

Co-operators General Insurance Company
2016 ANNUAL REPORT

It's our world.



MISSION STATEMENT

The Co-operators: financial security
for Canadians and their communities.

OUR VISION

The Co-operators aspires to be valued by Canadians as...

- > a champion of their prosperity and peace of mind
- > a leader in the financial services industry, distinct in its co-operative character, and
- > a catalyst for a sustainable society.

STATEMENT OF VALUES

At The Co-operators we...

- > strive for the highest level of integrity
- > foster open and transparent communication
- > give life to co-operative principles and values
- > carefully temper our economic goals with consideration for the environment and the well-being of society at large
- > anticipate and surpass client expectations through innovative solutions supported by mutually beneficial partnerships.

GLOBAL CO-OPERATIVE PRINCIPLES

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training, and information
6. Co-operation among co-operatives
7. Concern for the community





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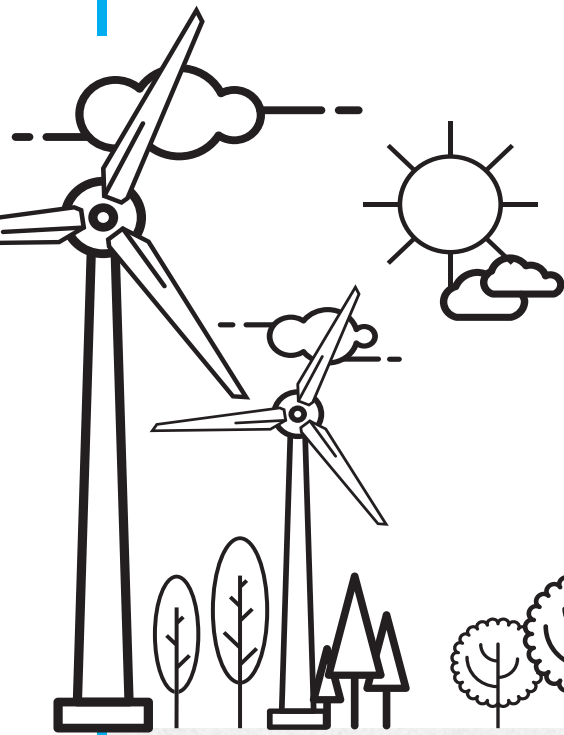
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Company Profile

Co-operators General Insurance Company (CGIC) is a leading Canadian multi-product insurance and financial services organization with assets over \$5.8 billion.

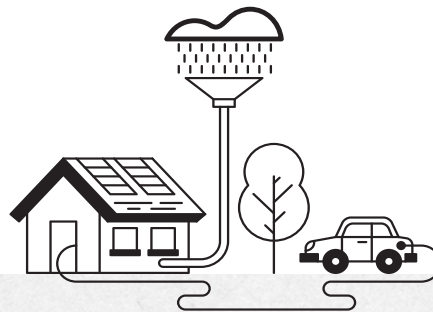
CGIC has 2,697 employees and is supported by a dedicated Financial Advisor network with 2,753 licensed insurance representatives throughout Canada.

Under its primary line of business — Property and Casualty insurance — CGIC protects 766,000 homes, 1.2 million vehicles, 38,000 farms and 218,000 businesses.



Corporate Governance

Co-operators General Insurance Company is a member of The Co-operators group of companies. As such, we approach best practices and corporate governance in a similar manner. We disclose our corporate governance practices in significant detail in the Annual Information Form we file on SEDAR (www.sedar.com) at the end of March each year, and in our Integrated Annual Report.



Annual Statement

This Annual Report constitutes the Annual Statement of Co-operators General Insurance Company ("CGIC") which CGIC is required to deliver to its shareholders in accordance with s.334(1) of the Insurance Companies Act (Canada).

The following list sets out the sections of this Annual Report which are delivered to shareholders in accordance with s.334(1) of the Insurance Companies Act (Canada) and the page numbers on which such sections are located within the Annual Report:

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Management's Discussion & Analysis

For the year ended December 31, 2016

February 15, 2017

This Management's Discussion and Analysis (MD&A) comments on Co-operators General Insurance Company's operations and financial condition for the year ended December 31, 2016.

Unless otherwise stated or the context otherwise indicates, in this report, "Co-operators General", "we", "us" and "our" refers to the Consolidated Co-operators General Insurance Company including its wholly owned subsidiaries, The Sovereign General Insurance Company (Sovereign), COSECO Insurance Company (COSECO), L'Équitable, Compagnie d'assurances Générale (L'Équitable), Co-operators Investment Limited Partnership (CILP) and Co-operators Insurance Agencies Limited (CIAL). CGIC refers to the non-consolidated Co-operators General Insurance Company.

The information in this discussion should be read in conjunction with our consolidated financial statements and notes. References to "Note" refer to the Notes to the consolidated financial statements. All amounts are expressed in Canadian dollars, unless otherwise specified, and are based on consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Additional information relating to Co-operators General, including our Annual Information Form, can be found on SEDAR at www.sedar.com.

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 this document in the *Key Financial Measures (Non-IFRS)* section.

The information in this discussion 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 may make 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 Outlook.

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

Management's Discussion & Analysis

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 and severity including 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 2012 sale of L'Union Canadienne 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. 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.

CORPORATE OVERVIEW

ABOUT US

As a leading Canadian multi-line insurer, Co-operators General plays a vital role in providing home, automobile, farm and commercial insurance products to individuals and businesses through a diverse distribution network. We are one of the largest providers of property and casualty (P&C) insurance in Canada with a national market share of approximately 4.9%. Our multi-channel distribution model operates under our three main operating companies:

CGIC - Distributes both personal and commercial insurance products through a dedicated financial advisor network with 2,753 licensed insurance representatives throughout Canada. CGIC also distributes life insurance and wealth management products of Co-operators Life Insurance Company, an affiliated company. Customers may also obtain quotes for our suite of insurance products by visiting www.cooperators.ca.

Sovereign - Writes complex commercial and special risk insurance.

COSECO - Provides home and auto insurance to employer, association and affinity groups across Canada.

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. Significant associated companies under common control include Co-operators Life Insurance Company (CLIC), The CUMIS Group Limited (CUMIS), Addenda Capital Inc. (Addenda), Federated Agencies Limited (FAL), H.B. Group Insurance Management Ltd. (HB Group), Premier Managers Holdings Corporation (PMHC), and The Edge Benefits Limited. "The Co-operators" refers to CGL and its direct and indirect subsidiaries. The majority of Co-operators General's investment portfolio is managed by Addenda, an investment management firm. We also share many other corporate services with affiliated companies in order to maximize synergies amongst the group of companies.

CORPORATE STRATEGY

Our strategy has been and continues to be rooted in The Co-operators mission: financial security for Canadians and their communities. We have reached the midpoint of our 4-year strategy, and have seen positive progress in each of our following strategic focus areas.

Becoming the industry leader in client engagement

Our clients are a dynamic range of individuals, families, co-operatives, credit unions, non-profits, corporations and more. The quality of our client engagement depends on an ability to understand and respond to their diverse needs, while providing effective products and solutions that protect financial security, community resiliency and social well-being.

A cornerstone of our strategy is a commitment to create an omni-channel experience for our clients that will allow them to choose how, when and where they do business with us, and have the ability to move seamlessly across channels as they wish. This client centric approach builds on the success of our 'Call, Click, or Come-in' multi-channel distribution model and will further strengthen our award-

winning client satisfaction results across the country. Client engagement encompasses more than ‘how’ clients interact with us; it also reflects the value, quality and completeness of the products and services they choose to obtain from our group of companies. We will offer advice and solutions for holistic financial security, resiliency and well-being to truly engage our clients.

Our continued investment in advancing our business intelligence (BI) capabilities allows us to better understand our clients’ needs, price our products and align our pricing with the insurance risks we take. We will continue to further our investments in BI capabilities to support our distribution channels with actionable information that will help provide an outstanding experience for our clients.

How our clients view us is a critical reflection of our success. Each year, we closely monitor our performance to measure the two-way creation of value with our clients across all lines of business. In 2016, we were honoured to rank highly in the J.D Power study of client satisfaction for Home and Auto, a positive indication that we are meeting clients’ needs.

Demonstrating a commitment to bring the co-operative principles to life

We will be the financial services provider of choice for the members of CGL, co-operatives and community organizations. We offer Co-op Guard™, a suite of products and services tailored to the co-operative sector. We expanded this into Quebec in 2016 with Garde-coop™, making it the first and only product of its kind, nationwide. In addition, we will:

- continue to proactively and intentionally leverage Sovereign’s commercial and specialty insurance expertise to bring solutions to the members of CGL; and
- investigate the expansion of affinity eligibility to the co-operative community.

Commitment to our co-operative identity and sustainability principles means not only serving the needs of the co-operative community but extending the value system through integration and embedment of these principles into our actions, decision making, and business processes as well as the products and services we deliver to all of our clients. Health, wellness, loss prevention and financial literacy are areas where our values as a co-operative financial service provider allow us to take a unique view of advice and advocacy for all our clients.

Developing financial solutions and services that provide access for underserved Canadians is an important part of demonstrating our identity. Comprehensive Water is our answer to what has quickly become Canada’s most significant property insurance need. In May of 2015 we launched Canada’s first comprehensive water coverage for all homeowners in Alberta, and this initiative continued in 2016 with implementations of Comprehensive Water in Ontario for CGIC home owners and Ontario and Alberta farm package dwellings. We are committed to offering this product coast-to-coast to all Canadians. Our leadership on flood insurance and community resiliency will be demonstrated by continuing to work with government, both federally and provincially, on infrastructure resiliency efforts.

We continue to demonstrate our commitment to co-operative principles through our investment policy and practices by applying an investing approach that intentionally seeks to create financial return as well as positive social and/or environmental impact that is actively measured. We have committed to focus our impact investing in three areas: mitigation and adaptation to climate change; health and wellness; and food, agriculture and natural resources. Implementing and continuously improving our sustainable and impact investing practices will support our long-term vision. In 2016, CGL set an ambitious goal to invest six to ten per cent of invested assets into impact investments by the end of 2018 (this could amount to \$600 million to \$1 billion). These investments provide capital for the world’s most pressing environmental and social challenges and generate a competitive risk adjusted financial return. The impact of our investments will be actively measured and reported annually. By the end of the third quarter, Addenda Capital, our investment manager, had deployed more than \$250 million into impact investments, primarily in the climate change focus area. Noteworthy investments include both of Ontario’s green bonds, a Climate Awareness Bond from the European Investment Bank and bonds from several solar electricity generating projects.

Enhancing our competitive position in the marketplace

Operational excellence is key to achieving our goals. Close management of our expenses will continue to be a priority, along with enhancing our organizational agility, speed to market and leveraging our capabilities for business intelligence. A disciplined eye on operational excellence will nurture an environment in which Co-operators General can enhance competitiveness, grow profitably and capture market share.

Key to our strategy is the continued development and implementation of our Common Systems Initiative (CSI). In 2015 we began the rollout of personal auto policy administration, and completed a significant portion of the development work required for commercial property. Building off the foundation we established in 2015, the rollout for commercial property began in 2016 and is well underway. Auto deployment also continued throughout 2016, with the last province (Alberta) scheduled for early 2017.

Management's Discussion & Analysis

We will capture, analyze and act on accurate and comprehensive data to improve our decision-making capacity and product service solutions. As products roll out on our common policy system, we are building the associated data capture and reporting capabilities within our BI unit using leading edge tools and technologies which will strengthen our underwriting and decision-making capabilities.

SUMMARY OF KEY FINANCIAL DATA AND RESULTS OVERVIEW

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

	2016	2015	2014
Key financial data			
Direct written premium (DWP)	2,572.2	2,435.9	2,305.7
Net earned premium (NEP)	2,400.4	2,297.0	2,189.6
Net income	145.3	162.3	137.6
Total assets	5,854.5	5,303.2	5,293.6
Total liabilities	4,275.6	3,844.6	3,802.0
Shareholders' equity	1,578.9	1,458.6	1,491.6
Key success indicators			
Direct written premium growth	5.6%	5.6%	5.0%
Net earned premium growth	4.5%	4.9%	5.7%
Earnings per share (EPS) ¹	\$6.33	\$7.17	\$6.04
Return on equity (ROE)	10.5%	12.3%	10.6%
Combined ratio - excluding market yield adjustment (MYA) ²	101.0%	97.3%	99.1%
Combined ratio - including MYA ²	101.1%	97.6%	100.2%
Minimum Capital Test (MCT)	227%	225%	228%

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

² The combined ratio for 2015 has changed as a result of a reclassification of commission revenue that was previously netted with commission and general expenses

We saw continued growth in our core lines of business and in all regions in 2016. This led to an increase in DWP of 5.6% over the prior year, primarily as a result of sustained growth in policies and vehicles in force.

Our underwriting loss of \$22.9 million for 2016 deteriorated from our underwriting gain of \$60.9 million in 2015. This was the result of the devastating wildfire in Fort McMurray, where before-tax losses were \$90.3 million, net of reinsurance and inclusive of reinsurance reinstatement premiums. Excluding the impacts of Fort McMurray, our underwriting gain improved by \$6.5 million driven by strong policy and vehicle growth, partially offset by an increase in claims from current accident year severity, growth in the underlying book, and higher operating expenses.

Our net investment income and gains was \$55.9 million higher than in 2015, the result of improvements in equity markets combined with a stronger Canadian dollar. These were partially offset by a decrease in realized bond gains.

FINANCIAL PERFORMANCE REVIEW

NET INCOME

	2016	2015	2014
Net income (\$ millions)	145.3	162.3	137.6
Return on equity (ROE)	10.5%	12.3%	10.6%

Net income for the year was \$145.3 million, a decrease of \$17.0 million from the prior year's net income of \$162.3 million. The decrease in net income also led to a decrease in ROE to 10.5% as compared to 12.3% in 2015. Our 2016 results were impacted by higher accident year claims as a result of the devastating Fort McMurray wildfire. Excluding the impact of Fort McMurray, net income increased by \$73.3 million as a result of higher net investment gains, policy growth across all lines of business and a less unfavorable MYA adjustment, partially offset by an increase in severity of current accident year claims.

DIRECT WRITTEN PREMIUM AND NET EARNED PREMIUM

\$ million	2016	2015	% change	2014
Direct written premium	2,572.2	2,435.9	5.6%	2,305.7
Net earned premium	2,400.4	2,297.0	4.5%	2,189.6

DWP increased by 5.6% in the year and NEP increased by 4.5%. Increased DWP was primarily driven by continued policy and client growth combined with higher average premium within the home and farm lines of business. The increase in NEP is seen in all of our geographic regions and all core product lines. Additional ceded premium of \$20.1 million was recorded against NEP during the year, mainly in the home and commercial lines of business, to reinstate our catastrophe coverage after the wildfire in Fort McMurray.

Refer to Note 21 of the consolidated financial statements for a reconciliation of DWP to NEP.

NEP by line of business

\$ million	2016	2015	% change	2014
Auto	1,196.0	1,136.5	5.2%	1,060.2
Home	633.0	603.3	4.9%	576.9
Commercial	419.7	416.6	0.7%	417.0
Farm	116.3	108.3	7.4%	106.6
Other	35.4	32.3	9.6%	28.9
Total	2,400.4	2,297.0	4.5%	2,189.6

During the year, NEP growth in the home and commercial lines of business were impacted by the premiums paid to reinstate our catastrophe reinsurance coverage after the Fort McMurray wildfire.

The auto line of business remains our largest line by NEP and increased by \$59.5 million or 5.2% compared to the prior year. This was driven by an increase in vehicles in force, primarily in Ontario, which has offset the impacts of the continued auto rate reductions we've been taking in Ontario since 2012.

Excluding the impacts of Fort McMurray, the home line of business experienced a 6.8% increase in NEP compared to the same period of the prior year. Growth in the home line of business was driven by rate adjustments, primarily in the West, combined with increased policies in force across all regions.

Adjusting for the reinsurance reinstatement premiums, the commercial line of business experienced NEP growth of \$10.2 million or 2.4% compared to the prior year. This was driven primarily by continued policy growth across all regions, partially offset by rate adjustments in Western region.

Higher average premiums in the West coupled with an increase in policies in force led to an increase in NEP of \$8.0 million in the farm line of business.

NEP by geographic region

\$ million	2016	2015	% change	2014
West	905.7	899.0	0.7%	865.5
Ontario	1,161.2	1,085.0	7.0%	1,031.0
Quebec	97.2	88.6	9.7%	77.8
Atlantic	236.3	224.4	5.3%	215.3
Total	2,400.4	2,297.0	4.5%	2,189.6

The increase in NEP in the Western region of 0.7% was impacted by the premiums paid to reinstate our reinsurance coverage after the Fort McMurray wildfire.

Excluding the reinsurance reinstatement premiums, the Western region realized NEP growth of \$21.7 million or 2.4% compared to 2015. This was the result of higher average premiums and an increase in policies and vehicles in force in the home, farm and auto lines of business. Partially offsetting this was premium reductions in the commercial line of business as a result of the depressed energy and resource sector.

An increase in NEP of \$76.2 million in the Ontario region was driven by growth in all product lines, which was supported by successful cross-selling initiatives and strong retention. In particular, premium growth from increased vehicles in force in Ontario and higher retention more than offset the continued auto rate reductions. The home line of business has also contributed to premium growth from increased policies in force and rate adjustments, including growth attributable to the introduction of Comprehensive Water to Ontario homeowners in June 2016.

Our expansion initiatives in Quebec have resulted in policy and vehicle growth within all lines of business, which contributed to an \$8.6 million increase in NEP in this region.

Management's Discussion & Analysis

Growth in vehicles and policies in force across all lines of business and higher average premium in the home lines of business, contributed to the NEP increase of \$11.9 million, or 5.3%, over the prior year in the Atlantic region. This was partially offset by a decrease in the average premium in the auto line of business.

INVESTMENT INCOME AND GAINS

\$ millions	2016	2015	2014
Interest income, net of expenses	68.1	71.3	82.3
Dividend and other income	51.7	58.0	45.5
Investment expense	(6.1)	(4.6)	(4.6)
Net investment income	113.7	124.7	123.2
Net realized gains	77.2	87.3	68.3
Net foreign exchange gains (losses)	12.2	(17.5)	(0.7)
Changes in fair value	5.8	(26.1)	2.5
Impairment losses	(8.2)	(23.6)	(11.9)
Net investment gains	87.0	20.1	58.2
Net investment income and gains	200.7	144.8	181.4

Net investment income decreased \$11.0 million in 2016 compared to the prior year. Dividend and other income was \$6.3 million lower, primarily resulting from an \$8.3 million decrease in distributions from international equity funds. Lower yields on fixed income investments driven by two Bank of Canada interest rate cuts in the prior year combined with portfolio turnover resulted in a \$2.8 million decrease in bond interest income.

Net investment gains were \$66.9 million higher than the prior year attributable to stronger equity markets and a stronger Canadian dollar, partially offset by a decrease in realized bond gains. The \$10.1 million decrease in net realized gains was the result of less sale opportunities in fixed income markets partially offset by more sale opportunities for equities amidst rising stock markets in Canada where the S&P/TSX Composite Index rose 17.5% in 2016. The \$29.7 million favorable change in net foreign exchange gains was primarily driven by an improvement in the Canadian dollar relative to the U.S. dollar. In the current year the Canadian dollar increased 2.7% in value relative to the U.S. dollar compared to a decrease of 15.8% in the prior year. The \$31.9 million favourable change in fair value was primarily caused by an improvement in the preferred share market. In 2015 the S&P/TSX preferred share composite index declined by 18.5% in contrast to the 4.8% increase in the index in the current year. In 2016, impairment losses of \$8.2 million were driven mostly by weakness in the precious metals sector after the U.S. election. However, the current year is \$15.4 million lower than the prior year which saw higher impairments arise as a result of a 22.3% decline in the S&P/TSX energy and resource index. Our invested assets mix is discussed in the Invested Asset section of the MD&A.

OTHER COMPREHENSIVE INCOME (LOSS)

\$ millions	2016	2015	2014
Items that may be reclassified subsequently to the statement of income:			
Net unrealized gain (loss) on available-for-sale financial assets			
Bonds	(14.8)	23.7	77.3
Stocks	65.1	17.7	69.8
	50.3	41.4	147.1
Net reclassification adjustment for gain (loss) included in income			
Bonds	(18.1)	(42.5)	(22.4)
Stocks	(57.0)	(27.0)	(35.7)
	(75.1)	(69.5)	(58.1)
Items that may be reclassified before income taxes	(24.8)	(28.1)	89.0
Income tax expense (recovery) relating to items that may be reclassified	(6.7)	(7.8)	21.9
	(18.1)	(20.3)	67.1
Items that will not be reclassified to the statement of income:			
Remeasurement of the retirement benefit obligations	(3.0)	-	(16.8)
Income tax expense (recovery) related to items that will not be reclassified	(0.8)	(0.3)	(4.4)
	(2.2)	0.3	(12.4)
Other comprehensive income (loss)	(20.3)	(20.0)	54.7

Other comprehensive loss was 20.3 million in the year, which is a \$0.3 million decrease from 2015. Unrealized bond losses were \$14.8 million in the year as compared to \$23.7 million of gains in 2015 driven by two Bank of Canada cut interest rates cuts. In the current year stronger equity markets led to unrealized stocks gains of \$65.1 million as compared to \$17.7 million in 2015. Strength in the Canadian common share market resulted in \$62.1 million of unrealized gains an improvement of \$73.5 million from the prior year. The net reclassification loss increased by \$5.6 million in the current year as compared to 2015 as the increase in stocks gains of \$30.0 million was offset by a \$24.4 million decrease in bond gains.

EXPENSES

Claims and adjustment expenses - Loss ratio

\$ millions, except ratios	2016	2015	change	2014
Undiscounted net claims and adjustment expenses	1,626.6	1,479.6	147.0	1,459.6
Effect of MYA	2.3	7.3	(5.0)	24.6
Net claims and adjustment expenses	1,628.9	1,486.9	142.0	1,484.2
Loss ratio (excluding MYA)	67.8%	64.4%	3.4 pts	66.7%
Loss ratio (including MYA)	67.9%	64.7%	3.2 pts	67.8%

An increase in claims relating to the Fort McMurray wildfire drove the increase in undiscounted net claims and adjustment expenses of \$147.0 million or 9.9%. Excluding the catastrophic event, the undiscounted net claims and adjustment expenses increased \$76.6 million or 5.2%. This was largely driven by an increase in the severity of current accident year claims in the home and auto lines of business, less favourable claims development within the auto line of business, and policy growth across all lines of business.

Unpaid claims and adjustment expenses are discounted using the portfolio market yield of the bond and mortgage portfolios with consideration provided for the Government of Canada 5 year bond rate plus a credit spread. Fluctuations in the portfolio market yield impact the unpaid claims and adjustment expenses and are included within the MYA. The portfolio market yield on bonds and commercial mortgages increased in the year which increased the discount rate. However, this was more than offset by the impact of increased unpaid claims and overall, the MYA had a negative impact to net income of \$2.3 million in the year compared to a negative impact in 2015 of \$7.3 million.

Loss ratio by line of business

% excluding MYA	2016	2015	change	2014
Auto	68.7	67.7	1.0 pts	70.8
Home	73.2	58.8	14.4 pts	68.0
Commercial	59.2	63.7	(4.5) pts	56.2
Farm	63.3	69.8	(6.5) pts	66.5
Other	56.5	45.9	10.6 pts	38.8
Total	67.8	64.4	3.4 pts	66.7

During the year, we experienced a deterioration in our loss ratio compared to 2015 as a result of the home and auto lines of business, which was partially offset by improvements in our commercial and farm loss ratios. The catastrophic events in Fort McMurray contributed to the loss ratio deterioration of 14.4 percentage points in the home line of business compared to the prior period. While the commercial line of business experienced a 4.5 percentage point improvement in the loss ratio, this was also impacted by the catastrophic events in Fort McMurray.

The auto loss ratio deteriorated 1.0 percentage points over the prior year driven by an increase in the frequency and severity of current accident year claims and unfavorable claims development, primarily in Ontario. This was partially offset by updated actuarial assumptions related to both past and recent Ontario auto reform changes.

Unrelated to the Fort McMurray wildfire, the home loss ratio deteriorated by 3.9 percentage points over the prior year, which was mainly a result of the increase in severity of current accident year claims, partially offset by favourable claims development.

Excluding the impacts of the Fort McMurray wildfire, the commercial loss ratio improved by 7.6 percentage points over the prior year. This was driven by a decrease in the severity of current accident year claims as a result of multiple fire losses included in the prior year. This was partially offset by an increase in the frequency of current accident year claims and less favourable claims development in Ontario.

The farm portfolio's loss ratio improved by 6.5 percentage points, resulting from a decrease in the frequency of current accident year claims, partially offset by an increase in the severity of current accident year claims.

Management's Discussion & Analysis

The other loss ratio deteriorated by 10.6 percentage points over the prior year, which was mainly the result of an increase in the severity of current accident year claims within one of Sovereign's specialty lines of business compared to the prior year.

Loss ratio by geographic region

% excluding MYA	2016	2015	change	2014
West	74.2	70.4	3.8 pts	70.2
Ontario	60.9	55.7	5.2 pts	64.1
Quebec	75.4	78.3	(2.9) pts	63.0
Atlantic	73.8	77.1	(3.3) pts	65.9
Total	67.8	64.4	3.4 pts	66.7

The Western region's loss ratio experienced a deterioration of 3.8 percentage points compared to the prior year, attributable to the catastrophic events in Fort McMurray.

The Western region's loss ratio, excluding the impacts of Fort McMurray, improved by 5.0 percentage points, driven by a decrease in the severity of current accident year claims within the commercial, auto and farm lines of business and favourable claims development in the auto, home and farm lines of business. This was partially offset by an increase in the frequency and severity of current accident year claims in the home line of business.

Our Ontario loss ratio deteriorated by 5.2 percentage points driven by an increase in current accident years claims across all lines of business, combined with less favourable claims development in the auto line of business. This was partially offset by reserve releases for updated actuarial assumptions related to both past and recent Ontario auto reform changes.

Quebec's loss ratio experienced an increase in the severity of current accident year claims within the auto and commercial lines of business, partially offset by a decrease in the severity of current accident year claims in the home line of business. However, NEP rose at a faster pace than claims and led to a 2.9 percentage point improvement in the Quebec loss ratio compared to the prior year. Given the size of the NEP in Quebec, small changes in the severity and frequency of claims have a significant effect on the loss ratio.

The Atlantic's loss ratio experienced less favourable claims development in the auto line of business and an increase in the severity of current accident year claims in the farm lines of business. This was partially offset by a decrease in the severity of current accident year claims in the home and commercial lines of business. However, NEP rose at a faster pace than claims and led to a 3.3 percentage point improvement in the Atlantic loss ratio compared to the prior year.

Other operating expenses - Expense ratio

%, except total other operating expenses (\$ millions)	2016	2015	change	2014
Total other operating expenses	796.7	756.5	40.2	710.1
Components of expense ratio				
Premium and other taxes	3.3	3.2	0.1 pts	3.1
Net commissions and advisor compensation	17.3	17.0	0.3 pts	17.1
General expenses	12.6	12.7	(0.1) pts	12.2
Expense ratio	33.2	32.9	0.3 pts	32.4

Other operating expenses are comprised of premium and other taxes, net commissions and advisor compensation and general expenses. These expenses have increased by \$40.2 million in the year, contributing to an expense ratio of 33.2%, which is an increase of 0.3 percentage points from 2015. Impacting the expense ratio are the premiums paid to reinstate reinsurance coverage from the Fort McMurray catastrophe.

