



Co-operators General Insurance Company

Unaudited Condensed Consolidated Interim Financial Statements

---

For the third quarter ended September 30, 2016

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

As at

	September 30, 2016	December 31, 2015
(in thousands of Canadian dollars)	\$	\$
<b>Assets</b>		
Cash and cash equivalents	106,368	86,912
Invested assets (note 3)	4,322,589	3,963,795
Premiums due	819,608	747,852
Income taxes recoverable	18,324	23,686
Reinsurance ceded contracts (note 5)	239,676	63,463
Deferred acquisition expenses	206,536	195,176
Assets held for sale	472	2,773
Deferred income taxes	92,330	91,080
Intangible assets (note 7)	67,391	62,856
Other assets (note 8)	56,145	65,594
	<b>5,929,439</b>	<b>5,303,187</b>
<b>Liabilities</b>		
Accounts payable and accrued charges	166,223	166,762
Income taxes payable	38	3,972
Insurance contracts (note 4)	4,020,793	3,445,352
Borrowings	10,388	-
Retirement benefit obligations	106,979	103,546
Deferred income taxes	3,399	3,570
Provisions and other liabilities (note 9)	118,565	121,375
	<b>4,426,385</b>	<b>3,844,577</b>
<b>Shareholders' equity</b>		
Share capital (note 11)	221,372	217,495
Contributed capital	10,132	10,132
Retained earnings	1,093,504	1,083,097
Accumulated other comprehensive income	178,046	147,886
	<b>1,503,054</b>	<b>1,458,610</b>
	<b>5,929,439</b>	<b>5,303,187</b>

See accompanying notes to condensed consolidated interim financial statements.

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

9 months ended September 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	-	-	16,610	-	16,610
Other comprehensive income	-	-	-	30,160	30,160
Total comprehensive income	-	-	16,610	30,160	46,770
Staff share loan plan (note 11)	(890)	-	-	-	(890)
Preference shares issued/redeemed (note 11)	4,767	-	-	-	4,767
Dividends declared (note 11)	-	-	(6,130)	-	(6,130)
Premium on redemption of preference shares	-	-	(73)	-	(73)
<b>Balance, end of period</b>	<b>221,372</b>	<b>10,132</b>	<b>1,093,504</b>	<b>178,046</b>	<b>1,503,054</b>

9 months ended September 30, 2015 (in thousands of Canadian dollars)	Share capital \$	Contributed capital \$	Retained earnings \$	Accumulated other comprehensive income \$	Total shareholders' equity \$
Balance, beginning of period	213,556	10,132	1,099,992	167,932	1,491,612
Net income	-	-	58,912	-	58,912
Other comprehensive loss	-	-	-	(7,044)	(7,044)
Total comprehensive income	-	-	58,912	(7,044)	51,868
Staff share loan plan (note 11)	384	-	-	-	384
Preference shares issued/redeemed (note 11)	2,978	-	-	-	2,978
Dividends declared (note 11)	-	-	(42,494)	-	(42,494)
Premium on redemption of preference shares	-	-	(90)	-	(90)
<b>Balance, end of period</b>	<b>216,918</b>	<b>10,132</b>	<b>1,116,320</b>	<b>160,888</b>	<b>1,504,258</b>

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 September 30, 2016 \$	3 months ended September 30, 2015 \$	9 months ended September 30, 2016 \$	9 months ended September 30, 2015 \$
Direct written premium (note 10)	691,007	650,851	1,933,070	1,820,862
Ceded written premium (note 10)	(19,926)	(17,794)	(75,735)	(51,635)
Income				
Net earned premium (note 10)	614,802	586,005	1,779,727	1,703,898
Net investment income and gains (note 3)	80,023	(10,013)	148,302	59,097
	<b>694,825</b>	<b>575,992</b>	<b>1,928,029</b>	<b>1,762,995</b>
Expenses				
Claims and adjustment expenses	418,219	422,733	1,663,174	1,146,827
Ceded claims and adjustment expenses	61,072	(84)	(329,965)	(8,457)
Premium and other taxes	20,960	18,654	58,128	53,551
Commissions and advisor compensation	103,385	96,371	304,132	288,595
Ceded commission	(1,006)	(1,298)	(3,089)	(3,682)
General expenses	72,063	70,999	220,128	213,626
	<b>674,693</b>	<b>607,375</b>	<b>1,912,508</b>	<b>1,690,460</b>
Income (loss) before income taxes	20,132	(31,383)	15,521	72,535
Income tax expense (recovery) (note 6)	3,807	(9,953)	(1,089)	13,623
<b>Net income (loss)</b>	<b>16,325</b>	<b>(21,430)</b>	<b>16,610</b>	<b>58,912</b>
Earnings (loss) per share	0.71	(1.07)	0.49	2.48
Weighted average number of common shares	21,376	21,295	21,376	21,295

