Co-operators General Insurance Company

Unaudited Condensed Consolidated Interim Financial Statements

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For the second quarter ended June 30, 2018

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

As at

(in thousands of Canadian dollars)	June 30, 2018 $	December 31, 2017 $
Assets		
Cash and cash equivalents	**198,197**	84,382
Invested assets including securities on loan (note 4)	**4,436,828**	4,298,938
Premiums due	**1,031,982**	938,128
Income taxes recoverable	**35,642**	4,245
Reinsurance ceded contracts (note 6)	**211,056**	112,177
Deferred acquisition expenses	**276,497**	224,504
Deferred income taxes	**112,298**	106,121
Intangible assets (note 8)	**79,242**	73,308
Other assets (note 9)	**83,744**	80,261
	6,465,486	5,922,064
Liabilities		
Accounts payable and accrued charges	**176,597**	248,819
Income taxes payable	**-**	239
Insurance contracts (note 5)	**4,368,000**	3,875,709
Borrowings (note 3)	**40,460**	-
Retirement benefit obligations	**129,370**	126,686
Deferred income taxes	**3,920**	4,186
Provisions and other liabilities (note 10)	**139,114**	135,397
	4,857,461	4,391,036
Shareholders' equity		
Share capital	**410,768**	227,840
Contributed capital	**874**	10,132
Retained earnings	**1,055,853**	1,169,323
Accumulated other comprehensive income	**140,530**	123,733
	1,608,025	1,531,028
	6,465,486	5,922,064

See accompanying notes to condensed consolidated interim financial statements.

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

6 months ended June 30, 2018 **(in thousands of Canadian dollars)**	**Share capital** **$**	**Contributed capital** **$**	**Retained earnings** **$**	**Accumulated other comprehensive income** **$**	**Total shareholders' equity** **$**
Balance, beginning of period	**227,840**	**10,132**	**1,169,323**	**123,733**	**1,531,028**
Net loss	**-**	**-**	**(31,740)**	**-**	**(31,740)**
Other comprehensive income	**-**	**-**	**-**	**13,761**	**13,761**
Total comprehensive income (loss)	**-**	**-**	**(31,740)**	**13,761**	**(17,979)**
Staff share loan plan	**(530)**	**-**	**-**	**-**	**(530)**
Preference shares issued	**4,807**	**-**	**-**	**-**	**4,807**
Preference shares redeemed	**(3,049)**	**-**	**(458)**	**-**	**(3,507)**
Common shares issued	**181,700**	**-**	**-**	**-**	**181,700**
Dividends declared (note 12)	**-**	**-**	**(5,140)**	**-**	**(5,140)**
Acquisition of subsidiary from a related party (note 3)	**-**	**(9,258)**	**(76,132)**	**3,036**	**(82,354)**
Balance, end of period	**410,768**	**874**	**1,055,853**	**140,530**	**1,608,025**

6 months ended June 30, 2017 (in thousands of Canadian dollars)	Share capital $	Contributed capital $	Retained earnings $	Accumulated other comprehensive income $	Total shareholders' equity $
Balance, beginning of period	222,720	10,132	1,218,439	127,591	1,578,882
Net income	-	-	63,615	-	63,615
Other comprehensive income	-	-	-	14,960	14,960
Total comprehensive income	-	-	63,615	14,960	78,575
Staff share loan plan	(242)	-	-	-	(242)
Preference shares issued	5,955	-	-	-	5,955
Preference shares redeemed	(2,788)	-	(63)	-	(2,851)
Dividends declared (note 12)	-	-	(105,045)	-	(105,045)
Balance, end of period	225,645	10,132	1,176,946	142,551	1,555,274

See accompanying notes to condensed consolidated interim financial statements.

