



2019

Annual Report



## Letter to Shareholders

2019 was a year of inflection for Trisura, as we gained scale in our North American specialty insurance platform and protected our legacy European business against market volatility. Our Canadian team continued to deliver strong underwriting results and growth, keeping the pace set over the past 14 years. In the U.S., we continued to deliver on our operating targets, generating over \$250 million in premiums and significant fee income through our hybrid fronting model, demonstrating exciting potential. We closed our first acquisition, adding critical admitted licenses to our U.S. regulated entity. We also completed our inaugural equity raise, building a stronger base of capital to support growth while expanding our network of partners. As our global business develops, we remain focused on maintaining the culture, principles and disciplined underwriting 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 \$448 million in gross premiums written, more than double what we wrote last year. Our growth was led by acceleration of new business from our U.S. fronting platform – delivering five times the premium of 2018 and supported by increased premiums year over year in each of Surety, Risk Solutions, and Corporate Insurance in Canada. Although annual income declined in the face of reserve strengthening in our European life annuities, income in core North American platforms grew significantly, benefitting from strong investment income and profitability in the U.S.

For the full year, net income of \$5.1 million, or \$0.69 per share, is reflective of growing profitability across our North American platforms, combined with losses from European life annuity reserve strengthening. Book value per share has risen to \$21.58, an increase of 9.9% over December 31, 2018, supported by earnings as well as our equity raise in the third quarter.

Our balance sheet is conservatively managed and growing, with \$190 million in capital and a consolidated debt-to-capital ratio of 13.5%, providing financial flexibility for future growth.

### Insurance Operations

We continue to be a leader in the specialty commercial insurance market. Our Canadian subsidiary is our most mature business line and is led by an experienced and skilled management team. In Canada, we achieved a combined ratio of 87.8%, which coupled with improved investment income drove a strong 19.1% return on equity. 2019 saw improved performance and growth from our Risk Solutions and Corporate Insurance lines, demonstrating the benefits of our diversification within specialty lines. Our profitability continues to be anchored by our established Surety practice.



Our goal in 2019 was to demonstrate the scalability and profitability of our U.S. fronting platform. Following a healthy ramp in 2018, we grew our team to 22 professionals, and bound an additional 15 programs generating \$264 million in gross premium. We increased premium and net income in every quarter and anticipate growth to continue. As programs mature, earned premium and fee income accrue to our net income, driving profits from break even in the first quarter to \$1.6 million in the fourth quarter, despite continued investment in infrastructure and costs associated with our acquisition. As we look to 2020 our focus will be on maintaining our growth trajectory in the excess and surplus lines, while introducing admitted capabilities through the acquisition and expansion of new licenses.

Our reinsurance platform had a volatile year, driven by less-than-perfect asset liability matching coupled with historic declines in European interest rates. Over the course of the year we improved our asset liability matching through the deployment of cash into securities that better reflected the duration of our underlying liabilities. Although we observed significant movements in interest rates in every quarter, the work we did to reduce volatility demonstrated its effectiveness in the third and fourth quarters, as movements in liabilities were more effectively offset by movements in assets. We licensed our international entity to act as a captive reinsurer to our onshore subsidiaries and commenced writing business for our U.S. platform in the fourth quarter.

## **Investments**

With a backdrop of supportive markets, we benefitted from a stronger investment income across all jurisdictions. Our centralized investment management and advisory function broadened the tool kit available to our subsidiary portfolios. The introduction of currency hedging and new asset classes improved diversification and resulted in greater investment income in 2019. We continue to broaden our exposure to alternatives, including infrastructure debt and commercial mortgages. These are investments that we feel are both appropriate and attractive for insurance portfolios, today more than ever in the context of low prevailing interest rates. We made significant progress in matching assets and liabilities in our international portfolio, deploying capital into long-dated European securities with a duration profile better suited to our annuity policies.

The majority of our portfolios remain invested in high quality, investment grade bonds, complemented by preferred shares, secured private debt, and high quality, dividend paying equities. Corporate spreads tightened significantly in 2019, coupled with strong equity performance. The volatility experienced in December 2018 and our ability to deploy into high quality investments that we can hold over the long term enabled us to selectively add equity and fixed income positions at attractive valuations. Today, prevailing interest rates are lower, corporate spreads are tighter, and equity valuations are higher. Despite solid economic fundamentals in North America, headline risk continues to create volatility, as well as opportunity. We believe that we can be successful by applying principles of prudent investment management while seeking opportunities to enhance performance over the long term.



## Strategic Priorities

Following a successful equity raise in 2019 we are better positioned than ever to provide our subsidiaries with the resources to grow and prosper. We continue to expand our reach in Canada and the U.S. through both organic and acquisitive growth supported by our history of profitability through disciplined underwriting and investment returns. We also maintain a firm focus on 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 our organization has fostered and providing a strong foundation for Trisura Group's future.

## Closing

In 2019 our core businesses demonstrated exciting potential. Profitability in Canada has strengthened, and we are benefitting from a growing footprint and increased profile. Consolidation of competitors and distribution channels provides challenges for us to defend our market share, but also opportunities to grow. The early trajectory of our U.S. platform has exceeded expectations and provides a complimentary business to the mature and profitable platform in Canada. We are well-positioned to continue our trajectory of growth in 2020.

We are encouraged by firming markets in the commercial insurance space, providing an opportunity to enhance both growth and profitability. We believe our niche focus will serve shareholders well and we expect that specialty insurance will continue to outperform the broader P&C market's underwriting results.

As we look forward towards 2020, I would like to thank our employees, partners, and shareholders for their continued support. We have an opportunity to build a larger and more profitable specialty insurance platform in Trisura, one that I am excited to be a part of.

Sincerely,

A handwritten signature in blue ink that reads "D Clare".

David Clare  
President and CEO  
Trisura Group Ltd.  
February 12, 2020

**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 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 the Company 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,” “likely,” “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 our Company 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; changes in capital requirements; changes in reinsurance arrangements; 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.*



**Trisura Group Ltd.**

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Management's Discussion and Analysis

For the year ended December 31, 2019

## **TRISURA GROUP LTD.**

### **Management's Discussion and Analysis for the year ended 2019**

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

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#### **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, 2019. This MD&A should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2019.

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 12, 2020. Additional information is available on SEDAR at [www.sedar.com](http://www.sedar.com).

# TRISURA GROUP LTD.

## Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

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## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

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## SECTION 1 - OVERVIEW

### OUR BUSINESS

Our Company is a leading international specialty insurance provider operating in the Surety, Risk Solutions, Corporate Insurance, Fronting and Reinsurance niche segments of the market. Our operating subsidiaries include a Canadian specialty insurance company, a 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 has participated as a hybrid fronting entity in the non-admitted markets since early 2018 and is licensed as an excess and surplus lines insurer in Oklahoma with the ability to write business across 50 states. Our US specialty insurance company can also write business on an admitted basis in certain states. Our international reinsurance business has been in operation in Barbados for more than 17 years and although we ceased writing third party reinsurance business in 2008, we have commenced writing new business in support of our US subsidiary.

Our Company has an experienced management team, strong partnerships with brokers, program administrators and reinsurers, and a specialized underwriting focus. We plan to grow by building our business in the US and through expansion of our Canadian business both organically and through strategic acquisitions. We believe our Company can capitalize on favourable market conditions through our multi-line and multi-jurisdictional platform.

In Q4 2019, the Company closed its acquisition of 21<sup>st</sup> Century Preferred Insurance Company and completed its re-domestication from Pennsylvania to Oklahoma. This acquisition enhances the offering of our US platform by providing licenses for admitted insurance business in 14 states. The Company is in the process of applying for licenses in the remaining states.

Significant achievements in 2019 include:

- ✓ Demonstrated profitability and dramatic growth potential of our US fronting platform, generating \$263.9 million in GPW and \$8.0 million in fee income, while continuing to build the infrastructure needed to support growth.
- ✓ Continued growth and underwriting excellence in our Canadian insurance operations, with a 19.1% ROE alongside 14.4% annual NPE growth supported by higher investment income.
- ✓ Improved risk-adjusted investment returns following the internalization of the investment management function, as well as continued asset re-allocation and diversification in 2019.
- ✓ Completed the acquisition of and re-domestication of an admitted shell, bringing admitted state licenses to 14.
- ✓ Successfully completed an inaugural \$55.7 million capital raise supported by existing and new shareholders, which increased capacity for US expansion and further improved asset liability matching in our international reinsurance business.
- ✓ Assumption of new business in our international operations in support of our US business in Q4 2019.
- ✓ Named one of Canada's Top Small and Medium Employers by Canada's Top 100 (Globe and Mail) for the third year in a row, and AON's Best Employer Platinum for Small and Medium organizations in Canada for four years running, employee engagement score of 88%.

## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

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#### ORGANIZATIONAL STRUCTURE & REGULATORY FRAMEWORK

The Company was incorporated under the *Business Corporations Act* (Ontario) ("OCA") in January 2017. We have three principal 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 in 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, as well as write business on an admitted basis in an additional 14 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. A wholly owned subsidiary of Trisura International was established in Barbados, to act as a reinsurer of our on-shore companies and commenced writing business in Q4 2019.

#### SECTION 2 – FINANCIAL HIGHLIGHTS IN Q4 AND FULL YEAR 2019

- ✓ Net income of \$4.2 million in the quarter and \$5.1 million for the full year driven by positive results in Canada and the US, offset in the full year period by increases of the life annuity reserves in our reinsurance business due to declines in European interest rates.
- ✓ Basic EPS of \$0.47 in Q4 2019 compared to \$0.24 in Q4 2018 and \$0.69 for the full year compared to \$1.29 in 2018.
- ✓ BVPS of \$21.58, a 9.9% increase over Q4 2018.
- ✓ LTM ROE of 3.5% compared to 6.9% in 2018, was impacted by negative results in our reinsurance business in the first nine months of 2019 and was diluted by our capital raise in September.
- ✓ Continued strong performance of our operating subsidiaries in Canada and the US.
  - Canada:
    - GPW and NPE growth of 16.4% and 19.2% respectively in Q4 2019 and 11.5% and 14.4% for the full year.
    - Net income of \$4.9 million in Q4 2019, an increase of 15.9% from Q4 2018 and net income of \$15.8 million for the full year, an increase of 12.3% over 2018.
    - Q4 2019 and full year combined ratios of 82.9% and 87.8% respectively, alongside strong investment income generated LTM ROE of 19.1%.
  - US:
    - Continued growth in GPW reaching \$95.4 million in Q4 and \$263.9 million for the full year.
    - Net income of \$1.5 million in Q4 and \$3.8 million for the full year, early demonstration of profitability and potential of the fronting model.
    - Fronting operational ratios of 79.1% in Q4 2019 and 84.8% for the full year, both significantly better than the corresponding periods in 2018 reflecting growth in NPE and fronting fees as the business builds scale.
- ✓ Strong capital position across the Company including an MCT ratio of 258% in our Canadian subsidiary, sufficient 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 13.5% at Q4 2019 down from 18.6% at Q4 2018 and below our long-term target of 20%, due in part to the capital raise.

## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

## SECTION 3 – FINANCIAL REVIEW

### INCOME STATEMENT ANALYSIS

	Q4 2019	Q4 2018	\$ variance	% variance	2019	2018 <sup>(1)</sup>	\$ variance	% variance
<b>Gross premiums written</b>	143,212	68,274	74,938	109.8%	448,262	219,041	229,221	104.7%
Net premiums written	39,656	31,114	8,542	27.5%	142,628	115,475	27,153	23.5%
<b>Net premiums earned</b>	29,710	22,983	6,727	29.3%	107,504	88,809	18,695	21.1%
Fee income	3,575	675	2,900	429.6%	12,206	4,724	7,482	158.4%
<b>Total underwriting revenue</b>	33,285	23,658	9,627	40.7%	119,710	93,533	26,177	28.0%
Net claims	(687)	(5,920)	5,233	(88.4%)	(49,936)	(19,402)	(30,534)	157.4%
Net commissions	(9,677)	(6,545)	(3,132)	47.9%	(37,516)	(29,903)	(7,613)	25.5%
Premium taxes	(1,405)	(1,278)	(127)	9.9%	(5,294)	(4,758)	(536)	11.3%
Operating expenses	(11,059)	(8,934)	(2,125)	23.8%	(40,296)	(35,184)	(5,112)	14.5%
<b>Net claims and expenses</b>	(22,828)	(22,677)	(151)	0.7%	(133,042)	(89,247)	(43,795)	49.1%
<b>Net underwriting income (loss)</b>	10,457	981	9,476	966.0%	(13,332)	4,286	(17,618)	(411.1%)
Net investment (loss) income	(3,868)	2,150	(6,018)	(279.9%)	16,243	8,986	7,257	80.8%
Settlement from structured insurance assets	-	-	-	nm	8,077	-	8,077	nm
Net (losses) gains	(92)	120	(212)	(176.7%)	1,572	759	813	nm
Interest expense	(341)	(261)	(80)	30.7%	(1,361)	(970)	(391)	40.3%
<b>Income before income taxes</b>	6,156	2,990	3,166	105.9%	11,199	13,061	(1,862)	(14.3%)
Income tax expense	(1,984)	(1,359)	(625)	46.0%	(6,105)	(4,423)	(1,682)	38.0%
<b>Net income</b>	4,172	1,631	2,541	155.8%	5,094	8,638	(3,544)	(41.0%)
Other comprehensive (loss) income	(1,188)	152	(1,340)	(881.6%)	808	(316)	1,124	nm
<b>Comprehensive income</b>	2,984	1,783	1,201	67.4%	5,902	8,322	(2,420)	(29.1%)
<b>Earnings per common share - basic - in dollars</b>	0.47	0.24	0.23	95.8%	0.69	1.29	(0.60)	(46.5%)
<b>Earnings per common share - diluted - in dollars</b>	0.47	0.24	0.23	95.8%	0.69	1.27	(0.58)	(45.7%)
<b>Book value per share - in dollars</b>	21.58	19.63	1.95	9.9%	21.58	19.63	1.95	9.9%
<b>LTM ROE</b>	3.5%	6.9%	n/a	(3.4pts)	3.5%	6.9%	n/a	(3.4pts)

(1) Certain Net investment income balances from December 31, 2018 have been reclassified to Net gains to conform with 2019 presentation.

## **TRISURA GROUP LTD.**

### **Management's Discussion and Analysis for the year ended 2019**

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

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#### ***Premium Revenue and Fee Income***

Strong premium growth continued in Q4 2019 with a 109.8% increase over Q4 2018 in GPW driven by continued acceleration in the US. NPW growth of 27.5% was significant, but lower than GPW growth due to changes in the proportion of our US fronting business that is ceded to reinsurers. NPE grew by 29.3% with contributions coming from our Canadian and US platforms. The increase in fee income was driven by fronting fees from the US, as well as an increase in fee income in Canada.

Full year 2019 GPW grew by over 100% mainly from the US and supported by growth of 11.5% in Canada. Full year NPW and NPE growth were 23.5% and 21.1% respectively with the growth spread across all North American lines of business. The increase in annual fee income was driven primarily by fronting fee growth in the US.

#### ***Net Claims***

Net claims in Q4 2019 were lower than Q4 2018 due to the reduction in our life annuity reserves arising from increases in European interest rates. In the full year period, net claims in 2019 were greater than 2018 due to increases in our life reinsurance reserves driven by declines in European interest rates during the first nine months of 2019. Importantly, a significant portion of these reserve increases are offset by investment income (see Net Investment Income).

#### ***Operating Expenses***

Operating expenses increased by 23.8% in Q4 2019, driven primarily by increases in the value of share based compensation issued in 2017 and 2018 which are impacted by movement in our share price.

The increase in Operating expenses in the full year period arose as a result of expense growth in the specialty insurance operations associated with business development, one-time costs related to staffing transition costs in Canada, costs related to the acquisition of 21<sup>st</sup> Century Preferred and share based compensation costs at the Corporate level.

#### ***Net Underwriting Income (Loss)***

The main driver of the net underwriting income in Q4 2019 was the reduction in the life annuity reserves of the Reinsurance business due to an increase in European interest rates. In the full year 2019, the net underwriting loss compared to 2018 was due to life reinsurance reserve increases arising from falling European interest rates in the first nine months of 2019.

#### ***Net Investment Income***

See Section 5 – Investment Performance Review.

#### ***Other Comprehensive Income***

See Section 5 – Investment Performance Review.

#### ***Income Tax Expense***

The effective tax rate of the Company is currently high as the Company experienced losses during the year at Trisura International, which resides in a lower tax jurisdiction, while the Company has generated taxable income in Canada and the US, which have relatively higher tax rates. This difference in tax rates in different jurisdictions is reflected in the line "International operations subject to different tax rates" in Note 28 of the Consolidated Financial Statements. The company is evaluating options to become more tax-efficient.

## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

#### Net Income

Net income for the quarter was higher than prior year primarily due to ramp up of the US platform and improved results at the reinsurance business. For the full year, lower net income is a result of reserve increases on the life annuity reserves of the reinsurance business.

#### EPS, BVPS and ROE

Quarterly EPS of \$0.47 compared to \$0.24 in Q4 2018 improved as a result of a stronger contribution from fronting in the US mitigated by an increase in the number of shares outstanding. Full year EPS was \$0.69 compared to \$1.29 (basic) in the prior year, impacted by both reserve increases in our Reinsurance business and a greater number of shares outstanding. BVPS at Q4 2019 of \$21.58 represented 9.9% growth over Q4 2018. Cumulative translation losses as a result of a weakening USD lowered BVPS in the quarter.

#### BALANCE SHEET ANALYSIS

As at	December 31, 2019	December 31, 2018	\$ variance
Cash and cash equivalents, and short-term securities	85,905	95,212	(9,307)
Investments	392,617	282,874	109,743
Premiums and accounts receivable, and other assets	86,669	46,276	40,393
Deferred acquisition costs	104,197	63,715	40,482
Recoverable from reinsurers	293,068	109,567	183,501
Capital assets and intangible assets	14,477	2,512	11,965
Deferred tax assets	1,460	826	634
<b>Total assets</b>	<b>978,393</b>	<b>600,982</b>	<b>377,411</b>
Accounts payable, accrued and other liabilities	40,916	24,167	16,749
Reinsurance premiums payable	80,186	41,406	38,780
Unearned premiums	328,091	182,623	145,468
Unearned reinsurance commissions	51,291	19,137	32,154
Unpaid claims and loss adjustment expenses	257,880	173,997	83,883
Loan payable	29,700	29,700	-
<b>Total liabilities</b>	<b>788,064</b>	<b>471,030</b>	<b>317,034</b>
<b>Shareholders' equity</b>	<b>190,329</b>	<b>129,952</b>	<b>60,377</b>
<b>Total liabilities and shareholders' equity</b>	<b>978,393</b>	<b>600,982</b>	<b>377,411</b>

Total assets at December 31, 2019 were \$377.4 million higher than at December 31, 2018 as a result of growth across our Specialty P&C businesses, as well as the additional capital raised in Q3 2019. The growth in the US has led to increases across a number of assets categories, particularly Recoverables from reinsurers as well as Investments. The capital raise contributed to the increase in investments, as cash raised was deployed into investment portfolios across the organization, and cash balances in our Reinsurance subsidiary were redeployed into better matched investments which performed well through the year.

The increase in Capital assets and intangible assets arose primarily from the adoption of IFRS 16, effective January 1, 2019. The new accounting standard brings most leases on to the Statement of Financial Position. In 2019, this resulted in the recognition of right of use assets of \$10.8 million with a corresponding lease liability included in Accounts payable, accrued and other liabilities.

The main drivers of liability increases were Unearned premiums, and Unpaid claims and loss adjustment expenses primarily as a result of business growth in the US.

## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

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#### 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).

During Q3 2019, the Company completed a \$55.7 million capital raise, to support growth at Trisura Specialty, as well as to further improve asset liability matching at Trisura International. The Company issued an additional 2,197,939 shares.

