Co-operators General Insurance Company

Management's Discussion and Analysis

For the first quarter ended March 31, 2018

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April 26, 2018

This Management's Discussion and Analysis (MD&A) comments on Co-operators General Insurance Company's operations and financial condition for the first quarter ended March 31, 2018.

Unless otherwise stated or the context otherwise indicates, in this MD&A, "Co-operators General", "we", "us" and "our" refers to the Consolidated Co-operators General Insurance Company including its subsidiaries: The Sovereign General Insurance Company (Sovereign), COSECO Insurance Company (COSECO), Co-operators Investment Limited Partnership (CILP), Co-operators Strategic Growth Corporation (CSGC) and Co-operators Insurance Agencies Limited (CIAL).

Co-operators General's parent company is Co-operators Financial Services Limited (CFSL) and its ultimate parent is The Co-operators Group Limited (CGL), a Canadian co-operative with 44 members.

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

- our unaudited condensed consolidated interim financial statements and accompanying notes for the first quarter ended March 31, 2018; and
- our 2017 Annual Report and Annual Information Form

These documents are available on SEDAR at www.sedar.com. References to "Note" refer to the notes to the unaudited condensed consolidated interim financial statements.

Except as otherwise noted, all figures in this MD&A are stated in Canadian dollars for the quarter ended March 31, 2018 and are based on financial statements prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting". The financial results presented in this MD&A are unaudited.

We use certain financial performance measures which do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. They should not be viewed as an alternative to measures of financial performance determined in accordance with IFRS. Such measures are defined in our 2017 Annual Report in the *Key Financial Measures (Non-IFRS)* section, or in the same section in this document when disclosed for the first time.

The information in this MD&A contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from these forward-looking statements as a result of various factors, including those discussed below or in our Annual Information Form. Please read the cautionary note which follows.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A may contain forward-looking statements and forward-looking information, including statements regarding the operations, objectives, strategies, financial situation and performance of Co-operators General. These statements, which appear in this MD&A (including the documents incorporated by reference herein), generally can be identified by the use of forward-looking words such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "plan", "would", "should", "could", "trend", "predict", "likely", "potential" or "continue" or the negative thereof and similar variations. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the forward-looking statements or information. In addition, this MD&A may contain forward-looking statements and information attributed to third party industry sources. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Such forward-looking statements and information in this MD&A speak only as of the date of this MD&A.

Forward-looking statements and information in this MD&A include, but are not limited to, statements with respect to: our growth expectations; the impact of changes in governmental regulation on our company; possible changes in our expense levels; changes in tax laws; and anticipated benefits of acquisitions and dispositions.

With respect to forward-looking statements and information contained in this MD&A, we have made assumptions regarding, among other things: growth rates and inflation rates in the Canadian and global economies; the Canadian and U.S. housing markets; the Canadian and global capital markets; the strength of the Canadian dollar relative to the U.S. dollar; employment levels and consumer spending in the Canadian economy; and impacts of regulation and tax laws by the Canadian and provincial governments or their agencies. Some of the assumptions we have made are described in our 2017 Annual Report.

Although we believe that the expectations reflected in the forward-looking statements and information are reasonable, there can be no assurance that such expectations will prove to be correct. We cannot guarantee future results, levels of activity, performance or achievements. Consequently, we make no representation that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements and information. Some of the risks and other factors, some of which are beyond our control, which could cause results to differ materially from those expressed in the forward-looking statements and information contained in this MD&A and the documents incorporated by reference herein include, but are not limited to: our ability to implement our strategy or operate our business as we currently expect; our ability to accurately assess the risks associated with the insurance policies that we write; unfavourable capital market developments or other factors which may affect our investments; the cyclical nature of the property and casualty insurance industry; our ability to accurately predict future claims frequency; the frequency and severity of weather related events; climate change; government regulations; litigation and regulatory actions; periodic negative publicity regarding the insurance industry; intense competition; our reliance on advisors to sell our products; our ability to successfully pursue our acquisition strategy; actions to be taken in connection with the sale of L'Union Canadienne, Compagnie d'assurances to Roins Financial Services Limited; our participation in the Facility Association (a mandatory pooling arrangement among all industry participants); terrorist attacks and ensuing events; the occurrence of catastrophic events; our ability to maintain our financial strength ratings; our ability to alleviate risk through reinsurance; our ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); our reliance on information technology and telecommunications systems; breaches or failure of information system security and privacy, including cyber terrorism; our dependence on key employees; and general economic, financial and political conditions.