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

(in thousands of Canadian dollars except for earnings per share and weighted average number of common shares)	**3 months ended June 30, 2018 $**	3 months ended June 30, 2017 $	**6 months ended June 30, 2018 $**	6 months ended June 30, 2017 $
Income				
Net earned premium (note 11)	**717,381**	628,668	**1,375,506**	1,237,979
Net investment income and gains (note 4)	**42,181**	35,484	**46,153**	98,304
Fees and other income	**2,622**	2,638	**4,174**	4,349
	762,184	666,790	**1,425,833**	1,340,632
Expenses				
Claims and benefits	**597,296**	423,652	**1,086,856**	824,110
Ceded claims and benefits	**(56,138)**	(2,112)	**(58,752)**	16,213
Premium and other taxes	**25,602**	22,635	**47,734**	42,536
Commissions and advisor compensation	**149,121**	105,792	**266,105**	216,524
Ceded commission	**(27,127)**	(1,036)	**(28,237)**	(2,116)
General expenses	**82,372**	81,388	**161,856**	162,015
	771,126	630,319	**1,475,562**	1,259,282
Income (loss) before income taxes	**(8,942)**	36,471	**(49,729)**	81,350
Income tax expense (recovery) (note 7)	**(4,983)**	7,408	**(17,989)**	17,735
Net income (loss)	**(3,959)**	29,063	**(31,740)**	63,615
Earnings (loss) per share	**(0.35)**	1.18	**(1.67)**	2.73
Weighted average number of common shares	**22,591**	21,458	**22,050**	21,458

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

(in thousands of Canadian dollars)	**3 months ended June 30, 2018 $**	3 months ended June 30, 2017 $	**6 months ended June 30, 2018 $**	6 months ended June 30, 2017 $
Net income (loss)	**(3,959)**	29,063	**(31,740)**	63,615
Other comprehensive income (loss)				
Items that may be reclassified subsequently to the statement of income:				
Net unrealized gains (losses) on available-for-sale financial assets	**45,886**	(13,066)	**20,612**	34,008
Net reclassification adjustment for (gains) losses included in net income	**(16,872)**	(1,696)	**(2,844)**	(13,865)
Items that may be reclassified before income taxes	**29,014**	(14,762)	**17,768**	20,143
Income tax expense (recovery) relating to items that may be reclassified	**7,481**	(4,003)	**4,007**	5,183
Other comprehensive income (loss)	**21,533**	(10,759)	**13,761**	14,960
Comprehensive income (loss)	**17,574**	18,304	**(17,979)**	78,575

See accompanying notes to condensed consolidated interim financial statements.

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

(in thousands of Canadian dollars)	**6 months ended June 30, 2018 $**	6 months ended June 30, 2017 $
Operating activities		
Net income (loss)	**(31,740)**	63,615
Items not requiring the use of cash (note 13)	**27,045**	(24,144)
Changes in non-cash operating components (note 13)	**15,527**	(28,584)
Cash provided by (used in) operating activities	**10,832**	10,887
Investing activities		
Purchases and advances of:		
Invested assets	**(1,864,833)**	(1,401,591)
Intangible assets	**-**	(5,475)
Property and equipment	**(1,434)**	(2,517)
Acquisition of subsidiary from related party, net of cash acquired	**(136,343)**	-
Sale and redemption of:		
Invested assets	**1,947,173**	1,451,906
Assets held for sale	**-**	317
Cash provided by (used in) investing activities	**(55,437)**	42,640
Financing activities		
Share capital - preference shares issued	**4,807**	5,955
Share capital - preference shares redeemed	**(3,507)**	(2,851)
Share capital - common shares issued	**181,700**	-
Dividends paid (note 12)	**(5,108)**	(104,967)
Cash provided by (used in) financing activities	**177,892**	(101,863)
Net increase (decrease) in cash and cash equivalents, net of payments in transit	**133,287**	(48,336)
Cash and cash equivalents, net of payments in transit, beginning of period	**34,996**	26,588
Cash and cash equivalents, net of payments in transit, end of period	**168,283**	(21,748)

Cash	**59,027**	31,345
Cash equivalents	**139,170**	9,676
Net payments in transit, included in accounts payable and accrued charges	**(29,914)**	(62,769)
Cash and cash equivalents, net of payments in transit, end of period	**168,283**	(21,748)

See accompanying notes to condensed consolidated interim financial statements.

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

1. Nature of operations

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

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

The registered office of the Company is 130 Macdonell Street, Guelph, Ontario. The Company is domiciled in Canada and is incorporated under the Insurance Companies Act (Canada). These condensed consolidated interim financial statements of the Company for the six months ended June 30, 2018 were authorized for issue in accordance with a resolution of the Audit Committee of the Board of Directors on July 26, 2018.

