.S. Treasury strip rates that are quoted observable fair value inputs.
- Credit risk: based on counterparty credit default swap rates that are quoted observable fair value inputs.
- Discount rate load: the risk premium applied to projected cash flows which increases over time. A decrease in discount rate load, increases estimated fair value.

(2) Morbidity rates refer to the percentage of policyholders in receipt of benefit during which time premiums are waived. These rates vary by age and gender and are based on long term care industry data. At December 31, 2018 0.3% (December 31, 2017 – 0.3%) of the policies expected to be in force at the time of the Year 1 cashflow were expected to have gone on claim and 25.3% (December 31, 2017 – 28.6%) of the policies expected to be in force at the time of the Year 25 cashflow were expected to have gone on claim.

(3) Lapse rates are the percentage of policyholders electing to cancel their policy and are based on long term care industry data and recent portfolio experience.

(4) The fair value of fixed maturities is determined using International Data Corporation's valuation methodology and obtained by Asset Managers responsible for managing these assets. Consequently, quantitative unobservable inputs are not developed by the Company when measuring fair value.

(5) The reported net asset value from the Asset Manager approximates the fair value of the investment.

**Note 7 – Deferred acquisition costs**

The following changes have occurred to the deferred acquisition costs for the years ended December 31, 2018 and December 31, 2017:

**Deferred acquisition costs**

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Opening costs, beginning of year | **40,266** | 30,985 |
| Acquisition costs deferred | **68,999** | 45,245 |
| Amortization of deferred costs | **(46,098)** | (35,964) |
| Foreign exchange | **548** | - |
| Closing balance, end of year | **63,715** | 40,266 |

**Reinsurers' share of deferred acquisition costs**

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Opening costs, beginning of year | **5,566** | 4,928 |
| Acquisition costs deferred | **26,605** | 9,112 |
| Amortization of deferred costs | **(13,671)** | (8,474) |
| Foreign exchange | **637** | - |
| Closing balance, end of year | **19,137** | 5,566 |

The reinsurers' share of deferred acquisition costs is referred to as Unearned reinsurance commissions in the consolidated statements of financial position.

**Note 8 – Unearned premiums**

**8.1 Nature of unearned premiums**

Unearned premiums are generally calculated on a pro rata basis from the unexpired portion of the premiums written (see Note 2.5(a)). The unearned premiums estimate is validated through standard actuarial techniques to ensure that after deducting any deferred policy acquisition costs, these premiums are sufficient to cover the estimated future costs of servicing the associated policies, expected claims, LAE, and taxes to be incurred. In estimating these costs, the Company in some instances uses discounting techniques to take into account the time value of money and a provision for adverse deviation is added to the discounted amount. There was no premium deficiency at December 31, 2018 or December 31, 2017.

The carrying value of unearned premiums approximates their fair value.

**8.2 Unearned premiums by line of business**

| **December 31, 2018** | **Gross** | **Ceded** | **Net** |
|---|---|---|---|
| **Trisura Guarantee** | | | |
| **Surety** | **22,394** | **7,664** | **14,730** |
| **Corporate insurance** | **24,697** | **4,931** | **19,766** |
| **Risk solutions** | **96,149** | **17,303** | **78,846** |
| | **143,240** | **29,898** | **113,342** |
| **Trisura Specialty** | | | |
| **Property and casualty** | **39,383** | **37,621** | **1,762** |
| | **182,623** | **67,519** | **115,104** |

| December 31, 2017 | Gross | Ceded | Net |
|---|---|---|---|
| Trisura Guarantee | | | |
| Surety | 21,645 | 7,174 | 14,471 |
| Corporate insurance | 28,216 | 9,763 | 18,453 |
| Risk solutions | 65,496 | 10,071 | 55,425 |
| | 115,357 | 27,008 | 88,349 |

### 8.2 Unearned premiums by line of business (continued)

The following changes have occurred in the provision for unearned premiums during the years ended December 31, 2018 and December 31, 2017:

**Unearned premiums**

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Unearned premiums, beginning of year | **115,357** | 90,612 |
| Gross premiums written | **219,041** | 146,598 |
| Gross premiums earned | **(153,753)** | (121,853) |
| Foreign exchange | **1,978** | - |
| Unearned premiums, end of year | **182,623** | 115,357 |

**Reinsurers' share of unearned premium**

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Reinsurers' share of unearned premiums, beginning of year | **27,008** | 22,444 |
| Ceded premiums written | **103,405** | 46,977 |
| Ceded premiums earned | **(64,783)** | (42,413) |
| Foreign exchange | **1,889** | - |
| Reinsurers' share of unearned premiums, end of year | **67,519** | 27,008 |

## Note 9 – Unpaid claims and loss adjustment expenses

### 9.1 Unpaid claims and loss adjustment expenses by line of business

| **As at December 31, 2018** | **Gross** | **Ceded** | **Net** |
|---|---|---|---|
| **Trisura Guarantee** | | | |
| **Surety** | **13,324** | **3,820** | **9,504** |
| **Corporate insurance** | **31,182** | **2,013** | **29,169** |
| **Risk solutions** | **40,925** | **27,251** | **13,674** |
| | **85,431** | **33,084** | **52,347** |
| **Trisura International** | | | |
| **Life** | **69,758** | **-** | **69,758** |
| **Property and casualty** | **9,330** | **-** | **9,330** |
| | **79,088** | **-** | **79,088** |
| **Trisura Specialty** | | | |
| **Property and casualty** | **9,478** | **8,964** | **514** |
| | **173,997** | **42,048** | **131,949** |

### 9.1 Unpaid claims and loss adjustment expenses by line of business (continued)

| As at December 31, 2017 | Gross [1] | Ceded [1] | Net |
|---|---|---|---|
| Trisura Guarantee | | | |
| Surety | 15,814 | 4,952 | 10,862 |
| Corporate insurance | 28,608 | 3,594 | 25,014 |
| Risk solutions | 46,090 | 29,700 | 16,390 |
| | 90,512 | 38,246 | 52,266 |
| Trisura International | | | |
| Life | 68,896 | - | 68,896 |
| Property and casualty | 19,477 | - | 19,477 |
| | 88,373 | - | 88,373 |
| | 178,885 | 38,246 | 140,639 |

(1) Certain ceded balances have been reclassified from December 31, 2017 to conform with 2018 classification.

Unpaid claims and loss adjustment balances due from reinsurers, referred to above as Ceded balances, are grouped with unearned reinsurance assets in Recoverable from reinsurers on the consolidated statements of financial position.

The unpaid claims and LAE of Trisura Guarantee were discounted to take into account the time value of money using a rate of 3.25% (2017 – 2.07%) on expected claims settlement patterns. The expected future claim and LAE payments related to the Life liabilities of Trisura International were discounted to take into account the time value of money using rates which ranged from (0.36%) to 1.38% (2017 – (0.35%) to 1.51%).

The following changes have occurred to the provision for unpaid claims for the years ended December 31:

| **Gross claim reserves** | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Unpaid claims, beginning of year | **178,885** | 163,970 |
| Change in undiscounted estimates for losses of prior years | **1,252** | (2,101) |
| Change in discount rate | **(1,957)** | (727) |
| Change in provision for adverse deviation | **413** | 1,627 |
| Claims occurring in current year (including paid) | **59,169** | 43,386 |
| Paid on claims occurring during: | | |
| Current year | **(27,196)** | (10,130) |
| Prior years | **(41,111)** | (19,822) |
| Foreign exchange | **4,542** | 2,682 |
| Unpaid claims, end of year | **173,997** | 178,885 |

### 9.1 Unpaid claims and loss adjustment expenses by line of business (continued)

| Reinsurers' share of claim reserves | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Unpaid claims, beginning of year | **38,246** | 24,676 |
| Change in undiscounted estimates for losses of prior years | **3,786** | 2,483 |
| Change in discount rate | **(347)** | (348) |
| Change in provision for adverse deviation | **(245)** | 782 |
| Claims occurring in current year (including paid) | **36,021** | 21,645 |
| Paid on claims occurring during: | | |
| Current year | **(19,598)** | (3,933) |
| Prior years | **(16,265)** | (7,059) |
| Foreign exchange | **450** | - |
| Unpaid claims, end of year | **42,048** | 38,246 |

The Reinsurance premiums payable balance of $41,406 (2017 – $17,555) on the consolidated statements of financial position, reflects $45,694 of reinsurance payable (2017 – $19,997), netted against $4,288 (2017 – $2,442) of reinsurance recoverable.