See accompanying notes to condensed consolidated interim financial statements.

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

	3 months ended September 30, 2016 \$	3 months ended September 30, 2015 \$	9 months ended September 30, 2016 \$	9 months ended September 30, 2015 \$
<b>(in thousands of Canadian dollars)</b>				
Net income (loss)	<b>16,325</b>	(21,430)	<b>16,610</b>	58,912
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	<b>16,399</b>	(6,622)	<b>60,115</b>	20,018
Stocks	<b>40,433</b>	(31,332)	<b>46,670</b>	(1,264)
	<b>56,832</b>	(37,954)	<b>106,785</b>	18,754
Net reclassification adjustment for (gains) losses included in income				
Bonds	<b>(13,582)</b>	(5,529)	<b>(23,829)</b>	(34,940)
Stocks	<b>(34,831)</b>	10,072	<b>(42,025)</b>	5,982
	<b>(48,413)</b>	4,543	<b>(65,854)</b>	(28,958)
Other comprehensive income (loss) before income taxes	<b>8,419</b>	(33,411)	<b>40,931</b>	(10,204)
Income tax expense (recovery)	<b>2,410</b>	(8,663)	<b>10,771</b>	(3,160)
Other comprehensive income (loss)	<b>6,009</b>	(24,748)	<b>30,160</b>	(7,044)
<b>Comprehensive income (loss)</b>	<b>22,334</b>	(46,178)	<b>46,770</b>	51,868

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)	9 months ended September 30, 2016 \$	9 months ended September 30, 2015 \$
<b>Operating activities</b>		
Net income	16,610	58,912
Items not requiring the use of cash (note 12)	(42,706)	55,974
Changes in non-cash operating components (note 12)	365,634	5,853
<b>Cash provided by (used in) operating activities</b>	<b>339,538</b>	<b>120,739</b>
<b>Investing activities</b>		
Purchases and advances of:		
Invested assets	(2,750,527)	(3,904,827)
Assets held for sale	-	(525)
Intangible assets (note 7)	(6,493)	(13,411)
Property and equipment	(5,251)	(4,935)
Sale and redemption of:		
Invested assets	2,433,173	3,797,298
Intangible assets (note 7)	146	23
Assets held for sale	2,215	2,604
<b>Cash provided by (used in) investing activities</b>	<b>(326,737)</b>	<b>(123,773)</b>
<b>Financing activities</b>		
Share capital - preference shares issued (note 11)	7,616	6,920
Share capital - preference shares redeemed (note 11)	(2,849)	(3,942)
Repayment of borrowings	-	(3,500)
Dividends paid (note 11)	(8,427)	(44,691)
Premium on redemption of preferred shares	(73)	(90)
<b>Cash provided by (used in) financing activities</b>	<b>(3,733)</b>	<b>(45,303)</b>
Net increase (decrease) in cash and cash equivalents less short-term indebtedness	9,068	(48,337)
Cash and cash equivalents less short-term indebtedness, beginning of period	86,912	(11,661)
<b>Cash and cash equivalents less short-term indebtedness, end of period</b>	<b>95,980</b>	<b>(59,998)</b>
<b>Cash</b>	<b>47,440</b>	<b>2,326</b>
<b>Cash equivalents</b>	<b>58,928</b>	<b>-</b>
<b>Short-term indebtedness</b>	<b>(10,388)</b>	<b>(62,324)</b>
<b>Cash and cash equivalents less short-term indebtedness, end of period</b>	<b>95,980</b>	<b>(59,998)</b>

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 Priory Square, 130 Macdonell Street, Guelph, Ontario. The Company is domiciled in Canada and is incorporated under the Insurance Companies Act (Canada). These condensed consolidated interim financial statements of the Company for the nine months ended September 30, 2016 were authorized for issue in accordance with a resolution of the Audit Committee of the Board of Directors on October 27, 2016.

