



## Co-operators General Insurance Company

Management's Discussion and Analysis

For the third quarter ended September 30, 2015

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October 29, 2015

This Management's Discussion and Analysis (MD&A) comments on Co-operators General Insurance Company's operations and financial condition for the third quarter ended September 30, 2015.

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'Équitable) 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-owned 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 third quarter ended September 30, 2015, the second quarter ended June 30, 2015 and the first quarter ended March 31, 2015;
- our MD&A for both the second quarter ended June 30, 2015 and the first quarter ended March 31, 2015; and
- our 2014 Annual Report and Annual Information Form

These documents are available on SEDAR at [www.sedar.com](http://www.sedar.com). References to "Note" refer to the notes to the unaudited condensed consolidated interim financial statements.

Except as otherwise noted, all figures in this MD&A are stated in Canadian dollars for the quarter ended September 30, 2015 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 2014 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 2014 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 2014 Annual Report, which outlines in detail certain key factors that may affect our future results. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement. We are not under any duty to update any of the forward-looking statements after the date of this MD&A to conform such statements to actual results or to changes in our expectations except as otherwise required by applicable legislation.

## SUMMARY OF KEY FINANCIAL DATA AND RESULTS OVERVIEW

Three months ended September 30 unless otherwise stated

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

3rd quarter	2015	2014	2013
<b>Key financial data</b>			
Direct written premium	650.9	610.1	594.3
Net earned premium	586.0	559.0	528.8
Net income (loss)	(21.4)	(10.8)	(37.9)
Total assets <sup>1</sup>	5,430.8	5,293.6	5,031.5
Total liabilities <sup>1</sup>	3,926.5	3,802.0	3,649.4
Shareholders' equity <sup>1</sup>	1,504.3	1,491.6	1,382.1
<b>Key success indicators</b>			
Direct written premium growth	6.7%	2.7%	5.9%
Net earned premium growth	4.8%	5.7%	3.3%
Earnings (loss) per share <sup>2</sup>	(\$1.07)	(\$0.57)	(\$2.02)
Return on equity (ROE)	(6.2%)	(3.4%)	(11.5%)
Combined ratio - excluding Market Yield Adjustment (MYA)	104.0%	109.2%	114.3%
Minimum Capital Test (MCT) <sup>1</sup>	226%	228%	234%

<sup>1</sup> Balance sheet data and MCT results for 2014 and 2013 are as at December 31

<sup>2</sup> All of the common shares of CGIC are owned by CFSL

Co-operators General reported a net loss of \$21.4 million for the three months ended September 30, 2015, as compared to a net loss of \$10.8 million in the same quarter of 2014. Our return on equity for the quarter was (6.2%) versus (3.4%) in the third quarter of 2014. Loss per common share in the quarter was \$1.07 compared to a loss of \$0.57 in the same quarter of the prior year.

Our underwriting loss of \$23.9 million for the third quarter improved from our underwriting loss of \$51.6 million in the same period of 2014. This was the result of continued premium growth, within all lines of business, and decreased claims expenses. Weaker equity markets and a decline in the Canadian dollar relative to the U.S. dollar had a negative impact in the quarter. This resulted in a decrease of our net investment income and gains of \$46.3 million compared to the same period in 2014. Our market yield adjustment had a \$2.5 million favourable impact on net income before tax, as a result of an increase in the portfolio yield.

## FINANCIAL PERFORMANCE

### DIRECT WRITTEN PREMIUM (DWP) AND NET EARNED PREMIUM (NEP)

\$ millions	Q3	Q3	%	YTD	YTD	%
	2015	2014	change	2015	2014	change
Direct written premium	650.9	610.1	6.7%	1,820.9	1,737.5	4.8%
Net earned premium	586.0	559.0	4.8%	1,703.9	1,629.5	4.6%

DWP improvements during the third quarter were attributable to growth in policy and vehicle count in the home and auto lines of business paired with higher average home and auto premiums. In the third quarter, DWP increased by 6.7% or \$40.8 million to \$650.9 million. NEP increased during the third quarter by 4.8% or \$27.0 million compared to the same period last year. The increase in NEP during the quarter, and year to date, is seen throughout all geographic regions and product lines.