### 9.2 Prior year claims development

The following tables present the gross and net cumulative claim payments to date and estimate of gross and net ultimate claims incurred, including IBNR claims and provisions for adverse deviation ("PfAD"), at the end of the year:

**Gross claims loss development**

| Accident year | All prior years | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of gross ultimate claims incurred | | 61,212 | 18,584 | 11,741 | 12,187 | 20,896 | 22,377 | 29,316 | 40,249 | 43,386 | **59,748** | |
| One year later | | 56,716 | 16,648 | 12,935 | 9,615 | 17,155 | 21,878 | 24,413 | 38,564 | 42,141 | | |
| Two years later | | 55,276 | 17,181 | 12,322 | 8,078 | 13,608 | 20,660 | 24,425 | 38,969 | | | |
| Three years later | | 56,788 | 16,637 | 12,006 | 7,178 | 13,062 | 20,648 | 25,304 | | | | |
| Four years later | | 59,014 | 14,727 | 9,638 | 6,801 | 12,725 | 21,588 | | | | | |
| Five years later | | 59,372 | 13,700 | 8,979 | 8,101 | 12,144 | | | | | | |
| Six years later | | 57,857 | 13,704 | 8,852 | 8,354 | | | | | | | |
| Seven years later | | 57,887 | 13,847 | 8,974 | | | | | | | | |
| Eight years later | | 57,884 | 14,182 | | | | | | | | | |
| Nine years later | | 57,908 | | | | | | | | | | |
| Estimate of gross ultimate claims incurred | 2,951,884 | 57,908 | 14,182 | 8,974 | 8,354 | 12,144 | 21,588 | 25,304 | 38,969 | 42,141 | **59,748** | 3,241,196 |
| Cumulative claim payments to date | (2,944,483) | (55,902) | (13,890) | (8,456) | (5,793) | (9,162) | (16,260) | (17,518) | (17,492) | (24,190) | **(27,300)** | (3,140,446) |
| Unpaid claims | 7,401 | 2,006 | 292 | 518 | 2,561 | 2,982 | 5,328 | 7,786 | 21,477 | 17,951 | **32,448** | 100,750 |
| Impact of discounting | (1) | (2) | (19) | (28) | (133) | (122) | (224) | (444) | (1,335) | (1,245) | **(1,612)** | (5,165) |
| Impact of PfAD | 2 | 8 | 38 | 66 | 338 | 302 | 538 | 808 | 2,212 | 1,893 | **2,448** | 8,653 |
| Present value of unpaid claims with PfAD | 7,402 | 2,012 | 311 | 556 | 2,766 | 3,162 | 5,642 | 8,150 | 22,354 | 18,599 | **33,284** | 104,238 |
| Add: Discounted reserves on life contracts | | | | | | | | | | | | 69,759 |
| Total unpaid claims and LAE | | | | | | | | | | | | 173,997 |

### 9.2 Prior year claims development (continued)

**Net claims loss development**

| Accident year | All prior years | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | **2018** | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of net ultimate claims incurred | | 58,671 | 15,081 | 10,003 | 10,463 | 12,349 | 14,002 | 18,997 | 28,378 | 21,741 | **23,176** | |
| One year later | | 55,593 | 13,297 | 10,211 | 8,872 | 9,953 | 12,363 | 15,878 | 26,772 | 19,059 | | |
| Two years later | | 54,469 | 13,896 | 9,683 | 7,402 | 6,651 | 10,310 | 14,365 | 26,380 | | | |
| Three years later | | 55,930 | 13,412 | 9,253 | 6,845 | 5,648 | 9,224 | 14,421 | | | | |
| Four years later | | 58,195 | 11,603 | 7,564 | 6,568 | 5,324 | 8,934 | | | | | |
| Five years later | | 58,594 | 10,662 | 7,053 | 7,861 | 5,254 | | | | | | |
| Six years later | | 57,085 | 10,724 | 6,958 | 8,102 | | | | | | | |
| Seven years later | | 57,115 | 10,867 | 7,090 | | | | | | | | |
| Eight years later | | 57,113 | 11,197 | | | | | | | | | |
| Nine years later | | 57,136 | | | | | | | | | | |
| Estimate of net ultimate claim incurred | 2,878,754 | 57,136 | 11,197 | 7,090 | 8,102 | 5,254 | 8,934 | 14,421 | 26,380 | 19,059 | **23,176** | 3,059,503 |
| Cumulative claim payments to date | (2,871,359) | (55,132) | (10,927) | (6,589) | (5,548) | (4,181) | (7,138) | (11,198) | (10,506) | (9,867) | **(7,600)** | (3,000,045) |
| Net unpaid claims | 7,395 | 2,004 | 270 | 501 | 2,554 | 1,073 | 1,796 | 3,223 | 15,874 | 9,192 | **15,576** | 59,458 |
| Impact of discounting | 1 | (2) | (16) | (28) | (133) | (60) | (122) | (245) | (1,057) | (752) | **(1,158)** | (3,572) |
| Impact of PfAD | 1 | 8 | 37 | 66 | 336 | 178 | 306 | 490 | 1,809 | 1,227 | **1,846** | 6,304 |
| Present value of net unpaid claims with PfAD | 7,397 | 2,010 | 291 | 539 | 2,757 | 1,191 | 1,980 | 3,468 | 16,626 | 9,667 | **16,264** | 62,190 |
| Add: Net discounted reserves on life contracts | | | | | | | | | | | | 69,759 |
| Total unpaid claims and LAE | | | | | | | | | | | | 131,949 |

## Note 10 – Premiums and accounts receivable, and other assets

As at December 31, 2018 and December 31, 2017, premiums and accounts receivable, and other assets consists of:

| **As at December 31,** | **2018** | 2017 |
|---|---|---|
| Premiums receivable | **41,251** | 20,552 |
| Accrued investment income | **1,991** | 909 |
| Tax recoveries | **1,939** | 477 |
| Prepaid expenses | **316** | 224 |
| Funds held by ceding companies | **236** | 374 |
| Derivative assets | **-** | 152 |
| Miscellaneous assets | **543** | 484 |
| | **46,276** | 23,172 |

As at December 31, 2018, Premiums receivable of $41,251 (2017 – $20,552) includes an amount of $20,504 (2017 - $nil) related to Trisura Specialty for which there is a reinsurance payable of $21,355 (2017 - $nil).

**Note 11 – Accounts payable, accrued and other liabilities**

As at December 31, 2018 and December 31, 2017, accounts payable, accrued and other liabilities consist of:

| As at December 31, | 2018 | 2017 |
|---|---|---|
| Deposits in trust | **9,565** | 6,592 |
| Accrued liabilities | **8,700** | 6,576 |
| Other liabilities | **3,891** | 3,586 |
| Investment contract liabilities | **916** | 2,856 |
| Share based payment plan | **715** | 185 |
| Derivatives liabilities | **380** | - |
| | **24,167** | 19,795 |

**Note 12 – Risk management**

As a provider of insurance products, effective risk management is critical to the Company's ability to protect the interests of its stakeholders. The most significant risks include those associated with insurance contracts and holding financial instruments. The Company has policies and procedures governing the identification, measurement, monitoring, mitigating and controlling of risks associated with insurance contracts and holding financial instruments. The most significant risk associated with insurance contracts is insurance risk, which includes pricing risk, concentration risk and reserving risk. The significant risks associated with financial instruments are credit risk, liquidity risk and market risk (comprising currency risk, interest rate risk and other price risks such as equity risk).

The following sections describe how the Company manages its insurance risk and risks associated with financial instruments.

**12.1 Insurance risk**

Insurance risk is the risk that the ultimate cost of claims and LAE, as well as acquisition expenses, related to insurance contracts will exceed premiums received in respect of those contracts. This could occur because either the frequency or severity of claims is greater than expected.

The Company's objective for managing insurance risk is to mitigate the risk while continuing to grow and to achieve profitable underwriting results within its identified product lines. Senior management seeks to achieve this objective through effective use of underwriting and pricing policies, procedures and guidelines, which it has developed for pricing and issuing bonds and policies or assuming reinsurance risk. In addition, careful oversight is applied to all aspects of the underwriting process to ensure that these policies, procedures and guidelines are followed. Furthermore, the Company regularly reviews its underwriting and pricing guidelines to ensure that they reflect emerging trends in its existing business and in the marketplace. Insurance risk is further mitigated through effective claims and expense management, and through the use of reinsurance.