Excluding the reinstatement premiums from NEP results in an expense ratio of 33.0% which is an increase of 0.1 percentage points compared to the prior year. The increase was mainly the result of a 0.2 percentage point growth in net commissions and advisor compensation expenses, driven by an increase in distribution staffing levels and higher distribution costs. Premium and other taxes increased by 0.1 percentage points compared to the prior year, as a result of premium tax rate increases in Alberta and Newfoundland. General expenses have decreased by 0.2 percentage points compared to 2015 driven by lower information technology system costs in the current year.

INCOME TAXES

In fiscal 2016 the enacted statutory tax rate for the Company increased from 26.6% to 27.0% as a result of provincial corporate income tax rate increases. The effective tax rate for the year ended December 31, 2016 was 20.3%, with the 6.7 percentage point positive impact arising primarily from the benefit of non-taxable investment income. Refer to Note 11 of our consolidated financial statements for the income tax reconciliation between the statutory tax rate and our effective tax rate.

FINANCIAL CONDITION

INVESTED ASSETS

Invested asset mix

% based on fair value	2016	2015	2014
Bonds	58.1%	60.3%	62.0%
Stocks	26.7%	24.2%	24.0%
Mortgages	12.0%	12.9%	10.8%
Other	3.2%	2.6%	3.2%
	100.0%	100.0%	100.0%

During the year, we made a strategic decision to increase our exposure to higher yielding investments. We have a high quality, well diversified investment portfolio consisting primarily of bonds, equities and commercial mortgages. The bond portfolio makes up \$2,480 million or 58.1% 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 credit quality of bonds is presented below.

% based on fair value	2016	2015	2014
AAA	33.3%	30.5%	35.1%
AA	22.1%	21.4%	17.0%
A	30.5%	32.9%	37.5%
BBB	12.4%	13.5%	9.2%
Below BBB	1.7%	1.7%	1.1%
Not rated	-	-	0.1%
	100.0%	100.0%	100.0%

The equity portfolio makes up \$1,141.4 million or 26.7% of our total invested assets and consists largely of publicly traded common and preferred stocks. It is diversified by industry sector and issuer, with 77.0% of the portfolio in Canadian holdings. We hold mortgages with a carrying value of \$513.3 million on Canadian commercial and residential properties. Mortgages make up 12.0% of our total invested assets and are of high credit quality with 99.7% considered investment grade based on Addenda's internal rating system.

We adhere to a conservative investment policy and strategy that is based upon prudence in accordance with regulatory guidelines and, in a broad sense, on premium cash flows and claims settlement patterns by product line. We focus on achieving long-term returns while taking advantage of current market opportunities. 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 98.3% of our bonds considered investment grade and 85.9% rated A or higher. Investment grade bonds are those rated BBB and above. Note 5 of the consolidated financial statements provides an extensive breakdown of invested assets. The Risk Management section and Note 6 of the consolidated financial statements provide information on related credit and interest rate risks.

UNPAID CLAIMS AND ADJUSTMENT EXPENSES

Our underwriting objectives are to write business on a prudent and diversified basis and to achieve profitable underwriting results. We underwrite automobile business after a review of the client's driving record and claims experience. We underwrite property lines based on physical condition, property replacement values, claims experience and other factors affecting risk of loss. Advisors and brokers are compensated, in part, based on the claims experience of their portfolio.

Our unpaid claims and adjustment expenses liability is management's best estimate of the amount required to settle all outstanding and unreported claims incurred. The estimate is determined using accepted actuarial practices. Our approach in calculating our unpaid claims liability is to establish adequate provisions at the original valuation date in sufficient amount that the risk of the liability being inadequate in any year is low.

Management's Discussion & Analysis

The initial estimate of unpaid claims and adjustment expenses is made on an undiscounted basis. This process is described in *Significant Accounting Judgments, Estimates and Assumptions*. The discount rate applied to measure the value of unpaid claims and adjustment expenses is based upon the portfolio market yield of assets supporting the claims liabilities as well as considerations for the timing of the relative cash flows of the assets and liabilities.

Net unpaid claims liability

\$ millions	2016	2015	2014
Balance, beginning of year	2,183.5	2,149.7	2,087.1
Less: effect of discounting at prior year-end	123.8	116.5	91.9
Undiscounted unpaid claims and adjustment expenses at prior year-end	2,059.7	2,033.2	1,995.2
Paid on prior years	(600.1)	(607.6)	(590.2)
Change in estimate on prior years	(130.5)	(158.2)	(127.8)
Incurred on current year	1,757.1	1,637.8	1,584.8
Paid on current year	(979.9)	(845.5)	(828.8)
Undiscounted unpaid claims and adjustment expenses at current year-end	2,106.3	2,059.7	2,033.2
Effect of discounting	126.1	123.8	116.5
Unpaid claims and adjustment expenses (net)	2,232.4	2,183.5	2,149.7

Unpaid claims and adjustment expenses reflect the cost of paying and settling claims, as well as estimates for the cost of claims not yet settled and claims IBNR. Claims expenses also include development, which is the difference between any prior estimates in the claims expenses, and the claims costs actually paid, plus any change in estimates for claims still open or unreported. We experienced favourable discounted claims development in 2016 of \$266.5 million on prior years' claims. For more information refer to Note 7 of the consolidated financial statements.

Refer to *Emerging Legislation and Regulatory Events* section for a summary of legislative, judicial and regulatory events that have an impact on both current and future years' estimates.

SHAREHOLDERS' EQUITY

\$ millions	2016	2015	2014
Common shares	48.1	48.1	48.1
Preferred shares			
Public issue	100.0	100.0	100.0
Private issue	74.6	69.4	65.5
Contributed capital	10.1	10.1	10.1
Retained earnings	1,218.5	1,083.1	1,100.0
Accumulated other comprehensive income	127.6	147.9	167.9
Total	1,578.9	1,458.6	1,491.6

Our consolidated balance sheet as at December 31, 2016 includes over \$1.5 billion in shareholders' equity, reflecting continued financial strength. Overall, our shareholders' equity position has increased by \$120.3 million in 2016 compared to 2015. Contributing to our shareholders' equity were net income of \$145.3 million (2015 - \$162.3 million) and net shares issued of \$6.8 million (2015 - \$4.2 million), offset by an other comprehensive loss of \$20.3 million (2015 - \$20.0 million), preferred share dividends declared of \$9.8 million (2015 - \$9.5 million) and common share dividends declared of \$nil (2015 - \$169.5 million).

Capital is a critical strategic resource. It reflects the financial well-being of the organization and enables us to pursue strategic business opportunities. A strong capital position also acts as a safety net for possible losses or catastrophic events and provides a basis for confidence in our financial strength by regulators, shareholders, policyholders and others. For more information on capital management refer to Note 20 of the consolidated financial statements.

A summary of our shares both issued and outstanding is included below. For terms and a complete list of all authorized shares refer to Note 16 to the consolidated financial statements.

2016	Authorized	Issued
Class A preference shares, series A	1,440,000	172,593
Class A preference shares, series B	Unlimited	631,586
Class B preference shares	Unlimited	426
Class D preference shares, series A	Unlimited	13,803
Class D preference shares, series B	Unlimited	42,535
Class D preference shares, series C	Unlimited	43,184
Class E preference shares, series C	Unlimited	4,000,000
Class F preference shares, series A	Unlimited	488,624
Class G preference shares, series A	Unlimited	14,984
Common shares	Unlimited	21,458,185

Our publicly issued preferred shares include our Class E preference shares, Series C are listed on the Toronto Stock Exchange (TSX) and trade under the symbol CCS.PR.C.

DIVIDENDS AND EARNINGS PER SHARE (EPS)

Dividends declared

\$ per share	2016	2015	2014
Class A preference shares			
Series A	1.88	1.88	1.88
Series B	5.00	5.00	5.00
Class B preference shares	2.50	2.50	2.50
Class D preference shares			
Series A	5.00	5.00	5.00
Series B	5.00	5.00	5.00
Series C	5.00	5.00	5.00
Class E preference shares			
Series C	1.25	1.25	1.25
Series D	-	-	0.91
Class F preference shares	1.88	1.88	1.88
Class G preference shares	2.50	2.50	2.50
Common shares	-	7.94	-

Earnings per share (EPS)

\$ millions, except share data and EPS	2016	2015	2014
Net income	145.3	162.3	137.6
Less dividends on preference shares	9.8	9.5	13.5
Net income available to shareholders	135.5	152.8	124.1
Weighted average number of outstanding common shares ¹	21,384,899	21,304,330	20,540,475
Earnings per common share	6.33	7.17	6.04

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

MINIMUM CAPITAL TEST

	2016	2015	2014
MCT	227%	225%	228%

Co-operators General's MCT of 227% represents \$368.9 million of capital in excess of our 170% internal minimum (2015 - \$336.9 million). The MCT is impacted by various factors including interest rates, changes in our share capital, equity market performance and the results of our operations. The increase in our MCT from December 31, 2015 resulted from the year-to-date net income results, partially offset by an increase in unpaid claims and adjustment expenses.

THIRD PARTY RATINGS

Rating agencies issue several types of ratings. A Financial Strength Rating (FSR) provides guidance to policyholders of an insurance company's ability to meet its payment obligations to policyholders. An Issuer Credit Rating (ICR) provides guidance to investors of a company's ability to meet its senior obligations. A Preferred Share Rating (PSR) provides guidance on the credit worthiness of the preferred shares issued by a company.

Standard & Poor's ratings

	Outlook	2016	2015	2014
CGIC - FSR	Stable	A-	A-	A-
CGIC - ICR	Stable	A-	A-	A-
CGIC - PSR	n/a	P-2	P-2	P-2

A.M. Best ratings

	Outlook	2016	2015	2014
CGIC - FSR	Stable	A-	A-	A-
CGIC - ICR	Stable	a-	a-	a-
Sovereign - FSR	Stable	A-	A-	A-
Sovereign - ICR	Stable	a-	a-	a-

DBRS ratings

	Outlook	2016	2015	2014
CGIC - FSR	Stable	A (low)	A (low)	n/a
CGIC - ICR	Stable	A (low)	A (low)	n/a
CGIC - PSR	Stable	Pfd-2 (low)	Pfd-2 (low)	Pfd-3 (high)

Following a review under DBRS's new insurance methodology, on December 14, 2015, DBRS raised our PSR one notch to Pfd-2 (low). FSR and ICR ratings were not provided to the Company prior to this date.

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.

Direct written premium (DWP) is a component of revenue which represents the insurance sales transactions in the year written directly by the insurer. DWP does not include reinsurance policies assumed or ceded and it does not represent premium earned during the year which is referred to as net earned premium. Measuring DWP growth year-over-year is useful in assessing business volume trends.

Loss ratio (also referred to as the claims ratio) is the ratio of net claims and adjustment expenses to net earned premium, expressed as a percentage.

Expense ratio, also a component of the combined ratio, is the ratio of the total premium and other taxes, commissions and advisor compensation and general expenses to net earned premium, expressed as a percentage.

Combined ratio is the ratio of total expenses to net earned premium, expressed as a percentage. In the insurance business, the combined ratio is used to understand a company's profitability from underwriting insurance risks. The combined ratio is the sum of the loss ratio and the expense ratio.

Underwriting gain or loss is the profit or loss from the activity of taking on insurance risks, excluding the impact of the MYA.

Market yield adjustment (MYA) is the impact of changes in the discount provision on claims liabilities. It includes the impact of changes in the discount rate used to discount claims liabilities based on the change in the market-based yield of the underlying assets. MYA also

includes adjustments made to the provisions for adverse deviation (PFADs) and other discounting assumptions.

Claims development is essential to understanding the reasonableness of a company's claims reserving practices. It represents the difference between any prior estimates in the claims costs and the claims costs actually paid on closed claims, plus any change in estimates for claims still open or unreported. Favourable claims development contributes positively to net income, while unfavourable development contributes negatively. Consistent favourable claims development generally indicates strength in a company's reserving practices.

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

Minimum Capital Test (MCT) is a regulatory defined, formula-driven, risk-based test of capital available over capital required. The formula looks at the various elements of assets and liabilities on the balance sheet and assigns risk weightings to establish a required capital level. Capital available is total shareholders' equity plus or minus certain adjustments as prescribed by the Office of the Superintendent of Financial Institutions (OSFI). The supervisory target is that capital available must be at least 150% of the capital required.

UNDERWRITING RESULTS

\$ millions, except ratios	2016	2015	2014
Net earned premium, before reinstatement premiums	2,431.2	2,296.4	2,190.4
Reinstatement premiums expense (recovery)	30.8	(0.6)	0.8
Net earned premium, as reported	2,400.4	2,297.0	2,189.6
Undiscounted net claims and adjustment expenses (excluding MYA)	1,626.6	1,479.6	1,459.6
Loss ratio (excluding MYA)	67.8%	64.4%	66.7%
Other operating expenses	796.7	756.5	710.1
Expense ratio	33.2%	32.9%	32.4%
Underwriting gain (loss)	(22.9)	60.9	19.9
Combined ratio	101.0%	97.3%	99.1%

CLAIMS DEVELOPMENT

\$ millions	2016	2015	2014
Unpaid claims and adjustment expenses (net)	2,232.4	2,183.5	2,149.7
Add: investment income on unpaid claims		94.4	127.1
Less: net paid claims		600.1	910.7
Less: re-estimate of unpaid claims at December 31		1,411.3	937.0
Claims development - favourable		266.5	429.1
1st year		266.5	255.6
2nd year			173.5
Claims development - favourable		266.5	429.1

RETURN ON EQUITY (ROE)

\$ millions, except ratios	2016	2015	2014
Net income	145.3	162.3	137.6
Average shareholders' equity excluding accumulated other comprehensive income	1,381.0	1,317.2	1,296.3
Return on equity (ROE)	10.5%	12.3%	10.6%

QUARTERLY RESULTS

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.

Management's Discussion & Analysis

(in millions of dollars except EPS and ratios)

2016	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
Direct written premium	519.5	722.6	691.0	639.1	2,572.2
Net earned premium	588.5	576.5	614.8	620.6	2,400.4
Net income (loss)	39.3	(39.1)	16.3	128.8	145.3
Other comprehensive income (loss)	3.4	20.8	6.0	(50.5)	(20.3)
Key statistics					
Earnings (loss) per share (EPS)	\$1.78	(\$2.00)	\$0.71	\$5.84	\$6.33
Loss ratio (excluding MYA)	62.5%	81.0%	77.2%	51.2%	67.8%
Expense ratio	32.9%	33.0%	31.8%	35.0%	33.2%
Combined ratio	95.4%	114.0%	109.0%	86.2%	101.0%
2015	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
Direct written premium	489.1	681.0	650.9	614.9	2,435.9
Net earned premium	550.5	567.4	586.0	593.1	2,297.0
Net income (loss)	22.2	58.2	(21.4)	103.3	162.3
Other comprehensive income (loss)	63.0	(45.3)	(24.7)	(13.0)	(20.0)
Key statistics					
Earnings (loss) per share (EPS)	\$0.98	\$2.57	(\$1.07)	\$4.69	\$7.17
Loss ratio (excluding MYA)	65.1%	61.3%	72.5%	58.7%	64.4%
Expense ratio	33.1%	32.7%	31.5%	33.4%	32.9%
Combined ratio	98.2%	94.0%	104.0%	92.1%	97.3%

In 2016, our quarterly DWP results followed a consistent pattern with 2015 levels, with the second quarter representing the largest quarter, followed by the third quarter. In the first quarter of 2016, we saw a 2.6 percentage point improvement in the loss ratio to 62.5%. This was the result of a decrease in the severity of current accident year claims in the commercial line of business. The second quarter loss ratio deteriorated by 19.7 percentage points largely as a result of the catastrophic wildfire in Fort McMurray. In the third quarter, we experienced an increase in the severity of current accident year claims within all lines of business, combined with less favourable claims development in the auto line of business, leading to a deterioration in the loss ratio of 4.7 percentage points. We saw improvements in the loss ratio for the fourth quarter.

Review of fourth quarter 2016 results

Net income for the quarter was \$128.8 million compared to \$103.3 million in the same quarter of last year. This produced earnings per common share in the quarter of \$5.84 compared to \$4.69 in 2015. The increase in net income is largely attributable to net earned premium growth, as a result of an increase in policies and vehicles in force, and lower net investment income and gains, partially offset by higher accident year claims.

Fourth quarter DWP increased 3.9% over the same period of 2015 to \$639.1 million. NEP also grew by \$27.5 million compared to the fourth quarter of prior year, to \$620.6 million. Growth was experienced primarily in the auto line of business across all regions and the home line of business in all regions, except the West.

The loss ratio for the quarter, excluding MYA, was 51.2% compared to 58.7% from the same period of 2015. The improvement was driven by a decrease in the severity of current accident year claims, and more favourable claims development primarily in our auto line of business. Fourth quarter operating expenses were negatively impacted by an increase in distribution staffing levels, and higher distribution and strategic expenses than in the prior year. The outcome was a combined ratio for the quarter of 86.2% compared to 92.1% in 2015.

Net investment income and gains for the fourth quarter of 2016 were \$52.5 million compared to \$85.7 million for the same period of the prior year. The \$33.2 million decrease in the current quarter was primarily the result of lower realized common share and bond gains and lower unrealized preferred share gains. Net investment gains reflects net realized stock and bond gains of \$18.0 million as compared to \$41.3 million in the same period of 2015. The total change in the fair value of preferred shares for the quarter was an \$8.9 million gain as compared to a \$14.0 million gain in the fourth quarter of the prior year.

Other comprehensive loss for the quarter was \$50.5 million compared to \$13.0 million in the same period of 2015. During the current quarter, unrealized losses of \$56.5 million was in contrast to \$22.6 million in unrealized gains during the same period in 2015. An increase in interest rates during the current quarter led to \$75.0 million of unrealized bond losses compared to \$3.7 million of unrealized bond gains in fourth quarter of 2015. Realized stock gains of \$15.0 million in the current quarter was lower than the \$33.0 million recognized during the same period in 2015 which led to a \$17.9 million decrease in the reclassification adjustment to comprehensive income.

BUSINESS DEVELOPMENTS AND OPERATING ENVIRONMENT

ONTARIO AUTO

Ontario auto reform, which commenced September 2010, was effective in providing the industry with the tools to combat fraud and reduce costs; however, over time claims costs have started to rise again. We remain vigilant and will continue to work with the government and industry to identify ways to reduce those costs.

In August 2013, the Ontario Finance Minister announced a strategy for a 15% reduction in Ontario auto insurance rates, which would be an average across the industry and taken over a two year period; 8% was planned to be taken by August 2014 and the remaining 7% by August 2015. This was to be achieved through various initiatives, which included providing the Superintendent of Financial Services with authority to require insurers to file rate adjustments. The result of the first round of mandated reductions, to be taken by August 2014, was an industry wide decrease of 6.1% in rates. During the third quarter of 2015, the Financial Services Commission of Ontario (FSCO) ordered two new filings from all insurers. The first filing, effective January 1, 2016, required all insurers to adopt a winter tire discount if one did not currently exist as part of their rating program. Only COSECO was affected by this filing. The filing, which applied to renewal and new business, has since been approved. The second filing, effective June 1, 2016, required all insurers to submit rate filings to reflect recent automobile insurance reforms aimed at cost reduction. As part of the second filing, CGIC was approved for a 5.0% reduction and COSECO was approved for approximately an 8.0% reduction. Since 2012, CGIC has reduced Ontario auto insurance rates on average by 20.2% for private passenger vehicles. Over the same period, COSECO has reduced Ontario auto insurance rates for private passenger vehicles by 15.2% on average.

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* for an update on the impacts of the changes made to the dispute resolution process and the minor injury definition.

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL COMMITMENTS

Securities lending

We lend securities in our investment portfolio to other institutions for short periods to generate additional fee income. We receive securities of superior credit quality and value as collateral for securities loaned. As at December 31, 2016, securities, which are included in invested assets, with a fair value of \$161.4 million have been loaned. Securities with a fair value of \$172.4 million were received as collateral. The collateral received has not been recorded in the Company's consolidated balance sheet.

Investment commitments

We have entered into commitments with private equity funds to invest additional funds of \$49.2 million and US\$80.0 million into limited partnership structures. The timing of when and the amount of capital contributions that are called is determined by the General Partner. As at December 31, 2016, we had provided capital contributions of \$69.2 million towards these commitments.

Structured settlements

In the normal course of claims adjudication, we settle certain obligations to claimants through the purchase of annuities from third party life insurance companies under structured settlement arrangements. This business is placed with several licensed Canadian companies. Our net risk is the credit risk related to the life insurance companies the annuities are purchased from. To manage this risk, we enter structured settlements with life insurance companies with a credit rating of A or higher. This risk is further reduced to the extent of coverage provided by Assuris, the life insurance compensation plan that funds most policy liabilities of an insolvent Canadian life insurer. As at December 31, 2016, we have guaranteed the life insurers' obligations under these annuities, which are \$758.0 million, based on the net present value of the projected future cash flow of these guarantees. No default has occurred, and we consider the possibility of default to be remote.

Operating lease commitments

We lease all of our office space and certain equipment used in the normal course of business, under operating leases. The Company's commitments to the minimum annual lease payments are outlined below.

\$ millions	2016	2015	2014
Within 1 year	19.7	19.4	20.1
Between 1 - 3 years	33.5	31.7	30.8
Between 4 - 5 years	25.2	23.3	21.8
Between 6 - 9 years	23.6	26.0	33.0
Greater than 10 years	1.0	1.1	1.6

CONTINGENCIES

We are subject to litigation arising in the normal course of conducting our insurance business. We are of the opinion that current litigation will not have a significant effect on the financial position, results of operations, or cash flows of Co-operators General. As at December 31, 2016, no other material contingencies have been identified.

RELATED PARTY TRANSACTIONS

In the normal course of business, we obtain services from our ultimate and immediate parent companies as well as from related companies that are under the common ownership of our ultimate parent. Note 24 of the consolidated financial statements, provides additional information on related party transactions.

Services we receive:

Management services from Co-operators Financial Services Limited (2016 - \$26.1 million, 2015 - \$22.2 million)

Management services are provided by the parent company, CFSL. CFSL recovers the cost for services such as corporate procurement, human resources, costs related to the Board of Directors, annual meeting, senior executives, general counsel, compliance, enterprise risk management, corporate actuarial, corporate reinsurance, information technology services, strategic planning, enterprise project portfolio office, corporate finance, financial accounting services, tax, audit, marketing and corporate communications. The management fee charges are primarily set on a cost-recovery basis and are shared among the various subsidiaries of the parent company based on usage of services provided. This is an annually renewable contract.

Executive services from The Co-operators Group Limited (2016 - \$7.8 million, 2015 - \$7.8 million)

Executive services are provided by the ultimate parent company, CGL, through certain senior executives that are CGL employees. The executive fee charges are allocated to the various subsidiaries of the parent company based on the compensation costs incurred by CGL related to these employees. This is an annually renewable contract.

Product distribution from HB Group Insurance Management Ltd. (2016 - \$46.0 million, 2015 - \$43.6 million)

HB Group is the primary distribution channel for COSECO. HB Group charges a commission for its distribution services. This is an annually renewable contract.

Product distribution from Premier Managers Holdings Corporation (2016 - \$13.2 million, 2015 - \$8.0 million)

Premier is one of the distribution channels for Sovereign. Premier charges a commission for its distribution services. This is an annually renewable contract.

Employee and retiree benefits administration from Co-operators Life Insurance Company (2016 - \$5.4 million, 2015 - \$4.8 million)

Employee life and long-term disability benefits are insured and the medical and dental benefits are under an administrative services only contract. These contracts are set at terms and conditions similar to those CLIC charges to its third-party client base. This is an annually renewable contract.

Investment management services from Addenda Capital Inc. (2016 - \$4.8 million, 2015 - \$3.5 million)

Addenda provides investment management services for a significant segment of our portfolio of invested assets. The fees are charged in a manner that is consistent with Addenda's external clients. This is an annually renewable contract.

Members and members of members service agreement with Federated Agencies Limited (2016 - \$2.4 million, 2015 - \$2.5 million)

Federated Agencies Limited holds applicable licenses to provide products and services to CGL's members and members of CGL's members. A commission is charged for broker and underwriting services. This is an annually renewable contract.

Services we provide:

We provide product distribution services (2016 - \$40.8 million, 2015 - \$38.5 million) and marketing services (2016 - \$9.1 million, 2015 - \$9.0 million) to CLIC for insurance and wealth management products. We compensate the advisors directly and receive payments based on the production level from CLIC. The compensation rate is negotiated on a fair and equitable basis by using industry comparatives. We also charge CLIC for the portion of the marketing program deemed to benefit the life insurance business. This contract is periodically renegotiated.

Other related party transactions:

On December 31, 2015, CGIC and COSECO, and CGIC and Sovereign each entered into an agreement to terminate certain of their intercompany reinsurance contracts, where CGIC acted as reinsurer to COSECO and Sovereign. These agreements were no longer necessary given the Company's 2016 reinsurance strategy. The impact to the Company was a decrease of \$13.6 million in claims and adjustment expenses.

OUTLOOK

GENERAL BUSINESS AND ECONOMIC CONDITIONS

Conditions in the international financial system remain challenging. The Federal Reserve acknowledged improving conditions and raised the target for the federal funds rate by 25 basis points at its December meeting. Even before taking into account the outcome of the U.S. election's generally pro-growth policies, the US central bank felt more confident in the economy's momentum that had brought about a firming in wages and some upward pressure on inflation. Conditions appear to be less clear in Europe which has yet to deal with the consequences from Brexit. The uncertainty following the Brexit vote led the Bank of England to lower its monetary policy rate in August while in March, the European Central Bank had lowered its main policy rate to as low as -0.4%. Meanwhile, inflation has been picking up in both the United Kingdom and the Eurozone but remains well below their respective central banks' targets.

As 2016 drew to a close, the trend toward lower oil prices that had shaped 2015 and most of 2016 stopped and abruptly reversed. OPEC agreed to restore discipline into the cartel and oil producing countries outside OPEC agreed to curb output leading to a rebound in oil prices.

The Bank of Canada kept the overnight lending rate stable at 0.5% throughout the year notably waiting to better assess the impact of public sector spending on economic activity. Signs suggest that interest rates will rise, following the federal fund rate increase. Meanwhile, inflation has been rising partly as a result of a lower Canadian dollar given the 2015 decline in oil prices. The Canadian dollar regained strength along with crude oil prices to close out the year. Real Gross Domestic Product (GDP) contracted by 1.3% in the second quarter of 2016 following the Fort McMurray forest fires; however, the Canadian economy rebounded in the third quarter reflecting improving exports, a return to full oil sands production and the rebuilding activity in Alberta. In addition to household spending, which should remain well supported by employment growth in 2017, the Canadian economy will benefit from more stability in oil prices and from the continued expansion in the US economy.

Uncertainty surrounding the global economic recovery and the geopolitical environment continue to represent ever-present downside risks in equity markets. Equity market returns have performed well and rising oil prices and stabilizing commodities prices should help support returns. A sensitivity analysis of our equity portfolio is included in Note 6 to the consolidated financial statements.

We consulted with our investment management company, Addenda, to create these assumptions and we include them in our planning process. We also work within the parameters of our investment policy to take advantage of the threats and opportunities in the market to deliver an adequate return on our invested assets while protecting our capital.

PROPERTY AND CASUALTY INDUSTRY

Outlined below are some of the issues expected to affect the industry in 2017 and beyond, as well as our strategic response.

Rising claims in personal lines - The industry is experiencing an escalating trend of severe weather events. Climate change and the rising costs of catastrophic claims continue to threaten industry stability. The 2016 Fort McMurray (FMM) wildfire event was the costliest natural disaster on record for Canadian insurers, with direct losses for the industry exceeding \$3.5 billion. Increased severe weather activity, as well as its effects on aging municipal infrastructure is leading to increased frequency and severity of claims costs in all lines, but most notably in the home insurance segment. We have been proactive in further segmenting our policy base to provide our clients with the coverage they need, and priced at a level to ensure competitiveness and profitability.