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.

**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)

**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.

**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, 2015, 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, 2015.

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, 2015.

**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
	Classified AFS	Designated FVTPL	Designated FVTPL		
September 30, 2016	\$	\$	\$	\$	\$
<b>Bonds</b>					
Federal	491,654	-	26,275	-	517,929
Provincial	821,851	-	28,191	-	850,042
Municipal	57,857	-	-	-	57,857
Corporate	926,633	-	68,142	-	994,775
Asset-backed securities	65,384	-	5,470	-	70,854
International	46,131	-	-	-	46,131
	<b>2,409,510</b>	<b>-</b>	<b>128,078</b>	<b>-</b>	<b>2,537,588</b>
<b>Stocks</b>					
Canadian common	536,498	-	-	-	536,498
Canadian preferred	7,049	-	296,077	-	303,126
U.S. equities	194,986	-	-	-	194,986
Foreign equities	76,506	-	-	-	76,506
	<b>815,039</b>	<b>-</b>	<b>296,077</b>	<b>-</b>	<b>1,111,116</b>
Short-term investments	49,703	-	-	-	49,703
Limited partnerships	64,299	-	-	-	64,299
Foreign currency forward contracts	-	806	-	-	806
Mortgages	-	-	-	524,262	524,262
Other investments	-	-	-	10,963	10,963
Investment income due and accrued	-	-	-	23,852	23,852
<b>Total invested assets</b>	<b>3,338,551</b>	<b>806</b>	<b>424,155</b>	<b>559,077</b>	<b>4,322,589</b>



**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)

	Fair Value			Amortized Cost Loans and receivables	Carrying Value Total
	AFS	Classified FVTPL	Designated FVTPL		
December 31, 2015	\$	\$	\$	\$	\$
<b>Bonds</b>					
Federal	432,032	-	7,375	-	439,407
Provincial	718,294	-	29,679	-	747,973
Municipal	61,757	-	-	-	61,757
Corporate	909,404	-	88,849	-	998,253
Asset-backed securities	94,437	-	17,477	-	111,914
International	29,860	-	-	-	29,860
	<u>2,245,784</u>	<u>-</u>	<u>143,380</u>	<u>-</u>	<u>2,389,164</u>
<b>Stocks</b>					
Canadian common	473,629	-	-	-	473,629
Canadian preferred	65,838	(6,223)	168,962	-	228,577
U.S. equities	180,541	-	-	-	180,541
Foreign equities	75,283	-	-	-	75,283
	<u>795,291</u>	<u>(6,223)</u>	<u>168,962</u>	<u>-</u>	<u>958,030</u>
Short-term investments	44,717	-	-	-	44,717
Limited partnerships	29,904	-	-	-	29,904
Foreign currency forward contracts	-	6	-	-	6
Mortgages	-	-	-	512,668	512,668
Other investments	-	-	-	10,692	10,692
Investment income due and accrued	-	-	-	18,614	18,614
<b>Total invested assets</b>	<u>3,115,696</u>	<u>(6,217)</u>	<u>312,342</u>	<u>541,974</u>	<u>3,963,795</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. Assets measured at fair value and classified as Level 1 include Canadian preferred stocks and Canadian, U.S. and foreign common stocks.

