2015

Co-operators General Insurance Company

ANNUAL REPORT

the co-operators®

mission vision values

OUR MISSION

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.

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 community

About our cover

By taking a sustainable approach to our business, we are better equipped to identify big-picture challenges and focus our efforts to make a substantive difference.

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COMPANY PROFILE

Co-operators General Insurance Company (CGIC) is a leading Canadian-owned multi-product insurance and financial services organization with assets of $5.3 billion.

CGIC has 2,505 employees and is supported by a dedicated financial advisor network with 2,673 licensed insurance representatives throughout Canada.

Under its primary line of business — Property and Casualty insurance — CGIC protects more than 734,000 homes, 1.1 million vehicles, 37,000 farms and 190,000 businesses.

CORPORATE GOVERNANCE

Co-operators General Insurance Company is part 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.

Annual Statement

This Annual Report constitutes the Annual Statement of Co-operators General Insurance Company, which it 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:

Management's Discussion & Analysis

For the year ended December 31, 2015

February 17, 2016

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, 2015.

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'Equitable) 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 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 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 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-owned 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 2,673 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 and distributes it through independent brokers across Canada.

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), and Premier Managers Holdings Corporation (PMHC). "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

This year was the first in our new four year strategy which will guide our actions through 2018. Our strategy has been and continues to be rooted in The Co-operators mission: financial security for Canadians and their communities. Our actions will be guided within the following strategic imperatives.

Becoming the industry leader in client engagement

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 model will build on the success of our 'Call, Click, or Come-in' multi-channel distribution model and our award winning client satisfaction results across the country with an enhanced focus on client-centricity and cross channel excellence. 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 the group of companies. We will offer advice and solutions for holistic financial security, resiliency and well-being to truly engage our clients.

Our investment in advanced business intelligence to date has allowed us to better price our products and align our pricing with the insurance risks we take. We will further leverage our investments in business intelligence to support our distribution channels with actionable information that will help provide an outstanding experience for our clients.

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

We will be the financial service provider of choice for the members of CGL, co-operatives and community organizations. We will:

- enhance our Community Guard™ and Co-op Guard™ products and extend their availability to Quebec;
- continue to proactively and intentionally leverage Sovereign's commercial and specialty expertise to bring insurance 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 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. In May of 2015 we launched comprehensive water coverage for all homeowners in Alberta. Comprehensive water is our answer to what has quickly become Canada's most significant property insurance need. Work is underway to make this much needed coverage available across Canada in the coming years. Our leadership on comprehensive water and community resiliency will be demonstrated by continuing to work with government, both federally and provincially, on infrastructure resiliency efforts.

We will also 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. In 2015 we established a long-term vision for our invested assets outlining how these assets can support the organization's mission and vision through both investment returns and positive impact. 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.

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.

We will foster a culture of high performance, efficiency and continuous improvement. Key to our strategy is the continued development and implementation of our common systems platform. In 2015 we began the rollout of personal auto with full implementation expected midway through 2016. We also completed a significant portion of the development work required to begin the rollout for commercial property in 2016.

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 Business Intelligence unit using leading edge tools and technologies which will strengthen our underwriting and decision-making capabilities.

COMPLEMENTARY PROGRAMS

Our four Community Advisory Panels (CAPs) provide a forum for community members to comment, provide advice and make recommendations to our management on any matter relating to our products and services as well as our interactions with our community and clients. The purpose of CAPs is to provide open, honest feedback on issues that impact our organization. We are proud to be the only Canadian insurance company to invite local community members to participate in the decisions we make at Co-operators General in this manner. We conducted eight CAP sessions in 2015, two in each of our four participating communities.

We continue to grow and support the next generation of sustainability leaders through our unique, award-winning IMPACT! Youth Program for Sustainability Leadership. The program is focused on empowering university and college students and recent graduates to become effective change agents for a sustainable society. Through the IMPACT! Fund, we provide financial support to IMPACT! alumni leading initiatives that create positive influences on Canadian campuses and in our communities. Additionally, our national Signature Safety Programs, aimed at all age groups, provide education on issues such as car seat safety, fire safety, responsible decision-making for youth and senior health and wellness.

We recognize that environmental issues such as extreme weather-related events, social issues such as mental health, and economic issues such as income inequality, have an enormous impact on the lives and well-being of Canadians. As such, The Co-operators is committed to being a catalyst for a sustainable society. Not only do we seek to operate in a sustainable manner, but we encourage others to do so as well. We are a founding signatory of the United Nations Environment Programme's Finance Initiative Principles for Sustainable Insurance, and will continue to be a vocal advocate for this initiative within our industry. We are a founding member of the Corporate Knights Council for Clean Capitalism – a group of influential CEOs with the vision to make a strong impact on sustainability issues in Canada. We are members of the Leadership Council of the Network for Business Sustainability, which informs the academic research agenda in business sustainability. We also engage sustainability in our supply chain through our Sustainable Agency Program, Sustainable Purchasing Policy and Supplier Code of Conduct.

In 2013, we initiated a research project in partnership with researchers at the University of Waterloo to investigate the barriers and opportunities in addressing overland flood insurance in Canada. In 2014, we hosted a Partners for Action Roundtable of diverse stakeholders, including senior leaders from the insurance, reinsurance, banking, real estate, legal and home building/development sectors, along with representatives from all three levels of government, to identify and prioritize the approaches required to strengthen flood resiliency in Canadian communities. A report released in September 2014, titled: "Partners for Action: Priorities for Advancing Flood Resiliency in Canada" summarized the top three priorities to improve Canada's flood resiliency: flood plain maps; preparedness of cities; and built infrastructure. Our focus in 2015 concentrated on 'preparedness of cities', which is an area that has not previously been materially addressed. In support of this, we partnered again with the University of Waterloo on a research report titled: "Preparedness of Fifteen Canadian Cities to Limit Flood Damage", which ultimately sought to motivate cities to increase efforts to limit flood risk associated with extreme precipitation. In 2015 we also announced the creation of the Partners for Action Network at the University of Waterloo's Faculty of Environment. Research from this network will be used to drive action toward better managing the risk posed by flooding in Canadian communities.

The Co-operators has a target to reduce net carbon emissions by 75%, below 2010 emission levels, by the end of 2018. Efforts to reduce energy consumption have included energy efficiency retrofits in select corporate office locations and switching to hybrid options in our leased vehicle fleet. In 2014, The Co-operators entered into a three-year agreement with Bullfrog Power to source green electricity for select corporate office buildings. At the end of 2014, our net carbon emissions had decreased by 50% from 2010 levels.

In 2014, we became the first Canadian insurance company to sign the Montreal Carbon Pledge, which commits signatories to measure and publicly disclose the carbon footprints of their investment portfolios. We are beginning to embed sustainability attributes into insurance products that have the capability to reach a wider client base. 'The Better Place Suite' provides a simple way to communicate and promote our sustainable product offerings.

Through these initiatives, we were honoured to be recognized for the sixth consecutive year in the top ten of the 50 Best Corporate Citizens in Canada by Corporate Knights, an organization that promotes responsible business practices and the advancement of social and environmental sustainability worldwide. For the third consecutive year, we were listed among Maclean's Top 50 Socially Responsible Corporations. Our IMPACT! Youth Program for Sustainability Leadership was voted the Top Project of the Year for sustainable development and clean capitalism by the 2015 Clean50 network.

SUMMARY OF KEY FINANCIAL DATA AND RESULTS OVERVIEW

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

	2015	2014	2013
Key financial data			
Direct written premium (DWP)	**2,435.9**	2,305.7	2,196.6
Net earned premium (NEP)	**2,297.0**	2,189.6	2,071.9
Net income	**162.3**	137.6	88.9
Total assets	**5,303.2**	5,293.6	5,031.5
Total liabilities	**3,844.6**	3,802.0	3,649.4
Shareholders' equity	**1,458.6**	1,491.6	1,382.1
Key success indicators			
Direct written premium growth	**5.6%**	5.0%	4.3%
Net earned premium growth	**4.9%**	5.7%	2.8%
Earnings per share (EPS)[1]	**$7.17**	$6.04	$3.51
Return on equity (ROE)	**12.3%**	10.6%	6.9%
Combined ratio - excluding market yield adjustment (MYA)	**97.1%**	99.1%	104.1%
Combined ratio - including MYA	**97.4%**	100.2%	103.2%
Minimum Capital Test (MCT)	**225%**	228%	234%

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

We saw continued growth in our core lines of business and in all regions in 2015. 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 income of $67.1 million for 2015 improved from our underwriting income of $19.9 million in 2014. This was driven by strong policy and vehicle growth, partially offset by an increase in claims from current accident year severity and growth in the underlying book, and higher operating expenses.

Our net investment income and gains was $36.6 million lower than in 2014, as a result of weaker equity markets combined with greater volatility in the Canadian dollar. These losses were partially offset by gains realized within the fixed income portfolio.

FINANCIAL PERFORMANCE REVIEW

NET INCOME

	2015	2014	2013
Net income ($ millions)	**162.3**	137.6	88.9
Return on equity (ROE)	**12.3%**	10.6%	6.9%

Net income for the year was $162.3 million, an increase of $24.7 million from the prior year’s net income of $137.6 million. ROE for 2015 was 12.3% as compared to 10.6% in 2014, highlighting improved financial performance over the prior year. Our 2015 results were impacted by lower net investment gains as well as higher current accident year claims and operating expenses; however, policy growth, a less unfavorable MYA adjustment, and more favourable claims development offset the change.

DIRECT WRITTEN PREMIUM AND NET EARNED PREMIUM

$ million	**2015**	2014	% change	2013
Direct written premium	**2,435.9**	2,305.7	5.6%	2,196.6
Net earned premium	**2,297.0**	2,189.6	4.9%	2,071.9

DWP increased by 5.6% in the year and NEP has increased by 4.9%. Increased DWP is primarily driven by continued policy and client growth combined with higher average premium within the home and auto lines of business. The increase in NEP is seen in all of our geographic regions and all core product lines, except commercial.

Refer to Note 22 of the consolidated financial statements for a reconciliation of DWP to NEP.

NEP by line of business

$ million	**2015**	2014	% change	2013
Auto	**1,136.5**	1,060.2	7.2%	1,011.5
Home	**603.3**	576.9	4.6%	544.1
Commercial	**416.6**	417.0	(0.1%)	383.1
Farm	**108.3**	106.6	1.6%	106.3
Other	**32.3**	28.9	11.8%	26.9
Total	**2,297.0**	2,189.6	4.9%	2,071.9

The auto line of business remains our largest line by NEP and increased by $76.3 million or 7.2% over 2014. Growth in the auto line of business continued to be driven primarily by increased vehicles in force combined with strong retention and rate increases in the Western and Atlantic regions. This offsets the impacts of continued auto rate reductions which we have been taking in Ontario since 2012.

Our home line of business experienced NEP growth of $26.4 million or 4.6% compared to the prior year, driven by continued policy growth and higher average premium.

Our withdrawal from the condominium market and lapsing of certain unprofitable accounts contributed to the decline in NEP by 0.1% compared to the prior year in the commercial line of business. Excluding the impact of our withdrawal from the condominium market, CGIC experienced NEP growth of 3.4% compared to the prior year as a result of policy growth.

An increase in policies in force coupled with improved retention and higher average premium led to an increase in NEP of 1.6% in the farm line of business.

Our other line of business increased by $3.4 million compared to 2014. This category includes one of Sovereign's specialty lines of business, which contributed to the increase in NEP as a result of a decrease in ceded premiums compared to the prior year.

NEP by geographic region

$ million	**2015**	2014	% change	2013
West	**899.0**	865.5	3.9%	813.3
Ontario	**1,085.0**	1,031.0	5.2%	981.9
Quebec	**88.6**	77.8	13.9%	68.5
Atlantic	**224.4**	215.3	4.2%	208.2
Total	**2,297.0**	2,189.6	4.9%	2,071.9

The Western region realized NEP growth of $33.5 million or 3.9% compared to 2014. This was the result of an increase in vehicles and policies in force and higher average premium in both the auto and home lines of business. This was partially offset by the commercial line of business which was impacted by our withdrawal from the condominium market, lapsing of certain unprofitable accounts and premium reductions in the depressed energy and resource sector.

An increase in NEP of $54.0 million in the Ontario region was driven by growth in all product lines, except the farm line of business, and was supported by successful cross-selling initiatives. In particular, premium growth from increased vehicles in force and a higher level of retention more than offset the impacts of certain auto rate reductions taken in 2013 and 2014. For a discussion on Ontario auto rate decreases refer to the *Ontario Auto* section of the MD&A.

Our expansion initiatives in Quebec have resulted in policies and vehicles growth within all lines of business, which contributed to a $10.8 million increase in NEP in this region.

Growth in vehicles and policies in force in the auto and commercial lines of business and higher average premiums in the auto and home lines of business, contributed to the NEP increase of $9.1 million, or 4.2%, over the prior year in the Atlantic region.

INVESTMENT INCOME AND GAINS

$ millions	2015	2014	2013
Interest income, net of expenses	**71.3**	82.3	80.7
Dividend and other income	**58.0**	45.5	56.5
Investment expense	**(4.6)**	(4.6)	(4.8)
Net investment income	**124.7**	123.2	132.4
Net realized gains	**87.3**	68.3	37.3
Net foreign exchange losses	**(17.5)**	(0.7)	-
Changes in fair value	**(26.1)**	2.5	(11.5)
Impairment losses	**(23.6)**	(11.9)	(3.4)
Net investment gains	**20.1**	58.2	22.4
Net investment income and gains	**144.8**	181.4	154.8

Net investment income remained relatively flat compared to 2014. Lower yields on fixed income investments mainly driven by Bank of Canada interest rate cuts resulted in a decrease to interest income of $11.0 million. Dividend and other income was $12.4 million higher than the previous year, primarily resulting from an increase in distributions from international equity funds.

Net investment gains were $38.1 million lower than the prior year attributable to more volatile equity markets and a weak Canadian dollar, partially offset by realized bond gains. The $19.0 million increase in net realized gains was the result of capitalizing on more sales opportunities in fixed income markets. The $16.8 million increase in foreign exchange losses compared to 2014 reflects an increase in realized forward exchange contract losses as a result of the weakening of the Canadian dollar relative to the U.S. dollar, partially offset by an increase in foreign exchange gains on the sale of U.S. denominated investments. The $28.6 million negative change in fair value was primarily caused by unrealized losses on preferred shares. In 2015, the S&P/TSX preferred share composite index declined by 18.5% as compared to the 1.5% increase in the index experienced in the prior period. Declining oil prices led to weakness in the energy and resource sector and resulted in impairment losses of $23.6 million, which were $11.7 million higher than the impairment losses booked in 2014. During the year, the S&P/TSX energy and resource index declined 22.3% in contrast to the 4.1% decline experienced in the prior year. Our invested assets mix is discussed in the *Invested Assets* section of the MD&A.