CGIC and certain of its subsidiaries are licensed to write insurance in all provinces and territories in Canada. With the exception of CUMIS General, CGIC and certain of its subsidiaries are licensed to write all classes of insurance, other than life. CUMIS General is licensed to write property, casualty and accident and sickness insurance. AZGA Service Canada Inc. (AZGA Canada), an associate of Co-operators Life Insurance Company (CLIC), a company under common control, acts as Managing General Underwriter (MGU) with respect to travel insurance underwritten by CUMIS General. CGIC and certain of its subsidiaries are regulated by the federal insurance act. The Company must comply with reporting requirements of its regulator the Office of the Superintendent of Financial Institutions, Canada (OSFI).

The Company's common shares are 100% owned by Co-operators Financial Services Limited (CFSL), which in turn is owned 100% by The Co-operators Group Limited (CGL). The Class E preference shares, Series C are traded on the Toronto Stock Exchange under the symbol CCS.PR.C.

2. Summary of significant accounting policies

Basis of preparation and statement of compliance

These condensed consolidated interim financial statements of the Company have been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting".

The consolidated balance sheets are presented on a non-classified basis. Assets expected to be realized and liabilities expected to be settled within the Company's normal operating cycle of one year would typically be considered as current. Certain balances are comprised of both current and non-current amounts.

Seasonality

The property and casualty (P&C) insurance business is seasonal in nature. Premiums are generally written in annual renewal cycles, often in the second quarter each year. Weather conditions can vary significantly between quarters, with extreme weather conditions historically having an impact on the first and third quarters.

Segmented information

The Company's results of operations are reviewed by senior management and the Board of Directors based on one reporting and operating segment, P&C operations.

Significant accounting policies

These condensed consolidated interim financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies followed in these condensed consolidated interim financial statements are consistent as those applied in the Company's audited consolidated financial statements for the year ended December 31, 2017, except where two new policies have been introduced in relation to the acquisition of CUMIS General.

IFRS 3 "Business Combinations" excludes from its scope the combination of entities or businesses under common control. Therefore, in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors", the Company has considered various other sources of guidance and has elected to record the acquisition of businesses under common control using the pre-acquisition date book values for their assets and liabilities and will not apply the measurement principles of IFRS 3; the difference between fair value and book value will be recorded through equity. Consistent with IFRS 3, the results of the Company prior to the acquisition date will not be restated.

Furthermore, as part of the Company's acquisition of CUMIS General (Note 3), the Company has an experienced rated refund pool established as part of its fidelity program. This program provides a mechanism for the accumulation and redistribution of funds if favourable experience exists within the program over a period of years. Refunds are determined based on the adequacy of the pool and the results of the fidelity program. The provision is evaluated regularly and recorded within insurance contracts in the Company's consolidated balance sheet.

The significant estimates and judgments made by management in applying accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements of the Company for the year ended December 31, 2017.

The Company has the following updates to information provided in the consolidated financial statements ended December 31, 2017 about the standards issued but not yet effective.

IFRS 9 "Financial Instruments"

IFRS 9 was issued in July 2014 and is intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 is a three-part standard aimed at reducing complexity in reporting financial instruments. The project has been divided into three phases: Phase 1 Classification and measurement, Phase 2 Impairment and Phase 3 Hedge accounting. Phase 1 was issued in November 2009 and amended in October 2010. It requires financial assets to be recorded at amortized cost or fair value depending on the entity's business model for managing the assets and their associated cash flow characteristics. All financial assets are to be measured at fair value on the balance sheet if they are not measured at amortized cost. At initial recognition, an entity may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. Phase 2 was completed in July 2014 and introduced a new expected loss impairment methodology that will result in more timely recognition of impairment losses. Phase 3 was completed in November 2013. This phase replaces the rule-based hedge accounting requirements in IAS 39 to more closely align the accounting with risk management activities.

The standard is effective for annual periods beginning on or after January 1, 2018; however, in September 2016, IFRS 4 was amended to provide an option of a temporary exemption from applying IFRS 9 for entities whose predominate activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities will have the option to adopt IFRS 9 upon the adoption of IFRS 17. The Company has assessed the qualification criteria and determined that this temporary exemption does apply; thus, IFRS 9 will be effective for annual periods beginning on or after January 1, 2021.