*Level 2 - Significant other observable inputs*

Includes directly or indirectly observable inputs other than quoted prices for identical instruments exchanged in active markets. These inputs include quoted prices for similar instruments exchanged in active markets and quoted prices for identical or similar instruments exchanged in inactive markets. For financial instruments that do not have directly observable inputs, the fair value is calculated as the present value of the future cash flows considering inputs other than quoted prices that are observable for

**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)

the instruments, such as interest rates and yield curves, volatilities, prepayment spreads, credit risks and default rates where available; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Consistent with market participants, the Company determines the fair values of foreign exchange forward contracts by using a discounted cash flow valuation technique using observable market data. Assets and liabilities measured at fair value and classified as Level 2 include bonds, short-term investments, certain pooled funds invested in equities and foreign currency forward contracts.

*Level 3 - Significant unobservable inputs*

Includes inputs that are not based on observable market data. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these assets or liabilities or related observable inputs that can be corroborated at the measurement date. Unobservable inputs require significant management judgement or estimation to make certain projections and assumptions about the information that would be used by market participants in pricing assets or liabilities. To verify pricing, the Company assesses the reasonability of the fair values by comparing to industry accepted valuation models, to movements in credit spreads and to recent transaction prices for similar assets where available. Assets measured at fair value and classified as Level 3 include limited partnerships.

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

	Level 1 - Quoted prices \$	Level 2 - Significant other observable inputs \$	Level 3 - Significant unobservable inputs \$	Total fair value \$
<b>September 30, 2016</b>				
<b>AFS</b>				
Bonds	-	2,409,510	-	2,409,510
Stocks	806,281	7,049	-	813,330
Short-term investments	-	49,703	-	49,703
Limited partnerships	-	-	64,299	64,299
	<b>806,281</b>	<b>2,466,262</b>	<b>64,299</b>	<b>3,336,842</b>
<b>FVTPL</b>				
Bonds	-	128,078	-	128,078
Stocks	296,077	-	-	296,077
Foreign currency forward contracts	-	806	-	806
	<b>296,077</b>	<b>128,884</b>	<b>-</b>	<b>424,961</b>
<b>Total invested assets at fair value</b>	<b>1,102,358</b>	<b>2,595,146</b>	<b>64,299</b>	<b>3,761,803</b>
<b>FVTPL</b>				
Foreign currency forward contracts (note 9)	-	1,564	-	1,564
<b>Total financial liabilities at fair value</b>	<b>-</b>	<b>1,564</b>	<b>-</b>	<b>1,564</b>

**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)

	Level 1 - Quoted prices \$	Level 2 - Significant other observable inputs \$	Level 3 - Significant unobservable inputs \$	Total fair value \$
December 31, 2015				
AFS				
Bonds	-	2,245,784	-	2,245,784
Stocks	779,835	7,066	-	786,901
Short-term investments	-	44,717	-	44,717
Limited partnerships	-	-	29,904	29,904
	779,835	2,297,567	29,904	3,107,306
FVTPL				
Bonds	-	143,380	-	143,380
Stocks	168,962	-	-	168,962
Foreign currency forward contracts	-	6	-	6
	168,962	143,386	-	312,348
Total invested assets at fair value	948,797	2,440,953	29,904	3,419,654
FVTPL				
Foreign currency forward contracts (note 9)	-	8,832	-	8,832
Total financial liabilities at fair value	-	8,832	-	8,832

Included in the available-for-sale (AFS) stocks in the above table are embedded derivatives of \$nil (2015 - \$6,223), which are classified FVTPL. The embedded derivative represents the redemption options in the preferred share portfolio, the value of which has been determined using unobserved inputs in an accepted model. The embedded derivatives have been offset against its host instrument as the net amount's fair value represents an unadjusted quoted price for identical instruments exchanged in active markets.

Excluded from these totals are AFS investments of \$1,709 (2015 - \$2,167) in shares of other co-operative entities which are carried at cost as they do not have quoted market prices in active markets.

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

	Limited partnerships \$
<b>9 months ended September 30, 2016</b>	
Balance, beginning of period	29,904
Purchases	35,511
Sales and redemptions	(2,774)
Gains	
Unrealized included in OCI	1,658
<b>Balance, end of period</b>	<b>64,299</b>

No investments were transferred between levels during the period (2015 - \$nil).