As at December 31, 2019, 8,819,619 common shares were issued and outstanding. During the quarter, the Company redeemed its 64,000 preferred shares outstanding at par.

#### LIQUIDITY

Liquidity sources immediately available to the Company include: (i) cash and cash equivalents, and short-term securities; (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 (see Note 18 to the Consolidated Financial Statements). These funds are used primarily to pay claims and operating expenses, service the Company's credit facility and purchase investments to support claims reserves and capital requirements.

#### CAPITAL

The MCT ratio of Trisura Guarantee was 258% at December 31, 2019 (239% as at December 31, 2018), which comfortably exceeds the 150% regulatory requirements prescribed by OSFI.

Trisura Specialty's capital and surplus of \$83.3 million USD as at December 31, 2019 (\$48.8 million USD as at December 31, 2018) was in excess of the various Risk Based Capital requirements of the states in which it is licensed.

Trisura International's capital of \$14.2 million USD as at December 31, 2019 (\$21.1 million USD as at December 31, 2018) was sufficient to meet the FSC's regulatory capital requirement. The reduction in capital in 2019 was due to losses on the life component of our reinsurance business.

We had a debt-to-capital ratio of 13.5% as at December 31, 2019 (18.6% as at December 31, 2018), below our long-term target debt-to-capital ratio of 20% as a result of the capital raise and growth in book value from earnings.

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.

# TRISURA GROUP LTD.

## Management’s Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

### SECTION 4 – PERFORMANCE REVIEW

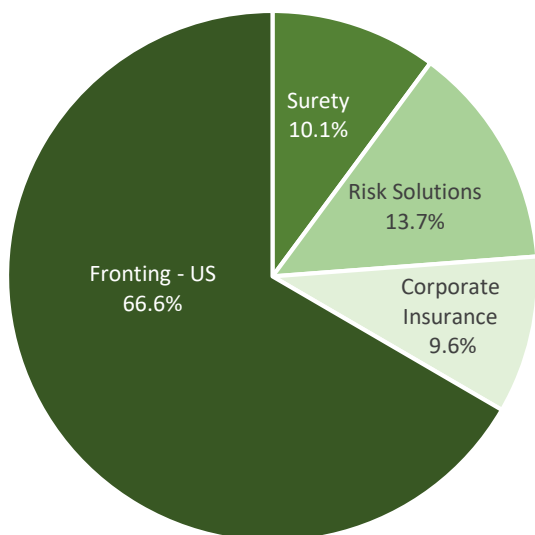
#### SPECIALTY P&C

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

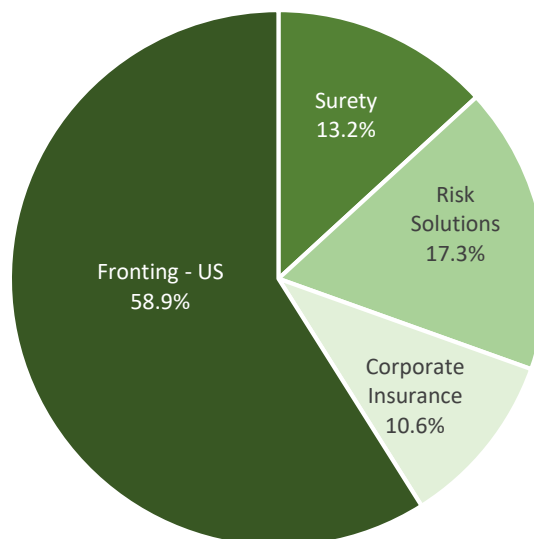
The tables and charts below provide a segmentation of our Specialty P&C GPW and NPW for the fourth quarter and full year period of 2019 and 2018, respectively. Our US group produced over half of total GPW in Q4 2019 and full year 2019 having commenced writing business in Q1 2018. Premium growth was supported by strong momentum in Surety and Corporate insurance.

GPW	Q4 2019	% growth over prior year	Q4 2018	2019	% growth over prior year	2018
Surety	14,514	42.3%	10,201	59,028	14.5%	51,535
Risk Solutions	19,565	(3.2%)	20,222	77,838	4.3%	74,614
Corporate Insurance	13,730	29.0%	10,644	47,373	21.2%	39,073
Fronting – US	95,371	250.7%	27,194	263,911	391.2%	53,731
<b>Total GPW</b>	<b>143,180</b>	<b>109.8%</b>	<b>68,261</b>	<b>448,150</b>	<b>104.7%</b>	<b>218,953</b>

**Gross Premiums Written**  
**Q4 2019**



**Gross Premiums Written**  
**2019**



**TRISURA GROUP LTD.**

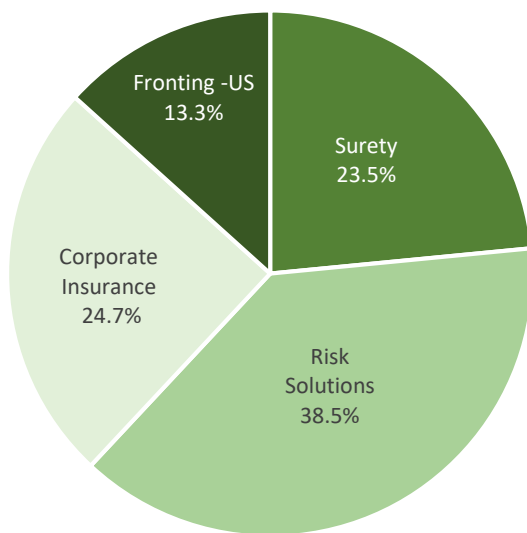
**Management’s Discussion and Analysis for the year ended 2019**

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

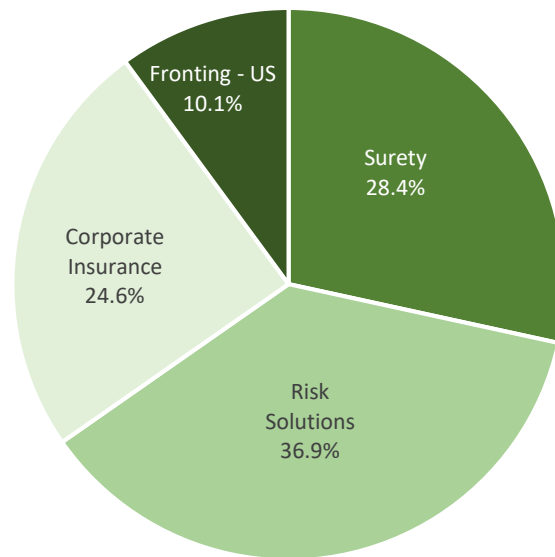
Total NPW grew by 26.3% in Q4 2019 and 23.2% in 2019 with growth coming from all segments of the book.

NPW	Q4 2019	% growth over prior year	Q4 2018	2019	% growth over prior year	2018
Surety	9,213	28.1%	7,194	40,400	11.5%	36,228
Risk Solutions	15,119	5.4%	14,338	52,444	13.4%	46,238
Corporate Insurance	9,711	15.4%	8,415	34,995	15.2%	30,378
Fronting – US	5,228	352.6%	1,155	14,328	462.3%	2,548
<b>Total NPW</b>	<b>39,271</b>	<b>26.3%</b>	<b>31,102</b>	<b>142,167</b>	<b>23.2%</b>	<b>115,392</b>

**Net Premiums Written**  
**Q4 2019**



**Net Premiums Written**  
**2019**





## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

#### SPECIALTY P&C – CANADA

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

	Q4 2019	Q4 2018	\$ variance	% variance	2019	2018	\$ variance	% variance
Gross premiums written	47,809	41,067	6,742	16.4%	184,239	165,222	19,017	11.5%
Net premiums written	34,043	29,947	4,096	13.7%	127,839	112,844	14,995	13.3%
Net premiums earned	26,754	22,448	4,306	19.2%	100,511	87,852	12,659	14.4%
Fee income	472	80	392	490.0%	4,246	3,812	434	11.4%
Net underwriting revenue	27,226	22,528	4,698	20.9%	104,757	91,664	13,093	14.3%
Net underwriting income	4,562	3,621	941	26.0%	12,265	11,984	281	2.3%
Net investment income	2,010	1,846	164	8.9%	7,796	5,460	2,336	42.8%
Net income	4,864	4,195	669	15.9%	15,842	14,105	1,737	12.3%
Comprehensive income (loss)	5,883	(916)	6,799	nm	19,242	7,091	12,151	171.4%
Loss ratio: current accident year	25.0%	25.3%		(0.3pts)	27.1%	26.5%		0.6pts
Loss ratio: prior years' development	(3.2%)	(5.4%)		2.2pts	(2.6%)	(4.9%)		2.3pts
Loss ratio	21.8%	19.9%		1.9pts	24.5%	21.6%		2.9pts
Expense ratio	61.1%	64.0%		(2.9pts)	63.3%	64.7%		(1.4pts)
Combined ratio	82.9%	83.9%		(1.0pts)	87.8%	86.3%		1.5pts
LTM ROE	19.1%	19.1%		0.0pts	19.1%	19.1%		0.0pts

In Q4 GPW growth in Canadian Specialty P&C business of 16.4% was driven by a rebound in Surety premiums, compensating for a comparably weaker earlier portion of the year, as well as strong results in Corporate Insurance as greater capacity, improved pricing and strong retention drove GPW. On a full year basis, we enjoyed GPW growth in all business lines but observed outsized growth in Surety and Corporate Insurance for the reasons described above.

NPE growth of 19.2% in Q4 2019 and 14.4% for the full year was driven by performance in Risk Solutions and Corporate Insurance. Fee income, which arises mainly in the first quarter each year from Surety accounts, grew by 11.4% for the full year.

Q4 2019 combined ratio of 82.9% improved compared to Q4 2018 as a result of a lower expense ratio. The full year 2019 combined ratio of 87.8% was slightly higher than the prior year as a result of a higher loss ratio, related to losses in Surety in 2019 compared to exceptional performance in Surety in 2018. The impact of higher losses was somewhat mitigated by improvements in the expense ratio from reduced compensation expenses, which is conditional on the profitability of the business. Net underwriting income in Q4 2019 improved over the prior year's quarter by \$0.9 million as a result of improved Corporate Insurance claims experience as well as growth in the business. For the full year, Net underwriting income was comparable to 2018, as weaker Surety performance was offset by stronger performance in Risk Solutions and Corporate Insurance. The expense ratio was lower in Q4 2019 and the full year in part because of compensation expense.

Investment income improved in Q4 2019 and the full year, a result of higher interest and dividend income, following portfolio rebalances as well as growth of the investment portfolio. See Section 5 – Investment Performance Review for further discussion.

Improved underwriting and investment income drove the increase in net income in Q4 2019. Higher investment income with stable net underwriting income drove the increase in full year. LTM ROE of 19.1% matched 2018.

## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

#### 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, Surety accounted for 10.1% and 23.5% of our overall GPW and NPW, respectively. For the full year, Surety accounted for 13.2% and 28.4% of our overall GPW and NPW, respectively.

	Q4 2019	Q4 2018	\$ variance	% variance	2019	2018	\$ variance	% variance
Gross premiums written	14,514	10,201	4,313	42.3%	59,028	51,535	7,493	14.5%
Net premiums written	9,213	7,194	2,019	28.1%	40,400	36,228	4,172	11.5%
Net premiums earned	9,425	8,611	814	9.5%	37,358	35,965	1,393	3.9%
Fee income	472	80	392	490.0%	4,241	3,802	439	11.6%
Net underwriting revenue	9,897	8,691	1,206	13.9%	41,599	39,767	1,832	4.6%
Net underwriting income	1,364	3,016	(1,652)	(54.8%)	5,543	9,879	(4,336)	(43.9%)
Loss ratio: current accident year	35.2%	6.2%		29.0pts	31.4%	15.6%		15.8pts
Loss ratio: prior years' development	(9.1%)	(8.0%)		(1.1pts)	(7.0%)	(8.4%)		1.4pts
Loss ratio	26.1%	(1.8%)		27.9pts	24.4%	7.2%		17.2pts
Expense ratio	59.4%	66.7%		(7.3pts)	60.7%	65.4%		(4.7pts)
Combined ratio	85.5%	64.9%		20.6pts	85.1%	72.6%		12.5pts

Q4 Surety GPW and NPW growth accelerated in Q4 following slower growth in previous quarters. The faster growth was partially a reflection of lower growth experienced in Q4 2018. Full year GPW and NPW growth was also strong, driven by increasing GPW in Commercial and Developer surety, as well as growth in Contract surety in the Quebec and British Columbia offices. Slower NPE growth in 2019 is partially related to the slower GPW growth experienced in 2018 and in early 2019. Our Contract surety line focuses more on small to mid-sized contractors than that of some of our competitors, which has supported our low loss ratios. The corollary to this focus is that individual account premium is less predictable and growth may be more volatile. In addition, our Surety team has proactively managed portfolio credit quality, more so in regions suffering from weaker economic conditions, which has led to slower premium growth for part of the year, but protected our loss ratio. Fee income primarily represents fees charged to insureds to maintain their bonding facility with the Company and are typically collected and earned at the beginning of the year. Fee income for the full year grew 11.6%, in line with premium growth for the year.

Surety experienced higher claims in Q4 2019 primarily related to Contract surety in Alberta which led to a higher loss ratio compared to the exceptionally low loss ratio in the prior year. Q4 and full year expense ratios were lower than 2018 as a result of lower compensation expense, which more than offset slightly higher commission expense. Net underwriting income was \$1.4 million in Q4 and \$5.5 million for the year. The higher 2018 NUI benefited from exceptionally low loss ratios in that year.

## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

#### Risk Solutions

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

In 2018, the Company incorporated Trisura Warranty Services Inc. ("Trisura Warranty"), and in Q1 2019 purchased an existing book of warranty contracts from a third party, which Trisura Warranty will continue to administer. Trisura Warranty has begun to sell warranty products which will serve as a complimentary business to the insurance products sold through Trisura Guarantee. Financial results of Trisura Warranty are currently not material and are grouped with the Canadian Specialty P&C results, as part of Risk Solutions for the purpose of the MD&A.

In Q4, Risk Solutions accounted for 13.7% and 38.5% of our overall GPW and NPW, respectively. For the full year, Risk Solutions accounted for 17.3% and 36.9% of our overall GPW and NPW, respectively.

	Q4 2019	Q4 2018	\$ variance	% variance	2019	2018	\$ variance	% variance
Gross premiums written	19,565	20,222	(657)	(3.2%)	77,838	74,614	3,224	4.3%
Net premiums written	15,119	14,338	781	5.4%	52,444	46,238	6,206	13.4%
Net premiums earned	8,768	6,459	2,309	35.7%	31,193	24,164	7,029	29.1%
Fee income	-	-	n/a	n/a	5	10	(5)	(50.0%)
Net underwriting revenue	8,768	6,459	2,309	35.7%	31,198	24,174	7,024	29.1%
Net underwriting income	974	372	602	161.8%	3,131	2,265	866	38.2%
Loss ratio: current accident year	31.2%	37.1%		(5.9pts)	29.8%	29.9%		(0.1pts)
Loss ratio: prior years' development	(9.8%)	(10.3%)		0.5pts	(8.3%)	(7.5%)		(0.8pts)
Loss ratio	21.4%	26.8%		(5.4pts)	21.5%	22.4%		(0.9pts)
Expense ratio	67.5%	67.4%		0.1pts	68.6%	68.2%		0.4pts
Combined ratio	88.9%	94.2%		(5.3pts)	90.1%	90.6%		(0.5pts)

Risk solutions GPW has grown in 2019 in part because of growth in warranty, as well as the addition of new programs. Growth in NPW and NPE arose primarily from existing GAP and warranty programs. Growth in NPW throughout 2019 has been greater than growth in GPW as a result of a reduction in premium from certain fronted programs. The reduced volume from these programs impacted growth in GPW but had no significant impact on growth in NPW. In Q4 2019, growth in Risk Solutions was negative primarily as a result of reduced premium from fronted program.

For the quarter, the loss ratio was improved versus the same quarter in the prior year as a number of warranty programs continued to mature and claims experience on certain programs improved in Q4 2019 versus Q4 2018. The expense ratio was comparable on a quarterly and full year basis; despite growth in NPE commission expense increased as a result of shifts in the mix of business. Net underwriting income in the quarter was \$1.0 million, an increase of \$0.6 million over the same quarter in 2018.

For the full year, the loss ratio, expense ratio and combined ratio were comparable to 2018. Stronger net underwriting income was mostly driven by higher NPE from program growth as discussed above.

## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

#### 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, commercial package insurance for both enterprises and professionals and fidelity insurance for both commercial and financial institutions.

In Q4 Corporate Insurance represented 9.6% and 24.7% of our overall GPW and NPW respectively. For the full year, Corporate Insurance accounted for 10.6% and 24.6% of our overall GPW and NPW respectively.

	Q4 2019	Q4 2018	\$ variance	% variance	2019	2018	\$ variance	% variance
Gross premiums written	13,730	10,644	3,086	29.0%	47,373	39,073	8,300	21.2%
Net premiums written	9,711	8,415	1,296	15.4%	34,995	30,378	4,617	15.2%
Net premiums earned	8,563	7,378	1,185	16.1%	31,960	27,723	4,237	15.3%
Net underwriting revenue	8,563	7,378	1,185	16.1%	31,960	27,723	4,237	15.3%
Net underwriting income (loss)	2,226	232	1,994	859.5%	3,591	(159)	3,750	nm
Loss ratio: current accident year	27.6%	37.0%		(9.4pts)	35.4%	37.8%		(2.4pts)
Loss ratio: prior years' development	(10.0%)	2.0%		(12.0pts)	(8.1%)	1.9%		(10.0pts)
Loss ratio	17.6%	39.0%		(21.4pts)	27.3%	39.7%		(12.4pts)
Expense ratio	56.4%	57.8%		(1.4pts)	61.5%	60.9%		0.6pts
Combined ratio	74.0%	96.8%		(22.8pts)	88.8%	100.6%		(11.8pts)

GPW, NPW and NPE grew strongly in Q4 and on a full year basis. This was due to a combination of new business growth and improved retention.

In the quarter, loss ratio improved compared to 2018 due to favourable PYD and lower claims in the current accident year in comparison to a difficult quarter in 2018. The improved claims experience alongside a consistent expense ratio led to a lower combined ratio. Net underwriting income increased by \$2.0 million.

For the full year these same factors led to significantly stronger net underwriting income of \$3.6 million compared to a small net underwriting loss in 2018.

## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

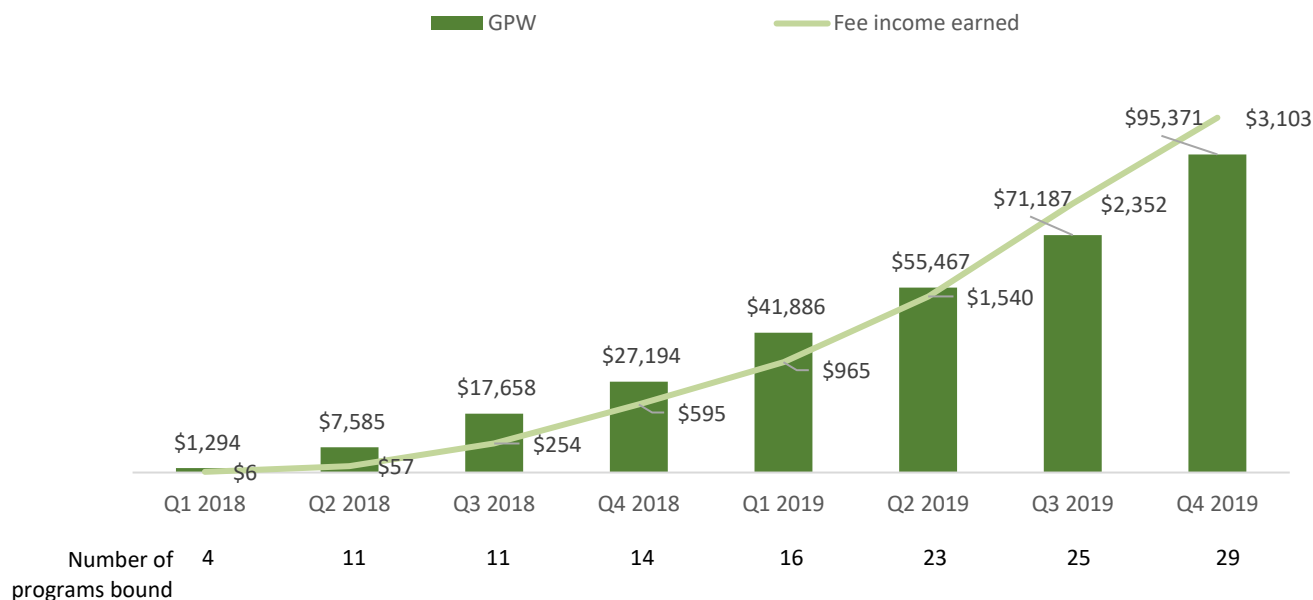
#### SPECIALTY P&C – UNITED STATES

Our US specialty insurance company is a non-admitted surplus line insurer in all states, primarily operating as a hybrid fronting carrier with a fee-based business model. Following the close of our shell acquisition in Q4 2019, the company has access to 14 admitted state licenses, and is actively broadening licenses in those states, as well as expanding to other non-licensed states, with the intention of having admitted licenses across all 50 states in time.

The US continued to accelerate premium generation, producing GPW of \$95.4 million in Q4 across 29 programs bound. The graph below shows the evolution of GPW, fee income earned and deferred, and number of programs bound in the US. We are especially proud of Q4 GPW, produced in the context of traditionally seasonally lower Q4 due to US Thanksgiving and Christmas holidays.

The US platform retained 5.5% of Q4 GPW, the remainder of which was ceded to reinsurance partners, compared with 4.2% retained in 2018. For the full year GPW was \$263.9 million with 5.4% retained compared to \$53.7 million and 4.7% retention in 2018, reflecting strong growth and retention within our target range. Importantly, fees as a percentage of ceded premium of 5.8% in the quarter and 5.7% in the year, in line with expectations and our targets.

The following chart shows the growth in GPW and fee income:



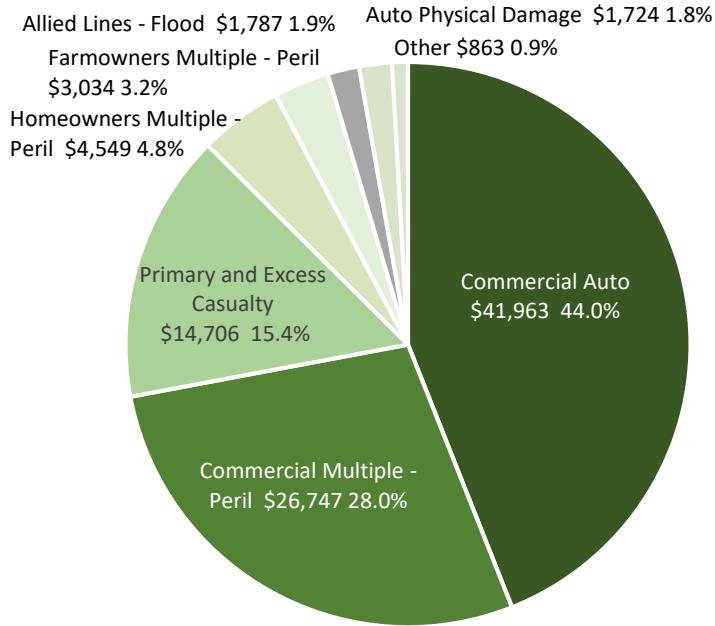
**TRISURA GROUP LTD.**

**Management’s Discussion and Analysis for the year ended 2019**

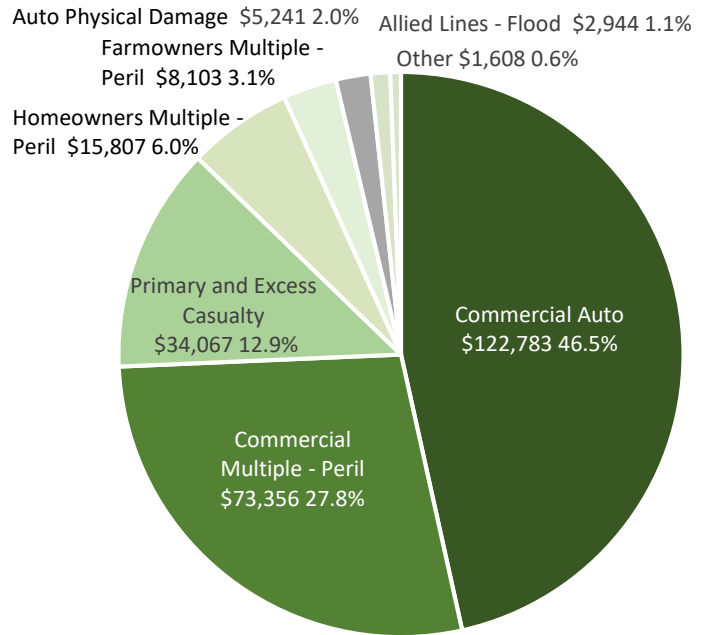
(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

The charts below provide a segmentation by class of business of our US Specialty P&C GPW and NPW for Q4 2019 and 2019.

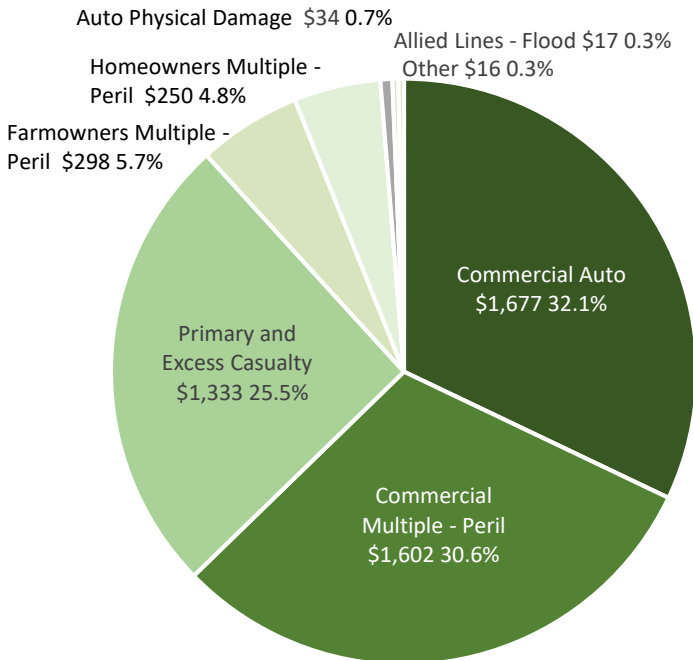
**Gross Premiums Written  
Q4 2019**



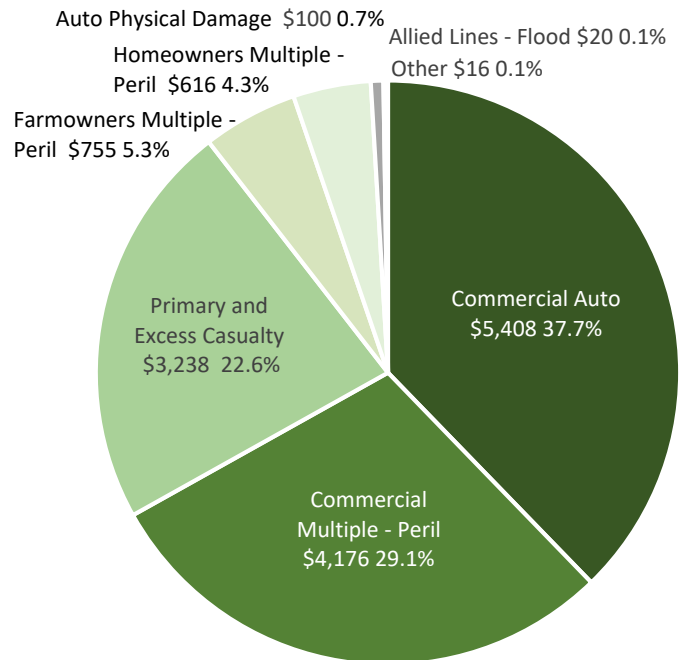
**Gross Premiums Written  
2019**



**Net Premiums Written  
Q4 2019**



**Net Premiums Written  
2019**



## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

#### Fronting – US

	Q4 2019	Q4 2018	\$ variance	2019	2018	\$ variance
Gross premiums written	95,371	27,194	68,177	263,911	53,731	210,180
Net premiums written	5,228	1,155	4,073	14,328	2,548	11,780
Net premiums earned	2,896	523	2,373	6,859	874	5,985
Fee income	3,103	595	2,508	7,960	912	7,048
Net underwriting revenue	5,999	1,118	4,881	14,819	1,786	13,033
Net underwriting income (loss)	1,251	(607)	1,858	2,249	(3,039)	5,288
Net investment income	665	465	200	2,112	1,648	464
Net income (loss)	1,549	(298)	1,847	3,813	(1,637)	5,450
Comprehensive (loss) income	(302)	3,124	(3,426)	2,236	2,724	(488)
Loss ratio	60.9%	64.6%		63.2%	62.7%	
Acquisition ratio	35.7%	33.8%		28.5%	30.2%	
Retained premium	5.5%	4.2%		5.4%	4.7%	
Fees as percentage of ceded premium	5.8%	5.8%		5.7%	5.8%	
Fronting operational ratio	79.1%	154.3%		84.8%	270.2%	

Fee income in our US Specialty P&C business is comprised of fronting fees received from reinsurers and are recognized over the life of the insurance contracts they are associated with, similar to the premium earnings profile. Earned fronting fees have grown strongly since 2018 in line with the growth of the business and were \$3.1 million in the quarter and \$8.0 million for the year.

US Specialty achieved its third successive quarter of positive net underwriting income in Q4 as growth in net earned premiums and fronting fee income continued to exceed claims, acquisition costs and operating expenses. Operating expenses were elevated in Q4 2019 as a result of certain costs related to the acquisition of 21<sup>st</sup> Century Preferred. Net income continues to benefit from investment income generated by our growing investment portfolio.

The growth in net earned premium and fronting fees also drove the improvement in net income to \$3.8 million for the full year compared to a loss of \$1.6 million in the corresponding period in 2018. The loss ratio improved in the quarter and was comparable on a full year basis, in line with expectations.

Fronting fees are a key component of the profitability of our US business but are not reflected in the traditional calculation of combined ratios. The fronting operational ratios were 79.1% in Q4 and 84.8% for the full year, both significantly better than in 2018 reflecting growth in NPE and fronting fees as the business builds scale.

## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

#### REINSURANCE

Our international reinsurance business ceased writing third party 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 has commenced writing captive business in support of our US subsidiary through a newly established Barbados subsidiary.

The remaining in-force portfolio of third party 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 2019	Q4 2018	\$ variance	2019	2018	\$ variance
Net underwriting income (loss)	6,388	(1,644)	8,032	(23,395)	(2,116)	(21,279)
Net investment (loss) income	(6,564)	(164)	(6,400)	6,306	1,849	4,457
Net (losses) gains	(163)	300	(463)	549	76	473
Net (loss)	(384)	(1,507)	1,123	(9,303)	(170)	(9,133)
Operating expenses	576	534	42	2,482	2,129	353

Underwriting income in the quarter arose from reserve decreases on the life component of the Reinsurance business driven by European interest rate increases during the quarter from historic lows in earlier 2019. The key interest rate that drives the valuation of our annuity liability is the average of the 10 and 15-year European swap rates on a spot and forward bases. These underwriting gains were offset by market value losses on the assets supporting these reserves, demonstrating the improved asset liability matching in the portfolio. For the full year, declined interest rates drove underwriting losses as life annuity reserves increased.

In Q4 we continued to deploy cash collateral into long dated European government bonds, increasing the duration of our assets to more closely match the duration of our annuity liabilities. We have improved our asset liability matching, as well as increasing our expected interest income. This improved matching lessened the impact of the decreases in life annuity reserves on net income. In addition, in Q3 2019 the Reinsurance business changed the assumptions it uses in determining the interest rates selected to discount the life annuity reserves. The Company began using an interest rate curve provided by the European Insurance and Occupational Pensions Authority, which is used in Solvency II. The impact of this change in interest rate assumptions was a reduction of the life annuity reserves by \$5.8 million in Q3 2019.

Based on historical correlation of the current asset portfolio to the rates used to determine our liabilities, management believes that a significantly greater proportion of reserve movements will be offset by investment income than has been the case in prior periods.



## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

#### CORPORATE

Our corporate results represent expenses that do not relate specifically to any one business line of the Company as well as debt servicing costs and certain derivative gains and losses on hedging instruments. Derivative gains of \$0.2 million for the quarter and \$0.3 million for full year 2019 are included in the Corporate expenses line below. Derivative gains and losses are presented in Net gains and losses on the Consolidated Financial Statements.

Q4 2019 corporate expenses were below Q4 2018 due to a reallocation of certain expenses to subsidiaries in Q4 2019. Full year corporate expenses were comparable to 2018.

Share-based compensation includes payment to directors and senior management and is impacted by movement in the share price. Share-based compensation grew significantly in Q4 and full year 2019 compared to 2018 because of increases in the value of the share price. Importantly, we have introduced a hedging program for share based compensation which we expect will help mitigate future share based compensation volatility.

Debt servicing costs in 2019 have been in line with 2018. Interest expense of \$0.1 million for the quarter and \$0.3 million for full year 2019 on the Consolidated Financial Statements is related to lease liabilities recognized as part of the adoption of IFRS 16 *Leases* and is not related to external borrowing.

	Q4 2019	Q4 2018	\$ variance	2019	2018	\$ variance
Corporate expenses	140	303	(163)	1,852	1,805	47
Share-based compensation	1,418	86	1,332	2,349	740	1,609
Debt servicing	257	261	(4)	1,039	970	69
Corporate	1,815	650	1,165	5,240	3,515	1,725

SECTION 5 – INVESTMENT PERFORMANCE REVIEW

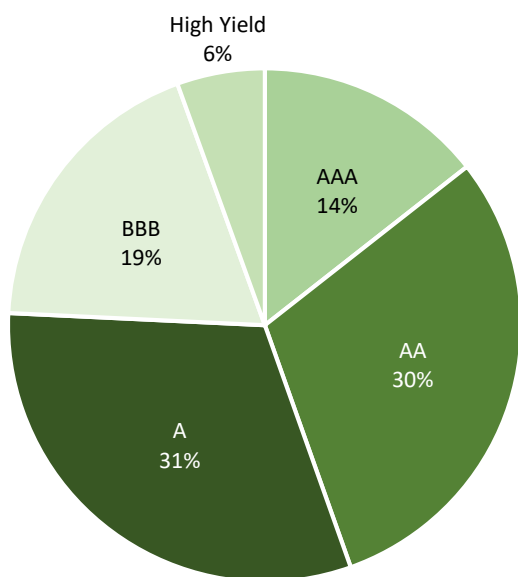
OVERVIEW

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 approach across all subsidiary portfolios. We now have the ability to invest globally through our hedging facilities and have selectively introduced new products to our portfolios.

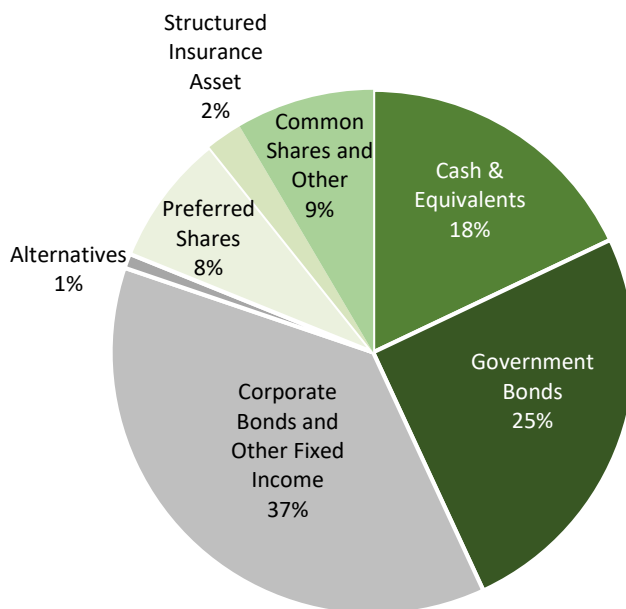
SUMMARY OF INVESTMENT PORTFOLIO

Our \$478.5 million investment portfolio consists of cash and cash equivalents, and short-term securities, government and corporate bonds, preferred shares, common shares and a small amount of alternative investments. Ninety-four percent of our fixed income holdings are highly liquid, investment grade bonds.

**Fixed Income Securities by Rating**



**Investment Portfolio by Asset Class**



## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

#### INVESTMENT PERFORMANCE

##### Net Investment Income

	Q4 2019	Q4 2018	\$ variance	2019	2018	\$ variance
Specialty P&C - Canada	2,010	1,846	164	7,796	5,460	2,336
Specialty P&C - US	665	465	200	2,112	1,648	464
Reinsurance	(6,543)	(161)	(6,382)	6,335	1,878	4,457
Investment income	(3,868)	2,150	(6,018)	16,243	8,986	7,257
Net (losses) gains	(92)	120	(212)	1,572	759	813
Net investment (loss) income	(3,960)	2,270	(6,230)	17,815	9,745	8,070
Settlement from structured insurance assets	-	-	-	8,077	-	8,077
Total	(3,960)	2,270	(6,230)	25,892	9,745	16,147

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 investment income is driven by interest and dividend income on portfolio assets. Net investment income in 2019 benefitted from increased interest and dividend income and lower investment expense, both in Q4 2019 and full year 2019. The market-based yield of the Canadian Specialty P&C portfolio as at December 31, 2019 was 4.1% (2018 – 4.0%). We continue to broaden the Canadian Specialty P&C portfolio's diversity, having introduced further alternative investments in 2019, which are expected to enhance portfolio yield and grow as a portion of the portfolio going forward.

In the quarter we began to normalize the U.S. portfolio to include allocations to asset classes outside of investment grade bonds. The market-based yield of the US Specialty P&C portfolio as at December 31, 2019 was 3.5% (2018 – 4.0%), the yield is lower than 2018 as a result of the significant tightening in credit spreads observed through the year. Investment income, which is primarily driven by interest income on this portfolio of bonds, grew in Q4 2019 and full year 2019 versus comparable prior year periods as growth in operations led to an increase in the size of our investment portfolio, alongside the deployment of new capital from the capital raise in Q3 2019.

In the Reinsurance portfolio, Euro-denominated bonds supporting the life annuity reserves are held at FVTPL. Investment returns have grown in this portfolio on an annual basis as we continued to deploy cash to better match our reinsurance liabilities. Investment returns also increased as interest rates fell through the year. This trend reversed in Q4 2019, resulting in negative investment income as interest rates rose through the quarter. Importantly, this investment loss is offset by reserve reductions on the life annuity reserves. The market-based yield of the Reinsurance portfolio as at December 31, 2019 was 1.7% (2018 – 1.2%). The Reinsurance portfolio also benefitted from a favourable legal settlement on our structured insurance asset in Q1 2019, adding to the performance on a full year basis.

Net gains and losses include realized gains and losses from sales of investments in the investment portfolio as well as the impact of foreign exchange related to the operations of the business, and any derivative income or loss. Net losses were greater in Q4 2019 than Q4 2018 as a result of more realized losses incurred in Q4 2019. In the full year of 2019 Net gains were greater than the prior year as a result of larger foreign exchange gains.

