



Co-operators General Insurance Company

Unaudited Condensed Consolidated Interim Financial Statements

For the second quarter ended June 30, 2017

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

As at

	June 30, 2017	December 31, 2016
(in thousands of Canadian dollars)	\$	\$
Assets		
Cash and cash equivalents	41,021	44,529
Invested assets (note 3)	4,271,583	4,270,922
Premiums due	866,805	831,478
Income taxes recoverable	15,450	16,336
Reinsurance ceded contracts (note 5)	167,225	236,631
Deferred acquisition expenses	214,396	207,740
Assets held for sale	94	472
Deferred income taxes	97,602	98,587
Intangible assets (note 7)	74,484	70,502
Other assets (note 8)	79,946	77,259
	5,828,606	5,854,456
Liabilities		
Accounts payable and accrued charges	214,628	201,758
Income taxes payable	4,772	16,553
Insurance contracts (note 4)	3,813,026	3,818,688
Retirement benefit obligations	113,433	111,083
Deferred income taxes	4,333	4,229
Provisions and other liabilities (note 9)	123,140	123,263
	4,273,332	4,275,574
Shareholders' equity		
Share capital	225,645	222,720
Contributed capital	10,132	10,132
Retained earnings	1,176,946	1,218,439
Accumulated other comprehensive income	142,551	127,591
	1,555,274	1,578,882
	5,828,606	5,854,456

See accompanying notes to condensed consolidated interim financial statements.

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

6 months ended June 30, 2017 (in thousands of Canadian dollars)	Share capital \$	Contributed capital \$	Retained earnings \$	Accumulated other comprehensive income \$	Total shareholders' equity \$
Balance, beginning of period	222,720	10,132	1,218,439	127,591	1,578,882
Net income	-	-	63,615	-	63,615
Other comprehensive income	-	-	-	14,960	14,960
Total comprehensive income	-	-	63,615	14,960	78,575
Staff share loan plan	(242)	-	-	-	(242)
Preference shares issued/redeemed	3,167	-	-	-	3,167
Dividends declared (note 11)	-	-	(105,045)	-	(105,045)
Premium on redemption of preference shares	-	-	(63)	-	(63)
Balance, end of period	225,645	10,132	1,176,946	142,551	1,555,274

6 months ended June 30, 2016 (in thousands of Canadian dollars)	Share capital \$	Contributed capital \$	Retained earnings \$	Accumulated other comprehensive income \$	Total shareholders' equity \$
Balance, beginning of period	217,495	10,132	1,083,097	147,886	1,458,610
Net income	-	-	285	-	285
Other comprehensive income	-	-	-	24,151	24,151
Total comprehensive income	-	-	285	24,151	24,436
Staff share loan plan	(674)	-	-	-	(674)
Preference shares issued/redeemed	3,251	-	-	-	3,251
Dividends declared (note 11)	-	-	(4,880)	-	(4,880)
Premium on redemption of preference shares	-	-	(50)	-	(50)
Balance, end of period	220,072	10,132	1,078,452	172,037	1,480,693

See accompanying notes to condensed consolidated interim financial statements.

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

(in thousands of Canadian dollars except for earnings per share and weighted average number of common shares)	3 months ended June 30, 2017 \$	3 months ended June 30, 2016 \$	6 months ended June 30, 2017 \$	6 months ended June 30, 2016 \$
Direct written premium (note 10)	768,660	722,584	1,308,948	1,242,063
Ceded written premium (note 10)	(21,071)	(40,222)	(39,502)	(55,809)
Income				
Net earned premium (note 10)	628,668	576,472	1,237,979	1,164,925
Net investment income and gains (note 3)	35,484	38,550	98,304	68,279
Fees and other income	2,638	1,715	4,349	3,151
	666,790	616,737	1,340,632	1,236,355
Expenses				
Claims and adjustment expenses	423,652	868,404	824,110	1,244,955
Ceded claims and adjustment expenses	(2,112)	(387,758)	16,213	(391,037)
Premium and other taxes	22,635	19,120	42,536	37,168
Commissions and advisor compensation	105,792	98,526	216,524	203,296
Ceded commission	(1,036)	(1,001)	(2,116)	(2,083)
General expenses	81,388	75,355	162,015	148,667
	630,319	672,646	1,259,282	1,240,966
Income before income (loss) taxes	36,471	(55,909)	81,350	(4,611)
Income tax expense (recovery) (note 6)	7,408	(16,849)	17,735	(4,896)
Net income (loss)	29,063	(39,060)	63,615	285
Earnings (loss) per share	1.18	(2.00)	2.73	(0.21)
Weighted average number of common shares	21,458	21,376	21,458	21,376

