# Co-operators General Insurance Company

Management's Discussion and Analysis

For the third quarter ended September 30, 2017

# Co-operators General Insurance Company
## Management's Discussion and Analysis
## For the third quarter ended September 30, 2017

October 26, 2017

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, 2017.

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 co-operative with 42 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, 2017, second quarter ended June 30, 2017 and the first quarter ended March 31, 2017;
- our MD&A for the second quarter ended June 30, 2017 and first quarter ended March 31, 2017; and
- our 2016 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, 2017 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 2016 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 2016 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 2016 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 | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Key financial data** | | | |
| Direct written premium (DWP) | **746.2** | 691.0 | 650.9 |
| Net earned premium (NEP) | **656.3** | 614.8 | 586.0 |
| Net income (loss) | **(7.4)** | 16.3 | (21.4) |
| Total assets[1] | **5,877.3** | 5,854.5 | 5,303.2 |
| Total liabilities[1] | **4,353.0** | 4,275.6 | 3,844.6 |
| Shareholders' equity[1] | **1,524.3** | 1,578.9 | 1,458.6 |
| **Key success indicators** | | | |
| Direct written premium growth | **8.0%** | 6.2% | 6.7% |
| Net earned premium growth | **6.8%** | 4.9% | 4.8% |
| Earnings (loss) per common share (EPS)[2] | **($0.40)** | $0.71 | ($1.07) |
| Return on equity (ROE) | **(2.1%)** | 5.1% | (6.2%) |
| Combined ratio - excluding Market Yield Adjustment (MYA)[3] | **108.9%** | 109.2% | 104.0% |
| Minimum Capital Test (MCT)[1] | **213%** | 227% | 225% |

[1] Balance sheet data and MCT results for 2016 and 2015 are as at December 31

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

[3] The combined ratio for 2016 has changed as a result of a reclassification of commission revenue that was previously netted with commission and general expenses

Co-operators General reported a net loss after tax of $7.4 million for the three months ended September 30, 2017, as compared to net income of $16.3 million in the same quarter of 2016. Our return on equity for the quarter was (2.1%) versus 5.1% in the third quarter of 2016. Earnings (loss) per common share in the quarter was ($0.40) compared to $0.71 in the same quarter of the prior year.

Excluding MYA, our underwriting loss of $58.5 million for the third quarter deteriorated slightly from our underwriting loss of $56.5 million in the same period of 2016. This was driven primarily by an increase to claims provisions to account for increased frequency and severity of claims in the Ontario auto line of business. Partially offsetting this was continued policy and vehicle count growth across all lines of business and rate adjustments primarily in the Western region. Net investment income and gains decreased by $41.7 million compared to the same period last year driven primarily by a decrease in realized common share and bond gains and a decrease in unrealized preferred share gains. The MYA had a $5.8 million favourable impact on net income before tax as a result of an increase in the discount rate.

## FINANCIAL PERFORMANCE

### DIRECT WRITTEN PREMIUM AND NET EARNED PREMIUM

| $ millions | Q3 2017 | Q3 2016 | % change | YTD 2017 | YTD 2016 | % change |
|---|---|---|---|---|---|---|
| Direct written premium | **746.2** | 691.0 | 8.0% | **2,055.2** | 1,933.1 | 6.3% |
| Net earned premium | **656.3** | 614.8 | 6.8% | **1,894.3** | 1,779.7 | 6.4% |

In the third quarter, DWP increased by 8.0% or $55.2 million to $746.2 million. DWP improvements were attributable to growth in policy and vehicle counts in all lines of business, combined with rate adjustments. NEP increased during the third quarter by 6.8% or $41.5 million compared to the same period last year. The increase in NEP during the quarter is seen throughout all geographic regions and core product lines.

Refer to Note 10 of our unaudited condensed consolidated interim financial statements for the period ended September 30, 2017 for a reconciliation of DWP to NEP.