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

	Q4 2019	Q4 2018	\$ variance	2019	2018	\$ variance
Unrealized gains (losses) in OCI	936	(4,726)	5,662	5,717	(7,849)	13,566
Cumulative translation	(2,124)	4,878	(7,002)	(4,909)	7,533	(12,442)
OCI	(1,188)	152	(1,340)	808	(316)	1,124

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 positive in Q4 2019, driven by unrealized gains in the preferred share and equity portfolios. Our full year results reflect the strength in the Canadian and U.S. equity and fixed income markets experienced through 2019.

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 also a component of OCI. Cumulative translation losses in Q4 were due to the strengthening of the Canadian currency against the US dollar, driving lower Canadian dollar valuations of capital and securities held outside of Canada. This relationship held on a full year basis.

Refer to Notes 21 and 22 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 excess and surplus 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 \$50 billion of excess and surplus insurance direct premiums were written in 2018, exhibiting significant growth compared to the broader P&C industry, expanding by 11%. From 2000 until 2018, the average combined ratio for excess and surplus markets was 96.9% versus 101.9% for the P&C industry.

## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

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#### 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 13 years and in the international specialty reinsurance market for over 17 years, establishing a conservative underwriting and investing track record.

In Canada, we have built our brand through serving our clients, brokers and institutional partners as a leading provider of niche specialty insurance products. We will continue to build out our product offerings in existing and new niche segments of the market with suitably skilled underwriters and professionals. We remain committed to our broker distribution channel to promote and sell insurance products. We are 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 business is fully operational and demonstrating scale and profitability. It is licensed as a domestic excess and surplus lines insurer in Oklahoma operating as a non-admitted surplus lines insurer in all states. We recently added 14 admitted licenses which will support our growth trajectory. It is our belief that conditions are favourable for the continued growth of our US platform, which operates as a hybrid fronting carrier using a fee-based business model. Our focus is to source high quality business opportunities by partnering with a core base of established and well-managed program administrators. From our experience 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 benefit from a strong supply of highly rated international reinsurance capacity keen to partner with us to gain exposure to this business, allowing us to cede the majority of the risk on policies to these reinsurers on commercially favourable terms. This belief has been supported by our experience in the market through 2018 and 2019. We are confident that this platform will generate attractive, stable fee income while maintaining a small risk position, right-sizing underwriting risk and aligning our interests with our program distribution partners and capacity providers. Our US business is already the largest component of GPW, and as we continue to grow, we expect that it will become a significant contributor to profitability.

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 with our partners 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, or that can expand our licensing. The closing of 21<sup>st</sup> Century Preferred is a demonstration of the willingness and capabilities our team has to pursue these acquisitions. Additionally, our reinsurance business has commenced writing new business in support of our on-shore subsidiaries

## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

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## 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 2019. Trisura Specialty obtained an A- (Excellent) rating with stable outlook from A.M. Best in September 2017, which was reaffirmed in October 2019. 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 2019	Q4 2018	\$ variance	2019	2018	\$ variance
<b>Net income from operating activities</b>	4,172	1,631	2,541	5,094	8,638	(3,544)
Non-cash items to be deducted	11,544	509	11,035	10,400	3,598	6,802
Change in working capital operating items	9,744	6,081	3,663	49,726	13,091	36,635
Realized (gains) losses on AFS investments	(60)	96	(156)	(2,860)	(686)	(2,174)
Income taxes paid	(114)	(987)	873	(2,573)	(3,354)	781
Interest paid	(354)	(270)	(84)	(1,410)	(995)	(415)
<b>Net cash from operating activities</b>	<b>24,932</b>	<b>7,060</b>	<b>17,872</b>	<b>58,377</b>	<b>20,292</b>	<b>38,085</b>
Proceeds on disposal of investments	13,805	18,004	(4,199)	55,452	99,729	(44,277)
Purchases of investments	(79,741)	(35,632)	(44,109)	(170,817)	(196,363)	25,546
Net purchases of capital and intangible assets	(2,723)	(82)	(2,641)	(3,131)	(666)	(2,465)
<b>Net cash used in investing activities</b>	<b>(68,659)</b>	<b>(17,710)</b>	<b>(50,949)</b>	<b>(118,496)</b>	<b>(97,300)</b>	<b>(21,196)</b>
Dividends paid	(24)	(24)	-	(96)	(96)	-
Shares issued	-	-	-	55,669	-	55,669
Preferred shares redeemed	(1,600)	-	(1,600)	(1,600)	-	(1,600)
Issuance of new loan payable	-	-	-	-	29,700	(29,700)
Repayment of note payable	-	(30)	30	-	(30)	30
Repayment of loan payable	-	-	-	-	(29,700)	29,700
Lease payments	(266)	-	(266)	(1,026)	-	(1,026)
<b>Net cash (used in) from financing activities</b>	<b>(1,890)</b>	<b>(54)</b>	<b>(1,836)</b>	<b>52,947</b>	<b>(126)</b>	<b>53,073</b>
<b>Net decrease in cash</b>	<b>(45,617)</b>	<b>(10,704)</b>	<b>(34,913)</b>	<b>(7,172)</b>	<b>(77,134)</b>	<b>69,962</b>
Cash at beginning of the period	131,913	102,688	29,225	95,212	165,675	(70,463)
Currency translation	(391)	3,228	(3,619)	(2,135)	6,671	(8,806)
<b>Cash at the end of the period</b>	<b>85,905</b>	<b>95,212</b>	<b>(9,307)</b>	<b>85,905</b>	<b>95,212</b>	<b>(9,307)</b>

Cash used in investing activities in Q4 2019 as well as Q4 2018 reflected the purchase and disposal of investments in all three principal operating subsidiaries. In Q4 2019 investment activities partially reflected the deployment of capital raised in late Q3 2019. The investing activities in Q4 YTD 2019 and Q4 YTD 2018 were also primarily related to purchases and disposals of investments in the investment portfolios of all three principal operating subsidiaries.

## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

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In Q4 2019 Net cash from in operating activities was primarily related to Non-cash items to be deducted, which reflected primarily unrealized losses on the investments at Trisura International which are used to support the life annuity reserves. This increase in unrealized losses was greater than the prior year. In Q4 YTD 2019, Net cash from operating activities was primarily related to the Change in working capital, which was driven primarily by increases in working capital at Trisura Guarantee and Trisura Specialty. The Change in working capital was significantly higher at Trisura Specialty in Q4 YTD 2019 as a result of the growth in the business throughout 2019. The Change in working capital at Trisura International was negative in 2018, as a result of movement in unpaid claims, which also contributed to the variance from prior year.

In Q3 2019, the Company issued additional shares in the public market, which led to an increase in Net cash (used in) from financing activities of \$55.7 million. 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 18 in the Consolidated Financial Statements). The net impact of this transaction was \$nil.

### SEGMENTED REPORTING

As at	December 31, 2019				
	Trisura Guarantee	Trisura International <sup>(1)</sup>	Trisura Specialty	Corporate <sup>(2)</sup>	Total <sup>(3)</sup>
Assets	424,009	104,169	444,763	5,452	978,393
Liabilities	333,681	85,766	336,608	32,009	788,064
Shareholder's Equity	90,328	18,403	108,155	(26,557)	190,329
Book Value Per Share, \$( <sup>(4)</sup> )	10.24	2.09	12.26	(3.01)	21.58

(1) Subsidiary includes the assets and liabilities of its holding company.

(2) Corporate includes consolidation adjustments.

(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, 2019.

As at	December 31, 2018				
	Trisura Guarantee	Trisura International <sup>(1)</sup>	Trisura Specialty	Corporate <sup>(2)</sup>	Total <sup>(3)</sup>
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, \$( <sup>(4)</sup> )	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.



## TRISURA GROUP LTD.

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#### CONTRACTUAL OBLIGATIONS

As at December 31, 2019	Payments due by period			
	Total	Less than 1 year	1 – 5 years	Thereafter
Loans payable	29,700	-	29,700	-
Interest payments on debt <sup>(1)</sup>	3,258	1,019	2,239	-
Lease liabilities	11,132	1,656	6,650	2,826
<b>Total contractual obligations</b>	<b>44,090</b>	<b>2,675</b>	<b>38,589</b>	<b>2,826</b>

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

#### FINANCIAL INSTRUMENTS

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

#### RELATED PARTY TRANSACTIONS

See Note 26 to the Company's Consolidated Financial Statements.

## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

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#### OPERATING METRICS

We use operating metrics to assess our operating performance.

Operating Metrics	Definition
<b>Acquisition Ratio</b>	Commissions and reinsurance commissions incurred as a percentage of NPE.
<b>Adjusted EPS</b>	Net income attributable to common shareholders for the reporting period divided by the ending number of common shares as at the reporting date.
<b>Combined Ratio</b>	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 NPE, or underwriting margin. A combined ratio under 100% indicates a profitable underwriting result. A combined ratio over 100% indicates an unprofitable underwriting result.
<b>Expense Ratio</b>	All expenses incurred (net of fee income in Trisura Guarantee) as a percentage of NPE.
<b>Fees as Percentage of Ceded Premium</b>	Gross fee income divided by ceded written premium.
<b>Fronting Operational Ratio</b>	The sum of claims, acquisition costs and operating expenses divided by the sum of NPE and fronting fees.
<b>Loss Ratio</b>	Net claims and loss adjustment expenses incurred as a percentage of NPE.
<b>LTM ROE</b>	Net income for the 12 month period preceding the reporting date, divided by the average common shareholder's equity over the same period, adjusted for significant capital transactions, if appropriate.
<b>MCT</b>	Trisura Guarantee reports the results of its 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.
<b>Retained premium (%)</b>	NPW as a percentage of GPW.

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.

## TRISURA GROUP LTD.

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## SECTION 8 – RISK MANAGEMENT

Our Company has developed an enterprise risk management framework and internal controls processes to identify, measure, monitor and mitigate risk. This framework is central to our business decision making including 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 measures such as reinsurance.

### CORPORATE GOVERNANCE

The Board of Directors is responsible for oversight of risk management and internal control systems and policies. The Board of Directors has established Board of Directors level risk committees at group and subsidiary levels, whose members are mostly independent of management. These committees meet quarterly to oversee and challenge 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. In addition, there are management level risk and underwriting committees at group and subsidiary levels with escalation process to Board of Directors level committees.



The following factors in addition to the other information set forth in this MD&A and in the Company's Consolidated Financial Statements and Annual Information Form should be considered in assessing the risks to the Company and the industry and markets in which we operate. If any of the following risks occur, our financial condition, results of operations would likely suffer. The following list of risks are those that the Company believes are the most significant. They are not the only risks that we face or may face in the future and other risks may emerge that could have a material adverse effect on our financial condition and results of operations.

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**KEY RISKS*****Highly Competitive Specialty Insurance Business***

The specialty insurance business is highly competitive. Elements of competition include pricing, availability and quality of products, capacity, quality and speed of service, ratings, financial strength, distribution and technology systems and technical expertise. Our Company competes with many other insurance companies. Many of these competitors are larger and have greater financial resources than are available to our Company and have a greater ability to compete on the basis of price. Some of our competitors may offer a broader range of policy administration or other services or be willing to take on significantly more underwriting risk. Any increase in competition in this segment, especially by one or more larger companies, could materially and adversely affect our Company's business, financial condition, results of operations and prospects. Competitors may also acquire distributors to our detriment. Consolidation amongst insurance companies and distribution partners could also impact our ability to compete. As competitors introduce new products and as new competitors enter the market, our Company may encounter additional and more intense competition. Technological change implemented by insurers or new market entrants can result in a change to the competitive landscape and adversely impact our ability to compete. There can be no assurance that we will continue to increase revenues or be profitable. To a large degree, future revenues of our Company are dependent upon our ability to continue to develop and market our products and to enhance the capabilities of our products to meet changes in customer needs. We seek to manage competition risks by fostering strong relationships with our distribution partners and by focusing on their needs, delivering excellence in service and providing valuable product expertise. Technological change implemented by insureds could change the profile of the risks insured by our policies.

***Cyclical Nature of Insurance Industry***

The financial performance of the insurance industry has historically tended to fluctuate in cyclical patterns of "soft" markets characterized generally by increased competition, resulting in lower premium rates and underwriting standards, followed by "hard" markets characterized generally by lessening competition, stricter underwriting standards and increasing premium rates. Our Company's profitability tends to follow this cyclical market pattern with profitability generally increasing in hard markets and decreasing in soft markets. These factors could result in fluctuations in the underwriting results and net income of our Company. Historically, the results of companies in the specialty insurance industry have been subject to significant fluctuations and uncertainties. Many of these factors are beyond our Company's control. The profitability of specialty insurers can be affected significantly by many factors, including regulatory regimes, developing trends in tort and class action litigation, adoption of consumer initiatives regarding premium rates or claims handling procedures, and privacy and consumer protection laws that prevent insurers from assessing risk, or factors that have a high correlation with risks considered, such as credit scoring. An economic downturn in those jurisdictions in which our Company writes business or otherwise conducts business activities, or adverse political conditions, could result in less demand for specialty insurance and lower policy premiums.

***Reliance on distribution partners, capacity providers and program administrators ("PAs")***

Trisura Guarantee distributes its products primarily through a network of distribution partners. These distribution partners also sell our competitors' products and may, subject to certain limitations, stop selling our products altogether. Strong competition exists among insurers for distribution partners with demonstrated ability to sell insurance products. Premium volume and profitability could be materially adversely affected if there is a material decrease in the number of distribution partners that choose to sell our Company's products. Trisura Specialty offers fronting arrangements to capacity providers that want to access specific U.S. specialty insurance business. Capacity providers may be under common control with a particular PA or may be independent. An independent capacity provider may reinsure a single book or multiple books with various PAs. A single PA may control a single book with one capacity provider or multiple books with various capacity providers. Other specialty insurance companies may compete with Trisura Specialty for this business. These capacity providers and PAs may choose to enter into fronting arrangements with Trisura Specialty's competitors or PAs, or capacity providers may terminate fronting arrangements with Trisura Specialty if they no longer need access to its fronting capacity or for other reasons.

## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

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Consolidation among capacity providers could also reduce the availability of capacity available to our Company. A significant decrease in business from any of these distribution partners, capacity providers or PAs would cause our Company to lose premiums and require us to find other partners to replace those lost premiums. We seek to manage these risks by using a diversified group of distribution partners, capacity providers and program administrators. We further foster strong relationships with our business partners by delivering excellence in service and product expertise. Where we have granted binding authority to our distribution partners and PAs we limit such authority to agreed underwriting guidelines and monitor the business underwritten. Nonetheless, situations could arise where binding authority business could result in losses and have a significant impact on our results of operations and financial condition.

#### ***A.M. Best Ratings***

Rating agencies evaluate insurance companies based on their ability to pay claims. The ratings of A.M. Best are subject to periodic review using, among other things, proprietary capital adequacy models, and are subject to revision or withdrawal at any time. A.M. Best ratings are directed toward the concerns of policyholders and insurance agencies and are not intended for the protection of investors or as a recommendation to buy, hold or sell securities. Ratings are an important factor in establishing and maintaining our competitive position in the specialty insurance market and especially in commercial insurance. Each of Trisura Guarantee and Trisura Specialty have been assigned a financial strength rating of A- (Excellent) by A.M. Best with stable outlook. There can be no assurances that Trisura Guarantee or Trisura Specialty will be able to maintain these ratings. Any downgrade in these ratings would likely adversely affect our business through the loss of certain existing and potential policyholders to other companies with higher ratings, and through certain insurance brokerage firms with which we now do business seeking a higher rated issuing carrier to write their business.

#### **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 where 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, longevity, mortality, morbidity and the timing of claims. Some additional components of insurance risk such as product and pricing risk, concentrations of insurance risk and exposure to large losses, and estimates of loss reserves are described below.

For more information on insurance risk and the management of insurance risk see Note 2.4 (Insurance contracts), Note 8 (Unearned premiums), Note 9 (Unpaid claims and loss adjustment expenses), and Note 13.1 (Insurance risk) to the Consolidated Financial Statements.

#### ***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 where we compete. Our Company's pricing process is designed to ensure an appropriate return on capital. These factors are reviewed and adjusted periodically to ensure they reflect the current environment. Our Company seeks to manage this risk through the effective use of underwriting policies and guidelines, and by disciplined risk selection. Careful oversight is applied and guidelines are reviewed to reflect emerging trends. Insurance risk is further mitigated through effective claims and expense management and through the use of reinsurance.

**2 - Concentration of insurance risk and exposure to large losses**

Concentration risk is the risk that our Company's insurance products are concentrated within a particular geographic area, industry, class of business, or insured, thereby increasing the exposure of our Company to a single event or a series of related events. Unexpected large losses may result from events such as the unforeseen failure of a large contractor, as a result of accumulations of large numbers of insurance or reinsurance contracts exposed to similar perils, adverse economic conditions, exposure to mass torts, terrorism, or natural or man-made catastrophes. Large losses could also be the result of future unforeseen changes in the legal environment that could broaden our insurance coverage beyond the policy's original intent. Exposure could also aggregate through cyber-attacks where directly covered under our policies or through "silent cyber" where potential losses are not specifically included nor excluded in the policy wording. Certain policy exclusions could also be found to be unenforceable. When a large loss is identified, we may be required to strengthen reserves which could decrease earnings in that period. We seek to mitigate this risk through monitoring and modeling techniques to review the portfolio for concentration and aggregation of risks and through the purchase of reinsurance. We make adjustments as needed in order to ensure exposure are within tolerances. The active management of our reinsurance programs and collateral requirements is also an important element in maintaining net claims exposures within the Company's risk tolerance.

**3 - Estimates of Loss Reserves**

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 claims and LAE estimates on open reported claims as well as provisions for future development of such estimates and claims and LAE related to incurred but not reported claims. 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. 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, the level of insurance fraud, payment patterns and reinsurance recoveries, taking into consideration the nature of the insurance policies. For Life and Annuity policies, the reserve process typically includes estimates of lapse, future policyholder behaviour, longevity, mortality, morbidity, the timing of claim payments and discount rates. 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 reserves required for the policies that we write. 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 reserves 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. The reserves for unpaid claims and LAE are reviewed regularly and evaluated in light of emerging claims experience and changing circumstances. Nonetheless, 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.

## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

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#### ***Availability of Reinsurance***

Our reinsurance arrangements are with a limited number of reinsurers. In recent years, favourable market conditions, including growth in the role of PAs, reinsurance on and offshore and other alternative sources of reinsurance have provided strong capacity to the industry. A decline in the availability of reinsurance or increases in the cost of reinsurance or a decreased level of activity by PAs could increase costs or materially impact the amount of business we could underwrite. There can be no assurance that developments may not occur in the future which might cause a shortage of reinsurance capacity in those classes of business which we underwrite.

#### ***Ability to recover amounts due from reinsurers***

Our Company uses reinsurance in the ordinary course of business to reduce its exposure to any one claim or event under the policies it issues. Reinsurance is also a key component of the Trisura Specialty hybrid fronting model. Reinsurance does not relieve our Company of its obligations to policyholders. Our Company is ultimately at risk on the limits of coverage provided under insurance policies we write, regardless of whether we have ceded a portion of this exposure to reinsurers. If a reinsurer is unwilling or unable to satisfy its obligations, our Company does not have the right to correspondingly reduce its claims payment obligations.

If our Company fails to realize a reinsurance recoverable owed under these arrangements our financial condition could be materially and adversely affected. The Company has a reinsurance risk management policy in place to manage the credit risk associated with recoverables from reinsurers including requirements for using licensed reinsurers, minimum credit ratings and concentration limits. When the Company uses un-registered or un-rated reinsurers, collateral is used to manage credit risk.

For more information on reinsurance and the Company's management of the ability to recover amounts due from reinsurers, see Note 13.2 (Credit risk) and Note 14 (Reinsurance) to the Consolidated Financial Statements.

