Co-operators General Insurance Company

Unaudited Condensed Consolidated Interim Financial Statements

For the first quarter ended March 31, 2015

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

As at

(in thousands of Canadian dollars)	**March 31, 2015 $**	December 31, 2014 $
Assets		
Cash and cash equivalents	**11,421**	15,919
Invested assets (note 5)	**4,188,776**	4,116,529
Premiums due	**602,768**	661,268
Reinsurance ceded contracts (note 7)	**84,593**	93,884
Deferred acquisition expenses	**173,152**	183,123
Assets held for sale	**2,684**	4,883
Deferred income taxes	**85,090**	86,400
Intangible assets (note 9)	**53,357**	49,237
Other assets (note 10)	**79,764**	82,340
	5,281,605	5,293,583
Liabilities		
Accounts payable and accrued charges	**130,810**	155,243
Income taxes payable	**19,450**	49,153
Insurance contracts (note 6)	**3,322,651**	3,358,540
Borrowings	**40,473**	31,080
Retirement benefit obligations	**100,382**	99,217
Deferred income taxes	**34**	34
Provisions and other liabilities (note 11)	**109,808**	108,704
	3,723,608	3,801,971
Shareholders' equity		
Share capital (note 13)	**214,518**	213,556
Contributed capital	**10,132**	10,132
Retained earnings	**1,102,384**	1,099,992
Accumulated other comprehensive income	**230,963**	167,932
	1,557,997	1,491,612
	5,281,605	5,293,583

Contingencies, commitments and guarantees (note 16)

See accompanying notes to condensed consolidated interim financial statements.

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

3 months ended March 31, 2015 (in thousands of Canadian dollars)	**Share capital $**	**Contributed capital $**	**Retained earnings $**	**Accumulated other comprehensive income $**	**Total shareholders' equity $**
Balance, beginning of period	**213,556**	**10,132**	**1,099,992**	**167,932**	**1,491,612**
Net income	**-**	**-**	**22,179**	**-**	**22,179**
Other comprehensive income	**-**	**-**	**-**	**63,031**	**63,031**
Total comprehensive income	**-**	**-**	**22,179**	**63,031**	**85,210**
Staff share loan plan (note 13)	**841**	**-**	**-**	**-**	**841**
Net preference shares (note 13)	**121**	**-**	**-**	**-**	**121**
Dividends declared (note 13)	**-**	**-**	**(19,750)**	**-**	**(19,750)**
Premium on redemption of preference shares	**-**	**-**	**(37)**	**-**	**(37)**
Balance, end of period	**214,518**	**10,132**	**1,102,384**	**230,963**	**1,557,997**

3 months ended March 31, 2014 (in thousands of Canadian dollars)	Share capital $	Contributed capital $	Retained earnings $	Accumulated other comprehensive income $	Total shareholders' equity $
Balance, beginning of period	282,623	10,132	976,088	113,244	1,382,087
Net income	-	-	10,589	-	10,589
Other comprehensive income	-	-	-	37,420	37,420
Total comprehensive income	-	-	10,589	37,420	48,009
Staff share loan plan (note 13)	604	-	-	-	604
Net preference shares (note 13)	178	-	-	-	178
Dividends declared (note 13)	-	-	(3,334)	-	(3,334)
Premium on redemption of preference shares	-	-	(51)	-	(51)
Balance, end of period	283,405	10,132	983,292	150,664	1,427,493

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 March 31, 2015 $	3 months ended March 31, 2014 $
Direct written premium (note 12)	**489,050**	472,860
Ceded written premium (note 7, 12)	**(16,257)**	(18,700)
Income		
Net earned premium (note 12)	**550,511**	525,596
Net investment gains and income (note 5)	**36,405**	46,680
	586,916	572,276
Expenses		
Claims and adjustment expenses	**378,165**	382,913
Ceded claims and adjustment expenses (note 7)	**(1,875)**	(3,131)
Premium and other taxes	**16,640**	16,156
Commissions and advisor compensation	**98,696**	92,491
Ceded commission (note 7)	**(1,171)**	(1,433)
General expenses	**67,991**	71,590
	558,446	558,586
Income before income taxes	**28,470**	13,690
Income tax expense (note 8)	**6,291**	3,101
Net income	**22,179**	10,589
Earnings per share	**0.98**	0.35
Weighted average number of common shares	**21,295**	20,442

See accompanying notes to condensed consolidated interim financial statements.