Refer to Note 12 of our unaudited condensed consolidated interim financial statements for the period ended September 30, 2015 for a reconciliation of DWP to NEP.

## NEP by line of business

	Q3	Q3	%	YTD	YTD	%
\$ millions	2015	2014	change	2015	2014	change
Auto	282.3	271.8	3.9%	822.2	789.4	4.2%
Home	158.2	146.7	7.8%	458.8	428.5	7.1%
Commercial	109.7	106.7	2.8%	319.0	313.0	1.9%
Farm	27.6	26.3	4.9%	80.3	77.7	3.3%
Other	8.2	7.5	9.3%	23.6	20.9	12.9%
<b>Total</b>	<b>586.0</b>	<b>559.0</b>	<b>4.8%</b>	<b>1,703.9</b>	<b>1,629.5</b>	<b>4.6%</b>

During the third quarter, the home line of business was the largest contributor to our NEP growth, increasing by \$11.5 million over the same quarter of 2014. Growth in the home line of business is driven primarily by new business and higher average premiums. The auto line of business continued to contribute to NEP throughout the quarter, increasing \$10.5 million over the same quarter of 2014. We experienced continued growth in vehicles in force and a higher level of retention, which have offset the impacts of the Ontario auto rate reductions taken in 2013 and 2014. Refer to the *Property and Casualty Industry* and *Emerging Legislation and Regulatory Events* sections for an update on the impacts of the Ontario auto reform. Increased commercial policies in force as a result of new business, partially offset by premium reductions as a result of our withdrawal from the condominium market and lapsing of certain unprofitable accounts, contributed to the increase in NEP in the commercial line of business of 2.8%. Increased farm policies in force and rate adjustment increases resulted in NEP improvements of 4.9% over the prior year.

## NEP by geographic region

	Q3	Q3	%	YTD	YTD	%
\$ millions	2015	2014	change	2015	2014	change
West	228.0	220.5	3.4%	665.7	648.0	2.7%
Ontario	278.1	263.1	5.7%	803.7	764.0	5.2%
Quebec	22.4	20.3	10.3%	65.7	57.5	14.3%
Atlantic	57.5	55.1	4.4%	168.8	160.0	5.5%
<b>Total</b>	<b>586.0</b>	<b>559.0</b>	<b>4.8%</b>	<b>1,703.9</b>	<b>1,629.5</b>	<b>4.6%</b>

The increase in NEP in the Western region of \$7.5 million was driven by an increase in new business for auto and home paired with rate adjustments in the home line of business. This was partially offset by our withdrawal from the condominium market, lapsing of certain unprofitable accounts and premium reductions in the depressed energy and resource sector in the commercial line of business. NEP growth in Ontario is driven by an increase in policies and vehicles in force for the home, commercial and auto lines of business paired with rate adjustments in the home line of business and improved auto retention rates. We continue to see policy growth in Quebec, resulting in an increase in NEP of \$2.1 million over the prior year. The increase in Atlantic NEP is attributable to increased policies and vehicles in force in the auto and home lines of business as well as higher average home premiums.