**NEP by line of business**

| $ millions | Q3 2017 | Q3 2016 | % change | YTD 2017 | YTD 2016 | % change |
|---|---|---|---|---|---|---|
| Auto | **313.0** | 294.9 | 6.1% | **902.3** | 863.8 | 4.5% |
| Home | **187.6** | 168.7 | 11.2% | **539.7** | 482.4 | 11.9% |
| Commercial | **114.3** | 112.2 | 1.9% | **332.2** | 321.3 | 3.4% |
| Farm | **32.3** | 29.8 | 8.4% | **94.0** | 86.2 | 9.0% |
| Other | **9.1** | 9.2 | (1.1%) | **26.1** | 26.0 | 0.4% |
| Total | **656.3** | 614.8 | 6.8% | **1,894.3** | 1,779.7 | 6.4% |

During the third quarter, the home line of business remained our largest contributor to NEP growth, increasing by $18.9 million or 11.2% over the same quarter of 2016. Growth in the home line of business was driven by an increase in policies in force in Ontario, and an increase in policies in force and rate adjustments in the Western region. The auto line of business experienced an increase in NEP of $18.1 million over the same quarter of the prior year. This was attributable to an increase in vehicles in force, mainly in Ontario, paired with higher average premiums in the West. An increase in policies in force contributed to NEP growth of 1.9% over the same quarter of the prior year in the commercial line of business. The farm line of business continued to contribute to the increase in NEP throughout the quarter, increasing 8.4% over the same quarter of 2016. Growth was primarily experienced in the West driven by higher average premiums and an increase in policies in force.

**NEP by geographic region**

| $ millions | Q3 2017 | Q3 2016 | % change | YTD 2017 | YTD 2016 | % change |
|---|---|---|---|---|---|---|
| West | **244.7** | 231.3 | 5.8% | **710.6** | 671.3 | 5.9% |
| Ontario | **318.3** | 298.2 | 6.7% | **916.7** | 861.8 | 6.4% |
| Quebec | **28.8** | 24.8 | 16.1% | **81.2** | 71.5 | 13.6% |
| Atlantic | **64.5** | 60.5 | 6.6% | **185.8** | 175.1 | 6.1% |
| Total | **656.3** | 614.8 | 6.8% | **1,894.3** | 1,779.7 | 6.4% |

The Western region experienced NEP growth in all product lines driven primarily by rate adjustments, resulting in a 5.8% increase in NEP over the same quarter of 2016. NEP growth of $20.1 million or 6.7% in Ontario was mainly attributable to an increase in policies and vehicles in force in the home and auto lines of business. In Quebec, growth in vehicles in force led to an increase of 16.1% in NEP compared to the same period in 2016. The NEP increase of 6.6% in the Atlantic region was driven by both an increase in policies and vehicles in force and rate adjustments.

## NET INVESTMENT INCOME AND GAINS

| $ millions | Q3 2017 | Q3 2016 | change | YTD 2017 | YTD 2016 | change |
|---|---|---|---|---|---|---|
| Interest income | **18.5** | 20.3 | (1.8) | **57.5** | 60.5 | (3.0) |
| Dividend and other income | **9.4** | 8.3 | 1.1 | **28.2** | 23.6 | 4.6 |
| Investment expenses | **(1.5)** | (1.8) | 0.3 | **(4.7)** | (4.4) | (0.3) |
| Net investment income | **26.4** | 26.8 | (0.4) | **81.0** | 79.7 | 1.3 |
| Net realized gains | **9.2** | 44.8 | (35.6) | **21.9** | 59.2 | (37.3) |
| Net foreign exchange gains | **6.8** | 0.5 | 6.3 | **20.3** | 13.6 | 6.7 |
| Change in fair value | **(2.9)** | 8.1 | (11.0) | **18.9** | (0.1) | 19.0 |
| Impairment losses | **(1.2)** | (0.2) | (1.0) | **(5.5)** | (4.1) | (1.4) |
| Net investment gains | **11.9** | 53.2 | (41.3) | **55.6** | 68.6 | (13.0) |
| Net investment income and gains | **38.3** | 80.0 | (41.7) | **136.6** | 148.3 | (11.7) |

Net investment income and gains decreased by $41.7 million in the current period as compared to the same period of 2016, driven primarily by a decrease in realized common share and bond gains and a decrease in unrealized preferred share gains.

As a result of a shift in the asset mix, interest income decreased by $1.8 million, partially offset by dividend income which increased by $1.1 million. In line with yield enhancement initiatives, we have increased the weighting of preferred shares in the portfolio and reduced the weighting of bond and mortgage investments.