#### **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 notes to our Company's Consolidated Financial Statements as at and for the year ended December 31, 2019 provide further detail on these risks and the ways in which we monitor and control these risks. To the extent that those risks emerge, they could have a material adverse effect on our Company's business, financial condition and performance.

#### ***1 - Credit Risk***

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation and cause our 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. 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 they may operate in the same or similar industries. For premiums receivable, our Company uses insurance brokers, managing general agents, and PAs 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. With respect to credit risk associated with recoveries under reinsurance contracts, see the section "Ability to recover amounts due from reinsurers". Our investment policies mitigate credit risk through requirements relating to type, credit quality, size and duration of permitted investments among other factors. Management monitors credit quality on an ongoing basis. For premiums receivable, the Company monitors accounts receivable and follows-up all past due amounts to ensure satisfactory collection arrangements are in place. See Note 13.2 (Credit risk) to the Consolidated Financial Statements for more information on the management of credit risk.

**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. Generally, our Company's financial liabilities are settled by delivering cash from 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. Although our Company has reinsurance treaties in place under which a portion of the claim 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 our Company must have access to sufficient liquid resources to fund gross amounts payable when required. Our Company periodically pledges assets under insurance and reinsurance trust arrangements which are therefore not readily available for general use by our Company. 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 credit quality criteria and has limits on single issuer exposures. In addition, the investment policy stipulates average duration of bonds. See Note 13.3 to the Consolidated Financial Statements for more information on the management of liquidity risk.

**3 - Market Risk**

Exposure to this risk results from business activities including investment transactions involving the purchase or sale of financial instruments. 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 which could be driven by financial market conditions, general economic conditions, political conditions, or other factors. Market risk includes currency risk, interest rate risk and other price risks such as equity risk. See Note 13.4 of the Consolidated Financial Statements for more information on the management of market 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. Our 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 dollar and Euro against the USD. The Company also has currency risk as a result of holding investments in the Company's Canadian operations denominated in USD. The foreign currency positions of the Company are monitored quarterly and the Canadian operations use derivatives throughout the year to manage foreign exchange risks where a material unmatched foreign exchange position exists in the investment portfolio.

*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 generally changes 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 annuity 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.



## **TRISURA GROUP LTD.**

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#### ***Negative Publicity in the Specialty Insurance Industry***

A number of our Company's products and services are ultimately distributed to individual consumers. From time to time, consumer advocacy groups or the media may focus attention on products and service of the specialty insurance industry or our Company, thereby subjecting the specialty insurance industry or our Company to periodic negative publicity. Negative publicity may also result in increased regulation and legislative scrutiny of practices in the specialty insurance industry as well as increased litigation. Such consequences may increase our Company's costs of doing business and adversely affect our Company's profitability by impeding our ability to market our products and services or increasing the regulatory burdens under which our Company operates.

#### ***Reliance on Key Personnel***

The success of our Company depends upon the personal efforts of our senior management. The loss of the services of such key personnel could have a material adverse effect on the operations of our Company. In addition, our Company's continued growth depends on our ability to attract and retain skilled management and employees and the ability of our key personnel to manage our Company's growth. Recruiting and retaining skilled personnel is costly and highly competitive. If our Company fails to retain, hire, train and integrate qualified employees and contractors, we may not be able to maintain and expand our business. Certain key personnel are not bound by non-competition covenants. If such personnel depart our Company and subsequently compete with our Company or determine to devote significantly more time to other business interests, such activities could have a material adverse effect on our Company's business, financial condition and performance. The Company's strategies to manage this risk include succession planning for key employees, employee engagement surveys and third-party compensation reviews.

#### ***Litigation Risk***

The Company is subject to claims and litigation in the ordinary course of business resulting from alleged errors and omissions in placing specialty insurance and handling claims. The placement of specialty insurance and the handling of claims involve substantial amounts of money. Since errors and omissions claims against our Company may allege our Company's potential liability for all or part of the amounts in question, claimants may seek large damage awards and these claims can involve significant defense costs. Errors and omissions could include, for example, our Company's employees or sub-agents failing, whether negligently or intentionally, to place coverage or file claims on behalf of customers, to appropriately and adequately disclose insurer fee arrangements to our customers, to provide insurance providers with complete and accurate information relating to the risks being insured or to appropriately apply funds that we hold for our customers on a fiduciary basis. It is not always possible to prevent or detect errors and omissions, and the precautions our Company takes may not be effective in all cases. In addition to litigation associated with our insurance policies, we also face risk associated general corporate and commercial litigation. Our Company's business, financial condition or results may be negatively affected if in the future our corporate insurance coverage proves to be inadequate or unavailable. In addition, litigation may harm our Company's reputation or divert management resources away from operating our business.

#### ***Holding Company***

Trisura Group is a holding company and its material assets consist primarily of interests in our operating subsidiaries. Consequently, we depend on distributions and other payments from our operating businesses to provide us with the funds necessary to meet our holding company financial obligations. Our operating businesses are legally distinct from Trisura Group and some of them are or may become restricted in their ability to pay dividends and distributions or otherwise make funds available to Trisura Group pursuant to local law, regulatory requirements and their contractual agreements, including agreements governing their financing arrangements. Our operating businesses are generally required to meet their policyholder and other obligations before making distributions to Trisura Group.

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#### ***Adverse Effects of Regulatory Changes***

The specialty insurance industry is heavily regulated, and changes in the regulations governing the specialty insurance industry in any jurisdiction in which we operate, or increased regulations, may significantly affect the operations and financial results of our Company. Our Company is subject to the laws, rules and regulations of the jurisdictions in which we carry on business, including Canada, the U.S. and Barbados. These laws, rules and regulations cover many aspects of our business, the assets in which we may invest, the levels of capital and surplus and the standards of solvency that we must maintain, and the amounts of dividends which we may declare and pay. Changes to laws, rules or regulations are difficult to predict and could materially adversely affect our Company's business, results of operations and financial condition. In addition, more restrictive laws, rules or regulations may be adopted in the future that could make compliance more difficult or expensive. Trisura Guarantee is regulated by OSFI. Trisura Specialty is regulated by the Department of Insurance in Oklahoma, as well as other state regulatory agencies in which it conducts business. Trisura International Insurance is regulated by the Financial Services Commission in Barbados. Each of these regulators has broad supervisory and regulatory powers available to them in connection with licenses, solvency capital requirements, investments, dividends, corporate governance, requirements for key personnel, conduct of business rules, periodic examinations and reporting requirements. The regulators have the authority to take enforcement actions and impose sanctions, including directing the regulated entity to refrain from a course of action or to perform acts necessary to remedy situations, imposing fines and the withdrawal of authorization. In certain circumstances, the regulators may take control of regulated insurance or reinsurance companies. There is no guarantee that these regulators would not take such actions under certain circumstances with respect to Trisura Guarantee, Trisura Specialty or Trisura International Insurance. The imposition of such actions could have a material adverse effect on our business, financial condition and performance.

#### ***Change of Control Restrictions of U.S. Insurance Laws***

The laws of the State of Oklahoma, where Trisura Specialty is domiciled, require prior approval by the Department of Insurance in Oklahoma of any change of control of an insurer. "Control" is defined as the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the regulated insurance company, whether through the ownership of voting securities, by contract or otherwise. Control is presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of an insurance company domiciled in Oklahoma or any entity that controls an insurance company domiciled in Oklahoma. Any person wishing to acquire "control" of our Company would first be required to obtain the approval of the Department of Insurance in Oklahoma or file appropriate disclaimers. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of our Company, including through transactions (and in particular, unsolicited transactions), that some or all of our shareholders might consider to be desirable.

#### ***Regulatory Challenges to Use of Fronting Arrangements***

Trisura Specialty enters into arrangements under which it permits its licensed status to be used in partnerships with high quality and collateralized reinsurers to issue insurance policies with PAs. The PA underwrites (consistent with rates and forms agreed to by Trisura Specialty and its reinsurers), and administers the business, a third party administrator is hired by Trisura Specialty to settle all claims, and the reinsurer(s) reinsure, on average, 90% to 100% of the risks. This is considered a hybrid "fronting" arrangement. Trisura Specialty receives a ceding fee, and shares its proportionate share in the profits or losses of the business it writes with the reinsurer(s). Some state insurance regulators may object to Trisura Specialty's fronting arrangements.

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Notwithstanding these state law restrictions on ceding insurers, the Nonadmitted and Reinsurance Reform Act contained in the United States Dodd-Frank Wall Street Reform and Consumer Protection Act (the "NRRA") provides that all laws of a ceding insurer's nondomestic state (except those with respect to taxes and assessments on insurers or insurance income) are pre-empted to the extent that they otherwise apply the laws of the state to reinsurance agreements of nondomestic ceding insurers. The NRRA places the power to regulate reinsurer financial solvency primarily with the reinsurer's domiciliary state and requires credit for reinsurance to be recognized for a nondomestic ceding company if it is allowed by the ceding company's domiciliary state. A state insurance regulator might not view the NRRA as pre-empting a state regulator's determination that an unauthorized reinsurer must obtain a license or that a statute prohibits Trisura Specialty from engaging in a fronting business. However, such a determination or a conflict between state law and the NRRA could cause regulatory uncertainty about Trisura Specialty's fronting business, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

#### ***Future Acquisitions***

A key part of our Company's growth strategy involves seeking acquisition opportunities. We face competition for acquisitions, including from our competitors, many of whom will have greater financial resources than us. There can be no assurance that we will complete acquisitions. In addition, future acquisitions will likely involve some or all of the following risks, which could materially and adversely affect our Company's business, financial condition or results of operations: the difficulty of integrating the acquired operations and personnel into our current operations; potential disruption of our current operations; diversion of resources, including our Company's management's time and attention; the difficulty of managing the growth of a larger organization; the risk of not attaining expected benefits; the risk of entering markets in which we have little experience; the risk of becoming involved in labour, commercial or regulatory disputes or litigation related to the new enterprise; the risk of environmental or other liabilities associated with the acquired business; and the risk of a change of control resulting from an acquisition triggering rights of third parties or government agencies under contracts with, or authorizations held by, the operating business being acquired. It is possible that due diligence investigations into businesses being acquired may fail to uncover all material risks, or to identify a change of control trigger in a material contract or authorization, or that a contractual counterparty or government agency may take a different view on the interpretation of such a provision to that taken by us, thereby resulting in a dispute.

#### ***Inability to Generate Necessary Amount of Cash to Service Existing Debt***

Our Company's ability to pay principal and interest on our credit facility will depend on its future financial performance. Our Company's ability to generate cash will depend on many factors, some of which may be beyond its control, including general economic, financial and regulatory conditions. If our Company cannot generate enough cash flow in the future to service its debt or cannot renew the credit facility on its existing terms, it may need to refinance its debt, obtain additional financing (on terms that may be less favourable than existing financing terms) or sell assets. Our Company might not be able to implement any of these strategies on satisfactory terms or on a timely basis, if at all. If our Company is unable to meet its debt service obligations or comply with its covenants, a default under the credit facility would result.

#### ***Future Capital Requirements***

Our Company's future capital requirements will depend upon many factors, including the performance of Trisura Guarantee, continued development of our U.S. business, and the status of competition and regulatory requirements. There can be no assurance that financing will be available to our Company on acceptable terms, or at all. If additional funds are raised by issuing equity securities, further dilution to our existing shareholders will result. If adequate funds are not available, our Company may be required to delay, scale back or eliminate our programs. An inability to obtain financing or similar financial support could have a material adverse effect on our Company's business, financial condition and results of operations.

## **TRISURA GROUP LTD.**

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#### ***Potential Volatility of Common Share Price***

The market price for the Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond our Company's control, including, but not limited to, the following: (i) actual or anticipated fluctuations in our Company's quarterly results of operations; (ii) changes in estimates of our Company's future financial performance; (iii) recommendations by securities research analysts; (iv) changes in the economic performance or market valuations of other issuers that investors deem comparable to our Company; (v) the addition or departure of our executive officers and other key personnel; (vi) sales or anticipated sales of additional Common Shares; (vii) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving our Company or our competitors; and (viii) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in our industry or target markets.

Financial markets have in the past experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of public entities and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such entities. Accordingly, the market price of the Common Shares may decline even if our Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of our Company's governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to satisfy such criteria may result in limited or no investment in the Common Shares by those institutions, which could materially adversely affect the trading price of the Common Shares. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue for a protracted period of time, our Company's operations and the trading price of the Common Shares may be materially adversely affected.

#### ***Small Company Liquidity Risk***

Trisura Group is a relatively small company in terms of market capitalization. As such, the share price of the Common Shares may be more volatile than the shares of larger, more established companies. The Common Shares may trade less frequently and in smaller volume than shares of large companies. As a result, it may be difficult to buy or sell the Common Shares in a timely fashion relative to buying or selling shares of large companies on the secondary market. We may also have relatively few Common Shares outstanding at any given time, so a sale or purchase of Common Shares may have a greater impact on the price of the Common Shares.

#### ***Future Sales of Substantial Amount of Share Capital***

The articles of incorporation, as amended, of Trisura Group provide that Trisura Group may issue an unlimited number of Common Shares, an unlimited number of non-voting shares and an unlimited number of preference shares (issuable in series), subject to the rules of any stock exchange on which Trisura Group's securities may be listed from time to time. If Trisura Group was to issue any additional Common Shares, non-voting shares or preference shares, or such other classes of authorized shares that are convertible or exchangeable for Common Shares, the percentage ownership of existing holders may be reduced and diluted. We cannot foresee the terms and conditions of any future offerings of our securities nor the effect of such offerings on the market price of the Common Shares. Any issuance of a significant percentage of Trisura Group's securities, or the perception that such issuances may occur, could have a material adverse effect on the market price of the Common Shares and limit our ability to fund our operations through capital raising transactions in the future. The Board of Directors has the authority to issue non-voting shares and preference shares and determine the price, designation, rights (including voting and dividend rights), preferences, privileges, restrictions and conditions of the preference shares, and to determine to whom non-voting and preference shares shall be issued.

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#### ***Business Interruption from Unpredictable Catastrophic Events***

Our company's operations may be subject to losses resulting from the disruption in operations. Regular functioning of our operations may be disrupted by natural catastrophes such as hurricanes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and fires, by man-made catastrophic events include hostilities, terrorist acts, riots, crashes and derailments, or by a disruption in key suppliers for example power grids, internet service providers, and cloud computing providers. Certain events may also cause damage to our Company's physical property or may impact key personnel or trading positions. Our company maintains business continuity plans and technology disaster recovery plans. If these plans cannot be put into action or do not take such events into account, losses may further increase.

#### ***Dependence on Technology***

Our Company is heavily dependent on systems technology to process large volumes of transactions and our business would suffer if the technology employed is inadequate or inappropriate to support current and future business needs and objectives. There is no assurance that we will be able to respond to technology failures effectively and with minimal disruption. To mitigate this risk, our Company maintains technology disaster recovery plans with data backups for each of our operating companies.

#### ***Cyber-Security***

Our information technology systems may be subject to cyber terrorism intended to obtain unauthorized access to our proprietary information, destroy data or disable, degrade or sabotage our systems, often through the introduction of computer viruses, cyber-attacks and other means, and could originate from a wide variety of sources, including internal or unknown third parties. If our information systems are compromised, do not operate or are disabled, this could have a material adverse effect on our business prospects, financial condition, results of operations. We seek to mitigate this risk through network security, network monitoring, third party vulnerability assessments, employee training and awareness, and disaster recovery planning.

#### ***Other Operational Risks***

Through the course of our business we rely on employees, systems, distribution partners, third party vendors and service providers. We are exposed to the potential failure on the part of any of these parties, whether through error, fraud, crime, failure to comply with regulatory standards, failure to comply with internal policies or otherwise. It is not always possible to identify and correct these failures and the internal processes that we have in place may not be effective in all cases at identifying or mitigating these situations in time. In such a case, our reputation, financial condition and results of operations could be negatively impacted. We rely on estimates and models in the course of our business whether internal models or vendor models. These models have a high degree of uncertainty and are based on historical data, scenarios and judgement that may not accurately reflect future conditions. For example, models are used in the estimation of Probable Maximal Loss for contract surety account, in informing reinsurance purchase decisions, in investment decisions, in pricing, and in reserving. Models estimates could deviate materially from actual experience and thereby have a material negative impact on our financial condition and results of operations.

#### ***Taxation Risk***

Our Company is subject to income taxes and premium taxes in the jurisdictions in which we carry on business, including Canada, the U.S. and Barbados. Changes to tax laws or the interpretation of these tax laws by government authorities prospectively or retrospectively could have a material adverse impact our profitability. 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. If our Company were not to achieve the expected level of profitability, the deferred tax asset may not be realized which could have a material negative impact on our financial condition and results of operations.

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## SECTION 9 – SUMMARY OF RESULTS

### SELECTED QUARTERLY RESULTS

	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Gross premiums written	143,212	114,354	109,313	81,383	68,274	57,282	58,661	34,824
Net premiums written and other revenue	43,231	39,959	38,885	32,759	31,789	30,442	30,781	27,187
Total underwriting revenue	33,285	32,249	27,734	26,442	23,658	25,651	21,694	22,530
Net income (loss) attributable to shareholders	4,172	2,543	(4,138)	2,517	1,631	4,160	984	1,863
EPS, basic (in dollars)	0.47	0.37	(0.63)	0.38	0.24	0.62	0.14	0.28
EPS, diluted (in dollars)	0.47	0.37	(0.63)	0.37	0.24	0.62	0.14	0.27

## SECTION 10 – ACCOUNTING AND DISCLOSURE MATTERS

### DISCLOSURE CONTROLS AND PROCEDURES

We maintain 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, 2019, and have concluded that the disclosure controls and procedures are operating effectively.

### INTERNAL CONTROLS OVER FINANCIAL REPORTING

We maintain "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, 2019 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.

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#### 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 the Company 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," "likely," "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 our Company 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; changes in capital requirements; changes in reinsurance arrangements; 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.

## TRISURA GROUP LTD.

### Management's Discussion and Analysis for the year ended 2019

(in thousands of Canadian dollars, except per share numbers and as otherwise noted)

#### GLOSSARY OF ABBREVIATIONS

Abbreviation	Description
AFS	Available for Sale Financial Asset
BVPS	Book Value Per Share
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
GAP	Guaranteed Asset Protection
GPW	Gross Premium Written
LTM	Last Twelve Months
MCT	Minimum Capital Test
n/a	not available
nm	not meaningful
NPE	Net Premiums 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
USD	United States Dollar
YTD	Year to Date





**Trisura Group Ltd.**

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Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

## 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, 2019 and 2018, 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, 2019 and 2018, 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 Ralliam.

