Co-operators General Insurance Company

Management's Discussion and Analysis

For the second quarter ended June 30, 2018

Co-operators General Insurance Company
Management's Discussion and Analysis
For the second quarter ended June 30, 2018

July 26, 2018

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, 2018.

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), CUMIS General Insurance Company (CUMIS General), Co-operators Investment Limited Partnership (CILP), Co-operators Strategic Growth Corporation (CSGC) and Co-operators Insurance Agencies Limited (CIAL). CGIC refers to the non-consolidated Co-operators General Insurance Company.

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 44 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, 2018 and the first quarter ended March 31, 2018;
- our MD&A for the first quarter ended March 31, 2018; and
- our 2017 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, 2018 and are based on financial statements prepared in accordance with 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 International Financial Reporting Standards (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 2017 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 may contain 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 2017 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 2017 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	2018[4]	2017	2016
Key financial data[3]			
Direct written premium (DWP)	**941.7**	768.7	722.6
Net earned premium (NEP)	**717.4**	628.7	576.5
Net income (loss)	**(4.0)**	29.1	(39.1)
Total assets[1]	**6,465.5**	5,922.1	5,854.5
Total liabilities[1]	**4,857.5**	4,391.0	4,275.6
Shareholders' equity[1]	**1,608.0**	1,531.1	1,578.9
Key success indicators[3]			
Direct written premium growth	**22.5%**	6.4%	6.1%
Net earned premium growth	**14.1%**	9.1%	1.6%
Underwriting gain (loss) - excluding market yield adjustment (MYA)	**(55.8)**	(6.6)	(82.3)
Earnings (loss) per common share (EPS)[2]	**($0.35)**	$1.18	($2.00)
Return on equity (ROE)	**(1.1%)**	8.4%	(11.2%)
Combined ratio - excluding MYA	**107.8%**	101.0%	114.3%
Combined ratio - including MYA	**107.5%**	100.2%	116.7%
Minimum Capital Test (MCT)[1]	**207%**	216%	227%

[1] Balance sheet data and MCT results for 2017 and 2016 are as at December 31

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

[3] Refer to Key Financial Measures (Non-IFRS) Section

[4] Amounts presented include the results of operations and balance sheet of CUMIS General Insurance Company (CUMIS General) from the date of acquisition, April 1, 2018

Co-operators General reported a net loss after tax of $4.0 million for the three months ended June 30, 2018, as compared to net income of $29.1 million in the same quarter of 2017. Our return on equity for the quarter was (1.1%) versus 8.4% in the second quarter of 2017. Earnings (loss) per common share in the quarter was ($0.35) compared to $1.18 in the same quarter of the prior year.

The second quarter of 2018 was challenging as our underwriting loss of $55.8 million deteriorated from $6.6 million in same quarter of 2017. This was driven primarily by an increase in frequency of current accident year claims in Ontario, resulting from a significant windstorm, paired with an increase in severity of current accident year property claims in the West. Despite this, we saw strong earned premium growth of 14.1% driven by continued policy and vehicle count growth across all lines of business combined with rate adjustments and higher average premiums across multiple lines of business and regions. In addition, net investment income and gains increased by $6.9 million as the result of portfolio rebalancing and yield enhancement initiatives.

On April 1, 2018, CGIC entered into an agreement with a company under common control, to acquire 100% of the common shares of CUMIS General. CUMIS General is a property and casualty (P&C) insurance company that primarily serves credit unions and their members by providing home, auto, travel and other customized insurance products. The transaction closed on June 28, 2018, upon the satisfaction of standard closing adjustments and conditions. The acquisition allows CGL to align its property and casualty (P&C) insurance operations under a common entity, Co-operators General, and simplifies our governance structure. As a result of the acquisition, the current period balances presented in our MD&A and unaudited condensed interim financial statements reflect CUMIS General's operating results for the second quarter of 2018 and its asset, liability and equity balances as at June 30, 2018.