The $41.3 million unfavourable change in net investment gains was driven by strength in fixed income and Canadian equity markets in 2016 which led to more sales opportunities in the third quarter of the prior year than during the current period. During the current quarter, realized common share gains of $7.7 million were $25.5 million lower than the $33.2 million recognized in the third quarter of 2016. Two Bank of Canada interest rate hikes during the quarter, as compared to none during the prior year period, resulted in an $11.5 million unfavourable change in realized bond gains.

Included within net foreign exchange gains and change in fair value are, respectively, period-to-period fair value movements of our U.S. dollar foreign exchange forward contracts and preferred share holdings. The U.S. dollar foreign exchange forwards are used to hedge the currency exposure of our U.S. equity portfolio. Net foreign exchanges gains increased $6.3 million, as compared to the prior year period, driven by a 4.2% appreciation in the Canadian dollar versus the U.S. dollar. The $11.0 million unfavourable change in fair value was also negatively impacted by increased interest rates, as well a weaker preferred share market. During the third quarter of 2017, the preferred share index increased 0.7%, as compared to 4.1% in the same period of 2016, resulting in a $9.2 million unfavourable change in fair value. Impairment losses were $1.0 million higher than the same period in the prior year.

## OTHER COMPREHENSIVE INCOME

| $ millions | Q3 2017 | Q3 2016 | YTD 2017 | YTD 2016 |
|---|---|---|---|---|
| Other comprehensive income (loss) | **(23.7)** | 6.0 | **(8.7)** | 30.2 |

Other comprehensive loss was $23.7 million in the third quarter of 2017, compared to $6.0 million of other comprehensive income for the same period of 2016.

Other comprehensive loss before tax was $31.9 million in the third quarter of 2017. Two interest rate hikes by the Bank of Canada resulted in unrealized losses on bonds of $35.1 million. Strength in foreign equity markets during the quarter led to unrealized gains on stocks of $9.6 million.

## EXPENSES

### Claims and adjustment expenses – Loss ratio

| $ millions, except ratios | Q3 2017 | Q3 2016 | change | | YTD 2017 | YTD 2016 | change | |
|---|---|---|---|---|---|---|---|---|
| Undiscounted net claims and adjustment expenses | **504.3** | 474.4 | 29.9 | | **1,345.0** | 1,308.8 | 36.2 | |
| Effect of MYA | **(5.8)** | 4.9 | (10.7) | | **(6.2)** | 24.4 | (30.6) | |
| Net claims and adjustment expenses | **498.5** | 479.3 | 19.2 | | **1,338.8** | 1,333.2 | 5.6 | |
| Loss ratio (excluding MYA) | **76.8%** | 77.2% | (0.4) | pts | **71.0%** | 73.5% | (2.5) | pts |
| Loss ratio (including MYA) | **76.0%** | 78.0% | (2.0) | pts | **70.7%** | 74.9% | (4.2) | pts |

Undiscounted net claims and adjustment expenses increased compared to the same period of the prior year by $29.9 million or 6.3%. This is driven primarily by updated actuarial estimates related to the frequency and severity of claims in the Ontario auto line of business, partially offset by a decrease in the frequency of current accident year claims in the home line of business in the West and less unfavourable claims development.

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 increased in the quarter, which increased the discount rate. This had a positive impact to MYA and net income before taxes of $5.8 million in the third quarter as compared to a $4.9 million negative impact for the same quarter of 2016. Recorded in net investment income and gains are offsetting net investment losses related to Co-operators General's asset liability management strategy of $2.0 million.