OTHER COMPREHENSIVE INCOME (LOSS)

$ millions	2015	2014	2013
Items that may be reclassified subsequently to the statement of income:			
Net unrealized gain (loss) on available-for-sale financial assets			
Bonds	**23.7**	77.3	(55.1)
Stocks	**17.7**	69.8	89.0
	41.4	147.1	33.9
Net reclassification adjustment for gain (loss) included in income			
Bonds	**(42.5)**	(22.4)	(21.2)
Stocks	**(27.0)**	(35.7)	(12.4)
	(69.5)	(58.1)	(33.6)
Items that may be reclassified before income taxes	**(28.1)**	89.0	0.3
Income tax expense (recovery) relating to items that may be reclassified	**(7.8)**	21.9	(1.4)
	(20.3)	67.1	1.7
Items that will not be reclassified to the statement of income:			
Remeasurement of the retirement benefit obligations	**-**	(16.8)	1.6
Income tax expense (recovery) related to items that will not be reclassified	**(0.3)**	(4.4)	0.3
	0.3	(12.4)	1.3
Other comprehensive income (loss)	**(20.0)**	54.7	3.0

Other comprehensive loss was $20.0 million in the year, which is a $74.7 million decrease from 2014. Unrealized bond gains were $23.7 million in 2015 as compared to $77.3 million in the prior year as interest rates continued to fall. In the prior year, strong Canadian and U.S. equity markets led to unrealized stock gains of $69.8 million as compared to $17.7 million in 2015. In the current year, weakness in Canadian common and preferred share equity markets resulted in $23.4 million in unrealized losses. These unrealized losses were surpassed by unrealized gains of $41.1 million on U.S. and international equities and primarily resulted from weakness in the Canadian dollar versus other currencies. The net reclassification loss increased by $11.4 million in the current year as compared to 2014 as increased bond gains of $20.1 million offset an $8.7 million decline in stock gains.

EXPENSES

Claims and adjustment expenses - Loss ratio

$ millions, except ratios	**2015**	2014	change		2013
Undiscounted net claims and adjustment expenses	**1,479.6**	1,459.6	20.0		1,478.8
Effect of MYA	**7.3**	24.6	(17.3)		(18.6)
Net claims and adjustment expenses	**1,486.9**	1,484.2	2.7		1,460.2
Loss ratio (excluding MYA)	**64.4%**	66.7%	(2.3)	pts	71.4%
Loss ratio (including MYA)	**64.7%**	67.8%	(3.1)	pts	70.5%

The increase in undiscounted net claims and adjustment expenses of $20.0 million was mainly caused by policy growth and an increase in severity during the year in our auto, farm and commercial lines of business compared to 2014. The increase was partially offset by a decrease in accident year claims as a result of a Western hail catastrophe included in 2014, and more favourable claims development.

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 of our bonds and commercial mortgages decreased in the year which decreased the discount rate. Overall, the MYA had a negative impact to net income of $7.3 million in the year compared to a negative impact in 2014 of $24.6 million.

Loss ratio by line of business

% excluding MYA	**2015**	2014	change		2013
Auto	**67.7**	70.8	(3.1)	pts	71.4
Home	**58.8**	68.0	(9.2)	pts	76.5
Commercial	**63.7**	56.2	7.5	pts	69.9
Farm	**69.8**	66.5	3.3	pts	55.6
Other	**45.9**	38.8	7.1	pts	52.8
Total	**64.4**	66.7	(2.3)	pts	71.4

During the year, we experienced improvements in our loss ratio compared to 2014 as a result of the auto and home lines of business, which was partially offset by the deterioration of our commercial and farm loss ratios.

Continued premium growth within the auto line of business more than offset the increase in frequency and severity of current accident year claims. This, combined with more favourable claims development, contributed to an improvement in the auto loss ratio of 3.1 points.

The home loss ratio improved 9.2 percentage points over the prior year, which was mainly a result of the Western hail catastrophe included in 2014. The catastrophe in the prior year resulted in pre-tax losses, net of reinsurance and reinstatement premiums, of $46.5 million. This was partially offset by an increase in the severity of current accident year claims.

Multiple fire events during the year throughout various regions increased accident year claims in the commercial line of business, which led to the deterioration in the loss ratio of 7.5 percentage points.

The farm portfolio's loss ratio deteriorated by 3.3 percentage points, resulting from an increase in the frequency and severity of current accident year claims, partially offset by more favorable claims development.

The other loss ratio deteriorated by 7.1 percentage points over the prior year, which was mainly the result of less favourable claims development within one of Sovereign's specialty lines of business compared to the prior year.

Loss ratio by geographic region

% excluding MYA	**2015**	2014	change		2013
West	**70.4**	70.2	0.2	pts	78.1
Ontario	**55.7**	64.1	(8.4)	pts	68.0
Quebec	**78.3**	63.0	15.3	pts	61.6
Atlantic	**77.1**	65.9	11.2	pts	64.4
Total	**64.4**	66.7	(2.3)	pts	71.4

The deterioration in the Western region's loss ratio of 0.2 percentage points was largely driven by an increase in the frequency and severity of current accident year claims within the auto and farm lines of business and an increase in severity in the commercial line of business. This was partially offset by improvements in the loss ratio as a result of the Western hail catastrophe included in the prior year.

Our Ontario loss ratio improved 8.4 percentage points. The improvement was mainly attributable to more favorable claims development within the home and auto lines of business and a decrease in frequency within the home line of business. This was partially offset by an increase in the severity of current accident year claims within the auto line of business.

Quebec's loss ratio deteriorated 15.3 percentage points as a result of an increase in the severity of current accident year claims within the auto, home and commercial lines of business. 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 deterioration in the Atlantic region's loss ratio of 11.2 percentage points was driven by an increase in the severity of accident year claims in the auto, home and commercial lines of business. This was largely as a result of severe winter weather in the region at the beginning of the year. Given the size of the NEP in the Atlantic region, small changes in the severity and frequency of claims have a significant effect on the loss ratio.

Other operating expenses - Expense ratio

%, except total other operating expenses ($ millions)	**2015**	2014	change		2013
Total other operating expenses	**750.3**	710.1	40.2		678.5
Components of expense ratio					
Premium and other taxes	**3.2**	3.1	0.1	pts	3.2
Net commissions and advisor compensation	**16.8**	17.1	(0.3)	pts	17.0
General expenses	**12.7**	12.2	0.5	pts	12.5
Expense ratio	**32.7**	32.4	0.3	pts	32.7

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 32.7%, which is an increase of 0.3 percentage points from 2014.

The overall increase in the expense ratio was mainly the result of a 0.5 percentage point growth in general expenses, which related to information technology systems initiatives. Premiums and other taxes increased by 0.1 percentage points, as a result of tax credits included in the prior year. Net commissions and advisor compensation expenses have decreased 0.3 percentage points largely as a result of a less unfavorable change compared to 2014 in the discount rate used to determine certain longer-term liabilities related to advisor compensation arrangements. These are described further in the *Significant Accounting Judgments, Estimates and Assumptions* section of the MD&A.

INCOME TAXES

The 2015 statutory income tax rate has increased to 26.6% in 2015 from the 2014 statutory rate of 26.3% as a result of an increase in a provincial statutory tax rate. The effective tax rate for the year ended December 31, 2015 was 20.7%, with the 5.9 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	2015	2014	2013
Bonds	**60.3%**	62.0%	63.6%
Stocks	**24.2%**	24.0%	22.1%
Mortgages	**12.9%**	10.8%	11.6%
Other	**2.6%**	3.2%	2.7%
	100.0%	100.0%	100.0%

During the year, we made a strategic decision to increase our exposure to higher yielding fixed income investments. We have a high quality, well diversified investment portfolio consisting primarily of bonds, equities and commercial mortgages. The bond portfolio makes up $2,389.1 million or 60.3% of our total invested assets. Our investment in bonds is diversified both geographically and by sector, with a large portion invested in Canadian government debt instruments. The credit quality of bonds is presented below. The equity portfolio makes up $958.0 million or 24.2% of our total invested assets and consists largely of publicly traded common and preferred stocks. It is diversified by industry sector and issuer, with 73.3% of the portfolio in Canadian holdings. We hold mortgages with a carrying value of $512.7 million on Canadian commercial and residential properties. Mortgages make up 12.9% of our total invested assets and are of high credit quality with 96.7% considered investment grade based on Addenda's internal rating system.

Credit quality of bonds

% based on fair value	2015	2014	2013
AAA	**30.5%**	35.1%	34.6%
AA	**21.4%**	17.0%	12.8%
A	**32.9%**	37.5%	42.3%
BBB	**13.5%**	9.2%	10.2%
Below BBB	**1.7%**	1.1%	-
Not rated	**-**	0.1%	0.1%
	100.0%	100.0%	100.0%

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 84.8% rated A or higher. Investment grade bonds are those rated BBB and above. The shift in credit quality allocations between 2015 and 2014 was the result of a strategic decision during the year to increase our investment yields. 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.

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 rate used to discount the liability is based on the projected rate of return on the underlying assets.

Net unpaid claims liability

$ millions	2015	2014	2013
Balance, beginning of year	**2,149.7**	2,087.1	1,972.4
Less: effect of discounting at prior year-end	**116.5**	91.9	110.5
Undiscounted unpaid claims and adjustment expenses at prior year-end	**2,033.2**	1,995.2	1,861.9
Paid on prior years	**(607.6)**	(590.2)	(541.7)
Change in estimate on prior years	**(158.2)**	(127.8)	(103.6)
Incurred on current year	**1,637.8**	1,584.8	1,595.7
Paid on current year	**(845.5)**	(828.8)	(817.1)
Undiscounted unpaid claims and adjustment expenses at current year-end	**2,059.7**	2,033.2	1,995.2
Effect of discounting	**123.8**	116.5	91.9
Unpaid claims and adjustment expenses (net)	**2,183.5**	2,149.7	2,087.1

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 2015 of $256.0 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	2015	2014	2013
Common shares	**48.1**	48.1	6.1
Preferred shares			
Public issue	**100.0**	100.0	215.0
Private issue	**69.4**	65.5	61.5
Contributed capital	**10.1**	10.1	10.1
Retained earnings	**1,083.1**	1,100.0	976.1
Accumulated other comprehensive income	**147.9**	167.9	113.3
Total	**1,458.6**	1,491.6	1,382.1

Our consolidated balance sheet as at December 31, 2015 includes over $1.4 billion in shareholders' equity, reflecting continued financial strength. Overall, our shareholders' equity position has decreased by $33.0 million in 2015 compared to 2014. Contributing to our shareholders' equity were net income of $162.3 million (2014 - $137.6 million) and net shares issued of $4.2 million (2014 – net redeemed of $69.5 million) offset by an other comprehensive loss of $20.0 million (2014 – income of $54.7 million), preferred share dividends declared of $9.5 million (2014 - $13.5 million) and common share dividends declared of $169.5 million (2014 - $nil).

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 21 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 17 to the consolidated financial statements.

2015	Authorized	Issued
Class A preference shares, series A	1,440,000	180,290
Class A preference shares, series B	640,000	561,330
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	21,376,383

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	2015	2014	2013
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	1.81
Class F preference shares	**1.88**	1.88	1.88
Class G preference shares	**2.50**	2.50	2.50
Common shares	**7.94**	-	5.62

Earnings per share (EPS)

$ millions, except share data and EPS	2015	2014	2013
Net income	**162.3**	137.6	88.9
Less dividends on preference shares	**9.5**	13.5	17.5
Net income available to common shareholders	**152.8**	124.1	71.4
Weighted average number of outstanding common shares[1]	**21,304**	20,540	20,362
Earnings per share from net income	**7.17**	6.04	3.51

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

MINIMUM CAPITAL TEST

	2015	2014	2013
MCT	**225%**	228%	234%

Co-operators General's MCT of 225% represents $336.9 million of capital in excess of our 170% internal minimum (2014 - $359.9 million). During the fourth quarter of 2014, we revised our internal minimum from 180% to 170% to better reflect our risk profile. This was an outcome of the Own Risk and Solvency Assessment (ORSA) process completed in 2014. The MCT is impacted by various factors including interest rates, changes in our share capital, equity market performance and the results of our operations. The decrease in our MCT from December 31, 2014 resulted from the declaration of $169.5 million in common share dividends, partially offset by the positive impact of our year-to-date net income results.

OSFI issued a revised guideline for the calculation of the MCT which came into effect January 1, 2015. Refer to the *Emerging Legislation and Regulatory Events* section for a discussion of the changes.

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	2015	2014	2013
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	2015	2014	2013
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	2015	2014	2013
CGIC - FSR	Stable	**A (low)**	n/a	n/a
CGIC - ICR	Stable	**A (low)**	n/a	n/a
CGIC - PSR	Stable	**Pfd-2 (low)**	Pfd-3 (high)	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.

FINANCIAL DATA BY LEGAL ENTITY

(in millions of dollars except return on equity and loss ratio)

	CGIC[1,2]			Sovereign			COSECO		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Direct written premium	**1,853.0**	1,751.4	1,664.6	**335.4**	323.5	315.4	**247.5**	230.8	216.6
Net income (loss)	**97.9**	82.8	78.1	**7.4**	19.8	12.5	**57.0**	35.0	(1.7)
Total assets	**3,906.0**	3,857.3	3,695.5	**784.9**	790.3	743.0	**612.3**	646.0	593.0
Shareholders' equity	**1,061.3**	1,090.8	1,034.8	**223.8**	245.1	216.2	**173.5**	155.7	131.1
Return on equity	**10.3%**	8.7%	8.1%	**3.4%**	9.1%	6.2%	**38.4%**	26.8%	(1.4%)
Loss ratio (excludes MYA)	**66.4%**	68.5%	70.3%	**63.1%**	58.9%	64.4%	**51.4%**	62.9%	88.8%

[1] Net income (loss), total assets and shareholders' equity amounts are net of inter-company adjustments

[2] CGIC includes subsidiaries L'Equitable and CIAL for all periods presented

CGIC provides home, automobile, farm and commercial insurance to individuals and businesses through a dedicated financial advisor network with 2,673 licensed insurance representatives throughout Canada. DWP grew by $101.6 million or 5.8% compared to 2014. Growth was mainly experienced in the Ontario and Western regions as a result of policy and vehicle growth across all lines of business, paired with higher average premium in the home and auto lines of business. CGIC's loss ratio excluding MYA improved 2.1 percentage points over the prior year, as CGIC experienced higher net earned premium, partially offset by an increase in the severity of current accident year claims in the auto and commercial lines of business across all regions. All of these factors combined with net investment income and gains of $110.9 million contributed to a net income of $97.9 million compared to $82.8 million in 2014.