FINANCIAL PERFORMANCE

DIRECT WRITTEN PREMIUM AND NET EARNED PREMIUM

$ millions	Q2 2018	Q2 2017	% change	YTD 2018	YTD 2017	% change
Direct written premium	**941.7**	768.7	22.5%	**1,541.4**	1,308.9	17.8%
Net earned premium	**717.4**	628.7	14.1%	**1,375.5**	1,238.0	11.1%

In the second quarter, DWP increased by 22.5% or $173.0 million to $941.7 million. The second quarter results of CUMIS General contributed 11.1% or $85.0 million to the overall increase. Excluding the impact of CUMIS General, DWP improved by 11.4% or $88.0 million. This was attributable to both rate adjustments and growth in policy and vehicle counts, most notably in Ontario. NEP increased during the second quarter by 14.1% or $88.7 million compared to the same quarter last year. The second quarter results of CUMIS General contributed 5.8% or $36.3 million to the overall increase. Excluding the impact of CUMIS General, NEP grew by 8.3% or $52.4 million. The increase in NEP during the quarter is seen throughout all geographic regions and core product lines. The variance between DWP and NEP growth is attributed to reinsurance on CUMIS General's travel line of business. The results of CUMIS General, in particular, were also driven by the trends described above.

Refer to Note 11 of our unaudited condensed consolidated interim financial statements for the period ended June 30, 2018 for a reconciliation of DWP to NEP.

NEP by line of business

$ millions	Q2 2018	Q2 2017[1]	% change	YTD 2018	YTD 2017[1]	% change
Auto	**345.3**	299.6	15.3%	**657.1**	589.3	11.5%
Home	**199.5**	179.3	11.3%	**387.8**	352.0	10.2%
Commercial	**122.0**	112.5	8.4%	**239.0**	219.4	8.9%
Farm	**31.9**	28.9	10.4%	**63.3**	60.2	5.1%
Travel and other	**18.7**	8.4	122.6%	**28.3**	17.1	65.5%
Total	**717.4**	628.7	14.1%	**1,375.5**	1,238.0	11.1%

[1] As a result of a change in allocation methodology, 2017 values have been reclassified to be consistent with current year presentation

During the second quarter, the auto line of business remained our largest contributor to NEP growth, increasing by $45.7 million over the same quarter of 2017. Of the total increase, $13.3 million was attributed to the current period results of CUMIS General. Excluding the impact of CUMIS General, growth in the auto line of business was driven by rate adjustments and an increase in vehicles in force.

The home line of business experienced an increase in NEP of $20.2 million, of which $8.6 million was contributed by the current quarter results of CUMIS General. Excluding the impact of CUMIS General, the increase was attributable to higher average premiums combined with an increase in policies in force.

The commercial line of business experienced growth of $9.5 million over the same quarter of 2017, of which $4.8 million was driven by the results of CUMIS General. The remaining NEP growth in this line of business is attributable to an increase in policies in force and average premiums.

The farm line of business continued to contribute to the increase in NEP, increasing by $3.0 million from the same quarter of 2017. Growth was driven by higher average premiums and an increase in policies in force. The second quarter results of CUMIS General did not affect the NEP growth in the farm line of business.

The travel and other line of business experienced NEP growth of $10.3 million over the same quarter of 2017. The increase was primarily driven by the second quarter results of CUMIS General, whose travel business contributed $9.6 million to the NEP increase in this line.

The results of CUMIS General in particular were also driven by the trends described above.

NEP by geographic region

$ millions	Q2 2018	Q2 2017[1]	% change	YTD 2018	YTD 2017[1]	% change
West	**260.3**	235.6	10.5%	**507.2**	465.3	9.0%
Ontario	**356.7**	304.7	17.1%	**674.0**	598.9	12.5%
Quebec	**31.1**	26.6	16.9%	**60.8**	52.4	16.0%
Atlantic	**69.3**	61.8	12.1%	**133.5**	121.4	10.0%
Total	**717.4**	628.7	14.1%	**1,375.5**	1,238.0	11.1%

[1] As a result of a change in allocation methodology, 2017 values have been reclassified to be consistent with current year presentation

During the second quarter, the Western region experienced an increase of $24.7 million over the same quarter of 2017. Of this increase, $11.7 million was attributable to the second quarter results of CUMIS General, while the remaining increase was primarily driven by higher average premiums in the auto and home lines of business.

NEP increased in Ontario by $52.0 million over the same quarter of 2017, of which $21.2 million was contributed by the results of CUMIS General. Aside from the impact of CUMIS General, growth was driven by rate adjustments in the auto line of business paired with increases in vehicles and policies in force across all lines of business.

Quebec and the Atlantic region experienced NEP growth of $4.5 million and $7.5 million over the same quarter of 2017, respectively. CUMIS General's second quarter results contributed $0.7 million and $2.7 million of the growth, respectively, while increases in vehicles and policies in force across all lines of business drove the rest. The results of CUMIS General in particular were also driven by the trends described above.