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

(in thousands of Canadian dollars)	**3 months ended March 31, 2015 $**	3 months ended March 31, 2014 $
Net income	**22,179**	10,589
Other comprehensive income		
Items that may be reclassified subsequently to the statement of income:		
Net unrealized gains (losses) on available-for-sale financial assets		
Bonds	**59,024**	36,668
Stocks	**48,033**	29,380
	107,057	66,048
Net reclassification adjustment for (gains) losses included in income		
Bonds	**(21,623)**	(9,894)
Stocks	**(1,090)**	(6,425)
	(22,713)	(16,319)
Other comprehensive income before income taxes	**84,344**	49,729
Income tax expense (note 8)	**21,313**	12,309
Other comprehensive income	**63,031**	37,420
Comprehensive income	**85,210**	48,009

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)	3 months ended March 31, 2015 $	3 months ended March 31, 2014 $
Operating activities		
Net income	**22,179**	10,589
Items not requiring the use of cash (note 14)	**1,042**	(8,912)
Changes in non-cash operating components (note 14)	**(33,912)**	(14,593)
Cash provided by (used in) operating activities	**(10,691)**	(12,916)
Investing activities		
Purchases and advances of:		
Invested assets	**(1,201,962)**	(1,290,329)
Assets held for sale	**(525)**	-
Intangible assets (note 9)	**(4,480)**	-
Property and equipment	**(1,063)**	(6,796)
Sale and redemption of:		
Invested assets	**1,224,068**	1,274,053
Intangible assets (note 9)	**23**	-
Assets held for sale	**2,604**	-
Cash provided by (used in) investing activities	**18,665**	(23,072)
Financing activities		
Share capital - preference shares issued (note 13)	**1,918**	1,572
Share capital - preference shares redeemed (note 13)	**(1,797)**	(1,394)
Repayment of borrowings	**(3,500)**	**-**
Dividends paid (note 13)	**(21,949)**	(5,449)
Premium on redemption of preferred shares	**(37)**	(51)
Cash provided by (used in) financing activities	**(25,365)**	(5,322)
Net decrease in cash and cash equivalents less short-term indebtedness	**(17,391)**	(41,310)
Cash and cash equivalents less short-term indebtedness, beginning of period	**(11,661)**	(3,362)
Cash and cash equivalents less short-term indebtedness, end of period	**(29,052)**	(44,672)
Cash	**2,392**	5,397
Cash equivalents	**9,029**	-
Short-term indebtedness	**(40,473)**	(50,069)
Cash and cash equivalents less short-term indebtedness, end of period	**(29,052)**	(44,672)

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), L'Équitable, Compagnie d'assurances Générale (L'Equitable) and Co-operators Insurance Agencies Limited (CIAL). 100% of the voting rights attached to all the outstanding voting shares of each of Sovereign, COSECO, L'Equitable and CIAL are held by the Company.

The registered office of the Company is Priory Square, 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 three months ended March 31, 2015 were authorized for issue in accordance with a resolution of the Audit Committee of the Board of Directors on April 30, 2015.

CGIC and certain of its subsidiaries are licensed to write all classes of insurance, other than life, in all provinces and territories in Canada. 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 Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements, including 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 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.

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, 2014, 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, 2014.

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, 2014.

3. Adoption of new and amended accounting standards

Effective January 1, 2015, the Company adopted the following new and amended accounting standards.

IAS 19R "Employee Benefits"

In November 2013, the IASB issued a narrow scope amendment to IAS19R. The amendment applies to contributions from employees or third parties to defined benefit plans. It allows contributions independent of the number of years of service to be recognized as a reduction in the service cost in the period in which the related service is rendered instead of attributed to period of service using the same attribution method as used for the gross benefit. The Company has adopted these amendments on January 1, 2015, and has determined that there was no impact to the consolidated financial statements.

Annual Improvements 2010-2012 Cycle

Annual Improvements 2010-2012 Cycle included minor amendments to IFRS 8 "Operating Segments", IFRS 13 "Fair Value Measurement", IAS 16 "Property, Plant and Equipment", IAS 24 "Related Party Disclosures", and IAS 38 "Intangible Assets". The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The Company has adopted these amendments on January 1, 2015, and has determined that there was no impact to the consolidated financial statements.

Annual Improvements 2011-2013 Cycle

Annual Improvements 2011-2013 Cycle was issued in December 2013 by the IASB, and included minor amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 3 "Business Combinations", IFRS 13 "Fair Value Measurement" and IAS 40 "Investment Property". The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The Company has adopted these amendments on January 1, 2015, and has determined that there was no impact to the consolidated financial statements.

4. Accounting standards issued but not yet applied

IFRS 7 "Financial Instruments: Disclosures"

IFRS 7 was also amended in December 2011 to require additional financial instrument disclosures upon transition from IAS 39 to IFRS 9. The amendments are effective on adoption of IFRS 9, which was finalized in July 2014 and is effective for annual periods beginning on or after January 1, 2018. Early adoption of these amendments is permitted where IFRS 9 is also early adopted. OSFI has indicated that it will not allow early adoption of IFRS 9 for federally regulated insurance companies. The Company has not yet assessed the impact of this amended standard.