See accompanying notes to condensed consolidated interim financial statements.

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

	3 months ended June 30, 2017 \$	3 months ended June 30, 2016 \$	6 months ended June 30, 2017 \$	6 months ended June 30, 2016 \$
(in thousands of Canadian dollars)				
Net income (loss)	29,063	(39,060)	63,615	285
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	(10,429)	33,498	10,953	43,716
Stocks	(2,637)	7,346	23,055	6,237
	(13,066)	40,844	34,008	49,953
Net reclassification adjustment for (gains) losses included in net income				
Bonds	(3,003)	(4,933)	241	(10,247)
Stocks	1,307	(7,807)	(14,106)	(7,194)
	(1,696)	(12,740)	(13,865)	(17,441)
Other comprehensive income (loss) before income taxes	(14,762)	28,104	20,143	32,512
Income tax expense (recovery)	(4,003)	7,314	5,183	8,361
Other comprehensive income (loss)	(10,759)	20,790	14,960	24,151
Comprehensive income (loss)	18,304	(18,270)	78,575	24,436

See accompanying notes to condensed consolidated interim financial statements.

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

(in thousands of Canadian dollars)	6 months ended June 30, 2017 \$	6 months ended June 30, 2016 \$
Operating activities		
Net income	63,615	285
Items not requiring the use of cash (note 12)	(24,144)	1,349
Changes in non-cash operating components (note 12)	(28,584)	196,243
Cash provided by (used in) operating activities	10,887	197,877
Investing activities		
Purchases and advances of:		
Invested assets	(1,401,591)	(1,484,491)
Intangible assets	(5,475)	(243)
Property and equipment	(2,517)	(2,884)
Sale and redemption of:		
Invested assets	1,451,906	1,413,797
Intangible assets	-	146
Assets held for sale	317	2,215
Cash provided by (used in) investing activities	42,640	(71,460)
Financing activities		
Share capital - preference shares issued	5,955	4,958
Share capital - preference shares redeemed	(2,788)	(1,707)
Dividends paid (note 11)	(104,967)	(4,799)
Premium on redemption of preferred shares	(63)	(50)
Cash provided by (used in) financing activities	(101,863)	(1,598)
Net increase (decrease) in cash and cash equivalents, net of payments in transit	(48,336)	124,819
Cash and cash equivalents, net of payments in transit, beginning of period	26,588	86,912
Cash and cash equivalents, net of payments in transit, end of period	(21,748)	211,731
Cash	31,345	215,891
Cash equivalents	9,676	-
Net payments in transit, included in accounts payable and accrued charges	(62,769)	(4,160)
Cash and cash equivalents, net of payments in transit, end of period	(21,748)	211,731

See accompanying notes to condensed consolidated interim financial statements.

CO-OPERATORS GENERAL INSURANCE COMPANY

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

(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'Équitable), Co-operators Investment Limited Partnership (CILP) and Co-operators Insurance Agencies Limited (CIAL). 100% of the voting rights attached to all the outstanding voting shares or partnership interests of each of Sovereign, COSECO, L'Équitable, CILP and CIAL are held by the Company.

The registered office of the Company is 130 Macdonell Street, Guelph, Ontario. The Company is domiciled in Canada and is incorporated under the Insurance Companies Act (Canada). These condensed consolidated interim financial statements of the Company for the six months ended June 30, 2017 were authorized for issue in accordance with a resolution of the Audit Committee of the Board of Directors on July 27, 2017.

