Consolidated Financial Statements of

EGI FINANCIAL HOLDINGS INC.

December 31, 2014

Management's Responsibility for Financial Reporting

Roles of Management, Board of Directors and Audit and Risk Committee

Management is responsible for the preparation and fair presentation of the consolidated financial statements, management's discussion and analysis and other information in the annual report. The consolidated financial statements of EGI Financial Holdings Inc. ("the Company") were prepared in accordance with International Financial Reporting Standards. Where necessary, these consolidated financial statements reflect amounts based on the best estimates and judgment of management.

In meeting its responsibility for the reliability of the consolidated financial statements, management maintains the necessary system of internal controls. These controls are designed to provide management with reasonable assurance that the financial records are reliable for preparing consolidated financial statements and other financial information, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The Audit and Risk Committee, composed of directors who are not officers or employees of the Company, meets, as required, with management, the Appointed Actuary and the external auditor to review actuarial, accounting, reporting and internal control matters. The Audit and Risk Committee is responsible for reviewing the consolidated financial statements and management's discussion and analysis and recommending them to the Board of Directors for approval.

Role of Appointed Actuary

The actuary is appointed by the Board of Directors, pursuant to the Insurance Companies Act. The Appointed Actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. The Appointed Actuary is also required to provide an opinion regarding the appropriateness of the policy liabilities to meet all policyholder obligations of the Company at the consolidated balance sheet date. Examination of supporting data for accuracy and completeness and consideration of the Company's assets are important elements of the work required to form this opinion. The Appointed Actuary uses the work of the external auditor in verifying data used for valuation purposes. Policy liabilities include unearned premiums, provision for unpaid claims, reinsurers' share of unearned premiums and provision for unpaid claims and deferred policy acquisition costs.

Role of External Auditor

PricewaterhouseCoopers LLP, external auditor, has been appointed by the shareholders to conduct an independent audit of the consolidated financial statements of the Company in accordance with Canadian generally accepted auditing standards and report to the shareholders regarding the fairness of the annual consolidated financial statements. The external auditor considers the work of the Appointed Actuary in respect of policy liabilities included in the consolidated financial statements, on which the Appointed Actuary has rendered an opinion.

Toronto, Ontario

February 17, 2015

(Signed) Steve Dobronyi
Chief Executive Officer

(Signed) Alvin Sharma
Chief Financial Officer

February 17, 2015

Independent Auditor's Report

To the Shareholders of
EGI Financial Holdings Inc.

We have audited the accompanying consolidated financial statements of EGI Financial Holdings Inc. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2014 and 2013 and the consolidated statements of income and comprehensive income, changes in equity 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 EGI Financial Holdings Inc. and its subsidiaries as at December 31, 2014 and 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

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, www.pwc.com/ca

EGI Financial Holdings Inc.

To: The Shareholders of EGI Financial Holdings Inc.

I have valued the policy liabilities of the subsidiary insurance operations of EGI Financial Holdings Inc. for its consolidated statement of financial position at December 31, 2014 and their changes in the consolidated statements of income and comprehensive 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 consolidated financial statements fairly present the results of the valuation.

(Signed) Michel Trudeau
Fellow, Canadian Institute of
Actuaries
Mississauga, Ontario
Canada
February 17, 2015

EGI FINANCIAL HOLDINGS INC.
Consolidated Balance Sheets
(in thousands of Canadian dollars)

	Note	December 31, 2014	Amended December 31, 2013 (Note 3)
Assets			
Cash and short–term deposits		27,326	18,156
Accounts receivable		52,726	35,926
Investments	5	504,290	454,317
Due from insurance companies		1,996	3,086
Deferred policy acquisition costs	6	49,353	34,793
Income taxes recoverable		955	3,770
Prepaid expenses and other assets		3,358	5,105
Reinsurers' share – unearned premiums	7	37,528	19,985
– provision for unpaid claims	8	48,737	32,762
Property and equipment		871	755
Intangible assets	11	6,804	5,360
Deferred income taxes	12	6,355	5,913
Total assets		740,299	619,928
Liabilities			
Income taxes payable		5,179	187
Accounts payable and accrued liabilities		18,535	17,079
Payable to insurance companies		6,407	4,731
Unearned premiums	7	168,555	127,247
Unearned commission		9,459	3,623
Provision for unpaid claims	8	344,692	296,857
Total liabilities		552,827	449,724
Equity			
Share capital	13	67,153	67,211
Contributed surplus	14	2,192	1,561
Retained earnings		105,354	96,418
Accumulated other comprehensive income	21	8,917	7,170
Equity attributed to shareholders of the Company		183,616	172,360
Non-controlling interest	23	3,856	(2,156)
Total equity		187,472	170,204
Total liabilities and equity		740,299	619,928

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board of Directors:

(Signed) Steve Dobronyi
Director

(Signed) Robert Purves
Director

EGI FINANCIAL HOLDINGS INC.

Consolidated Statements of Income and Comprehensive Income

for the years ended December 31

(in thousands of Canadian dollars, except per share amounts)

	Note	**2014**	**2013**
Revenue			
Gross written and assumed premiums		364,904	268,367
Less: Premiums ceded to reinsurers		(80,041)	(39,586)
Net written and assumed premiums		284,863	228,781
(Increase) in gross unearned premiums		(24,429)	(34,773)
Increase (decrease) in unearned premiums, reinsurers' share		17,600	11,456
Change in provision for unearned premiums		(6,829)	(23,317)
Net earned premiums		278,034	205,464
Investment income	5	24,333	17,712
Total revenue		302,367	223,176
Expenses			
Gross claims incurred		195,568	143,001
Less: claims recoveries from reinsurers		(32,988)	(10,847)
Net incurred claims		162,580	132,154
Gross acquisition costs		93,855	59,341
Less: acquisition cost recoveries from reinsurers		(14,174)	(7,337)
Net acquisition costs		79,681	52,004
Operating costs	16	32,585	23,893
ICPEI Integration costs		1,347	—
Total expenses		276,193	208,051
Income before taxes and discount rate impact on claims		26,174	15,125
Impact of change in discount rate on claims	8	(2,391)	281
Income before income taxes		23,783	15,406
Income tax expense	12	5,051	3,039
Net income on continuing operations		18,732	12,367)
Net loss on discontinued operations attributable to shareholders of the Company	3	—	(8,642)
Net income		18,732	3,725
Attributed to:			
Shareholders of the Company		18,722	4,681
Non-controlling interest	23	10	(956)
Net Income		18,732	3,725
Earnings per share attributable to shareholders of the Company	22		
Earnings per share continuing operations - basic		$1.61	$1.13
Earnings per share - basic		$1.61	$0.40
Earnings per share continuing operations - diluted		$1.56	$1.11
Earnings per share - diluted		$1.56	$0.39
Net income		18,732	3,725
Other comprehensive income (loss), net of taxes that may be classified subsequently to net income			
Available-for-sale investments:	21		

Change in net unrealized gains		11,558	3,639
Reclassification of net realized (gains) to net income		(6,791)	(5,549)
Cumulative translation gain (loss)		(1,771)	1,486
Tax impact	12	(1,230)	1,540
Other comprehensive income		1,766	1,116
Total comprehensive income		20,498	4,841
Attributed to:			
Shareholders of the Company		20,469	5,797
Non-controlling interest		29	(956)
Total comprehensive income		20,498	4,841

The accompanying notes are an integral part of these consolidated financial statements.

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Changes in Equity
For the years ended December 31
(in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Shareholders' Equity	Non-controlling Interest	Total Equity
Balance at January 1, 2014	67,211	1,561	7,170	96,418	172,360	(2,156)	170,204
Net income	—	—	—	18,722	18,722	10	18,732
Other comprehensive income	—	—	1,747	—	1,747	19	1,766
Total comprehensive income	—	—	1,747	18,722	20,469	29	20,498
Common shares repurchased	(1,467)	—	—	(1,990)	(3,457)	—	(3,457)
Dividends paid	—	—	—	(4,701)	(4,701)	—	(4,701)
Investment in subsidiary	—	—	—	(3,095)	(3,095)	3,095	—
Non-controlling interest ICPEI	—	—	—	—	—	2,888	2,888
Common shares issued on stock options exercised	1,409	—	—	—	1,409	—	1,409
Stock options - expense	—	631	—	—	631	—	631
Balance at December 31, 2014	67,153	2,192	8,917	105,354	183,616	3,856	187,472

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Shareholders' Equity	Non-controlling interest	Total Equity
Amended balance at January 1, 2013 (Note 3)	68,244	1,068	6,054	93,062	168,428	(1,200)	167,228
Net income (loss)	—	—	—	4,681	4,681	(956)	3,725
Other comprehensive (loss)	—	—	1,116	—	1,116	—	1,116
Total comprehensive income (loss)	—	—	1,116	4,681	5,797	(956)	4,841
Common shares repurchased	(1,587)	—	—	(1,325)	(2,912)	—	(2,912)
Common shares issued on stock options exercised	554	—	—	—	554	—	554
Stock options - expense	—	493	—	—	493	—	493
Balance at December 31, 2013	67,211	1,561	7,170	96,418	172,360	(2,156)	170,204

The accompanying notes are an integral part of these consolidated financial statements.