## NET INVESTMENT INCOME AND GAINS

\$ millions	Q3	Q3	change	YTD	YTD	change
	2015	2014		2015	2014	
Interest income	22.3	23.7	(1.4)	67.1	69.5	(2.4)
Dividend and other income	8.0	6.0	2.0	23.4	20.1	3.3
Investment expenses	(1.1)	(0.9)	(0.2)	(3.4)	(3.6)	0.2
Net investment income	29.2	28.8	0.4	87.1	86.0	1.1
Net realized gains	9.2	14.0	(4.8)	46.1	50.4	(4.3)
Foreign exchange gains (losses)	(10.7)	(0.7)	(10.0)	(15.2)	(0.1)	(15.1)
Change in fair value	(23.5)	(2.0)	(21.5)	(40.2)	2.5	(42.7)
Impairment losses	(14.2)	(3.8)	(10.4)	(18.7)	(4.2)	(14.5)
Net investment gains (losses)	(39.2)	7.5	(46.7)	(28.0)	48.6	(76.6)
<b>Net investment income and gains</b>	<b>(10.0)</b>	<b>36.3</b>	<b>(46.3)</b>	<b>59.1</b>	<b>134.6</b>	<b>(75.5)</b>

Net investment income and gains for the third quarter were \$46.3 million lower than the income and gains realized during the same period of 2014. This was the result of weaker equity markets and greater volatility in the Canadian dollar.

The \$4.8 million negative change in net realized gains was caused by lower Canadian and U.S. common share gains. The decline in the Canadian dollar relative to the U.S. dollar led to a \$10.0 million negative change in foreign exchange losses and was mainly caused by foreign exchange forward contract losses of \$11.7 million during the third quarter of 2015. These contracts are used to hedge our U.S. equity portfolio; however, the offsetting foreign exchange gains and losses for these investments are recorded through other comprehensive income until sold. The \$21.5 million negative change in fair value was primarily the result of unrealized losses on preferred shares. During the current period the S&P/TSX preferred share composite index declined by 14.0%, in comparison to the 0.7% decrease in the index during the third quarter of 2014. Weakness in the energy and material sector, where the S&P/TSX energy and materials index declined 19.7% in the quarter, resulted in impairment losses of \$14.2 million, which were \$10.4 million larger than the impairment losses booked in the same period of the prior year.

The change in net investment income is largely attributable to a shift in asset mix where we have decreased the weighting of fixed income securities and increased our investment in common and preferred equities. As a result, interest income decreased by \$1.4 million and dividend income increased by \$2.0 million compared to the same period in 2014.

Co-operators General has a high quality, well diversified investment portfolio consisting primarily of bonds, equities and commercial mortgages. The bond portfolio is \$2,566.7 million or 61.3% 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 \$977.4 million or 23.4% 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 72.6% weighted in 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 bond portfolio remains high with 87.4% rated A or higher and 98.5% are considered investment grade, rated BBB or higher.

## OTHER COMPREHENSIVE INCOME

\$ millions	Q3	Q3	YTD	YTD
	2015	2014	2015	2014
Other comprehensive income (loss)	(24.7)	(5.9)	(7.0)	48.0

Other comprehensive loss was \$24.7 million in the third quarter of 2015 as compared to a \$5.9 million loss for the comparative period of 2014.

Other comprehensive loss before tax was \$33.4 million in the third quarter of 2015. Equity market depreciation during the quarter resulted in unrealized losses on stocks of \$31.3 million, while rising interest rates led to unrealized losses on bonds of \$6.6 million. Weakness in equity markets resulted in \$10.1 million of realized equity losses. Portfolio trading led to \$5.5 million of bond gains being realized into income.

## EXPENSES

### Claims and adjustment expenses – Loss ratio

\$ millions, except ratios	Q3	Q3	change	YTD	YTD	change
	2015	2014		2015	2014	
Undiscounted net claims and adjustment expenses	425.1	439.5	(14.4)	1,131.5	1,142.4	(10.9)
Effect of MYA	(2.5)	-	(2.5)	6.9	20.6	(13.7)
Net claims and adjustment expenses	422.6	439.5	(16.9)	1,138.4	1,163.0	(24.6)
Loss ratio (excluding MYA)	72.5%	78.6%	(6.1) pts	66.4%	70.1%	(3.7) pts
Loss ratio (including MYA)	72.1%	78.6%	(6.5) pts	66.8%	71.4%	(4.6) pts

Fewer major events compared to the same quarter last year, which included a Western hail catastrophe, partially offset by an increase in the frequency and severity of current year auto claims and less favorable claims development, drove the decrease in undiscounted net claims and adjustment expenses of \$14.4 million or 3.3%.