The insurance risks associated with insurance contracts underwritten by the Company are subject to a number of variables such as estimated loss ratios and estimated claims settlement costs, which are sensitive to various assumptions which can impact the estimation of claims liabilities (see Note 2.5(d)).

### 12.1 Insurance risk (continued)

Some additional factors that impact insurance risk include pricing risk, concentration risk and reserving risk, which are described below:

*a) Pricing risk*

Pricing risk is the risk that an insurance product has been priced using assumptions about claims and LAE activity that are different from the actual experience of that product line. The Company mitigates the impact of pricing risk through the use of pricing guidelines, which are designed such that premium rates take into account claims frequency and severity, expense levels, investment returns and profit margins required to support a particular product line. The Company reviews pricing assumptions regularly to ensure that they reflect up-to-date claims experience and expected future changes in that experience, as well as market conditions. The Company further mitigates the impact of pricing risk through the employment of experienced underwriting staff.

*b) Reserving risk*

Reserving risk is the risk that future claims and LAE arising on past exposure periods exceed the liability recorded in respect of unpaid claims and LAE. The Company's management of reserving risk is discussed in Note 2.5(d).

*c) Concentration of insurance risk*

Concentration risk is the risk that the Company's insurance products are concentrated within a particular geographic area, particular class of business, or a particular insured, thereby increasing the exposure of the Company to a single event or a series of related events. Concentration of risk could arise as a result of a single bondholder having multiple bonds outstanding, or as a result of accumulations of large numbers of insurance or reinsurance contracts exposed to similar perils, classes of business or geographic areas. Concentrations of risk can arise from either high-severity or low-frequency events, such as natural disasters.

To mitigate the impact of concentration of risk, the Company applies risk management practices, monitoring and modelling techniques, and regularly reviews its portfolio of insurance risks for concentration and aggregation of risks and makes adjustments as needed in order to ensure exposures are within tolerances. The active management of its reinsurance programs and collateral requirements is also an important element in maintaining that net claims exposures and concentration and aggregation risks remain within the Company's risk tolerance.

The following table shows the mix of the Company's policies by product line and geography, which reflects the Company's diversification of insurance risk:

| | **December 31, 2018** | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | **Canada** | **U.S.** | **Other** | Canada | U.S. | Other |
| **Trisura Guarantee** | | | | | | |
| Surety | **49,783** | **1,751** | **-** | 48,815 | 875 | - |
| Corporate insurance | **39,073** | **-** | **-** | 32,718 | - | - |
| Risk solutions | **74,615** | **-** | **-** | 64,190 | - | - |
| **Trisura Specialty** | | | | | | |
| Property & casualty | **-** | **53,731** | **-** | - | - | - |
| **Trisura International** | | | | | | |
| Life | **-** | **-** | **88** | - | - | - |
| Property & casualty | **-** | **-** | **-** | - | - | 165 |
| **Assumed reinsurance** | **-** | **-** | **88** | - | - | 165 |
| **Gross premiums written** | **163,471** | **55,482** | **88** | 145,723 | 875 | 165 |

### 12.1 Insurance risk (continued)

*d) Sensitivity to insurance risk*

i) Property and casualty business of Trisura Guarantee, Trisura Specialty and Trisura International

The insurance risks associated with the lines of business underwritten by the Company are sensitive to various assumptions which can impact the estimation of claims liabilities. The relevant risk variables for the Company's Property and Casualty lines of business associated with the estimation of claims liabilities are subject to assumptions that include the estimated loss ratio as well as the estimated claims settlement costs. The loss ratio is used to calculate losses of the Company with respect to its ongoing property and casualty insurance operations as a percentage of net premiums earned. Below is an analysis showing the impact of a 5% increase in the loss ratio, as a percentage of net earned premium, and a 5% increase in claims settlement costs of the property and casualty claims reserves, based on an increase in the current net unpaid claims balance. Such variances in the estimation were considered reasonably possible during the years ended December 31, 2018 and 2017. The impacts described in the table below are independent of one another. A 5% decrease to the loss ratio and a 5% decrease in claims settlement costs would have the opposite effect on comprehensive income (loss) and shareholders' equity.

| | **December 31, 2018** | December 31, 2017 | **December 31, 2018** | December 31, 2017 |
|---|---|---|---|---|
| Sensitivity factor | Impact on comprehensive income (loss), before tax | | Impact on shareholders' equity | |
| 5% increase to loss ratio | **(4,420)** | (3,964) | **(3,240)** | (2,905) |
| 5% increase to claims settlement costs | **(2,940)** | (3,484) | **(2,235)** | (2,786) |

ii) Life business of Trisura International

The Company's life reserves are held in respect of a book of deferred annuities with guaranteed annuity conversion options ("GAO"). A significant risk factor in relation to these reserves is the proportion of policyholders who take up the GAO upon retirement. The following table shows the impact on reserves of a 100 basis point change in the GAO take-up rate.

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Sensitivity factor | Impact on comprehensive income (loss) from change in average reserve | |
| 100 basis point increase in GAO take-up rate | **(1,251)** | (1,117) |
| 100 basis point decrease in GAO take-up rate | **938** | 1,135 |

Unpaid claims and LAE are also sensitive to interest rates due to the time value of money. The impact of the interest rate sensitivity on unpaid claims is shown in Note 12.4(b). The structured insurance assets are sensitive to changes in lapse rates. The impact of lapse rate sensitivity on the structured insurance assets is shown in Note 6.

### 12.2 Credit risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation and cause the Company to incur a financial loss. Credit risk arises mainly from investments in bonds and short-term securities, the structured insurance assets, and balances receivable from insurance brokers and reinsurers.

For debt securities, the Company manages its credit risk by placing limits on its exposure to a single counterparty, by reference to the credit rating of the counterparty or, where a rating is not available by assigning an internal rating equivalent based on market comparables for the counterparty or based on the collateral supporting the counterparty risk. Management also limits its aggregate debt securities credit risk by placing limits on aggregate values of securities at different credit rating levels. Management monitors credit quality of its debt securities on an on-going basis through its reviews the investment portfolio.

For the structured insurance assets, the Company minimizes its credit exposure through transacting with investment grade counterparties.

### 12.2 Credit risk (continued)

For Premiums receivable, the Company uses insurance brokers, managing general agents, and program administrators as intermediaries for the distribution of its product offerings and is therefore subject to the risk that these agents fail to remit the premiums they have collected on its behalf. The Company primarily deals with agents with which it has entered into a contract that details, among other things, the agent's responsibilities and payment obligations. These agents are typically regulated and licensed by insurance regulators. Further, the Company monitors accounts receivable and follows-up all past due amounts to ensure satisfactory collection arrangements are in place. As at December 31, 2018, $1,586 of premiums receivable was past due but not considered to be impaired (December 31, 2017 – $1,735).

As at December 31, 2018, the Company has Miscellaneous assets that include amounts that are past due and are recorded net of an allowance for impairment of $nil (2017 – $955) based on management's estimate given the age and circumstances surrounding the past due amounts. As at December 31, 2018, $136 of Miscellaneous assets was past due but not considered impaired (December 31, 2017 – $125).

For recoverables from reinsurers, the Company applies its reinsurance risk management policy to manage the credit risk associated with these balances. The Company is ultimately at risk on the limits of coverage provided under its product offerings, regardless of whether it has ceded a portion of this exposure to reinsurers. If a reinsurer is unwilling or unable to satisfy its obligations, the Company does not have the right to correspondingly reduce its claims payment obligations. The Company generally uses only licensed reinsurers that have a minimum A.M. Best credit rating of A-, and management monitors these ratings on a regular basis. Furthermore, the Company's reinsurance risk management policy places limits on the participation of individual reinsurers in the Company's reinsurance arrangements. These participations and limits are reviewed regularly.

When the Company uses an unlicensed reinsurer, it is required to establish a custodial account secured under a reinsurance security agreement, post a letter of credit or provide other forms of security acceptable to the Company in an amount equal to at least 115% in Canada, or 102% in the United States, of the unearned premium, unpaid claims and LAE on business ceded to it.