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Cash Flows
for the years ended December 31
(in thousands of Canadian dollars)

	2014	**2013**
Cash provided by (used in):		
Operating activities		
Net income from continuing operations	18,732	12,367
Net income from discontinued operations	—	(8,642)
Adjusted for:		
Reinsurers' share of unearned premiums	(17,481)	(10,816)
Reinsurers' share of unpaid claims	(13,816)	(2,479)
Provision for unpaid claims	25,632	28,277
Unearned premiums	27,668	33,162
Deferred income taxes	(60)	(923)
Unearned commissions	5,836	1,853
Deferred policy acquisition costs	(11,627)	(11,020)
Amortization on property plant equipment and intangible assets	5,122	3,426
Amortization of premiums on bonds	2,716	2,496
Fair value change on FVTPL investments	(1,242)	2,314
Options expense	631	493
Currency translation	(1,771)	1,486
Prepaid expenses & other assets	1,801	(1,985)
	23,409	46,284
Cash flow from changes in		
Accounts receivable	(3,180)	(349)
Net realized (gains)	(6,745	(6,412)
Income taxes payable/recoverable	6,577	(2,706)
Due to insurance companies	2,766	1,522
Other liabilities	(2,874)	4,001
Cash provided by continuing operating activities	38,685	46,065
Financing activities		
Proceeds from issue of common shares	1,409	554
Common share dividends	(4,701)	—
Share repurchases	(3,457)	(2,912)
Cash (used in) financing activities	(6,749	(2,358)
Investing activities		
Purchases of property, equipment and intangible assets	(6,725)	(3,425)
Sale of property and equipment & intangible assets	61	195
Acquisition of ICPEI	3,281	
Purchase of investments	(605,106)	(740,810)
Sale/maturity of investments	585,723	698,911
Cash (used in) investing activities	(22,766)	(45,129)
Increase / (decrease) in cash and short-term deposits	9,170	(1,422)
Cash and short-term deposits, beginning of year	18,156	19,578
Cash and short-term deposits, end of year	27,326	18,156
Supplementary information		
Operating activities		
Income taxes paid	(1,473)	7,525

The accompanying notes are an integral part of these consolidated financial statements.

1 Nature of operations

EGI Financial Holdings Inc. ("the Company") was incorporated on August 18, 1997, under the Business Corporations Act (Ontario) and is incorporated and domiciled in Canada. The Company is principally engaged, through its subsidiaries, in property and casualty insurance in Canada and Europe. The Company's head office is located at 2680 Matheson Blvd. East, Suite 300, Mississauga, Ontario.

The Company's wholly-owned subsidiaries are EGI Insurance Managers Inc., Echelon General Insurance Company ("Echelon"), CIM Reinsurance Company Ltd. ("CIM Re") and CUISA Managing General Agency Corporation ("CUISA MGA"). The Company owns 75% of The Insurance Company of Prince Edward Island ("ICPEI") acquired on July 1, 2014. The Company also owns all of the preferred shares in addition to 93% of common shares of QIC Holdings ApS ("QIC"), which owns 100% of Qudos Insurance A/S ("Qudos").

2 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS.

These consolidated financial statements have been authorized for issue by the Board of Directors, on February 17, 2015.

Prior period figures have been reclassified to conform to the current period presentation.

3 Summary of significant accounting policies

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for investments and insurance contracts which are carried at fair value and in accordance with IFRS 4, respectively.

Discontinued Operations

On August 8, 2013, the Company entered into a definitive stock purchase agreement to sell EGI Insurance Services Inc. and all of its subsidiary companies (collectively the U.S. operations). The sale closed on November 30, 2013. For the periods presented, the operating performance of the U.S. operations has been disclosed in the Company's Consolidated Statements of Income and Comprehensive Income as discontinued operations.

Balance sheet presentation

The Company does not classify its assets and liabilities as current and non-current on its balance sheets. As a financial institution, the Company provides insurance services over a period of years, rather than within a clearly identifiable short-term operating cycle. Classification of assets and liabilities in the balance sheets as current or non-current does not provide relevant information. The maturity profile of the investment portfolio is described in note 10. The estimated payment period for insurance claims, less related reinsurance recoverable, is provided in note 10. Property and equipment assets are charged to expense over their estimated useful lives of up to three years. Intangible assets with definite useful lives are charged to expense over their estimated useful lives of two years while an impairment analysis is done on all other intangible assets. Cash and short term deposits, accounts receivables, due from insurance companies, income taxes receivables and payable, accounts payable and accrued liabilities are expected to be recovered or settled within twelve months of the period end.

Consolidation

The consolidated financial statements of the Company consolidate the accounts of EGI Financial Holdings Inc. and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are those entities which EGI Financial Holdings Inc., through its investment in the entity, are exposed or has rights to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether EGI Financial Holdings Inc. controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by EGI Financial Holdings Inc. and are de-consolidated from the date that control ceases.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Changes in the parent company’s ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to senior management, the Chief Executive Officer (CEO) and Board of Directors of the Company.

Business Combinations

Consideration transferred in a business combination is measured at fair value at the date of acquisition and includes any cash paid plus the fair value of assets given, liabilities incurred and equity instruments issued by the Company. The consideration transferred also includes contingent consideration arrangements, if any, recorded at fair value. Directly attributable acquisition-related costs are expensed in the current period and reported within operating expenses. At the date of acquisition, the Company recognizes the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business. The identifiable assets acquired and the liabilities assumed are initially recognized at fair value. The excess of the consideration paid over the fair value of net assets acquired is recorded as goodwill. Where the fair value of consideration paid is less than the fair value of net assets acquired, the difference is recognized in the income statement. Any pre-existing equity interests in an acquiree are re-measured to fair value at the date of the business combination and any resulting gain or loss is recognized in the income statement.

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each consolidated entity of the Company 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 the Company's functional and presentation currency.

The financial statements of subsidiaries that have a functional currency different from the presentation currency of the Company ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities - at the closing rate at the date of the balance sheet, and income and expenses - at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income (OCI) as cumulative translation adjustments.

QIC's, Qudos' and CIM Re's functional currency is Danish Krone and is subject to foreign currency translation adjustments upon consolidation.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in the income statement. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates in effect at the date the transactions occurred. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities are recognized in investment income in the consolidated statements of income and comprehensive income. Exchange gains and losses related to non-monetary investments classified as Available for sale (AFS) are recorded in other comprehensive income (OCI). Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Cash and short-term deposits

Cash and short-term deposits include cash-on-hand, cash balances with banks and short-term investments maturing in 90 days or less from the date of acquisition. These financial assets are classified as loans and receivables and are recorded at an amortized cost which approximates fair value.

Investments under securities lending program

Securities lending transactions are entered into on a collateralized basis. The securities lent are not derecognized on the consolidated balance sheet given that the risks and rewards of ownership are not transferred from the Company to the counterparties in the course of such transactions. The securities are reported separately in the notes to the financial statement on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession. Securities received from counterparties as collateral are not recorded on the consolidated balance sheet given that the risks and rewards of ownership are not transferred from the counterparties to the Company in the course of such transactions.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

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

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss (FVTPL): A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term, or if it is designated at fair value through profit or loss by management. The Company has designated as fair value through profit and loss under the fair value option financial assets which contain embedded derivatives that significantly alter the cash flows of the underlying asset.

Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented in the consolidated statements of income and comprehensive income within investment income in the period in which they arise. The Company's preferred shares are classified as FVTPL.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. The Company's available-for-sale assets comprise marketable securities and investments in debt and common equity securities.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in OCI.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the consolidated statements of income and comprehensive income within investment income. Dividends on available-for-sale equity instruments are recognized in the consolidated statements of income and comprehensive income as part of investment income when the Company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the consolidated statements of income and comprehensive income and included within investment income.