Unpaid claims and adjustment expenses are discounted using the portfolio yield of our 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. The MYA had a positive impact to net income before taxes of \$2.5 million in the third quarter as compared to no significant impact for the same quarter of 2014. Recorded in net investment income and gains are offsetting net investment losses related to CGIC's asset liability management strategy of \$1.3 million.

### Loss ratio by line of business

% excluding MYA	Q3	Q3	change	YTD	YTD	change
	2015	2014		2015	2014	
Auto	81.6	71.9	9.7	72.7	71.7	1.0
Home	68.3	93.1	(24.8)	60.5	73.2	(12.7)
Commercial	52.0	70.3	(18.3)	59.0	62.2	(3.2)
Farm	88.1	104.2	(16.1)	69.3	77.1	(7.8)
Other	66.0	68.1	(2.1)	50.4	39.1	11.3
Total	72.5	78.6	(6.1) pts	66.4	70.1	(3.7) pts

In the third quarter, we experienced improvements in our loss ratio, mainly in our home, commercial and farm lines of business, which was partially offset by the deterioration of our auto loss ratio compared to the same period last year.

The auto loss ratio deteriorated by 9.7 percentage points as compared to the third quarter of 2015, primarily resulting from an increase in accident year claims, combined with less favorable runoff. The Western hail catastrophe in the prior year played a role in the 24.8 percentage point improvement in the home loss ratio experienced in the current quarter compared to the third quarter of the prior year. Normalized for this event, the home loss ratio still improved as a result of a decrease in current year claims in Ontario. The Western hail catastrophe in the prior year was also a contributor in the 18.3 percentage point improvement in the commercial loss ratio experienced in the current quarter. Normalized for this event, the commercial loss ratio improved by 2.4 percentage points. A decrease in major events and frequency of claims, partially offset by an increase in large losses, led to a 16.1 percentage point improvement 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	Q3	Q3	change	YTD	YTD	change
	2015	2014		2015	2014	
West	85.3	95.3	(10.0)	68.6	70.9	(2.3)
Ontario	62.4	67.2	(4.8)	59.4	68.1	(8.7)
Quebec	62.0	72.3	(10.3)	84.3	71.3	13.0
Atlantic	74.4	68.1	6.3	82.0	74.7	7.3
Total	72.5	78.6	(6.1) pts	66.4	70.1	(3.7) pts

The Western hail catastrophe in the prior year played a role in the 10.0 percentage point improvement in the Western loss ratio compared to the third quarter of 2014. Normalized for this catastrophic event, the Western loss ratio deteriorated, mainly as a result of current year auto claims and unfavorable runoff. The Ontario region's loss ratio improved by 4.8 percentage points, driven by a decrease in the frequency and severity of accident year claims in the home line of business, offset by an increase in auto accident year claims. In Quebec, a decrease in severity of commercial claims, partially offset by an increase in claims severity in the home line of business and claims frequency of the auto line improved the loss ratio by 10.3 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 deteriorated by 6.3 percentage points as a result of an increase in accident year claims in the auto line of business.

### Other operating expenses – Expense ratio

%, except total other operating expenses (\$ millions)	Q3	Q3	change	YTD	YTD	change
	2015	2014		2015	2014	
Total other operating expenses	184.8	171.1	13.7	552.1	524.9	27.2
Components of expense ratio						
Premium and other taxes	3.2	2.9	0.3 pts	3.1	3.1	- pts
Net commissions and advisor compensation	16.2	16.7	(0.5) pts	16.7	16.9	(0.2) pts
General expenses	12.1	11.0	1.1 pts	12.5	12.3	0.2 pts
Expense ratio	31.5	30.6	0.9 pts	32.3	32.3	- pts

Other operating expenses are comprised of premium and other taxes, net commissions and advisor compensation and general expenses. These expenses have increased by \$13.7 million in the quarter resulting in an expense ratio of 31.5%, which is a 0.9 percentage point increase over the same quarter last year. The increase was the result of a 1.1 percentage point increase in general expenses, which related to an increase in staff compensation costs and information technology systems initiatives.