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
February 12, 2020

**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)

<b>As at</b>	<i>Note</i>	<b>December 31, 2019</b>	December 31, 2018
<b>Assets</b>			
Cash and cash equivalents, and short-term securities		<b>85,905</b>	95,212
Investments	4	<b>392,617</b>	282,874
Premiums and accounts receivable, and other assets	11	<b>86,669</b>	46,276
Deferred acquisition costs	7	<b>104,197</b>	63,715
Recoverable from reinsurers	14	<b>293,068</b>	109,567
Capital assets and intangible assets	10, 15, 16	<b>14,477</b>	2,512
Deferred tax assets	28	<b>1,460</b>	826
<b>Total assets</b>		<b>978,393</b>	600,982
<b>Liabilities</b>			
Accounts payable, accrued and other liabilities	12	<b>40,916</b>	24,167
Reinsurance premiums payable	9	<b>80,186</b>	41,406
Unearned premiums	8	<b>328,091</b>	182,623
Unearned reinsurance commissions	7	<b>51,291</b>	19,137
Unpaid claims and loss adjustment expenses	9	<b>257,880</b>	173,997
Loan payable	18	<b>29,700</b>	29,700
		<b>788,064</b>	471,030
<b>Shareholders' equity</b>			
Common shares	19	<b>219,251</b>	163,582
Preferred shares	19	-	1,600
Contributed surplus	29.1	<b>815</b>	313
Accumulated deficit		<b>(28,309)</b>	(33,307)
Accumulated other comprehensive loss		<b>(1,428)</b>	(2,236)
		<b>190,329</b>	129,952
<b>Total liabilities and shareholders' equity</b>		<b>978,393</b>	600,982

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 Income**

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

<b>For the years ended December 31,</b>	<i>Note</i>	<b>2019</b>	<b>2018</b>
<b>Gross premiums written</b>		<b>448,262</b>	219,041
Reinsurance premiums ceded		<b>(305,480)</b>	(103,405)
Retrospective premiums refund		<b>(154)</b>	(161)
<b>Net premiums written</b>		<b>142,628</b>	115,475
Change in unearned premiums		<b>(35,124)</b>	(26,666)
<b>Net premiums earned</b>		<b>107,504</b>	88,809
Fee income		<b>12,206</b>	4,724
<b>Total underwriting revenue</b>		<b>119,710</b>	93,533
Net claims and loss adjustment expenses	9	<b>(49,936)</b>	(19,402)
Net commissions	7	<b>(37,516)</b>	(29,903)
Operating expenses and premium taxes		<b>(45,590)</b>	(39,942)
<b>Total claims and expenses</b>		<b>(133,042)</b>	(89,247)
<b>Net underwriting (loss) income</b>		<b>(13,332)</b>	4,286
Net investment income	21	<b>16,243</b>	8,986
Net gains	22	<b>1,572</b>	759
Settlement from structured insurance assets	4.4	<b>8,077</b>	-
Interest expense	18	<b>(1,361)</b>	(970)
<b>Income before income taxes</b>		<b>11,199</b>	13,061
Income tax expense	28	<b>(6,105)</b>	(4,423)
<b>Net income attributable to shareholders</b>		<b>5,094</b>	8,638
Weighted average number of common shares outstanding during the period (in thousands) – basic		<b>7,213</b>	6,622
Earnings per common share (in dollars) – basic	20	<b>0.69</b>	1.29
Earnings per common share (in dollars) – diluted	20	<b>0.69</b>	1.27

See accompanying notes to the Consolidated Financial Statements

**TRISURA GROUP LTD.****Consolidated Statements of Comprehensive Income**

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

<b>For the years ended December 31,</b>	<b>2019</b>	<b>2018</b>
<b>Net income attributable to shareholders</b>	<b>5,094</b>	<b>8,638</b>
Net unrealized gains (losses) on available-for-sale investments	<b>7,379</b>	(8,699)
Income tax (expense) benefit	<b>(1,178)</b>	2,258
Items that may be reclassified subsequently to net income	<b>6,201</b>	(6,441)
Net realized losses	<b>(499)</b>	(2,042)
Impairment adjustment	-	325
Income tax benefit	<b>15</b>	309
Items reclassified to net income	<b>(484)</b>	(1,408)
Items other than cumulative translation (loss) gain	<b>5,717</b>	(7,849)
Items that will not be reclassified subsequently to net income – Cumulative translation (loss) gain	<b>(4,909)</b>	7,533
<b>Other comprehensive income (loss)</b>	<b>808</b>	(316)
<b>Total comprehensive income</b>	<b>5,902</b>	<b>8,322</b>

*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)

	<i>Note</i>	Common shares	Preferred shares	Contributed surplus	Accumulated deficit	Accumulated other comprehensive loss (net of income taxes)	Total
Balance at January 1, 2019		163,582	1,600	313	(33,307)	(2,236)	129,952
Net income		-	-	-	5,094	-	5,094
Other comprehensive income		-	-	-	-	808	808
Comprehensive income		-	-	-	5,094	808	5,902
Share issuance	19	55,669	-	-	-	-	55,669
Share redemption	19	-	(1,600)	-	-	-	(1,600)
Share based payments		-	-	502	-	-	502
Dividends paid	19	-	-	-	(96)	-	(96)
<b>Balance at December 31, 2019</b>		<b>219,251</b>	<b>-</b>	<b>815</b>	<b>(28,309)</b>	<b>(1,428)</b>	<b>190,329</b>

	<i>Note</i>	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		-	-	-	8,638	(316)	8,322
Share based payments		-	-	224	-	-	224
Dividends paid	19	-	-	-	(96)	-	(96)
Balance at December 31, 2018		163,582	1,600	313	(33,307)	(2,236)	129,952

See accompanying notes to the Consolidated Financial Statements

**TRISURA GROUP LTD.****Consolidated Statements of Cash Flows**

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

<b>For the years ended December 31,</b>	<b>2019</b>	<b>2018</b>
<b>Operating activities</b>		
Net income	5,094	8,638
Items not involving cash:		
Depreciation and amortization	2,500	1,544
Unrealized gains	7,927	1,505
Impairment loss on available-for-sale investments	-	325
Payment in kind	(529)	-
Stock options granted	502	224
Change in working capital	49,726	13,091
Realized gains on investments	(2,860)	(686)
Income taxes paid	(2,573)	(3,354)
Interest paid	(1,410)	(995)
<b>Net cash flows from operating activities</b>	<b>58,377</b>	<b>20,292</b>
<b>Investing activities</b>		
Proceeds on disposal of investments	55,452	99,729
Purchases of investments	(170,817)	(196,363)
Purchases of capital assets	(386)	(531)
Purchases of intangible assets	(2,745)	(135)
<b>Net cash flows used in investing activities</b>	<b>(118,496)</b>	<b>(97,300)</b>
<b>Financing activities</b>		
Dividends paid	(96)	(96)
Shares issued	55,669	-
Preferred shares redeemed	(1,600)	-
Loans received	-	29,700
Repayment of loans payable	-	(29,700)
Repayment of notes payable	-	(30)
Principal portion of lease payments	(1,026)	-
<b>Net cash flows from (used in) financing activities</b>	<b>52,947</b>	<b>(126)</b>
<b>Net decrease in cash and cash equivalents, and short-term securities during the period</b>	<b>(7,172)</b>	<b>(77,134)</b>
Cash, beginning of period	93,152	83,137
Cash equivalents, beginning of period	2,060	82,538
Cash and cash equivalents, beginning of period	95,212	165,675
Impact of foreign exchange on cash and cash equivalents, and short-term securities	(2,135)	6,671
Cash, end of period	68,208	93,152
Cash and cash equivalents and short-term securities, end of period	17,697	2,060
<b>Cash and cash equivalents, and short-term securities, end of period</b>	<b>85,905</b>	<b>95,212</b>

See accompanying notes to the Consolidated Financial Statements

# TRISURA GROUP LTD.

## Notes to the Consolidated Financial Statements

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

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### 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 23).

Trisura Guarantee operates as a Canadian property and casualty insurance company. Trisura International is currently managing its in-force portfolio of specialty reinsurance contracts and assumes some premium from Trisura Specialty. Trisura Specialty is 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. Through its newly acquired subsidiary Trisura Specialty can also write admitted business in certain states.

In 2018, the Company incorporated Trisura Warranty Services Inc. (“Trisura Warranty”), and on January 22, 2019 purchased an existing book of warranty contracts from a third party, which Trisura Warranty will continue to administer. Trisura Warranty has begun to sell warranty products, which will serve as a complimentary business to the insurance products sold through Trisura Guarantee.

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

#### 2.1 Basis of presentation

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

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. The Company’s functional and presentation currency is Canadian dollars.

These Consolidated Financial Statements were authorized for issuance by the Company’s Board of Directors on February 12, 2020.

#### 2.2 Cash and cash equivalents, and short-term securities

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

#### 2.3 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. Certain investments are designated as FVTPL to reduce the volatility within net income associated with the movement of the underlying claims which are supported by these investments. 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.

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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

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#### 2.3 Financial instruments (continued)

##### a) *Categories of financial instruments (continued)*

##### 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. 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 or 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.

##### 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 or losses are recognized in Net gains or losses in the Consolidated Statements of Comprehensive Income (Note 5 and Note 22).

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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

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#### 2.3 Financial instruments (continued)

##### 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 AFS 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 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 AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net income, the impairment loss is reversed, with the amount of the reversal recognized in net income.

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. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use.

##### 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.

#### 2.4 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, premiums receivable, and unearned premiums*

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*. 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.

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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

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#### 2.4 Insurance contracts (continued)

##### 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.

##### 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 uncertainty 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.

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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

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#### 2.5 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	30% – 40%, declining balance
Furniture and fixtures	20% – 25%, declining balance
Leasehold improvements	5 to 10 years, straight-line over the term of the lease

#### 2.6 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. Licenses have indefinite useful lives and are not amortized.

#### 2.7 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 income (loss), the related tax is also presented in other comprehensive income (loss).

#### 2.8 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.

Monetary assets and liabilities denominated in a foreign currency 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. 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 AFS, foreign exchange differences resulting from changes in amortized cost are recognized in net income, 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 AFS, foreign exchange differences are included as unrealized gains (losses) within other comprehensive income (loss).

##### 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 in other comprehensive income (loss).

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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

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#### 2.9 Share based compensation

The Company's accounting policies with respect to share based compensation are in accordance with IFRS 2, *Share based payment*.

##### 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 vesting period. Obligations related to equity-settled stock option 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 vesting period. 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 ("DSU")*

The Company has adopted a non-employee director 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.

#### 2.10 Leases

Effective January 1, 2019, the Company adopted the new leases standard IFRS 16 *Leases* ("IFRS 16") and applied the modified retrospective method upon adoption. The Company has determined that the impact of adoption resulted in the addition of a right-of-use ("ROU") asset of \$10,058 and a corresponding lease liability of \$10,058 (see Note 10). At the commencement date, the Company measured the ROU assets at cost and the lease liability at the present value of future lease payments. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. The Company used the incremental borrowing rate at the date of initial application as the discount rate, as the rate implicit in the lease was not readily determinable.

The ROU assets are depreciated over the earlier of the end of the useful life of the underlying asset or the end of the term of the underlying lease contracts. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Short-term leases or leases of low-value assets are accounted for by recognizing the lease payments associated with those leases as an expense on a straight-line basis over the term of the leases, as permitted by IFRS 16.

#### 2.11 Transaction costs

The Company accounts for transaction costs that are incremental and directly attributable to an equity transaction as a deduction from equity, in accordance with IAS 32 *Financial Instruments: Presentation*.

#### 2.12 Uncertainty over income tax treatments

The Company has adopted IFRIC 23 *Uncertainty over Income Tax Treatments* ("IFRIC 23") for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The adoption of this interpretation did not impact the Company's Consolidated Financial Statements for the year ended December 31, 2019.



## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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#### 2.13 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. The Company’s 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 any 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 13.2(c)) of financial assets. The Company is assessing the impact that IFRS 9 will have on its Consolidated Financial Statements.

##### b) 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. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure draft *Amendments to IFRS 17* addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after 1 January 2022. The Company is assessing the impact that IFRS 17 will have on its Consolidated Financial Statements.

##### c) *Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting policies, changes in accounting estimates, and errors with respect to the definition of material*

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of ‘obscuring’ material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from ‘could influence’ to ‘could reasonably be expected to influence’. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term ‘material’ to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted.

##### d) IFRS 3 Business Combinations

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Additional guidance is provided that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2020, with early application permitted.

# TRISURA GROUP LTD.

## Notes to the Consolidated Financial Statements

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

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### 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 2.4(f)).

*b) Financial assets*

Judgments are used in determining the classification of financial assets as AFS, FVTPL or Loans and receivables (see Note 2.3(a)).

*c) Unpaid claims and LAE*

Judgments are used in establishing provisions for unpaid claims and LAE (see Note 2.4(d)).

#### 3.2 Assumptions and estimation uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the Consolidated Financial Statements 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 2.4(d)), as well as significant risk factors associated with insurance and reinsurance (see Note 13 and Note 14).

*b) Valuation of level 3 assets*

Assumptions and estimation uncertainties exist related to the valuation of the structured insurance assets (see Note 4.4 and Note 6) as well as other Level 3 assets (see Note 6).

*c) Measurement of income taxes*

Assumptions and estimates are used in measuring the provision for incomes taxes (see Note 2.7 and Note 28).

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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#### Note 4 – Investments

##### 4.1 Classification of cash and investments

The following table presents the classification of cash and cash equivalents, and short-term securities and investments:

As at December 31, 2019	AFS	Designated FVTPL	Cash, loans and receivables	Total
Cash and cash equivalents, and short-term securities	-	-	85,905	85,905
Investments				
Fixed income	226,122	71,838	4,294	302,254
Common shares <sup>(1)</sup>	40,621	-	-	40,621
Preferred shares	39,084	-	-	39,084
Structured insurance assets	-	10,658	-	10,658
<b>Total cash and investments</b>	<b>305,827</b>	<b>82,496</b>	<b>90,199</b>	<b>478,522</b>

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
Common shares <sup>(1)</sup>	27,040	-	-	27,040
Preferred shares	25,307	-	-	25,307
Structured insurance assets	-	12,300	-	12,300
<b>Total cash and investments</b>	<b>248,313</b>	<b>30,602</b>	<b>99,171</b>	<b>378,086</b>

(1) Common shares include income and investment trust units.

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 assets were measured at \$2,785, resulting in a realized loss of \$21. As at December 31, 2019, the Company's continuing interest in the financial assets were measured at carrying value of \$4,294 (December 31, 2018 – \$3,959).

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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

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

The amortized cost and carrying value of investments as at December 31, 2019 and December 31, 2018 were as follows:

As at December 31, 2019	FVTPL	Other investments				Total
	investments	Amortized cost	Unrealized gains	Unrealized losses	Carrying value	investments
	At carrying value					At carrying value
Government	71,838	49,046	796	(49)	49,793	121,631
Corporate	-	174,957	2,121	(749)	176,329	176,329
<b>Total bonds</b>	<b>71,838</b>	<b>224,003</b>	<b>2,917</b>	<b>(798)</b>	<b>226,122</b>	<b>297,960</b>
Other loans	-	4,294	-	-	4,294	4,294
<b>Total fixed income</b>	<b>71,838</b>	<b>228,297</b>	<b>2,917</b>	<b>(798)</b>	<b>230,416</b>	<b>302,254</b>
Common shares <sup>(1)</sup>	-	34,543	6,335	(257)	40,621	40,621
Preferred shares	-	42,832	518	(4,266)	39,084	39,084
Structured insurance assets	10,658	-	-	-	-	10,658
	<b>82,496</b>	<b>305,672</b>	<b>9,770</b>	<b>(5,321)</b>	<b>310,121</b>	<b>392,617</b>

As at December 31, 2018	FVTPL	Other investments				Total
	investments	Amortized cost	Unrealized gains	Unrealized losses	Carrying value	investments
	At 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
<b>Total bonds</b>	<b>18,302</b>	<b>198,175</b>	<b>502</b>	<b>(2,711)</b>	<b>195,966</b>	<b>214,268</b>
Other loans	-	3,959	-	-	3,959	3,959
<b>Total fixed income</b>	<b>18,302</b>	<b>202,134</b>	<b>502</b>	<b>(2,711)</b>	<b>199,925</b>	<b>218,227</b>
Common shares <sup>(1)</sup>	-	24,307	5,270	(2,537)	27,040	27,040
Preferred shares	-	28,456	108	(3,257)	25,307	25,307
Structured insurance assets	12,300	-	-	-	-	12,300
	<b>30,602</b>	<b>254,897</b>	<b>5,880</b>	<b>(8,505)</b>	<b>252,272</b>	<b>282,874</b>

(1) Common shares include income and investment trust units.

The Company is currently assessing the cash flow characteristics test, to determine if the securities the Company holds would pass the sole 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 along with IFRS 17, effective for fiscal year commencing January 1, 2022.

Management has reviewed currently available information regarding those investments with a fair value less than carrying value. For the year ended December 31, 2019, management did not recognize any impairments (December 31, 2018 – \$325). Assumptions are used when estimating the value of impairment based on the Company's impairment policy, which involves comparing fair value to carrying value.

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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

#### 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, 2019, the Company has pledged cash amounting to \$2,576 USD and pledged fixed maturity investments amounting to \$58,981 USD (December 31, 2018 – \$32,088 USD and \$20,090 USD, respectively), under insurance and reinsurance trust arrangements and are therefore not readily available for general use by the Company.

As at December 31, 2019, the Company pledged \$311 USD (December 31, 2018 – \$294 USD) 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 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, 2019 amounted to \$1,658 (December 31, 2018 – \$1,874), which has been recorded within Net investment income (see Note 21).

In March 2019, there was a one-time settlement gain of \$6,075 USD on the structured insurance assets. In 2016, Trisura International, along with two other parties, commenced legal action against the third party, from whom Trisura International purchased the structured insurance assets in 2004. The lawsuit was fully settled in March 2019, and the amount was fully received in April 2019.

#### 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, 2019 and December 31, 2018:

As at	December 31, 2019			December 31, 2018		
	Notional amount	Fair value		Notional amount	Fair value	
Asset		Liability	Asset		Liability	
<b>Foreign currency contracts</b>						
Forwards	43,700	327	-	24,101	-	380
<b>Equity contracts</b>						
Swap agreement	494	745	-	-	-	-
	<b>44,194</b>	<b>1,072</b>	-	24,101	-	380
<b>Term to maturity</b>						
less than one year	43,700	327	-	24,101	-	380
from one to five years	494	745	-	-	-	-

The Company entered into foreign currency forward contracts to reduce its exposure to fluctuations in the USD, EUR and GBP exchange rates that could arise from its foreign denominated investments. The notional amounts of the derivatives as at December 31, 2019 are \$25,991 USD (December 31, 2018 – \$16,819 USD), €1,636 EUR (December 31, 2018 – €1,000 EUR) and £4,193 GBP (December 31, 2018 – £nil). The Company also entered into a swap agreement to mitigate exposure to equity market fluctuations associated with its share based compensation. These derivatives are recorded at fair value and gains and losses are recorded in Net gains (losses) (see Note 22).

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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

#### Note 6 – Fair value measurement

The following sets out the financial instruments classified in accordance with the fair value hierarchy as at December 31, 2019 and December 31, 2018:

As at December 31, 2019	Total fair value	Level 1	Level 2	Level 3
<b>Government</b>	<b>121,631</b>	-	<b>121,631</b>	-
<b>Corporate</b>	<b>176,329</b>	-	<b>176,329</b>	-
<b>Total bonds</b>	<b>297,960</b>	-	<b>297,960</b>	-
<b>Common shares <sup>(1)</sup></b>	<b>40,621</b>	<b>39,711</b>	-	<b>910</b>
<b>Preferred shares</b>	<b>39,084</b>	<b>39,084</b>	-	-
<b>Structured insurance assets</b>	<b>10,658</b>	-	-	<b>10,658</b>
<b>Total investments</b>	<b>388,323</b>	<b>78,795</b>	<b>297,960</b>	<b>11,568</b>
<b>Derivative financial assets</b>	<b>1,072</b>	-	<b>1,072</b>	-
	<b>389,395</b>	<b>78,795</b>	<b>299,032</b>	<b>11,568</b>

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	-
Common shares <sup>(1)</sup>	27,040	26,235	-	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

(1) Common shares include income and investment trust units.

For the years ended December 31, 2019 and December 31, 2018, there were no transfers between levels.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the hierarchy as at December 31, 2019 and December 31, 2018:

	December 31, 2019	December 31, 2018
Balance at beginning of period	<b>13,105</b>	13,223
Unrealized losses	<b>(1,092)</b>	(982)
Amortization of premium	-	(63)
Purchase of securities	<b>119</b>	205
Sale of securities	-	(363)
Foreign exchange	<b>(564)</b>	1,085
Balance at end of period	<b>11,568</b>	13,105

# TRISURA GROUP LTD.

## Notes to the Consolidated Financial Statements

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

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

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 made 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 considering 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.