Sovereign writes complex commercial and special risk insurance through independent brokers across Canada. DWP was $11.9 million above prior year, which is attributable to growth in our commercial auto and specialty lines of business. This growth was partially offset by decreases in the personal property line of business resulting from Sovereign's planned withdrawal from this market and lower renewals within the energy and resource sector in the West. The loss ratio excluding MYA has deteriorated by 4.2 percentage points, which was attributable to a number of large fire losses that occurred in multiple regions during the year. Sovereign's underwriting loss paired with lower net investment income and gains contributed to net income of $7.4 million, compared to $19.8 million in 2014.

COSECO provides home and auto insurance to employer, association and affinity groups across Canada. COSECO's DWP increased in the year by $16.7 million or 7.2%. Growth is mainly attributable to continued retention in our home and auto lines of business paired with higher average premium in the home line of business. The loss ratio, excluding MYA, improved by 11.5 percentage points as a result of more favorable claims development and a decrease in the frequency and severity of accident year claims compared to the prior year. COSECO's underwriting gain paired with lower net investment income and gains contributed to net income of $57.0 million in 2015 compared to net income of $35.0 million in 2014.

KEY FINANCIAL MEASURES (NON-IFRS)

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

These measures are non-IFRS measurements, but are derived from elements of the IFRS consolidated financial statements, and are consistent with financial measures used in the P&C insurance industry.

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	2015	2014	2013
Net earned premium, before reinstatement premiums	**2,297.6**	2,188.8	2,057.7
Reinstatement premiums expense (recovery)	**(0.6)**	0.8	14.2
Net earned premium, as reported	**2,297.0**	2,189.6	2,071.9
Undiscounted net claims and adjustment expenses (excluding MYA)	**1,479.6**	1,459.6	1,478.8
Loss ratio (excluding MYA)	**64.4%**	66.7%	71.4%
Other operating expenses	**750.3**	710.1	678.5
Expense ratio	**32.7%**	32.4%	32.7%
Underwriting gain (loss)	**67.1**	19.9	(85.4)
Combined ratio	**97.1%**	99.1%	104.1%

CLAIMS DEVELOPMENT

$ millions	2015	2014	2013
Unpaid claims and adjustment expenses (net)	**2,183.5**	2,149.7	2,087.1
Add: investment income on unpaid claims		62.9	121.3
Less: net paid claims		607.6	901.2
Less: re-estimate of unpaid claims at December 31		1,349.0	907.4
Claims development - favourable		256.0	399.8
1st year		256.0	218.2
2nd year			181.6
Claims development - favourable		256.0	399.8

RETURN ON EQUITY (ROE)

$ millions, except ratios	2015	2014	2013
Net income	**162.3**	137.6	88.9
Shareholders' equity excluding accumulated other comprehensive income	**1,310.7**	1,323.7	1,268.9
Return on equity (ROE)	**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.

(in millions of dollars except EPS and ratios)

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%**	**32.7%**
Combined ratio	**98.2%**	**94.0%**	**104.0%**	**92.1%**	**97.1%**

2014	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
Direct written premium	472.9	654.5	610.1	568.2	2,305.7
Net earned premium	525.6	544.8	559.0	560.2	2,189.6
Net income (loss)	10.6	58.1	(10.8)	79.7	137.6
Other comprehensive income (loss)	37.4	16.5	(5.9)	6.7	54.7
Key statistics					
EPS from net income (loss)	$0.35	$2.48	($0.57)	$3.78	$6.04
Loss ratio (excluding MYA)	69.7%	61.8%	78.6%	56.6%	66.7%
Expense ratio	34.0%	32.1%	30.6%	33.1%	32.4%
Combined ratio	103.7%	93.9%	109.2%	89.7%	99.1%

In 2015, our quarterly DWP results followed a consistent pattern with 2014 levels, with the second quarter representing the largest quarter, followed by the third quarter. In the first quarter of 2015, we saw a 4.6 percentage point improvement in the loss ratio to 65.1%. This was the result of less severe weather in Ontario and the West, offset by more severe weather in the Atlantic region. We also saw an improvement in the third quarter loss ratio of 6.1 percentage points to 72.5%, which is a result of the prior year Q3 loss ratio impacted by the Western hail catastrophe. The second and fourth quarter loss ratios remained consistent.

Review of fourth quarter 2015 results

Net income for the quarter was $103.3 million compared to $79.7 million in the same quarter of last year. This produced earnings per common share in the quarter of $4.69 compared to $3.78 in 2014. 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 higher net investment income and gains, partially offset by higher accident year claims.

Fourth quarter DWP increased 8.2% over the same period of 2014 to $614.9 million. NEP also grew by $32.9 million compared to the fourth quarter of prior year, to $593.1 million. Growth was experienced primarily in the auto and home lines of business in both the Ontario and Western regions, as well as new business growth in the specialty commercial line of business.

The loss ratio for the quarter, excluding MYA, was 58.7% compared to 56.6% from the same period of 2014. The deterioration was driven by an increase in the severity of current accident year claims within our auto, commercial and farm lines of business. Fourth quarter operating expenses were negatively impacted by an increase in staff compensation costs and information technology spend. The outcome was a combined ratio for the quarter of 92.1% compared to 89.7% in 2014.

Net investment income and gains for the fourth quarter of 2015 was $85.7 million compared to $46.8 million for the same period of the prior year. The $38.9 million increase in the current quarter was primarily the result of higher realized common share gains and a positive change in the fair value of preferred shares. Net investment gains reflects higher net realized stock gains of $33.8 million compared to $12.3 million in the same period of 2014. The total change in the fair value of preferred shares for the quarter was a $14.0 million gain as compared to a $0.6 million loss in the prior quarter.

Other comprehensive loss for the quarter was $13.0 million compared to a gain of $6.7 million in the same period of 2014. Unrealized gains declined by $14.2 million in the current period as compared to the same period of 2014. A decline in interest rates led to $21.8 million in unrealized bond gains in the fourth quarter of 2014 as compared to $3.7 million in the same period of 2015 when the yield curve remained relatively stable. Realized stock gains of $33.8 million in the current quarter led to a $31.9 million increase in the reclassification adjustment to comprehensive income as compared to the prior period.

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 will 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, with a mandatory effective date of 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, with a mandatory effective date of June 1, 2016, required all insurers to submit rate filings to reflect recent automobile insurance reforms aimed at cost reduction. CGIC filed through an expedited approach, using FSCO's benchmarks to reflect the cost reduction, and was approved for an overall decrease of 5.0%. COSECO also filed using the expedited approach, for an overall decrease of 7.7%. This filing is still under FSCO review. Since 2012, CGIC has reduced Ontario auto insurance rates on average by 16.1% for private passenger vehicles. Over the same period, COSECO has reduced Ontario auto insurance rates for private passenger vehicles by 5.9% on average.

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

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. Further details on this program are outlined in Note 6 to the consolidated financial statements.

Capital contributions

We have entered into commitments with private equity funds to invest capital contributions of $10.0 million and US$80.0 million into limited partnership structures. The timing of when and amount of capital contributions that are called is determined by the General Partner. As at December 31, 2015, we had provided capital contributions of $29.9 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. No default has occurred, and we consider the possibility of default to be remote. Additional details are described in Note 6 to the consolidated financial statements.

Operating lease commitments

We lease all of our office space and certain equipment used in the normal course of business, under operating leases. See Note 6 to the consolidated financial statements, for our minimum annual lease payments.

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. See Note 27 of the consolidated financial statements for further detail of contingencies that we consider to be material.

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 25 of the consolidated financial statements, provides additional information on related party transactions.

Services we receive:

Management services from Co-operators Financial Services Limited (2015 - $22.2 million, 2014 - $22.4 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, corporate actuarial, corporate reinsurance, information technology services, corporate finance, financial accounting services, tax, audit and corporate communications. The management fee charges are primarily set on a cost-recovery basis and shared among the various subsidiaries of the parent company. This is an annually renewable contract.

Executive services from The Co-operators Group Limited (2015 - $7.8 million, 2014 - $7.5 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. (2015 - $43.6 million, 2014 - $40.5 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 (2015 - $8.0 million, 2014 - $nil)

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 (2015 - $4.8 million, 2014 - $4.5 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. (2015 - $3.5 million, 2014 - $3.4 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 (2015 - $2.5 million, 2014 - $2.6 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 (2015 - $38.5 million, 2014 - $35.9 million) and marketing services (2015 - $9.0 million, 2014 - $8.8 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.

On April 1, 2014, CIAL acquired certain Insurance Corporation of British Columbia Autoplan agency agreements from FAL, a company under common control, through a series of transactions that included the involvement of CFSL and CGIC. The transactions resulted in an increase to our intangible assets and share capital of $42.0 million each, which represents fair market value. Fair market value was determined through a third party appraisal using a market approach, considering recent similar arms-length transactions in British Columbia.

OUTLOOK

GENERAL BUSINESS AND ECONOMIC CONDITIONS

Conditions in international financial markets remain challenging. The growth profile for emerging market economies lost some of its lustre as economic growth in China slowed from 7.4% in 2014 to 6.9% for 2015, slightly below the government's 7.0% target. Growth in the European economy pleasantly surprised in the first half of the year but political jitters appeared in the summer as an election in Greece once again raised uncertainty about the common currency area's future. Meanwhile, the European central bank (ECB) implemented its own brand of quantitative easing, buying bonds to keep interest rates low to provide support to economic activity. In addition, monetary policy rates are negative, down to -0.3% after the ECB's December meeting, in the hope of bringing inflation, currently at 0.1%, closer to its 2.0% target.

The Canadian economy has continued to grow at a slow pace, averaging under 2% annually since 2008, which is below the levels prior to the financial crisis. The annual outlook for GDP growth in 2015, of just 0.9%, is however the worst since 2009. The sustained weakness in the price of oil since the end of 2014, combined with a continued decline in global demand, led by China, has put downward pressure on gross domestic product growth expectations.

The Bank of Canada (BoC) cautioned in late 2014 that ongoing low prices for oil and other commodities would have a negative impact on the Canadian economy, foreshadowing the monetary policy action taken over 2015 to bring the overnight rate to 0.5%. The BoC anticipates the economy will return to full capacity and inflation will rise to 2.0% on a sustained basis in the first half of 2017. This has led economic forecasters to believe the BoC will not increase the interest rate, currently at 0.5%, until mid-2017 when the economy has had a chance to offset past losses and the chance of a further rate cut in the intervening period is still a real possibility.

Uncertainty surrounding the global economic recovery and the geopolitical environment continue to represent ever-present downside risks in equity markets. Equity market returns in Canada will be challenged by crude oil's plight, while in the United States, the strong dollar and higher rates will constitute significant headwinds. A sensitivity analysis for 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 2016 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. This increased storm 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 system 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 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 – Volatility in the global economic environment is forecast to remain throughout 2016. As Greek-related concerns faded earlier this year, it has been replaced by larger concerns related to China's slowdown, and more generally the slowdown in emerging markets, and subsequent falling demand for raw materials. Persistent low rate regimes and lower output growth in Canada and other industrialized economies is expected to continue. As such, interest rates will likely remain at low levels through 2016. These factors will have an impact on the investment yields of P&C insurers. We 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 investment yield.

Consolidation – The property and casualty industry in Canada is a mature and highly competitive market, making cost the major 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.

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 continue to have an ongoing impact in our business in future periods. Legislative and regulatory changes, both current and future, are as follows:

Ontario auto reform - In 2010, the Ontario government introduced changes to the auto insurance system that were intended to provide greater price stability and give drivers more control over the amount of coverage and price they pay for auto insurance. As a result, some coverages under the Ontario auto insurance policy were altered and a new standard auto insurance policy took effect as of September 1, 2010. Key changes included reductions to standard coverage under the Accident Benefits portion of the auto insurance policy with the option for policyholders to buy additional coverage, the replacement of the Pre-Approved Framework to assess and treat minor injuries with new Minor Injury Guidelines, and new limitations on the costs of examinations and assessments. The changes that were made through these reforms have been reflected in the valuation of Co-operators General's policy liabilities. Furthermore, premiums have been adjusted to reflect the anticipated changes in ultimate claims costs resulting from the reform measures.

There is still uncertainty with regard to the impacts of the changes made to the dispute resolution process and the minor injury definition. An update on these issues is provided below:

Dispute resolution backlog - The backlog for dispute resolution services with FSCO continues in the arbitration process. Bill 15, the Fighting Fraud and Reducing Insurance Rates Act, contained proposed changes to the dispute resolution process, which included transferring the administration of the dispute resolution system to the Licensing Appeals Tribunal (LAT). The LAT will take over this responsibility effective April 1, 2016. Changes to the system include eliminating the differences between mediation and arbitration approaches, and instead the LAT will encourage resolution without reaching the hearing stage. We are currently evaluating the financial and procedural impact of these changes.

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. These recommendations would replace the existing guideline. We are still awaiting the results from this process, the timing of which remains unknown.

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

MCT calculation - OSFI measures the financial strength of P&C insurers using the MCT calculation. This test compares a company's capital against the risk profile of the organization. In 2014, OSFI issued a revised guideline for the calculation of the MCT effective January 1, 2015. The new guideline, which was developed in consultation with the insurance industry, aims to provide a more robust risk-based capital test, as well as improved alignment with capital frameworks of other financial sectors and jurisdictions. Key changes include a recalibration of all risk factors, the addition of a foreign exchange risk charge, explicit recognition of operational risk, and the inclusion of a credit for risk diversification. These changes have had a positive impact on our MCT, and Co-operators General and its subsidiaries continue to exceed internal minimums and regulatory targets for the MCT. As per OSFI requirements, these changes are being phased-in over 12 quarters and started in the first quarter of 2015.

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, measurement, monitoring and management of risks faced across the organization. The Board of Directors, directly or through the Risk & Compensation Committee, ensures that company 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. Those risks are continuously assessed relative to their potential impact on our corporate strategy, competitive position, operational results 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 ORSA. ORSA is intended as a tool to enhance our understanding of the interrelationships between our risk profile and capital needs. The ORSA process aims to consider all reasonably foreseeable and relevant material risks, be forward-looking and be congruent with our business and strategic planning. The assessment also aims to be proportionate to the nature, scale and complexity of our business and risk profile. As an output of the assessment, we determine the target level of capital needed to cover all of our risks, including those risks covered in 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 of the CGL Board (RCC). However, the full Board still maintains responsibility for approving ERM policies, the CGL Risk Appetite, and CGL Top Risk Issues after reviewing the RCC’s recommendations. The Board is also responsible for approving CGIC’s internal capital target, which we refer to as our Minimum Internal MCT (MIM).

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 an ERM culture, and oversight of ERM reporting and results. 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 ERM policies, the CGL Risk Appetite and CGL Top Risk Issues to the Board.