## Income taxes

Refer to Note 8 of our unaudited condensed consolidated interim financial statements for the period ended September 30, 2015 for our income tax reconciliation between the statutory tax rate and our effective tax rate.

## FINANCIAL CONDITION

\$ millions, except ratios	As at September 30, 2015	As at December 31, 2014	%
			change
<b>Assets</b>			
Invested assets	4,185.7	4,116.5	1.7%
Reinsurance ceded contracts	79.8	93.9	(15.0%)
Intangible assets	61.4	49.2	24.8%
Other assets	1,103.9	1,034.0	6.8%
<b>Liabilities</b>			
Insurance contracts	3,497.8	3,358.5	4.1%
Retirement benefit obligations	102.7	99.2	3.5%
Other liabilities	326.0	344.3	(5.3%)
Shareholders' equity	1,504.3	1,491.6	0.9%

Our balance sheet remains strong at the end of the third quarter of 2015. The value of our invested assets exceeds insurance contracts by 19.7%, compared to an excess of 22.6% as at December 31, 2014. Our minimum capital test (MCT) ratio of 226% at September 30, 2015 also denotes our strong financial condition, as discussed in our *Capital* section.

Invested assets increased \$69.2 million and insurance contract liabilities increased \$139.3 million from December 31, 2014. Invested assets increased as a result of the re-investment of invested asset earnings and currency gains on U.S. dollar denominated equity holdings. Insurance contract liabilities increased as a result of higher unearned premiums, consistent with more premium renewals in the second quarter, combined with an increase in unpaid claims related to the large losses experienced in the current accident year.

## FINANCIAL DATA BY OPERATING SEGMENTS

(in millions of dollars except for ROE and ratios)

3rd quarter	CGIC <sup>1,4</sup>		Sovereign		COSECO	
	2015	2014	2015	2014	2015	2014
Direct written premium	504.0	467.4	78.9	80.1	68.0	62.6
Net income (loss)	(29.4)	(23.3)	5.5	4.5	2.4	8.0
Total assets <sup>2</sup>	3,992.0	3,857.3	815.8	790.3	623.0	646.0
Shareholders' equity <sup>2</sup>	1,090.7	1,090.8	247.0	245.1	166.6	155.7
Return on equity <sup>3</sup>	(11.5%)	(10.0%)	10.1%	8.6%	6.7%	25.1%
Loss ratio (excluding MYA)	76.3%	83.9%	52.2%	60.3%	70.8%	63.3%

<sup>1</sup> Net income (loss), total assets and shareholders' equity amounts are net of inter-company adjustments

<sup>2</sup> Total assets and shareholders' equity for 2014 are as at December 31, 2014

<sup>3</sup> Return on equity is annualized based on the 3 months ended September 30

<sup>4</sup> CGIC includes subsidiaries L'Equitable and CIAL for all periods presented

CGIC provides home, automobile, farm and commercial insurance to individuals and businesses through a dedicated financial advisor network with approximately 2,500 licensed insurance representatives throughout Canada. Policies and vehicles in force in the Ontario home and auto lines of business paired with higher average premiums in the West and Ontario home lines of business contributed to the increase in DWP of \$36.6 million or 7.8% compared to the same period in 2014. The loss ratio improved by 7.6

percentage points as CGIC experienced a reduction in the frequency and severity of home and commercial claims, as a result of the major hail storm included in the prior year. This was partially offset by an increase in accident year claims in the auto line of business. CGIC experienced a \$35.0 million reduction in net investment income and gains over the same quarter of the prior year, largely the result of losses experienced on preferred share holdings, impairments recognized on Canadian energy and resource equities, and foreign exchange losses. All of these factors led to a net loss of \$29.4 million compared to a net loss of \$23.3 million in the third quarter of 2014.