For funds withheld by ceding companies, credit risk is monitored regularly by experienced staff. Funds withheld by ceding companies relate to the Company's reinsurance business and credit risk is mitigated by contractual rights to offset amounts receivable against claims and other amounts payable. The Company periodically obtains letters of credit from counterparties to collateralize some of these and potential future receivables.

Derivative assets and other assets are carefully monitored with reference to the credit quality of the counter-party, and an impairment allowance is made if deemed appropriate.

**12.2 Credit risk (continued)**

*a) Maximum exposure to credit risk of the Company*

The following table sets out the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

| As at | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Cash and cash equivalents | **95,212** | 165,675 |
| Bonds | | |
| Government | **64,019** | 48,054 |
| Corporate | **150,249** | 80,063 |
| Other loans | **3,959** | - |
| Mortgage backed securities | **-** | 314 |
| Asset backed securities | **-** | 36 |
| Structured settlements | **12,300** | 12,566 |
| Premiums receivable | **41,251** | 20,552 |
| Accrued investment income | **1,991** | 909 |
| Funds held by ceding companies | **236** | 374 |
| Derivative assets | **-** | 152 |
| Other assets | **2,483** | 961 |
| | **371,700** | 329,656 |

*b) Concentration of credit risk of the Company*

Concentrations of credit risk can arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar risk characteristics, for example the may operate in the same or similar industries. The following table provides details of the fair value of fixed income securities by industry sector:

| As at | December 31, 2018 | December 31, 2017 (1) |
|---|---|---|
| Government | **64,019** | 48,055 |
| Financial | **61,388** | 34,561 |
| Industrials | **22,038** | 13,417 |
| Telecom services | **13,710** | - |
| Energy | **11,436** | 5,816 |
| Automotive | **7,389** | 5,999 |
| Consumer discretionary | **7,049** | - |
| Retail | **6,224** | 5,624 |
| Real estate | **5,369** | 10,513 |
| Consumer staples | **5,202** | - |
| Power and pipelines | **4,734** | 4,482 |
| Utility | **3,626** | - |
| Other | **6,043** | - |
| | **218,227** | 128,467 |

(1) Certain comparative figures from December 31, 2017 have been regrouped to align with current year presentation.

### 12.2 Credit risk (continued)

*c) Asset quality*

The following table summarizes the credit ratings for fixed income securities and cash equivalents:

| As at | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Fixed income securities | | |
| AAA | **21,306** | 11,569 |
| AA | **51,388** | 32,062 |
| A | **79,190** | 52,727 |
| BBB | **55,763** | 30,425 |
| Below BBB | **10,580** | 1,684 |
| | **218,227** | 128,467 |
| Cash equivalents | | |
| R-1 (medium) | **2,060** | 56,680 |
| R-1 (low) | **-** | 25,858 |
| | **2,060** | 82,538 |
| | **220,287** | 211,005 |

### 12.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk may arise from a number of potential areas including, for example, duration mismatch between assets and liabilities.

Generally, the Company's financial liabilities are settled by delivering cash and it is able to rely on the cash flow generated from its operations to satisfy its liquidity requirements, which are primarily operating expenses and claims and loss adjustment payments.

By their nature, the timing and quantum of claims and loss adjustment payments are subject to significant uncertainty and are estimated actuarially as set out in Note 2.5(d). Although the Company has reinsurance treaties in place under which a portion of the claims payments may be recovered, including by way of set off against premiums payable to the reinsurers, such recoveries usually follow the making of payments and often delays of a number of months can occur. Hence the Company must have access to sufficient liquid resources to fund gross amounts payable when required.

To manage its liquidity requirements, the Company maintains a minimum balance of cash and cash equivalents and a highly rated, highly liquid investment portfolio. The Company's investment policy sets out minimum criteria for the credit quality of each class of investment held. In addition, the investment policy stipulates average duration targets. For common shares, preferred shares and income and investment trusts units limitations are placed on exposure to any one issuer.

The Company also manages the liquidity risk associated with its assumed reinsurance liabilities through its asset liability matching processes. The long-tailed nature of much of the Company's reinsurance business also reduces the likelihood of sudden or unexpected spikes in claim payment requirements.

The Company periodically pledges assets under insurance and reinsurance trust arrangements which are therefore not readily available for general use by the Company (see Note 4.3).

### 12.3 Liquidity risk (continued)

The following tables set out the Company's financial assets and liabilities by contractual maturity.

| **As at December 31, 2018** | **Up to 1 year** | **1 to 5 years** | **Over 5 years** | **No specific maturity** | **Total** |
|---|---|---|---|---|---|
| **Cash** | **2,060** | **-** | **-** | **93,152** | **95,212** |
| **Investments** | **4,972** | **183,558** | **41,988** | **52,356** | **282,874** |
| **Premiums receivable** | **39,773** | **1,478** | **-** | **-** | **41,251** |
| **Other financial assets** | **4,866** | **-** | **-** | **160** | **5,026** |
| **Reinsurers' share of claims reserves** | **18,763** | **20,093** | **3,192** | **-** | **42,048** |
| **Financial and insurance assets (1)** | **70,434** | **205,129** | **45,180** | **145,668** | **466,411** |

| As at December 31, 2017 | Up to 1 year | 1 to 5 years | Over 5 years | No specific maturity | Total |
|---|---|---|---|---|---|
| Cash | - | - | - | 165,675 | 165,675 |
| Investments | 15,623 | 95,280 | 29,778 | 49,960 | 190,641 |
| Premiums receivable | 18,841 | 1,711 | - | - | 20,552 |
| Other financial assets | 2,567 | 53 | - | - | 2,620 |
| Reinsurers' share of claims reserves | 14,385 | 20,128 | 3,733 | - | 38,246 |
| Financial and insurance assets (1) | 51,416 | 117,172 | 33,511 | 215,635 | 417,734 |

(1) Deferred acquisition costs and reinsurers' share of unearned premiums have been excluded as they are not subject to any liquidity risk.

| **As at December 31, 2018** | **Up to 1 year** | **1 to 5 years** | **Over 5 years** | **No specific maturity** | **Total** |
|---|---|---|---|---|---|
| Unpaid claims and LAE (2) | **37,181** | **83,487** | **43,021** | **-** | **163,689** |
| Reinsurance premiums payable | **41,406** | **-** | **-** | **-** | **41,406** |
| Other financial liabilities | **13,830** | **-** | **-** | **10,337** | **24,167** |
| Loans payable | **-** | **29,700** | **-** | **-** | **29,700** |
| Financial and insurance liabilities (3) | **92,417** | **113,187** | **43,021** | **10,337** | **258,962** |

| As at December 31, 2017 | Up to 1 year | 1 to 5 years | Over 5 years | No specific maturity | Total |
|---|---|---|---|---|---|
| Unpaid claims and LAE (2) | 48,205 | 92,886 | 31,470 | 3,558 | 176,119 |
| Reinsurance premiums payable | 17,555 | - | - | - | 17,555 |
| Other financial liabilities | 12,240 | 883 | - | 6,672 | 19,795 |
| Loans payable | - | 29,700 | - | - | 29,700 |
| Financial and insurance liabilities (3) | 78,000 | 123,469 | 31,470 | 10,230 | 243,169 |

(2) Undiscounted and excluding PfADs.
(3) Unearned premiums and unearned reinsurance commissions have been excluded as they are not subject to any liquidity risk.

### 12.4 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes currency risk, interest rate risk and other price risks such as equity price risk.

*a) Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has operations in the United States and Canada, as well as European exposure through its reinsurance operations and therefore has exposure to currency risk arising from fluctuations in exchange rates of the Canadian and Euro against the United States dollar. The foreign currency positions of the Company are monitored quarterly and the Company uses derivatives throughout the year to manage foreign exchange risks where a material unmatched foreign exchange position exists.