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of accounts receivables, due from insurance companies, and cash and short-term deposits. Loans and receivables are initially recognized at fair value plus transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less any provision for impairment.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable. Accounts payable are initially recognized at fair value. Subsequently, accounts payable are measured at amortized cost using the effective interest method.

Impairment of financial assets

The Company determines, at each reporting date, whether there is objective evidence that a financial asset is impaired. The criteria used to determine if objective evidence of an impairment loss include:

1) Significant financial difficulty of the obligor;

2) Delinquencies in interest, principal or dividend payments; and

3) It becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If such evidence exists, the Company recognizes an impairment loss, as follows:

AFS investments: The impairment loss is the difference between the amortized cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in net income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to investment income in the consolidated statements of income and comprehensive income.

Loans and receivables carried at amortized costs: The loss is the difference between the amortized cost of the loan and receivables and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases or the fair value of financial assets carried at amortized cost increases and the decrease/increase can be related objectively to an event occurring after the impairment was recognized. In contrast, impairment losses on AFS equity instruments are not reversed.

Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk arises when the Company agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. Significant risk is defined as the possibility of having to pay significantly more in a scenario where the insured event occurs than when it does not occur.

Provision for unpaid claims

Provision for unpaid claims, including adjustment expenses, represents the estimated amounts required to settle all outstanding and unreported claims incurred to the end of the period. Unpaid claims liabilities are discounted to take into account the time value of money. It also includes a provision for adverse deviation. Expected reinsurance recoveries on unpaid claims and adjustment expenses, net of any required provision for doubtful amounts, are recognized as assets at the same time, using principles consistent with the Company's method for establishing the related liability.

Reinsurance

The Company reflects third party reinsurance balances on the consolidated balance sheets on a gross basis to indicate the extent of credit risk related to third party reinsurance and its obligations to policyholders and on a gross basis in the consolidated statements of income and comprehensive income to indicate the results of direct and ceded premiums written and the portion of gross claims expense that is recoverable from reinsurers.

Revenue recognition

Premiums and unearned premiums

Insurance premiums written are deferred as unearned premiums and recorded in income as the premium is earned on a straight line basis over the terms of the underlying policies, except on certain long-term policies for which premiums are earned using an actuarial risk assessment that matches claim expectations. The portion of the premiums related to the unexpired term of the policy at the end of the period is reflected in unearned premiums.

Ceded Premiums and reinsurers' share of unearned premiums

The reinsurers' share of unearned premiums, net of a provision for doubtful amounts, is recognized as an asset at the same time and using principles consistent with the Company's method for determining the unearned premium liability.

Deferred policy acquisition costs

Commissions, premium taxes and general expenses incurred in the writing of premiums are deferred only to the extent that they are expected to be recovered from unearned premiums and are amortized to income as the related premiums are earned. If unearned premiums are not sufficient to pay expected claims and expenses, including policy maintenance expenses and unamortized policy acquisition costs, a premium deficiency is said to exist. Premium deficiency is recognized by a charge to income initially by writing down deferred policy acquisition costs. If the premium deficiency is greater than the deferred policy acquisition costs, a liability would be accrued for the excess deficiency.

Unearned Commission

Unearned commissions are based on ceded premiums with a coverage period beyond the current year end. Unearned commissions are recognized as liabilities using principles consistent with the Company's method of determining policy acquisition costs.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization and impairment. Amortization is provided over the estimated useful lives of the assets using the straight-line method over the following terms:

Furniture and equipment	3 years
Computer hardware	3 years

Intangible assets

Intangible assets with definite useful lives, comprised primarily of computer software, are recorded at cost less accumulated amortization and impairment. Amortization is provided over the estimated useful life of the asset (2-3 years) using the straight-line method. Intangible assets with indefinite lives are recorded at lower of cost and recoverable amount.

Impairment of non-financial assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or 'CGUs'). Recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management).

The Company evaluates impairment losses, for potential reversals when events or circumstances warrant such consideration.

Employee benefits

The Company contributes to a group registered savings plan for employees as services are incurred. Contributions are charged to operating expenses. There are no other post-employment benefit expenses.

Income taxes

Income taxes are recognized in the consolidated statements of income and comprehensive income except to the extent that it relates to items recognized in OCI or directly in equity. In those cases, the related taxes are also recognized in OCI or directly in equity, respectively.

Current income tax is based on the results of the operations, adjusted for items that are not taxable or not deductible, that is payable for the current year. Current income tax is calculated based on income tax laws and rates enacted or substantively enacted as at the balance sheet date.

The Company follows the asset and liability method of accounting for income taxes, whereby deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the carrying values of existing assets and liabilities and their respective income tax bases and taxable losses and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income or other comprehensive income or equity in the year which includes the date of enactment or substantive enactment. Deferred income tax assets are recognized only to the extent the realization of such assets is probable. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is intention to settle the balances on a net basis.

Stock-based compensation

The Company has a stock option plan that provides for the issuance of shares of the Company's common stock not exceeding 10% of the total issued and outstanding shares (on a diluted basis) and shares reserved for issuance under the employee stock option plans, options for services and employee stock purchase plans.

The Company utilizes the fair-value-based method of accounting for stock based compensation. The fair value of stock based compensation determined using an option pricing model, is recorded over the vesting period as a charge to net earnings with a corresponding credit to contributed surplus and awards are equity settled.

Stock options which contain a graded vesting feature (the total options granted vest on a graded basis such as annually over 5 years) are accounted for separately based on the date of vesting. At the time the options are granted, expected forfeiture rates are estimated and used to reduce the amount expensed over the life of the options. The estimated forfeiture rate is adjusted to actual forfeiture experience as information becomes available.

The Company has established a Share Unit Plan, under which the Board of Directors may from time to time determine (i) those eligible employees (a "participant") who shall receive a grant of Restricted Share Units ("RSUs") and/or Performance Share Units ("PSUs") (RSUs and PSUs are collectively referred to as "Share Units"), (ii) the number of such RSUs and/or PSUs and (iii) the grant date(s) applicable to such RSUs and/or PSUs. Compensation expense and the related liability are recorded equally over the vesting period, taking into account fluctuations in the market price of the Company's share price.

Each Share Unit granted under the Share Unit Plan will entitle the participant, upon satisfying all applicable vesting criteria, to receive one common share or, at the discretion of the Company, a cash payment equal to the market value of such share, calculated based on the weighted average trading price per common share on the Toronto Stock Exchange for the 5 trading days prior to a fixed date. The grant of a Share Unit will not entitle the participant to exercise any voting rights, or exercise any other right which attaches to ownership of common shares.

Grant date fair value of each Share Unit is calculated based on the weighted average trading price per common share on the Toronto Stock Exchange for the 5 trading days prior to a fixed date. The fair value of the Share Unit is re-measured each period for subsequent changes in the market value of common shares.

Certain members of the Board, who are not otherwise a employee of the Corporation or any affiliate and are not employed by a corporation that holds at least 100,000 Shares of the Corporation, are eligible to participate in a Deferred Share Unit Incentive Plan, which allows them to elect to defer all or a portion of their annual retainer and meeting fees received in the form of deferred share units (DSUs), each of which is equivalent in value to one common share of the Company. The number of DSUs is established by dividing the amount of retainers not paid in cash by the weighted average trading price of the Common Shares for the last 5 trading days preceding the determination. Whenever cash dividends are paid on the common shares, the director's account under the DSU plan is credited with additional DSUs corresponding to the dividend paid on the common shares. The fair value of the DSUs is re-measured each period for subsequent changes in the market value of common shares.

Provisions

Provisions are recognized as liabilities when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Share capital

Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. The cost method is used to account for the shares purchased under a Normal Course Issuer Bid with the average cost of the shares reducing share capital and any excess recorded as a deduction to retained earnings.

Dividends

Dividends on common shares are recognized in the Company's consolidated financial statements in the period in which the dividends are approved by the Board of Directors.

Earnings per share

Basic earnings per share ("EPS") are calculated by dividing the net income (loss) for the period attributable to shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, and similar instruments is computed using the treasury stock method. The Company's potentially dilutive common shares comprise stock options, DSU's and RSUs granted to employees.