Severe weather events can often result in flooding, leaving our cities and homes increasingly vulnerable to uninsured risks. The existing government policy places too much emphasis on recovery at the expense of mitigation. We are dedicated to finding sustainable solutions that better protect our communities and our economy. We will continue to support efforts to engage governments and other stakeholders to help identify solutions to manage, mitigate, and transfer risks associated with overland flooding.

Commoditization in commercial lines - The commodity line continues to creep into higher premium spaces. This is occurring at a quicker pace than anticipated. Analytics and segmentation are becoming more predominant at all levels. Larger competitors are using these tools to identify and underwrite business that only a few years previously would have been considered the domain of specialized

Management's Discussion & Analysis

commercial underwriters. In response, Sovereign will continue to move up the commodity line to write business that is larger and more complex and that requires human intelligence and strategic partnerships to write successfully and profitably.

Increasing preference of alternative distribution methods by consumers – Continuing the trend seen over the past number of years, premium growth for insurers using direct distribution models has outpaced growth for intermediated companies, particularly in personal lines. Consumers are increasingly demanding channel access alternatives and want to have choice on how they interact with all service providers including insurers. This is particularly true for customers of personal lines such as home and auto. We will continue to evolve our existing national multi-channel distribution model ('Call, Click, or Come in') to enhance the focus on client centricity and cross channel excellence as a cornerstone of our strategy.

Volatile capital markets – In 2016, global economic uncertainty deepened due to several factors, including the U.K. Brexit vote. While markets did recover from the initial reaction to the Brexit vote, the potential for further volatility will remain as the process continues to unfold.

Economic uncertainty continues to drive volatility within the equity markets. Much will also depend on how well the U.S. economy grows and the extent of further Federal Reserve interest rate increases. So far, both the U.S. and Canadian markets have reacted positively to the outcome of the U.S. election; however it is too soon to assess the impact of the new administration.

We continue to maintain a conservative investment portfolio of high quality, well diversified instruments. We will act within the guidelines of our investment policy to protect our capital and provide an adequate risk adjusted investment yield.

Consolidation – The property and casualty industry in Canada is a mature and highly competitive market, making cost a significant factor in client choice, followed closely by convenience. The industry continues to consolidate both in manufacturing and distribution making it challenging to maintain our market position relative to our competitors. The changing face of the competitive landscape poses a threat and underscores the importance of sustained growth. Continuing to grow at a pace faster than the market will allow us to maintain an influential voice among regulators and other stakeholders. Profitable growth and continued focus on data and segmentation will enable greater flexibility and opportunity for future investment.

Increasing Regulatory Pressure – The regulatory environment for automobile insurance continues to evolve with uncertainty. Automobile insurance is the largest product in the P&C market and represents nearly half of the industry direct written premium. Insurance Bureau of Canada has noted they are advocating for auto insurance reform in several provinces including Alberta, Newfoundland and Labrador and further reform in Ontario. Auto reform aims to provide the industry with the tools to combat fraud and reduce costs; however, over time claims costs continue to rise. We will remain vigilant and will continue to work with the government and industry to identify ways to reduce those costs.

EMERGING LEGISLATION AND REGULATORY EVENTS

Legislative, judicial and regulatory events have an impact on our claims reserving practices. Changes to legislation which occurred in previous periods will likely have an ongoing impact in our business in future periods. Legislative and regulatory changes, both current and future, are as follows:

Ontario auto reform - On April 1, 2016 changes in the accident benefits disputes resolution system became effective. The License Appeal Tribunal (LAT) is now accountable for the administration of all Ontario accident benefit disputes, which includes a new procedural regime meant to significantly abbreviate the time frames for resolution. The LAT is not bound by previous FSCO decisions; however, these will be used as reference as the LAT interprets the regulations. Since April there have been relatively few cases where a decision has been reached; most of these have been in favour of the Insurer. The volume has been lower than expected and a high portion of disputes have been resolved prior to parts of the LAT process being involved. We continue to evaluate the financial and procedural impacts of these changes as they evolve.

On June 1, 2016 a series of additional reform measures became effective. 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 non-earner benefits, limitations on monthly premium payment interest rates, an increase in the standard deductible for comprehensive coverage and clarification of the catastrophic impairment definition. Premiums have been adjusted to reflect the anticipated changes in ultimate claims costs resulting from the reform and we continue to evaluate their full impact.

There is still uncertainty with regard to the impacts of the changes made to the minor injury definition. FSCO has undertaken a review of the minor injury guideline and established a committee to make recommendations on a new evidenced based treatment protocol for Common Traffic Injuries (CTI). We are still awaiting the results from this process, the timing of which remains unknown.

Provincial premium and retail sales tax - Effective July 1, 2016, the Newfoundland and Labrador government reintroduced a 15% retail sales tax which applies to all property and casualty insurance premiums. This is on top of an additional 1.0 percentage point increase in premium taxes. Effective April 1, 2016, the Alberta government also increased premium taxes by 1.0 percentage points. The increase in premium and retail sales tax is an increased cost to our business in these regions, which in turn impacts the ultimate amount consumers pay.

RISK MANAGEMENT

Effective risk management is vital to making sound business decisions, both strategically and operationally. It involves identifying and understanding the risks that the organization is exposed to and taking measures to manage the risks within acceptable tolerances. We recognize the importance of a strong risk management culture where the efficient and effective assessment of risk forms the basis of all decision-making and strategic planning.

The Co-operators has an enterprise-wide approach to the identification, assessment, measurement, monitoring and mitigation of risks across the organization. The Board of Directors, directly or through the Risk & Compensation Committee, ensures that senior management has put appropriate risk management policies in place and that risk management processes are effective. Regular reports on risk exposures are provided to the Board and senior management by our Chief Risk Officer (CRO).

We have identified and considered a large number of risks when engaging in our organizational activities. We also monitor emerging risks that are evolving in uncertain ways, have been forgotten in their dormancy, or are new. All of these risks are continuously re-assessed relative to their potential impact on our corporate strategy, competitive position, operational results, reputation and financial condition. The risks identified are not presumed to be exhaustive and previously unidentified risks or material changes in the exposure to a known risk may occur resulting in a reassessment of their relative effect on Co-operators General.

At least annually we conduct an Own Risk and Solvency Assessment (ORSA). ORSA is a tool used to enhance our understanding of the interrelationships between our risk profile and capital needs. It is designed to be congruent with our business strategy. As part of the ORSA process, we consider all reasonably foreseeable and relevant material risks. ORSA incorporates stress testing in order to be forward-looking and reflect the dynamic nature of our business and operating environment. As an output of the assessment, we determine the level of capital needed to cover all of our risks, including those risks covered in the regulatory capital guidelines.

RISK MANAGEMENT STRUCTURE

Board of Directors: The majority of Enterprise Risk Management (ERM) Board oversight is delegated to the Risk and Compensation Committee (RCC) of the CGL Board. However, the full Board maintains responsibility for approving the ERM policy, CGL Risk Appetite, CGL Top Risk Issues, and ORSA Report after reviewing the RCC's recommendations. The Board is also responsible for approving CGIC's internal capital target.

Risk and Compensation Committee of the Board: The RCC is comprised of CGL Board Directors with a mandate that includes setting the "tone at the top" for a strong ERM culture, and oversight of our ERM framework. The RCC ensures that ERM processes are effective by approving risk limits for significant risks, receiving and reviewing regular reporting on all significant risks and understanding action taken by management in response to identified issues. In addition, the RCC oversees the strategy for the use of risk and capital modelling methods and tools, and recommends the ERM policy, CGL Risk Appetite, CGL Top Risk Issues, and the ORSA Report to the Board.

Management Risk Committee: The Management Risk Committee (MRC) includes all members of the Co-operators Management Group (CMG), which includes the CEO and the CEO's direct reports, the CRO and the VP Strategic Planning. The MRC meets at least quarterly and is a strategic decision-making body responsible for planning, directing and controlling the impact of all risks faced by the organization. The MRC also helps to set the tone for a strong ERM culture and supports the ERM vision in the organization.

Chief Risk Officer and ERM Team: The CRO is the key champion for ERM and is responsible for the vision, implementation and maintenance of the ERM program. The CRO is supported by the ERM team and has direct access to the RCC via quarterly "in camera" sessions. The ERM team provides oversight of risks and helps to build and monitor risk controls.

Audit Services: Audit Services provides independent assurance that risk controls are in place and are operating effectively, and performs periodic reviews to ensure adherence to ERM policies and practices.

Functional and Business Unit Risk Management: Functions that operate across the group of companies and business units that operate within their respective companies are responsible for managing the risks related to their own operations. While these risks may be specific to their function or business unit, the ERM framework provides a common language and common tools to identify, assess, measure and manage these risks.

RISK APPETITE

Our purpose in setting out our risk appetite is to define the types and amount of risk we may responsibly take in pursuit of our mission. Our risk appetite statements identify, at a broad level, the risks we will avoid, the risks we are prepared to assume and the limits we will place on those risks.

Our risk appetite is informed by these considerations:

- We cannot be in business without taking risks.
- The risks we take must further our mission and be consistent with our vision and values.
- To develop and sustain our business, we must earn a reasonable risk-adjusted return on our capital.
- We must preserve enough capital at all times to allow us to fulfil our promises to our clients through changing circumstances.
- We must manage risk in a way that allows us to compete in the marketplace.
- The risks we face are multiple, complex and often inter-related. Some are readily measurable, others are not.

To ensure that we do not breach our risk appetite while we pursue our business objectives and meet our obligations to our clients and other stakeholders, we monitor actual exposures against our risk limits.

As our business operates in a continually changing environment, our risk appetite is reviewed each year and revised as necessary.

RISK UNIVERSE

We categorize our risks using a common taxonomy referred to as our risk universe:

- Financial Risks – The risk of loss resulting from the quality of invested assets, movements in the capital markets, or the relationship between the assets and liabilities.
- Insurance Risks – The risk of loss resulting from the use of incorrect or incomplete assumptions or information when pricing, issuing and reserving for insurance products and/or buying and selling blocks of business.
- Operational Risks – The risk of loss resulting from inadequate or failed processes, people and systems or from external events. It includes legal risk but excludes strategic and reputation risk.
- Strategic Risks – The risk arising from our inability to adopt and execute effective business plans and strategies, to allocate resources strategically and to adapt to changes in our business environment.

The sections that follow provide an overview of some of the types of risks that fall within these categories.

FINANCIAL RISKS

Credit risk

Credit risk refers to the risk resulting from the failure of a counterparty/debtor to honour its obligation to us.

Our credit risk exposure relates to short-term investments, bonds, limited partnerships, mortgages and loans and receivables. Credit risk also arises from premiums due and reinsurance ceded contracts. Our Investment Policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, single issuer limits, corporate sector limits and general guidelines for geographic exposure. CGIC also has a comprehensive mortgage investment policy which includes, among other factors, single loan limits, diversification by type of property limits, and geographic diversification limits. Credit exposure to any one individual policyholder is not material. For more information on credit risk refer to Note 6 to the consolidated financial statements.

Equity risk

Equity risk refers to the risk resulting from movements in equity markets.

An Investment Policy is in place and its application is monitored by the Board of Directors on a quarterly basis. Diversification techniques are employed to minimize risk. Policies limit total investment in any entity or group of related entities to a maximum of 5% of our assets. Our stock portfolio is benchmarked to, and is considered closely correlated with, the indices noted in the table below. A 10% movement in the indices, with all other variables held constant, would have the following estimated effect on the fair values of our stock holdings as at December 31, 2016.

\$ millions				
Stock Portfolio	Benchmark	2016	2015	
Canadian common	S&P/TSX Composite Index	47.5	47.2	
U.S. equities	S&P 500 Index (CDN \$)	20.8	19.1	
Foreign equities	MSCI EAFE Index (CDN \$)	6.7	6.4	

Foreign Exchange risk

Foreign exchange risk refers to the risk resulting from movement in foreign exchange rates.

Our foreign exchange risk is primarily related to our investment holdings. Our policies limit investments in foreign denominated securities to a maximum value of 10% of invested assets. We partially mitigate this currency risk by buying or selling foreign exchange forward contracts. Foreign exchange forward contracts are commitments to buy or sell foreign currencies for delivery at a specified date in the future at a fixed rate. For more information on foreign exchange risk refer to Note 6 to the consolidated financial statements.

Interest Rate risk

Interest rate risk refers to the risk resulting from movements in interest rates.

This risk arises when a company's asset cash flows do not coincide with the cash flows arising from the liabilities, as this may result in the need to either sell assets to meet policy payments and expenses or reinvest excess asset cash flows in unfavourable interest rate environments. Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used to develop an Investment Policy and strategy. To mitigate a portion of our interest rate risk, CGIC deploys an asset liability management strategy. A portion of the assets backing the Company's unpaid claims and adjustment expenses are designated as FVTPL under the fair value option with the objective of offsetting a targeted portion of the financial impact of interest rate changes and avoiding an accounting mismatch. While interest rate increases tend to have a positive effect on our net income, they tend to weaken our overall financial position due to the impact on bond values. A 1% movement in the interest rate, with all other variables held constant, would have the following estimated effect on the fair values of the Company's holdings as at December 31, 2016:

\$ millions	December 31, 2016		December 31, 2015	
	AFS	FVTPL	AFS	FVTPL
Bonds	124.0	5.9	110.8	5.6
Canadian preferred stocks	0.4	15.6	2.6	7.5

Liquidity risk

Liquidity risk refers to the risk resulting from holding inadequate liquid assets to meet our obligations as they come due.

Our obligations arise as a result of claims, contractual commitments, or other outflows. Claims payments are funded by current revenue cash flow which normally exceeds cash requirements. Refer to the *Off Balance Sheet Arrangements and Contractual Commitments* section of the MD&A for a discussion of our commitments. We do not have other material liabilities that can be called unexpectedly at the demand of a lender or client. We do not have material commitments for capital expenditures, and there is no need for such expenditures in the normal course of business. In addition, we have a liquid invested assets portfolio and have \$19.0 million in available credit facilities as well as potential financial support from our parent company. For more information on liquidity risk refer to Note 6 to the consolidated financial statements.

INSURANCE RISKS

Catastrophe risk

Catastrophe risk is the risk of a catastrophic event that severely impairs our financial position.

P&C insurers are subject to catastrophes which are: a series of property and automobile physical damage claims arising from a single event. Catastrophes are caused by various perils such as earthquake, tornado, wind, hail, winter storm, flood or fire. Catastrophes can have a significant effect on our operating results and financial condition. The incidence and severity of catastrophes are inherently unpredictable. To limit our potential impact, we purchase reinsurance which will reimburse us for claims, related to a single event, to a maximum of \$1.3 billion. The maximum limit for catastrophe reinsurance applies to all P&C operations ultimately owned by CGL. After the application of the catastrophe program, the Company's maximum retained loss is \$70.0 million in incurred, which represents approximately 4.8% of our capital. For the purpose of capital management, we defined capital as shareholders' equity excluding AOCI.

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During the year, the Company required the use of the catastrophe coverage described above. Premiums were paid to reinsurers to the extent necessary to fully reinstate the coverage. Additional reinstatement coverage was purchased for layers of the catastrophe program that could be impacted by a future event.

We write business that is broadly diversified in terms of lines of business and geographic location. There is no guarantee that a catastrophe would not result in claims in excess of our maximum reinsurance coverage; however, based on our catastrophic loss models our protection is in excess of regulatory guidelines and at a level that management considers prudent.

Reinsurance risk

Reinsurance risk is the risk of inadequacies in the organization's reinsurance program (ceded and/or assumed).

Reinsurance is purchased to limit our exposure to an individual risk, category of risk or geographic risk area. We review our reinsurance limit and scope of cover requirements annually. After these requirements have been determined, we carefully negotiate reinsurance contract terms with selected entities. The availability and cost of this reinsurance is subject to prevailing market conditions. In managing reinsurance risk, we also assess and monitor the financial strength of our reinsurers on a regular basis. There have been no material defaults with reinsurers in the past ten years. Refer to Note 9 of the consolidated financial statements, for further information regarding reinsurance.

Product design and pricing risk

Product design and pricing risk is the risk resulting from the pricing or features of our products, where revenues and/or costs experienced differ from those expected at the time of pricing.

We price our products taking into account numerous factors including claims frequency and severity trends, product line expense ratios, special risk factors, the capital required to support the product line, and the investment income earned on that capital. Our pricing process is designed to ensure an appropriate return on equity while also providing long-term rate stability. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

We strive to ensure our pricing will produce an appropriate return on invested capital; however, various external factors like market realities or regulations can have an impact on our ability to do so. For example, pricing for automobile insurance must be submitted to each provincial government regulator. It is possible that, in spite of our best efforts, regulatory decisions may impede automobile rate increases or other actions that we may wish to undertake. Also, during periods of intense competition for any product line, our competitors may price their products below the rates we consider acceptable, which would have an impact on our ability to maintain our rates where we want them.

Underwriting risk

Underwriting risk is the risk resulting from the selection and approval of risks to be insured.

Our underwriting objective is to develop business within our target market on a prudent and diversified basis and to achieve profitable underwriting results. We underwrite automobile business after a periodic review of the client's driving record and claims experience. We underwrite property lines based on physical condition, property replacement values, claims experience and other relevant factors. We use comprehensive underwriting manuals which detail the practices and procedures used in the determination of the insurance risk for each item to be insured and the decision of whether or not to insure the item. The manuals are continually revised for new products and risks undertaken. We also use our business intelligence and information technology systems which give us the tools to better segment and underwrite. All employees in the underwriting area are trained and their work is audited on a regular basis. Advisors and brokers are compensated, in part, based on the profitability of their portfolio.

Claims risk

Claims risk is the risk of making inappropriate claims payments resulting from inadequate adjudication, settlement and payment of claims in line with the management of contractual and non-contractual product options.

We employ more than 1,000 claims personnel across Canada, with the majority of claims being handled internally and the remainder handled through independent adjusters. Each employee has an authority limit, which is based on related education, skills and work experience. They are supported by training and comprehensive reference materials which have been compiled to identify investigations and information required before a claim can be paid. Our claims handling approach results in an appropriate control of claims costs.

Reserve valuation risk

Reserve valuation risk is the risk of misestimating reserve liabilities.

We maintain provisions for unpaid claims and adjustment expenses to cover our estimated ultimate liability for claims. There is the potential for significant variability in the amount of ultimate settlement from the current amounts recorded. Our practice is to maintain an adequate margin to ensure future years' earnings are not negatively affected by prior years' claims development and other variable factors, such as inflation. We also monitor fluctuations in reserve adequacy on an ongoing basis, and periodically seek an external peer review of reserve levels. We are subject to some exposure in the fluctuation of long-term portfolio yield rates in the valuation of our discounted unpaid claims. Our claims development table and sensitivity analysis are located in Note 7 to the consolidated financial statements.

Climate change risk

Climate change risk is the risk of changing climate patterns having long-term implications in our operating environment including financial losses due to extreme weather events.

The increasing frequency and severity of extreme weather-related events is a growing challenge faced by the insurance industry as a whole. This challenge is intensified by an aging municipal infrastructure that is unable to cope with intense storms, greater concentrations of people living in vulnerable areas and higher property values at risk. As an organization whose mission is to provide financial security for Canadians and their communities, it is our duty to continue enhancing our understanding of the various potential impacts of climate change and its associated risks, while striving to develop and promote solutions that offer protection to our clients and enhance their resiliency.

While many of the impacts associated with climate change are beyond our direct control, we have an opportunity to incentivize sustainable behaviour amongst our clients, mitigate risks through pricing and product development and promote sustainable decision-making through various advocacy efforts.

In May of 2015, we were the first national insurer in Canada to bring to market coverage for overland flood through a product called Comprehensive Water. This product was launched in Alberta and introduced to Ontario in June 2016. In the future, the product will be made available across the country. Coinciding with the product launch was the initiation of a new research network that will work to advance flood resiliency in Canada, of which we are a founding member.

We were among the first Canadian insurers to sign the Montreal Carbon Pledge which commits investors to measure and publicly disclose the carbon footprint of their investment portfolios as a first step to managing climate change risk. In December of 2015, we publicly disclosed the carbon footprint of our equity holdings.

While our own contribution to climate change is relatively modest given the nature of our business, we recognize our responsibility to contribute to mitigating climate change by reducing our greenhouse gas emissions. As such, our Board has established a long-term goal of eliminating carbon emissions equivalent to our corporate carbon footprint by 2020, which we are on track to achieve.

Given that the impact of losses due to climate change can often be catastrophic, we employ reinsurance to help manage the risk, as described under Catastrophe Risk.

OPERATIONAL RISKS

Business interruption and recovery risk

Business interruption and recovery risk is the risk to the organization of a prolonged interruption in the business operations.

There are many events that could result in the interruption of our business operations. These can range from sudden catastrophes, such as power outages, cyber-attacks, floods and hurricanes, to slower moving events such as pandemics. We have plans and actions in place to maintain resilience and continue service standards to our clients as much as possible. We have building evacuation procedures in place that are evaluated and tested on a regular basis, as well as inclement weather guidelines, telework guidelines, crisis communications procedures and a staff emergency line. Business Continuity and Infectious Disease Plans are created, maintained and tested to a set of established standards. Compliance with these standards is monitored and reported to Senior Management and the Board of Directors at least annually.

Regulatory risk

Regulatory risk is the risk of impact on the organization's internal and external environments as a result of changes in regulations. This includes the risk of penalties arising from noncompliance with regulatory requirements.

P&C insurance companies are subject to significant regulation by governments. We monitor our compliance with all relevant regulations. As in any regulated industry, it is possible that future regulatory changes or developments may prevent us from raising rates or taking other action to enhance our operating results. As well, future regulatory changes, novel or unexpected judicial interpretations or political developments could fundamentally change the business environment in which we operate. We actively participate in discussions with regulators, governments, and industry groups to ensure we are well-informed of contemplated changes and that our concerns are understood. We consider the implications of potential changes to our regulatory and political environment in our strategic planning processes to understand the impacts and adjust our plans if necessary.

For regulatory changes expected to impact our business, refer to *Emerging Legislation and Regulatory Events* above.

Cyber risk

Cyber risk is the risk of financial loss, data loss or breach, business disruption, or damage to the reputation of an organization from some sort of failure of its information technology systems or processes.

The threat landscape for cyber risk is continually evolving and new vulnerabilities are continually being identified across all aspects of the technology spectrum. As a member of the financial services industry, our organization is exposed to threat agents looking for technical weakness and exploitable vulnerabilities. Our goal is to maintain processes and a resilient technological environment that can sustain our products and services in meeting the needs our clients. The impact of a cyber-incident could have material consequences for our organization and our clients including loss of system availability, loss of data or data integrity, breaches or distribution of confidential information, as well as impacts to our overall reputation and brand.

To mitigate and manage our exposure to cyber risks, our organization has implemented a security risk management program with both governance and operational components, including training and awareness at all levels. Our internal technology governance has been designed to meet both regulatory requirements and industry best practices. Our program is designed to protect systems with consideration of confidentiality, integrity, and availability of information. Key activities include monitoring our systems for events to detect and prevent system intrusions, as well as conducting scans of the internal and external environments to identify and remediate vulnerabilities. Along with an extensive business continuity management program, we continually assess our cyber security program to ensure we continue to be well-positioned to meet the needs of our business and clients.

STRATEGIC RISKS

Capital management risk

Capital management risk is the risk that management of capital resources threatens our capacity to grow, execute our business model and generate future financial returns.

Strong capital and liquidity positions help maintain our capability to ensure the safety and soundness of the organization. Many risks noted above influence overall capital management and are linked to our ability to ensure that capital continues to act as a safeguard against possible unexpected losses.

We view capital as a scarce and strategic resource. This resource reflects the financial well-being of the organization, but is also critical in enabling us to pursue strategic business opportunities. Adequate capital also acts as a safeguard against possible unexpected losses and as a basis for confidence in Co-operators General by shareholders, policyholders, creditors and others.

We have a Board approved Capital Management Policy. The purpose of this policy is to protect and evaluate the allocation of capital as a scarce and strategic resource, maximize the return on invested capital, and to plan ahead for future capital needs. Proactive capital management ensures that CGL maintains enough capital to cover the risks to which the organization is exposed, and manages capital at a level that is consistent with its risk appetite. For more detail on capital management refer to Note 20 to the consolidated financial statements.

CONTROLS AND PROCEDURES

Disclosure controls and procedures

Management is responsible for designing and maintaining adequate disclosure controls and procedures to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer (CEO) and the Executive Vice-President Finance and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at December 31, 2016, an evaluation of the effectiveness of our disclosure controls and procedures, as defined under National Instrument 52-109, was carried out with management's participation and under the supervision of the CEO and CFO. Based on that evaluation, the CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective.

Internal control over financial reporting

Management is responsible for designing and 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. However, due to inherent limitations, these controls may not prevent or detect all material misstatements on a timely basis. Projections of any control effectiveness evaluation to future periods are subject to the risk that the controls may become inadequate due to potential changes in conditions or possible deteriorations in the degree of compliance with policies or procedures.

A material change in internal control over financial reporting occurred during the first quarter of 2016 related to an internal reinsurance agreement and pooled investment arrangement. New processes and controls were implemented to support these changes.

A material change in internal control over financial reporting occurred during the fourth quarter of 2016. New billing and policy systems to support the commercial 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 changes were made to our internal control over financial reporting during the second and third quarters of 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

As at December 31, 2016, an evaluation of the effectiveness of our internal control over financial reporting, as defined under National Instrument 52-109, was carried out with management's participation and under the supervision of the CEO and CFO. Based on that evaluation, the CEO and CFO concluded that the design and operation of our internal control over financial reporting was effective.

ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The following accounting estimates are considered particularly significant to understanding our financial performance. We have established detailed policies and control procedures that are intended to ensure these judgments are controlled, independently reviewed and consistently applied. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

Financial instruments measured at fair value

When they are initially recognized, all financial assets and liabilities are recorded at fair value in the consolidated balance sheet. In subsequent periods, they are measured at fair value, except for items that are classified as loans and receivables or other financial liabilities which are measured at amortized cost. We utilize financial instruments to fund our insurance contract liabilities. For a discussion of risks and the management of our risks refer to *Financial Risks*. A more complete description of the accounting treatment for financial instruments is presented in Note 2 of the consolidated financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

We employ a fair value hierarchy to categorize the inputs that we use in valuation techniques to measure fair value. Fair value is best evidenced by a quoted price from an active market (Level 1). Where these markets exist, the fair value of a financial asset is determined to

Management's Discussion & Analysis

be the quoted bid price. Where these markets do not exist, valuation models are utilized to estimate fair value using observable market inputs (Level 2) or unobservable inputs (Level 3).

Impairment of investments

At minimum, we review investments at the end of each quarter to identify and evaluate investments that show indication of possible impairment. An investment is considered impaired if there is objective evidence of impairment. Objective evidence of impairment includes a significant or prolonged decline in fair value or net asset value below cost, or when a loss event that has a reliably estimable impact on future cash flows of the financial instrument has occurred. Such impairments are recorded as a charge to earnings in the period that the determination is made. Factors that are considered include, but are not limited to: a decline in current financial position; defaults on debt obligations; failure to meet debt covenants; significant downgrades of credit status, and severity and/or duration of the decline in value. Previously impaired investments continue to be reviewed quarterly.

Unpaid claims and adjustment expenses

We make estimates for the amount of unpaid claims and the timing of future claims payments based on assumptions that reflect the expected set of economic conditions and planned courses of action. 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 value of claims incurred but not yet reported, a value which may take years to finally determine. In establishing the provision for unpaid claims, we also take into account estimated recoveries relating to salvage and subrogation.

