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Co-operators General Insurance Company

Management's Discussion and Analysis

For the third quarter ended September 30, 2016

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October 27, 2016

This Management's Discussion and Analysis (MD&A) comments on Co-operators General Insurance Company's operations and financial condition for the third quarter ended September 30, 2016.

Unless otherwise stated or the context otherwise indicates, in this MD&A, "Co-operators General", "we", "us" and "our" refers to the Consolidated Co-operators General Insurance Company including its subsidiaries: The Sovereign General Insurance Company (Sovereign), COSECO Insurance Company (COSECO), L'Équitable, Compagnie d'assurances Générale (L'Equitable), Co-operators Investment Limited Partnership (CILP) and Co-operators Insurance Agencies Limited (CIAL).

Co-operators General's parent company is Co-operators Financial Services Limited (CFSL) and its ultimate parent is The Co-operators Group Limited (CGL), a Canadian-owned co-operative with 43 members.

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

- our unaudited condensed consolidated interim financial statements and accompanying notes for the third quarter ended September 30, 2016, the second quarter ended June 30, 2016 and the first quarter ended March 31, 2016;
- our MD&A for both the second quarter ended June 30, 2016 and the first quarter ended March 31, 2016; and
- our 2015 Annual Report and Annual Information Form

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

Except as otherwise noted, all figures in this MD&A are stated in Canadian dollars for the quarter ended September 30, 2016 and are based on financial statements 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 financial results presented in this MD&A are unaudited.

We use certain financial performance measures which do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. They should not be viewed as an alternative to measures of financial performance determined in accordance with IFRS. Such measures are defined in our 2015 Annual Report in the *Key Financial Measures (Non-IFRS)* section, or in the same section in this document when disclosed for the first time.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

With respect to forward-looking statements and information contained in this MD&A, we have made assumptions regarding, among other things: growth rates and inflation rates in the Canadian and global economies; the Canadian and U.S. housing markets; the Canadian and global capital markets; the strength of the Canadian dollar relative to the U.S. dollar; employment levels and consumer spending in the Canadian economy; and impacts of regulation and tax laws by the Canadian and provincial governments or their agencies. Some of the assumptions we have made are described in our 2015 Annual Report.

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

Readers are cautioned that the foregoing list of factors is not exhaustive. For further information, please refer to our 2015 Annual Report, which outlines in detail certain key factors that may affect our future results. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement. We are not under any duty to update any of the forward-looking statements after the date of this MD&A to conform such statements to actual results or to changes in our expectations except as otherwise required by applicable legislation.

SUMMARY OF KEY FINANCIAL DATA AND RESULTS OVERVIEW

Three months ended September 30 unless otherwise stated

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

3rd quarter	2016	2015	2014
Key financial data			
Direct written premium	**691.0**	650.9	610.1
Net earned premium	**614.8**	586.0	559.0
Net income (loss)	**16.3**	(21.4)	(10.8)
Total assets[1]	**5,929.4**	5,303.2	5,293.6
Total liabilities[1]	**4,426.4**	3,844.6	3,802.0
Shareholders' equity[1]	**1,503.0**	1,458.6	1,491.6
Key success indicators			
Direct written premium growth	**6.2%**	6.7%	2.7%
Net earned premium growth	**4.9%**	4.8%	5.7%
Earnings (loss) per common share (EPS)[2]	**$0.71**	($1.07)	($0.57)
Return on equity (ROE)	**5.1%**	(6.2%)	(3.4%)
Combined ratio - excluding Market Yield Adjustment (MYA)	**109.0%**	104.0%	109.2%
Minimum Capital Test (MCT)[1]	**213%**	225%	228%

[1] Balance sheet data and MCT results for 2015 and 2014 are as at December 31

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

Co-operators General reported net income after tax of $16.3 million for the three months ended September 30, 2016, as compared to a net loss after tax of $21.4 million in the same quarter of 2015. Our return on equity for the quarter was 5.1% versus (6.2%) in the third quarter of 2015. Earnings (loss) per common share in the quarter was $0.71 compared to ($1.07) in the same quarter of the prior year.