NET INVESTMENT INCOME AND GAINS

$ millions	Q2 2018	Q2 2017	change	YTD 2018	YTD 2017	change
Interest income	**21.2**	19.3	1.9	**40.8**	39.0	1.8
Dividend and other income	**11.8**	9.7	2.1	**21.0**	18.8	2.2
Investment expenses	**(1.6)**	(1.6)	-	**(3.2)**	(3.1)	(0.1)
Net investment income	**31.4**	27.4	4.0	**58.6**	54.7	3.9
Net realized gains	**17.0**	2.0	15.0	**6.0**	12.7	(6.7)
Net foreign exchange gains (losses)	**(1.0)**	10.0	(11.0)	**(3.9)**	13.5	(17.4)
Change in fair value	**(3.5)**	0.3	(3.8)	**(9.1)**	21.8	(30.9)
Impairment losses	**(1.6)**	(4.3)	2.7	**(5.5)**	(4.3)	(1.2)
Net investment gains (losses)	**10.9**	8.0	2.9	**(12.5)**	43.7	(56.2)
Net investment income and gains	**42.3**	35.4	6.9	**46.1**	98.4	(52.3)

Net investment income and gains experienced in the current quarter improved by $6.9 million over the second quarter of 2017, as the result of increases in net investment income and net investment gains. CUMIS General's portfolio, acquired at the beginning of the current quarter, contributed $1.6 million to the overall improvement in net investment income and gains.

Interest income increased by $1.9 million as the result of higher interest rates driven by multiple increases in the Bank of Canada's benchmark interest rate over the past twelve months. Dividend income increased by $2.1 million as the result of a shift in asset mix, which increased the weighting of alternative investments and reduced the weighting of fixed income investments, in line with yield enhancement initiatives.

Net realized gains increased by $15.0 million as the result of portfolio rebalancing during the current quarter. The Canadian dollar depreciated in the current quarter which led to foreign exchange losses of $1.0 million, in contrast to the second quarter of 2017 where the Canadian dollar appreciated and led to foreign exchange gains of $10.0 million. The $3.8 million unfavorable change in fair value, as compared to the same quarter of 2017, was primarily caused by weakness in the preferred share market during the current quarter. Impairment losses were $2.7 million lower than the second quarter of 2017 as continued strength in equity markets supported fewer write-downs.

OTHER COMPREHENSIVE INCOME

$ millions	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Other comprehensive income (loss)	**21.5**	(10.8)	**13.8**	15.0

Other comprehensive income was $21.5 million in the second quarter in contrast to $10.8 million of other comprehensive loss for the same quarter of 2017.

Other comprehensive income before tax was $29.0 million in the second quarter of 2018. Strength in the TSX and S&P 500 indexes resulted in unrealized common share gains of $51.1 million in contrast to $2.6 million of unrealized common share losses in the second quarter of 2017. As the result of portfolio rebalancing, net reclassification gains of $16.9 million during the second quarter were $15.1 million higher than the same quarter in 2017.

EXPENSES

Claims and adjustment expenses – Loss ratio

$ millions, except ratios	Q2 2018	Q2 2017	change		YTD 2018	YTD 2017	change	
Undiscounted net claims and adjustment expenses	**543.2**	426.5	116.7		**1,033.7**	840.7	193.0	
Effect of MYA	**(2.0)**	(5.0)	3.0		**(5.6)**	(0.4)	(5.2)	
Net claims and adjustment expenses	**541.2**	421.5	119.7		**1,028.1**	840.3	187.8	
Loss ratio (excluding MYA)	**75.7%**	67.8%	7.9	pts	**75.2%**	67.9%	7.3	pts
Loss ratio (including MYA)	**75.4%**	67.0%	8.4	pts	**74.7%**	67.9%	6.8	pts

Undiscounted net claims and adjustment expenses increased compared to the same period of the prior year by $116.7 million or 27.4%. The second quarter results of CUMIS General contributed $23.2 million or 5.4% to the increase. Aside from the impact of CUMIS General, the increase is driven by a higher frequency of current accident year claims in Ontario, resulting from a significant windstorm, paired with an increase in severity of current accident year property claims in the West. These impacts were partly offset by favourable claims development in the home 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 drove a positive impact to MYA and net income before taxes of $2.0 million in the second quarter as compared to a positive impact of $5.0 million for the same quarter of 2017.

