Co-operators General Insurance Company

Management's Discussion and Analysis

For the second quarter ended June 30, 2017

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July 27, 2017

This Management's Discussion and Analysis (MD&A) comments on Co-operators General Insurance Company's operations and financial condition for the second quarter ended June 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 43 members.

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

- our unaudited condensed consolidated interim financial statements and accompanying notes for the second quarter ended June 30, 2017 and the first quarter ended March 31, 2017;
- our MD&A for the 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 June 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 June 30 unless otherwise stated

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

2nd quarter	2017	2016	2015
Key financial data			
Direct written premium (DWP)	**768.7**	722.6	681.0
Net earned premium (NEP)	**628.7**	576.5	567.4
Net income (loss)	**29.1**	(39.1)	58.2
Total assets[1]	**5,828.6**	5,854.5	5,303.2
Total liabilities[1]	**4,273.3**	4,275.6	3,844.6
Shareholders' equity[1]	**1,555.3**	1,578.9	1,458.6
Key success indicators			
Direct written premium growth	**6.4%**	6.1%	4.0%
Net earned premium growth	**9.1%**	1.6%	4.1%
Earnings (loss) per common share (EPS)[2]	**$1.18**	($2.00)	$2.57
Return on equity (ROE)	**8.4%**	(11.2%)	18.4%
Combined ratio - excluding Market Yield Adjustment (MYA)[3]	**101.0%**	114.3%	94.0%
Minimum Capital Test (MCT)[1]	**223%**	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 net income after tax of $29.1 million for the three months ended June 30, 2017, as compared to a net loss of $39.1 million in the same quarter of 2016. Our return on equity for the quarter was 8.4% versus (11.2%) in the second quarter of 2016. Earnings (loss) per common share in the quarter was $1.18 compared to ($2.00) in the same quarter of the prior year.

Our underwriting loss of $6.6 million for the second quarter improved from our underwriting loss of $82.3 million in the same period of 2016 as prior year results reflect the impact of the devastating wildfire in Fort McMurray. Excluding the impacts of this catastrophic event, our underwriting results deteriorated by $30.0 million. This was driven by an increase in the frequency of current accident year claims across all lines of business, primarily the result of multiple storms in the West and Ontario, and an increase in severity of home accident year claims, partially offset by continued policy growth across all lines of business. Net investment income and gains decreased by $3.1 million compared to the same period last year, driven primarily by a decrease in stock and bond gains, offset by an increase in foreign exchange contract gains. The MYA had a $5.0 million favourable impact on net income before tax as a result of an increase in the discount rate and a decrease in the undiscounted net claims and adjustment expenses.

FINANCIAL PERFORMANCE

DIRECT WRITTEN PREMIUM AND NET EARNED PREMIUM

$ millions	Q2 2017	Q2 2016	% change	YTD 2017	YTD 2016	% change
Direct written premium	**768.7**	722.6	6.4%	**1,308.9**	1,242.1	5.4%
Net earned premium	**628.7**	576.5	9.1%	**1,238.0**	1,164.9	6.3%

DWP improvements during the second quarter were attributable to growth in policy and vehicle counts in all lines of business. In the second quarter, DWP increased by 6.4% or $46.1 million to $768.7 million. NEP increased during the second quarter by 9.1% or $52.2 million compared to the same period last year. The increase in NEP during the quarter is seen throughout all geographic regions and product lines. The

year-on-year increase was magnified by ceded premium of $23.4 million recorded against NEP in the second quarter of 2016, mainly in the home and commercial lines of business, to reinstate our catastrophe coverage after the wildfire in Fort McMurray.

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

NEP by line of business

$ millions	Q2 2017	Q2 2016	% change	YTD 2017	YTD 2016	% change
Auto	**299.5**	287.7	4.1%	**589.2**	568.9	3.6%
Home	**179.3**	151.9	18.0%	**352.1**	313.7	12.2%
Commercial	**110.3**	100.9	9.3%	**218.0**	209.1	4.3%
Farm	**31.2**	27.6	13.0%	**61.6**	56.3	9.4%
Other	**8.4**	8.4	0.0%	**17.1**	16.9	1.2%
Total	**628.7**	576.5	9.1%	**1,238.0**	1,164.9	6.3%