During the quarter, there were no material changes to the Company's estimated net losses for the Fort McMurray wildfires. The year-to-date Fort McMurray wildfire losses were $102.2 million, net of reinsurance and inclusive of reinsurance reinstatement premiums and ex-gratia payments (Q2 2016 MD&A - $104.0 million).

Our underwriting loss of $55.1 million for the third quarter deteriorated from our underwriting loss of $23.9 million in the same period of 2015. This was the result of an increase in current accident year claims across all lines of business, except farm and higher unfavourable claims development in our auto line of business, partially offset by continued premium growth, mainly in our auto and home lines of business. Despite the underwriting loss, net income increased to $16.3 million given improved investment results, partially offset by the MYA. Net investment income and gains increased $90.0 million compared to the same period last year, driven by improvements in the Canadian and U.S. equity markets and unrealized preferred share gains. The MYA had a $4.9 million unfavourable impact on net income before tax as a result of a decrease in the discount rate and an increase in the undiscounted net claims.

FINANCIAL PERFORMANCE

DIRECT WRITTEN PREMIUM (DWP) AND NET EARNED PREMIUM (NEP)

$ millions	**Q3 2016**	Q3 2015	% change	**YTD 2016**	YTD 2015	% change
Direct written premium	**691.0**	650.9	6.2%	**1,933.1**	1,820.9	6.2%
Net earned premium	**614.8**	586.0	4.9%	**1,779.7**	1,703.9	4.4%

DWP improvements during the third quarter were attributable to growth in policy and vehicle count in all lines of business paired with higher average home and farm premiums. In the third quarter, DWP increased by 6.2% or $40.1 million to $691.0 million. NEP increased during the third quarter by 4.9% or $28.8 million compared to the same period last year. The increase in NEP during the quarter, and year to date, is seen throughout all geographic regions and product lines.

Refer to Note 10 of our unaudited condensed consolidated interim financial statements for the period ended September 30, 2016 for a reconciliation of DWP to NEP.

NEP by line of business

$ millions	Q3 2016	Q3 2015	% change	YTD 2016	YTD 2015	% change
Auto	**294.9**	282.3	4.5%	**863.8**	822.2	5.1%
Home	**168.7**	158.2	6.6%	**482.4**	458.8	5.1%
Commercial	**112.2**	109.7	2.3%	**321.3**	319.0	0.7%
Farm	**29.8**	27.6	8.0%	**86.2**	80.3	7.3%
Other	**9.2**	8.2	12.2%	**26.0**	23.6	10.2%
Total	**614.8**	586.0	4.9%	**1,779.7**	1,703.9	4.4%

During the third quarter, the auto line of business was the largest contributor to our NEP growth, increasing by $12.6 million over the same quarter of 2015. Growth in the auto line of business is driven primarily by an increase in the vehicles in forces combined with rate adjustments. The home line of business continued to contribute to the increase in NEP throughout the quarter, increasing 6.6% over the same quarter of 2015. This was the result of an increase in policies in force and higher average premiums, mainly in the West. The commercial line of business experienced a 2.3% increase in NEP compared to the same period of the prior year, as a result of an increase in policies in force, partially offset by premium reductions in the depressed energy and resource sector in the West. Increased policies in force and rate adjustments, contributed to the increase in NEP in the farm line of business of $1.0 million.

NEP by geographic region

$ millions	Q3 2016	Q3 2015	% change	YTD 2016	YTD 2015	% change
West	**231.3**	228.0	1.4%	**671.3**	665.7	0.8%
Ontario	**298.2**	278.1	7.2%	**861.8**	803.7	7.2%
Quebec	**24.8**	22.4	10.7%	**71.5**	65.7	8.8%
Atlantic	**60.5**	57.5	5.2%	**175.1**	168.8	3.7%
Total	**614.8**	586.0	4.9%	**1,779.7**	1,703.9	4.4%

The increase in NEP in the Western region of $3.3 million was driven by rate adjustments in the home and farm lines of business combined with an increase in policies and vehicles in force in the home and auto lines of business. This was partially offset by commercial premium reductions in the depressed energy and resource sector. NEP growth of 7.2% in Ontario was driven by an increase in policies and vehicles in force in the home, commercial and auto lines of business paired with rate adjustments in the auto and home lines of business. We continue to see policy growth in Quebec, resulting in an increase in NEP of $2.4 million over the same quarter of the prior year. The increase in Atlantic NEP of 5.2% was attributable to policies and vehicles in force in the home and auto lines of business as well as rate adjustments in the home line of business.