Management Risk Committee: The Management Risk Committee (MRC) includes all members of the Co-operators Management Group (CMG), 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 is also responsible to set the tone for 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.

Audit Services: The ERM team works collaboratively with Audit Services to determine significant risks faced by the organization and ensures that the controls in place to manage those risks are adequate. In addition, Audit Services provides an independent review function 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, measure and manage these risks.

RISK APPETITE

Our purpose in setting out the 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.

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.

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 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.

RISK UNIVERSE

Over the normal course of business we are exposed to a variety of risks which together form the Risk Universe. The Risk Universe has been categorized as follows:

- 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.

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 invested assets. For more information on equity risk refer to Note 6 to the consolidated financial statements.

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 under 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. The strategy is focused on two segments of our unpaid claims and adjustment expenses. The assets backing these liabilities are designated as FVTPL with the objective of offsetting the financial impact of interest rate changes and minimizing the overall impact to the consolidated statement of income. 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. For more information on interest rate risk refer to Note 6 to the consolidated financial statements.

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 $21.1 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: a series of property and automobile physical damage claims arising out of one event. Catastrophes are caused by various perils such as earthquake, tornado, wind, hail, 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 from a single catastrophe over $35.0 million, to a maximum of $1.3 billion. The maximum limit for catastrophe reinsurance applies to all P&C operations ultimately owned by CGL. The catastrophe program is arranged in a series of layers; we retain the initial $35.0 million plus an additional 60% of the first layer and 17.5% of the second layer for a total of $70.0 million in incurred claims, on losses up to $150.0 million. Our maximum retention on any single event is $70.0 million, which represents approximately 5.3% of our capital. For the purpose of capital management, we defined capital as shareholders' equity excluding AOCI.

Changes to our catastrophe program are the outcome of a decrease in the loss estimate for earthquakes in the West, resulting from CGIC's withdrawal from the condominium market, and Sovereign's withdrawal from the standard personal lines market. Further, an annual review of our risk appetite is completed, while ensuring our catastrophe retention is well within our acceptable risk levels.

For the year ended December 31, 2015, there were no catastrophic loss events resulting in recoveries from reinsurers.

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 a particular risk, category of risk or geographic risk area. We review our reinsurance limit and scope of cover requirements annually. When 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 or the inappropriate application of underwriting rules to risks being 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 the best 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 P&C 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. To govern the direction of our sustainability vision at the highest level, our Board Sustainability & Citizenship Committee, which is a standing committee of our Board of Directors, regularly reviews progress toward our Long-Term Sustainability Goals. Our Sustainability Steering Committee, comprised of senior leaders from across the group of companies, ensures effective implementation of sustainability goals and objectives, which are embedded throughout our corporate strategy.

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 in the future 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 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 being carbon zero 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 floods and hurricanes, to slower moving events. 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.

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. At least annually we conduct an ORSA. ORSA is intended as a tool to enhance our understanding of the interrelationships between our risk profile and capital needs. For more detail on capital management refer to Note 21 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, 2015, 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 third quarter of 2015. New billing and policy systems to support our auto book of business were implemented with the participation and supervision of management. It is expected that our premium controls will be further enhanced by these systems.

No changes were made to our internal control over financial reporting during the first, second and fourth quarters of 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

As at December 31, 2015, 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.

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 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 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. 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 2.23% to 2.42% (2014 - 2.38% to 2.58%) 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 $32.6 million (2014 - $30.4 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 2015, our discounted claims development experience was $256.0 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 agency. 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 2.95% (2014 – 3.05%) and an average termination age of 60 (2014 - 60). A 1.0% decrease in the discount rate would increase the provision for advisor transition commissions $9.1 million (2014 - $8.6 million) and decrease net income by $7.2 million (2014 - $6.7 million). A one year decrease in the average termination age would increase the provision for advisor transition commissions $2.0 million (2014 - $1.9 million) and decrease net income by $1.6 million (2014 - $1.5 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 2015 by $21.4 million. A 1.0% decrease in the discount rate would have the approximate effect of increasing the accrued benefit obligation for 2015 by $20.9 million. Significant assumptions used in the calculation of employee future benefits are presented in Note 16 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 their respective 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, 2014.

New and amended accounting standards were applied, including amendments to IAS 19R "Employee Benefits". 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 December 2015, the IASB published 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, if approved, would provide 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. We are currently evaluating the impact of this standard.

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 for annual periods beginning on or after January 1, 2018, pending approval of the IFRS 4 exposure draft issued in December 2015 that may alter the effective date of IFRS 9 for certain insurance companies. We are currently evaluating the impact of this amended standard.

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 months or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019, and early application is permitted if IFRS 15 has also been applied. 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 one insurance company.

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)

Kathy Bardswick
President and Chief Executive Officer

(Signed)

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

February 17, 2016

February 17, 2016

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, 2015 and December 31, 2014 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, 2015 and December 31, 2014 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

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, 2015 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 17, 2016

CONSOLIDATED FINANCIAL STATEMENTS

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS
As at December 31

(in thousands of Canadian dollars)	2015 $	2014 $
Assets		
Cash and cash equivalents	**86,912**	15,919
Invested assets (note 5)	**3,963,795**	4,116,529
Premiums due	**747,852**	682,269
Income taxes recoverable (note 11)	**23,686**	-
Reinsurance ceded contracts (note 9)	**63,463**	93,884
Deferred acquisition expenses (note 10)	**195,176**	183,123
Assets held for sale	**2,773**	4,883
Deferred income taxes (note 11)	**91,080**	86,400
Intangible assets (note 12)	**62,856**	49,237
Other assets (note 13)	**65,594**	61,339
	5,303,187	5,293,583
Liabilities		
Accounts payable and accrued charges	**166,762**	155,243
Income taxes payable (note 11)	**3,972**	49,153
Insurance contracts (note 8)	**3,445,352**	3,358,540
Borrowings (note 15)	**-**	31,080
Retirement benefit obligations (note 16)	**103,546**	99,217
Deferred income taxes (note 11)	**3,570**	34
Provisions and other liabilities (note 14)	**121,375**	108,704
	3,844,577	3,801,971
Shareholders' equity		
Share capital (note 17)	**217,495**	213,556
Contributed capital	**10,132**	10,132
Retained earnings	**1,083,097**	1,099,992
Accumulated other comprehensive income (note 20)	**147,886**	167,932
	1,458,610	1,491,612
	5,303,187	5,293,583

Contingencies, commitments and guarantees (note 27)

Approved by the Board of Directors:

(Signed)

John Harvie
Chairperson

(Signed)

Kathy Bardswick
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

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 17)	**(226)**	**-**	**-**	**-**	**(226)**
Shares issued/redeemed (note 17)	**4,165**	**-**	**-**	**-**	**4,165**
Dividends declared (note 17)	**-**	**-**	**(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**

2014 (in thousands of Canadian dollars)	Share capital $	Contributed capital $	Retained earnings $	Accumulated other comprehensive income $	Total shareholders' equity $
Balance, beginning of year	282,623	10,132	976,088	113,244	1,382,087
Net income	-	-	137,559	-	137,559
Other comprehensive income	-	-	-	54,688	54,688
Comprehensive income	-	-	137,559	54,688	192,247
Staff share loan plan (note 17)	428	-	-	-	428
Shares issued/redeemed (note 17)	(69,495)	-	-	-	(69,495)
Dividends declared (note 17)	-	-	(13,521)	-	(13,521)
Premium on redemption of preference shares	-	-	(134)	-	(134)
Balance, end of year	213,556	10,132	1,099,992	167,932	1,491,612

See accompanying notes to the consolidated financial statements

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31

(in thousands of Canadian dollars except for earnings per share and weighted average number of common shares)	**2015** **$**	2014 $
Direct written premium (note 22)	**2,435,879**	2,305,746
Ceded written premium (note 8, 9, 22)	**(67,655)**	(77,571)
Income		
Net earned premium (note 7, 8, 22)	**2,297,047**	2,189,577
Net investment gains and income (note 5)	**144,826**	181,404
	2,441,873	2,370,981
Expenses		
Claims and adjustment expenses	**1,483,587**	1,492,569
Ceded claims and adjustment expenses (note 9)	**3,346**	(8,367)
Premium and other taxes	**72,527**	67,303
Commissions and advisor compensation	**391,422**	381,678
Ceded commission (note 9)	**(4,890)**	(8,026)
General expenses	**291,250**	269,139
	2,237,242	2,194,296
Income before income taxes	**204,631**	176,685
Income tax expense (note 11)	**42,362**	39,126
Net income	**162,269**	137,559
Earnings per share (note 18)	**7.17**	6.04
Weighted average number of common shares (note 18)	**21,304**	20,540

See accompanying notes to the consolidated financial statements

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31

(in thousands of Canadian dollars)	2015 $	2014 $
Net income	**162,269**	137,559
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	**23,671**	77,323
Stocks	**17,715**	69,786
	41,386	147,109
Net reclassification adjustment for (gains) losses included in income		
Bonds	**(42,574)**	(22,425)
Stocks	**(26,960)**	(35,743)
	(69,534)	(58,168)
Items that may be reclassified before income taxes	**(28,148)**	88,941
Income tax expense (recovery) relating to items that may be reclassified (note 11)	**(7,836)**	21,892
	(20,312)	67,049
Items that will not be reclassified to the statement of income:		
Remeasurement of the retirement benefit obligations (note 16)	**(5)**	(16,791)
Income tax recovery related to items that will not be reclassified (note 11)	**(271)**	(4,430)
	266	(12,361)
Other comprehensive income (loss)	**(20,046)**	54,688
Comprehensive income	**142,223**	192,247

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)	**2015** **$**	2014 $
Operating activities		
Net income	**162,269**	137,559
Items not requiring the use of cash (note 24)	**9,037**	(24,944)
Changes in non-cash operating components (note 24)	**(10,950)**	267,171
Cash provided by (used in) operating activities	**160,356**	379,786
Investing activities		
Purchases and advances of:		
Invested assets	**(5,519,737)**	(4,821,659)
Property and equipment	**(6,890)**	(13,603)
Intangible assets	**-**	(42,896)
Assets held for sale	**(525)**	-
Sales and redemptions of:		
Invested assets	**5,652,596**	4,573,065
Intangible assets	**23**	73
Assets held for sale	**2,604**	-
Acquisition of subsidiaries, net of cash acquired (note 12)	**(11,456)**	-
Cash provided by (used in) investing activities	**116,615**	(305,020)
Financing activities		
Share capital - preference shares issued (note 17)	**9,091**	7,781
Share capital - preference shares redeemed (note 17)	**(4,926)**	(119,276)
Share capital - common shares issued (note 17)	**-**	42,000
Repayment of borrowings (note 15)	**(3,500)**	-
Dividends paid (note 17)	**(178,941)**	(13,436)
Premium on redemption of preference shares	**(122)**	(134)
Cash provided by (used in) financing activities	**(178,398)**	(83,065)
Net increase (decrease) in cash and cash equivalents less short-term indebtedness	**98,573**	(8,299)
Cash and cash equivalents less short-term indebtedness, beginning of year	**(11,661)**	(3,362)
Cash and cash equivalents less short-term indebtedness, end of year	**86,912**	(11,661)

Cash	**85,119**	9,782
Cash equivalents	**1,793**	6,137
Short-term indebtedness (note 15)	**-**	(27,580)
Cash and cash equivalents less short-term indebtedness, end of year	**86,912**	(11,661)

Supplemental information (note 24)

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’Equitable), and Co-operators Insurance Agencies Limited (CIAL). 100% of the voting rights attached to all the outstanding voting shares of each of Sovereign, COSECO, L’Equitable, 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, 2015 were authorized for issue by the Board of Directors on February 17, 2016.

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.

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.

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.

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 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. No financial instruments are 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.

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. Foreign exchange gains and losses for FVTPL and monetary AFS financial instruments are recognized in net income, while 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 gains and income 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 gains and income. 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).

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 gains and income.

Revenue and expense recognition

Included within net investment gains and income 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.

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.

Acquisitions of non-controlling interests
Acquisitions of non-controlling interests are accounted for as equity transactions with owners in their capacity as owners; therefore no goodwill is recognized as a result of such transactions.

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 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.

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.

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.

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 judgments 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).

Valuation and impairment of financial instruments
The Company uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain financial instruments. Note 5 provides detailed disclosure of the key assumptions, including a disclosure of financial instruments within the fair value hierarchy. The Company recognizes impairment losses based on management's best estimates of whether objective evidence of impairment exists, using available market data. Note 5 provides disclosure of the financial assets where the cost is greater than the fair value; however, the loss has not been recognized in net income.

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. Details of the assumptions used in the valuation of intangible assets are described in note 12.

Other significant estimates
Other significant estimates include the valuation of embedded derivatives (note 5), reinsurance (note 9), income taxes (note 11), retirement benefit obligations (note 16) and contingencies (note 27). Actual results could differ from these estimates. Changes in estimates are recorded in the accounting period in which they are determined.

3. Adoption of new and amended accounting standards

Effective January 1, 2015, the Company adopted the following new and amended accounting standards.

IAS 19R "Employee Benefits"

In November 2013, the IASB issued a narrow scope amendment to IAS19R. The amendment applies to contributions from employees or third parties to defined benefit plans. It allows contributions independent of the number of years of service to be recognized as a reduction in the service cost in the period in which the related service is rendered instead of attributed to period of service using the same attribution method as used for the gross benefit. The Company has adopted these amendments on January 1, 2015, and has determined that there was no impact to the consolidated financial statements.

Annual Improvements 2010-2012 Cycle

Annual Improvements 2010-2012 Cycle included minor amendments to IFRS 8 “Operating Segments”, IFRS 13 “Fair Value Measurement”, IAS 16 “Property, Plant and Equipment”, IAS 24 “Related Party Disclosures”, and IAS 38 “Intangible Assets”. The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The Company has adopted these amendments on January 1, 2015, and has determined that there was no impact to the consolidated financial statements.

Annual Improvements 2011-2013 Cycle

Annual Improvements 2011-2013 Cycle was issued in December 2013 by the IASB, and included minor amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 3 “Business Combinations”, IFRS 13 “Fair Value Measurement” and IAS 40 “Investment Property”. The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The Company has adopted these amendments on January 1, 2015, and has determined that there was no impact to the consolidated financial statements.

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 for annual periods beginning on or after January 1, 2018, pending approval of the IFRS 4 exposure draft issued in December 2015 that may alter the effective date of IFRS 9 for certain insurance companies. 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 fair value through profit or loss (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 December 2015, the IASB published 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, if approved, would provide 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 is currently evaluating the impact that this standard will have on its consolidated financial statements.