Readers are cautioned that the foregoing list of factors is not exhaustive. For further information, please refer to our 2017 Annual Report, which outlines in detail certain key factors that may affect our future results. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement. We are not under any duty to update any of the forward-looking statements after the date of this MD&A to conform such statements to actual results or to changes in our expectations except as otherwise required by applicable legislation.

SUMMARY OF KEY FINANCIAL DATA AND RESULTS OVERVIEW

Three months ended March 31 unless otherwise stated

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

1st quarter	2018	2017	2016
Key financial data[3]			
Direct written premium (DWP)	**599.7**	540.3	519.5
Net earned premium (NEP)	**658.1**	609.3	588.5
Net income (loss)	**(27.8)**	34.6	39.3
Total assets[1]	**5,804.7**	5,922.1	5,854.5
Total liabilities[1]	**4,309.3**	4,391.0	4,275.6
Shareholders' equity[1]	**1,495.4**	1,531.1	1,578.9
Key success indicators[3]			
Direct written premium growth	**11.0%**	4.0%	6.2%
Net earned premium growth	**8.0%**	3.5%	6.9%
Underwriting gain (loss) - excluding market yield adjustment (MYA)	**(49.9)**	(15.1)	25.8
Earnings (loss) per common share (EPS)[2]	**($1.35)**	$1.55	$1.78
Return on equity (ROE)	**(7.7%)**	9.9%	12.4%
Combined ratio - excluding MYA	**107.5%**	102.5%	95.6%
Combined ratio - including MYA	**107.0%**	103.2%	96.5%
Minimum Capital Test (MCT)[1]	**205%**	216%	227%

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

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

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

Co-operators General reported a net loss after tax of $27.8 million for the three months ended March 31, 2018, as compared to net income of $34.6 million in the same quarter of 2017. Our return on equity for the quarter was (7.7%) versus 9.9% in the first quarter of 2017. Earnings (loss) per common share in the quarter was ($1.35) compared to $1.55 in the same quarter of the prior year.

The first quarter of 2018 was a challenging one as our underwriting loss deteriorated from $15.1 million in 2017 to $49.9 million. This was the result of an increase in the severity of current accident year property claims mainly in the West, paired with more unfavourable claims development in the auto line of business. In the prior year quarter, underwriting was supported by favourable investment returns; however, this was not the case in the first quarter of 2018. Higher turnover of our bond portfolio driven by our repositioning in the face of rising interest rates resulted in higher realized losses. A drop in the fair value of preferred shares resulted in unrealized losses and was in contrast to gains in the same period of 2017. The impact of poor underwriting results and investment returns led to a net loss of $27.8, $62.4 million lower than the first quarter of 2017. While our underwriting and investment results deteriorated in the quarter, we did see solid earned premium growth of 8.0% driven by continued policy and vehicle count growth, primarily in the auto line of business, and higher average premiums across several lines of business and regions.

FINANCIAL PERFORMANCE

DIRECT WRITTEN PREMIUM AND NET EARNED PREMIUM

$ millions	Q1 2018	Q1 2017	% change
Direct written premium	**599.7**	540.3	11.0%
Net earned premium	**658.1**	609.3	8.0%

In the first quarter, DWP increased by 11.0% or $59.4 million to $599.7 million. DWP improvements were attributable to both growth in policy and vehicle counts, most notably in the auto line of business, and higher average premiums. NEP increased during the first quarter by 8.0% or $48.8 million compared to the same period last year. The increase in NEP during the quarter is seen throughout all geographic regions and core product lines.

Refer to Note 10 of our unaudited condensed consolidated interim financial statements for the period ended March 31, 2018 for a reconciliation of DWP to NEP.