The investments measured at fair value and classified as Level 3 as at September 30, 2016 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

**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)

valuation techniques employed by each Funds management using unobservable inputs. The Company assesses the NAV disclosed in each Funds most recent financial statement using independent analytical procedures to ensure the amount is a reasonable representation of fair value. The Company does not assess the sensitivity of the fair value of limited partnerships because the inputs used by each fund manager to determine the NAV, are unobservable and not readily available.

The fair value of mortgages at September 30, 2016 is \$537,881 (September 30, 2015 - \$493,317). 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 September 30, 2016 \$	3 months ended September 30, 2015 \$	9 months ended September 30, 2016 \$	9 months ended September 30, 2015 \$
Interest income	20,281	22,348	60,488	67,086
Dividend and other income	8,292	8,008	23,617	23,449
Investment expense	(1,747)	(1,142)	(4,440)	(3,446)
<b>Net investment income</b>	<b>26,826</b>	<b>29,214</b>	<b>79,665</b>	<b>87,089</b>
Net realized gains	44,832	9,165	59,173	46,031
Net foreign exchange gains (losses)	474	(10,726)	13,626	(15,193)
Change in fair value	8,092	(23,472)	(65)	(40,175)
Impairment losses	(201)	(14,194)	(4,097)	(18,655)
Net investment gains (losses)	53,197	(39,227)	68,637	(27,992)
<b>Net investment income and gains (losses)</b>	<b>80,023</b>	<b>(10,013)</b>	<b>148,302</b>	<b>59,097</b>

**4. Insurance contracts**

Insurance contracts are comprised of the following balances:

	As at September 30, 2016 \$	As at December 31, 2015 \$
Undiscounted unpaid claims and adjustment expenses	2,582,497	2,116,913
Effect of time value of money	(87,032)	(95,233)
Provisions for adverse deviation	236,230	219,992
Effect of discounting	149,198	124,759
Discounted unpaid claims and adjustment expenses	2,731,695	2,241,672
Unearned premiums	1,289,098	1,203,680
	<b>4,020,793</b>	<b>3,445,352</b>

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.

**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)

**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. The Company's net retentions are as follows:

	As at September 30, 2016 \$	As at December 31, 2015 \$
Individual loss		
Property	7,500	5,000
General liability	5,000	5,000
Automobile	5,000	5,000
Catastrophe		
Maximum limit	1,300,000	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. The catastrophe program is arranged in a series of layers. The Company retains the initial \$35,000 plus an additional 60% of the first layer and 17.5% of the second layer for a total of \$70,000 in incurred claims, on losses up to \$150,000.

During the nine months ending September 30, 2016, the Company required the use of the catastrophic reinsurance coverage described above. Premiums will be paid to reinsurers to the extent necessary, to fully reinstate the coverage. Additional reinstatement coverage has been purchased for layers of the catastrophe program that could be impacted by a future event.

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 September 30, 2016 \$	As at December 31, 2015 \$
Reinsurance ceded assets		
Reinsurers' share of unearned premiums	6,033	5,827
Reinsurers' share of unpaid claims and adjustment expenses	349,660	58,179
Reinsurer receivables	8,061	6,019
	<b>363,754</b>	<b>70,025</b>
Reinsurance ceded liabilities		
Unearned reinsurance commissions	1,791	1,811
Payable to reinsurers	6,705	1,801
Unlicensed reinsurer deposits	115,582	2,950
	<b>124,078</b>	<b>6,562</b>
Reinsurance ceded contracts	<b>239,676</b>	<b>63,463</b>

**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)

**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:

	9 months ended September 30, 2016		9 months ended September 30, 2015	
	\$	%	\$	%
Income before income taxes	15,521		72,535	
Income tax expense at statutory rates	4,191	27.0	19,294	26.6
Effects of:				
Non-taxable investment income	(5,091)	(32.8)	(4,766)	(6.6)
Non-deductible expenses	416	2.7	470	0.6
Change in income tax rates	(256)	(1.6)	(1,699)	(2.3)
Adjustment to tax expense in respect of prior years	(349)	(2.2)	7	-
Other	-	-	317	0.4
Income tax expense (recovery)	(1,089)	(6.9)	13,623	18.7