IFRS 9 "Financial Instruments"

IFRS 9 is a three part standard aimed at reducing complexity in reporting financial instruments by replacing the different rules in IAS 39 "Financial Instruments: Recognition and Measurement". 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 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 complete standard was issued by the IASB in July 2014, and is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. OSFI has indicated that it will not allow early adoption of this standard for federally regulated insurance companies. The Company has not yet assessed the impact of this standard.

IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"

In September 2014, the IASB issued amendments to both IFRS 10 and IAS 28 to clarify the recognition requirements for gains or losses on the sale or contribution of assets to an associate or joint venture. The amount of the gain or loss recognized will be dependent on whether the assets sold or contributed constitute a business as defined in IFRS 3 "Business Combinations". The amendments issued are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The Company does not expect these amendments to significantly impact the consolidated financial statements.

IFRS 11 "Joint Arrangements"

In May 2014, the IASB issued amendments to IFRS 11 related to accounting for the acquisition of an interest in a joint operation. The acquirer of a joint operation in which the activity constitutes a business as per IFRS 3 "Business Combinations" must apply the principles of business combination accounting and disclosure requirements in IFRS 3 and other IFRSs to the acquisition. The amendments are to be applied prospectively in annual periods beginning on or after January 1, 2016. Earlier application is permitted. The Company does not expect this amendment to impact the consolidated financial statements.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 was issued in May 2014, and is intended to replace IAS 18 "Revenue", IAS 11 "Construction Contracts" and related IFRICs. The standard was issued as a result of an ongoing project to align revenue recognition between IFRS and U.S. Generally Accepted Accounting Principles. This standard is effective for annual periods beginning on or after January 1, 2017. Early application is permitted. IFRS

15 contains a scope exception which excludes insurance contracts within the scope of IFRS 4 "Insurance Contracts", therefore this standard will have a limited impact on the Company.

IAS 1 "Presentation of Financial Statements"

In December 2014, IAS 1 was amended to clarify that materiality applies to all parts of the financial statements, that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate and provides examples of how to clarify understandability and comparability in the ordering of note disclosures. The amendment is effective for annual periods beginning on or after January 1, 2016. The Company does not expect these amendments to significantly impact the consolidated financial statements.

IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"

Amendments to IAS 16 and IAS 38 were issued in May 2014, and prohibit the use of revenue-based depreciation methods. This presumption can be rebutted for intangible assets that meet certain criteria. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The Company does not expect this amendment to impact the consolidated financial statements.

Annual Improvements 2012-2014 Cycle

Annual Improvements 2012-2014 Cycle was issued in September 2014 by the IASB, and included minor amendments to IFRS 5 "Non-current Assets Held For Sale and Discontinued Operations", IFRS 7 "Financial Instruments: Disclosures", IAS 19 "Employee Benefits" and IAS 34 "Interim Financial Reporting". The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The amendments issued are all effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The Company does not expect these amendments to significantly impact the consolidated financial statements.

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

5. Invested assets and net investment gains and income

a) Invested assets

	Fair value			Amortized cost	Carrying value
		Classified	Designated	Loans and	
	AFS	FVTPL	FVTPL	receivables	Total
March 31, 2015	$	$	$	$	$
Bonds					
Federal	482,708	-	8,852	-	491,560
Provincial	782,993	-	30,126	-	813,119
Municipal	73,132	-	-	-	73,132
Corporate	937,693	-	86,394	-	1,024,087
Asset-backed securities	99,530	-	17,748	-	117,278
International	30,879	-	-	-	30,879
Co-operative	2,754	-	-	-	2,754
	2,409,689	-	143,120	-	2,552,809
Stocks					
Canadian common	526,375	-	-	-	526,375
Canadian preferred	77,199	(11,177)	167,656	-	233,678
U.S. equities	198,235	-	-	-	198,235
Foreign equities	74,423	-	-	-	74,423
	876,232	(11,177)	167,656	-	1,032,711
Short-term investments	78,216	-	-	-	78,216
Limited partnerships	21,237	-	-	-	21,237
Foreign currency forward contracts	-	92	-	-	92
Mortgages	-	-	-	449,970	449,970
Other investments	-	-	-	28,421	28,421
Investment income due and accrued	-	-	-	25,320	25,320
Total invested assets	3,385,374	(11,085)	310,776	503,711	4,188,776

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

	Fair Value			Amortized Cost	Carrying Value
		Classified	Designated	Loans and	
	AFS	FVTPL	FVTPL	receivables	Total
December 31, 2014	$	$	$	$	$
Bonds					
Federal	561,414	-	9,591	-	571,005
Provincial	670,611	-	29,242	-	699,853
Municipal	72,531	-	-	-	72,531
Corporate	976,584	-	84,712	-	1,061,296
Asset-backed securities	100,178	-	17,644	-	117,822
International	28,747	-	-	-	28,747
Co-operative	2,752	-	-	-	2,752
	2,412,817	-	141,189	-	2,554,006
Stocks					
Canadian common	497,305	-	-	-	497,305
Canadian preferred	85,827	(9,911)	172,402	-	248,318
U.S. equities	177,985	-	-	-	177,985
Foreign equities	65,383	-	-	-	65,383
	826,500	(9,911)	172,402	-	988,991
Short-term investments	64,590	-	-	-	64,590
Limited partnerships	15,399	-	-	-	15,399
Foreign currency forward contracts	-	64	-	-	64
Mortgages	-	-	-	445,600	445,600
Other investments	-	-	-	28,689	28,689
Investment income due and accrued	-	-	-	19,190	19,190
Total invested assets	3,319,306	(9,847)	313,591	493,479	4,116,529

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. Assets measured at fair value and classified as Level 1 include Canadian preferred stocks and certain Canadian, U.S. and foreign common stocks.