NET INVESTMENT INCOME AND GAINS

$ millions	Q3 2016	Q3 2015	change	YTD 2016	YTD 2015	change
Interest income	**20.3**	22.3	(2.0)	**60.5**	67.1	(6.6)
Dividend and other income	**8.3**	8.0	0.3	**23.6**	23.4	0.2
Investment expenses	**(1.8)**	(1.1)	(0.7)	**(4.4)**	(3.4)	(1.0)
Net investment income	**26.8**	29.2	(2.4)	**79.7**	87.1	(7.4)
Net realized gains	**44.8**	9.2	35.6	**59.2**	46.1	13.1
Net foreign exchange gains (losses)	**0.5**	(10.7)	11.2	**13.6**	(15.2)	28.8
Change in fair value	**8.1**	(23.5)	31.6	**(0.1)**	(40.2)	40.1
Impairment losses	**(0.2)**	(14.2)	14.0	**(4.1)**	(18.7)	14.6
Net investment gains (losses)	**53.2**	(39.2)	92.4	**68.6**	(28.0)	96.6
Net investment income and gains	**80.0**	(10.0)	90.0	**148.3**	59.1	89.2

Net investment income and gains increased by $90.0 million in the current period as compared to the third quarter of 2015. This was largely the result of realized Canadian common stock gains, unrealized preferred share gains and currency movements, partially offset by a decrease in bond income.

Interest income on bonds decreased by $2.0 million in the third quarter as compared to the same period of the prior year, driven by portfolio turnover and declining investment yields. Net realized gains for the current period were $35.6 million higher than the third quarter of the prior year, as a result of sales opportunities in equity markets and asset mix shifts. Most of these gains came from Canadian common shares where gains were aided by an increase in the TSX of 5.5% in the current period in comparison to a 7.9% decline in the third quarter of 2015. Realized gains on U.S. common shares increased by $7.9 million. The $11.2 million change in foreign exchange gains was driven by improvements in the Canadian dollar relative to the U.S dollar while the $31.6 million variance in the change in fair value was largely the result of unrealized preferred share gains. During the third quarter of 2016 the S&P TSX preferred share composite index increased by 3.3% in contrast to the 12.4% decline in the index in the comparative period of 2015. Impairment losses during the current period were $14.0 million lower than the third quarter of 2015 which was impacted by a 19.2% decline in the S&P/TSX energy and resource index.

Co-operators General has a high quality, well diversified investment portfolio consisting primarily of bonds, equities and commercial mortgages. The bond portfolio is $2,537.6 million or 58.7% of our total invested assets. The investment in bonds is diversified both geographically and by sector, with a large portion invested in Canadian government debt instruments. The equity portfolio makes up $1,111.1 million or 25.7% of the total invested assets and consists largely of publicly traded common and preferred stocks diversified by industry sector and issuer. The equity portfolio is 75.6% weighted in Canadian stocks.

We adhere to a conservative investment policy and strategy that is based on prudence in accordance with regulatory guidelines, and in a broad sense, premium cash flows and claims settlement patterns by product line. This is achieved by investing in a diversified mix of securities and by shifting between asset classes as trends in the market evolve. The credit quality of the bond portfolio remains high with 86.4% rated A or higher and 98.4% are considered investment grade, rated BBB or higher.

OTHER COMPREHENSIVE INCOME

$ millions	**Q3 2016**	Q3 2015	**YTD 2016**	YTD 2015
Other comprehensive income (loss)	**6.0**	(24.7)	**30.2**	(7.0)

Other comprehensive income was $6.0 million in the current period as compared to a loss of $24.7 million during the comparative period of 2015.

Other comprehensive income before tax was $8.4 million in the third quarter of 2016. Declining interest rates in the current period led to unrealized gains on bonds of $16.4 million in contrast to $6.6 million of unrealized losses on rising interest rates during the third quarter of 2015. Stronger equity markets in the current period led to unrealized gains on stocks of $40.4 million in contrast to $31.3 million of unrealized losses during the same period of the prior year.