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 amendments issued are effective for annual periods beginning on or after January 1, 2016. The Company does not expect these amendments to significantly impact 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 amendments are to be applied prospectively in annual periods beginning on or after January 1, 2016. The Company does not expect this amendment to impact the 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. The Company has not yet assessed the impact of this standard. IFRS 15 contains a scope exception which excludes insurance contracts within the scope of IFRS 4 "Insurance Contracts"; 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 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 amendment is effective for annual periods beginning on or after January 1, 2016. The Company does not expect these amendments 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 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 is currently evaluating the impact that this standard will have on its 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 amendments are effective for annual periods beginning on or after January 1, 2016. The Company does not expect this amendment to impact the consolidated financial statements.

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

Annual Improvements 2012-2014 Cycle

Annual Improvements 2012-2014 Cycle was issued in September 2014 by the IASB and included minor amendments to IFRS 5 "Non-current Assets Held For Sale and Discontinued Operations", IFRS 7 “Financial Instruments: Disclosures”, IAS 19 “Employee Benefits” and IAS 34 “Interim Financial Reporting”. The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The amendments issued are all effective for annual periods beginning on or after January 1, 2016. The Company does not expect these amendments to significantly impact the consolidated financial statements.

5. Invested assets and net investment gains and income

a) Invested assets

	Fair value			Amortized cost	Carrying value
		Classified	Designated	Loans and	
	AFS	FVTPL	FVTPL	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

(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, 2014	$	$	$	$	$
Bonds					
Federal	561,414	-	9,591	-	571,005
Provincial	670,611	-	29,242	-	699,853
Municipal	72,531	-	-	-	72,531
Corporate	976,584	-	84,712	-	1,061,296
Asset-backed securities	100,178	-	17,644	-	117,822
International	28,747	-	-	-	28,747
Co-operative	2,752	-	-	-	2,752
	2,412,817	-	141,189	-	2,554,006
Stocks					
Canadian common	497,305	-	-	-	497,305
Canadian preferred	85,827	(9,911)	172,402	-	248,318
U.S. equities	177,985	-	-	-	177,985
Foreign equities	65,383	-	-	-	65,383
	826,500	(9,911)	172,402	-	988,991
Short-term investments	64,590	-	-	-	64,590
Limited partnerships	15,399	-	-	-	15,399
Foreign currency forward contracts	-	64	-	-	64
Mortgages	-	-	-	445,600	445,600
Other investments	-	-	-	28,689	28,689
Investment income due and accrued	-	-	-	19,190	19,190
Total invested assets	3,319,306	(9,847)	313,591	493,479	4,116,529

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. Assets measured at fair value and classified as Level 1 include Canadian preferred stocks and Canadian, U.S. and foreign common stocks.

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. Assets and liabilities measured at fair value and classified as Level 2 include bonds, short-term investments, certain pooled funds invested in equities, and foreign currency forward contracts.

(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 (f). Assets measured at fair value and classified as Level 3 include limited partnerships.

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

December 31, 2015	Level 1 - Quoted prices $	Level 2 - Significant other observable inputs $	Level 3 - Significant unobservable inputs $	Total fair value $
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

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

December 31, 2014	Level 1 - Quoted prices $	Level 2 - Significant other observable inputs $	Level 3 - Significant unobservable inputs $	Total fair value $
AFS				
Bonds	-	2,412,817	-	2,412,817
Stocks	743,973	70,449	-	814,422
Short-term investments	-	64,590	-	64,590
Limited partnerships	-	-	15,399	15,399
	743,973	2,547,856	15,399	3,307,228
FVTPL				
Bonds	-	141,189	-	141,189
Stocks	172,402	-	-	172,402
Foreign currency forward contracts	-	64	-	64
	172,402	141,253	-	313,655
Total invested assets at fair value	916,375	2,689,109	15,399	3,620,883
FVTPL				
Foreign currency forward contracts (note 14)	-	1,229	-	1,229
Total financial liabilities at fair value	-	1,229	-	1,229

Included in the AFS stocks in the above table are embedded derivatives of $6,223 (2014 - $9,911), 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 $2,167 (2014 - $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.

The investments measured at fair value and classified as Level 3 as at December 31, 2015 are limited partnerships, which represent units of third-party managed private equity funds (the 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.

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

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

2014	Limited partnerships $
Balance, beginning of year	-
Purchases	18,028
Sales and redemptions	(3,816)
Gains	
Realized in net income	791
Unrealized included in OCI	396
Balance, end of year	15,399

No investments were transferred between levels during the year (2014 - $nil).

c) Net investment gains and income

2015	AFS $	Classified FVTPL $	Designated FVTPL $	Loans and receivables $	Other $	Total $
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 (losses)	**86,620**	**-**	**245**	**614**	**(167)**	**87,312**
Net foreign exchange gains (losses)	**6,471**	**(23,732)**	**(225)**	**-**	**-**	**(17,486)**
Change in fair value (note 24)	**-**	**5,204**	**(31,302)**	**-**	**-**	**(26,098)**
Impairment losses (note 24)	**(23,557)**	**-**	**-**	**-**	**-**	**(23,557)**
Net investment gains (losses)	**69,534**	**(18,528)**	**(31,282)**	**614**	**(167)**	**20,171**
Net investment gains and income	**161,288**	**(18,528)**	**(18,733)**	**20,099**	**700**	**144,826**

2014	AFS $	Classified FVTPL $	Designated FVTPL $	Loans and receivables $	Other $	Total $
Interest income	73,346	-	4,480	19,848	592	98,266
Interest expense	-	-	-	-	(15,988)	(15,988)
Dividend and other income	21,819	-	7,060	-	16,590	45,469
Investment expense	(3,679)	-	(395)	(512)	-	(4,586)
Net investment income	91,486	-	11,145	19,336	1,194	123,161
Net realized gains	67,831	-	(10)	438	-	68,259
Net foreign exchange gains (losses)	2,257	(2,940)	22	-	-	(661)
Change in fair value (note 24)	-	(4,253)	6,818	-	-	2,565
Impairment losses (note 24)	(11,920)	-	-	-	-	(11,920)
Net investment gains (losses)	58,168	(7,193)	6,830	438	-	58,243
Net investment gains and income	149,654	(7,193)	17,975	19,774	1,194	181,404

d) Impaired assets and provisions for losses

For the year ended December 31, 2015, the Company recognized impairment losses of $23,557 (2014 - $11,920) on its AFS stock portfolio. The impairment losses were based on management's best estimate of whether objective evidence of impairment exists, using available market data. The impairment losses are included in net investment gains and income in the consolidated statements of income.

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

The financial assets in the table below are AFS financial assets where the cost is greater than fair value; however, the loss has not been recognized in net income because management does not believe there is objective evidence of impairment or because the loss is not considered to be significant or prolonged.

	December 31, 2015		December 31, 2014	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	$	$	$	$
Bonds	**570,588**	**5,281**	115,862	545
Stocks	**178,199**	**19,147**	67,147	5,805
Fair value and unrealized losses not recognized in net income	**748,787**	**24,428**	183,009	6,350

FVTPL financial assets have been excluded from the above table since changes in fair value of these financial assets are recorded in the consolidated statements of income.

There are no impairment losses recognized for the mortgage portfolio in 2015 or 2014. There are mortgages in arrears greater than 60 days of $11 (2014 - $1,457). There are no provisions against mortgages as at December 31, 2015 (2014 - $nil).

e) Maturity profile of invested assets

December 31, 2015	< 1 Year $	1 - 3 Years $	4 - 5 Years $	6 - 9 Years $	> 10 Years $	No fixed $	Total $
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%**

December 31, 2014	< 1 Year $	1 - 3 Years $	4 - 5 Years $	6 - 9 Years $	> 10 Years $	No fixed $	Total $
Bonds	278,451	627,713	693,202	693,334	261,306	-	2,554,006
Stocks	3,331	7,077	-	-	-	978,583	988,991
Short-term investments	64,590	-	-	-	-	-	64,590
Limited partnerships	-	-	-	-	-	15,399	15,399
Foreign currency forward contracts	64	-	-	-	-	-	64
Mortgages	79,397	208,620	76,323	75,518	5,742	-	445,600
Other investments	1,088	3,542	2,617	7,205	14,087	150	28,689
Investment income due and accrued	19,190	-	-	-	-	-	19,190
	446,111	846,952	772,142	776,057	281,135	994,132	4,116,529
	11%	21%	19%	19%	7%	23%	100%

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

f) Mortgage diversification

Creditor concentration	December 31, 2015 $	December 31, 2014 $
Insured residential	**32,173**	37,522
Uninsured residential	**99,140**	90,557
Commercial	**381,355**	317,521
	512,668	445,600

Geographic concentration	December 31, 2015 $	December 31, 2014 $
Atlantic	**65,479**	56,784
Quebec	**31,791**	19,194
Ontario	**164,867**	144,663
West	**250,531**	224,959
	512,668	445,600

Fair Value	**527,725**	462,034

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.

g) 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:

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

December 31, 2014	Carrying value $	Maximum exposure to loss $
Asset-backed securities	117,822	117,822
Pooled funds	227,727	227,729
Limited partnerships	15,399	15,399

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.

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

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 third-party managed private equity 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 27.

h) Other investments

	December 31, 2015 $	December 31, 2014 $
Broker loans	**-**	17,963
Structured settlement annuities	**10,542**	10,576
Investments	**150**	150
	10,692	28,689
Fair Value	**10,692**	28,689

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.

In 2014, the broker loans ranged in size up to $15,991. These loans had various terms ranging from 10 to 15 years and various interest rates ranging from 4.8% to 5.0% compounded monthly. The fair value was considered to be the carrying value because the instrument's interest rate approximated current observable market rates. All loans met their repayment obligations and there were no defaults. Based on management's review of creditworthiness of the debtors, no impairment losses were recognized. These loans were secured by net assets of the debtors.

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, 2015, the largest corporate credit exposure was 1.9%

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of invested assets (2014 - 1.9%) or 5.2% of total equity (2014 - 5.1%), and the bond portfolio includes 84.8% (2014 - 89.6%) of bonds rated A or better.

The Company's mortgage portfolio represents 12.9% (2014 – 10.8%) 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 (2014 - $13,078). 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.

Reinsurance ceded contracts 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.

December 31, 2015	AAA $	AA $	A $	BBB $	Below BBB $	Not rated $	Total $
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**

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

December 31, 2014	AAA $	AA $	A $	BBB $	Below BBB $	Not rated $	Total $
Cash and cash equivalents	6,091	-	-	-	-	9,828	15,919
Bonds	896,622	434,811	957,644	233,360	28,817	2,752	2,554,006
Short-term investments	59,666	994	3,930	-	-	-	64,590
Limited partnerships	-	-	-	-	-	15,399	15,399
Foreign currency forward contracts	-	64	-	-	-	-	64
Mortgages and other investments	-	37,523	295,101	117,534	6,017	18,114	474,289
Investment income due and accrued	-	-	-	-	-	19,190	19,190
Reinsurance ceded contracts	24,140	37,731	20,871	5,445	-	5,697	93,884
Premiums due	-	-	-	-	-	661,268	661,268
Other receivables	-	-	-	-	-	52,600	52,600
	986,519	511,123	1,277,546	356,339	34,834	784,848	3,951,209

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).

During the year, the Company reclassified $29,021 (2014 - $21,001) within due from related parties to premiums due to align with the balance sheet classification used by other companies under common control (note 25).

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 $704,631 as at December 31, 2015 (2014 - $653,762), based on the net present value of the projected future cash flow of these guarantees. $10,542 (2014 - $10,576) 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 2015 and 2014 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.

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, 2015, securities, which are included in invested assets, with a fair value of $165,373 (2014 - $351,930) have been loaned. Securities with a fair value of $176,489 (2014 - $370,889) 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 $10,388 as at December 31, 2015 (2014 - $12,271) as security from unlicensed reinsurers. This collateral is held in support of policy liabilities of $9,498 as at December 31, 2015, (2014 - $10,607) and could be used should these reinsurers be unable to meet their obligations. The cash portion of the collateral $1,947 (2014 - $4,782) 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. Stocks have a fair value of $958,030 (2014 - $988,991) and comprise 24.2% (2014 – 24.0%) of the fair value of the Company’s total invested assets.

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

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 of the Company's stock holdings.

Stock Portfolio	Benchmark	**December 31, 2015 AFS $**	December 31, 2014 AFS $
Canadian common	S&P/TSX Composite Index	**47,241**	51,758
U.S. equities	S&P 500 Index (CDN $)	**19,137**	18,895
Foreign equities	MSCI EAFE Index (CDN $)	**6,373**	5,535

The cumulative change in fair value of AFS stock is recognized in net investment gains and income when the Company sells the stock, or if impairment is significant or prolonged. For AFS stock that the Company holds at year-end, the change in fair value in the table above would be recognized in OCI, resulting in an increase or decrease of $57,692 (2014 - $59,274).

A 30% movement in the indices, with all other variables held constant, would have the following estimated effect on the fair values of the Company's stock holdings.

Stock Portfolio	Benchmark	**December 31, 2015 AFS $**	December 31, 2014 AFS $
Canadian common	S&P/TSX Composite Index	**141,723**	155,274
U.S. equities	S&P 500 Index (CDN $)	**57,411**	56,686
Foreign equities	MSCI EAFE Index (CDN $)	**19,119**	16,604

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. 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 $31,559 (2014 - $28,751). 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 $25,026 (2014 - $22,369).

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, 2015. The Company would have to pay $8,826 to terminate the contracts as at December 31, 2015 (2014 - pay $1,165). The maturity date for the Company's contracts range from January 6 to February 17, 2016. The notional amounts of the foreign currency forward contracts total $139,445 (2014 - $54,109). 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, 2015, the credit equivalent amount of the foreign currency forward contracts was $6 (2014 - $65). The risk-weighted equivalent was $nil (2014 - $nil).

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

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 deployed an asset liability management (ALM) strategy in 2009. The strategy is focused on two segments of the Company's unpaid claims and adjustment expenses. The assets backing these liabilities are designated as FVTPL under the fair value option with the objective of offsetting 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 of the Company's holdings:

	December 31, 2015		December 31, 2014	
	AFS	**FVTPL**	AFS	FVTPL
	$	**$**	$	$
Bonds	**110,845**	**5,602**	109,266	5,584
Canadian preferred stocks	**2,630**	**7,547**	3,585	9,308

For AFS bonds and Canadian preferred stocks that the Company holds at year-end, the change in fair value in the table above would be recognized in OCI, resulting in an increase or decrease of $89,986 (2014 - $87,798). For FVTPL bonds and Canadian preferred stocks that the Company holds at year-end, the change in fair value during the year is recognized immediately in net income, resulting in an increase or decrease of $10,427 (2014 - $11,586). Larger rate changes would have a corresponding impact to net income and OCI.

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, 2015 the Company had $86,912 (2014 - $15,919) of cash and cash equivalents, and $44,717 (2014 - $64,590) 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, 2015 fair value of $3,229,225 (2014 - $3,443,878).