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. Assets and liabilities measured at fair value and classified as Level 2 include bonds, short-term investments, certain U.S. and foreign equities, certain pooled funds invested in equities, and foreign currency forward contracts.

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares 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. Assets measured at fair value and classified as Level 3 include limited partnerships.

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

March 31, 2015	Level 1 - Quoted prices $	Level 2 - Significant other observable inputs $	Level 3 - Significant unobservable inputs $	Total fair value $
AFS				
Bonds	-	2,409,689	-	2,409,689
Stocks	783,002	79,886	-	862,888
Short-term investments	-	78,216	-	78,216
Limited partnerships	-	-	21,237	21,237
	783,002	2,567,791	21,237	3,372,030
FVTPL				
Bonds	-	143,120	-	143,120
Stocks	167,656	-	-	167,656
Foreign currency forward contracts	-	92	-	92
	167,656	143,212	-	310,868
Total invested assets at fair value	950,658	2,711,003	21,237	3,682,898
FVTPL				
Foreign currency forward contracts (note 11)	-	2,060	-	2,060
Total financial liabilities at fair value	-	2,060	-	2,060

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

December 31, 2014	Level 1 - Quoted prices $	Level 2 - Significant other observable inputs $	Level 3 - Significant unobservable inputs $	Total fair value $
AFS				
Bonds	-	2,412,817	-	2,412,817
Stocks	743,973	70,449	-	814,422
Short-term investments	-	64,590	-	64,590
Limited partnerships	-	-	15,399	15,399
	743,973	2,547,856	15,399	3,307,228
FVTPL				
Bonds	-	141,189	-	141,189
Stocks	172,402	-	-	172,402
Foreign currency forward contracts	-	64	-	64
	172,402	141,253	-	313,655
Total invested assets at fair value	916,375	2,689,109	15,399	3,620,883
FVTPL				
Foreign currency forward contracts (note 11)	-	1,229	-	1,229
Total financial liabilities at fair value	-	1,229	-	1,229

Included in the available-for-sale (AFS) stocks in the above table are embedded derivatives of $11,177 (2014 - $9,911), which are classified FVTPL. The embedded derivative represents the redemption options in the preferred share portfolio, the value of which has been determined using unobserved inputs in an accepted model. The embedded derivatives have been offset against its host instrument as the net amount's fair value represents an unadjusted quoted price for identical instruments exchanged in active markets.

Excluded from these totals are AFS investments of $2,167 (2014 - $2,167) 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.

3 months ended March 31, 2015	**Limited partnerships $**
Balance, beginning of period	**15,399**
Purchases	**4,471**
Sales and redemptions	**(118)**
Gains	
Unrealized included in OCI	**1,485**
Balance, end of period	**21,237**

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

No investments were transferred between levels during the period (2014 - $nil).

The investments measured at fair value and classified as Level 3 as at March 31, 2015 are limited partnerships. 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.

The fair value of mortgages at March 31, 2015 is $468,981 (March 31, 2014 - $441,837). 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 gains and income

	3 months ended March 31, 2015 $	3 months ended March 31, 2014 $
Interest income	**22,751**	22,915
Dividend and other income	**7,348**	7,007
Investment expense	**(1,154)**	(1,470)
Net investment income	**28,945**	28,452
Net realized gains	**23,759**	16,049
Foreign exchange losses	**(4,018)**	(591)
Change in fair value	**(10,177)**	2,770
Impairment losses	**(2,104)**	-
Net investment gains	**7,460**	18,228
Net investment gains and income	**36,405**	46,680

d) Impaired assets and provisions for losses

For the three months ended March 31, 2015, the Company has recognized impairment losses of $2,104 (three months ended March 31, 2014 - $nil) on its AFS stock portfolio. The impairment losses were based on management's best estimate of whether objective evidence of impairment exists, using available market data. The impairment losses are included in net investment gains and income in the consolidated statements of income.

The financial assets in the table below are AFS financial assets where the carrying value is greater than fair value, however the loss has not been recognized in net income because management does not believe there is objective evidence of impairment or because the loss is not considered to be significant or prolonged.