Changes in accounting policies

Change in Policy for Acquisition Costs

The Company retroactively adopted on January 1, 2013 a new accounting policy for costs associated with acquiring or renewing insurance contracts consistent with guidance issued by the Accounting Standards Board and the Office of The Superintendent of Financial Institutions. In accordance with IFRS 4, Insurance Contracts, an entity is permitted to change its accounting policies for insurance contracts if, and only if, the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs.

(in thousands of Canadian dollars, except per share amounts)

In accordance with the new policy, deferred policy acquisition costs will now include general expenses that can be indirectly attributed to the process of acquiring new and renewal insurance contracts. These expenses were previously not deferred. The purchase of ICPEI triggered a review of our previous practices. We concluded that the new policy provides better matching of revenue and related expenses and is more in line with current industry practice.

The adoption of this new accounting policy resulted in an increase in equity of $1,825 at January 1, 2013.

Balance as at January 1, 2013	As Reported	Adjustment	As Amended
DPAC	21,588	2,185	23,773
Deferred Income Taxes	5,388	(360)	5,028
Retained Earnings	91,237	1,825	93,062

The effects on the consolidated statements of income and comprehensive income and consolidated statements of cash flows for the current and prior years were not significant.

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

Amendment to IAS 32, Financial instruments: Presentation' on offsetting financial assets and financial liabilities

This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counter parties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The adoption of the amendments did not have a significant impact on the consolidated financial statements.

IFRIC 21, Levies

IFRIC 21 sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized. The Company is not currently subjected to significant levies and therefore the impact is not material

Standards, amendments and interpretations not yet adopted or effective

IFRS 9 *Financial Instruments*

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

A new expected credit losses model replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted however not recommended by Office of the Superintendent of Financial Institutions (OSFI) at this time for Federally Regulated Entities. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 15, 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early

Annual Improvements 2012

The IASB issued its Annual Improvements to IFRS 2010 - 2012 Cycle, which amended seven standards. The following amendments may have an impact on the Company: IFRS 3, 'Business combinations.' The standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, 'Financial instruments: Presentation.' The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognized in profit and loss. Consequential changes are also made to IFRS 9, IAS 37 and IAS 39. IFRS 13, 'Fair value measurement.' The IASB has amended the basis for conclusions of IFRS 13 to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases. IAS 24, 'Related party disclosures' The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'). The amendments are effective for annual periods beginning on or after 1 July 2014. The Company is assessing the impact of adopting these amendments

Annual Improvements 2013

The IASB issued its Annual Improvements to IFRS 2011 - 2013 Cycle, which amended four standards. The following amendments may have an impact on the Company: IFRS 3, 'Business combinations.' The standard is amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. IFRS 13, 'Fair value measurement.' The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9). The amendments are effective for annual periods beginning on or after 1 July 2014. The Company is assessing the impact of adopting these amendments.

Annual Improvements 2014

The IASB issued its Annual Improvements to IFRS 2012 - 2014 Cycle, which amended four standards. The following amendments may have an impact on the Company. IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations Assets' (or disposal groups). The amendment to IFRS 5 clarifies that changing from one disposal method to the other should considered a continuation of the original plan. The amendment also clarifies that changing the disposal method does not change the date of classification. IFRS 7 'Financial Instruments: Disclosures.' The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The amendments are effective for annual periods beginning on or after 1 January 2016. The Company is assessing the impact of adopting these amendments.

4 Critical accounting estimates and assumptions

The preparation of the Company's consolidated financial statements requires management to use estimates and judgements that affect the amounts reported in the financial statements. These estimates and judgements principally relate to the establishment of reserves for claims and expenses, impairments of investment securities, amounts recoverable from reinsurers and income taxes. As more information becomes known, these estimates could change and impact future results.

Valuation of provisions for unpaid claims.

Provision for unpaid claims are maintained to cover the Company's estimated ultimate liability for unpaid losses and loss adjustment expenses with respect to reported and unreported claims incurred as of the end of each accounting period. The provision for unpaid claims and adjustment expenses is first determined on a case-by-case basis as claims are reported and then reassessed as additional information becomes known. The provision also accounts for the future development of these claims, including claims incurred but not reported (IBNR). Provision for unpaid claims do not represent an exact calculation of liability, but instead represent estimates developed using projection techniques in accordance with Canadian accepted actuarial practice. These estimates are expectations of the ultimate cost of settlement and administration of claims based on the Company's assessment of facts and circumstances then known, its review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors. The appointed actuary of EGI's subsidiaries, using appropriate actuarial techniques, evaluates the adequacy of the policy liabilities at the end of each reporting period.

Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation, legal trends and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis. Additionally, there may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the insurer. These estimates are refined in a systematic ongoing process as historical loss experience develops and additional claims are reported and settled. Because the establishment of reserves is an inherently uncertain process involving estimates, current reserves may not be sufficient. Adjustments to reserves, both positive and negative, are reflected in the consolidated statements of income and comprehensive income for the period in which such estimates are updated.

Impairment of Financial Assets

The Company considers an impairment if there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its carrying value.

Factors considered by the Company include but are not limited to:

a) significant financial difficulty of the issuer or obligor;

b) a breach of contract, such as a default or delinquency in interest or principal payments;

c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

e) the disappearance of an active market for that financial asset because of financial difficulties; or

f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

   (i) adverse changes in the payment status of borrowers in the group (e.g., an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or

   (ii) national or local economic conditions that correlate with defaults on the assets in the group (e.g., an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

Valuation of Reinsurer's share of provision for unpaid claims

Reinsurer's share of the provision for unpaid claims include amounts for expected recoveries related to provision for unpaid claims. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves. The ceding of an insurance liability to a reinsurer does not discharge the Company's primary liability to the policyholders. The Company's policy is to record an estimated allowance for doubtful accounts on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, credit ratings of reinsurers, collateral held by the Company, management's experience and current economic conditions.

The Company is exposed to disputes on, and defects in, contracts with reinsurers and the possibility of default by reinsurers.

Valuation of deferred tax asset

Deferred income taxes, accumulated as a result of temporary differences, which are probable to reverse, are included in the consolidated balance sheet. In addition, the consolidated statements of income and comprehensive income contains items that are non-taxable or non-deductible for income tax purposes, which cause the income tax provision to differ from what it would be if based on statutory rates. Recoverability of deferred tax assets is primarily based on current and expected profitability applicable to the Company and its ability to utilize any recorded tax assets taking into consideration of tax planning strategies and the expiry date of tax losses.

(in thousands of Canadian dollars, except per share amounts)

5 Investments

The following table provides a comparison as at December 31, 2014 and 2013:

	Carrying and fair values	
Available-for-sale	**As at December 31, 2014**	**As at December 31, 2013**
Fixed income		
Canadian		
Federal	74,579	54,374
Provincial	48,978	42,718
Municipal	2,235	5,714
Corporate	182,441	162,316
	308,233	265,122
Fixed income lent through securities lending program		
Federal	10,985	49,165
Provincial	435	7,656
Municipal	—	411
Corporate	4,609	3,980
	16,029	61,212
Foreign fixed income		
Government	25,964	12,799
Corporate	69,088	45,608
	95,052	58,407
Total fixed income	419,314	384,741
Commercial mortgages pooled fund	2,173	2,052
Money market pooled fund	110	—
Short-term fixed income and mortgage pooled fund	16,476	—
Total Pooled funds	18,759	2,052
Common shares		
Canadian	7,784	13,491
Foreign	13,690	24,693
Total common shares	21,474	38,184
Total available-for-sale	459,547	424,977
Fair value through profit or loss		
Preferred shares	44,323	29,340
Preferred shares lent through securities lending program	420	—
Total preferred shares	44,743	29,340
Total investments	504,290	454,317

In accordance with the securities lending agreement, the amount of the collateral held must be at least 105% of the fair value of the securities loaned. As at December 31, 2014, the Company had collateral of $19,207 (2013 – $69,529) for the loaned securities, which is in excess of 105% of the fair value of the loaned securities.

Fair value

The Company is responsible for determining the fair value of its investment portfolio by utilizing market-driven fair value measurements from active markets, where available, by considering other observable and unobservable inputs and by employing valuation techniques which make use of current market data. The Company uses a fair-value hierarchy to categorize the inputs used in valuation techniques to measure fair value. A description of the inputs used in the valuation of financial instruments is as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. The fair value of the Company's common and preferred shares is determined based on quoted prices in active markets obtained from external pricing sources.