The Company has concluded that it qualifies for the temporary exemption from IFRS 9 based on the following reasons: (1) The Company has not previously applied any version of IFRS 9 for any of the entities and (2) The Company entities are predominantly considered insurance. To be considered predominantly insurance, the carrying amount of liabilities arising from contracts within the scope of IFRS 4 (which includes any deposit components or embedded derivatives unbundled from insurance contracts) must be significant compared to the total carrying amount of all liabilities. The standard goes on to detail that significant is defined as greater than 90 per cent, or less than or equal to 90 per cent but greater than 80 per cent and the insurer does not engage in a significant activity unconnected with insurance.

The Company has assessed the criteria detailed above. Management completed an assessment of the entities that fall within the 80 per cent to 90 per cent range and concluded that significant activities are connected with insurance. This assessment was performed using primarily publicly available information.

Management is evaluating the annual disclosure requirement for the temporary exemption of IFRS 9 and it will be disclosed in the December 31, 2018 financial statements.

IFRS 15 "Revenue from Contracts with Customers"

The IFRS 15 scope exemptions for insurance contract revenue and financial instrument revenue apply to the Company's significant revenue streams (net earned premiums and net investment gains and income, respectively). As a result, this standard does not impact net earned premium or net investment gains and income.

The Company has assessed the other revenue amounts under the new standard and concluded that no change in the revenue recognition policies of the Company is required.

3. Acquisition of subsidiary from a related party

On April 1, 2018, CGIC entered into an agreement with a company under common control, CUMIS Services Incorporated, to acquire 100% of the common shares of CUMIS General, a P&C insurance company. Both parties to the agreement are owned 100% by CFSL. The Company has applied the predecessor accounting method and has recorded the acquisition at the carrying value of CUMIS General. As of the date of the acquisition, the results of the operations of CUMIS General are included in these consolidated financial statements. The difference between the carrying value and the consideration exchanged was recorded through shareholders' equity in the Company's consolidated financial statements.

The fair value of consideration exchanged of $179,160 was paid through a combination of cash of $138,700 and a non-interest bearing note payable to CUMIS Services of $40,460. It is anticipated that the note payable will be repaid in the third quarter of 2018. CGIC funded this transaction through the issuance of common shares to its parent, CFSL. The internal reorganization simplifies the overall structure of CGL by aligning the P&C operations under a common legal entity.

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

The table below summarizes the consideration paid for CUMIS General and the amounts recognized for the assets acquired, liabilities assumed, and through equity as at the acquisition date.

	As at April 1, 2018 $
Carrying value of assets acquired	
Cash and cash equivalents	2,357
Invested assets	193,537
Securities on loan	26,204
Premiums due	30,938
Reinsurance ceded contracts	82,713
Deferred acquisition expenses	39,225
Deferred income taxes	4,961
Income taxes recoverable	481
Intangible assets	7,528
Other assets	2,985
	390,929
Carrying value of liabilities acquired	
Accounts payable and accrued charges	6,747
Insurance contracts	287,274
Provisions and other liabilities	102
	294,123
Net assets acquired	96,806
Fair value of consideration exchanged	179,160
Difference allocated through equity	(82,354)
Allocated to:	
Contributed surplus	(9,258)
Retained earnings	(76,132)
Accumulated other comprehensive income	3,036
Difference allocated through equity	(82,354)

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

4. Invested assets and net investment income and gains

a) Invested assets

	Fair value			Amortized cost	Carrying value
		Classified	Designated	Loans and	
	AFS	FVTPL	FVTPL	receivables	Total
June 30, 2018	$	$	$	$	$
Bonds					
Federal	545,820	-	27,930	-	573,750
Provincial	797,435	-	33,245	-	830,680
Municipal	33,636	-	-	-	33,636
Corporate	884,418	-	47,215	897	932,530
Asset-backed securities	67,722	-	5,292	-	73,014
International	83,766	-	-	-	83,766
	2,412,797	-	113,682	897	2,527,376
Stocks					
Canadian common	620,304	-	-	-	620,304
Canadian preferred	6,363	-	416,978	-	423,341
U.S. equities	156,100	-	-	-	156,100
Foreign equities	90,246	-	-	-	90,246
	873,013	-	416,978	-	1,289,991
Short-term investments	26,406	-	-	-	26,406
Limited partnerships	118,892	-	-	-	118,892
Foreign currency forward contracts	-	629	-	-	629
Mortgages	-	-	-	439,270	439,270
Other investments	-	-	-	10,230	10,230
Investment income due and accrued	-	-	-	24,034	24,034
Total invested assets	3,431,108	629	530,660	474,431	4,436,828