Along with internally generated funds, the Company has credit facilities of $21,100 (2014 - $21,100) that provide it with additional financial flexibility to fulfill cash requirements on an ongoing basis. Included within the credit facilities is US$1,871 (2014 - US$2,202) that has been allocated to reinsurance assumed letters of credit (note 9). Bonds with a carrying value of $nil (2014 - $20,319) were pledged as collateral security and interest terms are bank prime. The Company had utilized $nil (2014 - $nil) at the balance sheet date.

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

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 contacts 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.

December 31, 2015	< 1 Year $	1 - 3 Years $	4 - 5 Years $	6 - 9 Years $	> 10 Years $	Total $
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 27)	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

December 31, 2014	< 1 Year $	1 - 3 Years $	4 - 5 Years $	6 - 9 Years $	> 10 Years $	Total $
Accounts payable and accrued charges	155,243	-	-	-	-	155,243
Income taxes payable	49,153	-	-	-	-	49,153
Insurance contracts	1,940,338	737,540	358,566	199,326	4,321	3,240,091
Borrowings	27,580	-	-	-	3,500	31,080
Provisions and other liabilities						
Provision for advisor transition commissions	24,557	14,191	6,956	25,748	45,240	116,692
Advisor transition commission payable	8,972	6,317	-	-	-	15,289
Other provisions	2,401	-	-	-	-	2,401
Finance lease obligations	187	78	-	-	-	265
Foreign currency forward contracts	1,229	-	-	-	-	1,229
Other liabilities	1,850	730	75	1,629	-	4,284
	2,211,510	758,856	365,597	226,703	53,061	3,615,727
Contractual commitments						
Operating lease commitments (note 27)	20,062	30,796	21,754	33,046	1,625	107,283
Mortgage funding	24,181	200	-	-	-	24,381
	44,243	30,996	21,754	33,046	1,625	131,664

The mortgage funding commitments have interest rates ranging from 3.0% to 5.8% (2014 – 3.1% to 5.8%).

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.

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

	2015	2014
ALM program		
CGIC		
Ontario automobile income replacement segment	**2.23%**	2.38%
Habitational, commercial guard and farm guard liability segment	**2.25%**	2.44%
Other claims liabilities		
CGIC	**2.42%**	2.58%
Sovereign	**2.25%**	2.47%
COSECO	**2.39%**	2.40%

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	2006 $	2007 $	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	Total $
Estimate of ultimate claims costs:											
At end of accident year	1,219,005	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**	
One year later	1,145,415	1,288,303	1,348,886	1,420,439	1,281,611	1,382,851	1,345,293	1,562,625	**1,541,947**		
Two years later	1,114,510	1,241,766	1,318,512	1,378,934	1,257,183	1,338,812	1,306,988	**1,525,744**			
Three years later	1,074,664	1,217,429	1,298,389	1,364,497	1,238,647	1,325,881	**1,282,392**				
Four years later	1,056,988	1,208,700	1,282,253	1,360,736	1,218,537	**1,303,524**					
Five years later	1,056,700	1,206,781	1,285,232	1,357,912	**1,218,888**						
Six years later	1,054,016	1,202,906	1,277,062	**1,341,364**							
Seven years later	1,040,376	1,194,363	**1,266,121**								
Eight years later	1,039,579	**1,191,231**									
Nine years later	**1,036,990**										
Current year estimate of cumulative claims	1,036,990	1,191,231	1,266,121	1,341,364	1,218,888	1,303,524	1,282,392	1,525,744	1,541,947	1,637,924	**13,346,125**
Cumulative payments to date	(1,025,680)	(1,174,891)	(1,231,297)	(1,292,882)	(1,143,125)	(1,173,116)	(1,096,907)	(1,238,202)	(1,128,317)	(845,524)	**(11,349,941)**
Provision recognized	**11,310**	**16,340**	**34,824**	**48,482**	**75,763**	**130,408**	**185,485**	**287,542**	**413,630**	**792,400**	**1,996,184**
Provision with respect to 2005 and prior accident years											**63,545**
Effect of discounting											**123,764**
Net unpaid claims and adjustment expenses											**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, 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 are 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:

	2015	2014
	$	$
Individual loss		
Property	**5,000**	5,000
General liability	**5,000**	5,000
Automobile	**5,000**	5,000
Catastrophe		
Maximum limit	**1,300,000**	1,400,000
Company retention	**70,000**	70,000

Effective January 1, 2015, the Company's catastrophe maximum limit has decreased by $100,000. The maximum limit for catastrophe reinsurance is applied to all property and casualty insurance operations ultimately owned by CGL. The catastrophe program is arranged in a series of layers. The Company retains the initial $35,000 plus an additional 60% of the first layer and 17.5% of the second layer for a total of $70,000 in incurred claims, on losses up to $150,000.

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

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 within each operating segment 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 methods used for deriving this sensitivity information did not change from the previous year.

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:

		Insurance contract - claims		After-tax net income impact	
		December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Assumption	**Sensitivity**	**$**	$	**$**	$
Discount rate	+100 bps	**(41,097)**	(39,091)	**32,590**	30,413
Discount rate	-100 bps	**43,103**	40,966	**(34,181)**	(31,872)
Net loss ratio	+10%	**148,537**	146,648	**(117,790)**	(114,092)
Misestimate	1% deficiency	**21,835**	21,497	**(17,315)**	(16,725)

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.

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

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

	2015	2014
	$	$
Auto	**1,136,456**	1,060,236
Home	**603,281**	576,889
Farm	**108,359**	106,594
Commercial	**416,576**	416,963
Other	**32,375**	28,895
Net earned premium (note 8, 22)	**2,297,047**	2,189,577

	2015	2014
	$	$
West	**898,950**	865,507
Ontario	**1,084,972**	1,030,951
Quebec	**88,747**	77,844
Atlantic	**224,378**	215,275
Net earned premium (note 8, 22)	**2,297,047**	2,189,577

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, 2015	December 31, 2014
	$	$
Undiscounted unpaid claims and adjustment expenses	**2,116,913**	2,117,347
Effect of time value of money	**(95,233)**	(98,034)
PFADs	**219,992**	216,483
Effect of discounting	**124,759**	118,449
Discounted unpaid claims and adjustment expenses	**2,241,672**	2,235,796
Unearned premiums	**1,203,680**	1,122,744
	3,445,352	3,358,540

a) Profile of unearned premiums

	December 31, 2015			December 31, 2014		
	Gross	Ceded	Net	Gross	Ceded	Net
	$	$	$	$	$	$
Automobile - liability	**260,114**	**99**	**260,015**	241,582	280	241,302
Automobile - personal accident	**87,779**	**37**	**87,742**	80,658	-	80,658
Automobile - other	**163,282**	**55**	**163,227**	146,678	8	146,670
Property	**541,147**	**1,592**	**539,555**	506,927	3,807	503,120
Liability	**106,030**	**1,398**	**104,632**	101,211	1,144	100,067
Risk sharing pools	**26,002**	**-**	**26,002**	28,609	-	28,609
Other	**19,326**	**2,646**	**16,680**	17,079	2,461	14,618
	1,203,680	**5,827**	**1,197,853**	1,122,744	7,700	1,115,044

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

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

b) Reconciliation of unearned premiums

	2015			2014		
	Gross	Ceded	Net	Gross	Ceded	Net
	$	$	$	$	$	$
Balance, beginning of year	**1,122,744**	**7,700**	**1,115,044**	1,074,120	9,498	1,064,622
Written premium	**2,447,511**	**67,655**	**2,379,856**	2,317,570	77,571	2,239,999
Less: earned premium	**2,366,575**	**69,528**	**2,297,047**	2,268,946	79,369	2,189,577
Balance, end of year	**1,203,680**	**5,827**	**1,197,853**	1,122,744	7,700	1,115,044
Current	**1,177,230**	**5,827**	**1,171,403**	1,097,198	7,700	1,089,498
Non-current	**26,450**	**-**	**26,450**	25,546	-	25,546
Balance, end of year	**1,203,680**	**5,827**	**1,197,853**	1,122,744	7,700	1,115,044

c) Profile of net unpaid claims and adjustment expenses

	December 31, 2015			December 31, 2014		
	Gross	Ceded	Net	Gross	Ceded	Net
	$	$	$	$	$	$
Automobile - liability	**907,764**	**1,836**	**905,928**	875,168	3,021	872,147
Automobile - personal accident	**404,586**	**3,636**	**400,950**	432,958	5,019	427,939
Automobile - other	**41,769**	**105**	**41,664**	44,285	1,913	42,372
Property	**258,760**	**17,685**	**241,075**	287,862	35,688	252,174
Liability	**470,836**	**33,078**	**437,758**	429,933	37,504	392,429
Risk sharing pools	**140,279**	**-**	**140,279**	148,454	-	148,454
Other	**17,678**	**1,839**	**15,839**	17,136	2,979	14,157
Discounted provision	**2,241,672**	**58,179**	**2,183,493**	2,235,796	86,124	2,149,672

Ceded unpaid claims and adjustment expenses are included in reinsurance ceded contracts on the balance sheet (note 9).

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.

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

d) Reconciliation of net unpaid claims and adjustment expenses

	2015			2014		
	Gross	Ceded	Net	Gross	Ceded	Net
	$	$	$	$	$	$
Balance, beginning of year	**2,235,796**	**86,124**	**2,149,672**	2,222,034	134,952	2,087,082
Less: effect of discounting at prior year-end	**118,449**	**1,921**	**116,528**	92,938	1,019	91,919
Undiscounted unpaid claims and adjustment expenses at prior year-end	**2,117,347**	**84,203**	**2,033,144**	2,129,096	133,933	1,995,163
Paid on prior years	**(648,290)**	**(40,713)**	**(607,577)**	(650,243)	(60,044)	(590,199)
Change in estimate on prior years	**(162,026)**	**(3,788)**	**(158,238)**	(136,282)	(8,484)	(127,798)
Incurred on current year	**1,639,291**	**1,367**	**1,637,924**	1,600,704	15,951	1,584,753
Paid on current year	**(829,409)**	**16,115**	**(845,524)**	(825,928)	2,847	(828,775)
Undiscounted unpaid claims and adjustment expenses at current year-end	**2,116,913**	**57,184**	**2,059,729**	2,117,347	84,203	2,033,144
Effect of discounting	**124,759**	**995**	**123,764**	118,449	1,921	116,528
Balance, end of year	**2,241,672**	**58,179**	**2,183,493**	2,235,796	86,124	2,149,672

Current	**858,624**	**25,482**	**833,142**	893,928	53,401	840,527
Non-current	**1,383,048**	**32,697**	**1,350,351**	1,341,868	32,723	1,309,145
Balance, end of year	**2,241,672**	**58,179**	**2,183,493**	2,235,796	86,124	2,149,672

9. Reinsurance programs

a) Underwriting impact of reinsurance contracts

Ceded	December 31, 2015 $	December 31, 2014 $
Written premium (note 22)	**67,655**	77,571
Earned premium	**69,528**	79,369
Claims and adjustment expenses	**(3,346)**	8,367
Commission	**4,890**	8,026
Cost of reinsurance ceded program	**67,984**	62,976

Assumed	December 31, 2015 $	December 31, 2014 $
Written premium (note 22)	**11,632**	12,753
Earned premium	**12,175**	12,089
Claims and adjustment expenses	**987**	8,910
Commission	**3,144**	3,120
Underwriting gain from assumed reinsurance	**8,044**	59

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

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, 2015 $	December 31, 2014 $
Reinsurance ceded assets		
Reinsurers' share of unearned premiums (note 8)	**5,827**	7,700
Reinsurers' share of unpaid claims & adjustment expenses (note 8)	**58,179**	86,124
Reinsurer receivables	**6,019**	10,260
	70,025	104,084
Reinsurance ceded liabilities		
Unearned reinsurance commissions	**1,811**	2,187
Payable to reinsurers	**1,801**	2,440
Unlicensed reinsurer deposits	**2,950**	5,573
	6,562	10,200
Reinsurance ceded contracts	**63,463**	93,884
Current	**29,912**	57,653
Non-current	**33,551**	36,231
	63,463	93,884

c) Reinsurance assumed assets

The Company presents balances related to reinsurance assumed contracts in the same manner as it presents direct insurance business with the exception of reinsurance assumed receivables and payables; these amounts are recorded in other assets and accounts payable and accrued charges.

The portion of the assets related to reinsurance assumed contracts is as follows:

	December 31, 2015 $	December 31, 2014 $
Reinsurance assumed receivables (note 13)	**1,237**	2,266
Deferred acquisition expenses	**1,085**	1,236
	2,322	3,502
Current	**1,203**	2,369
Non-current	**1,119**	1,133
	2,322	3,502

On reinsurance assumed business from foreign insurers, a deposit or a letter of credit has been provided. Cash deposits of $1,119 (2014 - $1,068) are reflected in the reinsurance assumed receivables. In addition, off balance sheet, the Company has provided letters of credit amounting to US$2,141 (2014 - US$2,943).

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

d) Reinsurance assumed liabilities

	December 31, 2015 $	December 31, 2014 $
Unearned premiums	**3,620**	4,164
Unpaid claims and adjustment expenses	**43,742**	51,678
Reinsurance assumed payables	**10**	290
	47,372	56,132
Current	**17,897**	31,518
Non-current	**29,475**	24,614
	47,372	56,132

10. Deferred acquisition expenses

Details of deferred acquisition expenses are as noted below:

	$	$
Balance, beginning of year	**183,123**	179,335
Acquisition expenses deferred	**398,696**	377,252
Amortization expense	**(386,643)**	(373,464)
Balance, end of year	**195,176**	183,123

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:

	2015		2014	
	$	%	$	%
Income before income taxes	**204,631**		176,685	
Income tax at statutory rates	**54,432**	**26.6**	46,468	26.3
Effects of :				
Non-taxable investment income	**(11,292)**	**(5.5)**	(9,954)	(5.6)
Non-deductible expenses	**591**	**0.3**	633	0.4
Change in income tax rates	**(1,498)**	**(0.7)**	1,440	0.8
Difference in effective tax rate of subsidiaries	**18**	**-**	196	0.1
Adjustment to tax expense in respect of prior years	**99**	**-**	108	0.1
Other	**12**	**-**	235	0.1
Income tax expense	**42,362**	**20.7**	39,126	22.2

In fiscal 2015, the enacted statutory tax rate for the Company increased from 26.3% to 26.6%.