NEP by line of business

$ millions	**Q1 2018**	Q1 2017[1]	% change
Auto	**311.8**	289.7	7.6%
Home	**188.4**	172.8	9.0%
Commercial	**117.0**	106.8	9.6%
Farm	**31.4**	31.2	0.6%
Other	**9.5**	8.8	8.0%
Total	**658.1**	609.3	8.0%

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

Growth in the auto line of business continued to be driven by an increase of vehicles in force, increasing $22.1 million over the prior year. Auto remains our largest line by NEP and is the largest contributor to NEP growth in the first quarter. Higher average premiums, paired with policy growth mainly in Ontario, contributed to the $15.6 million increase in the home line of business over the same period last year. The commercial line of business experienced growth of $10.2 million over the prior year as a result of an increase in policies in force primarily in Ontario. Higher average premiums and an increase in policies in force contributed to the NEP increase of 0.6% over the prior year in the farm line of business. NEP growth of 8.0% over the prior year was realized in the other line of business driven by an increase in policies in force in the boiler and machinery product line.

NEP by geographic region

$ millions	**Q1 2018**	Q1 2017	% change
West	**247.1**	230.0	7.4%
Ontario	**317.3**	294.0	7.9%
Quebec	**29.6**	25.8	14.7%
Atlantic	**64.1**	59.5	7.7%
Total	**658.1**	609.3	8.0%

During the first quarter, the Western region experienced growth of 7.4% over the same quarter of 2017 driven by higher average premiums, paired with rate adjustments. Growth in vehicles and policies in force across all lines of business drove the 7.9% and 14.7% increase over the prior year in Ontario and Quebec, respectively. The Atlantic region continued to experience an increase in policies and vehicles in force, resulting in NEP growth of 7.7% compared to the same period in 2017.

NET INVESTMENT INCOME AND GAINS

$ millions	Q1 2018	Q1 2017	change
Interest income	**19.6**	19.7	(0.1)
Dividend and other income	**9.3**	9.1	0.2
Investment expenses	**(1.5)**	(1.5)	-
Net investment income	**27.4**	27.3	0.1
Net realized gains (losses)	**(11.1)**	10.6	(21.7)
Net foreign exchange gains (losses)	**(2.9)**	3.4	(6.3)
Change in fair value	**(5.5)**	21.5	(27.0)
Impairment losses	**(3.9)**	-	(3.9)
Net investment gains (losses)	**(23.4)**	35.5	(58.9)
Net investment income and gains	**4.0**	62.8	(58.8)

Net investment income and gains decreased by $58.8 million over the prior as the result of weakness in fixed income and equity markets during the first quarter of 2018.

Net realized losses were $21.7 million unfavorable to the prior year period as a result of an increase in turnover of fixed income securities in the face of rising interest rates. Change in fair value was $27.0 million unfavorable compared to the prior year and was attributable to the deterioration in the preferred share market during the first quarter of 2018, which contrasted with the prior period increase of 6.2%. Our invested assets mix is discussed in the Invested Asset section of the MD&A.

OTHER COMPREHENSIVE INCOME

$ millions	Q1 2018	Q1 2017
Other comprehensive income (loss)	**(7.8)**	25.7

Other comprehensive loss was $7.8 million in the first quarter of 2018, compared to $25.7 million of other comprehensive income for the same period of 2017.

Other comprehensive loss before tax was $11.2 million in the first quarter of 2018. Declining equity market valuations during the quarter resulted in unrealized losses on Canadian common shares of $28.3 million, while widening credit spreads and higher interest rates resulted in unrealized losses on bonds of $6.2 million. Offsetting this was the movement of realized losses and impairments on bonds and common shares from other comprehensive income to net income.

EXPENSES

Claims and adjustment expenses – Loss ratio

$ millions, except ratios	Q1 2018	Q1 2017	change
Undiscounted net claims and adjustment expenses	**490.5**	414.2	76.3
Effect of MYA	**(3.6)**	4.6	(8.2)
Net claims and adjustment expenses	**486.9**	418.8	68.1
Loss ratio (excluding MYA)	**74.5%**	68.0%	6.5 pts
Loss ratio (including MYA)	**74.0%**	68.7%	5.3 pts

Undiscounted net claims and adjustment expenses increased compared to the same period of the prior year by $76.3 million or 18.4%. This is driven by an increase in the severity of current accident year

property claims primarily in the West, paired with more unfavourable claims development in the auto line of business.