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

	Fair Value			Amortized Cost	Carrying Value
		Classified	Designated	Loans and	
	AFS	FVTPL	FVTPL	receivables	Total
December 31, 2017	$	$	$	$	$
Bonds					
Federal	500,639	-	28,871	-	529,510
Provincial	685,693	-	38,737	-	724,430
Municipal	40,884	-	-	-	40,884
Corporate	927,015	-	48,391	-	975,406
Asset-backed securities	55,133	-	5,323	-	60,456
International	48,140	-	-	-	48,140
	2,257,504	-	121,322	-	2,378,826
Stocks					
Canadian common	592,439	-	-	-	592,439
Canadian preferred	6,244	-	394,375	-	400,619
U.S. equities	149,735	-	-	-	149,735
Foreign equities	86,418	-	-	-	86,418
	834,836	-	394,375	-	1,229,211
Short-term investments	143,577	-	-	-	143,577
Limited partnerships	93,800	-	-	-	93,800
Foreign currency forward contracts	-	1,928	-	-	1,928
Mortgages	-	-	-	421,673	421,673
Other investments	-	-	-	10,231	10,231
Investment income due and accrued	-	-	-	19,692	19,692
Total invested assets	3,329,717	1,928	515,697	451,596	4,298,938

The value of the securities on loan included in invested assets above consists of $83,089 (2017 - $52,056) in stocks and $526,847 (2017 - $580,206) in bonds.

b) Investments - measured at fair value

The Company is responsible for determining the fair value of its investment portfolio by utilizing market-driven measurements obtained from active markets where available, by considering other observable and unobservable inputs and by employing valuation techniques that make use of current market data. Assets and liabilities recorded at fair value in the consolidated balance sheets are measured and classified in a hierarchy consisting of three levels for disclosure purposes. The three levels are based on the significance and reliability of the inputs to the respective valuation techniques. The input levels are defined as follows:

Level 1 - Quoted prices

Represents unadjusted quoted prices for identical instruments exchanged in active markets. The fair value is determined based on quoted prices in active markets obtained from external pricing sources.

Level 2 - Significant other observable inputs

Includes directly or indirectly observable inputs other than quoted prices for identical instruments exchanged in active markets. These inputs include quoted prices for similar instruments exchanged in active markets and quoted prices for identical or similar instruments exchanged in inactive markets. For financial instruments that do not have directly observable inputs, the fair value is calculated as the present value of the future cash flows considering inputs other than quoted prices that are observable for the instruments, such as interest rates and yield curves, volatilities, prepayment spreads, credit risks and default rates where available; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Consistent with market participants, the Company determines the fair values of foreign exchange forward contracts by using a discounted cash flow valuation technique using observable market data.

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

Level 3 - Significant unobservable inputs

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

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

June 30, 2018	Level 1 - Quoted prices $	Level 2 - Significant other observable inputs $	Level 3 - Significant unobservable inputs $	Total fair value $
AFS				
Bonds	-	2,412,797	-	2,412,797
Stocks	864,307	6,363	-	870,670
Short-term investments	-	26,406	-	26,406
Limited partnerships	-	-	118,892	118,892
	864,307	2,445,566	118,892	3,428,765
FVTPL				
Bonds	-	113,682	-	113,682
Stocks	416,978	-	-	416,978
Foreign currency forward contracts	-	629	-	629
	416,978	114,311	-	531,289
Total invested assets at fair value	1,281,285	2,559,877	118,892	3,960,054
FVTPL				
Foreign currency forward contracts (note 10)	-	2,955	-	2,955
Total financial liabilities at fair value	-	2,955	-	2,955

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

December 31, 2017	Level 1 - Quoted prices $	Level 2 - Significant other observable inputs $	Level 3 - Significant unobservable inputs $	Total fair value $
AFS				
Bonds	-	2,257,504	-	2,257,504
Stocks	826,883	6,244	-	833,127
Short-term investments	-	143,577	-	143,577
Limited partnerships	-	-	93,800	93,800
	826,883	2,407,325	93,800	3,328,008
FVTPL				
Bonds	-	121,322	-	121,322
Stocks	394,375	-	-	394,375
Foreign currency forward contracts	-	1,928	-	1,928
	394,375	123,250	-	517,625
Total invested assets at fair value	1,221,258	2,530,575	93,800	3,845,633
FVTPL				
Foreign currency forward contracts (note 10)	-	2,855	-	2,855
Total financial liabilities at fair value	-	2,855	-	2,855

Excluded from these totals are AFS investments of $2,343 (2017 - $1,709) in shares of other co-operative entities which are carried at cost as they do not have quoted market prices in active markets.