The initial actuarial estimate of unpaid claims and adjustment expenses is an undiscounted amount. In order to determine the undiscounted liability, assumptions are developed considering the characteristics of the class of business, historical trends, the amount of data available on individual claims and any other pertinent factors. This estimate is then discounted to recognize the time value of money. The interest rate used to discount the liabilities is 2.43% (2015 - 2.23% to 2.42%) based on our projected rate of return on the investment portfolios supporting these liabilities. The discount rate is adjusted on a regular basis based on changes in the projected rate of return. If the discount rate increases, the result would be a reduction in total unpaid claims and adjustment expenses, which would have a positive impact on our underwriting income, with all else being equal. A decrease in the discount rate would have the opposite effect. A 1.0% increase in the discount rate would have an approximate impact on after-tax net income of \$33.4 million (2015 - \$32.6 million).

The discounted unpaid claims and adjustment expenses incorporates assumptions concerning future investment income, projected cash flows, and appropriate PFADs. As the estimates for unpaid claims are subject to measurement uncertainty and the variability could be material in the near term, we include PFADs in our assumptions for claims development, reinsurance recoveries and future investment income. The incorporation of PFADs is in accordance with accepted actuarial practice in order to ensure that the actuarial liabilities are adequate to pay future benefits. The selected PFADs are within the ranges recommended by the Canadian Institute of Actuaries.

In 2016, our discounted claims development experience was \$266.5 million favourable, indicating that our unpaid claims reserves were more than adequate to cover the actual losses that were settled. For more information refer to the *Key Financial Measures (Non-IFRS)* section of this document and also Note 7 of the consolidated financial statements for our claims development table and sensitivity analysis.

Advisor transition commissions

Co-operators General's advisors are eligible for a transition commission payout upon a qualifying termination. The transition commission is based upon the number of years of service as an advisor and the average trailing commission volume of their book of business. Payments to terminated advisors are funded in part from reduced commission payments which are made to new advisors during the first 3 years of their agency relationship. Our accounting policy is to recognize the cost of transition commissions payable to active advisors over their estimated working lives and to recognize the benefit of reduced commissions payable to new advisors at the time when reduced commissions are paid. The obligation to active advisors is determined by accruing for the benefits earned to date on a present value basis assuming the cash flows associated with the earned benefits are paid out at the expected termination date. Significant assumptions used in the calculation of advisor transition commissions are the discount rate of 3.47% (2015 - 2.95%) and an average termination age of 58 (2015 - 60). A 1.0% decrease in the discount rate would increase the provision for advisor transition commissions \$8.2 million (2015 - \$9.1 million) and decrease net income by \$6.6 million (2015 - \$7.2 million). A two year decrease in the average termination age would increase the provision for advisor transition commissions \$4.7 million (2015 - \$4.0 million) and decrease net income by \$3.7 million (2015 - \$3.2 million). Larger rate and age changes would have a corresponding impact to net income.

Retirement benefit obligations

Measurement uncertainty exists in valuing the components of retirement benefit obligations. Each assumption is determined by management, based on current market conditions and experiential information available at the time. Due to the long-term nature of the plans, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, medical and dental

care cost trend rates, retirement age and mortality and termination rates. Actual experience that differs from the actuarial assumptions will affect the amounts recorded for the accrued benefit obligation and benefit expense. Assumed medical and dental care cost trend rates have a significant effect on the amount reported for the medical and dental benefit plans. A 1.0% increase in assumed medical and dental benefit cost trend rates would increase the accrued benefit obligation for 2016 by \$20.2 million (2015 - \$21.4 million). A 1.0% decrease in the discount rate would have the approximate effect of increasing the accrued benefit obligation for 2016 by \$22.1 million (2015 - \$20.9 million). Significant assumptions used in the calculation of employee future benefits are presented in Note 15 to the consolidated financial statements.

ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRS. CGIC and certain of its subsidiaries are insurance companies and must also comply with the accounting and reporting requirements of regulators. The significant accounting policies used in the preparation of the consolidated financial statements are described in Note 2 of the consolidated financial statements. The accounting policies used are consistent with those applied in our audited consolidated financial statements for the year ended December 31, 2015.

New and amended accounting standards were applied, including amendments to IFRS 10 “Consolidated Financial Statements”, IAS 1 “Presentation of Financial Statements”, IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”. These new and amended accounting standards did not have an impact on our consolidated financial statements. For a complete listing of new and amended accounting standards refer to Note 3 of our consolidated financial statements.

FUTURE ACCOUNTING CHANGES

The IASB has continued to issue a number of amendments and new accounting pronouncements that will be applicable to Co-operators General. Included below are the details of select accounting standards issued but not yet applied. For a complete listing as well as their estimated impacted, refer to Note 4 of our consolidated financial statements.

IFRS 9 “Financial Instruments” - IFRS 9 is a three part standard aimed at reducing complexity in reporting financial instruments by replacing the different rules in IAS 39 “Financial Instruments: Recognition and Measurement”. 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 complete standard was issued by the IASB in July 2014, and is effective for annual periods beginning on or after January 1, 2018. In September 2016, the IASB approved an exposure draft proposing amendments to IFRS 4 “Insurance Contracts”. The exposure draft was issued to address concerns regarding the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard IFRS 4, which has not yet been issued. The exposure draft provides a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Alternatively, the exposure draft provides an option to permit entities that issue insurance contracts to reclassify, from profit or loss to other comprehensive income, the volatility arising from financial assets reclassified as FVTPL under IFRS 9 that were not FVTPL under IAS 39. The Company believes it will meet the criteria to defer IFRS 9 and is currently evaluating the impact that this standard will have on its consolidated financial statements.

IFRS 7 “Financial Instruments: Disclosures” - IFRS 7 was amended in December 2011 to require additional financial instrument disclosures upon transition from IAS 39 to IFRS 9. The amendments are effective upon adoption of IFRS 9, which was finalized in July 2014 and is effective upon the adoption of the new insurance contract standard, IFRS 4, which has not yet been issued. The Company is currently evaluating the impact that this standard will have on its consolidated financial statements.

IFRS 16 “Leases” - IFRS 16 was issued in January 2016 and is intended to replace IAS 17 “Leases”, and related IFRICs. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 month or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact that this standard will have on its consolidated financial statements.

GLOSSARY OF TERMS

Certain terms used in this MD&A have the meanings set forth below that tend to be specific to the Canadian insurance industry or to Co-operators General.

Advisor - an insurance advisor who sells insurance products exclusively for CGIC.

Assume - reinsurance term to describe an insurer taking on a risk, for a premium, from the primary insurer, to cover all or part of a risk insured by the primary insurer who has then ceded the risk.

Broker - an intermediary who negotiates policies of insurance or reinsurance with insurers on behalf of the insured or reinsured, receiving a commission from the insurer or the reinsurer for placement and other services rendered.

Catastrophe reinsurance - a form of insurance, which subject to specified limits, indemnifies the ceding company for the amount of loss in excess of a specified retention amount with respect to an accumulation of losses resulting from a catastrophic event.

Cede - reinsurance term to describe a primary insurer purchasing insurance from a reinsurer who assumes the risk, to cover all or part of a risk insured by the primary insurer.

Claim - the amount owed by an insurer or reinsurer pursuant to a policy of insurance or reinsurance arising from the loss relating to an insured event.

Claims development - a non-IFRS measure representing the change in reserve balance on unpaid claims through the process of adjudication from the initial estimate to the ultimate amount paid.

Claims experience - the realized claims loss record for a defined block of business.

Claims incurred - the aggregate monetary amount of all claims paid during an accounting period adjusted by the change in the provision for unpaid claims for that accounting period together with the related loss adjustment expenses, net of recoveries from reinsurers.

Combined ratio - a non-IFRS measure representing the percentage the claims and adjustment expenses plus the acquisition expenses and the administrative expenses are to net earned premium.

Direct written premium (DWP) - a non-IFRS measure representing the total amount of premiums for new and renewal policies written during a specified period.

Expense ratio - a non-IFRS measure representing the acquisition expenses plus administrative expenses to net earned premium, expressed as a percentage.

Frequency of claims - the ratio of the number of claims files opened in a period to the total number of policies in force.

General insurance - all types of insurance excluding life insurance and governmental insurance. Also known as property and casualty insurance.

Government automobile insurers - automobile insurers owned or controlled by the governments of the provinces of Quebec, Manitoba, Saskatchewan and British Columbia.

Incurred but not reported (IBNR) - the estimate of claims incurred but not yet reported by policyholders.

Industry pools - consist of the "residual market" as well as mandatory risk-sharing pools (RSP) in Alberta, Ontario, Quebec, New Brunswick and Nova Scotia. These pools, managed by the Facility Association (FA), except for the Quebec RSP, provide automobile insurance to individuals who are otherwise unable to purchase such coverage from private insurers acting voluntarily. All insurance companies share in the results of the pool according to their market share.

Liability insurance - insurance that serves to protect the insured from the financial consequences of damages claimed by third parties.

Line of business - the major product groupings offered to the public. Co-operators General's major lines of business are: automobile, home, commercial, and farm.

Loss ratio - a non-IFRS measure representing the percentage incurred losses plus loss-adjustment expenses are to net earned premium; may be referred to as claims ratio.

Market yield adjustment (MYA) - a non-IFRS measure representing the impact of changes in the discount provision on claims liabilities, the provision for adverse deviation (PFADs) and other discounting assumptions based on the change in the market-based yield of the underlying assets.

Minimum Capital Test (MCT) - a non-IFRS measure representing the minimum and supervisory target capital standards established by OSFI for property and casualty insurance companies.

Net earned premium (NEP) - the net written premium during the period, plus the unearned premiums reserve at the beginning of the period, less the unearned premiums reserve at the end of the period, net of any reinsurance.

OSFI - Office of the Superintendent of Financial Institutions (Canada), the government body responsible for the regulation and supervision of financial institutions and private pension plans subject to federal oversight.

Property and casualty (P&C) insurance - all types of insurance excluding life insurance and governmental insurance. Also known as general insurance.

Provision for adverse deviation (PFAD) - margins that are added to loss reserves to provide for adverse deviation from claims reserve estimates; this includes provisions covering claims development variability and risks associated with interest rate and reinsurance recoveries.

Unpaid claims and adjustment expenses - the amount provided as a liability to cover the estimated ultimate cost of settling claims, including claims incurred but not reported arising out of events, which have occurred by the end of an accounting period, less amounts paid with respect to those claims; also referred to as 'provision for unpaid claims' or 'claims reserves.'

Reinstatement premium - the premium paid to restore the original reinsurance policy limit as a result of a reinsurance loss payment under a catastrophe cover. Reinstatement premiums are reported as a reduction in net earned premium.

Reinsurer - an insurer who assumes all or part of a risk originally assumed by a primary insurer.

Retention - has two meanings: (1) in respect of reinsurance, the amount of risk not ceded to reinsurers; (2) in respect to policies in force, the number of policyholders who renew for a subsequent term.

Return on equity (ROE) - a non-IFRS measure representing net income as a percentage of average opening and closing shareholders' equity excluding accumulated other comprehensive.

Severity of claims - the average cost of each claim, based on the total claims cost and number of claims opened in a period.

Salvage and subrogation recoverable - Salvage recoverable is the estimated value of damaged property that may be retrieved, reconditioned, and sold to reduce the amount of an insured loss. Subrogation recoverable is the estimate of the amount the insurer will collect from a negligent third party or their insurer after assuming the insured's legal right to collect damages.

Underwriting - the selection and assumption of risk for designated loss or damage arising from specified events by issuing a policy of insurance in respect thereof.

Underwriting gain or loss - a non-IFRS measure calculating the profit or loss from the activity of taking on insurance risks, excluding the impact of the MYA.

RESPONSIBILITY FOR FINANCIAL REPORTING

Management and the appointed actuary

Management is responsible for the preparation of the accompanying consolidated financial statements and the accuracy, integrity and objectivity of the information they contain. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of Canadian insurance regulators. The financial information presented elsewhere in the annual report is consistent with the consolidated financial statements. These consolidated financial statements, which necessarily include some amounts that are based on management's best estimates and the opinion of the appointed actuary, have been prepared using careful judgment.

To assist management in the discharge of these responsibilities, Co-operators General Insurance Company and its wholly owned subsidiaries, collectively known as "the Company", maintain a system of internal controls designed to provide reasonable assurance that assets are safeguarded; that only valid and authorized transactions are executed; and that accurate, timely and comprehensive financial information is prepared. These controls are supported by policies and procedures and the careful selection and training of qualified staff. Further, management has a process in place to evaluate disclosure controls and procedures and internal controls over financial reporting.

The appointed actuary is appointed by the Board of Directors pursuant to the Insurance Companies Act (Canada). Among the appointed actuary's responsibilities is the requirement to carry out an annual valuation of the Companies' insurance contracts in accordance with accepted actuarial practice and regulatory requirements for the purpose of reporting to shareholders and the Office of the Superintendent of Financial Institutions, Canada. Management is responsible for providing the appointed actuary the information necessary for completion of the annual valuations. The appointed actuary's report follows.

Audit Committee of the Board of Directors

The Audit Committee of the Board of Directors, consisting entirely of non-executive, independent directors, is responsible for reviewing the accounting principles and practices employed by the Company and reviewing the Company's annual consolidated financial statements prior to their submission to the Board of Directors for final approval. The Audit Committee meets no less than quarterly with the internal and external auditors, and management to review and discuss accounting, reporting and internal control matters. Both the internal and external auditors have full and unrestricted access to the Audit Committee, with and without the presence of management. The Audit Committee is responsible for recommending to the Board of Directors the appointment of the Company's external auditors, the approval of their remuneration and the terms of their engagement.

The consolidated financial statements have been examined independently by PricewaterhouseCoopers LLP, on behalf of the Company's shareholders. The Independent Auditor's Report is presented below and outlines the scope of their examination and expresses their opinion on the consolidated financial statements of the Company.

(Signed)

Rob Wesseling
President and Chief Executive Officer

February 15, 2017

(Signed)

P. Bruce West
Executive Vice-President, Finance
and Chief Financial Officer



February 15, 2017

Independent Auditor's Report

To the Shareholders of Co-operators General Insurance Company

We have audited the accompanying consolidated financial statements of Co-operators General Insurance Company and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015 and the consolidated statements of changes in shareholders' equity, income, comprehensive income and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Co-operators General Insurance Company and its subsidiaries as at December 31, 2016 and December 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed)

Chartered Professional Accountants, Licensed Public Accountants

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

APPOINTED ACTUARY'S REPORT

To the Directors and Shareholders of Co-operators General Insurance Company:

I have valued the policy liabilities of Co-operators General Insurance Company for its consolidated balance sheet as at December 31, 2016 and their change in the consolidated statement of income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policy obligations and the financial statements fairly present the results of the valuation.

(Signed)

Lisa Guglietti
Fellow, Canadian Institute of Actuaries

Guelph, Ontario
February 15, 2017

CONSOLIDATED FINANCIAL STATEMENTS

CO-OPERATORS GENERAL INSURANCE COMPANY CONSOLIDATED BALANCE SHEETS

As at December 31

(in thousands of Canadian dollars)	2016 \$	2015 \$
Assets		
Cash and cash equivalents	44,529	86,912
Invested assets (note 5)	4,270,922	3,963,795
Premiums due	831,478	747,852
Income taxes recoverable	16,336	23,686
Reinsurance ceded contracts (note 9)	236,631	63,463
Deferred acquisition expenses (note 10)	207,740	195,176
Assets held for sale	472	2,773
Deferred income taxes (note 11)	98,587	91,080
Intangible assets (note 12)	70,502	62,856
Other assets (note 13)	77,259	65,594
	5,854,456	5,303,187
Liabilities		
Accounts payable and accrued charges	183,817	166,762
Income taxes payable	16,553	3,972
Insurance contracts (note 8)	3,818,688	3,445,352
Borrowings	17,941	-
Retirement benefit obligations (note 15)	111,083	103,546
Deferred income taxes (note 11)	4,229	3,570
Provisions and other liabilities (note 14)	123,263	121,375
	4,275,574	3,844,577
Shareholders' equity		
Share capital (note 16)	222,720	217,495
Contributed capital	10,132	10,132
Retained earnings	1,218,439	1,083,097
Accumulated other comprehensive income (note 19)	127,591	147,886
	1,578,882	1,458,610
	5,854,456	5,303,187

Contingencies, commitments and guarantees (note 26)

Approved by the Board of Directors:

(Signed)

John Harvie
Chairperson

(Signed)

Rob Wesseling
President and Chief Executive Officer

See accompanying notes to the consolidated financial statements

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

Years ended December 31

2016 (in thousands of Canadian dollars)	Share capital \$	Contributed capital \$	Retained earnings \$	Accumulated other comprehensive income \$	Total shareholders' equity \$
Balance, beginning of year	217,495	10,132	1,083,097	147,886	1,458,610
Net income	-	-	145,285	-	145,285
Other comprehensive loss	-	-	-	(20,295)	(20,295)
Comprehensive income (loss)	-	-	145,285	(20,295)	124,990
Staff share loan plan (note 16)	(1,601)	-	-	-	(1,601)
Shares issued/redeemed (note 16)	6,826	-	-	-	6,826
Dividends declared (note 16)	-	-	(9,846)	-	(9,846)
Premium on redemption of preference shares	-	-	(97)	-	(97)
Balance, end of year	222,720	10,132	1,218,439	127,591	1,578,882

2015 (in thousands of Canadian dollars)	Share capital \$	Contributed capital \$	Retained earnings \$	Accumulated other comprehensive income \$	Total shareholders' equity \$
Balance, beginning of year	213,556	10,132	1,099,992	167,932	1,491,612
Net income	-	-	162,269	-	162,269
Other comprehensive loss	-	-	-	(20,046)	(20,046)
Comprehensive income	-	-	162,269	(20,046)	142,223
Staff share loan plan (note 16)	(226)	-	-	-	(226)
Shares issued/redeemed (note 16)	4,165	-	-	-	4,165
Dividends declared (note 16)	-	-	(179,042)	-	(179,042)
Premium on redemption of preference shares	-	-	(122)	-	(122)
Balance, end of year	217,495	10,132	1,083,097	147,886	1,458,610

See accompanying notes to the consolidated financial statements

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31

	2016	2015
(in thousands of Canadian dollars except for earnings per share and weighted average number of common shares)	\$	\$
Direct written premium (note 21)	2,572,244	2,435,879
Ceded written premium (note 8, 9, 21)	(95,979)	(67,655)
Income		
Net earned premium (note 7, 8, 21)	2,400,364	2,297,047
Net investment income and gains (note 5)	200,683	144,826
Fees and other income	6,858	6,223
	2,607,905	2,448,096
Expenses		
Claims and benefits	1,960,340	1,483,587
Ceded claims and benefits (note 9)	(331,444)	3,346
Premium and other taxes	78,965	72,527
Commissions and advisor compensation	419,419	396,092
Ceded commission (note 9)	(4,070)	(4,890)
General expenses	302,348	292,803
	2,425,558	2,243,465
Income before income taxes	182,347	204,631
Income tax expense (note 11)	37,062	42,362
Net income	145,285	162,269
Earnings per share (note 17)	6.33	7.17
Weighted average number of common shares (note 17)	21,385	21,304

See accompanying notes to the consolidated financial statements

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31

	2016	2015
(in thousands of Canadian dollars)	\$	\$
Net income	145,285	162,269
Other comprehensive income		
Items that may be reclassified subsequently to the statement of income:		
Net unrealized gains (losses) on available-for-sale financial assets		
Bonds	(14,797)	23,671
Stocks	65,065	17,715
	50,268	41,386
Net reclassification adjustment for (gains) losses included in income		
Bonds	(18,140)	(42,574)
Stocks	(56,978)	(26,960)
	(75,118)	(69,534)
Items that may be reclassified before income taxes	(24,850)	(28,148)
Income tax recovery relating to items that may be reclassified (note 11)	(6,713)	(7,836)
	(18,137)	(20,312)
Items that will not be reclassified to the statement of income:		
Remeasurement of the retirement benefit obligations (note 15)	(3,015)	(5)
Income tax recovery related to items that will not be reclassified (note 11)	(857)	(271)
	(2,158)	266
Other comprehensive loss	(20,295)	(20,046)
Comprehensive income	124,990	142,223

See accompanying notes to the consolidated financial statements

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

(in thousands of Canadian dollars)	2016 \$	2015 \$
Operating activities		
Net income	145,285	162,269
Items not requiring the use of cash (note 23)	(58,125)	9,037
Changes in non-cash operating components (note 23)	151,196	(10,950)
Cash provided by (used in) operating activities	238,356	160,356
Investing activities		
Purchases and advances of:		
Invested assets	(3,337,862)	(5,519,737)
Interest in associates and joint ventures	(8,900)	-
Property and equipment	(10,979)	(6,890)
Intangible assets	(10,156)	-
Assets held for sale	-	(525)
Sales and redemptions of:		
Invested assets	3,069,950	5,652,596
Intangible assets	-	23
Assets held for sale	2,215	2,604
Acquisition of subsidiaries, net of cash acquired (note 12)	-	(11,456)
Cash provided by (used in) investing activities	(295,732)	116,615
Financing activities		
Share capital - preference shares issued (note 16)	10,481	9,091
Share capital - preference shares redeemed (note 16)	(3,655)	(4,926)
Repayment of borrowings	-	(3,500)
Dividends paid (note 16)	(9,677)	(178,941)
Premium on redemption of preference shares	(97)	(122)
Cash provided by (used in) financing activities	(2,948)	(178,398)
Net increase (decrease) in cash and cash equivalents less short-term indebtedness	(60,324)	98,573
Cash and cash equivalents less short-term indebtedness, beginning of year	86,912	(11,661)
Cash and cash equivalents less short-term indebtedness, end of year	26,588	86,912
Cash	31,896	85,119
Cash equivalents	12,633	1,793
Short-term indebtedness	(17,941)	-
Cash and cash equivalents less short-term indebtedness, end of year	26,588	86,912

Supplemental information (note 23)

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

1. Nature of operations

Unless noted or the context indicates otherwise, in these notes “Company” refers to the Consolidated Co-operators General Insurance Company. CGIC refers to the Non-Consolidated Co-operators General Insurance Company.

The Company is comprised of CGIC and its wholly owned subsidiaries: The Sovereign General Insurance Company (Sovereign), COSECO Insurance Company (COSECO), L'Équitable, Compagnie d'assurances Générale (L'Équitable), Co-operators Investment Limited Partnership (CILP) and Co-operators Insurance Agencies Limited (CIAL). 100% of the voting rights attached to all the outstanding voting shares or partnership interests of each of Sovereign, COSECO, L'Équitable, CILP and CIAL are held by the Company.

The registered office of the Company is Priory Square, 130 Macdonell Street, Guelph, Ontario. The Company is domiciled in Canada and is incorporated under the Insurance Companies Act (Canada). These consolidated financial statements of the Company for the year ended December 31, 2016 were authorized for issue by the Board of Directors on February 15, 2017.

CGIC and certain of its subsidiaries are licensed to write property and casualty insurance in each of the provinces and territories in which they conduct business. CGIC and certain of its subsidiaries are regulated by the federal insurance act. The Company must comply with the accounting and reporting requirements of its regulator the Office of the Superintendent of Financial Institutions, Canada (OSFI).

The Company's common shares are 100% owned by Co-operators Financial Services Limited (CFSL), which in turn is owned 100% by The Co-operators Group Limited (CGL). The Class E preference shares, Series C are traded on the Toronto Stock Exchange under the symbol CCS.PR.C.

2. Summary of significant accounting policies

Basis of preparation and statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). References to IFRS are based on Canadian Generally Accepted Accounting Principles for publicly accountable enterprises as set out in Part 1 of the Chartered Professional Accountants of Canada (CPA) Handbook - Accounting. Part 1 of the CPA Handbook incorporates IFRS and International Accounting Standards (IAS) as issued by the International Accounting Standards Board (IASB).

The consolidated balance sheets are presented on a non-classified basis. Assets expected to be realized and liabilities expected to be settled within the Company's normal operating cycle of one year are typically considered to be current. Certain balances are comprised of both current and non-current amounts. The current and non-current portions of such balances are disclosed, where applicable, throughout the notes to the consolidated financial statements.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention excluding certain financial instruments and insurance contract liabilities whose basis of measurement is disclosed in the following accounting policies.

Insurance contracts

Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Company agrees to compensate a policyholder if a specified uncertain future event, other than a change in a financial variable, adversely affects the policyholder. Any contracts, including reinsurance contracts that do not meet the definition of an insurance contract under IFRS, are classified as investment contracts, or service contracts, as appropriate. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime until all rights and obligations are extinguished or expire. The Company does not have investment contracts.

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Revenue recognition

Premiums written are deferred as unearned premiums and recognized in the consolidated statements of income over the terms of the underlying policies. Premiums written are gross of any premium taxes and commissions.

In 2015, commission revenue amounting to \$6,223 was netted with commission and general expenses. This has been reclassified in the current year, resulting in an increase of \$4,670 and \$1,553 in the 2015 commission expense and general expenses, respectively.

Insurance contract liabilities

Unearned premiums represent the portion of the premiums written relating to periods of insurance coverage subsequent to the consolidated balance sheet date.

The provision for unpaid claims and adjustment expenses represents the estimated amount required to settle all reported and unreported claims incurred to the end of the year. These estimates are determined using the best information available for claims settlement patterns, inflation, expenses, changes in the legal and regulatory environment and other matters. The provision reflects the time value of money and is discounted based on the projected market yield of the assets backing the claims liability.

Anticipated recoveries of amounts relating to reported and unreported claims for salvage and subrogation, net of any required provision for impairment, are included as an allowance in the measurement of the claims provision. Estimation of the amount of these recoveries is based on principles consistent with the Company's method for establishing the related liability.

Differences between the estimated cost and subsequent settlement of claims are recognized in the consolidated statements of income in the period in which they are settled or in which the provisions for claims outstanding are re-estimated.

In the normal course of claims adjudication, the Company settles certain obligations to claimants through the purchase of annuities from third party life insurance companies under structured settlement arrangements (structured settlements). In accordance with OSFI Guideline D-5, these contracts are categorized as either Type 1 or Type 2 based on the characteristics of the claim settlement. When the Company does not retain a reversionary interest under the contractual arrangement to any current or future benefits of the annuity, and the Company has obtained a legal release of the obligation from the claimant, it will be classified as a Type 1 structured settlement. For such contracts, any gain or loss arising on the purchase of an annuity is recognized in the consolidated statement of income at the date of purchase and the related claims liabilities are derecognized. All other structured settlements that do not meet these criteria are classified as Type 2, with the Company recognizing the annuity contract in other investments within invested assets. A corresponding liability representing the outstanding obligation to the claimant is recognized in insurance contracts.

Liability adequacy test

At each balance sheet date, an assessment is made of whether the insurance contract liabilities are adequate, using current estimates of future cash flows of unpaid claims and adjustment expenses. If that assessment shows that the carrying amount of the liabilities is insufficient in light of the estimated future cash flows, the premium deficiency is recognized in the consolidated statements of income. An additional liability is set-up if a reduction in deferred acquisition expenses is insufficient.

Premiums due

Premiums due represent receivables that are recognized when owed pursuant to the terms of the related insurance contract. Premiums due are measured on initial recognition at the fair value of the consideration receivable and are recorded on the consolidated balance sheets net of any impairment losses. Premiums due are classified as loans and receivables.

Acquisition expenses

Acquisition expenses are comprised of commissions and premium taxes, which relate directly to the acquisition of premiums. These expenses are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the anticipated claims, expenses and investment income related to the unearned premiums. If a premium deficiency arises, any deferred acquisition expenses would be written off first, then a liability would be recorded on the consolidated balance sheets for any remainder.

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Reinsurance

Premiums payable in respect of reinsurance ceded are recognized over the period in which the reinsurance contract is entered into and are based on the underlying insurance contracts to which they relate. Ceded premiums are expensed in the consolidated statements of income on a pro-rata basis over the term of the reinsurance contract.