Unpaid claims and adjustment expenses are discounted using the portfolio yield of the bond and commercial mortgage portfolios with consideration provided for the Government of Canada 5 year bond rate plus a credit spread. The portfolio yield on bonds and commercial mortgages increased in the quarter, which increased the discount rate. This drove a positive impact to MYA and net income before taxes of $3.6 million in the first quarter as compared to a $4.6 million negative impact for the same quarter of 2017.

Loss ratio by line of business

% excluding MYA	Q1 2018	Q1 2017[1]	change	
Auto	**82.6**	77.0	5.6	
Home	**67.3**	65.4	1.9	
Commercial	**68.9**	58.2	10.7	
Farm	**75.8**	45.1	30.7	
Other	**17.0**	19.8	(2.8)	
Total	**74.5**	68.0	6.5	pts

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

In the first quarter, we experienced a deterioration in our loss ratio in all our core lines of business.

More unfavourable claims development and an increase in severity of current accident year claims deteriorated the auto line of business by 5.6 percentage points as compared to the first quarter of 2017. The home loss ratio deterioration of 1.9 percentage points over the prior year is driven by an increase in severity of current accident year claims. This was partially offset by a decrease in frequency of current accident year claims as there were fewer occurrences of severe weather in Ontario and the Atlantic in the first quarter of 2018 compared to 2017. Similarly, the commercial loss ratio deteriorated 10.7 percentage points compared to the prior year as a result of an increase in the severity of current accident year claims, partially offset by a decrease in frequency. An increase in both severity and frequency of current accident year claims drove the deterioration of the farm loss ratio by 30.7 percentage points over the prior year. Given the size of NEP for our farm line of business, fluctuations in claims severity for a relatively few number of claims has a significant impact.

Loss ratio by geographic region

% excluding MYA	Q1 2018	Q1 2017	change	
West	**67.5**	56.5	11.0	
Ontario	**76.1**	70.6	5.5	
Quebec	**79.5**	101.7	(22.2)	
Atlantic	**91.5**	85.2	6.3	
Total	**74.5**	68.0	6.5	pts

The Western region experienced an increase in the severity of current accident year claims in the home, farm and commercial lines of business, resulting in a loss ratio deterioration of 11.0 percentage points over the prior year. In Ontario more unfavourable claims development in the auto line of business, paired with an increase in the frequency and severity of current accident year claims, contributed to the loss ratio deterioration of 5.5 percentage points compared to the same period in 2017. Conversely, in Quebec a decrease in the frequency and severity of current accident year claims resulted in a loss ratio improvement of 22.2 percentage points over the prior year. More unfavourable claims development in the auto line of business and a combination of increases in the frequency and severity of current accident year claims in the farm and auto lines of business drove a loss ratio deterioration of 6.3 percentage points compared to the prior year in the Atlantic region.

Other operating expenses – Expense ratio

%, except total other operating expenses ($ millions)	**Q1 2018**	Q1 2017	change	
Total other operating expenses	**217.5**	210.2	7.3	
Components of expense ratio				
Premium and other taxes	**3.4**	3.3	0.1	pts
Net commissions and advisor compensation	**17.6**	18.0	(0.4)	pts
General expenses	**12.0**	13.2	(1.2)	pts
Expense ratio	**33.0**	34.5	(1.5)	pts

Other operating expenses are comprised of premium and other taxes, net commissions and advisor compensation and general expenses. While these expenses increased by $7.3 million in the quarter, NEP growth of 8.0% outpaced this resulting in an expense ratio of 33.0%, which is a 1.5 percentage point decrease over the same quarter last year. The decrease was also the result of a 1.2 percentage point decrease in general expenses driven by lower spend on advertising and information technology system initiatives compared to the same period in the prior year.