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.

Segmented information

The Company's results of operations are reviewed by senior management and the Board of Directors based on one reporting and operating segment, property and casualty operations. Prior to 2016, results were reviewed and assessed at each legal entity within the consolidated group.

CO-OPERATORS GENERAL INSURANCE COMPANY

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

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

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

During the quarter, the Company 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 the Company's liabilities. Consequently, the comparative figures 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, June 30, 2017 figures would have been \$151,859 for Accounts payable and accrued charges and \$62,769 for Borrowings.

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, 2016.

The Company has the following updates to information provided in the consolidated financial statements 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 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".

The Company is currently evaluating the impact that this standard will have on its consolidated financial statements.

CO-OPERATORS GENERAL INSURANCE COMPANY
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(unaudited)

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

3. Invested assets and net investment income and gains

The Company's invested assets are held within CILP, a wholly-owned subsidiary of the Company, established January 1, 2016.

a) Invested assets

	Fair value			Amortized cost Loans and receivables	Carrying value Total
	AFS	Classified FVTPL	Designated FVTPL		
June 30, 2017	\$	\$	\$	\$	\$
Bonds					
Federal	443,777	-	29,578	-	473,355
Provincial	770,364	-	38,861	-	809,225
Municipal	41,477	-	-	-	41,477
Corporate	937,145	-	49,649	-	986,794
Asset-backed securities	49,645	-	5,389	-	55,034
International	45,015	-	-	-	45,015
	2,287,423	-	123,477	-	2,410,900
Stocks					
Canadian common	527,484	-	-	-	527,484
Canadian preferred	6,199	-	400,234	-	406,433
U.S. equities	181,976	-	-	-	181,976
Foreign equities	68,591	-	-	-	68,591
	784,250	-	400,234	-	1,184,484
Short-term investments	63,698	-	-	-	63,698
Limited partnerships	88,928	-	-	-	88,928
Foreign currency forward contracts	-	6,105	-	-	6,105
Mortgages	-	-	-	487,202	487,202
Other investments	-	-	-	10,354	10,354
Investment income due and accrued	-	-	-	19,912	19,912
Total invested assets	3,224,299	6,105	523,711	517,468	4,271,583

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(unaudited)

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

	Fair Value			Amortized Cost Loans and receivables	Carrying Value Total
	AFS	Classified FVTPL	Designated FVTPL		
December 31, 2016	\$	\$	\$	\$	\$
Bonds					
Federal	545,739	-	24,913	-	570,652
Provincial	739,478	-	27,045	-	766,523
Municipal	57,092	-	-	-	57,092
Corporate	916,030	-	67,427	-	983,457
Asset-backed securities	52,471	-	5,403	-	57,874
International	44,529	-	-	-	44,529
	<u>2,355,339</u>	<u>-</u>	<u>124,788</u>	<u>-</u>	<u>2,480,127</u>
Stocks					
Canadian common	516,418	-	-	-	516,418
Canadian preferred	7,227	-	355,650	-	362,877
U.S. equities	191,455	-	-	-	191,455
Foreign equities	70,636	-	-	-	70,636
	<u>785,736</u>	<u>-</u>	<u>355,650</u>	<u>-</u>	<u>1,141,386</u>
Short-term investments	33,126	-	-	-	33,126
Limited partnerships	72,193	-	-	-	72,193
Foreign currency forward contracts	-	563	-	-	563
Mortgages	-	-	-	513,256	513,256
Other investments	-	-	-	10,354	10,354
Investment income due and accrued	-	-	-	19,917	19,917
Total invested assets	<u>3,246,394</u>	<u>563</u>	<u>480,438</u>	<u>543,527</u>	<u>4,270,922</u>

b) Investments - measured at fair value

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

Level 1 - Quoted prices

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

Level 2 - Significant other observable inputs

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

CO-OPERATORS GENERAL INSURANCE COMPANY
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(unaudited)

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

determines the fair values of foreign exchange forward contracts by using a discounted cash flow valuation technique using observable market data.