### Loss ratio by line of business

| % excluding MYA | Q3 2017 | Q3 2016 | change | | YTD 2017 | YTD 2016 | change | |
|---|---|---|---|---|---|---|---|---|
| Auto | **82.2** | 79.2 | 3.0 | | **75.4** | 76.4 | (1.0) | |
| Home | **67.0** | 83.9 | (16.9) | | **68.2** | 79.9 | (11.7) | |
| Commercial | **68.7** | 61.2 | 7.5 | | **63.2** | 60.9 | 2.3 | |
| Farm | **119.5** | 78.5 | 41.0 | | **81.9** | 60.9 | 21.0 | |
| Other | **45.6** | 76.1 | (30.5) | | **36.9** | 59.6 | (22.7) | |
| Total | **76.8** | 77.2 | (0.4) | pts | **71.0** | 73.5 | (2.5) | pts |

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

Updated actuarial estimates related to the frequency and severity of claims in Ontario caused the auto line of business loss ratio to deteriorate by 3.0 percentage points, and was partially offset by favourable claims development. The home loss ratio improved by 16.9 percentage points driven by a decrease in the frequency of current accident year claims in the Western region combined with favourable claims development. The commercial line of business experienced a deterioration in the loss ratio by 7.5 percentage points resulting from an increase in severity of current accident year claims, partially offset by a decrease in frequency of current accident year claims. An increase in the frequency of current accident year claims, primarily the result of multiple storms in the Western region, led to a 41.0 percentage point deterioration in the loss ratio of the farm line of business. The other line of business loss ratio improved by 30.5 percentage points, driven by a decrease in severity and less unfavourable claims development within Sovereign's specialty lines of business.

### Loss ratio by geographic region

| % excluding MYA | **Q3 2017** | Q3 2016 | change | | **YTD 2017** | YTD 2016 | change | |
|---|---|---|---|---|---|---|---|---|
| West | **81.7** | 94.4 | (12.7) | | **67.5** | 81.3 | (13.8) | |
| Ontario | **76.1** | 65.3 | 10.8 | | **72.1** | 67.6 | 4.5 | |
| Quebec | **70.8** | 70.1 | 0.7 | | **80.5** | 74.7 | 5.8 | |
| Atlantic | **64.5** | 73.0 | (8.5) | | **74.5** | 71.7 | 2.8 | |
| Total | **76.8** | 77.2 | (0.4) | pts | **71.0** | 73.5 | (2.5) | pts |

The Western region's loss ratio improvement of 12.7 percentage points was attributable to a decrease in the frequency of current accident year claims in the home line of business, paired with less unfavourable claims development. This was partially offset by an increase in the severity of current accident year claims in the commercial line of business. Updated actuarial estimates related to frequency and severity of claims in the auto line of business, and the resulting negative impact to claims provisions, contributed to the 10.8 percentage point deterioration of the loss ratio in Ontario. An increase in the severity of current accident year claims in the commercial line of business resulted in the deterioration of the loss ratio in Quebec by 0.7 percentage points. The Atlantic loss ratio improved by 8.5 percentage points driven by favourable claims development, partially offset by an increase in the frequency of current accident year claims in the home line of business.

### Other operating expenses – Expense ratio

| %, except total other operating expenses ($ millions) | **Q3 2017** | Q3 2016 | change | | **YTD 2017** | YTD 2016 | change | |
|---|---|---|---|---|---|---|---|---|
| Total other operating expenses | **210.5** | 196.9 | 13.6 | | **629.4** | 583.9 | 45.5 | |
| Components of expense ratio | | | | | | | | |
| Premium and other taxes | **3.8** | 3.4 | 0.4 | pts | **3.5** | 3.3 | 0.2 | pts |
| Net commissions and advisor compensation | **16.4** | 16.8 | (0.4) | pts | **17.0** | 17.1 | (0.1) | pts |
| General expenses | **11.9** | 11.8 | 0.1 | pts | **12.7** | 12.4 | 0.3 | pts |
| Expense ratio[1] | **32.1** | 32.0 | 0.1 | pts | **33.2** | 32.8 | 0.4 | pts |

[1] The expense ratio and a couple of its components have changed for 2016 as a result of reclassification of commission revenue that was previously netted with commission and general expenses

Other operating expenses are comprised of premium and other taxes, net commissions and advisor compensation and general expenses. These expenses have increased by $13.5 million in the quarter resulting in an expense ratio of 32.1%, which is a 0.1 percentage point increase over the same quarter last year. The increase was primarily the result of a 0.4 percentage point increase in premium and other taxes driven by a one-time tax re-assessment and premium tax rate increases in Newfoundland and Labrador and Alberta during 2016. General expenses also contributed to the increase in the expense ratio and were the result of higher spend on information technology system initiatives.