The following table is a reconciliation of the Level 3 fair value measurements.

6 months ended June 30, 2018	**Limited partnerships $**
Balance, beginning of period	**93,800**
Purchases	**9,302**
Sales and redemptions	**(572)**
Acquisition of subsidiary	**4,720**
Gains	
Unrealized included in OCI	**11,642**
Balance, end of period	**118,892**

No investments were transferred between levels during the period (2017 - $nil).

The investments measured at fair value and classified as Level 3 as at June 30, 2018 are limited partnerships, which represent units of third-party managed private equity funds (Funds). The fair values of limited partnership investments are based on the net asset value (NAV) from each of the individual Funds most recent quarterly or annual financial statements. Limited partnership NAV's are derived by valuation techniques employed by each Funds' management using unobservable inputs. The Company assesses the NAV disclosed in each Funds most recent financial statement using independent analytical procedures to ensure the amount is a reasonable representation of fair value. The Company does not assess the sensitivity of the fair value of limited partnerships because the inputs used by each fund manager to determine the NAV are unobservable and not readily available.

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

The fair value of mortgages at June 30, 2018 is $441,225 (December 31, 2017 - $424,440). Mortgages measured at fair value, for disclosure purposes only, are classified as Level 3. The fair value of the mortgages has been calculated by discounting the expected cash flows of each instrument. The discount rate is determined using the Government of Canada benchmark bond yield for instruments of similar maturity adjusted for specific credit risk. In determining the adjustment for credit risk, the Company considers market conditions, the value of the properties that the mortgage is secured by and other indicators of creditworthiness.

c) Net investment income and gains

	3 months ended June 30, 2018 $	3 months ended June 30, 2017 $	**6 months ended June 30, 2018 $**	6 months ended June 30, 2017 $
Interest income	**21,189**	19,309	**40,818**	39,002
Dividend and other income	**11,757**	9,715	**21,012**	18,841
Investment expense	**(1,632)**	(1,573)	**(3,180)**	(3,140)
Net investment income	**31,314**	27,451	**58,650**	54,703
Net realized gains	**17,048**	2,030	**5,966**	12,670
Net foreign exchange gains (losses)	**(1,005)**	10,018	**(3,898)**	13,457
Change in fair value (note 13)	**(3,528)**	283	**(9,055)**	21,772
Impairment losses (note 13)	**(1,648)**	(4,298)	**(5,510)**	(4,298)
Net investment gains (losses)	**10,867**	8,033	**(12,497)**	43,601
Net investment income and gains	**42,181**	35,484	**46,153**	98,304

5. Insurance contracts

Insurance contracts are comprised of the following balances:

	As at June 30, 2018 $	As at December 31, 2017 $
Undiscounted unpaid claims and adjustment expenses	**2,665,419**	2,370,384
Effect of time value of money	**(113,529)**	(121,040)
Provisions for adverse deviation (PFADs)	**213,682**	226,608
Effect of discounting	**100,153**	105,568
Discounted unpaid claims and adjustment expenses	**2,765,572**	2,475,952
Unearned premiums	**1,587,427**	1,399,757
Experience rated refund pool	**15,001**	-
	4,368,000	3,875,709

The most recent set of annual consolidated financial statements provides a summary of the Company's unpaid claims and adjustment expense provision and unearned premiums by type of insurance contract both before and after reinsurance, prior to the April 1 acquisition of CUMIS General. The CUMIS General insurance contract liabilities are shown in note 3.

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

6. Reinsurance contracts

The Company follows the policy of underwriting and reinsuring contracts of insurance which limits the liability of the Company to a maximum amount on any one loss. In addition, the Company has obtained reinsurance which limits the Company's liability in the event of a series of claims arising out of a single occurrence, with the exception of travel insurance which is described in further detail below.