The home line of business was the largest contributor to NEP growth, increasing $27.4 million over the same quarter of 2016. This is partially a result of premiums paid in 2016 to reinstate our catastrophe reinsurance coverage after the Fort McMurray wildfire. Excluding the reinsurance reinstatement premiums included in 2016, the home line of business remained our largest contributor to NEP growth. Policy growth paired with higher average premiums, mainly in Ontario and the West, drove a 9.0% increase in NEP over the same quarter of the prior year. The commercial line of business experienced an increase in NEP of $9.4 million and was also impacted by the reinsurance reinstatement premiums. Excluding the reinsurance reinstatement premiums, an increase in policies in force, partially offset by lower average premiums resulted in an increase of 2.3% in NEP compared to the same period of the prior year. The auto line of business experienced an increase in NEP of $11.8 million over the same quarter of the prior year as growth continued in vehicles in force, partially offset by rate adjustments in Ontario. Policy growth combined with rate adjustments resulted in NEP growth of $3.6 million in the farm line of business.

NEP by geographic region

$ millions	Q2 2017	Q2 2016	% change	YTD 2017	YTD 2016	% change
West	**235.5**	210.9	11.7%	**465.7**	439.8	5.9%
Ontario	**304.8**	284.9	7.0%	**598.6**	563.8	6.2%
Quebec	**26.6**	22.8	16.7%	**52.4**	46.7	12.2%
Atlantic	**61.8**	57.9	6.7%	**121.3**	114.6	5.8%
Total	**628.7**	576.5	9.1%	**1,238.0**	1,164.9	6.3%

The increase in NEP in the Western region of $24.6 million was a result of premiums paid in 2016 to reinstate our reinsurance coverage after the Fort McMurray wildfire. Excluding the impact of this event, the Western region experienced a 2.8% increase in NEP compared to the second quarter of 2016, driven by policy growth across all lines of business and rate adjustments in the home and farm lines of business. NEP growth of 7.0% or $19.9 million in Ontario was attributable to continued growth in policies and vehicles in force across all lines of business, partially offset by rate adjustments in the auto line of business. Growth in policy and vehicle counts across all lines of business paired with rate adjustments contributed to NEP growth of 16.7% or $3.8 million in Quebec. The increase of 6.7% in Atlantic NEP was primarily a result of an increase of policies and vehicles across all lines of business, combined with rate adjustments in the home line of business.

NET INVESTMENT INCOME AND GAINS

$ millions	Q2 2017	Q2 2016	change	YTD 2017	YTD 2016	change
Interest income	**19.3**	20.0	(0.7)	**39.0**	40.2	(1.2)
Dividend and other income	**9.7**	8.5	1.2	**18.8**	15.3	3.5
Investment expenses	**(1.6)**	(1.7)	0.1	**(3.1)**	(2.7)	(0.4)
Net investment income	**27.4**	26.8	0.6	**54.7**	52.8	1.9
Net realized gains	**2.0**	11.6	(9.6)	**12.7**	14.4	(1.7)
Net foreign exchange gains (losses)	**10.0**	(0.3)	10.3	**13.5**	13.2	0.3
Change in fair value	**0.3**	3.5	(3.2)	**21.8**	(8.2)	30.0
Impairment losses	**(4.3)**	(3.1)	(1.2)	**(4.3)**	(3.9)	(0.4)
Net investment gains	**8.0**	11.7	(3.7)	**43.7**	15.5	28.2
Net investment income and gains	**35.4**	38.5	(3.1)	**98.4**	68.3	30.1

Net investment income and gains decreased by $3.1 million in the current period as compared to the second quarter of 2016, driven by a decrease in net investment gains.

Net investment income improved by $0.6 million and was driven by dividend income which increased by $1.2 million as a result of a shift in the asset mix. 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 $9.6 million unfavourable change in net realized gains was primarily caused by an $8.0 million decrease in realized common share gains. In the second quarter of 2016 portfolio repositioning was more active than the current quarter, as the result of better opportunities in the market.

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 exchange gains increased $10.3 million primarily because foreign exchange contract gains were $6.5 million higher in the current period as the Canadian dollar appreciated 2.9% against the U.S. dollar. The $3.2 million unfavourable change in fair value was primarily caused by a weaker preferred share market during the current period as compared to the second quarter of 2016. During the current quarter the preferred share index decreased by 0.8% in contrast to an increase of 1.4% in the second quarter of 2016. Impairment losses during the quarter were $1.2 million higher than the second quarter of 2016, driven by weakness in the energy and materials sector.