### Income taxes

Refer to Note 6 of our unaudited condensed consolidated interim financial statements for the period ended September 30, 2017 for our income tax reconciliation between the statutory tax rate and our effective tax rate.

## FINANCIAL CONDITION

| $ millions, except ratios | **As at September 30, 2017** | As at December 31, 2016 | % change |
|---|---|---|---|
| Assets | | | |
| Invested assets | **4,253.2** | 4,270.9 | (0.4%) |
| Reinsurance ceded contracts | **122.1** | 236.6 | (48.4%) |
| Intangible assets | **74.0** | 70.5 | 5.0% |
| Other assets | **1,428.0** | 1,276.5 | 11.9% |
| Liabilities | | | |
| Insurance contracts | **3,913.6** | 3,818.7 | 2.5% |
| Retirement benefit obligations | **114.6** | 111.1 | 3.2% |
| Other liabilities | **324.8** | 345.8 | (6.1%) |
| Shareholders' equity | **1,524.3** | 1,578.9 | (3.5%) |

Our balance sheet remains strong at the end of the third quarter of 2017. The value of our invested assets exceeds insurance contracts by 8.7%, compared to an excess of 11.8% as at December 31, 2016. Our MCT ratio of 213% at September 30, 2017 also denotes our strong financial condition, as discussed in our *Capital* section.

Invested assets decreased $17.7 million as an increase in interest rates during the quarter had a negative impact on bond valuations. Reinsurance ceded contracts decreased by $114.5 million and insurance contract liabilities increased by $94.9 million from December 31, 2016. Reinsurance ceded contracts decreased as we continue to settle amounts arising from the Fort McMurray event that occurred in 2016. Insurance contract liabilities increased as the growth in the business resulted in an increase in unearned premiums.

### Invested assets

Co-operators General has a high quality, well diversified investment portfolio consisting primarily of high quality bonds, equities and commercial mortgages. The bond portfolio is $2,418.0 million or 56.9% of our total invested assets. Our 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 $1,229.1 million or 28.9% of our total invested assets and consists largely of publicly traded common and preferred stocks diversified by industry sector and issuer. Our equity portfolio is 78.9% weighted to 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 our portfolio remains high with 85.2% rated A or higher and 96.9% of our bonds are considered investment grade, rated BBB or higher.

## 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 of our 2016 Annual Report.

## UNDERWRITING RESULTS

| $ millions, except ratios | **Q3 2017** | Q3 2016 | **YTD 2017** | YTD 2016 |
|---|---|---|---|---|
| Net earned premium, before reinstatement premiums | **655.2** | 617.5 | **1,892.5** | 1,805.8 |
| Reinstatement premiums expense (recovery) | **(1.1)** | 2.7 | **(1.8)** | 26.1 |
| Net earned premium, as reported | **656.3** | 614.8 | **1,894.3** | 1,779.7 |
| Undiscounted net claims and adjustment expenses (excluding MYA) | **504.3** | 474.4 | **1,345.0** | 1,308.8 |
| Loss ratio (excluding MYA) | **76.8%** | 77.2% | **71.0%** | 73.5% |
| Other operating expenses | **210.5** | 196.9 | **629.4** | 583.9 |
| Expense ratio | **32.1%** | 32.0% | **33.2%** | 32.8% |
| Underwriting loss | **(58.5)** | (56.5) | **(80.1)** | (113.0) |
| Combined ratio (excluding MYA) | **108.9%** | 109.2% | **104.2%** | 106.3% |

## CLAIMS DEVELOPMENT

Our 2016 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 2017** | Q3 2016 |
|---|---|---|
| Net income (loss) | **(7.4)** | 16.3 |
| Shareholders' equity excluding AOCI at September 30 | **1,405.4** | 1,325.0 |
| Shareholders' equity excluding AOCI at June 30 | **1,412.7** | 1,308.7 |
| ROE | **(2.1%)** | 5.1% |

# CAPITAL

## MINIMUM CAPITAL TEST

| | **September 30, 2017** | December 31, 2016 |
|---|---|---|
| MCT | **213%** | 227% |

Co-operators General's MCT of 213% at September 30, 2017 represents $290.2 million of capital in excess of our 170% internal minimum compared to an excess of $368.9 million at December 31, 2016. The MCT is impacted by various factors including interest rates, invested asset mix, dividends, 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, 2017, consistent with $1.3 million declared in the same quarter last year. There were no dividends declared on common shares during the quarter ended September 30, 2017, or for the comparative period ended September 30, 2016.