The Company's net retentions are as follows:

	As at June 30, 2018 $	As at December 31, 2017 $
Individual loss		
Property	**7,500**	7,500
General liability	**5,000**	5,000
Automobile	**5,000**	5,000
Fidelity and director's liability	**3,000**	-
Catastrophe		
Maximum limit	**1,300,000**	1,450,000
Company retention	**70,000**	70,000

For certain special classes of business or types of risk, the retention for single risk events may be lower through specific treaties or the use of facultative reinsurance. The maximum limit for catastrophe reinsurance is applied to all P&C insurance operations ultimately owned by CGL. After application of the catastrophe program, the Company's retention is $70,000 in incurred claims.

CUMIS General's accident and sickness travel insurance, underwritten by the MGU, is fully ceded; 45% to CLIC and 55% to an external reinsurer. In addition, 55% of the property travel insurance is ceded to an external reinsurer; the amounts retained are reinsured in excess of $56 per claim, with a catastrophe maximum limit of $1,800 and the company's retention is $450.

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

	As at June 30, 2018 $	As at December 31, 2017 $
Reinsurance ceded assets		
Reinsurers' share of unearned premiums	**59,026**	6,475
Reinsurers' share of unpaid claims and adjustment expenses	**212,859**	135,236
Reinsurer receivables	**8,109**	7,758
	279,994	149,469
Reinsurance ceded liabilities		
Unearned reinsurance commissions	**31,588**	1,954
Payable to reinsurers	**8,123**	2,218
Unlicensed reinsurer deposits	**29,227**	33,120
	68,938	37,292
Reinsurance ceded contracts	**211,056**	112,177

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

7. Income taxes

Reconciliation to statutory income tax rate

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

	6 months ended June 30, 2018		6 months ended June 30, 2017	
	$	**%**	$	%
Income (loss) before income taxes	**(49,729)**		81,350	
Income tax expense (recovery) at statutory rates	**(13,427)**	**27.0**	21,965	27.0
Effects of:				
Non-taxable investment income	**(4,836)**	**9.7**	(3,935)	(4.8)
Non-deductible expenses	**456**	**(0.9)**	249	0.3
Change in income tax rates	**(35)**	**0.1**	46	0.1
Difference in effective tax rate of subsidiaries	**(163)**	**0.3**	(795)	(1.0)
Other	**16**	**-**	205	0.3
Income tax expense (recovery)	**(17,989)**	**36.2**	17,735	21.9

8. Intangible assets

	Goodwill	Licenses	**Brand**	**Software**	**Broker Customer Lists**	**Total**
	$	$	**$**	**$**	**$**	**$**
Cost						
January 1, 2017	1,076	50,000	-	18,395	24,359	93,830
Additions	-	3,750	-	-	2,035	5,785
December 31, 2017	1,076	53,750	-	18,395	26,394	99,615
Acquisition of subsidiary	5,730	-	800	-	5,700	12,230
June 30, 2018	**6,806**	**53,750**	**800**	**18,395**	**32,094**	**111,845**
Accumulated amortization						
January 1, 2017	-	-	-	17,897	5,431	23,328
Amortization	-	-	-	230	2,749	2,979
December 31, 2017	-	-	-	18,127	8,180	26,307
Amortization	-	-	-	79	1,229	1,308
Acquisition of subsidiary	-	-	-	-	4,703	4,703
June 30, 2018	**-**	-	-	**18,206**	**14,112**	**32,318**
Net carrying value						
December 31, 2017	1,076	53,750	-	268	18,214	73,308
June 30, 2018	**6,806**	**53,750**	**800**	**189**	**17,982**	**79,527**

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

9. Other assets

	As at June 30, 2018 $	As at December 31, 2017 $
Due from related parties	**40,755**	39,494
Loans to related parties	**300**	300
Reinsurance assumed receivables	**1,329**	1,085
Property and equipment	**20,732**	23,518
Due from risk sharing pools	**8,080**	1,008
Investments in associates and joint ventures	**7,966**	8,405
Prepaid expenses	**477**	1,874
Other	**4,105**	4,577
	83,744	80,261

10. Provisions and other liabilities

	As at June 30, 2018 $	As at December 31, 2017 $
Provision for advisor transition commissions	**115,543**	109,610
Advisor transition commission payable	**13,018**	15,369
Other provisions	**4,600**	4,599
Foreign currency forward contracts (note 4)	**2,955**	2,855
Other liabilities	**2,998**	2,964
	139,114	135,397