**7. Intangible assets**

	Goodwill	Licenses	Software	Broker Customer Lists	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
January 1, 2015	1,076	42,750	18,395	5,967	68,188
Disposals	-	-	-	(23)	(23)
Acquisitions of subsidiaries	-	1,000	-	14,509	15,509
December 31, 2015	1,076	43,750	18,395	20,453	83,674
Additions	-	6,250	-	243	6,493
Disposals	-	-	-	(146)	(146)
<b>September 30, 2016</b>	<b>1,076</b>	<b>50,000</b>	<b>18,395</b>	<b>20,550</b>	<b>90,021</b>
<b>Accumulated amortization</b>					
January 1, 2015	-	-	17,387	1,564	18,951
Amortization	-	-	255	1,612	1,867
December 31, 2015	-	-	17,642	3,176	20,818
Amortization	-	-	191	1,621	1,812
<b>September 30, 2016</b>	<b>-</b>	<b>-</b>	<b>17,833</b>	<b>4,797</b>	<b>22,630</b>
<b>Net carrying value</b>					
December 31, 2015	1,076	43,750	753	17,277	62,856
<b>September 30, 2016</b>	<b>1,076</b>	<b>50,000</b>	<b>562</b>	<b>15,753</b>	<b>67,391</b>

**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)

**8. Other assets**

	As at September 30, 2016 \$	As at December 31, 2015 \$
Due from related parties	18,418	26,516
Reinsurance assumed receivables	855	1,237
Property and equipment	25,157	26,999
Due from risk sharing pools	8,666	7,055
Prepaid expenses	313	1,132
Other	2,736	2,655
	<b>56,145</b>	<b>65,594</b>

**9. Provisions and other liabilities**

	As at September 30, 2016 \$	As at December 31, 2015 \$
Provision for advisor transition commissions	98,997	91,883
Advisor transition commission payable	11,504	13,732
Other provisions	4,034	2,245
Finance lease obligations	-	65
Foreign currency forward contracts (note 3)	1,564	8,832
Other liabilities	2,466	4,618
	<b>118,565</b>	<b>121,375</b>

**10. Net earned premium**

	3 months ended September 30, 2016 \$	3 months ended September 30, 2015 \$	9 months ended September 30, 2016 \$	9 months ended September 30, 2015 \$
Direct written premium	691,007	650,851	1,933,070	1,820,862
Assumed written premium	2,122	3,946	7,604	9,591
Gross written premium	693,129	654,797	1,940,674	1,830,453
Ceded written premium	(19,926)	(17,794)	(75,735)	(51,635)
Net written premium	673,203	637,003	1,864,939	1,778,818
Change in gross unearned premium	(58,900)	(51,154)	(85,418)	(73,379)
Change in ceded unearned premium	499	156	206	(1,541)
Net earned premium	<b>614,802</b>	<b>586,005</b>	<b>1,779,727</b>	<b>1,703,898</b>

**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)

**11. Share capital**

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

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

	9 months ended September 30, 2016							
	Beginning of period		Issued during the period		Redemed during the period		End of period	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
		\$		\$		\$		\$
Class A preference shares:								
series A	180,290	4,507	-	-	5,904	148	174,386	4,359
series B	561,330	56,133	76,156	7,616	27,009	2,701	610,477	61,048
Class B preference shares	426	11	-	-	-	-	426	11
Class D preference shares:								
series A	13,803	1,380	-	-	-	-	13,803	1,380
series B	42,535	4,254	-	-	-	-	42,535	4,254
series C	43,184	4,318	-	-	-	-	43,184	4,318
Class E preference shares:								
series C	4,000,000	100,000	-	-	-	-	4,000,000	100,000
Class F preference shares:								
series A	488,624	12,216	-	-	-	-	488,624	12,216
Class G preference shares:								
series A	14,984	375	-	-	-	-	14,984	375
Common Shares	21,376,383	48,076	-	-	-	-	21,376,383	48,076
		231,270		7,616		2,849		236,037
Less: Staff share loan plan		13,775						14,665
		217,495						221,372