Reinsurance ceded assets and liabilities are recognized and together reflect the net amount estimated to be recoverable under the Company's reinsurance contracts in respect of outstanding claims reported within insurance contracts. The amount recoverable is initially valued on the same basis as the underlying insurance contract. The amount recoverable is reduced when events or conditions arise after the initial recognition of the asset that provide objective evidence that the Company may not receive all amounts due under the contract.

Reinsurance commissions are recognized in the consolidated statements of income over the term of the reinsurance contract using principles consistent with the Company's method of recording acquisition expenses. The Company has in place certain reinsurance contracts in which the commission has a floor and a ceiling based on the loss experience on the business ceded under the contract. Commissions are estimated based on the experience of these contracts.

The Company also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognized as revenue or expenses in the same manner as they would be if the reinsurance contract was considered direct business. Liabilities arising under these contracts are estimated in a manner consistent with the related insurance contract and are included as components of insurance contracts.

Financial instrument contracts

Classification and designation

Financial assets are classified as fair value through profit or loss (FVTPL), available-for-sale (AFS), held-to-maturity (HTM), or loans and receivables based on their characteristics and purpose of their acquisition. Certain financial assets may be designated as FVTPL at the Company's option. Financial liabilities are required to be classified as FVTPL or other financial liabilities.

The Company has classified all stocks and bonds as either AFS or FVTPL. Investments in limited partnerships are classified as AFS. Certain bonds backing unpaid claims and adjustment expenses have been designated as FVTPL. Certain shares that contain embedded derivatives are designated as FVTPL. The fair value option may be used when such a designation eliminates or significantly reduces an accounting mismatch caused by measuring assets and liabilities on different bases or when instruments are measured and managed on a fair value basis in accordance with a documented risk management strategy. If a contract contains embedded derivatives, the entire combined hybrid contract may be designated as FVTPL under certain conditions. The Company's FVTPL designations comply with these requirements.

Mortgages and other investments are classified as loans and receivables. Short-term investments, which include money market instruments with a maturity of greater than three months from the date of acquisition, are classified as AFS. Currency derivatives are classified as FVTPL. Accounts payable and accrued charges, as well as borrowings are classified as other financial liabilities with interest expense, if any, recorded in general expenses. The Company does not have any financial instruments classified as HTM.

Presentation

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognized amounts and there is the ability and intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Recognition and measurement

Purchases and sales of invested assets classified as FVTPL, AFS, HTM or loans and receivables are recorded on a trade date basis.

Financial assets are measured at fair value with the exception of loans and receivables. Assets classified as loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment losses, if any. Any premium or discount on the acquisition of bonds is included in the calculation of the effective interest rate. Financial liabilities are measured at fair value when they are classified as FVTPL. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Changes in the fair value of FVTPL financial assets and financial liabilities are recognized in net income for the year, while changes in the fair value of AFS financial assets are reported within other comprehensive income (OCI), until the related instrument is disposed of or becomes impaired. Net foreign exchange gains and losses for FVTPL and monetary AFS financial instruments are recognized in net income, while net foreign exchange gains and losses for non-monetary items classified as AFS are recognized in OCI.

Accumulated other comprehensive income (AOCI) is included in the consolidated balance sheets as a separate component of shareholders' equity (net of income taxes) and includes unrealized gains and losses on AFS financial assets. The cumulative gains or losses in the fair values of investments previously recognized in AOCI are reclassified to net income when they are realized or impaired.

Financial assets are derecognized when the rights to receive cash flows from them have expired or when the Company has transferred substantially all risk and rewards of ownership.

Fair value

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Fair value measurements for invested assets are categorized into levels within a fair value hierarchy based on the nature of valuation inputs (Level 1, 2 or 3).

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the instrument's interest rate approximates current observable market rates. Where other financial assets and financial liabilities are of longer duration, fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates.

Impairment of financial assets

The Company reviews its AFS investment portfolio on a quarterly basis, at a minimum, for any declines in fair value below cost, and recognizes any losses in net income where there is objective evidence of impairment.

The Company assesses whether an AFS financial asset is impaired by assessing whether there is a significant or prolonged decline in fair value below cost. Factors that are considered include, but are not limited to: a decline in current financial position; defaults on debt obligations; failure to meet debt covenants; significant downgrades of credit status, and severity and/or duration of the decline in value. An impairment loss is recorded through a reclassification adjustment to the consolidated statements of income.

Impairments of AFS equity instruments cannot be reversed through the consolidated statements of income until the instrument is disposed. Impairments of AFS debt instruments are only reversed if, in a subsequent period, the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income.

Financial assets include mortgages and other investments classified as loans and receivables that are also evaluated for impairment. These invested assets are considered impaired when there is objective evidence of deterioration in credit quality that indicates the Company no longer has reasonable assurance that the full amount of principal and interest will be collected. The Company then establishes specific provisions for losses and balances are subsequently measured at their net realizable amount based on discounting the cash flows at the original effective interest rate inherent in the loan or the fair value of the underlying security. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it collectively assesses the assets for impairment. Assets that are individually assessed for impairment, and for which an impairment loss is or continues to be recognized, are not included in a collective assessment of impairment. Changes in present value of estimated future cash flows of impaired loans are recognized in net investment income and gains as a credit or charge to impairment losses.

Derivative financial instruments

Derivatives are classified as FVTPL and transactions are recorded on a trade date basis. There are no derivatives designated as a hedge for accounting purposes. Derivatives are recognized at fair value in the consolidated balance sheets. The gains and losses arising from remeasuring the derivatives at fair value are recognized in the consolidated statements of income in net investment income and gains. Positive fair values are reported in Invested assets as foreign currency forward contracts (note 5) and negative fair values are reported in provisions and other liabilities (note 14).

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract. Some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified financial variable. Derivatives embedded in financial instruments or contracts are separated from their host contracts and accounted for as derivatives when: (i) their economic characteristics and risks are not closely related to those of the host contract; (ii) the terms of the embedded derivative are the same as those of a free standing derivative; (iii) the combined instrument or contract is not measured at fair value with the changes in fair value being recognized in net income; and (iv) the fair value of the embedded derivative can be reliably measured on a separate basis. These embedded derivatives are classified as FVTPL financial assets and liabilities with changes in fair value recognized in net income as a component of net investment income and gains.

Revenue and expense recognition

Included within net investment income and gains are dividend and interest income. Dividend income is recorded on the ex-dividend date and interest income, which includes amortization of premiums or discounts, is recognized using the effective interest method. Realized gains and losses on the sale of investments are computed using the average cost of investments, net of any impairment charges, and are recognized in net income on the date of sale.

Transaction costs for AFS financial assets and loans and receivables are recorded as part of the purchase cost of the asset. Transaction costs for financial liabilities classified as other than FVTPL are included in the value of the instrument at issue. Transaction costs for FVTPL financial instruments are recognized in the consolidated statements of income.

Other significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include short-term investments with a maturity of three months or less from the date of acquisition.

Property and equipment

Computer equipment, furniture and equipment, and leasehold improvements are carried at cost less accumulated amortization and accumulated impairment losses. Subsequent costs are included in the asset's carrying value when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. All repairs and maintenance costs are charged to the consolidated statements of income during the year in which they occur.

Property and equipment balances are amortized on a straight-line basis over their estimated useful lives as follows:

	Term
Computer equipment	3 years
Furniture and equipment	10 years
Leasehold improvements	Lesser of 5 years and terms of related lease

Leasehold projects in progress are carried at cost and amortization commences upon completion of the project.

Impairment reviews are performed when there are indicators that the carrying value of an asset may exceed its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Impairment losses are recognized in the consolidated statements of income as an expense. In the event that the value of a previously impaired asset recovers, the previously recognized impairment loss is recovered in income at that time.

Property and equipment are derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing the proceeds with the net carrying value and are recorded in the consolidated statements of income. Fully depreciated property and equipment are retained in cost and accumulated amortization accounts until such assets are removed from service.

Useful lives, amortization rates and residual values are reviewed annually and are taken into consideration when determining the depreciable amounts of the property and equipment.

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Leases

Leases of property and equipment where the Company is not exposed to substantially all of the risks and rewards of ownership are classified as operating leases. Incentives received from the lessor are deferred and amortized to the consolidated statements of income on a straight-line basis over the term of the lease. Where substantially all of the risks and rewards have been transferred to the Company the lease is classified as a finance lease. In these cases, an obligation and an asset are recognized based on the present value of the future minimum lease payments and balances are amortized over the lease term or useful life, as applicable.

Business acquisitions and consolidation

The Company measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in net income.

The Company elects, on a transaction-by-transaction basis, whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date. Transaction costs that the Company incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Subsidiaries

Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

	Place of business	Ownership interest and voting rights held by the Company	Principal activities
The Sovereign General Insurance company	Canada	100%	Property & casualty insurance
L'Équitable, Compagnie d'assurances Générale	Canada	100%	Property & casualty insurance
COSECO Insurance Company	Canada	100%	Property & casualty insurance
Co-operators Investment Limited Partnership	Canada	100%	Investment partnership
Co-operators Insurance Agencies Limited	Canada	100%	Licensed insurance agency

Investments in associates and joint ventures

Associates are those entities over which the Company has significant influence, but not control. Significant influence is considered to be held where the Company has the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control over those policies. Significant influence is generally presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity.

Joint ventures are joint arrangements where the parties have rights to the net assets of the arrangement. A joint arrangement is where two or more parties have joint control. Joint control is the contractually agreed sharing of control, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The Company's investment includes goodwill identified on acquisition and is presented net of any accumulated impairment losses. The consolidated financial statements include the Company's share of the income, expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Transactions eliminated on consolidation

Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, unless the transaction provides evidence of impairment.

Intangible assets

Goodwill is not amortized but is evaluated for impairment annually or more frequently when an event or circumstance occurs that indicates goodwill might be impaired. Testing for impairment is accomplished by determining if the carrying value of a cash-generating unit (CGU) exceeds its recoverable amount at the assessment date. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Each of those CGUs represents the Company's investment by legal entity. The assets constituting the CGU to which goodwill has been allocated are tested for impairment prior to testing the goodwill for impairment. Any impairment loss on these assets is recognized in the consolidated statements of income prior to testing the CGU containing goodwill for impairment.

If the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount, the amount of the goodwill impairment is measured as the excess of the carrying amount of the CGU over its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell or its value in use. Should the carrying value exceed the recoverable amount, an impairment loss is recognized in the consolidated statements of income at that time. The estimate of recoverable amount required for the impairment test is sensitive to the cash flow projections and the assumptions used in the valuation model. Previously recorded impairment losses for goodwill are not reversed in future periods.

Finite life intangible assets are amortized on a straight-line basis over their estimated useful lives and are carried at cost less accumulated amortization and impairment. Finite life intangible assets are tested for impairment when events or circumstances indicate that the carrying value may not be recoverable. Indefinite life intangible assets are not amortized but are evaluated for impairment annually or more frequently when an event or circumstance occurs that indicates impairment. An impairment loss is recognized as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, which are CGUs.

For intangible assets excluding goodwill, an assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset or CGU's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset or CGU is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset or CGU in prior years.

The details of the Company's accounting policy as it applies to each intangible asset group is as follows:

	Term
Goodwill	Indefinite life, not amortized
Licenses	Indefinite life, not amortized
Software	5 years
Broker customer lists	5 - 10 years

Software consists primarily of internally generated software development costs.

Assets held for sale and discontinued operations

Non-current assets and disposal groups are classified as assets held for sale when the Company expects the carrying amount to be recovered through a sales transaction rather than through continuing use. This condition is satisfied when the asset or disposal group is available for immediate sale in its present condition and the sale is highly probable. Non-current assets and disposal groups classified as held for sale are measured at the lower of their previous carrying amounts, prior to being reclassified, and fair value less costs to sell. Liabilities directly associated with the held for sale assets of a disposal group are presented separately from liabilities related to continuing operations.

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

A disposal group is classified as a discontinued operation if it meets the following conditions: (i) it is a component that can be distinguished operationally and financially from the rest of the Company's operations, and (ii) it represents either a separate major line of business or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations. Disposal groups classified as discontinued operations are presented separately from the Company's continuing operations in its consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of cash flows.

Retirement benefit obligations

Retirement benefit obligations include pensions, medical and dental benefits and other certain benefits to qualifying individuals. The primary pension plan is a defined contribution plan.

A defined contribution plan is a post-employment benefit plan under which an entity pays specified contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in general expenses in net income in the periods during which services are rendered by employees.

The other-than-pension benefits are defined benefit contracts, which are accounted for using the projected unit credit method. The expected costs of retirement benefit obligations are expensed during the years that the employees render services and an accrued post-employment benefit obligation is recognized. The obligation is determined by application of the terms of the plan together with relevant actuarial assumptions. There are no employee contributions to the other-than-pension benefits plan. The plan is not funded. Net interest on the defined benefit liability is recognized in general expenses in net income.

The effects of remeasurement of retirement benefit obligations, including actuarial gain and loss, are recognized permanently in OCI. Past service costs are recognized in the consolidated statement of income at the earlier of when the amendment or curtailment occurs or when the Company recognizes related restructuring or termination benefits, where applicable.

Borrowings

Borrowings are initially recognized at fair value, net of any transaction costs incurred. Subsequently, borrowings are carried at amortized cost. Debt issuance transaction costs are amortized over the term of the related debt using the effective interest method. Included in borrowings is short-term indebtedness, which includes cash on account net of payments in transit.

Provisions

Provisions are recognized when: (i) the Company has a present legal or constructive obligation as a result of past events, (ii) it is more likely than not that an outflow of resources will be required to settle the obligation, (iii) and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense and classified as a general expense in the consolidated statements of income.

Provision for advisor transition commissions

The Company's advisors are eligible for a transition commission payout on a qualifying termination. The transition commission liability is based on the number of years of service as an advisor and the advisor's average trailing commission volume. Payments to terminated advisors are funded in part from reduced commission payments which are made to advisors assuming the rights to the book of business during the first three years of their agency relationship. The obligation to active advisors is determined by accruing for the benefits earned to date on a present value basis assuming the cash flows associated with the earned benefits are paid out at the expected termination date.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Canadian dollars, which is CGIC's functional and the Company's presentation currency.

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Transactions and balances

The Company translates all foreign currency monetary assets and liabilities into Canadian dollars at year end foreign exchange rates. Revenue and expenses are translated at the prevailing foreign exchange rate on the date of the transaction. Exchange gains and losses are recognized in the consolidated statements of income with the exception of unrealized gains and losses associated with non-monetary financial assets, such as equities classified as AFS, which are recorded in OCI.

Income taxes

The Company accounts for income taxes using the asset and liability method. Under this method, the provision for income taxes is calculated based on income tax laws and rates enacted and substantively enacted as at the consolidated balance sheet date. The income tax provision is comprised of current and deferred income taxes. Current income taxes are amounts expected to be payable or recoverable as a result of current year's operations. Deferred income tax assets and liabilities arise from temporary differences between the accounting and tax basis of assets and liabilities. A deferred income tax asset is recognized to the extent that it is probable the benefit of losses and deductions will be available to be carried forward to future years for income tax purposes. Current and deferred income taxes are recorded in the consolidated statements of income, except for those items that are associated with components of OCI. In those cases, the applicable tax is also recorded in OCI.

Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in shareholders' equity as a deduction from the proceeds, net of tax.

Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the consolidated balance sheet date and the reported amounts of revenues and expenses during the year. The preparation of the consolidated financial statements also requires management to exercise its judgment in the process of applying the Company's 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 notes for the respective account balances.

Significant estimates and assumptions include the following:

Valuation of insurance contracts

The Company makes certain assumptions, which include discount rates and the future development of claims. Note 7(b) discloses the revised estimate of prior year unpaid claims and adjustment expenses. The Company's sensitivity of unpaid claims and after-tax net income to changes in best estimate assumptions are disclosed in note 7(f).

Provision for advisor transition commissions

The provision for advisor transition commissions is an obligation to active advisors determined by accruing for the benefits earned to date. The Company makes certain assumptions in determining the present value of the cash flows associated with the earned benefits. Note 14 discloses the significant assumptions used to estimate the provision, which include discount rate and average termination age.

Valuation of intangible assets

Determining the recoverability of intangible assets, including goodwill, requires an estimation of the recoverable amount of the asset or CGU. Key assumptions and sources of estimation uncertainty include the determination of future cash flows expected to arise from the asset or CGU and a suitable discount rate in order to calculate present value.

Valuation of defined benefit obligation

The cost of the defined benefit obligation are calculated by the Company's independent actuaries using assumptions determined by management. The actuarial valuation involves making assumptions about discount rates, future inflation, mortality rates and health and dental cost trends. If actuarial experience differs from the assumptions used, the expected obligation could increase or decrease in future years. Note 9 discloses the significant assumptions used to in the defined benefit obligation.

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Measurement of income taxes

Management exercises judgement in estimating the provision for income taxes. The Company is subject to income tax laws in various federal and provincial jurisdictions where it operates. Tax laws are complex and potentially subject to different interpretations by the taxpayer and the relevant tax authority. To the extent that our interpretations of tax laws differ from those of tax authorities or the timing of realization of deferred income tax assets or liabilities is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

Significant judgements include the following:

Impairment of financial instruments

The Company assesses AFS financial instruments for objective evidence of impairment at each reporting date. Objective evidence of impairment includes a significant or prolonged decline in the fair value or net asset value below cost or when a loss event that has a reliably estimable impact on the future cash flows of the financial instrument has occurred. The determination of what is significant or prolonged requires judgement. In making this judgement, we evaluate factorings including, but not limited to: a decline in current financial position; defaults on debt obligations; failure to meet debt covenants; significant downgrades of credit status, and severity and/or duration of the decline in value.

Determining operating segments

As a result of the investments being held in the CILP, participation reinsurance and management agreement, the chief operating decision maker uses consolidated results of the Company based on one operating segment (being property and casualty operations) to allocate resources and assess performance. The Company meets the criteria to report one operating segment; however, considers this an area of significant judgement in 2016.

3. Adoption of new and amended accounting standards

Effective January 1, 2016, the Company adopted the following new and amended accounting standards:

IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"

In September 2014, the IASB issued amendments to both IFRS 10 and IAS 28 to clarify the recognition requirements for gains or losses on the sale or contribution of assets to an associate or joint venture. The amount of the gain or loss recognized will be dependent on whether the assets sold or contributed constitute a business as defined in IFRS 3 "Business Combinations". The Company has adopted these amendments on January 1, 2016, and has determined that there was no impact to the consolidated financial statements.

IFRS 11 "Joint Arrangements"

In May 2014, the IASB issued amendments to IFRS 11 related to accounting for the acquisition of an interest in a joint operation. The acquirer of a joint operation in which the activity constitutes a business as per IFRS 3 "Business Combinations" must apply the principles of business combination accounting and disclosure requirements in IFRS 3 and other IFRSs to the acquisition. The Company has adopted these amendments on January 1, 2016, and has determined that there was no impact to the consolidated financial statements.

IAS 1 "Presentation of Financial Statements"

In December 2014, IAS 1 was amended to clarify that materiality applies to all parts of the financial statements, and that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate. It also provides examples of how to clarify understandability and comparability in the ordering of note disclosures. The Company has adopted these amendments on January 1, 2016, and has determined that there were no significant changes to the consolidated financial statements.

IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"

Amendments to IAS 16 and IAS 38 were issued in May 2014 and prohibit the use of revenue-based depreciation methods. This presumption can be rebutted for intangible assets that meet certain criteria. The Company has adopted these amendments on January 1, 2016, and has determined that there was no impact to the consolidated financial statements.

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

4. Accounting standards issued but not yet applied

IFRS 7 "Financial Instruments: Disclosures"

IFRS 7 was amended in December 2011 to require additional financial instrument disclosures upon transition from IAS 39 to IFRS 9. The amendments are effective upon adoption of IFRS 9, which was finalized in July 2014 and is effective upon the adoption of the new insurance contract standard, IFRS 4, which has not yet been issued. The Company is currently evaluating the impact that this standard will have on its consolidated financial statements.

IFRS 9 "Financial Instruments"

IFRS 9 is a three part standard aimed at reducing complexity in reporting financial instruments by replacing the different rules in IAS 39 "Financial Instruments: Recognition and Measurement". 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 complete standard was issued by the IASB in July 2014, and is effective for annual periods beginning on or after January 1, 2018. In September 2016, the IASB approved an exposure draft proposing amendments to IFRS 4 "Insurance Contracts". The exposure draft was issued to address concerns regarding the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard IFRS 4, which has not yet been issued. The exposure draft provides a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Alternatively, the exposure draft provides an option to permit entities that issue insurance contracts to reclassify, from profit or loss to OCI, the volatility arising from financial assets reclassified as FVTPL under IFRS 9 that were not FVTPL under IAS 39. The Company believes it will meet the criteria to defer IFRS 9 and is currently evaluating the impact that this standard will have on its consolidated financial statements.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 was issued in May 2014, and is intended to replace IAS 18 "Revenue", IAS 11 "Construction Contracts" and related IFRICs. The standard was issued as a result of an ongoing project to align revenue recognition between IFRS and U.S. Generally Accepted Accounting Principles. In April 2015, the effective date of the standard was changed from January 1, 2017 to January 1, 2018. IFRS 15 contains a scope exception which excludes insurance contracts within the scope of IFRS 4 "Insurance Contracts" and financial instruments within the scope of IFRS 9; therefore, this standard will have a limited impact on the Company.

IFRS 16 "Leases"

IFRS 16 was issued in January 2016 and is intended to replace IAS 17 "Leases", and related IFRICs. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 month or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact that this standard will have on its consolidated financial statements.

IAS 7 "Statement of Cash Flows"

In January 2016, IAS 7 was amended to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017. The Company does not expect this amendment to significantly impact the consolidated financial statements.

IAS 12 "Income Taxes"

In January 2016, IAS 12 was amended to clarify guidance in the standard related to the measurement of deductible temporary differences for unrealized losses on debt instruments measured at fair value, the estimation of probable future taxable profits, and the assessment of

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

deferred tax assets in combination with other deferred tax assets. The amendments are effective for annual periods beginning on or after January 1, 2017. The Company does not expect this amendment to significantly impact the consolidated financial statements.

5. Invested assets and net investment income and gains

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

a) Invested assets

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

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

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

b) Investments - measured at fair value

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

Level 1 - Quoted prices

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

Level 2 - Significant other observable inputs

Includes directly or indirectly observable inputs other than quoted prices for identical instruments exchanged in active markets. These inputs include quoted prices for similar instruments exchanged in active markets; quoted prices for identical or similar instruments exchanged in inactive markets; inputs other than quoted prices that are observable for the instruments, such as interest rates and yield curves, volatilities, prepayment spreads, credit risks and default rates where available; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Consistent with market participants, the Company determines the fair values of foreign exchange forward contracts by using a discounted cash flow valuation technique using observable market data.

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Level 3 - Significant unobservable inputs

Includes inputs that are not based on observable market data. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these assets or liabilities or related observable inputs that can be corroborated at the measurement date. Unobservable inputs require significant management judgement or estimation to make certain projections and assumptions about the information that would be used by market participants in pricing assets or liabilities. To verify pricing, the Company assesses the reasonability of the fair values by comparing to industry accepted valuation models, to movements in credit spreads and to recent transaction prices for similar assets where available. Mortgages are measured at amortized cost and the fair value, valuation technique and inputs are disclosed under note 5(e).

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

	Level 1 - Quoted prices	Level 2 - Significant other observable inputs	Level 3 - Significant unobservable inputs	Total fair value
December 31, 2016	\$	\$	\$	\$
AFS				
Bonds	-	2,355,339	-	2,355,339
Stocks	776,800	7,227	-	784,027
Short-term investments	-	33,126	-	33,126
Limited partnerships	-	-	72,193	72,193
	776,800	2,395,692	72,193	3,244,685
FVTPL				
Bonds	-	124,788	-	124,788
Stocks	355,650	-	-	355,650
Foreign currency forward contracts	-	563	-	563
	355,650	125,351	-	481,001
Total invested assets at fair value	1,132,450	2,521,043	72,193	3,725,686
FVTPL				
Foreign currency forward contracts (note 14)	-	3,142	-	3,142
Total financial liabilities at fair value	-	3,142	-	3,142

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

	Level 1 - Quoted prices	Level 2 - Significant other observable inputs	Level 3 - Significant unobservable inputs	Total fair value
December 31, 2015	\$	\$	\$	\$
AFS				
Bonds	-	2,245,784	-	2,245,784
Stocks	779,835	7,066	-	786,901
Short-term investments	-	44,717	-	44,717
Limited partnerships	-	-	29,904	29,904
	779,835	2,297,567	29,904	3,107,306
FVTPL				
Bonds	-	143,380	-	143,380
Stocks	168,962	-	-	168,962
Foreign currency forward contracts	-	6	-	6
	168,962	143,386	-	312,348
Total invested assets at fair value	948,797	2,440,953	29,904	3,419,654
FVTPL				
Foreign currency forward contracts (note 14)	-	8,832	-	8,832
Total financial liabilities at fair value	-	8,832	-	8,832

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

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

The investments measured at fair value and classified as Level 3 as at December 31, 2016 are limited partnerships, which represent units of third-party managed private equity funds (Funds). The fair values of limited partnership investments are based on the net asset value (NAV) from each of the individual Funds most recent quarterly or annual financial statements. Limited partnership NAV's are derived by valuation techniques employed by each Funds management using unobservable inputs. The Company assesses the NAV disclosed in each Funds most recent financial statement using independent analytical procedures to ensure the amount is a reasonable representation of fair value. The Company does not assess the sensitivity of the fair value of limited partnerships because the inputs used by each fund manager to determine the NAV are unobservable and not readily available.