EXPENSES

Claims and adjustment expenses – Loss ratio

$ millions, except ratios	**Q3 2016**	Q3 2015	change		**YTD 2016**	YTD 2015	change	
Undiscounted net claims and adjustment expenses	**474.4**	425.1	49.3		**1,308.8**	1,131.5	177.3	
Effect of MYA	**4.9**	(2.5)	7.4		**24.4**	6.9	17.5	
Net claims and adjustment expenses	**479.3**	422.6	56.7		**1,333.2**	1,138.4	194.8	
Loss ratio (excluding MYA)	**77.2%**	72.5%	4.7	pts	**73.5%**	66.4%	7.1	pts
Loss ratio (including MYA)	**78.0%**	72.1%	5.9	pts	**74.9%**	66.8%	8.1	pts

During the quarter, an increase in the severity of current accident year claims within all lines of business, except farm, combined with higher unfavourable claims development in the auto line of business, drove the increase in undiscounted net claims and adjustments expenses of $49.3 million or 11.6%.

Unpaid claims and adjustment expenses are discounted using the portfolio yield of the bond and commercial mortgage portfolios with consideration provided for the Government of Canada 5 year bond rate plus a credit spread. The portfolio yield on bonds and commercial mortgages decreased in the quarter, which decreased the discount rate. The MYA had a negative impact to net income before taxes of $4.9 million in the third quarter as compared to a $2.5 million positive impact for the same quarter of 2015. Recorded in net investment income and gains are offsetting net investment gains related to Co-operators General's asset liability management strategy of $0.5 million.

Loss ratio by line of business

% excluding MYA	**Q3 2016**	Q3 2015	change		**YTD 2016**	YTD 2015	change	
Auto	**79.2**	81.6	(2.4)		**76.4**	72.7	3.7	
Home	**83.9**	68.3	15.6		**79.9**	60.5	19.4	
Commercial	**61.2**	52.0	9.2		**60.9**	59.0	1.9	
Farm	**78.5**	88.1	(9.6)		**60.9**	69.3	(8.4)	
Other	**76.1**	66.0	10.1		**59.6**	50.4	9.2	
Total	**77.2**	72.5	4.7	pts	**73.5**	66.4	7.1	pts

In the third quarter, we experienced a deterioration in our loss ratio in the home and commercial lines of business, which was partially offset by improvements in our auto and farm lines of business.

The auto line of business experienced higher claims compared to the same period of the prior year as a result of higher unfavourable claims development and an increase in the severity of current accident year claims, partially offset by updated actuarial assumptions related to both past and recent auto reform changes. However, NEP rose at a faster pace and led to a 2.4 percentage point improvement in the auto loss ratio compared to the third quarter of 2015. The home loss ratio deteriorated by 15.6 percentage points driven by an increase in the frequency and severity of current accident year claims. The commercial line of business also experienced an increase in the frequency and severity of current accident year claims which led to a deterioration of the loss ratio by 9.2 percentage points. A decrease in the severity of current accident year claims led to a 9.6 percentage point improvement in the loss ratio of the farm line of business. Given the size of the NEP for the farm line of business, fluctuations in claims severity for a relatively few number of claims have a significant impact.

Loss ratio by geographic region

% excluding MYA	Q3 2016	Q3 2015	change		YTD 2016	YTD 2015	change	
West	**94.4**	85.3	9.1		**81.3**	68.6	12.7	
Ontario	**65.3**	62.4	2.9		**67.6**	59.4	8.2	
Quebec	**70.1**	62.0	8.1		**74.7**	84.3	(9.6)	
Atlantic	**73.0**	74.4	(1.4)		**71.7**	82.0	(10.3)	
Total	**77.2**	72.5	4.7	pts	**73.5**	66.4	7.1	pts