## EARNINGS PER SHARE

| $ millions, except share data and EPS | **Q3 2017** | Q3 2016 | **YTD 2017** | YTD 2016 |
|---|---|---|---|---|
| Net income (loss) | **(7.4)** | 16.3 | **56.2** | 16.6 |
| Less: dividends on preference shares | **1.3** | 1.3 | **6.3** | 6.2 |
| Net income (loss) available to shareholders | **(8.7)** | 15.0 | **49.9** | 10.4 |
| Weighted average number of outstanding common shares[1] | **21,458** | 21,376 | **21,458** | 21,376 |
| Earnings (loss) per common share | **($0.40)** | $0.71 | **$2.33** | $0.49 |

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

## SELECTED QUARTERLY INFORMATION

(in millions of dollars except for EPS and ratios)

| | **2017 3rd qtr** | 2017 2nd qtr | 2017 1st qtr | 2016 4th qtr | 2016 3rd qtr |
|---|---|---|---|---|---|
| Direct written premium | **746.2** | 768.7 | 540.3 | 639.1 | 691.0 |
| Net earned premium | **656.3** | 628.7 | 609.3 | 620.6 | 614.8 |
| Net income (loss) | **(7.4)** | 29.1 | 34.6 | 128.8 | 16.3 |
| Other comprehensive income (loss) | **(23.7)** | (10.8) | 25.7 | (50.5) | 6.0 |
| Key statistics | | | | | |
| Earnings (loss) per common share | **($0.40)** | $1.18 | $1.55 | $5.84 | $0.71 |
| Loss ratio (excluding MYA) | **76.8%** | 67.8% | 68.0% | 51.2% | 77.2% |
| Expense ratio[1] | **32.1%** | 33.2% | 34.5% | 34.3% | 32.0% |
| Combined ratio[1] | **108.9%** | 101.0% | 102.5% | 85.5% | 109.2% |

| | 2016 2nd qtr | 2016 1st qtr | 2015 4th qtr | 2015 3rd qtr |
|---|---|---|---|---|
| Direct written premium | 722.6 | 519.5 | 614.9 | 650.9 |
| Net earned premium | 576.5 | 588.5 | 593.1 | 586.0 |
| Net income (loss) | (39.1) | 39.3 | 103.3 | (21.4) |
| Other comprehensive income (loss) | 20.8 | 3.4 | (13.0) | (24.7) |
| Key statistics | | | | |
| Earnings (loss) per common share | ($2.00) | $1.78 | $4.69 | ($1.07) |
| Loss ratio (excluding MYA) | 81.0% | 62.5% | 58.7% | 72.5% |
| Expense ratio | 33.3% | 33.1% | 33.4% | 31.5% |
| Combined ratio | 114.3% | 95.6% | 92.1% | 104.0% |

[1] The combined ratio for all quarters in 2016 has changed as a result of a reclassification of commission revenue that was previously netted with commission and general expenses

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 2017 we made assumptions about the general business and economic environment in 2017 and beyond. These assumptions are outlined in detail in our 2016 Annual Report, and we continue to expect them to materialize through 2017. There have been no material changes in our assumptions. 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 2016 Annual Report.

*Saskatchewan provincial sales tax (PST)*

On August 1, 2017, the Saskatchewan government applied the provincial sales tax (PST) to all insurance premiums for property, life, group, Administrative Services Only and other risks located in Saskatchewan. This is an increased cost to our clients in this region, who are responsible for paying the tax. The PST itself was increased from 5% to 6% in the government's spring budget which came into effect on March 23, 2017.

## EMERGING LEGISLATION AND REGULATORY EVENTS

Emerging legislation and regulatory events are detailed in our 2016 Annual Report and an update is provided below:

**Ontario auto reform**
We are continuing to monitor the impacts of the 2016 reforms and have no further information at this time.