Loss ratio by line of business

% excluding MYA	**Q2 2018**	Q2 2017[1]	change		**YTD 2018**	YTD 2017[1]	change	
Auto	**71.4**	66.8	4.6		**76.7**	71.8	4.9	
Home	**92.1**	72.0	20.1		**80.0**	68.8	11.2	
Commercial	**69.5**	61.5	8.0		**69.2**	59.9	9.3	
Farm	**71.7**	83.6	(11.9)		**73.8**	63.7	10.1	
Travel and other	**28.5**	45.1	(16.6)		**24.6**	32.2	(7.6)	
Total	**75.7**	67.8	7.9	pts	**75.2**	67.9	7.3	pts

[1] As a result of a change in allocation methodology, 2017 values have been reclassified to be consistent with current year presentation

In the second quarter, we experienced a deterioration in our loss ratio in the auto, home and commercial lines of business, which was partially offset by an improvement in our farm and travel and other lines of business. Except for the travel and other line of business, loss ratios were not significantly impacted by the acquisition of CUMIS General and the second quarter results of CUMIS General's lines of business are consistent with the trends described below.

The auto line of business loss ratio deteriorated by 4.6 percentage points as compared to the second quarter of 2017. This was the result of increases in both the frequency and severity of current accident year claims combined with updated actuarial estimates. The home loss ratio deteriorated by 20.1 percentage points, primarily as the result of an increase in frequency of current accident year claims driven by a significant windstorm in Ontario and Quebec. This impact was partly offset by favourable claims development. The commercial loss ratio deteriorated by 8.0 percentage points driven by an increase in both frequency and severity of current accident year claims and partly offset by favourable claims development in the Western region. The farm loss ratio improved by 11.9 percentage points from lower frequency of current accident year claims, mainly in the Western region, combined with less unfavourable claims development. The loss ratio in our travel and other line of business improved by 16.6 percentage points. This improvement was primarily driven by the inclusion of CUMIS General's travel business in the current quarter, which experiences a lower loss ratio compared to other lines of business historically included in this category.

Loss ratio by geographic region

% excluding MYA	**Q2 2018**	Q2 2017[1]	change		**YTD 2018**	YTD 2017[1]	change	
West	**69.2**	63.5	5.7		**68.4**	60.1	8.3	
Ontario	**81.8**	69.4	12.4		**79.1**	70.0	9.1	
Quebec	**66.6**	70.4	(3.8)		**72.9**	85.8	(12.9)	
Atlantic	**73.9**	74.6	(0.7)		**82.3**	79.8	2.5	
Total	**75.7**	67.8	7.9	pts	**75.2**	67.9	7.3	pts

[1] As a result of a change in allocation methodology, 2017 values have been reclassified to be consistent with current year presentation

Loss ratios were not significantly impacted by the acquisition of CUMIS General and the second quarter results of CUMIS General's lines of business are consistent with the trends described below.

The Western region experienced a loss ratio deterioration of 5.7 percentage points. This was attributed to an increase in the severity of current accident year claims, particularly in the commercial line of business, partly offset by a decrease in frequency of current accident year claims. In Ontario, a significant windstorm during the current period, compared to less severe weather in the same period of 2017, contributed to the deterioration of our loss ratio of 12.4 percentage points. This was partly offset by favourable claims development in the auto and home lines of business. Claims remained relatively flat in Quebec compared the same quarter of 2017 as an increase in the frequency of current accident year claims and unfavourable claims development were largely offset by a decrease in severity of current accident year claims, primarily in the auto line of business. NEP rose at a faster pace than claims and led to an improvement of 3.8 percentage points in the loss ratio over the same quarter of the prior year. An increase in claims in the Atlantic region was driven by more unfavourable claims development, mainly in the auto line of business, partly offset by a decrease in the frequency of current accident year claims. However, the loss ratio improved by 0.7 percentage points as NEP growth outpaced the increase in claims.

Other operating expenses – Expense ratio

%, except total other operating expenses ($ millions)	**Q2 2018**	Q2 2017	change		**YTD 2018**	YTD 2017	change	
Total other operating expenses	**230.0**	208.8	21.2		**447.8**	418.9	28.9	
Components of expense ratio								
Premium and other taxes	**3.6**	3.6	-	pts	**3.5**	3.4	0.1	pts
Net commissions and advisor compensation	**17.0**	16.7	0.3	pts	**17.3**	17.3	-	pts
General expenses	**11.5**	12.9	(1.4)	pts	**11.8**	13.1	(1.3)	pts
Expense ratio	**32.1**	33.2	(1.1)	pts	**32.6**	33.8	(1.2)	pts

Other operating expenses are comprised of premium and other taxes, net commissions and advisor compensation and general expenses. The increase of $21.2 million in the current quarter over the same quarter of 2017, is primarily driven by the inclusion of CUMIS General's results in the current quarter, which contributed $13.1 million to the overall increase. Higher commissions and advisor compensation during the current quarter also contributed to the increase in operating expenses. While expenses increased in the quarter, a shift in the timing of project spend and strong NEP growth resulted in an expense ratio of 32.1%, representing a 1.1 percentage point improvement over the same quarter of 2017.