The following table summarizes the net currency exposure of Trisura Guarantee categorized by major currency. The balances in the table below are presented in the foreign currency indicated:

| | USD | | EUR | |
|---|---|---|---|---|
| **As at December 31,** | **2018** | 2017 | **2018** | 2017 |
| Fixed-income securities | **12,671** | - | **1,002** | - |
| Common shares | **1,733** | 2,175 | **-** | - |
| Preferred shares | **382** | - | **-** | - |
| Cash | **2,629** | 1,658 | **-** | - |
| | **17,415** | 3,833 | **1,002** | - |
| Less: foreign – currency derivatives, notional amount | **(16,819)** | - | **(1,000)** | - |
| Total net exposure | **596** | 3,833 | **2** | - |

The following table summarizes the carrying value of total assets and total liabilities of Trisura International categorized by major currency. All amounts below are converted to Canadian dollar equivalents. The assets and liabilities below are translated at exchange rates at the reporting date and are stated before taking into account the effect of any forward currency exchange contracts:

| **As at December 31, 2018** | **CDN** | **USD** | **EUR** | **Other** | **Total** |
|---|---|---|---|---|---|
| Total assets | **813** | **31,089** | **67,460** | **604** | **99,966** |
| Total liabilities | **-** | **10,663** | **70,323** | **155** | **81,141** |
| Net assets | **813** | **20,426** | **(2,863)** | **449** | **18,825** |

| As at December 31, 2017 [(1)] | CDN | USD | EUR | Other | Total |
|---|---|---|---|---|---|
| Total assets | 375 | 47,265 | 63,824 | 532 | 111,996 |
| Total liabilities | 56 | 21,554 | 71,223 | (336) | 92,497 |
| Net assets | 319 | 25,711 | (7,399) | 868 | 19,499 |

(1) Comparative figures from December 31, 2017 have been changed to align with current year presentation.

As at December 31, 2018, Trisura International's short position in Euro is unhedged and management considered the foreign exchange risk to be acceptable. As at December 31, 2017, the short position in Euro was hedged by a forward currency exchange contract.

All assets and liabilities of Trisura Specialty are denominated in USD, and therefore has limited exposure to currency risk.

### 12.4 Market risk (continued)

*a) Currency risk (continued)*

| **As at December 31,** | **2018** | 2017 | **2018** | 2017 |
|---|---|---|---|---|
| Sensitivity factor | Impact on comprehensive income (loss) and shareholders' equity | | | |
| | 10% increase in CDN versus USD [1] | | 10% decrease in CDN versus USD [1] | |
| USD investments supporting Trisura Guarantee | **(54)** | (320) | **59** | 352 |
| Consolidated net assets of Trisura Specialty | **(4,783)** | (4,054) | **5,262** | 4,463 |
| Consolidated net assets of Trisura International | **(1,711)** | (1,772) | **1,882** | 1,951 |
| | 10% increase in USD versus EUR [1] | | 10% decrease in USD versus EUR [1] | |
| EUR net assets supporting Trisura International (in USD) | **191** | (183) | **(210)** | 201 |

(1) After giving effect to forward contracts.

*b) Interest rate risk*

Interest rate risk is the potential for financial loss resulting from changes in interest rates. Fixed income investments, structured insurance assets and preferred shares are subject to interest rate risk although, in the case of fixed income investments, to the extent they are held to maturity, the risk is limited to the reinvestment yield being different from the original yield to maturity. The fair value of bonds, change inversely with changes in market rates of interest, with greater impact to bonds with longer durations.

The Company's discounted unpaid claims balance is also subject to interest rate risk, in particular the Company's life reserves which have longer durations.

The Company manages its interest rate risk through its investment policy which considers duration of investments held as well as asset liability matching.

| **As at December 31, 2018**<br>Sensitivity factor | **Fixed income (including preferred shares)** | **Structured insurance asset** | **Net unpaid claims** | **Impact on comprehensive income (loss)** |
|---|---|---|---|---|
| 100 basis point increase parallel shift in the yield curve, assuming all other variables remain constant | **(9,689)** | **(543)** | **(24,122)** | **15,127** |
| 100 basis point decrease parallel shift in the yield curve, assuming all other variables remain constant | **9,658** | **593** | **31,835** | **(22,796)** |

| As at December 31, 2017<br>Sensitivity factor | Fixed income (including preferred shares) | Structured insurance asset | Net unpaid claims | Impact on comprehensive (loss) income |
|---|---|---|---|---|
| 100 basis point increase parallel shift in the yield curve, assuming all other variables remain constant | (7,704) | (544) | (22,243) | 14,826 |
| 100 basis point decrease parallel shift in the yield curve, assuming all other variables remain constant | 8,804 | 592 | 29,175 | (20,668) |

### 12.4 Market risk (continued)

*c) Equity price risk*

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets.

The Company's exposure to equity price risk is managed and mitigated through its investment policy which sets out maximum exposures to equities at aggregate and per issuer levels as well as requiring diversification across different industry sectors.

| **As at** | **December 31, 2018** | December 31, 2017 | **December 31, 2018** | December 31, 2017 |
|---|---|---|---|---|
| Sensitivity factor | Impact on comprehensive income (loss) [1] | | Impact on fair value of investment portfolio | |
| 10% increase in equity prices (excluding preferred shares) | **2,030** | 2,544 | **2,705** | 3,410 |
| 10% decrease in equity prices (excluding preferred shares) | **(2,030)** | (2,544) | **(2,705)** | (3,410) |

(1) The methodology used to calculate the latter change is based on 10% of the fair value of the equities (excluding preferred shares and any funds which hold predominantly fixed income securities), net of tax, at the balance sheet dates.

### Note 13 – Reinsurance

The Company uses reinsurance in the ordinary course of business to reduce its exposure to any one claim or event under the policies it issues. A large portion of this reinsurance is affected under reinsurance agreements known as treaty reinsurance. In some instances, it is negotiated on a facultative (one-off) basis for individual policies, generally when the exposures under these policies are not sufficiently mitigated by the treaty reinsurance.

Reinsurance does not relieve the Company of its obligations to policyholders. A contingent liability exists with respect to reinsurance ceded which would become a liability of the Company in the event that any reinsurer fails to honour its obligations. For this reason, the Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk to minimize its exposure to losses from reinsurer insolvencies. All licensed reinsurers providing treaty or facultative reinsurance policies are required to have a minimum A.M. Best credit rating of A- at the inception of each policy.

In some instances, provisions are incorporated in the treaties to protect the Company in the event a reinsurer's credit rating deteriorates during the term of the reinsurance treaty. Unlicensed reinsurers must post an agreed upon level of collateral.

The Company has determined that a provision is not required for potentially uncollectible reinsurance as at December 31, 2018 and December 31, 2017.

The following table summarizes the components of reinsurance assets as at December 31, 2018 and December 31, 2017:

| **As at December 31,** | **2018** | 2017 |
|---|---|---|
| Reinsurers' share of claims liabilities (see Note 9.1) | **42,048** | 38,246 |
| Reinsurers' share of unearned premiums (see Note 8.2) | **67,519** | 27,008 |
| | **109,567** | 65,254 |

### Note 14 – Capital assets

The Company's capital assets consist of the following as at December 31, 2018 and December 31, 2017:

| **As at December 31, 2018** | **Cost** | **Accumulated depreciation** | **Carrying value** |
|---|---|---|---|
| Leasehold improvements | **1,188** | **(516)** | **672** |
| Office equipment | **1,460** | **(1,100)** | **360** |
| Furniture and fixtures | **1,015** | **(789)** | **226** |
| | **3,663** | **(2,405)** | **1,258** |

| As at December 31, 2017 | Cost | Accumulated depreciation | Carrying value |
|---|---|---|---|
| Leasehold improvements | 1,196 | (502) | 694 |
| Office equipment | 1,125 | (938) | 187 |
| Furniture and fixtures | 929 | (725) | 204 |
| | 3,250 | (2,165) | 1,085 |

### Note 15 – Intangible assets

Intangible assets consist of the computer software components of the Company's policy management system, document management system and online portal. They are being amortized at a rate of 40%, using the declining balance method.

Intangible assets also include the acquisition of two customer lists which were each acquired for $800. One was purchased in 2014 and another in 2017 each from other insurance companies. Both lists are being amortized at a rate of 20% using the declining balance method.

The final purchase price of the customer list purchased in 2017 is contingent on revenue generated from the list over the following two years, subject to a fixed price of $500. The $800 of consideration paid included the $500 fixed price plus $300 of contingent consideration. As at December 31, 2017 management's estimate of the contingent consideration that will ultimately be required to be paid is $300.

| | **December 31, 2018** | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | **Computer software** | **Customer list** | **Total** | Computer software | Customer list | Total |
| Opening, carrying value | **375** | **1,152** | **1,527** | 389 | 481 | 870 |
| Additions | **135** | **-** | **135** | 178 | 800 | 978 |
| Amortization | **(178)** | **(230)** | **(408)** | (192) | (129) | (321) |
| Closing, carrying value | **332** | **922** | **1,254** | 375 | 1,152 | 1,527 |

**Note 16 – Capital management**

The Company's capital is its shareholders' equity, which consists of common shares, preferred shares, contributed surplus, accumulated deficit and accumulated other comprehensive loss. The Company reviews its capital structure on a regular basis to ensure an appropriate capital structure in keeping with all regulatory, business and shareholder obligations.