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

b) Income taxes included in the consolidated statement of income

	2015	2014
	$	$
Current tax expense		
Current period	**46,868**	35,886
Change in tax rates	**120**	1,463
Adjustment for prior periods	**276**	201
	47,264	37,550
Deferred tax recovery		
Origination and reversal of temporary differences	**(3,107)**	1,692
Change in tax rates	**(1,618)**	(23)
Adjustment for prior periods	**(177)**	(93)
	(4,902)	1,576
Income tax expense	**42,362**	39,126

c) Income taxes included in OCI

	2015	2014
	$	$
Current income tax expense (recovery)	**(8,098)**	21,685
Deferred income tax recovery	**(9)**	(4,223)
Total income tax expense (recovery) included in OCI	**(8,107)**	17,462

The following income tax amounts are included in each component of OCI:

	2015	2014
	$	$
Items that may be reclassified subsequently to the statement of income:		
Net unrealized gains (losses) on available-for-sale financial assets		
Bonds	**6,307**	20,402
Stocks	**4,452**	18,228
	10,759	38,630
Net reclassification adjustment for (gains) losses included in income		
Bonds	**(11,393)**	(6,943)
Stocks	**(7,202)**	(9,795)
	(18,595)	(16,738)
Total items that may be reclassified subsequently to the statement of income	**(7,836)**	21,892
Items that will not be reclassified subsequently to the statement of income:		
Remeasurement of the retirement benefit obligations	**(271)**	(4,430)
Total income tax expense (recovery) included in OCI	**(8,107)**	17,462

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

d) Components of deferred income taxes

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**

December 31, 2014	Assets $	Liabilities $	Net $
Bonds and mortgages	(531)	-	(531)
Stocks	(1,330)	-	(1,330)
Intangible assets	(6)	-	(6)
Property and equipment	1,456	-	1,456
Other assets	86	-	86
Insurance contracts	28,505	-	28,505
Retirement benefit obligations	26,158	-	26,158
Provisions and other liabilities	27,749	-	27,749
Loss carry-forwards and credits	4,313	(34)	4,279
	86,400	(34)	86,366

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

	2015 **$**	2014 $
Balance, beginning of year	**86,366**	83,677
Income statement expense (recovery) (note 24)	**4,902**	(1,576)
Tax charged to OCI	**9**	4,223
Acquisitions of subsidiaries (note 12)	**(3,767)**	-
Other items	**-**	42
Balance, end of year	**87,510**	86,366

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

e) Loss carry-forwards

The Company has non-capital loss carry-forwards of $18,274 (2014 - $15,988) of which deferred income taxes of $4,912 (2014 - $4,212) has been recognized. The non-capital loss carry-forwards expire as follows:

	$
2026	21
2029	1
2030	4
2031	115
2032	36
2033	21
2034	1
2035	18,075

f) Income taxes recoverable and payable

The income taxes recoverable and the income taxes payable are expected to be realized as follows:

	December 31, 2015 $	December 31, 2014 $
Income taxes recoverable		
Current	**23,686**	-
Income taxes payable		
Current	**3,972**	47,592
Non-current	**-**	1,561
	3,972	49,153

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

12. Intangible assets

	Goodwill $	Licenses $	Software $	Broker customer lists $	Total $
Cost					
January 1, 2014	1,076	750	18,468	5,236	25,530
Additions	-	42,000	-	896	42,896
Disposals	-	-	(73)	(165)	(238)
December 31, 2014	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**
Accumulated amortization					
January 1, 2014	-	-	16,308	1,059	17,367
Amortization (note 24)	-	-	1,079	670	1,749
Disposals	-	-	-	(165)	(165)
December 31, 2014	-	-	17,387	1,564	18,951
Amortization (note 24)	-	-	255	1,612	1,867
December 31, 2015	**-**	**-**	**17,642**	**3,176**	**20,818**
Net carrying value					
December 31, 2014	1,076	42,750	1,008	4,403	49,237
December 31, 2015	**1,076**	**43,750**	**753**	**17,277**	**62,856**

The carrying amount of goodwill as at December 31, 2015 relates entirely to L'Equitable.

During the year, 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 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.

On April 1, 2014, CIAL acquired certain ICBC Autoplan agency agreements from Federated Agencies Limited (FAL), a company under common control, through a series of transactions that included the involvement of CFSL and CGIC. The transactions resulted in an increase to the Company's licenses of $42,000, which represents fair market value. Fair market value was determined through a third party appraisal using a market approach, considering recent similar arms-length transactions in British Columbia.

No impairments were recognized during the year (2014 - $nil).

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

13. Other assets

	December 31, 2015 $	December 31, 2014 $
Due from related parties	**26,516**	21,636
Reinsurance assumed receivables (note 9)	**1,237**	2,266
Property and equipment	**26,999**	28,906
Due from risk sharing pools	**7,055**	3,696
Prepaid expenses	**1,132**	834
Other	**2,655**	4,001
	65,594	61,339
Current	**38,015**	31,576
Non-current	**27,579**	29,763
	65,594	61,339

Details of property and equipment are as noted below. During 2015, there was a loss on disposal of $4 recorded in the consolidated statements of income (2014 - $nil).

	Computer equipment $	**Furniture and equipment $**	**Leasehold improvements $**	**Leasehold projects in progress $**	**Total $**
Cost					
January 1, 2014	30,247	32,054	40,491	4,443	107,235
Additions	6,048	2,487	1,230	3,838	13,603
Transfers	-	-	4,915	(4,915)	-
December 31, 2014	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**
Accumulated amortization					
January 1, 2014	27,182	24,672	31,717	-	83,571
Amortization (note 24)	2,754	1,050	4,557	-	8,361
December 31, 2014	29,936	25,722	36,274	-	91,932
Amortization (note 24)	3,732	1,227	3,834	-	8,793
Disposals	-	(3)	-	-	(3)
December 31, 2015	**33,668**	**26,946**	**40,108**	**-**	**100,722**
Net carrying value					
December 31, 2014	6,359	8,819	10,362	3,366	28,906
December 31, 2015	**6,436**	**8,082**	**10,375**	**2,106**	**26,999**

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

14. Provisions and other liabilities

	December 31, 2015 $	December 31, 2014 $
Provision for advisor transition commissions	**91,883**	85,608
Advisor transition commission payable	**13,732**	14,917
Other provisions	**2,245**	2,401
Finance lease obligations	**65**	265
Foreign currency forward contracts (note 5)	**8,832**	1,229
Other liabilities	**4,618**	4,284
	121,375	108,704

Current	**28,895**	21,892
Non-current	**92,480**	86,812
	121,375	108,704

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 2.95% (2014 – 3.05%), and assumes an average termination age of 60 (2014 - 60). A reconciliation of the provision for advisor transition commissions is provided below.

	2015 $	2014 $
Balance, beginning of year	**85,608**	75,850
Additional provision charged to income		
Earning of advisor benefits	**11,216**	9,705
Interest expense	**2,707**	3,108
Settlements for advisor terminations	**(8,480)**	(9,045)
Change in assumptions	**832**	5,990
Balance, end of year	**91,883**	85,608

A 1% decrease in the discount rate would increase the provision for advisor transition commissions $9,053 (2014 - $8,582) and decrease net income by $7,179 (2014 - $6,677). A 1 year decrease in the average termination age would increase the provision for advisor transition commissions $2,041 (2014 - $1,947) and decrease net income by $1,619 (2014 - $1,515). Larger rate and age changes would have a corresponding impact to net income.

15. Borrowings

	December 31, 2015 $	December 31, 2014 $
Short-term indebtedness	**-**	27,580
Subordinated debt (note 25)	**-**	3,500
	-	31,080

The subordinated debt was held by CGL. In 2015, the Company repaid the balance in full. Interest was payable in semi-annual installments at the one-year treasury bill rate plus 110 basis points, set every November. Interest expense on this loan for the year was $18 (2014 - $76).

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

16. 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, 2015. 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, 2016.

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

	2015	2014
	$	$
Accrued benefit obligation		
Balance, beginning of year	**99,217**	79,040
Current service cost	**3,737**	2,724
Interest on accrued benefits	**3,902**	3,872
Benefits paid	**(3,315)**	(3,210)
Remeasurement (gain) loss		
Actuarial gains and losses arising from changes in financial assumptions	**-**	15,197
Actuarial gains and losses arising from changes in demographic assumptions	**5**	1,594
Balance, end of year	**103,546**	99,217
Elements of defined benefit cost recognized in the year		
Current service cost	**3,737**	2,724
Interest on accrued benefits	**3,902**	3,872
Components of defined benefit costs recorded in net income (note 23)	**7,639**	6,596
Remearsurements on the net defined benefit liability:		
Actuarial gains and losses arising from changes in financial assumptions	**-**	15,197
Actuarial gains and losses arising from changes in demographic assumptions	**5**	1,594
Components of defined benefit costs recorded in OCI	**5**	16,791
Total components of defined benefit costs	**7,644**	23,387

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.

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

The significant actuarial assumptions were as follows:

Significant assumptions	2015	2014
Discount rate	**4.00%**	4.00%
Assumed medical care cost trend rates as at December 31		
Medical care cost trend rate	**6.00%**	6.50%
Cost trend rate declines to	**4.50%**	4.50%
Year that the rate reaches the rate it is assumed to remain at	**2018**	2018
Mortality		
Retiring at the end of the reporting period:		
Average life expectancy for male retiring at age 65	**21.7**	21.6
Average life expectancy for female retiring at age 65	**24.1**	24.1
Retiring 20 years after the end of the reporting period:		
Average life expectancy for male retiring at age 65	**22.9**	22.8
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.

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

		Impact on defined benefit obligation	
Significant assumptions	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%	Decrease by $15,870	Increase by $20,905
Medical and dental cost trend rates	1.00%	Increase by $21,415	Decrease by $17,087
Life expectancy	1 year	Decrease by $3,342	Increase by $2,093

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 19.6.

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 $13,775 (2014 - $12,875), which is recognized in general expenses on the consolidated statements of income.

17. 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.
640,000	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.

(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

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:

2015	Beginning of year Number of Shares	Beginning of year Amount $	Issued during the year Number of Shares	Issued during the year Amount $	Redeemed during the year Number of Shares	Redeemed during the year Amount $	End of year Number of Shares	End of year Amount $
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**

2014	Beginning of year Number of Shares	Beginning of year Amount $	Issued during the year Number of Shares	Issued during the year Amount $	Redeemed during the year Number of Shares	Redeemed during the year Amount $	End of year Number of Shares	End of year Amount $
Class A preference shares, series A	200,725	5,018	-	-	10,700	267	190,025	4,751
Class A preference shares, series B	479,509	47,951	77,811	7,781	40,092	4,009	517,228	51,723
Class B preference shares	466	12	-	-	8	-	458	12
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 E preference shares, series D	4,600,000	115,000	-	-	4,600,000	115,000	-	-
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	20,442,401	6,076	852,307	42,000	-	-	21,294,708	48,076
		296,600		49,781		119,276		227,105
Less staff share loan plan		13,977						13,549
		282,623						213,556

(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.

On April 1, 2014, the Company issued 776,627 common shares to its parent for $42,000 related to the acquisition of certain ICBC Autoplan agency agreements from FAL (note 12).

On June 30, 2014, the Company redeemed 4,600,000 class E preference shares, Series D at a price of $25.00 per share for cash consideration of $115,000.

During 2015, the Company issued 81,675 (2014 - 75,680) common shares with a nominal value (2014 - nominal value) to its parent (note 25).

Dividends are as follows:

	2015				2014			
	Declared	**Declared per Share**	**Paid**	**Paid per share**	Declared	Declared per Share	Paid	Paid per share
Dividends	**$**	**$**	**$**	**$**	$	$	$	$
Class A, series A	**343**	**1.88**	**352**	**1.88**	363	1.88	372	1.88
Class A, series B	**2,747**	**5.00**	**2,637**	**5.00**	2,537	5.00	2,443	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 E, series D	**-**	**-**	**-**	**-**	4,169	0.91	4,169	0.91
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**	-	-	-	-
	179,042		**178,941**		13,521		13,436	

18. 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.

	2015	2014
	$	$
Net income	**162,269**	137,559
Less dividends on preference shares declared	**9,542**	13,521
Net income available to common shareholders	**152,727**	124,038
Weighted average number of outstanding common shares	**21,304**	20,540
Earnings per share	**7.17**	6.04

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

19. Retained earnings

The Company has designated $8,747 (2014 - $8,869) of retained earnings for premium payable on redemption of preferred shares.

	2015 $	2014 $
Class A preference shares, series A	**2,253**	2,375
Class B preference shares	**11**	11
Class F preference shares, series A	**6,108**	6,108
Class G preference shares, series A	**375**	375
	8,747	8,869

20. Accumulated other comprehensive income

	December 31, 2015 $	December 31, 2014 $
Unrealized gains on available-for-sale financial assets	**181,993**	200,101
Cumulative remeasurement of the retirement benefit obligations	**(34,107)**	(32,169)
	147,886	167,932

21. 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 from a single catastrophe over $35,000, to a maximum of $1,300,000. 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 5.3% 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. OFSI's supervisory target is 150%. The Company's Minimum Internal MCT, established by the Board of Directors is 170%. As at December 31, 2015, the Company and its subsidiaries held capital in excess of both OSFI's target ratio and internal minimums.

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

22. Net earned premium

	2015 $	2014 $
Direct written premium	**2,435,879**	2,305,746
Assumed written premium (note 9)	**11,632**	12,753
Gross written premium	**2,447,511**	2,318,499
Ceded written premium (note 9)	**(67,655)**	(77,571)
Net written premium	**2,379,856**	2,240,928
Change in gross unearned premium	**(80,936)**	(49,553)
Change in ceded unearned premium	**(1,873)**	(1,798)
Net earned premium (note 7, 8)	**2,297,047**	2,189,577

23. Supplemental expense information

Included within general expenses are the following:

	2015 $	2014 $
Compensation costs	**286,452**	260,453
Retirement benefit obligations (note 16)	**7,639**	6,596
Amortization expense	**8,857**	8,432
Interest expense	**26**	109

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

24. Consolidated statement of cash flows

a) Other non-cash items

	2015 $	2014 $
i) Items not requiring the use of cash		
Investing activities gains	**(69,993)**	(67,598)
Losses on disposal	**171**	-
Impairment losses (note 5)	**23,557**	11,920
Amortization and depreciation of:		
Bond premium/discount	**18,911**	18,025
Mortgage accretion	**211**	202
Intangible assets (note 12)	**1,867**	1,749
Property and equipment (note 13)	**8,793**	8,361
Change in fair value of FVTPL invested assets (note 5)	**26,098**	(2,565)
Deferred income taxes (note 11)	**(4,902)**	1,576
Retirement benefit obligations	**4,324**	3,386
	9,037	(24,944)

	2015 $	2014 $
ii) Changes in non-cash operating components		
Other		
Insurance contracts	**86,812**	62,386
Reinsurance ceded contracts	**30,421**	49,227
Premiums due	**(65,583)**	(47,698)
Deferred acquisition expenses	**(12,053)**	(3,788)
Staff share loan plan	**(226)**	428
Accounts receivable and other assets	**(6,038)**	(4,271)
Accounts payable and accrued charges	**11,419**	13,797
Income taxes payable/recoverable	**(60,770)**	191,485
Provisions and other liabilities	**5,068**	5,605
	(10,950)	267,171

b) Supplemental information

	2015 $	2014 $
Interest and dividends received	**160,760**	157,201
Interest paid	**18**	73
Income taxes paid (net of recoveries)	**107,939**	(153,693)

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

25. Related party transactions

The following transactions were carried out with related parties:

2015	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 (note 6)	29,021	-	29,021
Due from related parties	18,807	7,668	26,475
Due to related parties	412	401	813

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

2014	Companies under common control $	Parents $	Total $
Income			
Reinsurance premium	1,803	-	1,803
Dividend income	-	16,210	16,210
Interest expense	-	(15,988)	(15,988)
Investment counselling services	(3,381)	-	(3,381)
	(1,578)	222	(1,356)
Expenses			
Reinsurance	(98)	-	(98)
Management services	-	29,884	29,884
Agency force support	800	-	800
Employee benefit insurance	4,541	-	4,541
Product distribution and underwriting services	(2,969)	-	(2,969)
Interest expense	-	73	73
	2,274	29,957	32,231
Dividends declared	-	1,451	1,451
Balances outstanding at year end			
Reinsurance assets	118	-	118
Reinsurance liabilities	152	-	152
Premiums due (note 6)	21,001	-	21,001
Due from related parties	16,549	4,008	20,557
Due to related parties	877	267	1,144
Borrowings (note 15)	-	3,500	3,500

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 terms and conditions using available market information.