OTHER COMPREHENSIVE INCOME

$ millions	Q2 2017	Q2 2016	YTD 2017	YTD 2016
Other comprehensive income (loss)	**(10.8)**	20.8	**15.0**	24.2

Other comprehensive loss was $10.8 million in the second quarter of 2017 compared to a $20.8 million other comprehensive income for the same period of 2016.

Other comprehensive loss before tax was $14.8 million in the second quarter of 2017. Rising Government of Canada interest rates during the period resulted in unrealized bond losses of $10.4 million in contrast to the second quarter of 2016 when declining interest rates resulted in unrealized bond gains of $33.5 million. Weakness in the TSX/S&P index resulted in $2.6 million of unrealized common shares losses during the period compared to $7.3 million of unrealized common share gains during the second quarter of 2016. Offsetting this was the reclassification adjustment for realized gains and losses included in net income.

EXPENSES

Claims and adjustment expenses – Loss ratio

$ millions, except ratios	Q2 2017	Q2 2016	change		YTD 2017	YTD 2016	change	
Undiscounted net claims and adjustment expenses	**426.5**	466.8	(40.3)		**840.7**	834.4	6.3	
Effect of MYA	**(5.0)**	13.9	(18.9)		**(0.4)**	19.5	(19.9)	
Net claims and adjustment expenses	**421.5**	480.7	(59.2)		**840.3**	853.9	(13.6)	
Loss ratio (excluding MYA)	**67.8%**	81.0%	(13.2)	pts	**67.9%**	71.6%	(3.7)	pts
Loss ratio (including MYA)	**67.0%**	83.4%	(16.4)	pts	**67.9%**	73.3%	(5.4)	pts

Undiscounted net claims and adjustment expenses decreased $40.3 million or 8.6% in the current quarter as the prior year was impacted by the catastrophic Fort McMurray wildfire. Excluding the impact of this event, claims costs increased compared to the same period of the prior year by $41.9 million driven primarily by an increase in the frequency of current accident year claims across all lines of business, largely the result of multiple storms in the West and Ontario. This was combined with continued premium growth across all lines, an increase in the severity of claims in the home line of business, and partially offset by a decrease of severity in the auto line of business.

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 $5.0 million in the second quarter as compared to a $13.9 million negative impact for the same quarter of 2016.

Loss ratio by line of business

% excluding MYA	Q2 2017	Q2 2016	change		YTD 2017	YTD 2016	change	
Auto	**66.8**	73.1	(6.3)		**71.8**	74.9	(3.1)	
Home	**72.0**	105.8	(33.8)		**68.8**	77.7	(8.9)	
Commercial	**62.7**	80.1	(17.4)		**60.3**	60.8	(0.5)	
Farm	**77.8**	39.6	38.2		**62.2**	51.6	10.6	
Other	**45.2**	48.7	(3.5)		**32.2**	50.7	(18.5)	
Total	**67.8**	81.0	(13.2)	pts	**67.9**	71.6	(3.7)	pts

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

The auto line of business loss ratio improved by 6.3 percentage points as compared to the second quarter of 2016, primarily resulting from less unfavourable claims development combined with a decrease in the severity of current accident year claims. The catastrophic wildfire in Fort McMurray in the prior year impacted the home and commercial loss ratios and played a role in the 33.8 and 17.4 percentage point improvement in the loss ratio over the same period of 2016, respectively. Excluding the impact of this event, the home loss ratio deteriorated by 13.5 percentage points. This was primarily a result of multiple storms in the West and Ontario, compared to less severe weather in the same period of the prior year, combined with an increase in the severity of current accident year claims. Excluding the impact of Fort McMurray in the prior year, the commercial line of business loss ratio deteriorated by 0.7 percentage points as a result of an increase in the frequency of current accident year claims caused by the multiple storms in the West and Ontario regions. This was partially offset by less unfavourable claims development and a decrease in the severity of current accident year claims in Quebec. An increase in the frequency of current accident year claims, led to a 38.2 percentage point deterioration in the loss ratio of the farm line

of business. Given the size of the NEP for the farm line of business, fluctuations in claims severity for a relatively few number of claims have a significant impact.