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

	Limited partnerships
2016	\$
Balance, beginning of year	29,904
Purchases	44,297
Sales and redemptions	(3,858)
Gains (losses)	
Unrealized included in OCI	1,850
Balance, end of year	72,193

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

	Limited partnerships
2015	\$
Balance, beginning of year	15,399
Purchases	10,851
Sales and redemptions	(191)
Gains	
Unrealized included in OCI	3,845
Balance, end of year	29,904

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

c) Net investment income and gains

	AFS	Classified FVTPL	Designated FVTPL	Loans and receivables	Other	Total
2016	\$	\$	\$	\$	\$	\$
Interest income	62,508	-	3,704	19,327	538	86,077
Interest expense	-	-	-	-	(18,001)	(18,001)
Dividend and other income	21,656	-	11,788	-	18,278	51,722
Investment expense	(4,115)	-	(755)	(1,210)	-	(6,080)
Net investment income	80,049	-	14,737	18,117	815	113,718
Net realized gains (losses)	76,589	-	(227)	476	327	77,165
Net foreign exchange gains (losses)	6,755	7,617	(2,110)	-	-	12,262
Change in fair value (note 23)	-	-	5,764	-	-	5,764
Impairment losses (note 23)	(8,226)	-	-	-	-	(8,226)
Net investment gains (losses)	75,118	7,617	3,427	476	327	86,965
Net investment income and gains	155,167	7,617	18,164	18,593	1,142	200,683

	AFS	Classified FVTPL	Designated FVTPL	Loans and receivables	Other	Total
2015	\$	\$	\$	\$	\$	\$
Interest income	65,031	-	4,316	19,532	456	89,335
Interest expense	-	-	-	-	(17,990)	(17,990)
Dividend and other income	31,140	-	8,385	-	18,401	57,926
Investment expense	(4,417)	-	(152)	(47)	-	(4,616)
Net investment income	91,754	-	12,549	19,485	867	124,655
Net realized gains	86,620	-	245	614	(167)	87,312
Net foreign exchange gains (losses)	6,471	(23,732)	(225)	-	-	(17,486)
Change in fair value (note 23)	-	5,204	(31,302)	-	-	(26,098)
Impairment losses (note 23)	(23,557)	-	-	-	-	(23,557)
Net investment gains (losses)	69,534	(18,528)	(31,282)	614	(167)	20,171
Net investment income and gains	161,288	(18,528)	(18,733)	20,099	700	144,826

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

d) Maturity profile of invested assets

	< 1 Year	1 - 3 Years	4 - 5 Years	6 - 9 Years	> 10 Years	No fixed	Total
December 31, 2016	\$	\$	\$	\$	\$	\$	\$
Bonds	124,439	630,329	464,679	1,056,451	204,229	-	2,480,127
Stocks	4,252	-	-	-	-	1,137,134	1,141,386
Short-term investments	33,126	-	-	-	-	-	33,126
Limited partnerships	-	-	-	-	-	72,193	72,193
Foreign currency forward contracts	563	-	-	-	-	-	563
Mortgages	89,578	264,667	113,987	38,478	6,546	-	513,256
Other investments	-	-	-	-	10,264	90	10,354
Investment income due and accrued	19,917	-	-	-	-	-	19,917
	271,875	894,996	578,666	1,094,929	221,039	1,209,417	4,270,922
	6%	21%	14%	26%	5%	28%	100%

	< 1 Year	1 - 3 Years	4 - 5 Years	6 - 9 Years	> 10 Years	No fixed	Total
December 31, 2015	\$	\$	\$	\$	\$	\$	\$
Bonds	214,760	530,531	558,664	873,826	211,383	-	2,389,164
Stocks	13,035	-	-	-	-	944,995	958,030
Short-term investments	44,717	-	-	-	-	-	44,717
Limited partnerships	-	-	-	-	-	29,904	29,904
Foreign currency forward contracts	6	-	-	-	-	-	6
Mortgages	75,010	222,429	148,957	60,751	5,521	-	512,668
Other investments	-	-	-	-	10,542	150	10,692
Investment income due and accrued	18,614	-	-	-	-	-	18,614
	366,142	752,960	707,621	934,577	227,446	975,049	3,963,795
	9%	19%	18%	24%	6%	24%	100%

e) Mortgage diversification

	December 31, 2016	December 31, 2015
Creditor concentration	\$	\$
Insured residential	26,013	32,173
Uninsured residential	96,129	99,140
Commercial	391,114	381,355
	513,256	512,668

	December 31, 2016	December 31, 2015
Geographic concentration	\$	\$
Atlantic	64,417	65,479
Quebec	32,855	31,791
Ontario	178,708	164,867
West	237,276	250,531
	513,256	512,668

Fair Value	522,818	527,725
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(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Mortgages measured at fair value, for disclosure purposes only, are classified as Level 3. The fair value of the mortgages has been calculated by discounting the expected cash flows of each instrument. The discount rate is determined using the Government of Canada benchmark bond yield for instruments of similar maturity, adjusted for specific credit risk. In determining the adjustment for credit risk, Addenda Capital Inc. (Addenda), a company under common control, responsible for managing the Company's investment portfolio, considers market conditions, the value of the properties that the mortgage is secured by and other indicators of creditworthiness.

f) Unconsolidated structured entities

The Company has interests in various unconsolidated structured entities which are included in invested assets on the consolidated balance sheets. These entities are not controlled by the Company.

The interests in unconsolidated structured entities are as follows:

	Carrying value	Maximum exposure to loss
December 31, 2016	\$	\$
Asset-backed securities	57,874	57,874
Pooled funds	178,487	178,487
Limited partnerships	72,193	72,193

	Carrying value	Maximum exposure to loss
December 31, 2015	\$	\$
Asset-backed securities	111,914	111,914
Pooled funds	173,448	173,448
Limited partnerships	29,904	29,904

Asset-backed securities

Investment in third-party asset-backed securities consists of mortgage-backed securities, auto loan receivables and credit card receivables. Financing and support is limited to the investment made.

Pooled Funds

Investments in Pooled Funds consist of units invested in underlying fixed income and equity securities managed by Addenda and other third-party managers. The Pooled Funds are perpetual private trusts created under trust agreements. Financing and support is only provided to the Pooled Funds through the purchase of units and is therefore limited to the investment made.

Pooled Funds are presented in all financial statement notes, except the above table, within the fixed-income or equity category (or categories) of the underlying investment holdings.

Limited partnerships

The Company owns units of the Funds with a mandate to generate capital appreciation and yield through investments in infrastructure assets. Limited partnership investments are structured to give the third-party sponsor the exclusive right to manage and control the Funds. The structured entities invested in by the Company are financed by the capital commitments and contributions of the limited partners of the Funds. The Company's maximum exposure to loss is limited to the total capital contributed to these Funds by the Company. The Company has committed to providing future capital contributions which are disclosed in note 26.

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

g) Other investments

	December 31, 2016 \$	December 31, 2015 \$
Structured settlement annuities	10,264	10,542
Investments	90	150
	10,354	10,692
Fair Value	10,354	10,692

6. Financial risk management

The Company has established risk management policies and practices covering key aspects of the operations. The Board of Directors approves these policies and management is responsible for ensuring the policies are properly maintained and implemented. The Board of Directors receives confirmation that the risks are being appropriately managed through regular reporting, as well as annual compliance reporting and by reviews conducted by the Company's internal audit department.

Credit risk

Credit risk refers to the risk of financial loss from the failure of a debtor/counterparty to meet its payment obligations to the Company. Credit risk is increased when there is a concentration of investments made in similar industry sectors, in the same geographical area or within a single entity. The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, single issuer limits, corporate sector limits and general guidelines for geographic exposure. The Company monitors all positions within these concentration limits.

The Company limits its investment concentration in any one corporate investee or control group to 5% of total assets and a maximum of 20% of the bond portfolio can be invested in bonds rated below A. At December 31, 2016, the largest corporate credit exposure was 1.7% of invested assets (2015 - 1.9%) or 4.6% of total equity (2015 - 5.2%), and the bond portfolio includes 85.9% (2015 - 84.8%) of bonds rated A or better.

The Company's mortgage portfolio represents 12.0% (2015 - 12.9%) of invested assets carrying value. The Company has a comprehensive mortgage policy which includes, among other factors, single loan limits, diversification by type of property limits, and geographic diversification limits. Each mortgage is secured by real estate and related contracts. The largest single mortgage balance was \$9,078 (2015 - \$9,078). All commercial mortgages greater than \$1,000 are risk rated on an annual basis.

Concentrations of credit risk for insurance contracts can arise from reinsurance ceded contracts as insurance ceded does not relieve the ceding company of its primary obligation to the policyholder. The Company has established a Reinsurance and Insurance Counterparty Standards Committee that evaluates the financial condition of its reinsurers to minimize its exposure to significant loss from any one reinsurer's insolvencies. Reinsurers are typically required to have a minimum financial strength rating of A - at the inception of the treaty; rating agencies used are A.M. Best and Standard & Poor's. Concentration guidelines are also in place to establish the maximum amount of business that can be placed with a single reinsurer. There were no material defaults on transactions with reinsurers during the year. Based on management's review of creditworthiness of its reinsurers, no allowance, other than as required by actuarial standards, is included in the consolidated financial statements.

Another potential source of credit risk for insurance contracts is premiums due from policyholders. The Company's credit exposure to any one individual policyholder is not material. The Company's policies, however, are distributed by advisors, program managers, or brokers who manage cash collection.

The table below provides information regarding the overall credit risk of the Company by classifying assets according to the credit ratings of the counterparties. AAA is the highest possible rating, and those assets that fall outside the range of AAA to BBB are classified as speculative grade.

Bonds, short-term investments and selected cash equivalent amounts are based on external ratings provided by Dominion Bond Rating Services, Standard & Poor's and Moody's Investors Services.

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Reinsurance ceded contracts and other receivables are classified based on financial strength ratings provided by A.M. Best and Standard & Poor's. Mortgages are classified using Addenda's internal rating system which monitors the credit related exposures. Addenda considers experience, judgement and other qualitative and quantitative factors in assigning an internal credit rating.

	AAA	AA	A	BBB	Below BBB	Not rated	Total
December 31, 2016	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	12,633	-	-	-	-	31,896	44,529
Bonds	824,206	548,849	756,573	308,236	42,263	-	2,480,127
Short-term investments	33,126	-	-	-	-	-	33,126
Limited partnerships	-	-	-	-	-	72,193	72,193
Foreign currency forward contracts	-	563	-	-	-	-	563
Mortgages and other investments	-	26,014	366,829	129,208	1,469	90	523,610
Investment income due and accrued	-	-	-	-	-	19,917	19,917
Reinsurance ceded contracts	103	114,584	115,218	2,071	516	4,139	236,631
Premiums due	-	-	-	-	-	831,478	831,478
Income taxes recoverable	-	-	-	-	-	16,336	16,336
Other receivables	-	-	10,621	-	-	28,432	39,053
	870,068	690,010	1,249,241	439,515	44,248	1,004,481	4,297,563

	AAA	AA	A	BBB	Below BBB	Not rated	Total
December 31, 2015	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	1,793	-	-	-	-	85,119	86,912
Bonds	729,567	510,898	785,087	323,093	40,519	-	2,389,164
Short-term investments	44,717	-	-	-	-	-	44,717
Limited partnerships	-	-	-	-	-	29,904	29,904
Foreign currency forward contracts	-	6	-	-	-	-	6
Mortgages and other investments	-	32,173	363,268	111,033	16,736	150	523,360
Investment income due and accrued	-	-	-	-	-	18,614	18,614
Reinsurance ceded contracts	681	43,905	12,978	642	-	5,257	63,463
Premiums due	-	-	-	-	-	747,852	747,852
Income taxes recoverable	-	-	-	-	-	23,686	23,686
Other receivables	-	-	-	-	-	37,463	37,463
	776,758	586,982	1,161,333	434,768	57,255	948,045	3,965,141

Management has interpolated short-term investments ratings as follows: AAA = R-1 (high); AA = R-1 (middle); A = R-1 (low); BBB = R-2 (high, middle, low); below BBB = R-3 (high, middle, low).

The total amounts outlined in the tables above represent the Company's maximum credit exposure based on a worst case scenario and do not take into account any collateral held or other credit enhancements attached to the assets.

In the normal course of claims adjudication, the Company settles certain obligations to claimants through the purchase of annuities from third party life insurance companies under structured settlement arrangements. The Company guarantees the life insurers' obligations under these annuities, which are \$758,046 as at December 31, 2016 (2015 - \$704,631), based on the net present value of the projected future cash flow of these guarantees. \$10,264 (2015 - \$10,542) of the total value is classified as Type 2 structured settlements and recorded in other investments within invested assets. This business is placed with several licensed Canadian companies. The net risk to the Company is the credit risk related to the life insurance companies from which the annuities are purchased from. To manage this risk, the Company enters structured settlements with life insurance companies with a credit rating of A or higher. No defaults occurred in 2016 and 2015 and the Company considers the possibility of default to be remote. Credit risk is further reduced to the extent of coverage provided by Assuris, the life insurance compensation insurance plan that funds most policy liabilities of an insolvent Canadian life insurer.

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The Company participates in a securities lending program managed by a federally regulated financial institution whereby the Company lends securities it owns to other financial institutions to allow them to meet delivery commitments. The Company receives securities of superior credit quality and value as collateral for securities loaned. At December 31, 2016, securities, which are included in invested assets, with a fair value of \$161,388 (2015 - \$165,373) have been loaned. Securities with a fair value of \$172,353 (2015 - \$176,489) were received as collateral. The collateral received has not been recorded in the Company's consolidated balance sheets.

The Company is the assigned beneficiary of collateral consisting of cash, trust accounts and letters of credit totaling \$100,337 as at December 31, 2016 (2015 - \$11,388) as security from unlicensed reinsurers. This collateral is held in support of policy liabilities of \$80,247 as at December 31, 2016, (2015 - \$9,498) and could be used should these reinsurers be unable to meet their obligations. The cash portion of the collateral \$89,781 (2015 - \$2,947) has been recorded in the Company's consolidated balance sheets.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of three types of risks: equity risk, currency risk and interest rate risk.

a) Equity risk

Equity risk arises whenever financial results are adversely affected by changes in the capital markets.

An investment policy is in place and its application is monitored by the Board of Directors on a quarterly basis. Diversification techniques are employed to minimize risk. Policies limit investments in any entity or group of related entities to a maximum of 5% of the Company's assets.

The Company's stock portfolio is benchmarked to, and is considered closely correlated with, the indices noted in the table below. A 10% movement in the indices, with all other variables held constant, would have the following estimated effect on the fair values, and net income or OCI before taxes, of the Company's stock holdings.

Stock Portfolio	Benchmark	December 31, 2016	December 31, 2015
		AFS	AFS
		\$	\$
Canadian common	S&P/TSX Composite Index	47,516	47,241
U.S. equities	S&P 500 Index (CDN \$)	20,763	19,137
Foreign equities	MSCI EAFE Index (CDN \$)	6,742	6,373

b) Currency risk

Currency risk is the risk that the value of the foreign denominated financial instruments that is not offset by corresponding liabilities will fluctuate as a result of changes in foreign exchange rates.

The majority of the Company's currency risk is related to its investment holdings. A 10% change in the value of the foreign currency would be offset in net income by a change in the fair value of foreign currency forward contract hedges of \$19,507 (2015 - \$15,360). Policies limit investments in foreign denominated securities to a maximum value of 10% of invested assets. A 10% change in the value of the foreign currency would affect the fair value of investments by \$37,881 (2015 - \$31,559). For AFS foreign denominated investments, a 10% change in the value of the foreign currency would result in an increase or decrease in OCI of \$30,191 (2015 - \$25,026).

The Company mitigates a portion of currency risk by buying or selling foreign exchange forward contracts. Foreign exchange forward contracts are commitments to buy or sell foreign currencies for delivery at a specified date in the future at a fixed rate. Foreign exchange forward contracts are transacted in over-the-counter markets. Foreign exchange forward contracts with positive fair values are included in invested assets (note 5) and those with negative fair values are included in provisions and other liabilities (note 14).

The counterparty risk of default for these derivative financial instruments is limited to their positive replacement cost, which is substantially lower than their notional amount. The replacement cost of over-the-counter derivative financial instruments is an estimate and is determined using valuation models that incorporate prevailing foreign exchange rates and prices on underlying instruments with similar maturities and characteristics. The replacement cost reflects the estimated amount that the Company would receive, or might have to pay, to terminate the contracts as at December 31, 2016. The Company would have to pay \$2,579 to terminate the contracts as at December 31, 2016 (2015 - pay \$8,826). The maturity date for the Company's contracts range from January 18 to March 16, 2017. The notional

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amounts of the foreign currency forward contracts total \$242,174 (2015 - \$184,869). The counterparties are federally regulated financial institutions.

OSFI requires disclosure of the replacement cost, credit equivalent amount and the risk-weighted equivalent for each type of derivative instrument. The credit equivalent amount is the replacement cost of an instrument plus an additional amount representing potential future credit exposure, as defined by OSFI. The risk-weighted equivalent is determined by applying a risk-weighted factor to the credit equivalent amount based on OSFI guidelines. At December 31, 2016, the credit equivalent amount of the foreign currency forward contracts was \$568 (2015 - \$6). The risk-weighted equivalent was \$3 (2015 - \$nil).

Exposure to currency fluctuations on insurance contract liabilities is not material.

c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is significantly exposed to changes in interest rates. Movements in short-term and long-term interest rates, including changes in credit spreads, cause changes in the realized and unrealized gains and losses.

To manage this risk, historical data and current information that profiles the ultimate claims settlement pattern by class of insurance, is used as a basis to develop a Board-approved and monitored investment policy and strategy. The policy and strategy is based upon prudence, regulatory guidelines and claims settlement patterns by product line. The policy provides conservative investment limits which balance the Company's long-term focus with market opportunities as they arise. This is achieved by investing in a diversified mix of securities and by shifting between asset classes as trends in capital markets develop.

Interest rate risk also causes income volatility as a result of the discounting of the unpaid claims and adjustment expenses on the projected portfolio yield of the assets backing the claims liabilities. Changes in the value of the unpaid claims and adjustment expenses resulting from fluctuations in interest rates flow through claims and adjustment expenses in the consolidated statements of income. The corresponding change in asset values will either flow through the consolidated statements of income or through OCI based on the designation of assets held to settle future claims obligations. If the assets backing the liabilities are classified as AFS, the gains and losses due to interest rate fluctuations flow through OCI. If the assets backing the liabilities are designated under the fair value option as FVTPL, the gains and losses due to interest rate fluctuations flow through the consolidated statements of income.

To mitigate the impact of interest rate risk, the Company utilizes an asset liability management (ALM) strategy. A portion of the assets backing the Company's unpaid claims and adjustment expense liabilities are designated as FVTPL under the fair value option with the objective of offsetting a targeted proportion of the financial impact of interest rate changes and avoiding an accounting mismatch between the impact of interest rate changes on assets and liabilities in the consolidated statements of income.

A 1% movement in the interest rate, with all other variables held constant, would have the following estimated effect on the fair values, and net income or OCI before taxes, of the Company's holdings:

	December 31, 2016		December 31, 2015	
	AFS \$	FVTPL \$	AFS \$	FVTPL \$
Bonds	124,037	5,879	110,845	5,602
Canadian preferred stocks	389	15,623	2,630	7,547

Liquidity risk

Liquidity risk refers to the ability of the Company to access sufficient funds to meet financial obligations as they fall due. The Company's obligations arise as a result of claims, contractual commitments, or other outflows. The Company has no material commitments for capital expenditures and there is normally no need for such expenditures in the normal course of business.

Claims, contractual commitments and other outflows payments are funded by current revenue cash flow which normally exceeds cash requirements. At December 31, 2016 the Company had \$44,529 (2015 - \$86,912) of cash and cash equivalents, and \$33,126 (2015 - \$44,717) of short-term investments. In addition, the Company had a combination of lines of credit and a liquid investment portfolio. Together, the bond portion of the portfolio, which consists primarily of Canadian fixed-income securities issued or guaranteed by governments and investment grade corporate bonds, and publicly traded Canadian and U.S. equities had a December 31, 2016 fair value of \$3,506,905 (2015 - \$3,229,225).

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Along with internally generated funds, the Company has credit facilities of \$19,000 (2015 - \$21,100) that provide it with additional financial flexibility to fulfill cash requirements on an ongoing basis. Bonds with a carrying value of \$nil (2015 - \$nil) were pledged as collateral security and interest terms are bank prime. The Company had utilized \$nil (2015 - \$nil) at the balance sheet date.

The Company's estimated maturities of its financial liabilities, insurance contracts and other commitments are shown in the following table on an undiscounted basis. Financial liabilities and contractual commitments are presented based on their estimated contractual maturities. Insurance contracts and provisions and other liabilities are presented based on expectations of the timing of future cash flows and/or the duration of the contract.

Contractual commitments are not reported on the consolidated balance sheets.

	< 1 Year	1 - 3 Years	4 - 5 Years	6 - 9 Years	> 10 Years	Total
December 31, 2016	\$	\$	\$	\$	\$	\$
Accounts payable and accrued charges	183,817	-	-	-	-	183,817
Income taxes payable	16,553	-	-	-	-	16,553
Insurance contracts	2,295,206	782,136	387,758	216,427	8,249	3,689,776
Borrowings	17,941	-	-	-	-	17,941
Provisions and other liabilities						
Provision for advisor transition commissions	39,780	16,965	16,604	20,997	41,300	135,646
Advisor transition commission payable	6,630	5,415	-	-	-	12,045
Other provisions	2,208	-	-	-	-	2,208
Foreign currency forward contracts	3,142	-	-	-	-	3,142
Other liabilities	2,924	1,166	472	327	-	4,889
	2,568,201	805,682	404,834	237,751	49,549	4,066,017

Contractual commitments

Operating lease commitments (note 26)	20,379	34,662	26,059	23,036	1,623	105,759
Mortgage funding	2,043	1,942	200	-	-	4,185
	22,422	36,604	26,259	23,036	1,623	109,944

	< 1 Year	1 - 3 Years	4 - 5 Years	6 - 9 Years	> 10 Years	Total
December 31, 2015	\$	\$	\$	\$	\$	\$
Accounts payable and accrued charges	166,762	-	-	-	-	166,762
Income taxes payable	3,972	-	-	-	-	3,972
Insurance contracts	1,988,901	744,705	374,381	207,480	5,126	3,320,593
Provisions and other liabilities						
Provision for advisor transition commissions	27,709	13,657	7,861	26,742	47,297	123,266
Advisor transition commission payable	7,729	6,375	-	-	-	14,104
Other provisions	2,245	-	-	-	-	2,245
Finance lease obligations	65	-	-	-	-	65
Foreign currency forward contracts	8,832	-	-	-	-	8,832
Other liabilities	2,455	1,212	437	514	-	4,618
	2,208,670	765,949	382,679	234,736	52,423	3,644,457

Contractual commitments

Operating lease commitments (note 26)	19,440	31,741	23,310	26,046	1,050	101,587
Mortgage funding	9,053	-	-	-	-	9,053
	28,493	31,741	23,310	26,046	1,050	110,640

The mortgage funding commitments have interest rates ranging from 3.50% to 5.75% (2015 - 3.00% to 5.75%).

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7. Insurance risk management

a) Nature of risks arising from insurance contracts

There is uncertainty whether an insured event occurs and to what degree for each policy. By the very nature of an insurance contract, the risk is random and therefore unpredictable. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of insurance risk. The Company is at risk for losses in the event that incomplete or incorrect assumptions or information are used when pricing, issuing or reserving for insurance products.

The principle risk to the Company under its insurance contracts is that the actual claims and benefit payments arising may exceed the carrying amount of the insurance liabilities because the frequency and/or severity of the actual claims were greater than expected. Being a property and casualty insurer, catastrophes could have a significant effect on the Company's operating results and financial condition. Catastrophic loss risk is the exposure to loss resulting from multiple claims arising out of a single catastrophic event. Potential events include perils such as earthquake, tornado, wind, hail, flood or fire.

Underwriting risk, claims risk and product design and pricing risk are also important to the proper management of insurance risk. Underwriting risk is the exposure to financial loss resulting from the selection and approval of risks to be insured or the inappropriate application of underwriting rules to risks being insured. Claims risk refers to the possibility that inappropriate claims payments are made as a result of inadequate adjudication, settlement or claims payments. Product design and pricing risk is the exposure to financial loss from transacting insurance business where costs and liabilities experienced in respect of a product line exceeds the expectation in pricing it. Policies, processes and other internal controls have been established to manage these risks to within tolerable levels.

In managing certain insurance risks, reinsurance is employed by the Company; however, the Company is still exposed to reinsurance risk. Reinsurance risk is the risk of financial loss due to inadequacies in reinsurance coverage or the default of a reinsurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder.

Other external factors play a role in the Company's management of insurance risk. Property and casualty insurers are subject to significant regulation by governments. As in any regulated industry, it is possible that future regulatory changes or developments may prevent the Company from raising rates or taking other actions to enhance operating results. As well, future regulatory changes, novel or unexpected judicial interpretations or political developments could impact the ultimate amount of claims that must be paid out. Macroeconomic risks such as fluctuations in the long-term portfolio yields used in the valuation of the Company's insurance contracts or changes in the Company's forecasts of expected inflation levels are also important considerations in developing the estimated liability.

b) Sources of uncertainty and processes used to determine assumptions for insurance contracts

The Company establishes an unpaid claims and adjustment expense provision to cover claims incurred but not settled at the end of the reporting period. The unpaid claims provision contains both individual claims estimates and an incurred but not reported (IBNR) provision.

Individual claims estimates are set by regional claims adjusters on a case-by-case basis. These specialists apply their knowledge and expertise, after taking available information regarding the circumstances of the claim into account, to set individual case reserve estimates. The Company has documented policy and procedures by which case reserve estimates are set. The claims reserving strategy and monitoring of their application and effectiveness falls under the accountability of the Company's National Claims department.

The IBNR is a provision intended to cover future development on both reported claims and claims that have occurred but have yet to be reported. Uncertainty exists on reported claims in that all information may not be available at the valuation date. Claims that have occurred may not be reported to the Company immediately; therefore, estimates are made as to their value, an amount which may take years to finally determine.

The total unpaid claims and adjustment expense provision is an estimate that is determined using a range of accepted actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. These techniques use the Company's historical claims development patterns to predict future claims development. In situations where there has been a significant change in the environment or underlying risks, the historical data is adjusted to account for expected differences.

The initial actuarial estimate of unpaid claims and adjustment expenses is an undiscounted amount. This estimate is then discounted to recognize the time value of money. The discount rate applied to measure the value of unpaid claims and adjustment expenses is based upon the portfolio market yield of assets supporting the claims liabilities as well as considerations for the timing of the relative cash flows of the assets and liabilities. This rate could fluctuate significantly based on changes in interest rates and credit spreads. The interest rates used to discount the claims liabilities for each of the operating companies are as follows.

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	2016	2015
ALM program		
CGIC ¹	2.43%	N/A
Ontario automobile income replacement segment	N/A	2.23%
Habitational, commercial guard and farm guard liability segment	N/A	2.25%
Other claims liabilities		
CGIC	N/A	2.42%
Sovereign	N/A	2.25%
COSECO	N/A	2.39%

¹ In 2016, the ALM program included CGIC, Sovereign and COSECO, in 2015, the program included CGIC only.

The discounted unpaid claims and adjustment expenses incorporates assumptions concerning future investment income, projected cash flows, and appropriate provisions for adverse deviation (PFADs). As the estimates for unpaid claims are subject to measurement uncertainty and the variability could be material in the near term, the Company includes PFADs in its assumptions for claims development, reinsurance recoveries and future investment income. The incorporation of PFADs is in accordance with accepted actuarial practice in order to ensure that the actuarial liabilities are adequate to pay future benefits. The selected PFADs are within the ranges recommended by the Canadian Institute of Actuaries (CIA).

The following table represents the discounted development of the claims net of reinsurance.

Accident year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Estimate of ultimate claims costs:											
At end of											
accident year	1,322,885	1,392,685	1,440,784	1,438,417	1,451,371	1,369,236	1,595,650	1,584,753	1,637,924	1,757,030	
One year later	1,288,303	1,348,886	1,420,439	1,281,611	1,382,851	1,345,293	1,562,625	1,541,947	1,588,473		
Two years later	1,241,766	1,318,512	1,378,934	1,257,183	1,338,812	1,306,988	1,525,744	1,510,417			
Three years later	1,217,429	1,298,389	1,364,497	1,238,647	1,325,881	1,282,392	1,516,796				
Four years later	1,208,700	1,282,253	1,360,736	1,218,537	1,303,524	1,269,019					
Five years later	1,206,781	1,285,232	1,357,912	1,218,888	1,308,161						
Six years later	1,202,906	1,277,062	1,341,364	1,204,957							
Seven years later	1,194,363	1,266,121	1,328,885								
Eight years later	1,191,231	1,265,110									
Nine years later	1,189,743										
Current year estimate of cumulative claims	1,189,743	1,265,110	1,328,885	1,204,957	1,308,161	1,269,019	1,516,796	1,510,417	1,588,473	1,757,030	13,938,591
Cumulative payments to date	(1,178,648)	(1,235,954)	(1,305,465)	(1,162,232)	(1,213,529)	(1,145,145)	(1,303,286)	(1,224,089)	(1,142,504)	(979,880)	(11,890,732)
Provision recognized	11,095	29,156	23,420	42,725	94,632	123,874	213,510	286,328	445,969	777,150	2,047,859
Provision with respect to 2006 and prior accident years											58,447
Effect of discounting											126,090
Net unpaid claims and adjustment expenses											2,232,396

On December 31, 2015, CGIC and COSECO, and CGIC and Sovereign each entered into an agreement to commute certain of their intercompany reinsurance contracts, where CGIC acted as reinsurer to COSECO and Sovereign. The impact to the Company was a decrease of \$13,588 in claims and adjustments expenses.

c) Changes in assumptions used in measuring insurance contracts

Assumptions used to develop this estimate are selected by class of business and geographic location. Consideration is given to the characteristics of the risks, historical trends, amount of data available on individual claims, inflation and any other pertinent factors. Some assumptions require a significant amount of judgment such as the expected impacts of future judicial decisions and government legislation. The diversity of these considerations result in it not being practicable to identify and quantify all individual assumptions that are more likely than others to have a significant impact on the measurement of the Company's insurance contracts. There were no new assumptions identified in the year or the preceding year as having a potential or identifiable material impact on the overall claims estimate.