Level 2 – Inputs, other than quoted prices, that are observable for the investment either directly or indirectly. 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 speeds, loss severities, credit risks and default rates where available; and inputs that are derived principally from or corroborated by observable market data and correlation or other means.

The Company's investments in government securities (including federal, provincial and municipal bonds), pooled funds, corporate securities, private placements and infrequently traded securities are priced using publicly traded, over-the-counter prices or broker-dealer quotes which are based on market observable inputs. Observable inputs such as benchmark yields, reported trades, broker dealer quotes, issuer spreads and bids are available for these investments.

Level 3 – Inputs that are not based on observable market data. Management is required to use assumptions regarding unobservable inputs as there is little, if any, market activity in these investments or related observable inputs that can be corroborated at the measurement date. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets. 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.

The economic circumstances that affect the fair value of the Company's financial assets have changed in the period with the increasing interest rates.

The following table provides the classification of the Company's investments within the fair value hierarchy, as outlined above, as at December 31, 2014, and December 31, 2013:

(in thousands of Canadian dollars, except per share amounts)

December 31, 2014	**Investments at fair value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed Income	—	419,314	—	419,314
Commercial Mortgages pooled fund	—	—	2,173	2,173
Money market pooled fund	—	110	—	110
Short-term fixed income and mortgage pooled fund	—	16,476	—	16,476
Equities	66,217	—	—	66,217
	66,217	435,900	2,173	504,290

December 31, 2013	**Investments at fair value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed Income	—	384,741	—	384,741
Commercial Mortgages pooled fund	—	—	2,052	2,052
Equities	67,524	—	—	67,524
	67,524	384,741	2,052	454,317

The fair value of the Company's investments, determined with the use of unobservable market information as inputs, is approximately 0.4% (December 31, 2013 – 0.5%) of the total investment portfolio, and consists of investments in a commercial mortgages pooled fund with a fair value of $2,173 (December 31, 2013 – $2,052).

A reconciliation of Level 3 investment for the years ended December 31, 2014 and 2013, with the use of significant unobservable inputs from January 1 to December 31, is as follows:

	2014	**2013**
Balance at beginning of year	2,052	484
Addition during the year	—	2,040
Disposal / Reclassification during the year	—	(484)
Net unrealized gains included in other comprehensive income	121	12
Balance at end of year	2,173	2,052

Investment in the commercial mortgages pooled fund is valued using the Company's share of the net asset value of the aggregate commercial mortgage pooled fund as of December 31, 2014 and December 31, 2013.

The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers during the twelve months ended December 31 2014 (December 31, 2013 – $484). The Company started receiving quoted prices for the bonds transferred from Level 3 to Level 2 in the prior period. There were no transfers from Level 2 to Level 1, or vice versa in the period.

The fair values of cash equivalents, loans and receivables and financial liabilities, other than the provision for unpaid claims, approximate their carrying values due to their short-term nature.

(in thousands of Canadian dollars, except per share amounts)

Impaired assets and provisions for losses

Management has reviewed currently available information regarding those financial assets where estimated fair values are less than amortized cost. For those investments that are considered impaired, the Company has recorded the difference between the amortized cost of the financial assets and its fair value as an impairment, which reduces investment income recorded in the period.

A provision for impairments on investments of $nil was recognized in 2014 (December 31, 2013 – $904). A remaining gross unrealized loss of $2,668 on AFS investments held as at December 31, 2014 (December 31, 2013 − $1,041) is recorded, net of tax, in the amount of $2,068 (December 31, 2013 – $804) in Accumulated Other Comprehensive Income.

Investment income

The table below provides additional details on net investment income:

	2014	2013
Interest income	14,458	12,980
Dividend income	2,231	1,931
Net realized gains	6,745	6,701
Impairment loss	—	(904)
Fair value change on FVTPL investments	1,242	(2,314)
Realized and unrealized foreign exchange gains	1,057	592
Investment expenses	(1,400)	(1,274)
Investment Income	24,333	17,712

6 Deferred policy acquisition costs

Reconciliation of deferred policy acquisition costs at December 31:

	2014		2013	
	Gross	Ceded	Gross Amended (Note 3)	Ceded
Balance at the beginning of the year	34,793	3,623	23,773	1,770
DPAC Acquired from ICPEI	2,933	69	—	—
Acquisition costs during the year	104,585	19,591	70,185	8,717
Amortization of acquisition costs during the year	(93,855)	(14,174)	(59,341)	(7,337)
Deferred General Expenses	323	—	—	—
Currency translation difference	574	350	785	473
Discontinued operations	—	—	(609)	—
Acquisition costs deferred at end of the year	49,353	9,459	34,793	3,623

(in thousands of Canadian dollars, except per share amounts)

7 Unearned premiums

The following table shows net unearned premiums by line of business and nature of risk:

	As at December 31, 2014		As at December 31, 2013	
	Gross	**Ceded**	**Gross**	**Ceded**
Automobile				
- Accident benefits	16,549	2,835	13,992	1,273
- Liability	49,792	14,004	37,477	4,295
- Other	26,486	6,579	19,117	1,720
Property				
- Commercial	5,326	513	5,724	825
- Personal	54,897	8,657	38,431	10,726
Liability	4,550	258	3,583	183
Accident and sickness	2,792	89	1,890	—
Commercial auto	7,715	4,529	6,646	963
Other	448	64	387	—
	168,555	37,528	127,247	19,985

A reconciliation of unearned premium is shown below:

	2014		2013	
	Gross	**Ceded**	**Gross**	**Ceded**
Unearned premium at the beginning of the year	127,247	19,985	94,085	9,169
Unearned premium acquired from ICPEI	14,263	62	—	—
Premium written and ceded during the year	364,904	80,041	268,367	39,586
Premium earned in income	(340,475)	(62,441)	(233,594)	(28,130)
Currency translation difference	2,616	(119)	1,778	(640)
Discontinued operations	—		(3,389)	—
Unearned premium at the end of the year	168,555	37,528	127,247	19,985

(in thousands of Canadian dollars, except per share amounts)

8 Provision for unpaid claims

The fair value of the provision for unpaid claims approximates the carrying value determined in accordance with generally accepted actuarial methods in Canada, which discount estimated future cash flows and include a margin for adverse deviation.

The Company discounts its best estimate of claim provisions at a rate of interest of 1.92% (December 31, 2013 – 2.05%) for all lines of business. The Company determines the discount rate based on the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

The Company recorded an $11,347 reduction to the net provision for unpaid claims relating to redundancies in prior years' estimates (December 31, 2013 – $4,780).

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience, and to provide greater comfort that the actuarial liabilities are adequate to pay future claims, the Company includes provisions for adverse deviations (PFADs) in some assumptions relating to claims development, reinsurance recoveries and future investment income. The PFADs selected are in the mid-range of those recommended by the Canadian Institute of Actuaries. The aggregate impact of the provision for adverse deviation is to increase the provision for unpaid claims on a net basis by $23,939 as at December 31, 2014 (December 31, 2013 – $25,515).

The provision for unpaid claims on an actuarial present value (APV) gross and ceded basis by line of business is as follows:

	December 31 2014		**December 31, 2013**	
APV basis	**Gross**	**Ceded**	**Gross**	**Ceded**
Automobile				
Accident benefits	86,765	17,973	90,674	15,360
Liability	166,828	17,500	135,613	11,038
Other	20,781	6,163	8,986	1,184
Property				
Commercial	7,365	820	8,691	902
Personal	6,395	294	4,653	46
Liability	34,363	6	32,910	—
Accident and sickness	5,492	1,400	4,017	1,120
Commercial auto	11,039	3,819	10,496	2,982
Other	5,664	762	817	130
Total unpaid claims	344,692	48,737	296,857	32,762

(in thousands of Canadian dollars, except per share amounts)

Claims development

Provision for unpaid claims analysis	2014	2013
Unpaid claims, beginning of year, net	264,095	238,297
Change in undiscounted estimates for losses of prior years	10,348	1,575
Change in discount rate	2,391	(281)
Change in PFADs	(1,392)	(7,113)
Interest cost	—	1,039
Provision for claims occurring in current period	153,624	136,653
Paid on claims occurring during		
Current year	(72,824)	(56,480)
Prior year	(80,269)	(62,081)
Impact of discontinued items on claims	—	12,486
Inclusion of ICPEI, net	19,982	—
Unpaid claims, end of period, net	295,955	264,095
Reinsurers' share	48,737	32,762
Gross unpaid claims	344,692	296,857

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims.