11. Net earned premium

	3 months ended June 30, 2018 $	3 months ended June 30, 2017 $	**6 months ended June 30, 2018 $**	6 months ended June 30, 2017 $
Direct written premium	**941,707**	768,660	**1,541,394**	1,308,948
Assumed written premium	**5,662**	1,853	**7,446**	3,499
Gross written premium	**947,369**	770,513	**1,548,840**	1,312,447
Ceded written premium	**(76,687)**	(21,071)	**(96,520)**	(39,502)
Net written premium	**870,682**	749,442	**1,452,320**	1,272,945
Change in gross unearned premium	**(156,034)**	(122,155)	**(79,154)**	(35,938)
Change in ceded unearned premium	**2,733**	1,381	**2,340**	972
Net earned premium	**717,381**	628,668	**1,375,506**	1,237,979

12. Share capital

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

For the six months ended June 30, 2018, the Company issued 48,067 (2017 - 59,551) Class A preference shares, series B for $4,807 (2017 - $5,955) and redeemed 21,322 shares (2017 - 26,607) for $2,132 (2017 - $2,661). In addition, the Company issued 2,908,891 (2017 - nil) common shares to its parent for $181,700 (2017 - $nil). The Company redeemed 36,683 (2017 - 5,099) Class A preference shares, series A for $917 (2017 - $127).

Dividends are as follows:

	6 months ended June 30, 2018				6 months ended June 30, 2017			
	Declared	**Declared per share**	**Paid**	**Paid per share**	Declared	Declared per share	Paid	Paid per share
	$	**$**	**$**	**$**	$	$	$	$
Class A, series A	**119**	**0.94**	**154**	**0.94**	157	0.94	162	0.94
Class A, series B	**1,794**	**2.50**	**1,727**	**2.50**	1,661	2.50	1,578	2.50
Class B	**1**	**1.25**	**1**	**1.25**	1	1.25	1	1.25
Class D, series A	**35**	**2.50**	**35**	**2.50**	35	2.50	35	2.50
Class D, series B	**106**	**2.50**	**106**	**2.50**	106	2.50	106	2.50
Class D, series C	**108**	**2.50**	**108**	**2.50**	108	2.50	108	2.50
Class E, series C	**2,500**	**0.63**	**2,500**	**0.63**	2,500	0.63	2,500	0.63
Class F, series A	**458**	**0.94**	**458**	**0.94**	458	0.94	458	0.94
Class G, series A	**19**	**1.25**	**19**	**1.25**	19	1.25	19	1.25
Common shares	**-**	**-**	**-**	**-**	100,000	4.66	100,000	2.33
	5,140		**5,108**		105,045		104,967	

During the six months ended June 30, 2018, the Company declared and paid common dividends to its parent for $nil (2017 - $100,000).

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

13. Statement of cash flows - other non-cash items

	6 months ended June 30, 2018	6 months ended June 30, 2017
	$	$
i) Items not requiring the use of cash		
Investing activities (gains) losses	**(2,068)**	(26,127)
Amortization and depreciation of:		
Bond premium/discount	**7,826**	9,682
Mortgage accretion	**146**	332
Intangible assets	**1,593**	1,493
Property and equipment	**4,219**	4,669
Change in fair value of FVTPL invested assets (note 4)	**9,055**	(21,772)
Impairment losses (note 4)	**5,510**	4,298
Deferred income taxes	**(2,359)**	746
Retirement benefit obligations	**2,684**	2,350
Loss from investments in joint ventures	**439**	185
	27,045	(24,144)
ii) Changes in non-cash operating components		
Other		
Insurance contracts	**205,017**	(5,662)
Reinsurance ceded contracts	**(16,166)**	69,406
Premiums due	**(62,916)**	(35,327)
Deferred acquisition expenses	**(12,768)**	(6,656)
Staff share loan plan	**(530)**	(242)
Accounts receivable and other assets	**(6,913)**	(5,306)
Accounts payable and accrued charges	**(59,529)**	(31,345)
Income taxes payable/recoverable	**(34,285)**	(15,735)
Provisions and other liabilities	**3,617**	2,283
	15,527	(28,584)