Level 3 - Significant unobservable inputs

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

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

	Level 1 - Quoted prices \$	Level 2 - Significant other observable inputs \$	Level 3 - Significant unobservable inputs \$	Total fair value \$
June 30, 2017				
AFS				
Bonds	-	2,287,423	-	2,287,423
Stocks	776,342	6,199	-	782,541
Short-term investments	-	63,698	-	63,698
Limited partnerships	-	-	88,928	88,928
	776,342	2,357,320	88,928	3,222,590
FVTPL				
Bonds	-	123,477	-	123,477
Stocks	400,234	-	-	400,234
Foreign currency forward contracts	-	6,105	-	6,105
	400,234	129,582	-	529,816
Total invested assets at fair value	1,176,576	2,486,902	88,928	3,752,406
FVTPL				
Foreign currency forward contracts (note 9)	-	736	-	736
Total financial liabilities at fair value	-	736	-	736

CO-OPERATORS GENERAL INSURANCE COMPANY
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(unaudited)

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

	Level 1 - Quoted prices \$	Level 2 - Significant other observable inputs \$	Level 3 - Significant unobservable inputs \$	Total fair value \$
December 31, 2016				
AFS				
Bonds	-	2,355,339	-	2,355,339
Stocks	776,800	7,227	-	784,027
Short-term investments	-	33,126	-	33,126
Limited partnerships	-	-	72,193	72,193
	776,800	2,395,692	72,193	3,244,685
FVTPL				
Bonds	-	124,788	-	124,788
Stocks	355,650	-	-	355,650
Foreign currency forward contracts	-	563	-	563
	355,650	125,351	-	481,001
Total invested assets at fair value	1,132,450	2,521,043	72,193	3,725,686
FVTPL				
Foreign currency forward contracts (note 9)	-	3,142	-	3,142
Total financial liabilities at fair value	-	3,142	-	3,142

Excluded from these totals are AFS investments of \$1,709 (2016 - \$1,709) in shares of other co-operative entities which are carried at cost as they do not have quoted market prices in active markets.

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

	Limited partnerships \$
6 months ended June 30, 2017	
Balance, beginning of period	72,193
Purchases	17,796
Sales and redemptions	(1,057)
Gains	
Unrealized included in OCI	(4)
Balance, end of period	88,928

No investments were transferred between levels during the period (2016 - \$nil).

The investments measured at fair value and classified as Level 3 as at June 30, 2017 are limited partnerships, which represent units of third-party managed private equity funds (Funds). The fair values of limited partnership investments are based on the net asset value (NAV) from each of the individual Funds most recent quarterly or annual financial statements. Limited partnership NAV's are derived by valuation techniques employed by each Funds management using unobservable inputs. The Company assesses the NAV disclosed in each Funds most recent financial statement using independent analytical procedures to ensure the amount is a reasonable representation of fair value. The Company does not assess the sensitivity of the fair value of limited partnerships because the inputs used by each fund manager to determine the NAV are unobservable and not readily available.

CO-OPERATORS GENERAL INSURANCE COMPANY
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(unaudited)

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

The fair value of mortgages at June 30, 2017 is \$494,592 (June 30, 2016 - \$529,521). Mortgages measured at fair value, for disclosure purposes only, are classified as Level 3. The fair value of the mortgages has been calculated by discounting the expected cash flows of each instrument. The discount rate is determined using the Government of Canada benchmark bond yield for instruments of similar maturity adjusted for specific credit risk. In determining the adjustment for credit risk, the Company considers market conditions, the value of the properties that the mortgage is secured by and other indicators of creditworthiness.

c) Net investment income and gains

	3 months ended June 30, 2017 \$	3 months ended June 30, 2016 \$	6 months ended June 30, 2017 \$	6 months ended June 30, 2016 \$
Interest income	19,309	19,993	39,002	40,207
Dividend and other income	9,715	8,478	18,841	15,325
Investment expense	(1,573)	(1,701)	(3,140)	(2,693)
Net investment income	27,451	26,770	54,703	52,839
Net realized gains	2,030	11,661	12,670	14,341
Net foreign exchange gains (losses)	10,018	(213)	13,457	13,152
Change in fair value	283	3,481	21,772	(8,157)
Impairment losses	(4,298)	(3,149)	(4,298)	(3,896)
Net investment gains	8,033	11,780	43,601	15,440
Net investment income and gains	35,484	38,550	98,304	68,279