Management uses sensitivity analyses to ensure risks assumed are within the Company’s risk tolerance level. Sensitivity analyses are performed on factors that would impact the Company’s results and financial condition. Results of the sensitivity analyses should only be viewed as directional estimates as they can differ materially from actual results. The following table shows the sensitivity of the valuation to a 1% change in the lapse rate.

Sensitivity factor	December 31, 2019	December 31, 2018
	Impact on comprehensive income	
100 basis point increase in lapse rate	(576)	(587)
100 basis point decrease in lapse rate	622	632

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, 2019	Valuation technique	Unobservable inputs	Range
<b>Structured insurance assets</b>	<b>10,658</b>	<b>Discounted cash flow</b>	<b>Discount rate load<sup>(1)</sup> Morbidity rates<sup>(2)</sup> Lapse rates<sup>(3)</sup></b>	<b>0.25% - 3.00% 0.00% - 24.50% 1.00% - 3.90%</b>
<b>Private equity fund investments</b>	<b>910</b>	<b>Net asset value<sup>(4)</sup></b>	<b>n/a</b>	<b>n/a</b>

	Fair value as at December 31, 2018	Valuation technique	Unobservable inputs	Range
Structured insurance assets	12,300	Discounted cash flow	Discount rate load <sup>(1)</sup> Morbidity rates <sup>(2)</sup> Lapse rates <sup>(3)</sup>	0.25% - 3.00% 0.30% - 25.30% 2.50%
Private equity fund investments	805	Net asset value <sup>(4)</sup>	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; and
- 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 morbidity rates vary by age and gender (e.g. from 0.0% at age 50 to over 20% for ages in excess of 97) and are based on long term care industry data. At December 31, 2019, the average morbidity rate was 5.0% corresponding to an average policyholder age of 81 (December 31, 2018 – 5.0% and average policyholder age of 81).

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

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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

#### Note 7 – Deferred acquisition costs

The following changes have occurred to the deferred acquisition costs for the years ended December 31, 2019 and December 31, 2018:

##### Deferred acquisition costs

	December 31, 2019	December 31, 2018
Opening costs, beginning of year	63,715	40,266
Acquisition costs deferred	124,742	68,999
Amortization of deferred costs	(83,171)	(46,098)
Foreign exchange	(1,089)	548
Closing balance, end of year	104,197	63,715

##### Reinsurers' share of deferred acquisition costs

	December 31, 2019	December 31, 2018
Opening costs, beginning of year	19,137	5,566
Acquisition costs deferred	77,268	26,605
Amortization of deferred costs	(43,845)	(13,671)
Foreign exchange	(1,269)	637
Closing balance, end of year	51,291	19,137

The reinsurers' share of deferred acquisition costs is referred to as Unearned reinsurance commissions in the Consolidated Statements of Financial Position.

The following table presents the breakdown of net commissions expense for the years ended December 31, 2019 and December 31, 2018:

##### Net commissions

	December 31, 2019	December 31, 2018
Commissions expense	82,923	45,314
Reinsurance commissions	(45,407)	(15,411)
Net commissions expense	37,516	29,903

#### Note 8 – Unearned premiums

Unearned premiums are generally calculated on a pro rata basis from the unexpired portion of the premiums written (see Note 2.4(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, 2019 or December 31, 2018.

The carrying value of unearned premiums approximates their fair value.



## TRISURA GROUP LTD.

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#### Note 8 – Unearned premiums (continued)

The following changes have occurred in the provision for unearned premiums during the years ended December 31, 2019 and December 31, 2018:

<b>Unearned premiums</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Unearned premiums, beginning of year	<b>182,623</b>	115,357
Gross premiums written	<b>448,262</b>	219,041
Gross premiums earned	<b>(298,408)</b>	(153,753)
Foreign exchange	<b>(4,386)</b>	1,978
Unearned premiums, end of year	<b>328,091</b>	182,623

<b>Reinsurers' share of unearned premium</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Reinsurers' share of unearned premiums, beginning of year	<b>67,519</b>	27,008
Ceded premiums written	<b>305,480</b>	103,405
Ceded premiums earned	<b>(190,445)</b>	(64,783)
Foreign exchange	<b>(4,143)</b>	1,889
Reinsurers' share of unearned premiums, end of year	<b>178,411</b>	67,519

#### Note 9 – Unpaid claims and loss adjustment expenses

As at September 30, 2019, the Company changed its estimation methodology for determining the long-term interest rates used in discounting the claims reserves of the life reinsurance business of Trisura International. Prior to September 30, 2019, Trisura International used the Euro swap rate curve to represent market-consistent risk-free interest rates.

Effective September 30, 2019, Trisura International began to determine the interest rates used in discounting its life reinsurance claims reserves by using the interest rate curve provided by the European Insurance and Occupational Pensions Authority ("EIOPA"). This curve is based on the Euro swap rate curve and also incorporates a credit risk adjustment, a volatility adjustment and the extrapolation of interest rates at longer durations. The EIOPA curve is used in Solvency II, a risk-based insurance regulatory and capital regime applied in Europe and is an accepted practice for valuation of claims reserves under IFRS 4.

The aggregate impact of these estimation changes reduced Trisura International's life Unpaid claims and loss adjustment expenses by \$5,773 as at September 30, 2019, with a corresponding decrease of \$5,773 in Claims and loss adjustment expenses for the period ended September 30, 2019. It is impracticable for the Company to determine the impact of these estimation changes on future periods.

Unpaid claims and loss adjustment balances due from reinsurers 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 3.0% (2018 – 3.25%) 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 (0.35%) to 3.9% (2018 – (0.36%) to 1.38%).

## TRISURA GROUP LTD.

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#### Note 9 – Unpaid claims and loss adjustment expenses (continued)

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

<b>December 31, 2019</b>	<b>Direct</b>	<b>Ceded</b>	<b>Net</b>
Unpaid claims, beginning of period	173,997	42,048	131,949
Purchase of Trisura Warranty outstanding warranty contracts	987	-	987
Gross unpaid claims	174,984	42,048	132,936
Claims occurring in current year (including paid)	174,646	138,364	36,282
Change in undiscounted estimates for losses of prior years	(8,141)	(1,679)	(6,462)
Change in discounting	19,759	134	19,625
Change in provision for adverse deviation	766	275	491
Total claims incurred	187,030	137,094	49,936
Claims paid	(96,370)	(62,645)	(33,725)
Foreign exchange	(7,764)	(1,840)	(5,924)
Unpaid claims, end of period	257,880	114,657	143,223

<b>December 31, 2018</b>	<b>Direct</b>	<b>Ceded</b>	<b>Net</b>
Unpaid claims, beginning of period	178,885	38,246	140,639
Claims occurring in current year (including paid)	59,169	36,021	23,148
Change in undiscounted estimates for losses of prior years	1,252	3,786	(2,534)
Change in discounting	(1,957)	(347)	(1,610)
Change in provision for adverse deviation	413	(245)	658
Total claims incurred	58,877	39,215	19,662
Claims paid	(68,307)	(35,863)	(32,444)
Foreign exchange	4,542	450	4,092
Unpaid claims, end of period	173,997	42,048	131,949

The Reinsurance premiums payable balance of \$80,186 (December 31, 2018 – \$41,406) on the Consolidated Statements of Financial Position reflects \$84,572 of reinsurance payable (December 31, 2018 – \$45,694), netted against \$4,386 (December 31, 2018 – \$4,288) of reinsurance recoverable.

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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

#### 9.1 Prior year claims development

The following table presents the 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:

##### Net claims loss development

Accident year	All prior years	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of net ultimate claims incurred		14,802	10,003	10,463	12,349	14,002	18,997	28,378	21,741	23,148	<b>35,869</b>	
One year later		13,019	10,211	8,872	9,953	12,363	15,878	26,772	19,059	20,068		
Two years later		13,599	9,683	7,402	6,651	10,310	14,365	26,380	17,409			
Three years later		13,114	9,253	6,845	5,648	9,224	14,421	25,826				
Four years later		11,350	7,564	6,568	5,324	8,934	13,340					
Five years later		10,439	7,053	7,861	5,254	8,269						
Six years later		10,500	6,958	8,102	5,179							
Seven years later		10,643	7,090	7,899								
Eight years later		10,973	6,680									
Nine years later		11,236										
Estimate of net ultimate claim incurred	2,796,630	11,236	6,680	7,899	5,179	8,269	13,340	25,826	17,409	20,068	<b>35,869</b>	2,948,405
Cumulative claim payments to date	(2,789,453)	(10,769)	(6,433)	(5,777)	(4,314)	(7,406)	(11,285)	(14,434)	(11,807)	(11,640)	<b>(11,784)</b>	(2,885,102)
Net unpaid claims	7,177	467	247	2,122	865	863	2,055	11,392	5,602	8,428	<b>24,085</b>	63,303
Impact of discounting	-	(18)	(11)	(116)	(47)	(57)	(136)	(579)	(465)	(689)	<b>(1,382)</b>	(3,500)
Impact of PfAD	9	61	33	284	148	160	314	1,394	775	1,119	<b>2,500</b>	6,797
Present value of net unpaid claims with PfAD	7,186	510	269	2,290	966	966	2,233	12,207	5,912	8,858	<b>25,203</b>	66,600
Add: Net discounted reserves on life contracts												75,875
Add: Trisura Warranty unpaid claims												748
Total net unpaid claims and LAE												143,223

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### Notes to the Consolidated Financial Statements

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#### Note 10 – Leases

The Company leases office premises for its own use. These leases have terms that range from 5 years to 12 years, most with an option to extend the lease at the end of the lease term. The Company also leases office equipment. These leases generally have a lease term of five years, with no renewal option or variable lease payments.

As at December 31, 2019, ROU assets of \$9,599 (December 31, 2018 – \$nil) are recorded in Capital assets and intangible assets, along with \$4,878 (December 31, 2018 – \$2,512) of other Capital assets and intangible assets.

Information about leases for which the Company is a lessee is presented below:

<b>As at December 31, 2019</b>	<b>Premises</b>	<b>Office equipment</b>	<b>Total</b>
<b>Right-of-use assets</b>			
Balance as at December 31, 2018	-	-	-
Impact of IFRS 16 adoption	10,033	25	10,058
Balance as at January 1, 2019	10,033	25	10,058
Additions	780	-	780
Depreciation	(1,167)	(11)	(1,178)
Foreign exchange	(60)	(1)	(61)
Balance at end of period	9,586	13	9,599

<b>As at</b>	<b>December 31, 2019</b>
<b>Lease liabilities maturity analysis</b>	
Less than one year	1,656
One to five years	6,650
More than five years	2,826
<b>Total undiscounted lease liabilities</b>	<b>11,132</b>
<b>Lease liabilities included in the Statements of Financial Position</b>	<b>9,756</b>
<b>Total cash outflow for leases recognized in the Statements of Cash Flows</b>	<b>1,348</b>

<b>Amounts recognized in Statements of Comprehensive Income for the period ended</b>	<b>December 31, 2019</b>
Interest on lease liabilities	322
Expense relating to short-term leases	40
Expenses relating to leases of low-value assets	4
Income from subleasing right-of-use assets	502

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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

#### Note 11 – Premiums and accounts receivable, and other assets

As at December 31, 2019 and December 31, 2018, Premiums and accounts receivable, and other assets consists of:

<b>As at</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Premiums receivable	<b>79,627</b>	41,251
Accrued investment income	<b>2,537</b>	1,991
Derivative assets	<b>1,072</b>	-
Tax recoveries	<b>417</b>	1,939
Prepaid expenses	<b>388</b>	316
Funds held by ceding companies	<b>221</b>	236
Miscellaneous assets	<b>2,407</b>	543
	<b>86,669</b>	46,276

As at December 31, 2019, Premiums receivable of \$79,627 (December 31, 2018 – \$41,251) includes an amount of \$54,187 (December 31, 2018 – \$20,504) related to Trisura Specialty for which there is a reinsurance payable of \$60,345 (December 31, 2018 – \$21,355).

#### Note 12 – Accounts payable, accrued and other liabilities

As at December 31, 2019 and December 31, 2018, Accounts payable, accrued and other liabilities consist of:

<b>As at</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Deposits in trust	<b>11,842</b>	9,565
Accrued liabilities	<b>8,345</b>	8,700
Lease liabilities	<b>9,756</b>	-
Other liabilities	<b>4,102</b>	3,891
Taxes payable	<b>3,913</b>	-
Share based payment plan	<b>2,589</b>	715
Investment contract liabilities	<b>369</b>	916
Derivatives liabilities	-	380
	<b>40,916</b>	24,167

#### Note 13 – 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). Sensitivity analyses are performed on these significant risks which could impact the Company's results and financial condition. Results of the sensitivity analyses should only be viewed as directional estimates as they can differ materially from actual results.

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

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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#### 13.1 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 the underwriting process to ensure that these policies, procedures and guidelines are followed. Furthermore, the Company regularly reviews its underwriting practices 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 2.4(d)).

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 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 2.4(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 accumulations of large numbers of insurance or reinsurance contracts exposed to similar perils, classes of business or geographic areas.

To mitigate the impact of concentration of risk, the Company applies risk management practices, including the use of reinsurance, 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 net claims exposures and concentration and aggregation risks 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, 2019			December 31, 2018		
		Canada	U.S.	Other	Canada	U.S.	Other
<b>Trisura Guarantee</b>	Surety	57,022	2,247	-	49,783	1,751	-
	Corporate insurance	47,253	-	-	39,073	-	-
	Risk solutions	77,717	-	-	74,615	-	-
<b>Trisura Specialty</b>	Property & casualty	-	263,911	-	-	53,731	-
<b>Trisura International</b>	Life	-	-	112	-	-	88
<b>Gross premiums written</b>		<b>181,992</b>	<b>266,158</b>	<b>112</b>	<b>163,471</b>	<b>55,482</b>	<b>88</b>

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#### 13.1 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 impact the ultimate value of 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, 2019 and 2018. 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 and shareholders' equity.

	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Sensitivity factor	Impact on comprehensive income, before tax		Impact on shareholders' equity	
5% increase to loss ratio	(5,275)	(4,420)	(3,872)	(3,240)
5% increase to claims settlement costs	(3,188)	(2,940)	(2,407)	(2,235)

###### 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, 2019	December 31, 2018
Sensitivity factor	Impact on comprehensive income	
100 basis point increase in GAO take-up rate	(881)	(1,251)
100 basis point decrease in GAO take-up rate	916	938

Unpaid claims and LAE reserves are discounted due to the time value of money and are sensitive to interest rates. The impact of the interest rate sensitivity on unpaid claims is shown in Note 13.4(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.

#### 13.2 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 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 of the investment portfolio.

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

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 intermediaries fail to remit the premiums they have collected on its behalf. The Company primarily deals with intermediaries with which it has entered into a contract that details, among other things, the intermediary's responsibilities and payment obligations. These intermediaries 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, 2019, \$2,717 of premiums receivable was past due but not considered to be impaired (December 31, 2018 – \$1,586).

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### Notes to the Consolidated Financial Statements

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#### 13.2 Credit risk (continued)

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 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 or unrated 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.

For funds withheld by ceding companies, credit risk is monitored regularly. 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 monitored with reference to the credit quality of the counter-party, and an impairment allowance is made if deemed appropriate.

#### 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.

<b>As at</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Cash and cash equivalents, and short-term securities	<b>85,905</b>	95,212
Bonds		
Government	<b>121,631</b>	64,019
Corporate	<b>176,329</b>	150,249
Other loans	<b>4,294</b>	3,959
Structured settlements	<b>10,658</b>	12,300
Premiums receivable	<b>79,627</b>	41,251
Accrued investment income	<b>2,537</b>	1,991
Funds held by ceding companies	<b>221</b>	236
Derivative assets	<b>1,072</b>	-
Other assets	<b>2,824</b>	2,483
	<b>485,098</b>	371,700



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### Notes to the Consolidated Financial Statements

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

#### 13.2 Credit risk (continued)

##### 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 they may operate in the same or similar industries. The following table provides details of the fair value of fixed income securities by industry sector:

<b>As at</b>	<b>December 31, 2019</b>	December 31, 2018
Government	<b>121,631</b>	64,019
Financial	<b>64,842</b>	61,388
Energy	<b>23,535</b>	11,436
Industrials	<b>20,187</b>	22,038
Consumer discretionary	<b>15,762</b>	7,049
Telecom services	<b>11,598</b>	13,710
Automotive	<b>11,515</b>	7,389
Real estate	<b>8,319</b>	5,369
Consumer staples	<b>4,797</b>	5,202
Utility	<b>3,868</b>	3,626
Power and pipelines	<b>3,636</b>	4,734
Retail	<b>3,588</b>	6,224
Other	<b>8,976</b>	6,043
	<b>302,254</b>	218,227

##### c) Asset quality

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

<b>As at</b>	<b>December 31, 2019</b>	December 31, 2018
Fixed income securities		
AAA	<b>43,566</b>	21,306
AA	<b>91,156</b>	51,388
A	<b>94,257</b>	79,190
BBB	<b>56,549</b>	55,763
Below BBB	<b>16,726</b>	10,580
	<b>302,254</b>	218,227
Cash equivalents and short-term securities		
R-1 (high)	<b>11,398</b>	-
R-1 (medium)	-	2,060
R-1 (low)	<b>6,299</b>	-
	<b>319,951</b>	220,287

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### Notes to the Consolidated Financial Statements

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

#### 13.3 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 2.4(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 short-term securities and a highly rated, highly liquid investment portfolio. The Company's investment policy sets out credit quality criteria and has limits on single issuer exposures. In addition, the investment policy stipulates average duration targets.

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).

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

<b>As at December 31, 2019</b>	<b>Up to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>No specific maturity</b>	<b>Total</b>
Cash and cash equivalents, and short-term securities	16,398	-	-	69,507	85,905
Investments	27,120	192,487	93,306	79,704	392,617
Premiums receivable	76,680	2,947	-	-	79,627
Other financial assets	6,864	48	130	-	7,042
Reinsurers' share of claims reserves	88,039	24,710	1,908	-	114,657
<b>Financial and insurance assets <sup>(1)</sup></b>	<b>215,101</b>	<b>220,192</b>	<b>95,344</b>	<b>149,211</b>	<b>679,848</b>

<b>As at December 31, 2018</b>	<b>Up to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>No specific maturity</b>	<b>Total</b>
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
<b>Financial and insurance assets <sup>(1)</sup></b>	<b>70,434</b>	<b>205,129</b>	<b>45,180</b>	<b>145,668</b>	<b>466,411</b>

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

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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

#### 13.3 Liquidity risk (continued)

As at December 31, 2019	Up to 1 year	1 to 5 years	Over 5 years	No specific maturity	Total
Unpaid claims and LAE <sup>(2)</sup>	120,077	92,798	39,792	-	252,667
Reinsurance premiums payable	80,186	-	-	-	80,186
Other financial liabilities	19,285	-	-	11,875	31,160
Loans payable	-	29,700	-	-	29,700
Financial and insurance liabilities <sup>(3)</sup>	219,548	122,498	39,792	11,875	393,713

As at December 31, 2018	Up to 1 year	1 to 5 years	Over 5 years	No specific maturity	Total
Unpaid claims and LAE <sup>(2)</sup>	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 <sup>(3)</sup>	92,417	113,187	43,021	10,337	258,962

(2) Undiscounted and excluding PfADs.

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

#### 13.4 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 faces currency risk as a result of having 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 Company also has currency risk as a result of having investments in the Company's Canadian operations denominated in USD. The foreign currency positions of the Company are monitored regularly and the Company uses derivatives throughout the year to manage foreign exchange risks where a material unmatched foreign exchange position exists.