Sovereign writes complex commercial and special risk insurance and distributes it through independent brokers across Canada. The decrease in DWP of \$1.2 million or 1.5% compared to the same period in 2014 was driven by Sovereign's planned withdrawal from unprofitable business in the Atlantic and lower renewals within the energy and resource sector in the West. The improvement in the loss ratio of 8.1 percentage points to 52.2% was mainly attributable to lower severity in the commercial property line of business. Sovereign experienced a \$5.8 million reduction in net investment income and gains over the same quarter of the prior year, as a result of preferred share losses, impairments, and foreign exchange losses. As a result, Sovereign recorded net income of \$5.5 million in the third quarter compared to net income of \$4.5 million in the third quarter of 2014.

COSECO provides home and auto insurance to employer, association and affinity groups across Canada. Improved retention in home and auto lines of business and higher average home premiums drove the DWP increase of \$5.4 million or 8.6% as compared to the same quarter of 2014. The deterioration in the loss ratio of 7.5 percentage points to 70.8% was mainly attributable to an increase in large loss activity and less favorable claims development within the auto line of business, partially offset by a decrease in large loss activity in the home line of business. COSECO experienced a \$5.6 million reduction in net investment income and gains over the same quarter of the prior year, as a result of preferred share losses, impairments, and foreign exchange losses. This led to net income of \$2.4 million in the quarter compared to \$8.0 million in the third quarter of 2014.

## KEY FINANCIAL MEASURES (NON-IFRS)

We measure and evaluate the performance of the consolidated operations and each business segment 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 our 2014 Annual Report, with updated definitions found below.

## UNDERWRITING RESULTS

	Q3 2015	Q3 2014	YTD 2015	YTD 2014
<b>\$ millions, except ratios</b>				
Net earned premium, before reinstatement premiums	586.0	560.4	1,703.9	1,630.9
Reinstatement premiums	-	(1.4)	-	(1.4)
Net earned premium, as reported	586.0	559.0	1,703.9	1,629.5
Undiscounted net claims and adjustment expenses (excluding MYA)	425.1	439.5	1,131.5	1,142.4
Loss ratio (excluding MYA)	72.5%	78.6%	66.4%	70.1%
Other operating expenses	184.8	171.1	552.1	524.9
Expense ratio	31.5%	30.6%	32.3%	32.3%
Underwriting gain (loss)	(23.9)	(51.6)	20.3	(37.8)
Combined ratio	104.0%	109.2%	98.7%	102.4%

## CLAIMS DEVELOPMENT

Our 2014 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 (ROE)

**Return on equity (ROE)** is the annualized ratio of net income to the average of opening and closing shareholders' equity excluding accumulated other comprehensive income (AOCI).

<b>\$ millions, except ratios</b>	<b>Q3 2015</b>	<b>Q3 2014</b>
Net income (loss)	(21.4)	(10.8)
Shareholders' equity excluding accumulated OCI at September 30	1,343.4	1,246.4
Shareholders' equity excluding accumulated OCI at June 30	1,365.1	1,257.7
ROE	(6.2%)	(3.4%)

## CAPITAL

### MINIMUM CAPITAL TEST (MCT)

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
MCT	226%	228%

Co-operators General's MCT of 226% at September 30, 2015 represents \$353.7 million of capital in excess of our 170% internal minimum compared to an excess of \$359.9 million at December 31, 2014. The MCT is impacted by various factors including interest rates, changes in our share capital, equity market performance and the results of our operations.

In the second quarter of 2015, OSFI approved a change to our interest rate risk margin calculation methodology. This change, along with the positive impact of our year-to-date net income results, was more than offset by the insurance and operational risk charges for premium growth and claims activity. The result is a 2.0 percentage point decrease in our MCT as compared to December 31, 2014.