Income taxes

Refer to Note 7 of our unaudited condensed consolidated interim financial statements for the period ended June 30, 2018 for our income tax reconciliation between the statutory tax rate and our effective tax rate.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

$ millions	**As at June 30, 2018**	As at December 31, 2017	% change
Assets			
Invested assets	**4,436.8**	4,298.9	3.2%
Reinsurance ceded contracts	**211.1**	112.2	88.1%
Intangible assets	**79.2**	73.3	8.0%
Other assets	**1,738.4**	1,437.7	20.9%
Liabilities			
Insurance contracts	**4,368.0**	3,875.7	12.7%
Retirement benefit obligations	**129.4**	126.7	2.1%
Other liabilities	**360.1**	388.6	(7.3%)
Shareholders' equity	**1,608.0**	1,531.1	5.0%

Our balance sheet remains strong at the end of the second quarter of 2018. The value of our invested assets exceeds insurance contracts net of reinsurance ceded contracts by 6.7%, compared to an excess of 14.2% as at December 31, 2017. Our MCT ratio of 207% at June 30, 2018 also denotes our strong financial condition.

Invested assets increased by $137.9 million, primarily as a result of the inclusion of CUMIS General's investment portfolio in the current quarter, which totaled $214.0 million as at June 30, 2018. Insurance contract liabilities increased by $492.3 million and this was largely attributable to the assumption of CUMIS General's insurance contracts in the current quarter, which accounted for $297.5 million of the increase. The balance of the increase was the result of growth in our business which drove an increase in unearned premiums.

Our 2017 Annual Report provides a summary of our off balance sheet arrangements and contractual commitments, which consist primarily of operating leases.

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 $2,527.4 million or 57.0% 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 $1,290.0 million or 29.1% 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 80.9% weighted to Canadian stocks.

We adhere to a conservative investment policy and strategy that is based on prudence in accordance with regulatory guidelines, and in a broad sense, premium cash flows and claims settlement patterns by product line. This is achieved by investing in a diversified mix of securities and by shifting between asset classes as trends in the market evolve. The credit quality of our portfolio remains high with 85.7% rated A or higher and 96.3% of our bonds are considered investment grade, rated BBB or higher.

MINIMUM CAPITAL TEST

	June 30, 2018	December 31, 2017
MCT	**207%**	216%

Co-operators General's MCT of 207% at June 30, 2018 represents $189.7 million of capital in excess of our 180% internal minimum compared to an excess of $240.5 million at December 31, 2017. The MCT is impacted by various factors including interest rates, invested asset mix, dividends, and the results of our operations.

SHARE CAPITAL

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

DIVIDENDS

Dividends declared on preference shares were $3.9 million in the second quarter ended June 30, 2018, compared to $3.8 million declared in the same quarter last year. There were no dividends declared on common shares during the quarter ended June 30, 2018, compared to $50.0 million for the comparative period ended June 30, 2017.

EARNINGS PER SHARE

$ millions, except share data and EPS	**Q2 2018**	Q2 2017	**YTD 2018**	YTD 2017
Net income (loss)	**(4.0)**	29.1	**(31.7)**	63.6
Less: dividends on preference shares	**3.9**	3.8	**5.1**	5.0
Net income (loss) available to shareholders	**(7.9)**	25.3	**(36.8)**	58.6
Weighted average number of outstanding common shares[1]	**22,591**	21,458	**22,050**	21,458
Earnings (loss) per common share	**($0.35)**	$1.18	**($1.67)**	$2.73

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

CASH FLOWS

$ millions	**YTD 2018**	YTD 2017
Cash provided by (used in) operating activities	**10.8**	10.9
Investing activities		
Net sale of investments	**82.3**	50.3
Acquisition of subsidiary from related party, net of cash acquired	**(136.3)**	-
Purchases of intangibles and property and equipment	**(1.4)**	(7.7)
Cash flows provided by (used in) investment activities	**(55.4)**	42.6
Financing activities		
Net preference shares issued	**1.3**	3.2
Common shares issued	**181.7**	-
Dividends paid	**(5.1)**	(105.0)
Cash flows provided by (used in) financing activities	**177.9**	(101.8)
Net increase (decrease) in cash and cash equivalents	**133.3**	(48.3)

Cash generated from insurance operations and investment returns normally exceeds our claims and operating expense requirements, and sufficiently funds our commitments and growth initiatives. Common shares were issued during the current quarter, in the amount of $181.7 million, to fund the purchase of CUMIS General. This is further discussed in the Related Party Transaction section.