Oversight of the capital of the Company rests with management and the board of directors. Their objectives are twofold: (i) to ensure the Company is prudently capitalized relative to the amount and type of risks assumed and the requirements established by the laws and regulations applicable to the Company's regulated subsidiaries; and (ii) to ensure shareholders receive an appropriate return on their investment.

**16.1 Regulatory capital**

*a) Trisura Guarantee*

Under guidelines established by the Office of the Superintendent of Financial Institutions which apply to Trisura Guarantee, Canadian property and casualty insurance companies must maintain minimum levels of capital as determined in accordance with a prescribed test, the minimum capital test ("MCT"), which expresses available capital (actual capital plus or minus specified adjustments) as a percentage of required capital. Companies are expected to maintain MCT level of at least 150% and are further required to establish their own unique target MCT level based on the nature of their operations and the business they write. Management, with the board of directors' approval, has established Trisura Guarantee's target MCT level in accordance with these requirements. Trisura Guarantee has exceeded this measure as at December 31, 2018 and December 31, 2017.

*b) Trisura International*

Trisura International is subject to externally imposed regulatory capital requirements in Barbados. As at December 31, 2018 and 2017, Trisura International, including its subsidiaries, maintained sufficient capital to meet these requirements.

*c) Trisura Specialty*

Trisura Specialty is subject to externally imposed regulatory capital requirements by the Oklahoma Insurance Department as a Domestic Surplus Line Insurer. A requirement of the regulator is that Trisura Specialty's Risk Based Capital ratio ("RBC") exceed 150%. As at December 31, 2018 and December 31, 2017, Trisura Specialty exceeded this requirement.

**Note 17 – Loan payable**

On March 14, 2018, the Company entered into a five-year revolving credit facility with a Canadian Schedule I bank (the "Bank") which allows for drawings of up to $35,000. Under this arrangement, the Company can draw funds in the form of short term banker's acceptances, Canadian prime rate advances, base rate advances or LIBOR rate advances. The rate is based on the current periods' bankers' acceptance rate, Canadian prime rate, base rate, or LIBOR rate, plus a margin. The loan balance is accounted for at amortized cost, which is equal to the carrying value. The minimum required annual payment consists only of interest, with no mandatory principal payments required.

On March 14, 2018, $29,700 was drawn under the loan, which was used to repay the outstanding loan payable of $29,700 which had been borrowed by a subsidiary of the Company under a previous lending facility.

The previous credit arrangement, which was in place throughout 2017 and until March 14, 2018 was arranged by way of a five-year lending facility funded through short term banker's acceptance or Canadian prime rate advances. The rate was based on the current period's bankers' acceptance rate or Canadian prime rate, plus a margin. The loan balance was accounted for at amortized cost, which is equal to the carrying value. The minimum required annual payment consisted only of interest, with no mandatory principal payments required.

As part of the covenants of the current and previous loan arrangements, the Company is required to maintain certain financial ratios, which were fully met as at December 31, 2018 and December 31, 2017.

For the year ended December 31, 2018, the Company incurred $970 of interest expense (December 31, 2017 – $1,009). As at December 31, 2018, the loan balance was $29,700 (December 31, 2017 – $29,700).

**Note 18 – Share capital**

The Company's authorized share capital consists of: (i) an unlimited number of common shares; (ii) an unlimited number of non-voting shares; and (iii) an unlimited number of preference shares (issuable in series).

The impact of the Reorganization Transaction on share capital was to increase common shares to $140,270. The impact of this transaction on retained earnings was to reduce retained earnings by $31,631 being the difference between consideration paid for Brookfield's interest in 643 Can Ltd and the book value of 643 Can Ltd as at June 15, 2017. The impact of the reorganization on share capital was an adjustment to share capital of $(9,618) and an adjustment to retained earnings of $(90,891), which is inclusive of the reduction in retained earnings of $31,631 described above. These adjustments reflect the impact of moving from a presentation of financial statements on a combined basis, to a presentation of financial statements on a consolidated basis.

On November 30, 2017, the Company exchanged the shares of 643 Can Ltd that were then owned by certain current and retired members of the management of Trisura Guarantee ("Management") for newly issued common shares, and Class A, Series 1, preferred shares of TGL. As a result of this transaction, the Company issued to management 963,143 common shares from treasury and 64,000 preferred shares. The impact of the transaction was an increase to share capital by $28,944 and a reduction to retained earnings by $9,303. The minority interests were reclassified from a liability to a reduction in retained earnings.

Consideration also included notes payable by the Company that were used by Management to repay shareholder loans owing to 643 Can Ltd which were outstanding at the time.

Holders of the preferred shares are entitled to a cumulative dividend of 6%, payable quarterly, at a fixed rate of 6%. The dividend rate will be reset on December 31, 2022 and every five years thereafter at a rate equal to the five-year government of Canada bond yield plus 7.5%. The Company has the right to redeem preferred shares at any time on 30 to 60 days notice.

On December 11, 2017, the Company held a special meeting of shareholders and approved a one-for-ten share consolidation of its common shares, followed immediately by a ten-to-one share split by way of a share distribution. The impact of this transaction on share capital was to reduce shares outstanding by 154,815 shares, and a reduction to share capital of $4,031.

The following tables show the common and preferred shares issued and outstanding:

| **As at** | **December 31, 2018** | | December 31, 2017 | |
|---|---|---|---|---|
| | **Number of shares** | **Amount (in thousands)** | Number of shares | Amount (in thousands) |
| Balance, beginning of year | **6,621,680** | **163,582** | - | - |
| Common shares issued | - | - | 6,776,495 | 167,613 |
| Common shares redeemed | - | - | (154,815) | (4,031) |
| Balance, end period | **6,621,680** | **163,582** | 6,621,680 | 163,582 |

**Note 18 – Share capital (continued)**

The following table shows the preferred shares issued and outstanding:

| As at | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Number of shares | Amount (in thousands) | Number of shares | Amount (in thousands) |
| Balance, beginning of year | **64,000** | **1,600** | - | - |
| Preferred shares issued | - | - | 64,000 | 1,600 |
| Balance, end of period | **64,000** | **1,600** | 64,000 | 1,600 |

At December 31, 2018, the Company had declared and paid four quarterly dividends, each of $0.375 (in dollars) per share for each Class A, Series 1, preferred share.

**Note 19 – Earnings per share**

Basic earnings per common share is calculated by dividing the net income attributable to common shareholders for the reporting period by the weighted-average number of common shares.

Diluted earnings per share is calculated by dividing the net income attributable to common shareholders for the reporting period by the weighted-average number of common shares after adjusting both amounts for the effects of all dilutive potential common shares, which consist of stock options.

| | For the years ended December 31 | |
|---|---|---|
| | **2018** | 2017 (1) |
| Net income attributable to shareholders | **8,638** | 2,218 |
| Less: Dividends declared on preferred shares, net of tax | **(96)** | (8) |
| Net income attributable to common shareholders | **8,542** | 2,210 |
| Weighted-average number of common shares outstanding (in shares) | **6,621,680** | 5,959,229 |
| EPS – basic (in dollars) | **1.29** | 0.37 |
| Dilutive effect of the conversion of options on common shares (in shares) | **162,000** | 87,000 |
| Diluted weighted-average number of common shares outstanding (in shares) | **6,718,133** | 6,019,184 |
| EPS – diluted (in dollars) | **1.27** | 0.37 |

(1) For the period from June 22, 2017 to December 31, 2017 following spin-off from Brookfield Asset Management Inc.