4. Insurance contracts

Insurance contracts are comprised of the following balances:

	As at June 30, 2017 \$	As at December 31, 2016 \$
Undiscounted unpaid claims and adjustment expenses	2,358,951	2,401,407
Effect of time value of money	(100,471)	(104,597)
Provisions for adverse deviation	230,239	233,509
Effect of discounting	129,768	128,912
Discounted unpaid claims and adjustment expenses	2,488,719	2,530,319
Unearned premiums	1,324,307	1,288,369
	3,813,026	3,818,688

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.

5. 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.

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(unaudited)

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

The Company's net retentions are as follows:

	As at June 30, 2017 \$	As at December 31, 2016 \$
Individual loss		
Property	7,500	7,500
General liability	5,000	5,000
Automobile	5,000	5,000
Catastrophe		
Maximum limit	1,450,000	1,300,000
Company retention	70,000	70,000

The maximum limit for catastrophe reinsurance is applied to all property and casualty insurance operations ultimately owned by CGL. After application of the catastrophe program, the Company's retention is \$70,000 in incurred claims.

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

	As at June 30, 2017 \$	As at December 31, 2016 \$
Reinsurance ceded assets		
Reinsurers' share of unearned premiums	7,060	6,088
Reinsurers' share of unpaid claims and adjustment expenses	208,006	297,923
Reinsurer receivables	14,444	26,944
	229,510	330,955
Reinsurance ceded liabilities		
Unearned reinsurance commissions	1,989	1,864
Payable to reinsurers	2,826	2,679
Unlicensed reinsurer deposits	57,470	89,781
	62,285	94,324
Reinsurance ceded contracts	167,225	236,631

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(unaudited)

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

6. Income taxes

Reconciliation to statutory income tax rate

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

	6 months ended June 30, 2017		6 months ended June 30, 2016	
	\$	%	\$	%
Income (loss) before income taxes	81,350		(4,611)	
Income tax expense (recovery) at statutory rates	21,965	27.0	(1,245)	27.0
Effects of:				
Non-taxable investment income	(3,935)	(4.8)	(3,313)	71.8
Non-deductible expenses	249	0.3	293	(6.4)
Change in income tax rates	46	0.1	(192)	4.2
Adjustment to tax expense in respect of prior years	(795)	(1.0)	(349)	7.6
Other	205	0.3	(90)	2.0
Income tax expense (recovery)	17,735	21.9	(4,896)	106.2

7. Intangible assets

	Goodwill	Licenses	Software	Broker Customer Lists	Total
	\$	\$	\$	\$	\$
Cost					
January 1, 2016	1,076	43,750	18,395	20,453	83,674
Additions	-	6,250	-	3,906	10,156
December 31, 2016	1,076	50,000	18,395	24,359	93,830
Additions	-	3,750	-	1,725	5,475
June 30, 2017	1,076	53,750	18,395	26,084	99,305
Accumulated amortization					
January 1, 2016	-	-	17,642	3,176	20,818
Amortization	-	-	255	2,255	2,510
December 31, 2016	-	-	17,897	5,431	23,328
Amortization	-	-	128	1,365	1,493
June 30, 2017	-	-	18,025	6,796	24,821
Net carrying value					
December 31, 2016	1,076	50,000	498	18,928	70,502
June 30, 2017	1,076	53,750	370	19,288	74,484

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

8. Other assets

	As at June 30, 2017 \$	As at December 31, 2016 \$
Due from related parties	38,189	29,191
Reinsurance assumed receivables	1,318	1,104
Property and equipment	26,367	28,521
Due from risk sharing pools	2,584	5,223
Income from investments in joint ventures	8,715	8,900
Prepaid expenses	36	785
Other	2,737	3,535
	79,946	77,259