The tables below illustrate how the Company's estimate of ultimate gross claims incurred and estimate of reinsurers' share of ultimate claims incurred for each accident year have changed at successive year-ends.

The tables also reconcile the most recent estimate of ultimate gross claims incurred and estimate of reinsurers' share of ultimate claims incurred to the claims liability and reinsurers' share of the claims liability recognized on the financial statements.

Assumptions used to develop the provision estimate for unpaid claims and adjustment expenses are selected by class of business and geographic location. Consideration is given to the characteristics of the risks, historical trends, and the 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 results in it not being practical 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 period as having a potential or identifiable material impact on the overall claims estimate.

Claims development table, gross of reinsurance

The following tables show the estimates of cumulative incurred claims, including IBNR, for the seven most recent accident years, elected in year of adoption as permitted by IFRS 4, with subsequent developments during the periods and together with cumulative payments to date. The original reserve estimates are evaluated quarterly for redundancy or deficiency. The evaluation is based on actual payments in full or partial settlement of claims and current estimates of claims liabilities for claims still unreported.

(in thousands of Canadian dollars, except per share amounts)

	Calendar Year									
	2005 & prior	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Provision for claims including LAE	129,173	146,101	169,091	185,255	207,220	239,036	254,519	268,580	296,856	344,692
Reserve re-estimate as of:										
1 year later	113,839	138,483	163,465	186,446	203,920	232,472	246,972	264,449	284,934	
2 years later	113,817	134,769	162,916	189,093	201,044	239,117	245,331	252,279		
3 years later	112,224	133,932	164,290	186,429	206,039	239,338	232,772			
4 years later	110,157	134,173	161,852	190,342	205,646	228,612				
5 years later	110,577	131,660	163,440	189,297	197,841					
6 years later	107,647	133,355	163,069	183,341						
7 years later	109,096	133,205	159,402							
8 years later	108,838	131,646								
9 years later	108,758									
Cumulative favourable (unfavourable) development	20,415	14,455	9,689	1,914	9,379	10,424	21,747	16,301	11,922	

Claims development table, net of reinsurance

	Calendar Year									
	2005 & prior	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Provision for claims including LAE	75,130	97,716	120,630	143,354	168,484	202,884	221,250	238,297	264,095	295,955
Reserve re-estimate as of:										
1 year later	63,060	85,726	115,530	142,641	164,393	196,517	215,191	233,517	252,748	
2 years later	60,693	81,199	112,960	143,980	162,651	203,632	214,128	225,958		
3 years later	57,706	79,470	112,595	142,924	166,901	203,367	204,365			
4 years later	56,094	77,794	111,267	144,486	166,300	195,502				
5 years later	55,325	76,878	110,883	143,125	160,078					
6 years later	53,882	76,584	110,001	138,578						
7 years later	53,790	76,695	107,439							
8 years later	53,937	75,063								
9 years later	53,251									
Cumulative favourable (unfavourable) development	21,879	22,653	13,191	4,776	8,406	7,382	16,885	12,339	11,347	

9 Underwriting policy and reinsurance ceded

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavourable underwriting results by purchasing reinsurance to share all or part of the insurance risks originally accepted by the Company in writing premiums. This does not relieve the Company of its primary obligation to policyholders.

(in thousands of Canadian dollars, except per share amounts)

During 2014, the Company followed the policy of underwriting and reinsuring contracts of insurance, which limits the net exposure of the Company to a maximum amount on any one loss to $1,750 (2013 -$1,500). In addition, the Company obtained catastrophe reinsurance which limits the loss from a series of claims arising from a single occurrence to $2,000 (2013 - $2,000), to a maximum coverage of $23,000 (2013 -$23,000).

The Company places all its Canadian and European automobile reinsurance with registered reinsurers. There are non-registered reinsurers participating in the specialty property and casualty program business. The Company has access to trust funds that, in the Company's judgment, are adequate to secure the liabilities that the Company has ceded to non-registered reinsurers.

Failure of reinsurers to honour their obligations could result in losses to the Company. Consequently, the Company continually evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses. There have been no defaults and no provision made in the accounts for defaults based on management's review of the creditworthiness of its reinsurers.

Reinsurance recoverable

The following tables summarize the balances outstanding from reinsurers as at December 31, 2014 and 2013, by risk rating:

December 31, 2014			
Credit rating	**Gross reinsurance recoverable**	**Less: Deposits held in trust**	**Net exposure**
A or higher	85,056	—	85,056
Not rated	3,089	3,061	28
	88,145	3,061	85,084

December 31, 2013			
Credit rating	**Gross reinsurance recoverable**	**Less: Deposits held in trust**	**Net exposure**
A or higher	52,080	—	52,080
Not rated	3,451	3,864	—
	55,531	3,864	52,080

Included in gross reinsurance recoverable is reinsurers' share of unearned premiums of $37,284 (December 31, 2013- $19,985), reinsurers' share of provision for unpaid claims of $48,981 (December 31, 2013 - $32,762), and receivables from reinsurers presented as due from insurance companies of $1,881 (December 31, 2013 - $2,784). No balances due from reinsurers are considered past due as at December 31, 2014 and 2013. There is no valuation allowance or amounts written off during the years ended December 31, 2014 and 2013.

10 Risk management

As a provider of insurance products, effective risk management is fundamental to the Company's ability to protect the interests of its customers and shareholders. The Company is exposed to risks of loss pertaining to insurance products. These include risks surrounding product and pricing, underwriting and claims, catastrophic exposure, and matching of assets and liabilities. The Company is also exposed to potential loss from various risks, including interest rate risk, equity market fluctuation risk, credit risk, liquidity risk, and to a lesser extent foreign exchange risk.

(in thousands of Canadian dollars, except per share amounts)

The Company has written principles for overall risk management, as well as written policies covering specific areas such as underwriting, reinsurance, foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non–derivative financial instruments and investment of excess liquidity.

Insurance risk

The risk under any one insurance contract is the possibility that the event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable. The principal risk that the Company faces under its insurance contract is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or the severity of the claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the estimate.

A more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. EGI has developed their insurance underwriting strategy to diversify the type of insurance risks accepted. As at December 31, 2014, 36% of direct written premiums were derived from Personal Lines (December 31, 2013 - 46%); Specialty Programs 11% (December 31, 2013 - 19%); ICPEI 4% (December 31, 2013 - nil); and International Lines 49% (December 31, 2013 - 35%). The regional split of direct written premiums was Ontario 27% (December 31, 2013 - 40%), Atlantic Canada 8% (December 31, 2013 - 8%), Quebec 4% (December 31, 2013 - 7%), Western Canada 12% (December 31, 2013 - 10%) and International 49% (December 31, 2013 - 35%).

	December 31, 2014	December 31, 2013
	Direct Written Premiums	**Direct Written Premiums**
Lines		
Personal Lines	36%	46%
Specialty Lines	11%	19%
ICPEI	4%	—
International	49%	35%
Regions		
Ontario	27%	40%
Atlantic Canada	8%	8%
Quebec	4%	7%
Western Canada	12%	10%
International	49%	35%

Sensitivity to insurance risk

The table below shows the sensitivity of earnings from operations before income taxes and total equity after giving effect to a one percentage point increase in the loss ratio and claims settlement costs. The loss ratio is regarded as a non-IFRS measure and is calculated by the Company with respect to its ongoing insurance operations as losses on claims incurred (including losses and loss adjustment expenses) expressed as a percentage of net premiums earned. Such an increase could arise from higher frequency of losses, increased severity of losses, or from a combination of both. The sensitivity analysis presented below does not consider the probability of such losses to loss frequency or severity occurring or any non-linear effects of reinsurance and as a result, each additional percentage point increase in the loss ratio would result in a linear impact on earnings from operations before income taxes and total equity.