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 2017 Annual Report.

UNDERWRITING RESULTS

$ millions, except ratios	**Q2 2018**	Q2 2017	**YTD 2018**	YTD 2017
Net earned premium, before reinstatement premiums	**721.2**	628.7	**1,379.3**	1,237.3
Reinstatement premiums expense (recovery)	**3.8**	-	**3.8**	(0.7)
Net earned premium, as reported	**717.4**	628.7	**1,375.5**	1,238.0
Undiscounted net claims and adjustment expenses (excluding MYA)	**543.2**	426.5	**1,033.7**	840.7
Loss ratio (excluding MYA)	**75.7%**	67.8%	**75.2%**	67.9%
Other operating expenses	**230.0**	208.8	**447.8**	418.9
Expense ratio	**32.1%**	33.2%	**32.6%**	33.8%
Underwriting loss	**(55.8)**	(6.6)	**(106.0)**	(21.6)
Combined ratio (excluding MYA)	**107.8%**	101.0%	**107.8%**	101.7%

CLAIMS DEVELOPMENT

Our 2017 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 2018[1]**	Q2 2017
Net income (loss)	**(4.0)**	29.1
Shareholders' equity excluding AOCI at June 30	**1,467.5**	1,412.7
Shareholders' equity excluding AOCI at March 31	**1,379.5**	1,435.2
ROE	**(1.1%)**	8.4%

[1] Amounts presented include the results of operations and balance sheet of CUMIS General from the date of acquisition, April 1, 2018

SELECTED QUARTERLY INFORMATION

(in millions of dollars except for EPS and ratios)

	2018 2nd qtr[1]	2018 1st qtr	2017 4th qtr	2017 3rd qtr	2017 2nd qtr
Direct written premium	**941.7**	599.7	685.2	746.2	768.7
Net earned premium	**717.4**	658.1	664.8	656.3	628.7
Net income (loss)	**(4.0)**	(27.8)	64.8	(7.4)	29.1
Other comprehensive income (loss)	**21.5**	(7.8)	4.9	(23.7)	(10.8)
Key statistics					
Earnings (loss) per common share	**($0.35)**	($1.35)	$2.84	($0.40)	$1.18
Loss ratio (excluding MYA)	**75.7%**	74.5%	67.7%	76.8%	67.8%
Expense ratio	**32.1%**	33.0%	32.6%	32.1%	33.2%
Combined ratio	**107.8%**	107.5%	100.3%	108.9%	101.0%

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

[1] Amounts presented include the results of operations and balance sheet of CUMIS General from the date of acquisition, April 1, 2018

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.

The current quarter's DWP and NEP increases of 22.5% and 14.1% respectively, were influenced by the acquisition of CUMIS General.

OUTLOOK, BUSINESS DEVELOPMENTS AND OPERATING ENVIRONMENT

GENERAL BUSINESS AND ECONOMIC CONDITIONS

In the course of setting our strategic priorities and objectives for 2018 we made assumptions about the general business and economic environment in 2018 and beyond. These assumptions are outlined in detail in our 2017 Annual Report, and we continue to expect them to materialize through 2018. 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 2017 Annual Report.

EMERGING LEGISLATION AND REGULATORY EVENTS

Emerging legislation and regulatory events are detailed in our 2017 Annual Report and an update is provided below:

Ontario auto

Rate regulations

It has been a challenge to secure approval from the Financial Services Commission of Ontario (FSCO) for adequate rate increases to reflect the risks in today's environment, which include rising costs of auto claims. Such restrictions are concerning as an inadequate rate level limits our ability to remediate poor underwriting performance and places further pressure on the profitability of our auto line of business in this province.