### Note 20 – Investment Income

The components of net investment income for the years ended December 31, 2018 and 2017 were as follows:

| | **2018** | 2017 |
|---|---|---|
| Cash and cash equivalents | **553** | 689 |
| Bonds classified as loans and receivables | **118** | - |
| Available-for-sale bonds | **5,100** | 3,236 |
| Interest on executive share purchase plan | **-** | 56 |
| Interest expense on notes payable | **-** | (9) |
| Net interest income | **5,771** | 3,972 |
| Available-for-sale income and investment trust units | **22** | 165 |
| Available-for-sale common shares | **1,267** | 941 |
| Available-for-sale preferred shares | **932** | 707 |
| Business and dividend income | **2,221** | 1,813 |
| Loss on investments held at FVTPL | **(237)** | (2,039) |
| Commission income structured insurance assets | **1,874** | 2,379 |
| Investment expenses | **(643)** | (577) |
| Other investments (expense) income | **994** | (237) |
| Available-for-sale income and investment trust units | **(45)** | - |
| Available-for-sale bonds | **244** | 80 |
| Available-for-sale common shares | **986** | 24 |
| Available-for-sale preferred shares | **611** | 80 |
| Gain on disposition of investments | **1,796** | 184 |
| Impairment on investments | **(325)** | (321) |
| **Net investment income** | **10,457** | 5,411 |

On November 20, 2018, the Company derecognized financial assets with a face value of $2,762 as the rights to receive cash flows and risks and rewards of ownership to the assets have been transferred. The carrying value of the asset was measured at $2,785, resulting in a realized loss of $21. As at December 31, 2018, the Company's continuing interest in the financial asset is measured at carrying value of $3,960.

### Note 21 – Lease commitments

The Company occupies office facilities under leases that expire on or before May 31, 2026. The minimum annual rental commitments under these operating leases, excluding any renewal periods, operating expenses and applicable taxes, are as follows:

| | December 31, 2018 |
|---|---|
| 2019 | **1,320** |
| 2020 | **1,233** |
| 2021 | **793** |
| 2022 | **485** |
| 2023 | **466** |
| Thereafter | **821** |
| | **5,118** |

### Note 22 – Benefits

#### 22.1 Group retirement savings plan

The Company has established and contributes to a number of group retirement savings plan arrangements under which the Company makes contributions. Contributions are charged to operating expense and are recognized as incurred.

### Note 23 – Related party transactions

Prior to the Spin-off on June 22, 2017 the Company was a subsidiary of Brookfield, which was the ultimate controlling party of the Company as well as TIHL and 643 Can Ltd (see Note 1).

The Company and its subsidiaries had entered into outsourcing arrangements with Brookfield and its affiliated companies with respect to the provision of information technology, internal audit, and investment management services and the services of a Brookfield employee who was temporarily the Chief Financial Officer of the Company. As at December 31, 2018 these outsourcing arrangements had all been terminated.

The Company leases office space from, and subleases office space to, subsidiaries of Brookfield. The Company occasionally issues surety bonds and insurance policies to subsidiaries of Brookfield, earns interest income from deposits with companies which are subsidiaries of Brookfield. The Company also invests in publicly traded securities of companies which are subsidiaries of Brookfield, and invests in publicly traded funds managed by Brookfield subsidiaries. These transactions are conducted in the normal course of business and are measured at the amount of consideration paid or established and agreed between the parties.

A subsidiary of the Company entered into a tax transfer arrangement with Brookfield in 2017, as permitted under applicable income tax legislation. During 2017, it made a payment during the first quarter to Brookfield for taxes paid related to 2016 of $3,543. During the first quarter of 2017, a subsidiary received a fee of $580 plus HST from Brookfield for services incurred in 2017, which was recorded in Operating expenses.

During the year ended December 31, 2018, $nil of interest income was earned related to the shareholder loans (December 31, 2017 – $6).

**Note 23 – Related party transactions (continued)**

(The following table shows the impact of transactions with related parties:

| | **December 31, 2018** | December 31, 2017 [1] |
|---|---|---|
| Income and expenses reported in: | | |
| Total underwriting revenue | **2,045** | 2,023 |
| Operating expenses | **(510)** | (1,641) |
| Net investment income | | |
| Income from dividends and interests | **231** | 276 |
| Investment management fee | **(216)** | (458) |
| Assets and liabilities reported in: | | |
| Investment in Brookfield securities | **6,311** | - |
| Accounts payable, accrued and other liabilities | **-** | 42 |

(1) Certain comparative figures from December 31, 2017 have been regrouped to align with current year presentation.

### 23.1 Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any executive officers or directors of the Company.

The following transactions were carried out with key management personnel during the years ended December 31, 2018 and 2017:

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Salaries and other employee benefits | **2,369** | 2,420 |
| Share-based payments | **756** | 229 |

**Note 24 – Executive share purchase plan receivable**

The Company administered two executive share purchase plans that were established in 2006 and 2012 (the "2006 Plan" and the "2012 Plan", respectively). Under the 2006 Plan, employees of Trisura Guarantee could purchase common shares of 643 Can Ltd in return for notes payable, which bore interest at the prime rate of 643 Can Ltd's primary lending institution plus 1%. The loans did not have to be repaid, nor did interest have to be paid, until such time as the shares are sold or redeemed. Under the 2012 Plan, employees could purchase shares in return for notes payable, which they were required to repay through semi-monthly payroll deductions, as well as 50% of their after-tax annual bonus, if any. The loans bore interest at a rate equal to the prime rate of 643 Can Ltd's primary lending institution plus 1%.

On November 30, 2017, these loans were settled by way of consideration paid by the Company in exchange for the shares of 643 Can Ltd owned by management (see Note 18).

**Note 25 – Minority interests in subsidiary**

Under the terms of a unanimous shareholder agreement between the shareholders of 643 Can Ltd, the common shares owned by Management had a puttable feature which resulted in their being classified as financial liabilities in accordance with IAS 32, *Financial Instrument: Presentation*. These liabilities were measured at fair value, being the put value ascribed to the shares under the unanimous shareholder agreement. Assumptions have been made by management regarding the put value, as the unanimous shareholder agreement had various clauses under which different values can be ascribed to the shares.

On November 30, 2017, the shares of 643 Can Ltd, owned by Management, were exchanged with the Company for newly issued shares of the Company (see Note 18), this liability ceased to exist at that time.

**Note 26 – Investment in subsidiary**

On June 19, 2018, 643 Can Ltd, an intermediary holding company and wholly-owned subsidiary of the Company, completed a voluntary dissolution. The assets and liabilities of the subsidiary were transferred to the Company, including the shares of its wholly-owned subsidiary Trisura Guarantee. This dissolution had no impact on the Consolidated financial position and results of operations of the Company.

**Note 27 – Segmented information**

The Company has three reportable segments. The operations of Trisura Guarantee are one reportable segment which comprises surety solutions, risk solutions and corporate insurance solutions products underwritten in Canada. The operations of TIHL, referred to below as Trisura International, is a second reportable segment which comprises the Company's international reinsurance operations. The operations of Trisura Specialty is a third operating segment, which provides specialty insurance solutions underwritten in the United States. The operations of Trisura Guarantee included the operations of its intermediary holding company, 643 Can Ltd, until June 19, 2018.

The following table shows the results for the years ended December 31, 2018 and 2017:

| **December 31, 2018** | **Trisura Guarantee** | **Trisura International** | **Trisura Specialty** | **Corporate and consolidation adjustments** | **Total** |
|---|---|---|---|---|---|
| **Net premiums earned** | **87,852** | **83** | **874** | **-** | **88,809** |
| **Fee income** | **3,812** | **-** | **912** | **-** | **4,724** |
| **Total underwriting revenue** | **91,664** | **83** | **1,786** | **-** | **93,533** |
| **Net claims** | **(19,001)** | **147** | **(548)** | **-** | **(19,402)** |
| **Net expenses** | **(60,677)** | **(2,346)** | **(4,277)** | **(2,545)** | **(69,845)** |
| **Total claims and expenses** | **(79,678)** | **(2,199)** | **(4,825)** | **(2,545)** | **(89,247)** |
| **Net underwriting income (loss)** | **11,986** | **(2,116)** | **(3,039)** | **(2,545)** | **4,286** |
| **Investment income** | **6,629** | **2,399** | **1,402** | **27** | **10,457** |
| **Foreign exchange losses** | **(66)** | **(473)** | **-** | **(173)** | **(712)** |
| **Interest expense** | **(185)** | **-** | **-** | **(785)** | **(970)** |
| **Net income (loss) before tax** | **18,364** | **(190)** | **(1,637)** | **(3,476)** | **13,061** |

| **December 31, 2017** | Trisura Guarantee (inclusive of 643 Can Ltd) | Trisura International | Corporate and consolidation adjustments | Total |
|---|---|---|---|---|
| Net premiums earned | 79,271 | 162 | - | 79,433 |
| Fee income | 3,400 | - | - | 3,400 |
| Total underwriting revenue | 82,671 | 162 | - | 82,833 |
| Net claims | (19,013) | 1,360 | - | (17,653) |
| Net expenses | (54,818) | (2,181) | (4,625) | (61,624) |
| Total claims and expenses | (73,831) | (821) | (4,625) | (79,277) |
| Net underwriting income (loss) | 8,840 | (659) | (4,625) | 3,556 |
| Investment income | 3,931 | 1,205 | 275 | 5,411 |
| Foreign exchange loss | - | (6) | (29) | (35) |
| Interest expense | (1,009) | - | - | (1,009) |
| Change in minority interests | (5,156) | - | - | (5,156) |
| Net income (loss) before tax | 6,606 | 540 | (4,379) | 2,767 |