The Western region's loss ratio deteriorated 9.1 percentage points as a result of an increase in the severity of current accident year claims in the home and auto lines of business combined with higher unfavourable claims development within the home and commercial lines of business. This was partially offset by a decrease in the severity of current accident year claims in the farm line of business. The Ontario region's loss ratio deteriorated by 2.9 percentage points, largely driven by an increase in the frequency and severity of current accident year claims across all lines of business and unfavourable claims development in the auto line of business, partially offset by updated actuarial assumptions related to both past and recent auto reform changes. In Quebec, an increase in severity of commercial and auto claims led to a deterioration in the loss ratio of 8.1 percentage points. The Atlantic loss ratio experienced unfavourable claims development in the auto line of business, partially offset by a decrease in the frequency and severity of current accident year claims in the home line of business. However, NEP rose at a faster pace and led to a 1.4 percentage point improvement in the Atlantic loss ratio compared to the third quarter of 2015. Given the size of our NEP in Quebec and Atlantic, fluctuations in claims severity for a relatively few number of claims have a significant effect on the loss ratio.

Other operating expenses – Expense ratio

%, except total other operating expenses ($ millions)	Q3 2016	Q3 2015	change		YTD 2016	YTD 2015	change	
Total other operating expenses	**195.5**	184.8	10.7		**579.2**	552.1	27.1	
Components of expense ratio								
Premium and other taxes	**3.4**	3.2	0.2	pts	**3.3**	3.1	0.2	pts
Net commissions and advisor compensation	**16.7**	16.2	0.5	pts	**16.9**	16.7	0.2	pts
General expenses	**11.7**	12.1	(0.4)	pts	**12.3**	12.5	(0.2)	pts
Expense ratio	**31.8**	31.5	0.3	pts	**32.5**	32.3	0.2	pts

Other operating expenses are comprised of premium and other taxes, net commissions and advisor compensation and general expenses. These expenses have increased by $10.7 million in the quarter resulting in an expense ratio of 31.8%, which is a 0.3 percentage point increase over the same quarter last year. The increase was the result of a 0.5 percentage point increase in net commissions and advisor compensation, which is largely driven by an increase in distribution staffing levels.

Income taxes

Refer to Note 6 of our unaudited condensed consolidated interim financial statements for the period ended September 30, 2016 for our income tax reconciliation between the statutory tax rate and our effective tax rate.

FINANCIAL CONDITION

$ millions, except ratios	**As at September 30, 2016**	As at December 31, 2015	% change
Assets			
Invested assets	**4,322.6**	3,963.8	9.1%
Reinsurance ceded contracts	**239.7**	63.5	277.5%
Intangible assets	**67.4**	62.9	7.2%
Other assets	**1,299.7**	1,213.0	7.1%
Liabilities			
Insurance contracts	**4,020.8**	3,445.4	16.7%
Retirement benefit obligations	**107.0**	103.5	3.4%
Other liabilities	**298.6**	295.7	1.0%
Shareholders' equity	**1,503.0**	1,458.6	3.0%

Our balance sheet remains strong at the end of the third quarter of 2016. The value of our invested assets exceeds insurance contracts, net of reinsurance ceded contracts, by 14.3%, compared to an excess of 17.2% as at December 31, 2015. Our MCT ratio of 213% at September 30, 2016 also denotes our strong financial condition, as discussed in our *Capital* section.

Invested assets increased $358.8 million and insurance contract liabilities increased $575.4 million from December 31, 2015. Invested assets increased as a result of the re-investment of invested asset earnings and favourable changes in bond and equity valuations. Insurance contract liabilities increased as a result of an increase in current accident year claims and reserves related to the Q2 catastrophic events in Fort McMurray, with a corresponding increase to reinsurance ceded contracts as we recover a large portion of these losses from our reinsurance programs.

KEY FINANCIAL MEASURES (NON-IFRS)

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

These measures are non-IFRS measurements, but are derived from elements of the IFRS consolidated financial statements, and are consistent with financial measures used in the P&C insurance industry. Detailed definitions of the measures used can be found within the *Key Financial Measures (Non-IFRS)* section our 2015 Annual Report, with updated definitions found below.