Ontario's Fair Auto Insurance Plan

The election of the new Progressive Conservative majority government in the province results in uncertainty around the level to which the elements of the previous government's Fair Auto Insurance Plan will proceed and around the implementation plans for the previous recommendations made by David Marshall, Ontario's advisor on auto insurance. We will continue to engage with elected and government officials to advocate for changes that ensure a more competitive, innovative market that will better serve all Ontarians.

Financial Services Regulatory Authority

Seven members of the Financial Services Regulatory Authority (FSRA) board of directors were appointed in the first quarter of the year. The Ontario government introduced amendments to the Insurance Act and the Corporations Act with its 2018-19 Budget, which if passed, would give FSRA prudential oversight of certain insurance companies incorporated in Ontario. Other changes would provide FSRA with the authority to make rules requiring insurers to provide claims and repair history information to motor vehicle dealers for disclosure to prospective used vehicle purchasers. We were active participants in consultations leading to the establishment of FSRA.

As changes in the above matters evolve, we will continue to evaluate the financial and procedural impacts and engage with the government and regulators during this transition period.

Auto insurance system review in Newfoundland and Labrador

We participated in two studies conducted as part of the Newfoundland and Labrador (NL) insurance scheme review. A report of the findings from the NL closed claim study remains outstanding. Cameron and Associates was retained to conduct a claim study of the taxi industry to determine the causes of high claims costs experienced by insurers. The report was released in March 2018, identifying unlisted drivers, late reporting and the $2,500 deductible for Bodily Injury claims as three main factors negatively impacting insurer's loss experience of the taxi industry in NL.

In addition to these studies, we are exploring opportunities to comment on other policy matters under review by the Board of Commissioners of Public Utilities and Service NL, respectively. We are awaiting results from this process to evaluate the financial impacts to our business and consumers in these regions.

Alberta auto rate regulations

The Automobile Insurance Rate Board (AIRB) has recently received industry rate filings proposing double digit increases, following a period of time where companies had not filed at all for up to 12 months or were filing for rate increases significantly lower than their rate indications. While double digit increases may be warranted given the ongoing increases to auto claims costs incurred by insurers, in the interest of consumers the AIRB decided in August 2017 to limit rate increases over a 12-month period to less than or equal to 10%. In addition, a ministerial order issued in December 2017 required the AIRB to cease approval of cumulative rate increases greater than 5% during the period November 1, 2017 to November 30, 2018. These decisions were made independently but the two initiatives may impact a single company simultaneously in certain situations. Restrictions on our ability to charge a fair price for the risks we underwrite could put further pressure on the product's long term viability in this province.

The AIRB has commenced its 2018 Annual Review process. The review process analyzes industry loss experience for private passenger vehicles (PPV) and establishes industry benchmarks used in the review of insurers' PPV rate filings. As part of its process this year, the AIRB has solicited feedback on the ministerial order in terms of company solvency and consumer premium dislocations. We expect to be an active participant in the review process this year.

RELATED PARTY TRANSACTIONS

Co-operators General has ongoing transactions with related parties primarily consisting of product distribution services, management and advisory services and reinsurance. Aside from the transaction discussed below, there have been no material changes in our ongoing related party transaction arrangements during the period ended June 30, 2018. Please refer to our 2017 Annual Report for further details.

Acquisition of a subsidiary from a related party

On April 1, 2018, CGIC entered into an agreement with a company under common control, CUMIS Services Incorporated, to acquire 100% of the common shares of CUMIS General, for an estimated fair value of $179.2 million. CUMIS General is a property and casualty (P&C) insurance company that serves primarily credit union clients and offers home, auto, travel and other insurance products. CGIC funded the transaction through the issuance of common shares to CFSL. The transaction closed on June 28, 2018 upon the satisfaction of standard closing adjustments and conditions. The acquisition allows CGL to align its P&C operations under a common entity, Co-operators General, and results in a simplified governance structure. As of the effective date of the acquisition, April 1, 2018, Co-operators General had acquired $390.9 million in assets and assumed $294.1 million in liabilities; these were recorded at book value with the difference between net assets and the amount paid recorded directly through equity.

The acquisition impacts the current period balances presented in our MD&A and unaudited condensed interim financial statements through the inclusion of CUMIS General's operating results for the second quarter of 2018 and through the inclusion of its asset, liability and equity balances as at June 30, 2018.

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 2017 Annual Report and an update is included below.

For 2018, in line with a change in our assessment of our risk exposure, our catastrophe maximum limit decreased by $150.0 million to $1.3 billion while our retention remains at $70.0 million. The net retained amount of $70.0 million represents approximately 4.8% of our capital. For the purpose of capital management, we defined capital as shareholders' equity excluding AOCI.