During the year, the Company recognized the benefit of $4,848 (2014 - $4,211) in its income tax expense relating to income tax losses of a related party which the Company purchased from CFSL by issuing 81,675 common shares (2014 - 75,680) with a nominal value (2014 - nominal value).

During 2014, CGIC purchased certain broker customer list assets for cash consideration of $146 from Assurance Claude Pacquet Inc. (ACP), a wholly owned subsidiary of 9175-1917 Quebec Inc. (9175), which is an associate of Federated Agencies Limited (FAL), a company under common control with the Company. The purchase agreement between CGIC and ACP specified the transfer of certain broker customer list assets each year from 2011 to 2014. Payment to be made by CGIC in each year were based on the value of assets transferred during the year.

In 2015, the Company recognized commission expense of $455 (2014 - $nil) and has a receivable of $41 owing from AZGA Service Canada Inc. (AZGA) (2014 - $1,079), an associate of Co-operators Life Insurance Company, a company under common control.

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 details of which are discussed in note 5.

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

The amounts due to/from related parties represent current accounts with related parties and are generally settled within 30 days, except for those with AZGA, which are settled in 45 days.

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:

	2015	2014
	$	$
Salaries and other short-term benefits	**15,526**	13,951
Post-employment benefits	**1,630**	1,385
Other long-term benefits	**1,743**	1,332
Total compensation of key management personnel	**18,899**	16,668

Certain comparative amounts have been reclassified to conform to our current period presentation.

26. Segmented information

The Company primarily manages its affairs on a legal entity basis. There is separate management for each subsidiary who are responsible for meeting independent strategic initiatives within the overall corporate strategy. Each subsidiary company offers property and casualty insurance products but operates within separate distribution channels. Individual subsidiary financial performance is reported separately to the Company's Board of Directors.

All subsidiary companies follow the same accounting policies as described in note 2. The Company accounts for any intersegment sales at current market prices as if the transactions were to third parties.

L'Equitable and CIAL have been included within the CGIC operating segment.

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

The Company's operating segments are as follows:

2015	CGIC $	Sovereign $	COSECO $	Eliminations $	Consolidated $
Direct written premium	1,852,933	335,445	247,501	-	2,435,879
Ceded written premium	(47,045)	(28,712)	(6,430)	14,532	(67,655)
Income					
Net earned premium	1,754,729	310,334	231,984	-	2,297,047
Net investment gains and income	176,905	18,691	15,230	(66,000)	144,826
	1,931,634	329,025	247,214	(66,000)	2,441,873
Expenses					
Claims and adjustment expenses	1,167,545	204,809	127,851	(16,618)	1,483,587
Claims and adjustment expenses ceded	3,429	(6,400)	(10,301)	16,618	3,346
Other expenses	574,734	121,734	52,988	853	750,309
	1,745,708	320,143	170,538	853	2,237,242
Income before income taxes	185,926	8,882	76,676	(66,853)	204,631
Income tax expense	21,402	1,478	19,713	(231)	42,362
Net income	164,524	7,404	56,963	(66,622)	162,269
Comprehensive income	146,336	6,722	55,787	(66,622)	142,223
Additions to:					
Property and equipment (note 13)	6,851	39	-	-	6,890
Intangible assets (note 12)	-	-	-	15,509	15,509
Assets					
Invested assets	2,940,852	578,896	444,047	-	3,963,795
Reinsurance ceded contracts	24,222	43,060	2,077	(5,896)	63,463
Intangible assets	46,490	-	-	16,366	62,856
Other assets	1,128,622	162,943	166,182	(244,674)	1,213,073
Liabilities					
Insurance contracts	2,495,824	532,045	424,323	(6,840)	3,445,352
Retirement benefit obligation	94,234	7,432	1,880	-	103,546
Other liabilities	290,571	21,590	12,632	(29,114)	295,679
Shareholders' equity	1,259,557	223,832	173,471	(198,250)	1,458,610

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

2014	CGIC $	Sovereign $	COSECO $	Eliminations $	Consolidated $
Direct written premium	1,751,497	323,490	230,759	-	2,305,746
Ceded written premium	(47,773)	(35,099)	(5,991)	11,292	(77,571)
Income					
Net earned premium	1,673,478	299,100	216,999	-	2,189,577
Net investment gains and income	137,984	23,422	19,998	-	181,404
	1,811,462	322,522	236,997	-	2,370,981
Expenses					
Claims and adjustment expenses	1,171,741	184,033	140,721	(3,926)	1,492,569
Claims and adjustment expenses ceded	(8,157)	(3,676)	(460)	3,926	(8,367)
Other expenses	544,838	115,674	49,570	12	710,094
	1,708,422	296,031	189,831	12	2,194,296
Income before income taxes	103,040	26,491	47,166	(12)	176,685
Income tax expense	20,320	6,656	12,150	-	39,126
Net income	82,720	19,835	35,016	(12)	137,559
Comprehensive income	120,268	28,897	43,094	(12)	192,247
Additions to:					
Property and equipment (note 13)	12,285	1,318	-	-	13,603
Intangible assets (note 12)	42,896	-	-	-	42,896
Assets					
Invested assets	2,999,509	604,073	512,947	-	4,116,529
Reinsurance ceded contracts	40,836	54,746	13,921	(15,619)	93,884
Intangible assets	48,161	-	-	1,076	49,237
Other assets	1,260,751	131,460	119,165	(477,443)	1,033,933
Liabilities					
Insurance contracts	2,422,624	505,754	446,090	(15,928)	3,358,540
Retirement benefit obligation	90,683	6,872	1,662	-	99,217
Other liabilities	296,609	32,542	42,598	(27,535)	344,214
Shareholders' equity	1,539,341	245,111	155,683	(448,523)	1,491,612

Regulatory information

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

	December 31, 2015 $	December 31, 2014 $
Sovereign	**45,954**	45,954
L'Equitable	**3,000**	3,000
COSECO	**105,507**	105,507
CIAL	**42,750**	42,750
Total carrying amount of subsidiaries' share capital	**197,211**	197,211

Related party revenue

Less than 1% (2014 - 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.

27. 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 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.

In the normal course of claims adjudication, the Company settles certain obligations to claimants through the purchase of structured settlements. No default has occurred and the Company considers the possibility to be remote. Refer to discussion in note 6. 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 $10,000 (2014 - $10,000) as well as US$80,000 (2014 - US$25,000) 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, 2015, the Company has provided capital contributions of $29,946 (2014 - $16,468) to finance these limited partnership investments, which are included in note 5.

28. 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. Companies are required to submit a request or filing with each province's respective rating authorities. In most cases, companies must wait for approval prior to implementing any changes to their rates. The filing requirements can vary by province with regards to the data to be submitted, the process for dealing with disputes and the waiting period for receiving approval.

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.

In 2010, the Ontario government introduced changes to the auto insurance system that were intended to provide greater price stability and give drivers more control over the amount of coverage and price they pay for auto insurance. As a result, some coverages under the Ontario Auto Insurance policy have been altered and a new standard auto insurance policy took effect as of September 1, 2010. Key changes include reductions to standard coverage under the Accident Benefits portion of the auto insurance policy with the option for policyholders to buy additional coverage, the replacement of the Pre-Approved Framework (PAF) to assess and treat minor injuries with new Minor Injury Guidelines (MIG), and new limitations on the costs of examinations and assessments. The changes that were made through these reforms have been reflected in the valuation of the Company's policy liabilities. Furthermore, premiums have been adjusted accordingly to reflect the anticipated changes in ultimate claims costs resulting from the reform measures.

On August 15, 2013, under the Automobile Insurance Rate Stabilization Act, the Ontario government issued an industry-wide rate reduction target of 15%. By August 2014, less than half of this target was achieved industry-wide. The government then set out to achieve the balance of the 15% target through a series of legislative reforms. On November 20, 2014, the government passed Bill 15, also known as the “Fighting Fraud and Reducing Automobile Insurance Rates Act”. Bill 15, which was made effective January 1, 2015, brought more efficiency to the Ontario auto insurance dispute resolution system, introduced regulation of the towing and vehicle storage industries, and aligned pre-judgment interest rates on non-pecuniary losses to current market rates. Regulation 664 was amended to require all insurance companies to provide a winter tire discount by January 1, 2016. A series of additional reform measures will go into place on June 1, 2016. These measures include the capping of medical, rehabilitation, and attendant care losses under a new combined limit for both non-catastrophic and catastrophic claims, an adjustment to the maximum duration of medical, rehabilitation and attendant care loss payments, a reduction in the maximum duration of non-earner benefits, limitations on monthly premium payment interest rates, and changes to the catastrophic impairment definition.

On April 28, 2010, the government of Nova Scotia introduced legislative changes and accompanying regulatory changes stemming from a review of the cap on minor injury claims. Key changes, which took effect July 1, 2010, include the amendment of the definition of “minor injury” to mean strains, sprains, and whiplash disorders, increasing the pain and suffering award limit from $2,500 to $7,500, and indexing this limit to inflation. These changes have been reflected in the valuation of the Company’s policy liabilities.

On November 9, 2011, the government of Nova Scotia announced a series of legislative changes that took effect in two phases. Key changes in the first phase, which was effective April 1, 2012, include an expansion of standard no-fault benefits and the requirement for automobile insurance legislation and regulations in Nova Scotia to be reviewed at least once every seven years. Key changes in the second phase, which was effective April 1, 2013, included the introduction of Direct Compensation for Property Damage (DCPD) in Nova Scotia and the introduction of diagnostic and treatment protocols for minor injuries. These changes have been reflected in the valuation of the Company’s policy liabilities.

On May 7, 2013, the New Brunswick government formally filed and enacted its proposed changes to the minor injury cap. The changes, which came into effect July 1, 2013, include an increase in the award cap from $2,500 to $7,500 and a narrowing of the minor injury definition. These changes have been reflected in the valuation of the Company’s policy liabilities.

In May 2014, the Prince Edward Island government passed legislation resulted in changes to the standard automobile policy in Prince Edward Island. These changes, which came into effect October 1, 2014, include an increase to the minor injury award cap from $2,500 to $7,500, a narrowing of the minor injury definition, and expansion of no-fault benefits. In addition, this legislation introduced DCPD, which came into force on October 1, 2015. These changes have been reflected in the valuation of the Company’s policy liabilities.

There were no other material automobile legislative or regulatory changes affecting 2014 or 2015.

29. Role of the actuary, the external auditor and the regulator

The appointed actuary is appointed by the Board of Directors of CGIC and of each individual subsidiary company, pursuant to applicable federal or provincial insurance legislation. The actuary, who is a Fellow with the Canadian Institute of Actuaries, is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice in Canada, applicable legislation and associated regulations or directives. The appointed actuary is also required to provide an opinion regarding the appropriateness of the policy liabilities of each individual subsidiary company at the balance sheet date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and consideration of the Company’s assets are important elements of work required to form this opinion.

The valuation of the policy liabilities includes the valuation of the unpaid claims and adjustment expenses, the policy liabilities in connection with the unearned premiums, and the maximum deferrable policy acquisition costs.

The appointed actuary of CGIC and each of its subsidiaries, has provided opinions indicating that each company has made appropriate provisions for all policy obligations. The opinions are attached to the non-consolidated and consolidated financial statements and a detailed actuarial report is filed with the regulator. An internal actuary has been appointed for each of the companies. In past years, an external actuary was appointed to provide the opinion for Sovereign.

The appointed actuary is required each year to analyze the financial condition of CGIC and its subsidiaries and prepare individual company reports for the Board of Directors. The most recent CGIC analysis tests the capital adequacy of the Company until December 31, 2019 under adverse economic and business conditions. The analysis incorporates the projected financial conditions of subsidiary companies and the resulting impact to CGIC under each plausible scenario.

The external auditors have been appointed by the Board of Directors on behalf of the shareholders pursuant to the Insurance Companies Act (Canada). Their responsibility is to conduct an examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and report to the Board of Directors and shareholders regarding the fairness of presentation of the Company's consolidated financial statements in accordance with IFRS.

Property and casualty insurance companies operate under federal and provincial regulatory jurisdiction. The Insurance Companies Act (Canada) gives authority to OSFI, or the provincial regulator as applicable, to supervise the activities of insurance companies as they see fit.

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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†
> Co-op Atlantic
> La Fédération des caisses populaires acadiennes limitée
> Newfoundland-Labrador Federation of Co-operatives
> Northumberland Cooperative Limited
> Scotsburn Co-operative Services Limited

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

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> Keystone Agricultural Producers

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> GROWMARK, Inc.
> L'Alliance des caisses populaires de l'Ontario limitée
> Ontario Federation of Agriculture
> Ontario Natural Food Co-op
> Organic Meadow Co-operative Inc.
> United Steelworkers – District 6

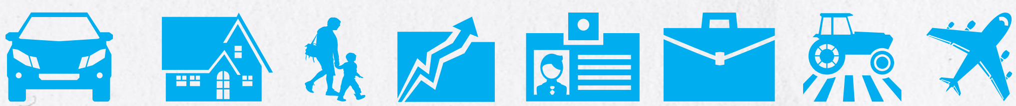
QUEBEC

> 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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Available in French ~ Disponible en français / Released March 2016 / COM346 (03/16)

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