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

d) Objectives, policies and processes for managing risks arising from insurance contracts

The Company's underwriting objective is to develop business within the Company's target market on a prudent and diversified basis and to achieve profitable underwriting results.

The Company uses comprehensive underwriting manuals which detail the practices and procedures used in the determination of the insurance risk for each item to be insured and the decision of whether or not to insure the item. The Company underwrites automobile business after a periodic review of the client's driving record and claims experience. The Company underwrites property lines based on physical condition, property replacement values, claims experience, geography and other relevant factors. All employees in the underwriting area are trained and their work is subject to underwriting reviews by the Company. Advisors and brokers are compensated, in part, based on the profitability of their portfolio.

In setting the provision for unpaid claims and adjustment expenses required to cover the estimated liability for claims, the Company's practice is to maintain an adequate margin to ensure future years' earnings are not negatively affected by prior years' claims development and other variable factors such as inflation. The Company, in accordance with OSFI requirements, seeks a full peer review every three years accompanied by an annual methodology and assumption review in the intervening years.

The Company's pricing policies take into account numerous factors including claims frequency and severity trends, product line expense rates, special risk factors, the capital required to support the product line and the investment income earned on that capital. The Company's pricing process is designed to ensure an appropriate return on equity while also providing long-term rate stability. These factors are reviewed annually and adjusted periodically to ensure they reflect the current environment.

The Company monitors its compliance with all relevant regulations and actively participates in discussions with regulators, governments and industry groups to ensure that it is well-informed of contemplated changes and that its concerns are understood. In its strategic planning process, the Company considers the implications of potential changes to its regulatory and political environment and adjusts its plans if necessary.

e) Objectives, policies and processes for managing insurance risk through reinsurance

The Company's strategy is to retain underwriting risk where it is financially prudent. The Company reviews its insurance requirements annually to assess the level of reinsurance coverage required. Reinsurance is purchased to limit the Company's exposure to a particular risk, category of risk or geographic risk area. To manage reinsurance counterparty risk, the Company assesses and monitors the financial strength of its reinsurers on a regular basis.

The Company writes business that is broadly diversified in terms of the lines of business and geographic location. There is no guarantee that a catastrophe will not result in claims against the Company in excess of its maximum reinsurance coverage; however, based on the Company's catastrophic loss models, protection is in excess of regulatory guidelines and at a level that management considers prudent.

The Company follows the policy of underwriting and reinsuring contracts of insurance which limits the liability of the Company to a maximum amount on any one loss. In addition, the Company has obtained reinsurance which limits the Company's liability in the event of a series of claims arising out of a single occurrence. The Company's net retentions are as follows:

	2016	2015
	\$	\$
Individual loss		
Property	7,500	5,000
General liability	5,000	5,000
Automobile	5,000	5,000
Catastrophe		
Maximum limit	1,300,000	1,300,000
Company retention	70,000	70,000

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

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During the year, the Company required the use of the catastrophe coverage described above. Premiums were paid to reinsurers to the extent necessary to fully reinstate the coverage. Additional reinstatement coverage was purchased for layers of the catastrophe program that could be impacted by a future event.

The underwriting impact of the Company's use of reinsurance programs on the year's results is described in note 9.

f) Sensitivity analysis

The Company has exposures to risks in each class of business that may develop and that could have a material impact on the Company's financial position. The correlation of assumptions has a significant effect in determining the ultimate claims liability and movements in assumption are non-linear; also, it is not possible to quantify the sensitivity of certain key assumptions such as future legislative changes.

To ensure that the Company has sufficient capital to withstand a variety of significant and plausible adverse event scenarios, the Company performs Dynamic Capital Adequacy Testing (DCAT) on the capital adequacy of the Company. DCAT is performed annually, as required by the CIA, and is prepared by the appointed actuary. The adverse event scenarios are reviewed annually to ensure that the appropriate risks are included in the DCAT process. Plausible adverse event scenarios used in the most recent DCAT process included consideration of claims frequency and severity risk, inflation risk, premium risk, reinsurance risk and investment risk. The exposure of the peril of earthquake with default of reinsurers was also applied in a stress test analysis, as outlined in note 7(g). The most recent results indicated that the Company's future financial and capital positions are satisfactory under the assumptions applied.

The Company's estimated sensitivity of insurance contract unpaid claims and after-tax net income to changes in best estimate assumptions in the insurance contract is as follows:

Assumption	Sensitivity	Insurance contract - claims		After-tax net income impact	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
		\$	\$	\$	\$
Discount rate	+100 bps	(41,956)	(41,097)	33,439	32,590
Discount rate	-100 bps	43,990	43,103	(35,060)	(34,181)
Net loss ratio	+10%	162,890	148,537	(129,823)	(117,790)
Misestimate	1% deficiency	22,324	21,835	(17,792)	(17,315)

The impacts related to the discount rate sensitivities are approximately linear within this range.

g) Concentrations of insurance risk

The Company has catastrophe exposures arising from the property and automobile comprehensive policies it writes across the country. Exposures to concentrations of insurance risk subject to catastrophe losses are evaluated, and the Company has adopted a reinsurance strategy to reduce such exposures to an acceptable level.

A particular focus is exposure to the peril of earthquake in British Columbia, Quebec, and Eastern Ontario. The Company utilizes industry-accepted earthquake modeling techniques to understand its exposures and applies this information to establish the catastrophe coverage outlined in note 7(e). In addition to earthquake, other catastrophe perils such as hail and windstorm are also modeled, and reinsurance is purchased based on the peril that generates the largest loss. As the catastrophe reinsurance purchased is not peril specific, the Company is thereby provided with a high level of protection for catastrophic loss from other perils. The stress tests completed on the Company's capital are based on 1 in 500 year events; this exceeds the regulatory requirements established by OSFI.

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The Company's net earned premium split by line of business and geographic area is as follows:

	2016	2015
	\$	\$
Auto	1,196,038	1,136,456
Home	633,007	603,281
Farm	116,290	108,359
Commercial	419,746	416,576
Other	35,283	32,375
Net earned premium (note 8, 21)	2,400,364	2,297,047

	2016	2015
	\$	\$
West	905,871	898,950
Ontario	1,160,977	1,084,972
Quebec	97,260	88,747
Atlantic	236,256	224,378
Net earned premium (note 8, 21)	2,400,364	2,297,047

h) Financial risks in insurance contracts

Information about credit risk, liquidity risk and market risk for insurance contracts is disclosed in note 6.

8. Insurance contracts

Insurance contracts are comprised of the following balances:

	December 31, 2016	December 31, 2015
	\$	\$
Undiscounted unpaid claims and adjustment expenses	2,401,407	2,116,913
Effect of time value of money	(104,597)	(95,233)
PFADs	233,509	219,992
Effect of discounting	128,912	124,759
Discounted unpaid claims and adjustment expenses	2,530,319	2,241,672
Unearned premiums	1,288,369	1,203,680
	3,818,688	3,445,352

a) Profile of unearned premiums

	December 31, 2016			December 31, 2015		
	Gross	Ceded	Net	Gross	Ceded	Net
	\$	\$	\$	\$	\$	\$
Auto	573,386	182	573,204	537,177	191	536,986
Home	374,175	57	374,118	342,046	36	342,010
Farm	63,312	304	63,008	60,062	190	59,872
Commercial	260,332	5,390	254,942	247,386	4,928	242,458
Other	17,164	155	17,009	17,009	482	16,527
	1,288,369	6,088	1,282,281	1,203,680	5,827	1,197,853

Ceded unearned premiums are included in reinsurance ceded contracts on the balance sheet (note 9).

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b) Reconciliation of unearned premiums

	2016			2015		
	Gross	Ceded	Net	Gross	Ceded	Net
	\$	\$	\$	\$	\$	\$
Balance, beginning of year	1,203,680	5,827	1,197,853	1,122,744	7,700	1,115,044
Written premium	2,580,771	95,979	2,484,792	2,447,511	67,655	2,379,856
Less: earned premium	2,496,082	95,718	2,400,364	2,366,575	69,528	2,297,047
Balance, end of year	1,288,369	6,088	1,282,281	1,203,680	5,827	1,197,853

c) Profile of net unpaid claims and adjustment expenses

	December 31, 2016			December 31, 2015		
	Gross	Ceded	Net	Gross	Ceded	Net
	\$	\$	\$	\$	\$	\$
Auto	1,507,622	6,220	1,501,402	1,494,413	5,578	1,488,835
Home	396,675	192,060	204,615	203,298	5,995	197,303
Farm	53,113	2,513	50,600	41,822	-	41,822
Commercial	552,139	94,294	457,845	484,453	44,720	439,733
Other	20,770	2,836	17,934	17,686	1,886	15,800
Discounted provision	2,530,319	297,923	2,232,396	2,241,672	58,179	2,183,493

On December 31, 2015, CGIC and COSECO, and CGIC and Sovereign each entered into an agreement to commute certain of their intercompany reinsurance contracts, the details of which are discussed in note 7.

d) Reconciliation of net unpaid claims and adjustment expenses

	2016			2015		
	Gross	Ceded	Net	Gross	Ceded	Net
	\$	\$	\$	\$	\$	\$
Balance, beginning of year	2,241,672	58,179	2,183,493	2,235,796	86,124	2,149,672
Less: effect of discounting at prior year-end	124,760	995	123,764	118,449	1,921	116,528
Undiscounted unpaid claims and adjustment expenses at prior year-end	2,116,912	57,184	2,059,729	2,117,347	84,203	2,033,144
Paid on prior years	(609,852)	(9,738)	(600,114)	(648,290)	(40,713)	(607,577)
Change in estimate on prior years	(134,343)	(3,884)	(130,459)	(162,026)	(3,788)	(158,238)
Incurred on current year	2,090,530	333,500	1,757,030	1,639,291	1,367	1,637,924
Paid on current year	(1,061,840)	(81,960)	(979,880)	(829,409)	16,115	(845,524)
Undiscounted unpaid claims and adjustment expenses at current year-end	2,401,407	295,101	2,106,305	2,116,913	57,184	2,059,729
Effect of discounting	128,912	2,822	126,090	124,759	995	123,764
Balance, end of year	2,530,319	297,923	2,232,396	2,241,672	58,179	2,183,493
Current	1,091,549	240,716	850,833	858,624	25,482	833,142
Non-current	1,438,770	57,207	1,381,563	1,383,048	32,697	1,350,351
Balance, end of year	2,530,319	297,923	2,232,395	2,241,672	58,179	2,183,493

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

9. Reinsurance programs

a) Underwriting impact of reinsurance contracts

	December 31, 2016	December 31, 2015
Ceded	\$	\$
Written premium (note 21)	95,979	67,655
Earned premium	95,718	69,528
Claims and adjustment expenses	331,444	(3,346)
Commission	4,070	4,890
Cost (benefit) of reinsurance ceded program	(239,796)	67,984

	December 31, 2016	December 31, 2015
Assumed	\$	\$
Written premium (note 21)	8,527	11,632
Earned premium	10,524	12,175
Claims and adjustment expenses	7,622	987
Commission	2,538	3,144
Underwriting gain from assumed reinsurance	364	8,044

b) Reinsurance ceded contracts

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

	December 31, 2016	December 31, 2015
	\$	\$
Reinsurance ceded assets		
Reinsurers' share of unearned premiums (note 8)	6,088	5,827
Reinsurers' share of unpaid claims & adjustment expenses (note 8)	297,923	58,179
Reinsurer receivables	26,944	6,019
	330,955	70,025
Reinsurance ceded liabilities		
Unearned reinsurance commissions	1,864	1,811
Payable to reinsurers	2,679	1,801
Unlicensed reinsurer deposits	89,781	2,950
	94,324	6,562
Reinsurance ceded contracts	236,631	63,463
Current	196,740	29,912
Non-current	39,891	33,551
	236,631	63,463

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

10. Deferred acquisition expenses

Details of deferred acquisition expenses are as noted below:

	2016	2015
	\$	\$
Balance, beginning of year	195,176	183,123
Acquisition expenses deferred	428,535	398,696
Amortization expense	(415,971)	(386,643)
Balance, end of year	207,740	195,176

11. Income taxes

a) Reconciliation to statutory income tax rate

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

	2016		2015	
	\$	%	\$	%
Income before income taxes	182,347		204,631	
Income tax at statutory rates	49,234	27.0	54,432	26.6
Effects of :				
Non-taxable investment income	(11,795)	(6.5)	(11,292)	(5.5)
Non-deductible expenses	493	0.3	591	0.3
Change in income tax rates	(469)	(0.3)	(1,498)	(0.7)
Difference in effective tax rate of subsidiaries	-	-	18	-
Adjustment to tax expense in respect of prior years	(447)	(0.2)	99	-
Other	46	-	12	-
Income tax expense	37,062	20.3	42,362	20.7

b) Income taxes included in the consolidated statement of income

	2016	2015
	\$	\$
Current tax expense		
Current period	43,326	46,868
Change in tax rates	(177)	120
Adjustment for prior periods	(338)	276
	42,811	47,264
Deferred tax recovery		
Origination and reversal of temporary differences	(5,348)	(3,107)
Change in tax rates	(292)	(1,618)
Adjustment for prior periods	(109)	(177)
	(5,749)	(4,902)
Income tax expense	37,062	42,362

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

c) Income taxes included in OCI

	2016	2015
	\$	\$
Current income tax recovery	(5,314)	(8,098)
Deferred income tax recovery	(2,256)	(9)
Total income tax recovery included in OCI	(7,570)	(8,107)

	2016	2015
	\$	\$
Items that may be reclassified subsequently to the statement of income:		
Net unrealized gains (losses) on available-for-sale financial assets		
Bonds	(3,966)	6,307
Stocks	17,375	4,452
	13,409	10,759
Net reclassification adjustment for (gains) losses included in income		
Bonds	(4,886)	(11,393)
Stocks	(15,236)	(7,202)
	(20,122)	(18,595)
Total items that may be reclassified subsequently to the statement of income	(6,713)	(7,836)
Items that will not be reclassified subsequently to the statement of income:		
Remeasurement of the retirement benefit obligations	(857)	(271)
Total income tax recovery included in OCI	(7,570)	(8,107)

d) Components of deferred income taxes

December 31, 2016	Assets	Liabilities	Net
	\$	\$	\$
Bonds and mortgages	2,558	-	2,558
Stocks	(1,868)	-	(1,868)
Intangible assets	453	(4,229)	(3,776)
Property and equipment	264	-	264
Insurance contracts	30,310	-	30,310
Retirement benefit obligations	30,027	-	30,027
Provisions and other liabilities	31,918	-	31,918
Loss carry-forwards and credits	4,925	-	4,925
	98,587	(4,229)	94,358

December 31, 2015	Assets	Liabilities	Net
	\$	\$	\$
Bonds and mortgages	(450)	-	(450)
Stocks	(1,592)	-	(1,592)
Intangible assets	201	(3,570)	(3,369)
Property and equipment	745	-	745
Insurance contracts	29,506	-	29,506
Retirement benefit obligations	27,893	-	27,893
Provisions and other liabilities	29,808	-	29,808
Loss carry-forwards and credits	4,969	-	4,969
	91,080	(3,570)	87,510

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

The net movement of the deferred income taxes is as follows:

	2016	2015
	\$	\$
Balance, beginning of year	87,510	86,366
Income statement recovery (note 23)	5,749	4,902
Other comprehensive income recovery	2,256	9
Acquisitions of subsidiaries (note 12)	-	(3,767)
Other items	(1,157)	-
Balance, end of year	94,358	87,510

e) Loss carry-forwards

The Company has non-capital loss carry-forwards of \$18,001 (2015 - \$18,274) of which deferred income taxes of \$4,867 (2015 - \$4,912) has been recognized. The non-capital loss carry-forwards expire as follows:

	\$
2036	18,001

12. Intangible assets

	Goodwill	Licenses	Software	Broker customer lists	Total
	\$	\$	\$	\$	\$
Cost					
January 1, 2015	1,076	42,750	18,395	5,967	68,188
Disposals	-	-	-	(23)	(23)
Acquisitions of subsidiaries	-	1,000	-	14,509	15,509
December 31, 2015	1,076	43,750	18,395	20,453	83,674
Additions	-	6,250	-	3,906	10,156
December 31, 2016	1,076	50,000	18,395	24,359	93,830
Accumulated amortization					
January 1, 2015	-	-	17,387	1,564	18,951
Amortization (note 23)	-	-	255	1,612	1,867
December 31, 2015	-	-	17,642	3,176	20,818
Amortization (note 23)	-	-	255	2,255	2,510
December 31, 2016	-	-	17,897	5,431	23,328
Net carrying value					
December 31, 2015	1,076	43,750	753	17,277	62,856
December 31, 2016	1,076	50,000	498	18,928	70,502

The carrying amount of goodwill as at December 31, 2016 relates entirely to L'Equitable.

During 2015, the Company acquired various brokers for cash consideration of \$11,456. The total cash consideration was allocated to customer list intangibles with a fair value of \$14,509, an Insurance Corporation of British Columbia (ICBC) Autoplan agency agreement, classified as an intangible license, with a fair value of \$1,000, offset by deferred tax liabilities of \$3,767 and net identifiable liabilities assumed of \$286, including cash acquired of \$13.

The fair value of the customer lists were determined based on a valuation using the discounted cash flow approach. The fair value of the ICBC license was determined through a third party appraisal using a market approach, considering similar arms-length transactions in

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

British Columbia. The useful lives of the broker customer lists have been assessed as 10 years and will be amortized on a straight-line basis over that period.

13. Other assets

	December 31, 2016 \$	December 31, 2015 \$
Due from related parties	29,191	26,516
Reinsurance assumed receivables	1,104	1,237
Property and equipment	28,521	26,999
Due from risk sharing pools	5,223	7,055
Investments in associates and joint ventures	8,900	-
Prepaid expenses	785	1,132
Other	3,535	2,655
	77,259	65,594

Details of property and equipment are as noted below.

	Computer equipment \$	Furniture and equipment \$	Leasehold improvements \$	Leasehold projects in progress \$	Total \$
Cost					
January 1, 2015	36,295	34,541	46,636	3,366	120,838
Additions	3,809	494	35	2,552	6,890
Disposals	-	(7)	-	-	(7)
Transfers	-	-	3,812	(3,812)	-
December 31, 2015	40,104	35,028	50,483	2,106	127,721
Additions	4,825	1,237	2,011	2,906	10,979
Transfers	-	-	2,358	(2,358)	-
December 31, 2016	44,929	36,265	54,852	2,654	138,700
Accumulated amortization					
January 1, 2015	29,936	25,722	36,274	-	91,932
Amortization (note 23)	3,732	1,227	3,834	-	8,793
Disposals	-	(3)	-	-	(3)
December 31, 2015	33,668	26,946	40,108	-	100,722
Amortization (note 23)	4,236	1,331	3,890	-	9,457
December 31, 2016	37,904	28,277	43,998	-	110,179
Net carrying value					
December 31, 2015	6,436	8,082	10,375	2,106	26,999
December 31, 2016	7,025	7,988	10,854	2,654	28,521

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

14. Provisions and other liabilities

	December 31, 2016 \$	December 31, 2015 \$
Provision for advisor transition commissions	101,271	91,883
Advisor transition commission payable	11,753	13,732
Other provisions	2,208	2,245
Finance lease obligations	-	65
Foreign currency forward contracts (note 5)	3,142	8,832
Other liabilities	4,889	4,618
	123,263	121,375

The provision for advisor transition commissions is an obligation to active advisors determined by accruing for the benefits earned to date on a present value basis assuming the cash flows associated with the earned benefits are paid out at the expected termination date. The provision is discounted at a rate of 3.47% (2015 - 2.95%), and assumes an average termination age of 58 (2015 - 60). A reconciliation of the provision for advisor transition commissions is provided below.

	2016 \$	2015 \$
Balance, beginning of year	91,883	85,608
Additional provision charged to income		
Earning of advisor benefits	14,726	11,216
Interest expense	2,849	2,707
Settlements for advisor terminations	(8,465)	(8,480)
Change in assumptions	278	832
Balance, end of year	101,271	91,883

A 1% decrease in the discount rate would increase the provision for advisor transition commissions \$8,228 (2015 - \$9,053) and decrease net income by \$6,558 (2015 - \$7,179). A 2 year decrease in the average termination age would increase the provision for advisor transition commissions \$4,671 (2015 - \$4,040) and decrease net income by \$3,723 (2015 - \$3,204). Larger rate and age changes would have a corresponding impact to net income.

15. Retirement benefit obligations

The Company offers a defined contribution and medical, dental and life insurance plans for qualifying individuals. The primary pension plan is a defined contribution plan, which has no legal or constructive obligation to pay further amounts.

a) Medical, dental and life insurance benefits

The Company offers medical, dental and life insurance benefits for qualifying retirees and certain other individuals. The accrued benefit obligation has been determined as at December 31, 2016. The plan is unfunded and the Company meets its obligation as it falls due. The next triennial valuation is due to be completed as at January 1, 2019.

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Information regarding the plan's costs, liabilities and actuarial assumptions are as follows:

	2016	2015
	\$	\$
Accrued benefit obligation		
Balance, beginning of year	103,546	99,217
Current service cost	3,888	3,737
Interest on accrued benefits	4,074	3,902
Benefits paid	(3,440)	(3,315)
Remeasurement (gain) loss		
Actuarial gains and losses arising from changes in financial assumptions	2,370	-
Actuarial gains and losses arising from changes in demographic assumptions	645	5
Balance, end of year	111,083	103,546
Elements of defined benefit cost recognized in the year		
Current service cost	3,888	3,737
Interest on accrued benefits	4,074	3,902
Components of defined benefit costs recorded in net income (note 22)	7,962	7,639
Remeasurements on the net defined benefit liability:		
Actuarial gains and losses arising from changes in financial assumptions	2,370	-
Actuarial gains and losses arising from changes in demographic assumptions	645	5
Components of defined benefit costs recorded in OCI	3,015	5
Total components of defined benefit costs	10,977	7,644

Measurement uncertainty exists in valuing the components of retirement benefit obligations. Each assumption is determined by management based on current market conditions and experiential information available at the time; however, the long-term nature of the exposure and future fluctuations in the actual results makes the valuation uncertain.

The significant actuarial assumptions were as follows:

Significant assumptions	2016	2015
Discount rate	4.00%	4.00%
Assumed medical care cost trend rates as at December 31		
Medical care cost trend rate	6.00%	6.00%
Cost trend rate declines to	4.50%	4.50%
Year that the rate reaches the rate it is assumed to remain at	2022	2018
Mortality		
Retiring at the end of the reporting period:		
Average life expectancy for male retiring at age 65	21.8	21.7
Average life expectancy for female retiring at age 65	24.2	24.1
Retiring 20 years after the end of the reporting period:		
Average life expectancy for male retiring at age 65	22.9	22.9
Average life expectancy for female retiring at age 65	25.1	25.1

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics.

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

Significant assumptions	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
Discount rate	1.00%	Decrease by \$16,851	Increase by \$22,104
Medical and dental cost trend rates	1.00%	Increase by \$20,193	Decrease by \$16,349
Life expectancy	1 year	Increase by \$1,547	Decrease by \$1,708

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the obligation to significant actuarial assumptions, the same projected unit credit method has been applied as when calculating the retirement benefit obligation recognized within the balance sheet.

The weighted average duration of the accrued benefit liability is 19.5.

Through its medical, dental and life insurance benefit plan, the Company is exposed to standard risks including changes in bond yields and life expectancy. The discount rate is derived from corporate bond yields and a decrease in the bond yields will increase the accrued benefit obligation. The medical and dental benefits are provided for the life of the member, so increases in life expectancy will increase the accrued benefit obligation. The ultimate cost of the plans will depend upon actual future events rather than the assumptions made.

b) Defined contribution pension plan

The Company has a defined contribution pension plan for all of its employees. The total cost recognized for the Company's defined contribution plans is \$14,006 (2015 - \$13,775), which is recognized in general expenses on the consolidated statements of income.

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

16. Share capital

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

Authorized senior preference shares

Class A preference shares, Class B preference shares and Class E preference shares rank equally, and in priority to all other classes of preference and common shares.

1,440,000 Class A preference shares, series A, non-cumulative dividend to be determined semi-annually by the Board of Directors subject to a minimum rate of 5% of the redemption value if declared, redeemable at the redemption value of \$37.50 per share, with a stated value of \$25 per share. Convertible to Class F preference shares, series A. The Company may redeem or purchase at any time, at its option, all or part of the shares for the redemption value in accordance with the terms and conditions set out in the Company's By-law No. 2.

Unlimited Class A preference shares, series B, non-cumulative dividend to be determined semi-annually by the Board of Directors subject to a minimum rate of 5% of the redemption value if declared, redeemable at the redemption value of \$100 per share, with a stated value of \$100 per share. The Company may redeem or purchase at any time, at its option, all or part of the shares for the redemption value in accordance with the terms and conditions set out in the Company's By-law No. 2.

Unlimited Class B preference shares, non-cumulative dividend to be determined semi-annually by the Board of Directors subject to a minimum rate of 5% of the redemption value if declared, redeemable at the redemption value of \$50 per share, with a stated value of \$25 per share. Convertible to Class G preference shares, series A. The Company may redeem or purchase at any time, at its option, all or part of the shares for the redemption value in accordance with the terms and conditions set out in the Company's By-law No. 2.

Unlimited Class E preference shares, series A, non-cumulative dividend, if declared, payable quarterly, the rate being 5.75% per annum until June 30, 2002. After June 30, 2002, dividends are the greater of 90% of the prime rate or 5.50%. On June 30, 2002 and thereafter on every fifth anniversary, the holder has the right to convert the Class E preference shares, series A preference shares into non-cumulative redeemable Class E preference shares, series B on a share for share basis. On June 30, 2002 and thereafter on every fifth anniversary, the Company may redeem the whole issue at \$25 per share. After June 30, 2002 at any date other than the anniversary dates, the Company may redeem the shares in whole or part for \$25.50 per share.

Unlimited Class E preference shares, series B, issued June 30, 2002 and every fifth year thereafter, only on conversion of Class E preference shares, series A. Non-cumulative dividend, if declared, payable quarterly. On the twenty-first day prior to June 30, 2002 and every fifth anniversary thereafter, the dividend rate will be set at a minimum of 95% of the Government of Canada yield. On June 30, 2007 and every fifth anniversary, the Company may redeem the whole issue at \$25 per share.

Unlimited Class E preference shares, series C, non-cumulative dividend, if declared, payable quarterly, the rate being \$0.3125 per share, to yield 5.00% per annum. The initial dividend was declared and paid on September 30, 2007 and amounted to \$0.3767 per share. On June 30, 2012 and thereafter, the Company may redeem at any time all or from time to time any part of the outstanding Class E preference shares, series C at the Company's option, by payment of an amount in cash for each Class E preference shares, series C of \$26.00 if redeemed during the 12 months commencing June 30, 2012, \$25.75 if redeemed during the 12 months commencing June 20, 2013, \$25.50 per share if redeemed during the 12 months commencing June 30, 2014, \$25.25 per share if redeemed during the 12 months commencing June 30, 2015, and \$25.00 per share if redeemed on or after June 30, 2016, together in each case with an amount equal to all declared and unpaid preferential dividends up to but excluding the date fixed for redemption.