In 2014, OSFI issued a revised guideline for the calculation of the MCT effective January 1, 2015. As per OSFI requirements, these changes are being phased-in over 12 quarters and started in the first quarter of 2015. Further details can be found in our 2014 Annual Report.

## SHARE CAPITAL

Our capital includes Class E preference shares, series C, which trade on the Toronto Stock Exchange (TSX) under the trading symbol CCS.PR.C.

## DIVIDENDS

Dividends declared on preference shares were \$1.3 million in the third quarter ended September 30, 2015, compared to \$1.2 million declared in the same quarter last year. There were no dividends declared on common shares during the quarter ended September 30, 2015 or during the comparative period ended September 30, 2014.

## EARNINGS PER SHARE

	Q3 2015	Q3 2014	YTD 2015	YTD 2014
<b>\$ millions, except share data and EPS</b>				
Net income	(21.4)	(10.8)	58.9	57.8
Less: dividends on preference shares	1.3	1.2	6.0	10.1
Net Income available to shareholders	(22.7)	(12.0)	52.9	47.7
Weighted average number of outstanding common shares <sup>1</sup>	21,295	21,219	21,295	20,962
Earnings per share	(\$1.07)	(\$0.57)	\$2.48	\$2.28

<sup>1</sup> All of the common shares of CGIC are owned by CFSL

## SELECTED QUARTERLY INFORMATION

(in millions of dollars except for EPS and ratios)

	2015 3rd qtr	2015 2nd qtr	2015 1st qtr	2014 4th qtr	2014 3rd qtr
Direct written premium	650.9	681.0	489.1	568.2	610.1
Net earned premium	586.0	567.4	550.5	560.2	559.0
Net income (loss)	(21.4)	58.2	22.2	79.7	(10.8)
Other comprehensive income (loss)	(24.7)	(45.3)	63.0	6.7	(5.9)
Key statistics					
Earnings (loss) per share (EPS)	(\$1.07)	\$2.57	\$0.98	\$3.78	(\$0.57)
Loss ratio (excluding MYA)	72.5%	61.3%	65.1%	56.6%	78.6%
Expense ratio	31.5%	32.7%	33.1%	33.1%	30.6%
Combined ratio	104.0%	94.0%	98.2%	89.7%	109.2%

  

	2014 2nd qtr	2014 1st qtr	2013 4th qtr	2013 3rd qtr
Direct written premium	654.5	472.9	542.6	594.3
Net earned premium	544.8	525.6	537.1	528.8
Net income (loss)	58.1	10.6	74.6	(37.9)
Other comprehensive income	16.5	37.4	17.6	21.1
Key statistics				
Earnings (loss) per share (EPS)	\$2.48	\$0.35	\$3.40	(\$2.02)
Loss ratio (excluding MYA)	61.8%	69.7%	63.7%	81.1%
Expense ratio	32.1%	34.0%	30.3%	33.2%
Combined ratio	93.9%	103.7%	94.0%	114.3%

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 or weather. Our results are also affected by controllable factors such as the timing of major expenditures, changes in estimates related to claims reserves or investment provisions, 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 2015 we made assumptions about the general business and economic environment in 2015 and beyond. These assumptions are outlined in detail in our 2014 Annual Report, and we continue to expect them to materialize through 2015. There have been no material changes in our assumptions; however, we recognize that the sustained weakness

in the price of oil since the end of 2014 may put downward pressure on our gross domestic product growth expectations for the year. 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 2014 Annual Report.

### *Recent developments*

We recognize that the magnitude of bodily injury claims continues to be a risk and we are proactively managing it. Refer to *Emerging Legislation and Regulatory Events* in our 2014 Annual Report for a discussion on the definition for catastrophic impairment and the dispute resolution backlog. An update for the current quarter has been provided in the same section below.