**Note 27 – Segmented information (continued)**

The following table shows Loan payable of $29,700 included with the liabilities in Corporate and consolidation adjustments at December 31, 2018 and in liabilities of Trisura Guarantee (inclusive of 643 Can Ltd) at December 31, 2017.

| **As at December 31, 2018** | **Trisura Guarantee** | **Trisura International** | **Trisura Specialty** | **Corporate and consolidation adjustments** | **Total** |
|---|---|---|---|---|---|
| **Assets** | **349,356** | **110,423** | **150,966** | **(9,763)** | **600,982** |
| **Liabilities** | **274,770** | **81,703** | **84,421** | **30,136** | **471,030** |

| As at December 31, 2017 | Trisura Guarantee (inclusive of 643 Can Ltd) | Trisura International | Trisura Specialty | Corporate and consolidation adjustments | Total |
|---|---|---|---|---|---|
| Assets | 317,124 | 119,208 | 56,888 | (4,860) | 488,360 |
| Liabilities | 273,679 | 92,658 | 426 | 95 | 366,858 |

**Note 28 – Income taxes**

The Company's deferred tax assets and liabilities consist of the following:

| | **Statement of financial position** | | **Statement of comprehensive income (loss)** | |
|---|---|---|---|---|
| | **December 31, 2018** | December 31, 2017 | **December 31, 2018** | December 31, 2017 |
| Deferred taxes related to: | | | | |
| Loss carry-forwards and other | **181** | 164 | **(4)** | (8) |
| Unpaid claims and LAE | **705** | 703 | **-** | (131) |
| Capital, intangible and other assets | **39** | - | **(39)** | - |
| | **925** | 867 | **(43)** | (139) |
| Less deferred taxes related to: | | | | |
| Investments – unrealized gains/losses | **(99)** | (109) | **(10)** | 18 |
| Capital, intangible and other assets | **-** | (18) | **(18)** | (7) |
| | **(99)** | (127) | **(28)** | 11 |
| Deferred income taxes | **826** | 740 | **(71)** | (128) |
| Reported in: | | | | |
| Deferred tax assets | **826** | 740 | **-** | - |
| Income tax recovery reported to net income (loss) | **-** | - | **733** | (142) |
| Income tax expense reported to other comprehensive loss | **-** | - | **(804)** | 14 |

**Note 28 – Income taxes (continued)**

A deferred income tax asset is recognized only to the extent that realization of the related income tax benefit through future taxable profits is probable. Management has assessed the recoverability of the deferred income tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred income tax assets as at December 31, 2018 and December 31, 2017 are recoverable.

The following shows the major components of income tax expense for the year ended December 31, 2018 and 2017:

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| **Current tax expense:** | | |
| Current year | **3,773** | 3,210 |
| Prior year true up | **(83)** | 42 |
| | **3,690** | 3,252 |
| **Deferred tax expense:** | | |
| Origination and reversal of temporary differences | **733** | (143) |
| Income tax expense | **4,423** | 3,109 |
| **Income taxes recorded in other comprehensive (loss) income:** | | |
| Net changes in unrealized gains on available-for-sale investments | **(2,247)** | 291 |
| Reclassification to net income (loss) of net losses on available-for-sale investments | **484** | 17 |
| Origination and reversal of temporary differences | **(804)** | 14 |
| Total income tax expense recorded in other comprehensive (loss) income | **(2,567)** | 322 |

The following is a reconciliation of income taxes calculated at the statutory income tax rate to the income tax provision included in the consolidated statements of comprehensive income (loss) for the years ended December 31, 2018 and 2017:

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Income (loss) before income taxes | **13,061** | 2,749 |
| Statutory income tax rate | **26.5%** | 26.5% |
| | **3,461** | 728 |
| Variations due to: | | |
| Permanent differences | **(286)** | 1,051 |
| International operations subject to different tax rates | **215** | 74 |
| Unrecognized tax loss | **1,117** | 1,226 |
| Rate differentials: | | |
| Current rate versus future rate | **(1)** | (1) |
| Change in future rate | **-** | (11) |
| True up | **(83)** | 42 |
| Income tax expense | **4,423** | 3,109 |

### Note 29 – Share-based compensation

#### 29.1 Equity-settled stock options

The Company currently administers a stock option plan. Under the stock option plan, the exercise price of each stock option will be established at the time that the option is granted. It is expected that the vesting period will normally be 20% per year over five years and the expiry date of stock options granted will not exceed ten years, however in some instances the vesting period may differ.

The following is a continuity schedule of stock options outstanding as at December 31, 2018:

| | **December 31, 2018** | | December 31, 2017 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price (in dollars)** | Number of options | Weighted average exercise price (in dollars) |
| Outstanding, beginning of year | **87,000** | **24.36** | - | - |
| Granted during the year | **75,000** | **25.66** | 87,000 | 24.36 |
| Outstanding, end of year | **162,000** | **24.96** | 87,000 | 24.96 |

As at December 31, 2018, the outstanding stock options consist of the following:

| **Exercise price per share (in dollars)** | **Number of options outstanding** | **Average remaining contractual life (in years)** | **Number of options exercisable** |
|---|---|---|---|
| **25.66** | **75,000** | **9.88** | **-** |
| **24.36** | **87,000** | **8.64** | **17,400** |

As at December 31, 2018, 17,400 equity-based stock options were vested. The Company recorded $313 (December 31, 2017 – $89) in share reserve related to the options in the contributed surplus balance of the consolidated statements of financial position. The fair value of the options issued in 2018 was determined using the Black-Scholes option pricing model. Volatility estimate was 16.57% and was based on the historical volatility of the Company. The Bank of Canada risk-free rate of 2.32% was used and the weighted average fair value per stock option at the measurement date was $6.79 (in dollars).

#### 29.2 Cash-settled stock options

As at December 31, 2018, 120,465 options were issued to officers of the Company by the board of directors as part of a cash-settled share-based payment plan (December 31, 2017 – 60,000), with a vesting period of 20% per year over five years, and an expiration date of ten years. As at December 31, 2018, 12,000 options had been vested (December 31, 2017 - $nil). For the year ended December 31, 2018, the Company recorded $291 (December 31, 2017 – $130) of expense related to the options, in Operating expenses. The fair value of the options issued were determined using the Black-Scholes option pricing model. Volatility was estimate based on the historical volatility of the Company. The weighted average fair value per share option at December 31, 2018 was $6.08 (December 31, 2017 – $9.51) (in dollars).

### 29.3 Equity-settled DSUs

DSUs are awarded to certain directors of the Company at the market value of the Company's common shares at the grant date. These DSUs are awarded in lieu of directors fees at the option of the Directors. Each DSU entitles the holder to receive an amount equivalent to the value of a common share at settlement. As at December 31, 2018, 11,261 (December 31, 2017 – 2,102) DSUs were awarded to directors who are not employees of the Company or one of its affiliates.

The following table shows the movement in the number of DSUs issued during the year:

| For the years ended December 31, | 2018 (in units) | 2017 (in units) |
|---|---|---|
| Opening balance | **2,102** | - |
| Granted during the year | **9,159** | 2,102 |
| Ending balance | **11,261** | 2,102 |

As at December 31, 2018, no units had been exercised and $294 (December 31, 2017 – $55) had been recorded as liabilities (see Note 11). The liability was measured based on the fair value of the common shares of the Company at December 31, 2018. For the year ended December 31, 2018, the Company recorded $240 (December 31, 2017 – $55) of expense related to the DSUs in Operating expenses.