(in thousands of Canadian dollars, except per share amounts)

	2014		2013	
Sensitivity Factor	**Net income before income taxes**	**Shareholders' equity**	**Net income before income taxes**	**Shareholders' equity**
Increase of 1% to loss ratio	(2,780)	(2,029)	(2,054)	(1,500)
Increase of 1% to claims settlement costs	(2,960)	(2,161)	(2,641)	(1,928)

Product and pricing

The Company prices its 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. The Company's pricing process is designed to ensure an appropriate return on capital and long-term rate stability avoiding wide fluctuations in rates, unless necessary. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

Pricing for automobile insurance must be submitted to each provincial government regulator and, in certain provinces, pre-approved by the regulator. Regulatory decisions may impede automobile rate increases or other actions that the Company may wish to take. Also, during periods of intense competition for any product line, to gain market share, the Company's competitors may price their products below the rates the Company considers acceptable. Although the Company may adjust its pricing up or down to maintain a competitive position, the Company strives to ensure its pricing will produce an appropriate return on invested capital. There is no assurance that the Company will not lose market share during periods of pricing competition.

Underwriting and claims

The Company is exposed to loss resulting from the underwriting of risks being insured and the exposure to financial loss resulting from greater than anticipated adjudication, settlement and claims costs.

The Company's underwriting objectives are to develop business within target markets on a prudent and diversified basis and to achieve profitable underwriting results. The Company underwrites automobile business after a review of the applicant's driving record and claims experience. Specialty commercial and personal risks are selected by the Company, working with its external brokers, after consideration of various risk factors associated with these lines of business. Despite its best efforts, and consideration of all known risk factors, there can be no assurance that all risks associated with the insurance policies that it writes can be identified and assessed, and the Company may, therefore, experience increased adjudication, settlement and claims costs.

The Company estimates its claims reserves on a quarterly basis and this is supported by quarterly assessments by the independent appointed actuary. Every quarter, for each line of business, the Company compares actual and expected claims development. To the extent that actual results differ from expected development, assumptions are re-evaluated and new estimates are derived. Although the Company believes its overall provision levels to be adequate to satisfy its obligations under existing policies, actual losses may deviate, perhaps substantially, from the amounts reflected in the Company's consolidated financial statements. To the extent provisions prove to be inadequate, the Company would have to re-evaluate such provisions and may incur a charge to earnings in the future.

Unpredictable catastrophic events

Catastrophes can be caused by various natural and unnatural events. Natural catastrophic events include hurricanes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and fires. Unnatural catastrophic events include hostilities, terrorist acts, riots, crashes and derailments. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas.

Catastrophes can cause losses in a variety of business lines. Claims resulting from natural or unnatural catastrophic events could cause substantial volatility in the Company's financial results and could materially reduce the Company's profitability or harm the Company's financial condition. The Company manages the impact of losses which may result from catastrophic events by purchasing excess of loss and catastrophe reinsurance to share all or part of the insurance risks originally accepted by the Company as well as geographic diversification.

The Company's ability to write new business also could be affected. The Company may experience an abrupt interruption of activities caused by unforeseeable and/or catastrophic events. The Company's operations may be subject to losses resulting from such disruptions. Losses can relate to property, financial assets, trading positions and to key personnel. The Company has developed business continuity plans designed to allow the Company to continue operations in case of a catastrophic event; however, if these plans cannot be put into action or do not take such events into account, losses may further increase.

Asset and liability matching

The Company is exposed to:

- changes in the value of its fixed income investments and policy liabilities to the extent that market interest rates change;
- equity price fluctuations, which affect the fair values of equities held by the Company;
- the risk of losses to the extent that the sale of an investment prior to its maturity is required to provide liquidity to satisfy policyholder and other cash outflows;
- the risk that future inflation of policyholder cash flows exceed returns on long-term investments; and
- foreign exchange risks with respect to investments, receivables and policy liabilities denominated in foreign currencies.

The Company's exposures are monitored on a regular basis and actions are taken to balance investment positions when approved risk tolerance limits are exceeded.

(in thousands of Canadian dollars, except per share amounts)

Risk management is carried out by the Audit and Risk Committee under policies approved by the Board of Directors.

Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign exchange rates and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial assets are traded. Below is a discussion of the Company's primary market risk exposures and how these exposures are currently managed.

Interest rate risk

Fluctuations in interest rates have a direct impact on the fair valuation and future cash flow of the Company's fixed income investment portfolio. Generally, the Company's investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income investments mature or are sold and the proceeds are reinvested at lower rates. During periods of rising interest rates, the fair value of the Company's existing fixed income investments will generally decrease and gains on fixed income securities will likely be reduced.

The sensitivity analysis for interest rate risk as set out in the table below illustrates the impact of changes in interest rates on OCI relating to the fixed income investment portfolio as at December 31, 2014 and December 31, 2013 based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments.

Change in interest rates	**Fair value of fixed income**	**Hypothetical change on fair value**	**Effect on OCI net of tax**	**Effect on Net Income (Loss)**
As at December 31, 2014				
200 basis point rise	393,788	(6)%	(18,649)	—
100 basis point rise	406,551	(3)%	(9,324)	—
No change	419,314	—	—	—
100 basis point decline	432,077	3%	9,323	—
200 basis point decline	444,840	6%	18,651	—

Change in interest rates	**Fair value of fixed income**	**Hypothetical change on fair value**	**Effect on OCI net of tax**	**Effect on Net Income (Loss)**
As at December 31, 2013				
200 basis point rise	360,267	(6)%	(17,865)	—
100 basis point rise	372,150	(3)%	(9,190)	—
No change	384,741	—	—	—
100 basis point decline	398,051	3%	9,716	—
200 basis point decline	409,773	6%	18,274	—

As discussed in note 8, the discount rate used in the determination of the provision for unpaid claims is based on the expected return of assets on its investment portfolio with appropriate assumptions for interest rates relating to reinvestment of maturing investments. Fluctuations in market interest rates will therefore have an impact on the discount rate used in the valuation of the net provision for unpaid claims. The table below shows the potential impact of interest rate fluctuations on the net provision for unpaid claims and income statement:

(in thousands of Canadian dollars, except per share amounts)

Change in discount rate	Net provision for unpaid claims	Hypothetical change in value	Effect on net income
As at December 31, 2014			
100 basis point rise	289,700	(2)%	4,566
No change	295,955	—	—
100 basis point decline	302,411	(2)%	(4,713)
As at December 31, 2013			
100 basis point rise	257,853	(2)%	4,557
No change	264,095	—	—
100 basis point decline	270,664	2%	4,795

Liquidity risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. The Company's liquidity management strategy is to ensure that there is sufficient cash to meet its financial commitments as they become due. To manage cash flow requirements, the Company maintains a portion of invested assets in liquid investments.

The maturity profile of bonds as at December 31, 2014, and December 31, 2013, are as follows:

December 31, 2014	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	16,549	124,311	134,630	143,824	419,314
Percentage of total	4%	30%	32%	34%	100%

December 31, 2013	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	45,254	93,212	134,353	111,922	384,741
Percentage of total	12%	24%	35%	29%	100%

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at December 31, 2014, and December 31, 2013:

December 31, 2014	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	126,635	115,947	60,758	29,404	332,744
Less: Reinsurance recoverable	21,155	11,838	7,689	7,668	48,350
Net actuarial liabilities	105,480	104,109	53,069	21,736	284,394

(in thousands of Canadian dollars, except per share amounts)

December 31, 2013	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	90,588	99,657	54,688	40,276	285,209
Less: Reinsurance recoverable	12,664	9,809	4,936	3,715	31,124
Net actuarial liabilities	77,924	89,848	49,752	36,561	254,085

All other financial liabilities are for duration of one year or less. The contractual maturities for lease commitments are listed in note 17.

Equity price risk

Fluctuations in the value of equity investments affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. General economic conditions, political conditions and many other factors can also adversely affect the stock and bond markets and, consequently, the value of the equity and fixed income investments held.

The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of equity securities.

The table below summarizes the potential impact of a 10% change in the value of the equity securities (common and preferred shares) on net income and OCI for the year ended December 31, 2014 , and the year ended December 31, 2013. Certain shortcomings are inherent in the method of analysis presented, as the analysis is based on the assumption that all equity holdings increased/decreased by 10% with all other variables held constant.

Change in equity holdings	Effect on Net Income (Loss)		Effect on OCI net of tax	
	2014	2013	2014	2013
10% rise	3,266	2,142	1,568	2,787
10% decline	(3,266)	(2,142)	(1,568)	(2,787)

Credit risk

The Company is exposed to credit risk principally through its investment securities and balances receivable from policyholders and reinsurers. The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of investment securities which do not carry the guarantee of a national or Canadian provincial government. The Company’s credit exposure to any one individual policyholder is not material. The Company has policies that limit its exposure to individual reinsurers and regular review processes to assess the creditworthiness of reinsurers with whom it transacts business.