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 2018 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 IAS 34, "Interim Financial Reporting". The unaudited condensed consolidated interim financial statements should be read in conjunction with our 2017 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, 2017, except where two new policies have been introduced in relation to the acquisition of CUMIS General.

IFRS 3 "Business Combinations" excludes from its scope the combination of entities or businesses under common control. Accordingly, management needed to determine the basis of accounting for CGIC's acquisition of CUMIS General. In accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors", management considered various other sources of guidance and has elected to record CUMIS General using its pre-acquisition date book values for its assets and liabilities and will not apply the measurement principles of IFRS 3; the difference between fair value and book value will be recorded through equity. Consistent with IFRS 3, the results of Co-operators General prior to the acquisition date will not be restated.

Furthermore, as part of CGIC's acquisition of CUMIS General, Co-operators General has an experienced rated refund pool established as part of its fidelity program. This program provides a mechanism for the accumulation and redistribution of funds if favourable experience exists within the program over a period of years. Refunds are determined based on the adequacy of the pool and the results of the fidelity program. The provision is evaluated regularly and recorded within insurance contracts in the consolidated balance sheet of Co-operators General.

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, 2017. We have made the following updates to information provided in the consolidated financial statements for the year ended December 31, 2017 about the standards issued but not yet effective.

IFRS 9 "Financial Instruments" - IFRS 9 was issued in July 2014 and is intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 is a three part standard aimed at reducing complexity in reporting financial instruments. The project has been divided into three phases: Phase 1 Classification and measurement, Phase 2 Impairment and Phase 3 Hedge accounting. Phase 1 was issued in November 2009 and amended in October 2010. It requires financial assets to be recorded at amortized cost or fair value depending on the entity's business model for managing the assets and their associated cash flow characteristics. All financial assets are to be measured at fair value on the balance sheet if they are not measured at amortized cost. At initial recognition, an entity may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. Phase 2 was completed in July 2014 and introduced a new expected loss impairment methodology that will result in more timely recognition of impairment losses. Phase 3 was completed in November 2013. This phase replaces the rule-based hedge accounting requirements in IAS 39 to more closely align the accounting with risk management activities.

The standard is effective for annual periods beginning on or after January 1, 2018; however, in September 2016, IFRS 4 was amended to provide an option of a temporary exemption from applying IFRS 9 for entities whose predominate activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities will have the option to adopt IFRS 9 upon the adoption of IFRS 17. Co-operators General has assessed the qualification criteria and determined that this temporary exemption does apply; thus, IFRS 9 will be effective for annual periods beginning on or after January 1, 2021.

We have concluded that Co-operators General qualifies for the temporary exemption from IFRS 9 based on the following reasons: (1) we have not previously applied any version of IFRS 9 for any of the entities, and (2) our operations are predominantly considered insurance. To be considered predominantly insurance, the carrying amount of liabilities arising from contracts within the scope of IFRS 4 (which includes any deposit components or embedded derivatives unbundled from insurance contracts) must be significant compared to the total carrying amount of all liabilities. The standard goes on to detail that significant is defined as greater than 90 per cent, or less than or equal to 90 per cent but greater than 80 per cent and the insurer does not engage in a significant activity unconnected with insurance.

We have assessed the criteria detailed above. We have completed an assessment of the entities that fall within the 80 per cent to 90 per cent range and concluded that significant activities are connected with insurance. This assessment was performed using primarily publicly available information.

We are evaluating the annual disclosure requirement for the temporary exemption of IFRS 9 and it will be disclosed in our December 31, 2018 financial statements.

IFRS 15 "Revenue from Contracts with Customers" - The IFRS 15 scope exemptions for insurance contract revenue and financial instrument revenue apply to Co-operators General's significant revenue streams (net earned premiums and net investment gains and income, respectively). As a result, this standard does not impact net earned premium or net investment gains and income.

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 2017 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, 2018, are consistent with those used in the 2017 Annual Report. As discussed in our 2017 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 2017 Annual Report and the notes to our unaudited condensed consolidated interim financial statements for the quarter ended June 30, 2018.

CORPORATE DIRECTORY

CORPORATE OFFICE

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

TRANSFER AGENT AND REGISTRAR

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

INVESTOR RELATIONS

Karen Higgins
Executive Vice-President, Finance and Chief Financial Officer
130 Macdonell Street
Guelph, ON N1H 6P8

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