Loss ratio by geographic region

% excluding MYA	**Q2 2017**	Q2 2016	change		**YTD 2017**	YTD 2016	change	
West	**63.5**	98.0	(34.5)		**60.0**	74.5	(14.5)	
Ontario	**69.4**	67.4	2.0		**70.0**	68.9	1.1	
Quebec	**70.3**	93.2	(22.9)		**85.7**	77.1	8.6	
Atlantic	**74.6**	81.4	(6.8)		**79.8**	71.1	8.7	
Total	**67.8**	81.0	(13.2)	pts	**67.9**	71.6	(3.7)	pts

The Western region's loss ratio improvement of 34.5 percentage points was attributable to the impact of the Fort McMurray wildfire on 2016 claims. Excluding the impact of this event, the Western region's loss ratio deteriorated by 9.1 percentage points as a result of an increase in the frequency of current accident year claims caused by multiple wind and hail storms. This was combined with an increase in the severity of current accident year claims in the home line of business. The wind and rain storms in Ontario during the current period, compared to less severe weather in the same period of the prior year, increased the frequency of current accident year claims in the home line of business and contributed to the deterioration of the loss ratio by 2.0 percentage points. This was partially offset by a decrease in the severity of current accident year claims and less unfavourable claims development in the auto line of business. In Quebec, a decrease in the severity of current accident year claims in the commercial line of business, partially offset by an increase in frequency of claims in the auto and home lines of business, led to an improvement in the loss ratio of 22.9 percentage points. Given the size of our NEP in Quebec, fluctuations in claims severity for a relatively few number of claims have a significant effect on the loss ratio. The Atlantic loss ratio improved by 6.8 percentage points driven by a decrease in the severity of current accident year claims in the home and auto line of business. This was partially offset by an increase in the severity of current accident year claims in the farm line of business.

Other operating expenses – Expense ratio

%, except total other operating expenses ($ millions)	**Q2 2017**	Q2 2016	change		**YTD 2017**	YTD 2016	change	
Total other operating expenses	**208.8**	192.0	16.8		**418.9**	387.0	31.9	
Components of expense ratio								
Premium and other taxes	**3.6**	3.3	0.3	pts	**3.4**	3.2	0.2	pts
Net commissions and advisor compensation	**16.7**	16.9	(0.2)	pts	**17.3**	17.3	-	pts
General expenses	**12.9**	13.1	(0.2)	pts	**13.1**	12.7	0.4	pts
Expense ratio	**33.2**	33.3	(0.1)	pts	**33.8**	33.2	0.6	pts

Other operating expenses are comprised of premium and other taxes, net commissions and advisor compensation and general expenses. These expenses have increased by $16.8 million in the quarter resulting in an expense ratio of 33.2%. Impacting the prior year expense ratio are the premiums paid to reinstate our reinsurance coverage following the Fort McMurray wildfire.

Excluding the reinstatement premiums from the prior year, the expense ratio increased by 1.1 percentage points compared to the same quarter last year. The increase was the result of a 0.4 percentage point increase in premium and other taxes, primarily the result of 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 June 30, 2017 for our income tax reconciliation between the statutory tax rate and our effective tax rate.

FINANCIAL CONDITION

$ millions, except ratios	As at June 30, 2017	As at December 31, 2016	% change
Assets			
Invested assets	**4,271.6**	4,270.9	0.0%
Reinsurance ceded contracts	**167.2**	236.6	(29.3%)
Intangible assets	**74.5**	70.5	5.7%
Other assets	**1,315.3**	1,276.5	3.0%
Liabilities			
Insurance contracts	**3,813.0**	3,818.7	(0.1%)
Retirement benefit obligations	**113.4**	111.1	2.1%
Other liabilities	**346.9**	345.8	0.3%
Shareholders' equity	**1,555.3**	1,578.9	(1.5%)

Our balance sheet remains strong at the end of the second quarter of 2017. The value of our invested assets exceeds insurance contracts by 12.0%, compared to an excess of 11.8% as at December 31, 2016. Our MCT ratio of 223% at June 30, 2017 also denotes our strong financial condition, as discussed in our *Capital* section.

Reinsurance ceded contracts decreased by $69.4 million and insurance contract liabilities decreased $5.7 million from December 31, 2016. Reinsurance ceded contracts decreased as we continue to settle amounts arising from the Fort McMurray event in Q2 2016. Insurance contract liabilities decreased as a result of a decrease in unpaid claims and adjustment expenses since December 31, 2016, largely offset by higher unearned premiums, consistent with more premium renewals during the second quarter.