Income taxes

Refer to Note 6 of our unaudited condensed consolidated interim financial statements for the period ended March 31, 2018 for our income tax reconciliation between the statutory tax rate and our effective tax rate.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

$ millions, except ratios	**As at March 31, 2018**	As at December 31, 2017	% change
Assets			
Invested assets	**4,294.1**	4,298.9	(0.1%)
Reinsurance ceded contracts	**109.0**	112.2	(2.9%)
Intangible assets	**72.6**	73.3	(1.0%)
Other assets	**1,329.0**	1,437.7	(7.6%)
Liabilities			
Insurance contracts	**3,853.3**	3,875.7	(0.6%)
Retirement benefit obligations	**127.8**	126.7	0.9%
Other liabilities	**328.2**	388.6	(15.5%)
Shareholders' equity	**1,495.4**	1,531.1	(2.3%)

Our balance sheet remains strong at the end of the first quarter of 2018. The value of our invested assets exceeds insurance contracts by 11.4%, compared to an excess of 10.9% as at December 31, 2017. Our MCT ratio of 205% at March 31, 2018 also denotes our strong financial condition.

Invested assets decreased $4.8 million as a result of declining fixed income and equity valuations. Insurance contract liabilities decreased as a result of lower unearned premiums, which is typical for the first quarter, partially offset with an increase in unpaid claims related to the higher current accident year claims.

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

INVESTED ASSETS

Co-operators General has a high quality, well diversified investment portfolio consisting primarily of high quality bonds, equities and commercial mortgages. The bond portfolio is $2,395.3 million or 55.8% of our total invested assets. Our investment in bonds is diversified both geographically and by sector, with a large portion invested in Canadian government debt instruments. The equity portfolio makes up $1,225.6 million or 28.5% of our total invested assets and consists largely of publicly traded common and preferred stocks diversified by industry sector and issuer. Our equity portfolio is 80.6% weighted to Canadian stocks.

We adhere to a conservative investment policy and strategy that is based on prudence in accordance with regulatory guidelines, and in a broad sense, premium cash flows and claims settlement patterns by product line. This is achieved by investing in a diversified mix of securities and by shifting between asset classes as trends in the market evolve. The credit quality of our portfolio remains high with 83.2% rated A or higher and 95.8% of our bonds are considered investment grade, rated BBB or higher.

MINIMUM CAPITAL TEST

	March 31, 2018	December 31, 2017
MCT	**205%**	216%

Co-operators General's MCT of 205% at March 31, 2018 represents $164.6 million of capital in excess of our 180% internal minimum compared to an excess of $240.5 million at December 31, 2017. The MCT is impacted by various factors including interest rates, invested asset mix, dividends, and the results of our operations.

SHARE CAPITAL

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

DIVIDENDS

Dividends declared on preference shares were $1.3 million in the first quarter ended March 31, 2018, consistent with $1.3 million declared in the same quarter last year. There were no dividends declared on common shares during the quarter ended March 31, 2018, compared to $50.0 million for the comparative period ended March 31, 2017.

EARNINGS PER SHARE

$ millions, except share data and EPS	**Q1 2018**	Q1 2017
Net income (loss)	**(27.8)**	34.6
Less: dividends on preference shares	**1.3**	1.3
Net income (loss) available to shareholders	**(29.1)**	33.3
Weighted average number of outstanding common shares[1]	**21,503,693**	21,458,185
Earnings (loss) per common share	**($1.35)**	$1.55

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

CASH FLOWS

$ millions, except ratios	**Q1 2018**	Q1 2017
Cash provided by (used in) operating activities	**(15.0)**	(30.8)
Investing activities		
Net sale (purchases) of investments	**(30.6)**	49.8
Purchases of intangibles and property and equipment	**(0.7)**	(3.1)
Cash flows provided by (used in) investment activities	**(31.3)**	46.7
Financing activities		
Net preference shares issued (redeemed)	**0.8**	0.4
Dividends paid	**(3.9)**	(53.7)
Cash flows provided by (used in) financing activities	**(3.1)**	(53.3)
Net increase (decrease) in cash and cash equivalents	**(49.4)**	(37.4)

Cash generated from insurance operations and investment returns normally exceeds our claims and operating expense requirements, and sufficiently funds our commitments and growth initiatives.

KEY FINANCIAL MEASURES (NON-IFRS)

We measure and evaluate the performance of the consolidated operations using a number of financial measurements. These measurements help the reader understand business volumes, the quality of risk underwriting, management reserving practices, and the financial strength and financial leverage of Co-operators General.