9. Provisions and other liabilities

	As at June 30, 2017 \$	As at December 31, 2016 \$
Provision for advisor transition commissions	102,998	101,271
Advisor transition commission payable	12,412	11,753
Other provisions	4,472	2,208
Foreign currency forward contracts (note 3)	736	3,142
Other liabilities	2,522	4,889
	123,140	123,263

10. Net earned premium

	3 months ended June 30, 2017 \$	3 months ended June 30, 2016 \$	6 months ended June 30, 2017 \$	6 months ended June 30, 2016 \$
Direct written premium	768,660	722,584	1,308,948	1,242,063
Assumed written premium	1,853	3,443	3,499	5,482
Gross written premium	770,513	726,027	1,312,447	1,247,545
Ceded written premium	(21,071)	(40,222)	(39,502)	(55,809)
Net written premium	749,442	685,805	1,272,945	1,191,736
Change in gross unearned premium	(122,155)	(109,873)	(35,938)	(26,518)
Change in ceded unearned premium	1,381	540	972	(293)
Net earned premium	628,668	576,472	1,237,979	1,164,925

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

11. Share capital

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

For the six months ended June 30, 2017, the Company issued 59,551 (2016 – 49,583) Class A preference shares, series B for \$5,955 (2016 - \$4,958) and redeemed 26,607 shares (2016 – 16,058) for \$2,661 (2016 - \$1,606). The Company redeemed 5,099 (2016 – 4,022) Class A preference shares, series A for \$127 (2016 - \$101).

Dividends are as follows:

	6 months ended June 30, 2017				6 months ended June 30, 2016			
	Declared \$	Declared per share \$	Paid \$	Paid per share \$	Declared \$	Declared per share \$	Paid \$	Paid per share \$
Class A, series A	157	0.94	162	0.94	166	0.94	169	0.94
Class A, series B	1,661	2.50	1,578	2.50	1,487	2.50	1,403	2.50
Class B	1	1.25	1	1.25	1	1.25	1	1.25
Class D, series A	35	2.50	35	2.50	35	2.50	35	2.50
Class D, series B	106	2.50	106	2.50	106	2.50	106	2.50
Class D, series C	108	2.50	108	2.50	108	2.50	108	2.50
Class E, series C	2,500	0.63	2,500	0.63	2,500	0.63	2,500	0.63
Class F, series A	458	0.94	458	0.94	458	0.94	458	0.94
Class G, series A	19	1.25	19	2.50	19	1.25	19	1.25
Common shares	100,000	4.66	100,000	2.33	-	-	-	-
	105,045		104,967		4,880		4,799	

During the six months ended June 30, 2017, the Company declared and paid common dividends to its parent for \$100,000 (2016 - \$nil).

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

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

	6 months ended June 30, 2017 \$	6 months ended June 30, 2016 \$
i) Items not requiring the use of cash		
Investing activities gains	(26,127)	(27,493)
Gain on disposal	-	(412)
Amortization and depreciation of:		
Bond premium/discount	9,682	9,286
Mortgage accretion	332	-
Intangible assets	1,493	1,202
Property and equipment	4,669	4,818
Change in fair value of FVTPL invested assets (note 3)	(21,772)	8,157
Impairment losses (note 3)	4,298	3,896
Deferred income taxes	746	(409)
Retirement benefit obligations	2,350	2,304
Loss from investments in joint ventures	185	-
	(24,144)	1,349
ii) Changes in non-cash operating components		
Other		
Insurance contracts	(5,662)	549,406
Reinsurance ceded contracts	69,406	(252,998)
Premiums due	(35,327)	(41,473)
Deferred acquisition expenses	(6,656)	(3,859)
Staff share loan plan	(242)	(674)
Accounts receivable and other assets	(5,306)	7,430
Accounts payable and accrued charges	(31,345)	(32,773)
Income taxes payable/recoverable	(15,735)	(31,058)
Provisions and other liabilities	2,283	2,242
	(28,584)	196,243