UNDERWRITING RESULTS

$ millions, except ratios	**Q3 2016**	Q3 2015	**YTD 2016**	YTD 2015
Net earned premium, before reinstatement premiums	**617.5**	586.0	**1,805.8**	1,703.9
Reinstatement premiums expense	**2.7**	-	**26.1**	-
Net earned premium, as reported	**614.8**	586.0	**1,779.7**	1,703.9
Undiscounted net claims and adjustment expenses (excluding MYA)	**474.4**	425.1	**1,308.8**	1,131.5
Loss ratio (excluding MYA)	**77.2%**	72.5%	**73.5%**	66.4%
Other operating expenses	**195.5**	184.8	**579.2**	552.1
Expense ratio	**31.8%**	31.5%	**32.5%**	32.3%
Underwriting gain (loss)	**(55.1)**	(23.9)	**(108.3)**	20.3
Combined ratio	**109.0%**	104.0%	**106.0%**	98.7%

CLAIMS DEVELOPMENT

Our 2015 Annual Report provides a summary of our unpaid claims and adjustment expense provision and revised estimates of prior year net unpaid claims and adjustment expense provisions relative to their original valuation as at December 31.

RETURN ON EQUITY

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

$ millions, except ratios	**Q3 2016**	Q3 2015
Net income (loss)	**16.3**	(21.4)
Shareholders' equity excluding accumulated OCI at September 30	**1,325.0**	1,343.4
Shareholders' equity excluding accumulated OCI at June 30	**1,308.7**	1,365.1
ROE	**5.1%**	(6.2%)

CAPITAL

MINIMUM CAPITAL TEST

	September 30, 2016	December 31, 2015
MCT	**213%**	225%

Co-operators General's MCT of 213% at September 30, 2016 represents $279.0 million of capital in excess of our 170% internal minimum compared to an excess of $336.9 million at December 31, 2015. The MCT is impacted by various factors including interest rates, invested asset mix and the results of our operations.

SHARE CAPITAL

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

DIVIDENDS

Dividends declared on preference shares were $1.3 million in the third quarter ended September 30, 2016, compared to $1.3 million declared in the same quarter last year. There were no dividends declared on common shares during the quarter ended September 30, 2016 or for the comparative period ended September 30, 2015.

EARNINGS PER SHARE

$ millions, except share data and EPS	Q3 2016	Q3 2015	YTD 2016	YTD 2015
Net income (loss)	**16.3**	(21.4)	**16.6**	58.9
Less: dividends on preference shares	**1.3**	1.3	**6.2**	6.0
Net income (loss) available to shareholders	**15.0**	(22.7)	**10.4**	52.9
Weighted average number of outstanding common shares[1]	**21,376**	21,295	**21,376**	21,295
Earnings (loss) per common share	**$0.71**	($1.07)	**$0.49**	$2.48

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

SELECTED QUARTERLY INFORMATION

(in millions of dollars except for EPS and ratios)

	2016 3rd qtr	2016 2nd qtr	2016 1st qtr	2015 4th qtr	2015 3rd qtr
Direct written premium	**691.0**	722.6	519.5	614.9	650.9
Net earned premium	**614.8**	576.5	588.5	593.1	586.0
Net income (loss)	**16.3**	(39.1)	39.3	103.3	(21.4)
Other comprehensive income (loss)	**6.0**	20.8	3.4	(13.0)	(24.7)
Key statistics					
Earnings (loss) per common share	**$0.71**	($2.00)	$1.78	$4.69	($1.07)
Loss ratio (excluding MYA)	**77.2%**	81.0%	62.5%	58.7%	72.5%
Expense ratio	**31.8%**	33.0%	32.9%	33.4%	31.5%
Combined ratio	**109.0%**	114.0%	95.4%	92.1%	104.0%

	2015 2nd qtr	2015 1st qtr	2014 4th qtr	2014 3rd qtr
Direct written premium	681.0	489.1	568.2	610.1
Net earned premium	567.4	550.5	560.2	559.0
Net income (loss)	58.2	22.2	79.7	(10.8)
Other comprehensive income (loss)	(45.3)	63.0	6.7	(5.9)
Key statistics				
Earnings (loss) per common share	$2.57	$0.98	$3.78	($0.57)
Loss ratio (excluding MYA)	61.3%	65.1%	56.6%	78.6%
Expense ratio	32.7%	33.1%	33.1%	30.6%
Combined ratio	94.0%	98.2%	89.7%	109.2%

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

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

OUTLOOK

GENERAL BUSINESS AND ECONOMIC CONDITIONS

In the course of setting our strategic priorities and objectives for 2016 we made assumptions about the general business and economic environment in 2016 and beyond. These assumptions are outlined in detail in our 2015 Annual Report, and we continue to expect them to materialize through 2016. There have been no material changes in our assumptions; however, we recognize that the sustained weakness in the price of oil since the end of 2014 has put downward pressure on our gross domestic product growth expectations for the year. We consult with our investment manager, Addenda Capital Inc., in creating and monitoring these assumptions.