Unlimited Class E preference shares, series D, non-cumulative dividend, if declared, payable quarterly, the rate being \$1.8125 per share, to yield 7.25% per annum. The initial dividend was declared and paid on September 30, 2009 for \$0.6505 per share. On June 30, 2014 and on June 30 every five year thereafter, the dividend rate will reset to be equal to the then current five-year Government of Canada bond yield plus 5.21%. The Class E preference shares, series D were not redeemable prior to June 30, 2014. On June 30, 2014 the Company redeemed all of the Class E preference shares, series D at a cash redemption price per share of \$25.00.

Unlimited Class E preference shares, series E, issued June 30, 2014 and on every fifth year thereafter, only on the conversion of Class E preference shares, series D. Non-cumulative quarterly floating rate dividend, as and when declared, equal to the then current three-month Government of Canada Treasury Bill yield plus 5.21%. The Company may redeem all or part of the outstanding Class E preference shares, series E at its option without the consent of the holder, by the payment of an amount in cash for each Class E preference shares, series E so redeemed of (i) \$25.00 per share together with an amount equal to the sum of all declared and unpaid dividends up to, but excluding, the date fixed for redemption in the case of redemptions on June 30, 2019 and on June 30 every fifth year after such date, or (ii) \$25.50 per share together with an amount equal to the sum of all declared and unpaid dividends up to, but excluding, the date fixed for redemption in the case of redemptions on any other date after June 30, 2014 that is not a Class E preference shares, series E conversion date.

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Authorized junior preference shares

Unlimited	Class C, preference shares issuable in series
100,000	Class C preference shares, series A, non-cumulative 6% dividend and a participating dividend up to 5%, each to be determined annually by the Board of Directors with a stated value of \$100
Unlimited	Class D preference shares, series A, non-cumulative dividend to be determined annually by the Board of Directors, redeemable at \$100 per share, with a stated value of \$100 per share
Unlimited	Class D preference shares, series B, non-cumulative dividend to be determined annually by the Board of Directors, redeemable at \$100 per share, with a stated value of \$100 per share
Unlimited	Class D preference shares, series C, non-cumulative dividend to be determined annually by the Board of Directors, redeemable at \$100 per share, with a stated value of \$100 per share
Unlimited	Class F preference shares, series A, non-cumulative dividend subject to a minimum rate of 5% if declared to be determined annually by the Board of Directors, redeemable at \$37.50 per share, with a stated value of \$25 per share
Unlimited	Class G preference shares, series A, non-cumulative dividend subject to a minimum rate of 5% if declared to be determined annually by the Board of Directors, redeemable at \$50 per share, with a stated value of \$25 per share
Unlimited	Class H, Class I and Class J preference shares, these have been authorized but have been given no attributes and have not yet been issued. The Board of Directors has the right to define the attributes and issue as required

Authorized common shares

Unlimited	Common Shares
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The redemption of any share must be approved in advance by OSFI.

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

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

	Beginning of year		Issued during the year		Redeemed during the year		End of year	
	Number of Shares	Amount \$	Number of Shares	Amount \$	Number of Shares	Amount \$	Number of Shares	Amount \$
2016								
Class A preference shares, series A	180,290	4,507	-	-	7,697	192	172,593	4,315
Class A preference shares, series B	561,330	56,133	104,881	10,481	34,625	3,463	631,586	63,151
Class B preference shares	426	11	-	-	-	-	426	11
Class D preference shares, series A	13,803	1,380	-	-	-	-	13,803	1,380
Class D preference shares, series B	42,535	4,254	-	-	-	-	42,535	4,254
Class D preference shares, series C	43,184	4,318	-	-	-	-	43,184	4,318
Class E preference shares, series C	4,000,000	100,000	-	-	-	-	4,000,000	100,000
Class F preference shares, series A	488,624	12,216	-	-	-	-	488,624	12,216
Class G preference shares, series A	14,984	375	-	-	-	-	14,984	375
Common shares	21,376,383	48,076	81,802	-	-	-	21,458,185	48,076
		231,270		10,481		3,655		238,096
Less staff share loan plan		13,775						15,376
		217,495						222,720

	Beginning of year		Issued during the year		Redeemed during the year		End of year	
	Number of Shares	Amount \$	Number of Shares	Amount \$	Number of Shares	Amount \$	Number of Shares	Amount \$
2015								
Class A preference shares, series A	190,025	4,751	-	-	9,735	244	180,290	4,507
Class A preference shares, series B	517,228	51,723	90,914	9,091	46,812	4,681	561,330	56,133
Class B preference shares	458	12	-	-	32	1	426	11
Class D preference shares, series A	13,803	1,380	-	-	-	-	13,803	1,380
Class D preference shares, series B	42,535	4,254	-	-	-	-	42,535	4,254
Class D preference shares, series C	43,184	4,318	-	-	-	-	43,184	4,318
Class E preference shares, series C	4,000,000	100,000	-	-	-	-	4,000,000	100,000
Class F preference shares, series A	488,624	12,216	-	-	-	-	488,624	12,216
Class G preference shares, series A	14,984	375	-	-	-	-	14,984	375
Common shares	21,294,708	48,076	81,675	-	-	-	21,376,383	48,076
		227,105		9,091		4,926		231,270
Less staff share loan plan		13,549						13,775
		213,556						217,495

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

The staff share loan plan consists of loans to employees of the Company's ultimate parent and its subsidiaries for the purchase of the Company's Class A, Series B preference shares. Loans are offered on an interest free basis to all employees at pre-determined intervals and are repaid through payroll withholdings and dividend payments. Loans are generally settled within ten years and are secured by the preference shares. The carrying value of the preferred shares closely approximates the fair value of the staff share loan plan.

During 2016, the Company issued 81,802 (2015 - 81,675) common shares with a nominal value (2015 - nominal value) to its parent (note 24).

Dividends are as follows:

Dividends	2016				2015			
	Declared per		Paid per		Declared per		Paid per	
	Declared	Share	Paid	share	Declared	Share	Paid	share
	\$	\$	\$	\$	\$	\$	\$	\$
Class A, series A	328	1.88	335	1.88	343	1.88	352	1.88
Class A, series B	3,066	5.00	2,890	5.00	2,747	5.00	2,637	5.00
Class B	1	2.50	1	2.50	1	2.50	1	2.50
Class D, series A	69	5.00	69	5.00	69	5.00	69	5.00
Class D, series B	213	5.00	213	5.00	213	5.00	213	5.00
Class D, series C	216	5.00	216	5.00	216	5.00	216	5.00
Class E, series C	5,000	1.25	5,000	1.25	5,000	1.25	5,000	1.25
Class F, series A	916	1.88	916	1.88	916	1.88	916	1.88
Class G, series A	37	2.50	37	2.50	37	2.50	37	2.50
Common shares	-	-	-	-	169,500	7.94	169,500	7.94
	9,846		9,677		179,042		178,941	

17. Earnings per share

Earnings per share is calculated by dividing net income, after deducting total preferred share dividends, by the weighted average number of fully paid common shares outstanding throughout the year.

	2016	2015
	\$	\$
Net income	145,285	162,269
Less dividends on preference shares declared	9,846	9,542
Net income available to common shareholders	135,439	152,727
Weighted average number of outstanding common shares	21,385	21,304
Earnings per share	6.33	7.17

18. Retained earnings

The Company has charged \$8,651 (2015 - \$8,747) to retained earnings for the difference between the carrying value and the redemption amount of preferred shares.

	2016	2015
	\$	\$
Class A preference shares, series A	2,157	2,253
Class B preference shares	11	11
Class F preference shares, series A	6,108	6,108
Class G preference shares, series A	375	375
	8,651	8,747

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

19. Accumulated other comprehensive income

	December 31, 2016 \$	December 31, 2015 \$
Unrealized gains on available-for-sale financial assets	163,856	181,993
Cumulative remeasurement of the retirement benefit obligations	(36,265)	(34,107)
	127,591	147,886

20. Capital management

The Company views capital as a scarce and strategic resource. This resource protects the financial well-being of the organization, and is also critical in enabling the Company to pursue strategic business opportunities. Adequate capital also acts as a safeguard against possible unexpected losses, and as a basis for confidence in the Company by shareholders, policyholders, creditors and others.

For the purpose of capital management, the Company has defined capital as shareholders' equity excluding AOCI. The Company has a Capital Management Policy that is approved by the Board of Directors. The purpose of this policy is to protect and evaluate the allocation of capital as a scarce and strategic resource, maximize the return on invested capital, and to plan ahead for future capital needs. Capital is monitored by the Management Capital Committee at the Company's ultimate parent level.

Reinsurance is utilized to protect the Company's capital from catastrophic loss arising from perils such as earthquake, tornado, wind, hail, flood or fire. The incidence and severity of catastrophic losses are inherently unpredictable. To limit the Company's potential impact, it purchases reinsurance which will reimburse the Company for claims. Details of the Company's reinsurance program are disclosed in note 7(e). The Company's maximum retention on any single event is \$70,000, which represents approximately 4.8% of the Company's capital.

On an annual basis, the appointed actuary prepares the DCAT analysis which projects and analyzes trends of capital adequacy under a variety of plausible adverse scenarios. Also on an annual basis, the Company performs stress testing in accordance with OSFI Guideline E-18. This testing evaluates the potential effects on the Company's financial condition of a set of specified changes in risk factors, corresponding to exceptional but plausible adverse events. At least annually, the Company performs an Own Risk and Solvency Assessment (ORSA) to determine the minimum amount of capital the Company can hold and still be within its risk appetite (ORSA Capital). The results of this assessment are provided to the Board of Directors.

CGIC and its subsidiaries are subject to regulatory capital requirements defined by OSFI and the Insurance Companies Act (Canada). OSFI measures the financial strength of property and casualty insurers using the Minimum Capital Test (MCT). The MCT compares a company's capital, including AOCI, against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, insurance contracts, structured settlements, letters of credit, derivatives, unlicensed reinsurance and other exposures, by applying varying factors.

The Company's internal target or Minimum Internal MCT is determined through the ORSA Capital, while giving consideration to DCAT, internal stress testing results and OSFI's supervisory target MCT. OSFI's supervisory target is 150%. The Company's Minimum Internal MCT, established by the Board of Directors is 170%. As at December 31, 2016, the Company and its subsidiaries held capital in excess of both OSFI's target ratio and internal minimums.

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

21. Net earned premium

	2016	2015
	\$	\$
Direct written premium	2,572,244	2,435,879
Assumed written premium (note 9)	8,527	11,632
Gross written premium	2,580,771	2,447,511
Ceded written premium (note 9)	(95,979)	(67,655)
Net written premium	2,484,792	2,379,856
Change in gross unearned premium	(84,689)	(80,936)
Change in ceded unearned premium	261	(1,873)
Net earned premium (note 7, 8)	2,400,364	2,297,047

22. Supplemental expense information

	2016	2015
	\$	\$
Compensation costs	299,932	286,452
Retirement benefit obligations (note 15)	8,281	7,639
Amortization expense	8,838	8,857
Interest expense	6	26

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

23. Consolidated statement of cash flows

a) Other non-cash items

	2016	2015
	\$	\$
i) Items not requiring the use of cash		
Investing activities gains	(89,427)	(69,993)
Losses on disposal	(412)	171
Impairment losses (note 5)	8,226	23,557
Amortization and depreciation of:		
Bond premium/discount	18,512	18,911
Mortgage accretion	-	211
Intangible assets (note 12)	2,510	1,867
Property and equipment (note 13)	9,457	8,793
Change in fair value of FVTPL invested assets (note 5)	(5,764)	26,098
Deferred income taxes (note 11)	(5,749)	(4,902)
Retirement benefit obligations	4,522	4,324
	(58,125)	9,037
ii) Changes in non-cash operating components		
Other		
Insurance contracts	373,336	86,812
Reinsurance ceded contracts	(173,168)	30,421
Premiums due	(83,626)	(65,583)
Deferred acquisition expenses	(12,564)	(12,053)
Staff share loan plan	(1,601)	(226)
Accounts receivable and other assets	(2,071)	(6,038)
Accounts payable and accrued charges	18,082	11,419
Income taxes payable/recoverable	25,230	(60,770)
Provisions and other liabilities	7,578	5,068
	151,196	(10,950)

b) Supplemental information

	2016	2015
	\$	\$
Interest and dividends received	147,477	160,760
Interest paid	-	18
Income taxes paid (net of recoveries)	17,404	107,939

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

24. Related party transactions

The following transactions were carried out with related parties:

2016	Associates and joint ventures	Companies under common control	Parents	Total
	\$	\$	\$	\$
Income				
Reinsurance premium	-	1,602	-	1,602
Dividend income	-	-	18,226	18,226
Interest expense	-	-	(18,001)	(18,001)
Loss from associates and joint ventures	(350)	-	-	(350)
Investment counselling services	-	(4,825)	-	(4,825)
	(350)	(3,223)	225	(3,348)
Expenses				
Reinsurance	-	395	-	395
Management services	-	80	33,851	33,931
Agency force support	-	800	-	800
Employee benefit insurance	-	5,443	-	5,443
Product distribution and underwriting services	-	11,519	-	11,519
	-	18,237	33,851	52,088
Dividends declared	-	-	1,451	1,451
Balances outstanding at year end				
Reinsurance assets	-	330	-	330
Reinsurance liabilities	-	1,734	-	1,734
Premiums due	-	45,956	-	45,956
Due from related parties	585	20,756	7,820	29,161
Due to related parties	-	1,302	420	1,722

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

2015	Associates and joint ventures	Companies under common control	Parents	Total
	\$	\$	\$	\$
Income				
Reinsurance premium	-	1,216	-	1,216
Dividend income	-	-	18,263	18,263
Interest expense	-	-	(17,990)	(17,990)
Investment counselling services	-	(3,549)	-	(3,549)
	-	(2,333)	273	(2,060)
Expenses				
Reinsurance	-	508	-	508
Management services	-	-	30,016	30,016
Agency force support	-	800	-	800
Employee benefit insurance	-	4,782	-	4,782
Product distribution and underwriting services	-	7,180	-	7,180
Interest expense	-	-	18	18
	-	13,270	30,034	43,304
Dividends declared	-	-	170,951	170,951
Balances outstanding at year end				
Reinsurance assets	-	290	-	290
Reinsurance liabilities	-	1,245	-	1,245
Premiums due	-	29,021	-	29,021
Due from related parties	-	18,807	7,668	26,475
Due to related parties	-	412	401	813

In the table above, the use of the term 'Parents' includes all related party transactions with the immediate and ultimate parent companies, as defined in note 1. Included in 'Companies under common control' are all related party transactions between companies that are controlled by the same ultimate parent company. All transactions between CGIC and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

With the exception of the management services, which are based on an internal contract, all other services are in the normal course of business and are established at agreed upon terms and conditions.

During the year, the Company recognized the benefit of \$4,864 (2015 - \$4,848) in its income tax expense relating to income tax losses of a related party which the Company purchased from CFSL by issuing 81,802 common shares (2015 - 81,675) with a nominal value (2015 - nominal value).

On December 31, 2015, CGIC and COSECO, and CGIC and Sovereign each entered into an agreement to commute certain of their intercompany reinsurance contracts, the details of which are discussed in note 7.

On December 21, 2015, the Company transferred its portfolio of broker loans to CFSL in exchange for cash consideration of \$16,951. The fair value of consideration received was equal to the carrying value of the loans at derecognition, therefore no gain or loss has been recognized on the statement of income.

The amounts due to/from related parties represent current accounts with related parties and are generally settled within 30 days.

Notes to the Consolidated Financial Statements

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

Key management personnel of the Company includes all directors and executive and senior management. The summary of compensation to key management personnel for the year is as follows:

	2016	2015
	\$	\$
Salaries and other short-term benefits	13,476	15,526
Post-employment benefits	1,641	1,630
Other long-term benefits	2,173	1,743
Total compensation of key management personnel	17,290	18,899

25. Segmented information

The Company's results of operations are reviewed by senior management and the Board of Directors based on one operating segment, property and casualty operations. The property and casualty operations are managed through the participation reinsurance and management agreement, and the investments are held within the CILP. Prior to 2016, before these arrangements were in place, the results were reviewed and assessed at each legal entity within the consolidated group.

Regulatory information

The carrying amount of the Company's subsidiaries' aggregate share capital are as follows:

	December 31,	December 31,
	2016	2015
	\$	\$
Sovereign	45,954	45,954
L'Equitable	3,000	3,000
COSECO	105,507	105,507
CIAL	58,460	42,750
Total carrying amount of subsidiaries' share capital	212,921	197,211

Related party revenue

Less than 1% (2015 - 1%) of revenue is generated from related parties.

Geographic information

The Company operates exclusively in Canada, writing business in all provinces and territories.

Major customers

The Company derives its source of revenue from many policyholders, none of which generate more than 10% of the revenue total.

26. Contingencies, commitments and guarantees

The Company is subject to litigation arising in the normal course of conducting its insurance business. The Company is of the opinion that this litigation will not have a significant effect on the financial position, results of operations or cash flows of the Company. In addition, the Company is from time to time subject to litigation other than the litigation relating to claims under its policies. Legal proceedings are often subject to numerous uncertainties and it is not possible to predict the outcome of individual cases. In management's opinion, the Company has made adequate provision for, or has adequate insurance to cover all claims and legal proceedings. Consequently, any settlements reached should not have a material adverse effect on the consolidated financial position of the Company.

The Company provides indemnification agreements for directors and certain officers acting as directors on behalf of the Company, to the extent permitted by law, against certain claims made against them as a result of their services to the Company. The Company purchases directors and officers insurance to mitigate the potential financial impact associated with these commitments. The limits of insurance

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

purchased are compared to Canadian benchmarks obtained from the financial institutions practice of the Company's broker and other industry sources. They are consistent with limits purchased by organizations of similar size and are in amounts management feels to be adequate and reasonable.

The Company leases all of its office space and certain equipment used in the normal course of business, under operating leases. The Company's commitments to the minimum annual lease payments are included in note 6.

The Company has entered into commitments with private equity funds to invest \$49,176 (2015 - \$10,000) as well as US\$80,000 (2015 - US\$80,000) of capital contributions into limited partnership structures. Capital contributions may be called upon by the General Partner in such amounts and at such times as the General Partner shall deem appropriate. At December 31, 2016, the Company has provided capital contributions of \$69,155 (2015 - \$29,946) to finance these limited partnership investments, which are included in note 5.

27. Rate regulated entities

Automobile insurance is regulated as to the nature and extent of benefits in all provinces and the establishment of premium rates in the provinces of Alberta, Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador. The Company's access to write automobile insurance is limited and regulated in those provinces with publicly-run automobile insurance programs.

The Company's claims costs are influenced by governments to the extent they pass legislation or regulations that change the nature and extent of benefits and other requirements that impact claims costs and the settlement process. Over the past decade, significant legislative changes have been introduced in a number of provinces to address the rising cost of claims, particularly those related to pain and suffering benefits arising from minor injuries. When appropriate, the Company has adjusted premiums to reflect the anticipated and actual savings.

The Company is subject to three types of regulatory processes. Depending on the type, content or impact of the filing, one process is prescribed in the regulation as follows:

Category	Description
File and use	Insurers file their rates with the regulatory authority and wait for a certain amount of time before implementing them
File and approve	Insurers file their rates with the regulatory authority and wait for approval before implementing them
Use and file	Insurers file their rates with the regulatory authority within a specified period after they are implemented

The following table lists the provincial authorities which regulate automobile insurance rates. For the year ended December 31, 2016, automobile direct written premium in these provinces comprised 46.3% (2015 - 46.7%) of the Company's total direct written premiums during the year.

Jurisdiction	Regulatory authority	Regulatory process
Alberta	Alberta Automobile Insurance Rate Board	File and approve
Newfoundland and Labrador	Public Utilities Board	File and use or file and approve
New Brunswick	New Brunswick Insurance Board	File and approve
Nova Scotia	Nova Scotia Utility and Review Board	File and use or file and approve
Ontario	Financial Services Commission of Ontario	File and use or file and approve
Prince Edward Island	Island Regulatory and Appeals Commission	File and use
Quebec	Autorite des Marches Financiers	Use and file

Corporate Directory

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President and Chief Executive Officer
(Effective December 1, 2016)
Formerly, Executive Vice-President,
P&C Operations,
The Co-operators General Insurance Company

Kathy Bardswick

President and Chief Executive Officer
(Retired November 30, 2016)

Paul Hanna

Executive Vice-President, Member Relations,
Governance and Corporate Services

Lisa Guglietti

Executive Vice-President, Chief Operating
Officer, P&C Manufacturing

Rick McCombie

Executive Vice-President
and Chief Client Officer

Carol Poulsen

Executive Vice-President
and Chief Information Officer

P. Bruce West

Executive Vice-President, Finance
and Chief Financial Officer

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Rick McCombie

Executive Vice-President
and Chief Client Officer

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Steve Phillips

Executive Vice-President and
Chief Operating Officer, The Sovereign General
Insurance Company

SHARE LISTINGS
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Board of Directors

John Harvie

Chairperson
Atlantic

Johanne Charbonneau

Vice-Chairperson
Ontario

Kathy Bardswick

President and Chief Executive Officer
(Retired November 30, 2016)

Rob Wesseling

President and Chief Executive Officer
(Effective December 1, 2016)

ALBERTA

Hazel Corcoran
Jim Laverick
Bob Petryk

ATLANTIC

Denis Laverdière
Michael Mac Isaac

BRITISH COLUMBIA

Phil Baudin
Daniel Burns
Emmet McGrath

MANITOBA

Jocelyn VanKoughnet

ONTARIO

Don Altman
Denis Bourdeau
Roger Harrop
Geri Kamenz
Dave Sitaram
Jack Wilkinson
Alexandra Wilson

QUEBEC

Louis-H. Campagna
Réjean Laflamme

SASKATCHEWAN

Gilles Colbert
Collette Robertson

Member organizations

The membership of The Co-operators Group Limited consists primarily of co-operative organizations, credit union centrals and representative farm organizations.

Alberta

- > Agrifoods International Cooperative Limited†
- > Alberta Federation of Agriculture
- > Alberta Federation of Rural Electrification Associations
- > Credit Union Central Alberta Limited
- > Federation of Alberta Gas Co-ops Ltd.
- > UFA Co-operative Limited

Atlantic

- > Amalgamated Dairies Limited
- > Atlantic Central
- > Canadian Worker Co-operative Federation†
- > Atlantic Retail Co-Operatives Federation
- > Newfoundland-Labrador Federation of Co-operatives
- > Northumberland Cooperative Limited
- > Scotsburn Co-operative Services Limited
- > UNI Coopération financière

British Columbia

- > BC Tree Fruits Cooperative
- > Central 1 Credit Union†
- > Modo The Car Co-op
- > Mountain Equipment Co-op†
- > PBC Health Benefits Society
- > Realize Strategies Co-op

Manitoba

- > Arctic Co-operatives Limited
- > Caisse Populaire Groupe Financier Ltée
- > Credit Union Central of Manitoba Limited
- > Granny's Poultry Cooperative (Manitoba) Ltd.
- > Keystone Agricultural Producers

Ontario

- > Co-operative Housing Federation of Canada†
- > Gay Lea Foods Co-operative Limited
- > GROWMARK, Inc.
- > L'Alliance des caisses populaires de l'Ontario limitée
- > Ontario Federation of Agriculture
- > Ontario Natural Food Co-op
- > Ontario Organic Farmers Co-operative Inc.
- > United Steelworkers – District 6

Quebec

- > Fédération des coopératives d'alimentation du Québec
- > Fédération des coopératives funéraires du Québec
- > Fédération québécoise des coopératives en milieu scolaire/COOPSCO
- > La Coop fédérée
- > La Fédération des coopératives du Nouveau-Québec

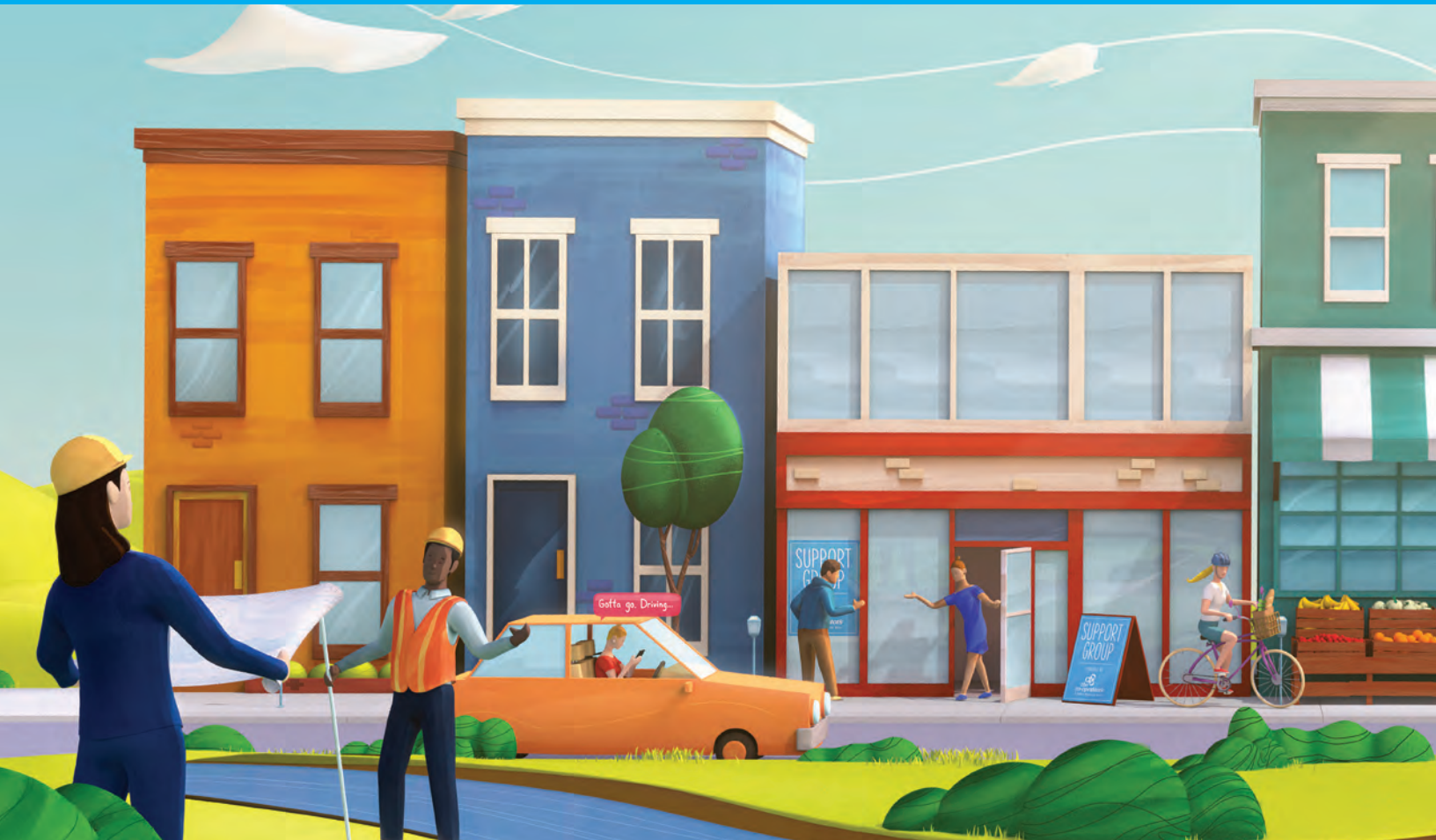
Saskatchewan

- > Access Communications Co-operative Limited
- > Agricultural Producers Association of Saskatchewan
- > Credit Union Central of Saskatchewan
- > Federated Co-operatives Limited†
- > Regina Community Clinic

† Multi-region







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