These measures are non-IFRS measurements, but are derived from elements of the IFRS consolidated financial statements, and are consistent with financial measures used in the P&C insurance industry. Detailed definitions of the measures used can be found within the *Key Financial Measures (Non-IFRS)* section of our 2017 Annual Report.

UNDERWRITING RESULTS

$ millions, except ratios	**Q1 2018**	Q1 2017
Net earned premium, before reinstatement premiums	**658.1**	608.6
Reinstatement premiums expense (recovery)	**-**	(0.7)
Net earned premium, as reported	**658.1**	609.3
Undiscounted net claims and adjustment expenses (excluding MYA)	**490.5**	414.2
Loss ratio (excluding MYA)	**74.5%**	68.0%
Other operating expenses	**217.5**	210.2
Expense ratio	**33.0%**	34.5%
Underwriting loss	**(49.9)**	(15.1)
Combined ratio (excluding MYA)	**107.5%**	102.5%

CLAIMS DEVELOPMENT

Our 2017 Annual Report provides a summary of our unpaid claims and adjustment expense provision and revised estimates of prior year net unpaid claims and adjustment expense provisions relative to their original valuation as at December 31.

RETURN ON EQUITY

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

$ millions, except ratios	**Q1 2018**	Q1 2017
Net income (loss)	**(27.8)**	34.6
Shareholders' equity excluding AOCI at March 31	**1,379.5**	1,435.2
Shareholders' equity excluding AOCI at December 31 of prior year	**1,407.3**	1,451.3
ROE	**(7.7%)**	9.9%

SELECTED QUARTERLY INFORMATION

(in millions of dollars except for EPS and ratios)

	2018 1st qtr	2017 4th qtr	2017 3rd qtr	2017 2nd qtr	2017 1st qtr
Direct written premium	**599.7**	685.2	746.2	768.7	540.3
Net earned premium	**658.1**	664.8	656.3	628.7	609.3
Net income (loss)	**(27.8)**	64.8	(7.4)	29.1	34.6
Other comprehensive income (loss)	**(7.8)**	4.9	(23.7)	(10.8)	25.7
Key statistics					
Earnings (loss) per common share	**($1.35)**	$2.84	($0.40)	$1.18	$1.55
Loss ratio (excluding MYA)	**74.5%**	67.7%	76.8%	67.8%	68.0%
Expense ratio	**33.0%**	32.6%	32.1%	33.2%	34.5%
Combined ratio	**107.5%**	100.3%	108.9%	101.0%	102.5%

	2016 4th qtr	2016 3rd qtr	2016 2nd qtr	2016 1st qtr
Direct written premium	639.1	691.0	722.6	519.5
Net earned premium	620.6	614.8	576.5	588.5
Net income (loss)	128.8	16.3	(39.1)	39.3
Other comprehensive income (loss)	(50.5)	6.0	20.8	3.4
Key statistics				
Earnings (loss) per common share	$5.84	$0.71	($2.00)	$1.78
Loss ratio (excluding MYA)	51.2%	77.2%	81.0%	62.5%
Expense ratio	34.3%	32.0%	33.3%	33.1%
Combined ratio	85.5%	109.2%	114.3%	95.6%

The quarterly results reflect the seasonality of our business. Premiums are generally written in annual renewal cycles, often in the second quarter, and extreme weather conditions historically impact the loss ratio in the first and third quarters.

The timing of claims can be difficult to predict due to uncontrollable factors, such as governmental regulatory actions, weather, or changes in estimates related to investment provisions. Results are also affected by more predictable factors such as the timing of major expenditures, changes in estimates related to claims reserves, and purchase and sale decisions made with respect to our investment portfolio.

OUTLOOK, BUSINESS DEVELOPMENTS AND OPERATING ENVIRONMENT

GENERAL BUSINESS AND ECONOMIC CONDITIONS

In the course of setting our strategic priorities and objectives for 2018 we made assumptions about the general business and economic environment in 2018 and beyond. These assumptions are outlined in detail in our 2017 Annual Report, and we continue to expect them to materialize through 2018. There have been no material changes in our assumptions. We consult with our investment manager, Addenda Capital Inc., in creating and monitoring these assumptions.