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

	As at March 31, 2015		As at December 31, 2014	
	Fair value	**Unrealized losses**	Fair value	Unrealized losses
	$	**$**	$	$
Bonds	**196,018**	**505**	115,862	545
Stocks	**99,112**	**8,603**	67,147	5,805
Limited partnerships	**3,686**	**40**	-	-
Fair value and unrealized losses not recognized in net income	**298,816**	**9,148**	183,009	6,350

FVTPL financial assets have been excluded from the above table since changes in fair value of these financial assets are recorded in the consolidated statements of income.

There are no impairment losses recognized for the mortgage portfolio for the three months ended March 31, 2015 (three months ended March 31, 2014 - $nil). There are mortgages in arrears greater than 60 days $1,456 (2014 - $nil). There is no provision against mortgages as at March 31, 2015 (2014 - $nil).

6. Insurance contracts

Insurance contracts are comprised of the following balances:

	As at March 31, 2015	As at December 31, 2014
	$	$
Undiscounted unpaid claims and adjustment expenses	**2,140,561**	2,117,347
Effect of time value of money	**(83,334)**	(98,034)
Provisions for adverse deviation (PFADs)	**219,709**	216,483
Effect of discounting	**136,375**	118,449
Discounted unpaid claims and adjustment expenses	**2,276,936**	2,235,796
Unearned premiums	**1,045,715**	1,122,744
	3,322,651	3,358,540

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.

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

7. Reinsurance contracts

The Company follows the policy of underwriting and reinsuring contracts of insurance which limits the liability of the Company to a maximum amount on any one loss. In addition, the Company has obtained reinsurance, which limits the Company's liability in the event of a series of claims arising out of a single occurrence. The Company's net retentions are as follows:

	As at March 31, 2015 $	As at December 31, 2014 $
Individual loss		
Property	**5,000**	5,000
General liability	**5,000**	5,000
Automobile	**5,000**	5,000
Catastrophe		
Maximum limit	**1,300,000**	1,400,000
Company retention	**70,000**	70,000

Effective January 1, 2015, the Company's catastrophe maximum limit has decreased by $100,000. The maximum limit for catastrophe reinsurance is applied to all property and casualty insurance operations ultimately owned by CGL. The catastrophe program is arranged in a series of layers. The Company retains the initial $35,000 plus an additional 60% of the first layer and 17.5% of the second layer for a total of $70,000 in incurred claims, on losses up to $150,000.

a) Underwriting impact of reinsurance contracts

Ceded	**3 months ended March 31, 2015 $**	3 months ended March 31, 2014 $
Written premium (note 12)	**16,257**	18,700
Earned premium	**17,880**	20,047
Claims and adjustment expenses	**1,875**	3,131
Commission	**1,171**	1,433
Cost of reinsurance ceded program	**14,834**	15,483

Assumed	**3 months ended March 31, 2015 $**	3 months ended March 31, 2014 $
Written premium (note 12)	**2,312**	2,266
Earned premium	**3,012**	2,577
Claims and adjustment expenses	**2,589**	2,094
Commission	**785**	649
Underwriting loss from assumed reinsurance	**(362)**	(166)

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

b) Reinsurance ceded contracts

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 March 31, 2015 $	As at December 31, 2014 $
Reinsurance ceded assets		
Reinsurers' share of unearned premiums	**6,075**	7,700
Reinsurers' share of unpaid claims and adjustment expenses	**81,180**	86,124
Reinsurer receivables	**6,534**	10,260
	93,789	104,084
Reinsurance ceded liabilities		
Unearned reinsurance commissions	**1,876**	2,187
Payable to reinsurers	**2,328**	2,440
Unlicensed reinsurer deposits	**4,992**	5,573
	9,196	10,200
Reinsurance ceded contracts	**84,593**	93,884

c) Reinsurance assumed contracts

The Company presents balances related to reinsurance assumed contracts in the same manner as it presents direct insurance business with the exception of reinsurance assumed receivables and payables; these amounts are recorded in other assets and other liabilities. The portion of the assets related to reinsurance assumed contracts is as follows:

Reinsurance assumed assets

	As at March 31, 2015 $	As at December 31, 2014 $
Reinsurance assumed receivables (note 10)	**1,695**	2,266
Deferred acquisition expenses	**1,003**	1,236
	2,698	3,502

Reinsurance assumed liabilities

	As at March 31, 2015 $	As at December 31, 2014 $
Unearned premiums	**3,464**	4,164
Unpaid claims and adjustment expenses	**51,899**	51,678
Reinsurance assumed payables	**97**	290
	55,460	56,132

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

8. Income taxes

a) 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:

	3 months ended March 31, 2015		3 months ended March 31, 2014	
	$	**%**	$	%
Income before income taxes	**28,470**		13,690	
Income tax expense at statutory rates	**7,488**	**26.3**	3,600	26.3
Effects of:				
Non-taxable investment income	**(1,532)**	**(5.4)**	(1,530)	(11.2)
Non-deductible expenses	**126**	**0.4**	190	1.4
Change in income tax rates	**14**	**-**	691	5.0
Difference in effective tax rate of subsidiaries	**-**	**-**	7	0.1
Adjustment to tax expense in respect of prior years	**-**	**-**	(8)	(0.1)
Other	**195**	**0.7**	151	1.1
Income tax expense	**6,291**	**22.0**	3,101	22.6

b) Income taxes

	3 months ended March 31, 2015	3 months ended March 31, 2014
	$	$
Current tax expense		
Current period	**5,945**	648
Changes in tax rate	**(11)**	714
Adjustment for prior periods	**-**	488
Other	**-**	2
	5,934	1,852
Deferred tax expense		
Origination and reversal of temporary differences	**332**	1,768
Changes in tax rate	**25**	(23)
Adjustment for prior periods	**-**	(496)
	357	1,249
Income tax expense	**6,291**	3,101

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

c) Income taxes included in OCI

	3 months ended March 31, 2015 $	3 months ended March 31, 2014 $
Current income tax expense	**20,360**	12,193
Deferred income tax expense	**953**	116
Total income tax expense included OCI	**21,313**	12,309

The following income tax amounts are included in each component of OCI:

	3 months ended March 31, 2015 $	3 months ended March 31, 2014 $
Items that may be reclassified subsequently to the statement of income		
Net unrealized gains (losses) on AFS financial assets		
Bonds	**15,545**	9,672
Stocks	**11,691**	7,674
	27,236	17,346
Net reclassification adjustment for (gains) losses included in income		
Bonds	**(5,647)**	(3,326)
Stocks	**(276)**	(1,711)
	(5,923)	(5,037)
Income tax expense	**21,313**	12,309

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

9. Intangible assets

	Goodwill	Licenses	Software	Broker Customer Lists	Total
	$	$	$	$	$
Cost					
January 1, 2014	1,076	750	18,468	5,236	25,530
Additions	-	42,000	-	896	42,896
Disposals	-	-	(73)	(165)	(238)
December 31, 2014	1,076	42,750	18,395	5,967	68,188
Additions	-	1,000	-	3,480	4,480
Disposals	-	-	-	(23)	(23)
March 31, 2015	**1,076**	**43,750**	**18,395**	**9,424**	**72,645**
Accumulated amortization					
January 1, 2014	-	-	16,308	1,059	17,367
Amortization	-	-	1,079	670	1,749
Disposals	-	-	-	(165)	(165)
December 31, 2014	-	-	17,387	1,564	18,951
Amortization	-	-	62	275	337
March 31, 2015	**-**	**-**	**17,449**	**1,839**	**19,288**
Net carrying value					
December 31, 2014	1,076	42,750	1,008	4,403	49,237
March 31, 2015	**1,076**	**43,750**	**946**	**7,585**	**53,357**

On April 1, 2014, CIAL acquired certain Insurance Corporation of British Columbia Autoplan agency agreements from Federated Agencies Limited (FAL), a company under common control, through a series of transactions that included the involvement of CFSL and CGIC. The transactions resulted in an increase to the Company's intangible assets of $42,000, which represents fair market value. Fair market value was determined through a third party appraisal using a market approach, considering recent similar arms-length transactions in British Columbia.

10. Other assets

	As at March 31, 2015	As at December 31, 2014
	$	$
Due from related parties	**39,894**	42,637
Reinsurance assumed receivables (note 7)	**1,695**	2,266
Property and equipment	**27,919**	28,906
Due from risk sharing pools	**3,206**	3,696
Prepaid expenses	**2,203**	834
Other	**4,847**	4,001
	79,764	82,340

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

11. Provisions and other liabilities

	As at March 31, 2015 $	As at December 31, 2014 $
Provision for advisor transition commissions	**85,814**	85,608
Advisor transition commission payable	**14,892**	14,917
Other provisions	**3,615**	2,401
Finance lease obligations	**215**	265
Foreign currency forward contracts (note 5)	**2,060**	1,229
Other liabilities	**3,212**	4,284
	109,808	108,704

12. Net earned premium

	3 months ended March 31, 2015 $	3 months ended March 31, 2014 $
Direct written premium	**489,050**	472,860
Assumed written premium (note 7)	**2,312**	2,266
Gross written premium	**491,362**	475,126
Ceded written premium (note 7)	**(16,257)**	(18,700)
Net written premium	**475,105**	456,426
Change in gross unearned premium	**77,029**	70,517
Change in ceded unearned premium	**(1,623)**	(1,347)
Net earned premium	**550,511**	525,596

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

13. Share capital

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

The changes and the number of shares issued and outstanding are as follows:

	3 months ended March 31, 2015							
	Beginning of period		Issued during the period		Redemed during the period		End of period	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
		$		$		$		$
Class A preference shares:								
series A	**190,025**	**4,751**	**-**	**-**	**2,978**	**75**	**187,047**	**4,676**
series B	**517,228**	**51,723**	**19,180**	**1,918**	**17,221**	**1,722**	**519,187**	**51,919**
Class B preference shares	**458**	**12**	**-**	**-**	**-**	**-**	**458**	**12**
Class D preference shares:								
series A	**13,803**	**1,380**	**-**	**-**	**-**	**-**	**13,803**	**1,380**
series B	**42,535**	**4,254**	**-**	**-**	**-**	**-**	**42,535**	**4,254**
series C	**43,184**	**4,318**	**-**	**-**	**-**	**-**	**43,184**	**4,318**
Class E preference shares:								
series C	**4,000,000**	**100,000**	**-**	**-**	**-**	**-**	**4,000,000**	**100,000**
Class F preference shares:								
series A	**488,624**	**12,216**	**-**	**-**	**-**	**-**	**488,624**	**12,216**
Class G preference shares:								
series A	**14,984**	**375**	**-**	**-**	**-**	**-**	**14,984**	**375**
Common Shares	**21,294,708**	**48,076**	**-**	**-**	**-**	**-**	**21,294,708**	**48,076**
		227,105		**1,918**		**1,797**		**227,226**
Less: Staff share loan plan		**13,549**						**12,708**
		213,556						**214,518**

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

	3 months ended March 31, 2014							
	Beginning of period		Issued during the period		Redemed during the period		End of period	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
		$		$		$		$
Class A preference shares:								
series A	200,725	5,018	-	-	4,107	103	196,618	4,915
series B	479,509	47,951	15,720	1,572	12,907	1,291	482,322	48,232
Class B preference shares	466	12	-	-	-	-	466	12
Class D preference shares:								
series A	13,803	1,380	-	-	-	-	13,803	1,380
series B	42,535	4,254	-	-	-	-	42,535	4,254
series C	43,184	4,318	-	-	-	-	43,184	4,318
Class E preference shares:								
series C	4,000,000	100,000	-	-	-	-	4,000,000	100,000
series D	4,600,000	115,000	-	-	-	-	4,600,000	115,000
Class F preference shares:								
series A	488,624	12,216	-	-	-	-	488,624	12,216
Class G preference shares:								
series A	14,984	375	-	-	-	-	14,984	375
Common Shares	20,442,401	6,076	-	-	-	-	20,442,401	6,076
		296,600		1,572		1,394		296,778
Less: Staff share loan plan		13,977						13,373
		282,623						283,405

On April 1, 2014, the Company issued 776,627 common shares to its parent for $42,000 related to the acquisition of certain Insurance Corporation of British Columbia Autoplan agency agreements from FAL (note 9).

On June 30, 2014, the Company redeemed 4,600,000 class E preference shares, Series D at a price of $25.00 per share for cash consideration of $115,000.

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

Dividends are as follows:

	3 months ended March 31, 2015				3 months ended March 31, 2014			
	Declared $	**Declared per share $**	**Paid $**	**Paid per share $**	Declared $	Declared per share $	Paid $	Paid per share $
Class A, series A	**-**	**-**	**179**	**0.94**	-	-	189	0.94
Class A, series B	**-**	**-**	**1,293**	**2.50**	-	-	1,199	2.50
Class B	**-**	**-**	**1**	**1.25**	-	-	1	1.25
Class D, series A	**-**	**-**	**35**	**2.50**	-	-	35	2.50
Class D, series B	**-**	**-**	**106**	**2.50**	-	-	106	2.50
Class D, series C	**-**	**-**	**108**	**2.50**	-	-	108	2.50
Class E, series C	**1,250**	**0.31**	**1,250**	**0.31**	1,250	0.31	1,250	0.31
Class E, series D	**-**	**-**	**-**	**-**	2,084	0.45	2,084	0.45
Class F, series A	**-**	**-**	**458**	**0.94**	-	-	458	0.94
Class G, series A	**-**	**-**	**19**	**1.25**	-	-	19	1.25
Common shares	**18,500**	**-**	**18,500**	**0.87**	-	-	-	-
	19,750		**21,949**		3,334		5,449	

On February 19, 2015, the Company declared a dividend to its parent for $18,500 which was paid in cash on March 9, 2015.

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

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

	3 months ended March 31, 2015	3 months ended March 31, 2014
	$	$
i) Items not requiring the use of cash		
Investing activities gains	**(19,909)**	(15,427)
Loss on disposal	**167**	-
Amortization and depreciation of:		
Bond premium/discount	**4,534**	4,422
Mortgage accretion	**44**	51
Intangible assets (note 9)	**337**	851
Property and equipment	**2,066**	1,794
Change in fair value of FVTPL invested assets (note 5)	**10,177**	(2,770)
Impairment losses (note 5)	**2,104**	-
Deferred income taxes (note 8)	**357**	1,249
Retirement benefit obligations	**1,165**	918
	1,042	(8,912)
ii) Changes in non-cash operating components		
Other		
Insurance contracts	**(35,889)**	(36,820)
Reinsurance ceded contracts	**9,291**	10,603
Premiums due	**58,500**	49,791
Deferred acquisition expenses	**9,971**	8,751
Staff share loan plan	**841**	604
Accounts receivable and other assets	**(4,599)**	(13,675)
Accounts payable and accrued charges	**(22,236)**	(33,806)
Income taxes payable/recoverable	**(50,064)**	607
Provisions and other liabilities	**273**	(648)
	(33,912)	(14,593)