**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)

	9 months ended September 30, 2015							
	Beginning of period		Issued during the period		Redemed during the period		End of period	
	Number of shares	Amount \$	Number of shares	Amount \$	Number of shares	Amount \$	Number of shares	Amount \$
Class A preference shares:								
series A	190,025	4,751	-	-	7,119	178	182,906	4,573
series B	517,228	51,723	69,199	6,920	37,627	3,763	548,800	54,880
Class B preference shares	458	12	-	-	30	1	428	11
Class D preference shares:								
series A	13,803	1,380	-	-	-	-	13,803	1,380
series B	42,535	4,254	-	-	-	-	42,535	4,254
series C	43,184	4,318	-	-	-	-	43,184	4,318
Class E preference shares:								
series C	4,000,000	100,000	-	-	-	-	4,000,000	100,000
Class F preference shares:								
series A	488,624	12,216	-	-	-	-	488,624	12,216
Class G preference shares:								
series A	14,984	375	-	-	-	-	14,984	375
Common Shares	21,294,708	48,076	-	-	-	-	21,294,708	48,076
		227,105		6,920		3,942		230,083
Less: Staff share loan plan		13,549						13,165
		213,556						216,918

Dividends are as follows:

	9 months ended September 30, 2016				9 months ended September 30, 2015			
	Declared \$	Declared per share \$	Paid \$	Paid per share \$	Declared \$	Declared per share \$	Paid \$	Paid per share \$
Class A, series A	166	0.94	335	1.88	173	0.94	352	1.88
Class A, series B	1,487	2.50	2,890	5.00	1,344	2.50	2,637	5.00
Class B	1	1.25	1	2.50	1	1.25	1	2.50
Class D, series A	35	2.50	69	5.00	35	2.50	69	5.00
Class D, series B	106	2.50	213	5.00	106	2.50	213	5.00
Class D, series C	108	2.50	216	5.00	108	2.50	216	5.00
Class E, series C	3,750	0.94	3,750	0.94	3,750	0.94	3,750	0.94
Class F, series A	458	0.94	916	1.88	458	0.94	916	1.88
Class G, series A	19	1.25	37	2.50	19	1.25	37	2.50
Common shares	-	-	-	-	36,500	1.71	36,500	1.71
	6,130		8,427		42,494		44,691	

During the nine months ended September 30, 2016, the Company declared common dividends to its parent for \$nil (2015 - \$36,500).

**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)

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

	<b>9 months ended September 30, 2016 \$</b>	<b>9 months ended September 30, 2015 \$</b>
<b>i) Items not requiring the use of cash</b>		
Investing activities gains	<b>(72,799)</b>	(31,065)
Loss on disposal	<b>(412)</b>	167
Amortization and depreciation of:		
Bond premium/discount	<b>14,228</b>	14,176
Mortgage accretion	-	158
Intangible assets (note 7)	<b>1,812</b>	1,239
Property and equipment	<b>7,093</b>	6,468
Change in fair value of FVTPL invested assets (note 3)	<b>65</b>	40,175
Impairment losses (note 3)	<b>4,097</b>	18,655
Deferred income taxes	<b>(223)</b>	2,523
Retirement benefit obligations	<b>3,433</b>	3,478
	<b>(42,706)</b>	55,974
<b>ii) Changes in non-cash operating components</b>		
Other		
Insurance contracts	<b>575,441</b>	139,263
Reinsurance ceded contracts	<b>(176,213)</b>	14,082
Premiums due	<b>(71,756)</b>	(53,557)
Deferred acquisition expenses	<b>(11,360)</b>	(9,003)
Staff share loan plan	<b>(890)</b>	384
Accounts receivable and other assets	<b>2,841</b>	(74)
Accounts payable and accrued charges	<b>1,784</b>	(11,009)
Income taxes payable/recoverable	<b>41,329</b>	(76,365)
Provisions and other liabilities	<b>4,458</b>	2,132
	<b>365,634</b>	5,853