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 $2,410.9 million or 56.4% 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 $1,184.5 million or 27.7% 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 78.8% 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 81.2% rated A or higher and 97.7% 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	Q2 2017	Q2 2016	YTD 2017	YTD 2016
Net earned premium, before reinstatement premiums	**628.7**	599.9	**1,237.3**	1,188.3
Reinstatement premiums expense (recovery)	**-**	23.4	**(0.7)**	23.4
Net earned premium, as reported	**628.7**	576.5	**1,238.0**	1,164.9
Undiscounted net claims and adjustment expenses (excluding MYA)	**426.5**	466.8	**840.7**	834.4
Loss ratio (excluding MYA)	**67.8%**	81.0%	**67.9%**	71.6%
Other operating expenses	**208.8**	192.0	**418.9**	387.0
Expense ratio	**33.2%**	33.3%	**33.8%**	33.2%
Underwriting loss	**(6.6)**	(82.3)	**(21.6)**	(56.5)
Combined ratio (excluding MYA)	**101.0%**	114.3%	**101.7%**	104.8%

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	Q2 2017	Q2 2016
Net income (loss)	**29.1**	(39.1)
Shareholders' equity excluding AOCI at June 30	**1,412.7**	1,308.7
Shareholders' equity excluding AOCI at March 31	**1,435.2**	1,350.1
ROE	**8.4%**	(11.2%)

CAPITAL

MINIMUM CAPITAL TEST

	June 30, 2017	December 31, 2016
MCT	**223%**	227%

Co-operators General's MCT of 223% at June 30, 2017 represents $349.4 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 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 $3.8 million in the second quarter ended June 30, 2017, compared to $3.6 million declared in the same quarter last year. Dividends declared on common shares were $50.0 million during the quarter ended June 30, 2017 compared to no dividends declared in the comparative period ended June 30, 2016.

EARNINGS PER SHARE

$ millions, except share data and EPS	Q2 2017	Q2 2016	YTD 2017	YTD 2016
Net income (loss)	**29.1**	(39.1)	**63.6**	0.3
Less: dividends on preference shares	**3.8**	3.6	**5.0**	4.9
Net income (loss) available to shareholders	**25.3**	(42.7)	**58.6**	(4.6)
Weighted average number of outstanding common shares[1]	**21,458**	21,376	**21,458**	21,376
Earnings (loss) per common share	**$1.18**	($2.00)	**$2.73**	($0.21)

[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 2nd qtr	2017 1st qtr	2016 4th qtr	2016 3rd qtr	2016 2nd qtr
Direct written premium	**768.7**	540.3	639.1	691.0	722.6
Net earned premium	**628.7**	609.3	620.6	614.8	576.5
Net income (loss)	**29.1**	34.6	128.8	16.3	(39.1)
Other comprehensive income (loss)	**(10.8)**	25.7	(50.5)	6.0	20.8
Key statistics					
Earnings (loss) per common share	**$1.18**	$1.55	$5.84	$0.71	($2.00)
Loss ratio (excluding MYA)	**67.8%**	68.0%	51.2%	77.2%	81.0%
Expense ratio[1]	**33.2%**	34.5%	34.3%	32.0%	33.3%
Combined ratio[1]	**101.0%**	102.5%	85.5%	109.2%	114.3%

	2016 1st qtr	2015 4th qtr	2015 3rd qtr	2015 2nd qtr
Direct written premium	519.5	614.9	650.9	681.0
Net earned premium	588.5	593.1	586.0	567.4
Net income (loss)	39.3	103.3	(21.4)	58.2
Other comprehensive income (loss)	3.4	(13.0)	(24.7)	(45.3)
Key statistics				
Earnings (loss) per common share	$1.78	$4.69	($1.07)	$2.57
Loss ratio (excluding MYA)	62.5%	58.7%	72.5%	61.3%
Expense ratio	33.1%	33.4%	31.5%	32.7%
Combined ratio	95.6%	92.1%	104.0%	94.0%

[1] 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

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.

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

Marshall Report on Ontario Auto
On April 11, 2017, 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. The government has committed to hosting consultations in the coming months on Marshall's recommendations. We look forward to participating in these discussions to further define the opportunities and risks associated with potential implementation.

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 June 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 4.5% 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 second 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 second 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.

During the quarter 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 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.

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 that this standard will have on its 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 June 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 June 30, 2017.

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