PROPERTY AND CASUALTY INDUSTRY

Trends and environmental factors, as well as our strategic responses, are consistent with those discussed in our 2017 Annual Report.

EMERGING LEGISLATION AND REGULATORY EVENTS

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

Ontario auto

Rate regulations

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

Ontario's Fair Auto Insurance Plan

The recently released 2018-19 Ontario Budget noted that as a next step in the Fair Auto Insurance Plan, the government will be investing in the development of Pathways of Care that will support catastrophically injured persons through the Ontario Neurotrauma Foundation (ONF). The ONF, in partnership with Spinal Cord Injury Ontario, will work with insurers, legal professionals and people with first-hand experience to develop standards of care that reflect scientific evidence, existing research and best practices. We were active participants in the consultations leading up to the announcement of the Fair Auto Insurance Plan.

Financial Services Regulatory Authority

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

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

Auto insurance system review in Newfoundland and Labrador

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

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

Alberta auto rate regulations

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

RELATED PARTY TRANSACTIONS

Co-operators General has ongoing transactions with related parties primarily consisting of product distribution services, management and advisory services and reinsurance. There have been no material changes in our ongoing related party transaction arrangements during the period ended March 31, 2018. Please refer to our 2017 Annual Report for further details.

Events after the period ended March 31, 2018

On April 1, 2018, CGIC entered into an agreement with an associated company, CUMIS Services Inc., to acquire 100% of the common shares of CUMIS General Insurance Company (CUMIS General), a property and casualty insurance company. The fair value purchase price will be paid in cash and will be funded by CGIC issuing common shares to its parent, CFSL.

Both parties to the agreement are owned 100% by CFSL. The Company will record the acquisition at the carrying value of CUMIS General. Differences between this carrying value and consideration paid will be recorded through shareholders' equity in our financial statements. The internal reorganization simplifies the structure of CGL by aligning the P&C operations under a common legal entity.

RISK MANAGEMENT

Effective risk management is vital to making sound business decisions. In our on-going efforts to optimize the organizational risk profile, we have identified and continuously assess key risks relative to their potential impact on our corporate strategy, competitive position, operational results and financial condition. Risks, and the practices used to manage risk, are discussed in our 2017 Annual Report and an update is included below.

For 2018, our catastrophe maximum limit decreased by $150.0 million to $1.3 billion while our retention remains at $70.0 million. The net retained amount of $70.0 million represents approximately 5.1% of our capital. For the purpose of capital management, we defined capital as shareholders' equity excluding AOCI.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

No changes were made to our internal control over financial reporting during the first quarter of 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

OTHER ACCOUNTING MATTERS

ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting”. The unaudited condensed consolidated interim financial statements should be read in conjunction with our 2017 Annual Report.

The accounting policies used in our first quarter unaudited condensed consolidated interim financial statements are consistent with those applied in our audited consolidated financial statements for the year ended December 31, 2017.

FUTURE ACCOUNTING CHANGES

IFRS future accounting pronouncements, as well as their estimated impact, are described in Note 4 of our audited consolidated financial statements for the year ended December 31, 2017. We have made the following updates to information provided in the consolidated financial statements for the year ended December 31, 2017 about the standards issued but not yet effective.

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

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

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

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

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

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

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of our unaudited condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statement and the reported amounts of revenues and expenses during the period. The preparation of our unaudited condensed consolidated interim financial statements also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in the 2017 Annual Report within the notes for the respective account balances.

The estimates used for the unaudited condensed consolidated interim financial statements for the period ended March 31, 2018, are consistent with those used in the 2017 Annual Report. As discussed in our 2017 Annual Report, we make estimates for the amount of unpaid claims and timing of future claims based on assumptions that reflect the expected set of economic conditions and planned course of actions. Uncertainty exists on reported claims in that all information may not be available at the reporting date. In addition claims may not be reported to us immediately; therefore, estimates are made as to the cost of the claims incurred but not yet reported, a value which can take years to determine.

For further information, please refer to our 2017 Annual Report and the notes to our unaudited condensed consolidated interim financial statements for the quarter ended March 31, 2018.

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