**Marshall report on Ontario auto**
Earlier this year, the Ontario government released the final report "Fair Benefits, Fairly Delivered: A Review of the Auto Insurance System in Ontario", written by David Marshall, Special Advisor to the Minister of Finance. The report outlines 35 recommendations intended to strengthen consumer protection, improve health outcomes for those injured in collisions and reduce insurance costs. In August of this year, the Parliamentary Assistant to the Minister of Finance undertook an additional consultation process to hear views about what the government can do to protect consumers, ensure that people injured in auto accidents get the medical treatment they need, and create a more efficient and cost-effective system. We participated in these discussions and look forward to further defining the opportunities and risks associated with potential implementation.

**Auto insurance system review in Newfoundland and Labrador**
The provincial government has indicated its commitment to present legislation to amend the auto insurance system in the province by the fall of 2018. On August 15, 2017, the government released the final terms of reference for both Service NL and the Board of Commissioners of Public Utilities, the government bodies asked to study the matter. The first phase consists of a closed claims study and the second phase will include a review of the existing private passenger automobile insurance products, as well as recommendations for possible options to contain costs.

# 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, 2017. Please refer to our 2016 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 2016 Annual Report and an update is included below.

For 2017, our catastrophe maximum limit increased by $150.0 million to $1.45 billion while our retention remains at $70.0 million. The net retained amount of $70.0 million represents approximately 4.6% of our capital.

## 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 2017 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 2016 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, 2016, with the exception noted below.

In 2017, we reclassified net payments in transit, from Borrowings to Accounts payable and accrued charges. These amounts relate to investment purchases and sales entered into, or other payments made by cheque, close to the period end, that are settled shortly after the period end. The change provides more relevant information about the nature of our liabilities. Consequently, the comparative figure for Accounts payable and accrued charges has increased by $17,941 to $201,758 as a result of reclassification from Borrowings to conform to our current period presentation. Under the previous presentation, September 30, 2017 figures would have been $189,016 for Accounts payable and accrued charges and $4,872 for Borrowings.

### FUTURE ACCOUNTING CHANGES

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, 2016.  We have made the following updates to information provided in the consolidated financial statements for the year ended December 31, 2016 about the standards issued but not yet effective.

**IFRS 17 “Insurance contracts”** - IFRS 17 was issued in May 2017 and will replace IFRS 4 “Insurance Contracts”. The intent of the standard is to establish consistent recognition, measurement, presentation and disclosure principles to provide relevant and comparable reporting of insurance contracts across jurisdictions.

The standard requires entities to measure insurance contract liabilities as the total amount of the risk-adjusted present value of the cash flows plus the contractual service margin, which represents the unearned profit the entity will recognize as future service is provided. This is referred to as the general model. Expedients are specified, provided the insurance contracts meet certain conditions. If, at initial recognition or subsequently, the contractual service margin becomes negative, the contract is considered onerous and the excess is recognized immediately in the consolidated statement of income. The standard also includes significant changes to the presentation and disclosure of insurance contracts within entities' financial statements.

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2021. The standard is to be applied retrospectively unless impracticable, in which case a modified retrospective approach or fair value approach is to be used for transition. Early application is permitted where entities have also applied IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments”. We are currently evaluating the impact this standard will have on our consolidated financial statements.

## 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 2016 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, 2017, are consistent with those used in the 2016 Annual Report. As discussed in our 2016 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 2016 Annual Report and the notes to our unaudited condensed consolidated interim financial statements for the quarter ended September 30, 2017.

## CORPORATE DIRECTORY

### CORPORATE OFFICE

Co-operators General Insurance Company
130 Macdonell Street
Guelph, ON   N1H 6P8
Telephone:	519-824-4400
Fax:	519-824-0599
service@cooperators.ca
www.cooperators.ca

### TRANSFER AGENT AND REGISTRAR

Computershare
100 University Ave, 8th Floor
Toronto, ON   M5J 2Y1

### INVESTOR RELATIONS

P. Bruce West
Executive Vice-President, Finance and Chief Financial Officer
130 Macdonell Street
Guelph, ON   N1H 6P8

Andrew Yorke
Vice-President, Corporate Finance Services
130 Macdonell Street
Guelph, ON   N1H 6P8
Telephone:	519-767-3095
Fax:	519-763-5152
andrew_yorke@cooperators.ca