##### i) Exposure to currency risk

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:

As at December 31,	USD		EUR		GBP	
	2019	2018	2019	2018	2019	2018
Cash and investments	24,138	17,415	1,654	1,002	4,370	-
Less: foreign – currency derivatives, notional amount	(25,991)	(16,819)	(1,636)	(1,000)	(4,193)	-
Total net exposure	(1,853)	596	18	2	177	-

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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

#### 13.4 Market risk (continued)

##### a) Currency risk (continued)

##### i) Exposure to currency risk (continued)

The following table summarizes the carrying value of assets and liabilities, denominated in a currency other than USD, 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 considering the effect of any forward currency exchange contracts:

	December 31, 2019		December 31, 2018	
	EUR	Other	EUR	Other
Assets	<b>73,947</b>	<b>1,406</b>	67,460	1,417
Liabilities	<b>76,251</b>	<b>235</b>	70,323	155
Net assets	<b>(2,304)</b>	<b>1,171</b>	(2,863)	1,262

As at December 31, 2019, Trisura International's short position in Euro is unhedged and management considered the foreign exchange risk to be acceptable.

The following table summarizes the carrying value of net assets of Trisura International and Trisura Specialty in their functional currency of USD.

As at December 31,	2019	2018
Consolidated net assets of:		
Trisura International	<b>14,849</b>	14,973
Trisura Specialty	<b>83,273</b>	48,831
Total net currency exposure to the USD	<b>98,122</b>	63,804

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

##### ii) Sensitivity to currency risk

As at December 31,	Impact on comprehensive income and shareholders' equity			
	2019	2018	2019	2018
Sensitivity factor	10% increase in CDN versus USD		10% decrease in CDN versus USD	
USD investments supporting Trisura Guarantee	<b>160</b>	(54)	<b>(176)</b>	59
Consolidated net assets of Trisura Specialty	<b>(7,769)</b>	(4,783)	<b>8,546</b>	5,262
Consolidated net assets of Trisura International	<b>(1,651)</b>	(1,711)	<b>1,815</b>	1,882
	10% increase in USD versus EUR		10% decrease in USD versus EUR	
EUR net assets supporting Trisura International (in USD)	<b>161</b>	191	<b>(177)</b>	(210)

##### 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 changes 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.

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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

#### 13.4 Market risk (continued)

##### b) Interest rate risk (continued)

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, 2019

Sensitivity factor	Fixed income (including preferred shares)	Structured insurance asset	Net unpaid claims	Impact on comprehensive income
100 basis point increase in the yield curve <sup>(1)</sup>	(25,585)	(507)	(22,432)	(2,487)
100 basis point decrease in the yield curve <sup>(1)</sup>	25,582	557	27,560	(2,575)

(1) Assumes parallel shift in the yield curve, and all other variables remain constant.

##### As at December 31, 2018

Sensitivity factor	Fixed income (including preferred shares)	Structured insurance asset	Net unpaid claims	Impact on comprehensive income
100 basis point increase in the yield curve <sup>(1)</sup>	(9,689)	(543)	(24,122)	15,127
100 basis point decrease in the yield curve <sup>(1)</sup>	9,658	593	31,835	(22,796)

(1) Assumes parallel shift in the yield curve, and all other variables remain constant.

##### 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,	2019	2018
Sensitivity factor	Impact on comprehensive income <sup>(1)</sup>	
10% increase in equity prices <sup>(2)</sup>	3,102	2,030
10% decrease in equity prices <sup>(2)</sup>	(3,102)	(2,030)

(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.

(2) Excluding preferred shares.

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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#### Note 14 – 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 contractual 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, 2019 and December 31, 2018.

The following table summarizes the components of Recoverable from reinsurers as at December 31, 2019 and December 31, 2018:

<b>As at December 31,</b>	<b>2019</b>	<b>2018</b>
Reinsurers' share of claims liabilities (see Note 9)	<b>114,657</b>	42,048
Reinsurers' share of unearned premiums (see Note 8)	<b>178,411</b>	67,519
	<b>293,068</b>	109,567

#### Note 15 – Capital assets

The Company's capital assets consist of the following as at December 31, 2019 and December 31, 2018:

<b>As at December 31, 2019</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Carrying value</b>
Leasehold improvements	<b>1,188</b>	<b>(615)</b>	<b>573</b>
Office equipment	<b>1,419</b>	<b>(951)</b>	<b>468</b>
Furniture and fixtures	<b>1,103</b>	<b>(860)</b>	<b>243</b>
	<b>3,710</b>	<b>(2,426)</b>	<b>1,284</b>

<b>As at December 31, 2018</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Carrying value</b>
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

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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#### Note 16 – Intangible assets

Intangible assets consist of Computer software, customer lists, and licenses. Computer software is being amortized at a rate of 40%, using the declining balance method.

Customer lists include the acquisition of two customer lists which were each acquired for \$800. One was purchased in 2014 and another in 2017, both 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. In 2019 the Company received the contingent consideration of \$300 which was recorded with fee income.

Intangible assets also include state licenses which were acquired as part of the acquisition for \$1,950 USD (see Note 24). These licenses have indefinite useful lives and are therefore not amortized.

	December 31, 2019				December 31, 2018		
	Computer software	Customer list	Licenses	Total	Computer software	Customer list	Total
Opening, carrying value	332	922	-	1,254	375	1,152	1,527
Additions	162	-	2,583	2,745	135	-	135
Amortization	(166)	(184)	-	(350)	(178)	(230)	(408)
Foreign exchange	-	-	(55)	(55)	-	-	-
Closing, carrying value	328	738	2,528	3,594	332	922	1,254

#### Note 17 – 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.

##### 17.1 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, 2019 and December 31, 2018.

###### b) *Trisura International*

Trisura International is subject to externally imposed regulatory capital requirements in Barbados. As at December 31, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, Trisura Specialty exceeded this requirement. As Trisura Specialty can now operate as an admitted carrier, through its subsidiary Trisura Insurance Company, the Company is subject to the various RBC criteria of each state in which it is licensed. As at December 31, 2019, the Company was in excess of the RBC requirements of the states in which it was licensed.

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### Notes to the Consolidated Financial Statements

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#### Note 18 – Loan payable

On March 14, 2018, the Company entered 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 interest 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.

As part of the covenants of the current loan arrangement, the Company is required to maintain certain financial ratios, which were fully met as at December 31, 2019 and December 31, 2018.

For the year ended December 31, 2019, the Company incurred \$1,361 of interest expense, of which \$1,039 (December 31, 2018 – \$970) are related to the loan payable. As at December 31, 2019, the loan balance was \$29,700 (December 31, 2018 – \$29,700).

#### Note 19 – 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). As at December 31, 2019 and December 31, 2018, no non-voting shares were issued.

On December 31, 2019, the Company exercised its right to redeem all 64,000 (in shares) of its issued and outstanding preferred shares, for \$1,600. As at December 31, 2019, there are no outstanding preferred shares. Holders of the preferred shares were entitled to a cumulative dividend, payable quarterly, at a fixed rate of 6%. The Company had the right to redeem preferred shares at any time on 30 to 60 days’ notice.

In September 2019, the Company completed a public offering of 1,743,400 common shares for gross proceeds of \$46,026. Concurrent with the public offering, the Company issued 454,539 common shares to investors on a private placement basis for gross proceeds of \$12,000. The Company incurred costs of \$1,841 in commission paid to underwriters as well as \$516 of costs directly attributable to the share issuance, which have been deducted from equity. The net impact of the share issuance is an increase in common shares of \$55,669.

The following table shows the common shares issued and outstanding:

As at	December 31, 2019		December 31, 2018	
	Number of shares	Amount (in thousands)	Number of shares	Amount (in thousands)
Balance, beginning of period	6,621,680	163,582	6,621,680	163,582
Common shares issued	2,197,939	55,669	-	-
Balance, end period	8,819,619	219,251	6,621,680	163,582

The following table shows the preferred shares issued and outstanding:

As at	December 31, 2019		December 31, 2018	
	Number of shares	Amount (in thousands)	Number of shares	Amount (in thousands)
Balance, beginning of period	64,000	1,600	64,000	1,600
Preferred shares redeemed	(64,000)	(1,600)	-	-
Balance, end of period	-	-	64,000	1,600

As at December 31, 2019, the Company declared and paid four quarterly dividends, each of \$0.375 (in dollars) (December 31, 2018 – \$0.375 (in dollars)) per share for each Class A, Series 1, preferred share.



## TRISURA GROUP LTD.

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#### Note 20 – Earnings per share

Basic earnings per common share are 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 adjusted for the effects of all dilutive potential common shares, which consist of stock options.

	2019	2018
Net income attributable to shareholders	5,094	8,638
Less: Dividends declared on preferred shares, net of tax	(96)	(96)
Net income attributable to common shareholders	4,998	8,542
Weighted-average number of common shares outstanding (in shares)	7,213,433	6,621,680
EPS – basic (in dollars)	0.69	1.29
Dilutive effect of the conversion of options on common shares (in shares)	31,076	162,000
Diluted weighted-average number of common shares outstanding (in shares)	7,244,509	6,718,133
EPS – diluted (in dollars)	0.69	1.27

#### Note 21 – Net investment income

The components of Net investment income for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018 <sup>(1)</sup>
Cash and cash equivalents, and short-term securities	702	553
Bonds classified as loans and receivables	764	118
FVTPL bonds	423	-
AFS bonds	7,818	5,100
<b>Interest income</b>	<b>9,707</b>	<b>5,771</b>
AFS common shares and income and investment trust units	1,318	1,289
AFS preferred shares	1,708	932
<b>Dividend income</b>	<b>3,026</b>	<b>2,221</b>
Gains (losses) on investments held at FVTPL	2,374	(237)
Commission income structured insurance assets	1,658	1,874
Investment expenses	(522)	(643)
<b>Other investment income</b>	<b>3,510</b>	<b>994</b>
<b>Net investment income</b>	<b>16,243</b>	<b>8,986</b>

(1) Certain Net investment income balances from December 31, 2018 have been reclassified to Net gains to conform with 2019 presentation.

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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#### Note 22 – Net gains

The components of Net gains for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018 <sup>(1)</sup>
Net gains from:		
financial instruments:		
AFS common shares and income and investment trust units	1,052	941
AFS bonds	(652)	244
AFS preferred shares	98	611
	498	1,796
derivatives: swap agreements <sup>(2)</sup> :	250	-
Net foreign currency gains (losses)	824	(712)
Impairment on investments	-	(325)
<b>Net gains</b>	<b>1,572</b>	<b>759</b>

(1) Certain Net investment income balances from December 31, 2018 have been reclassified to Net gains to conform with 2019 presentation.

(2) Excluding foreign currency contracts, which are reported in the line Net foreign currency gains (losses).

#### Note 23 – 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 24 – Acquisition of subsidiary

In June 2019, the Company applied for approval from the Pennsylvania Insurance Department to acquire control of a shell entity, with 13 admitted state licenses that will enhance the offering of Trisura Specialty. Regulatory approval was provided on October 22, 2019 and the transaction closed November 1, 2019. The purchase price of the shell entity, a wholly-owned subsidiary of Trisura Specialty, was \$7,950 USD. The acquired assets included cash and cash equivalents of \$6,000 USD and state licenses of \$1,950 USD. On December 30, 2019, regulatory approval was received for the shell entity to re-domesticate to the State of Oklahoma, and a pooling agreement between Trisura Specialty and its wholly-owned subsidiary was also approved. The results of the wholly-owned subsidiary are included in the Consolidated Financial Statements effective November 1, 2019.

#### Note 25 – Benefits

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 26 – Related party transactions

The Company leases office space from, and subleases office space to, subsidiaries of Brookfield Asset Management Inc. (“Brookfield”), which was the ultimate controlling party of the Company prior to June 2017. An entity with which Brookfield shares common management continues to hold an interest in the Company, and as such the Company remains a related party with Brookfield. The Company occasionally issues insurance contracts to subsidiaries of Brookfield and 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.

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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#### Note 26 – Related party transactions (continued)

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

	December 31, 2019	December 31, 2018
Income and expenses reported in:		
Total underwriting revenue	2,196	2,045
Operating expenses	(624)	(510)
Net investment income		
Income from dividends and interests	1,286	231
Investment management fee	(4)	(216)
Assets and liabilities reported in:		
Investment in Brookfield securities	15,629	6,311

#### 26.1 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, 2019 and 2018:

	December 31, 2019	December 31, 2018
Salaries and other employee benefits	2,542	2,369
Share based payments	2,029	756

#### Note 27 – Segmented information

The Company has three reportable segments. The operations of Trisura Guarantee are one reportable segment which comprises Surety, Risk Solutions and Corporate Insurance products underwritten in Canada as well as the operations of Trisura Warranty. 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 tables show the results for the year ended December 31, 2019 and 2018:

December 31, 2019	Trisura Guarantee	Trisura International	Trisura Specialty	Corporate and consolidation adjustments	Total
Net premiums earned	100,510	135	6,859	-	107,504
Fee income	4,246	-	7,960	-	12,206
Total underwriting revenue	104,756	135	14,819	-	119,710
Net claims	(24,579)	(21,024)	(4,333)	-	(49,936)
Net expenses	(67,910)	(2,506)	(8,237)	(4,453)	(83,106)
Total claims and expenses	(92,489)	(23,530)	(12,570)	(4,453)	(133,042)
Net underwriting income (loss)	12,267	(23,395)	2,249	(4,453)	(13,332)
Investment income	7,796	6,306	2,112	29	16,243
Net gains (losses)	992	549	(171)	202	1,572
Settlement from structured insurance assets	-	8,077	-	-	8,077
Interest expense	(265)	(16)	(41)	(1,039)	(1,361)
<b>Net income (loss) before tax</b>	<b>20,790</b>	<b>(8,479)</b>	<b>4,149</b>	<b>(5,261)</b>	<b>11,199</b>

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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

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 <sup>(1)</sup>	5,460	1,849	1,648	29	8,986
Net gains (losses) <sup>(1)</sup>	1,103	77	(246)	(175)	759
Interest expense	(185)	-	-	(785)	(970)
Net income (loss) before tax	18,364	(190)	(1,637)	(3,476)	13,061

(1) Certain Net investment income balances from December 31, 2018 have been reclassified to Net gains to conform with 2019 presentation.

The following table shows Loan payable of \$29,700 included with the liabilities in Corporate and consolidation adjustments at December 31, 2019 and December 31, 2018.

As at December 31, 2019	Trisura Guarantee	Trisura International	Trisura Specialty	Corporate and consolidation adjustments	Total
<b>Assets</b>	<b>424,009</b>	<b>104,169</b>	<b>444,763</b>	<b>5,452</b>	<b>978,393</b>
<b>Liabilities</b>	<b>333,681</b>	<b>85,766</b>	<b>336,608</b>	<b>32,009</b>	<b>788,064</b>

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

# TRISURA GROUP LTD.

## Notes to the Consolidated Financial Statements

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

### Note 28 – Income taxes

	Statement of financial position		Statement of comprehensive income	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Deferred taxes related to:				
Loss carry-forwards and other	139	181	35	(4)
Unpaid claims and LAE	1,369	705	(678)	-
Capital, intangible and other assets	100	39	(61)	(39)
	1,608	925	(704)	(43)
Less deferred taxes related to:				
Investments – unrealized gains and losses	(148)	(99)	49	(10)
Capital, intangible and other assets	-	-	-	(18)
	(148)	(99)	49	(28)
Deferred income taxes	1,460	826	(655)	(71)
Reported in:				
Deferred tax assets	1,460	826	-	-
Income tax (recovery) expense reported to net income	-	-	(525)	733
Income tax recovery reported to other comprehensive loss	-	-	(130)	(804)

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, 2019 and December 31, 2018 are recoverable.

The following shows the major components of income tax expense for the year ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
<b>Current tax expense:</b>		
Current year	6,624	3,773
Prior year true up	6	(83)
	6,630	3,690
<b>Deferred tax expense:</b>		
Origination and reversal of temporary differences	(525)	733
Income tax expense	6,105	4,423
<b>Income taxes recorded in other comprehensive income:</b>		
Net changes in unrealized gains on AFS investments	1,308	(2,247)
Reclassification to net income of net losses on AFS investments	(15)	484
Origination and reversal of temporary differences	(130)	(804)
Total income tax expense recorded in other comprehensive income (loss)	1,163	(2,567)

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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

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 for the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Income before income taxes	11,199	13,061
Statutory income tax rate	26.5%	26.5%
	2,968	3,461
Variations due to:		
Permanent differences	(625)	(286)
International operations subject to different tax rates	2,905	215
Unrecognized tax loss	835	1,117
Rate differentials:		
Current rate versus future rate	2	(1)
Change in future rate	14	-
True up	6	(83)
Income tax expense	6,105	4,423

As at December 31, 2019, the Company has unused tax losses of \$11,669 (December 31, 2018 – \$6,424). A deferred income tax asset is not recognised since it is not considered probable that there will be future taxable profits. The unrecognized tax losses will expire in the following years:

	December 31, 2019
2033	19
2034	3
2036	538
2037	2,496
2038	3,368
2039	5,245
	11,669

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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

#### 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, 2019:

	December 31, 2019		December 31, 2018	
	Number of options	Weighted average exercise price (in dollars)	Number of options	Weighted average exercise price (in dollars)
Outstanding, beginning of year	162,000	24.96	87,000	24.36
Cancelled during the year	(50,000)	25.66	-	-
Granted during the year	130,235	27.86	75,000	25.66
Outstanding, end of year	242,235	26.38	162,000	24.96

As at December 31, 2019, 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
28.65	10,000	9.63	-
29.24	40,000	9.21	-
27.08	80,235	9.16	-
25.66	25,000	8.88	5,000
24.36	87,000	7.64	34,800

As at December 31, 2019, 39,800 equity-based stock options were vested. As at December 31, 2019, the Company had recorded \$815 (December 31, 2018 – \$313) in share reserve related to the options in the contributed surplus balance of the Consolidated Statements of Financial Position. For the year ended December 31, 2019, the Company recorded \$502 (December 31, 2018 – \$225) 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 estimate was based on the historical volatility of the Company. The weighted average fair value of stock options issued in 2019 at the measurement date was \$6.78 (in dollars) (December 31, 2018 – \$6.79 (in dollars)).

##### 29.2 Cash-settled stock options

As at December 31, 2019, 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, 2018 – 120,465), with a vesting period of 20% per year over five years, and an expiration date of ten years. As at December 31, 2019, 36,093 options had been vested (December 31, 2018 – 12,000). As at December 31, 2019, the Company had recorded \$1,771 (December 31, 2018 – \$421) in liabilities related to the options in the Consolidated Statements of Financial Position. For the year ended December 31, 2019, the Company recorded \$1,350 (December 31, 2018 – \$291) 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 estimate was based on the historical volatility of the Company. As at December 31, 2019, the weighted average fair value of share options issued was \$19.97 (in dollars) (December 31, 2018 – \$6.08 (in dollars)).

## TRISURA GROUP LTD.

### Notes to the Consolidated Financial Statements

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#### 29.3 Cash-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, 2019, 20,312 (December 31, 2018 – 11,261) 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:

<b>For the years ended December 31,</b>	<b>2019 (in units)</b>	<b>2018 (in units)</b>
Opening balance	<b>11,261</b>	2,102
Granted during the year	<b>9,051</b>	9,159
Ending balance	<b>20,312</b>	11,261

As at December 31, 2019, no units had been exercised and \$818 (December 31, 2018 – \$294) had been recorded as liabilities (see Note 12). The liability was measured based on the fair value of the common shares of the Company at December 31, 2019. For the year ended December 31, 2019, the Company recorded \$499 (December 31, 2018 – \$240) of expense related to the DSUs in Operating expenses.

#### Note 30 – Subsequent event

The Company identified a tax loss utilization strategy to utilize unused tax losses which have accumulated at the Company. On February 5, 2020, the Company received an Advance Income Tax Ruling from the Canada Revenue Agency ("CRA") in which the CRA indicated it would not reassess the Company if it implemented the strategy as proposed. The Company intends to proceed with the strategy.