### *Rate filings*

As part of the Ontario Finance Minister's strategy to reduce Ontario auto insurance rates by 15% on average, during the third quarter of 2015, the Financial Services Commission of Ontario (FSCO) ordered two new filings from all insurers. The first filing, with a mandatory effective date of January 1, 2016, requires all insurers to adopt a winter tire discount if one currently does not exist as part of their rating program. Only COSECO is affected by this filing. The second filing, with a mandatory effective date of June 1, 2016, requires all insurers to submit rate filings to reflect recent automobile insurance reforms aimed at cost reduction. These filings are in process and have not yet been approved by FSCO.

## EMERGING LEGISLATION AND REGULATORY EVENTS

Emerging legislation and regulatory events are detailed in our 2014 Annual Report and an update is provided below:

### **Ontario auto reform**

During the third quarter of 2015, FSCO ratified amendments to certain automobile insurance legislation and regulations. Specifically, Regulation 664 was amended to require all insurance companies to provide a winter tire discount by January 1, 2016. Furthermore, a series of additional reform measures will go into effect on June 1, 2016. These measures include the capping of medical, rehabilitation, and attendant care losses under a new combined limit for both non-catastrophic and catastrophic claims, an adjustment to the maximum duration of medical, rehabilitation and attendant care loss payments, a reduction in the maximum duration of non-earner benefits, limitations on monthly premium payment interest rates, and changes to the catastrophic impairment definition. We are currently assessing the impacts these reforms will have on Co-operators General; however, due to the nature of the changes, we will have to wait until the reforms take effect to quantify the impact on our costs.

The other issue in Ontario is with regards to the impacts of the changes made to the dispute resolution process and the minor injury definition. We have no further information on this item.

### **Prince Edward Island auto reform**

In May 2014, the Prince Edward Island (PEI) government passed legislation that resulted in changes to the standard automobile policy in PEI. The final change resulting from this legislation is the introduction of direct compensation for property damage (DCPD), which came into force on October 1, 2015. DCPD allows an insured to collect all compensation for damage to their vehicle directly from their own insurance company as opposed to the insurance company of the party at fault. This coverage is already offered in Ontario, New Brunswick and Nova Scotia. At this time the outcome of these changes is uncertain.

## RELATED PARTY TRANSACTIONS

Co-operators General has ongoing transactions with related parties primarily consisting of product distribution services, management and advisory services and reinsurance. There have been no material changes in our ongoing related party transaction arrangements during the period ended September 30, 2015. Please refer to our 2014 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 2014 Annual Report and an update is included below.

Effective January 1, 2015, our catastrophe maximum reinsurance limit has decreased by \$100.0 million to \$1.3 billion due to lower earthquake exposure in British Columbia as result of CGIC's withdrawal from the condominium market and Sovereign's withdrawal from the standard personal lines market. Our maximum retention is \$70.0 million on a single \$150.0 million event, which represents approximately 5.2% 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.

A material change in internal controls over financial reporting occurred during the third quarter of 2015. New billing and policy systems to support our auto book of business were implemented with the participation and supervision of management. It is expected that our premium controls will be further enhanced by these systems.

No other changes were made to our internal controls over financial reporting during this period that have materially affected, or are reasonably likely to materially affect, our internal controls 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 2014 Annual Report.

The accounting policies used in our third quarter unaudited condensed consolidated interim financial statements are consistent with those applied in our audited consolidated financial statements for the year ended December 31, 2014. New and amended accounting standards are discussed in Note 3 of our unaudited condensed consolidated interim financial statements for the quarter ended September 30, 2015. IFRS future accounting pronouncements, as well as their estimated impact, are described in Note 4.

## **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 2014 Annual Report within the notes for the respective account balances.

The estimates used for the unaudited condensed consolidated interim financial statements for the period ended September 30, 2015, are consistent with those used in the 2014 Annual Report. As discussed in our 2014 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 2014 Annual Report and the notes to our unaudited condensed consolidated interim financial statements for the quarter ended September 30, 2015.

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