15. Segmented information

The Company primarily manages its affairs on a legal entity basis. There is separate management for each subsidiary who are responsible for meeting independent strategic initiatives within the overall corporate strategy. Each subsidiary company offers property and casualty insurance products but operates within separate distribution channels. Individual subsidiary financial performance is reported separately to the Company’s Board of Directors.

All subsidiary companies follow the same accounting policies as described in the Company’s annual consolidated statements for the year ended December 31, 2014. The Company accounts for any inter-segment sales at current market prices as if the transactions were to third parties.

L’Equitable and CIAL have been included within the CGIC operating segment.

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

The Company's operating segments are as follows:

3 months ended March 31, 2015	CGIC $	Sovereign $	COSECO $	Eliminations $	Consolidated $
Direct written premium	378,180	61,615	49,255	-	489,050
Ceded written premium	(11,598)	(5,959)	(1,544)	2,844	(16,257)
Income					
Net earned premium	422,071	72,905	55,535	-	550,511
Net investment gains and income	25,611	5,532	5,262	-	36,405
	447,682	78,437	60,797	-	586,916
Expenses					
Claims and adjustment expenses	296,561	49,388	33,132	(916)	378,165
Ceded claims and adjustment expenses	(44)	(4,115)	1,368	916	(1,875)
Other expenses	141,414	28,656	11,981	105	182,156
	437,931	73,929	46,481	105	558,446
Income before income taxes	9,751	4,508	14,316	(105)	28,470
Income tax expense	1,729	979	3,583	-	6,291
Net income	8,022	3,529	10,733	(105)	22,179
Comprehensive income	54,969	12,580	17,766	(105)	85,210
Additions to:					
Property and equipment	1,060	3	-	-	1,063
Intangible assets (note 9)	-	-	-	4,480	4,480
Assets					
Invested assets	3,086,034	610,470	492,272	-	4,188,776
Reinsurance ceded contracts	35,446	52,450	11,806	(15,109)	84,593
Intangible assets	47,190	-	-	6,167	53,357
Other assets	1,212,950	118,576	118,269	(494,916)	954,879
Liabilities					
Insurance contracts	2,407,610	496,397	434,160	(15,516)	3,322,651
Retirement benefit obligations	91,606	7,055	1,721	-	100,382
Other liabilities	276,681	20,357	13,018	(9,481)	300,575
Shareholders' equity	1,605,723	257,687	173,448	(478,861)	1,557,997

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

3 months ended March 31, 2014	CGIC $	Sovereign $	COSECO $	Eliminations $	Consolidated $
Direct written premium	362,702	63,961	46,197	-	472,860
Ceded written premium	(11,741)	(7,196)	(1,357)	1,594	(18,700)
Income					
Net earned premium	401,483	72,221	51,892	-	525,596
Net investment gains and income	36,231	5,679	4,770	-	46,680
	437,714	77,900	56,662	-	572,276
Expenses					
Claims and adjustment expenses	286,861	53,228	44,395	(1,571)	382,913
Ceded claims and adjustment expenses	1,045	(5,664)	(83)	1,571	(3,131)
Other expenses	138,837	28,908	11,059	-	178,804
	426,743	76,472	55,371	-	558,586
Income before income taxes	10,971	1,428	1,291	-	13,690
Income tax expense	2,554	302	245	-	3,101
Net income	8,417	1,126	1,046	-	10,589
Comprehensive income	36,680	6,054	5,275	-	48,009
Additions to:					
Property and equipment	5,545	1,251	-	-	6,796
As at December 31, 2014					
Assets					
Invested assets	2,999,509	604,073	512,947	-	4,116,529
Reinsurance ceded contracts	40,836	54,746	13,921	(15,619)	93,884
Intangible assets	48,161	-	-	1,076	49,237
Other assets	1,260,751	131,460	119,165	(477,443)	1,033,933
Liabilities					
Insurance contracts	2,422,624	505,754	446,090	(15,928)	3,358,540
Retirement benefit obligations	90,683	6,872	1,662	-	99,217
Other liabilities	296,609	32,542	42,598	(27,535)	344,214
Shareholders' equity	1,539,341	245,111	155,683	(448,523)	1,491,612

16. Contingencies, commitments and guarantees

The Company is subject to litigation arising in the normal course of conducting its insurance business.

The Company is of the opinion that this litigation will not have a significant effect on the financial position, results of operations or cash flows of the Company.