PROPERTY AND CASUALTY INDUSTRY

Trends and environmental factors, as well as our strategic responses, are consistent with those discussed in our 2015 Annual Report.

Newfoundland and Labrador retail sales tax

In April 2016, the Newfoundland and Labrador government delivered their 2016 budget, which included the reintroduction of a retail sales tax (RST) on insurance premiums. Effective July 1, 2016, the 15% RST applies to all property and casualty insurance premiums and is on top of an additional 1% increase in premium taxes. This is an increased cost to our business in this region, which in turn impacts the ultimate amount consumers pay.

EMERGING LEGISLATION AND REGULATORY EVENTS

Emerging legislation and regulatory events are detailed in our 2015 Annual Report and an update is provided below:

Ontario auto reform
We are awaiting the impacts of the changes made to the minor injury definition in Ontario. We have no further information on this item and continue to await the government’s decision on this additional reform.

RELATED PARTY TRANSACTIONS

Co-operators General has ongoing transactions with related parties primarily consisting of product distribution services, management and advisory services and reinsurance. There have been no material changes in our ongoing related party transaction arrangements during the period ended September 30, 2016. Please refer to our 2015 Annual Report for further details.

RISK MANAGEMENT

Effective risk management is vital to making sound business decisions. In our on-going efforts to optimize the organizational risk profile, we have identified and continuously assess key risks relative to their potential impact on our corporate strategy, competitive position, operational results and financial condition. Risks, and the practices used to manage risk, are discussed in our 2015 Annual Report and an update is included below.

For 2016, our catastrophe maximum limit and retention will remain at $1.3 billion and $70.0 million respectively. The net retained amount of $70.0 million represents approximately 5.3% of our capital. For the purpose of capital management, we define capital as shareholders’ equity excluding AOCI.

The event in Fort McMurray during Q2 required the use of our catastrophe reinsurance coverage. Premiums were paid to our reinsurers to the extent necessary, to fully reinstate the coverage. Furthermore, additional reinstatement coverage was purchased for layers of our catastrophe program that could be impacted by a future event. These actions have put us in materially the same position we were in, with regards to catastrophe coverage, immediately before the Fort McMurray fires took place.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

No changes were made to our internal control over financial reporting during the third quarter of 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

OTHER ACCOUNTING MATTERS

ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with IFRS as issued by the IASB applicable to the preparation of interim financial statements, including IAS 34, “Interim Financial Reporting”. The unaudited condensed consolidated interim financial statements should be read in conjunction with our 2015 Annual Report.

The accounting policies used in our third quarter unaudited condensed consolidated interim financial statements are consistent with those applied in our audited consolidated financial statements for the year ended December 31, 2015. IFRS future accounting pronouncements, as well as their estimated impact, are described in Note 4 of our audited consolidated financial statements for the year ended December 31, 2015.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of our unaudited condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statement and the reported amounts of revenues and expenses during the period. The preparation of our unaudited condensed consolidated interim financial statements also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in the 2015 Annual Report within the notes for the respective account balances.

The estimates used for the unaudited condensed consolidated interim financial statements for the period ended September 30, 2016, are consistent with those used in the 2015 Annual Report. As discussed in our 2015 Annual Report, we make estimates for the amount of unpaid claims and timing of future claims based on assumptions that reflect the expected set of economic conditions and planned course of actions. Uncertainty exists on reported claims in that all information may not be available at the reporting date. In addition claims may not be reported to us immediately; therefore, estimates are made as to the cost of the claims incurred but not yet reported, a value which can take years to determine.

For further information, please refer to our 2015 Annual Report and the notes to our unaudited condensed consolidated interim financial statements for the quarter ended September 30, 2016.

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