The Company’s maximum exposure to credit risk, without taking into account amounts held as collateral, is:

(in thousands of Canadian dollars, except per share amounts)

	As at December 31, 2014	As at December 31, 2013
Bonds	419,314	384,741
Gross Reinsurance Recoverable	88,146	55,531
Accounts receivable	50,845	35,926
Structured Settlements	30,078	22,713
Cash	27,326	18,156
Total	615,709	517,067

The following table sets forth the Company's fixed income securities portfolio by credit quality as at December 31, 2014, and December 31, 2013.

Fixed income portfolio

	As at December 31, 2014		As at December 31, 2013	
	Fair value	**Fair value**	**Fair value**	**Fair value**
AAA	135,699	32%	138,283	36%
AA	80,965	19%	66,644	17%
A	86,643	21%	87,761	23%
BBB	66,349	16%	54,248	14%
BB	26,879	6%	23,730	6%
B	11,583	3%	4,554	1%
CCC	1,954	1%	1,969	1%
Unrated	9,242	2%	7,552	2%
Total	419,314	100%	384,741	100%

Preferred share portfolio

	As at December 31, 2014		As at December 31, 2013	
	Fair value	**Fair value**	**Fair value**	**Fair value**
P1	5,156	12%	3,428	12%
P2	33,129	74%	23,540	80%
P3	6,458	14%	2,372	8%
Total	44,743	100%	29,340	100%

Foreign exchange risk

Foreign exchange risk is the possibility that changes in foreign exchange rates produce an unintended effect on earnings and equity when measured in Canadian dollars (CAD), the Company's functional currency. The Company is exposed to foreign currency risk through transactions conducted in currencies other than CAD, and through its investments in subsidiaries that have a functional currency other than the CAD.

(in thousands of Canadian dollars, except per share amounts)

A portion of the Company's premiums are written in Great British Pounds (GBP), Euros (EUR) and Danish Kroner (DKK) and a portion of loss reserves are also in GBP, EUR and DKK. A portion of the Company's cash and investments is also held in DKK, EUR and United States dollars (USD).

In general, the Company attempts to manage foreign exchange risk on liabilities by investing in financial instruments denominated in the same currency as the corresponding financial liabilities. The Company may, nevertheless, from time to time experience losses resulting from fluctuations in the value of the USD, GBP, EUR and DKK, which could adversely affect operating results.

The table below illustrates the expected impact on net income after tax and OCI of a 10% change in CAD compared to the GBP and DKK as at December 31, 2014 and 2013. The impact to changes in USD is not significant. Computations of the prospective effects of hypothetical foreign exchange changes are based on numerous assumptions, including the maintenance of the existing level and composition of financial assets and financial liabilities, and should not be relied on as indicative of actual or future results.

Change in CAD/DKK rate	**Effect on Net Income**		**Effect on OCI**	
	2014	**2013**	**2014**	**2013**
10% rise	(1,455)	(1,901)	1,541	(312)
10% decline	1,455	1,901	(1,541)	312

Change in CAD/GBP rate	**Effect on Net Income**		**Effect on OCI**	
	2014	**2013**	**2014**	**2013**
10% rise	(2,240)	(2,124)	2,291	(2,850)
10% decline	2,240	2,124	(2,291)	2,850

Capital management

Capital is comprised of the Company's total equity. As at December 31, 2014, the Company's equity was $183,616 (December 31, 2013 - $172,360). The Company's objectives when managing capital are to maintain capital above minimum regulatory levels, above internally determined risk management levels, for financial strength and protect its claims paying abilities, to maintain creditworthiness and to maximize returns to shareholders over the long term.

All of the Company's subsidiaries exceed the minimum capital requirements in their local jurisdictions are well capitalized.

(in thousands of Canadian dollars, except per share amounts)

11 Intangible assets

	Opening cost	Purchases	Sales	End of period cost	Accumulated amortization	Net
Software						
December 31, 2014	13,301	6,129	—	19,430	13,026	6,404
December 31, 2013	10,403	2,898	—	13,301	8,341	4,960
Goodwill						
December 31, 2014	400			400		400
December 31, 2013	595	—	195	400	—	400
Total intangible assets						
December 31, 2014	13,701	6,129	—	19,830	13,026	6,804
December 31, 2013	10,998	2,898	195	13,701	8,341	5,360

12 Income taxes

The income tax expense (recovery) is as follows:

	2014	2013
Current	5,191	3,802
Deferred	(140)	(763)
	5,051	3,039

The effective income tax rates are different from the combined federal and provincial income tax rates. The consolidated statements of income and comprehensive income contain items that are non-taxable or non-deductible for income tax purposes, which cause the income tax expense to differ from what it would have been if based on statutory rates. The difference is broken down as follows:

	2014	2013
Income tax expense calculated at statutory rates	27.0%	27.0%
Increase(decrease) in income tax rates resulting from:		
Non-taxable dividend income	(2.0)%	(3.2)%
Non-taxable income	(2.6)%	(3.5)%
Non-deductible expenses	1.0%	1.4%
Non-taxable portion of capital gains	(1.9)%	(2.9)%
Other	(0.3)%	0.9%
Effective income tax rate	21.2%	19.7%

(in thousands of Canadian dollars, except per share amounts)

Deferred income taxes are comprised of the following:

	Losses Carried Forward	Provision for unpaid claims	Investments	Property, equipment and intangible assets	Total
Balance - January 1, 2014	1,339	4,172	(63)	465	5,913
Amounts recorded in the income statement	(383)	265	8	250	140
Acquired on acquisition of ICPEI	—	293	—	9	302
Balance - December 31, 2014	956	4,730	(55)	724	6,355

	Losses Carried Forward	Provision for unpaid claims	Investments	Property, equipment and intangible assets	Total
Amended Balance - January 1, 2013 (Note 3)	907	3,945	(162)	338	5,028
Amounts recorded in the income statement	432	227	(23)	127	763
Amounts recorded in equity	—	—	122	—	122
Balance - December 31, 2013	1,339	4,172	(63)	465	5,913

Management reviews the recoverability of the deferred income tax asset on an ongoing basis and adjusts as necessary, to reflect its anticipated realization. Management expects that the recorded deferred income tax asset will be realized in the normal course of operations.

The Company has tax losses available resulting from capital losses of $11,396, for which no deferred tax asset has been set up. These losses have no expiry date.

Income taxes included in OCI

The amounts included in the consolidated statements of comprehensive income for the years ended December 31 are shown net of the following tax benefit:

	2014	2013
Change in unrealized gains	2,074	14
Reclassification to net income of (gains) and losses	(844)	(1,554)
Total income tax expense included in OCI	1,230	(1,540)

Income taxes payable are expected to be settled within one year of the financial statement date.

(in thousands of Canadian dollars, except per share amounts)

13 Share capital

	As at December 31, 2014	As at December 31, 2013
Authorized		
Unlimited common shares (no par value)		
Unlimited special shares issuable in Series (no par value)		
Issued		
11,609,057 common shares (December 31, 2013 - 11,703,082 common shares)	67,153	67,211

In 2014 153,275 (2013 - 66,150) common shares with a value of $1,409 (2013 - $554) were issued for the exercise of stock options. In 2014, 7,500 common shares (2013 - Nil) were issued pursuant to the Share Unit Plan for eligible employees. During 2014 254,800 shares or $3,457 were repurchased under the normal course issuer bid and subsequently cancelled (2013 - 278,000 or $2,912).

Dividends

During the year ended December 31, 2014 the Company declared dividends on its common shares of $0.41 per share (December 31, 2013 - $0.10)

14 Employee stock option plan

For the year ended December 31, 2014, the Company recorded a compensation expense of $631 (2013 - $493), with an offsetting credit to contributed surplus in relation to its stock option plan. Stock options granted have varying vesting periods. It also recorded an expense of $346 (2013 - $153) in relation to its Share Unit Plan. No stock options were granted in 2014.

The following is a continuity schedule of stock options outstanding as at December 31, 2014 and 2013.

	Number of options		Weighted average exercise price per share	
	2014	2013	2014	2013
Outstanding, beginning of year	742,225	906,578	8.77	9.07
Granted during year	—	—	—	—
Exercised during year	(153,275)	(66,150)	9.19	8.05
Canceled during year	(19,000)	(98,203)	8.48	12.01
Outstanding, end of year	569,950	742,225	8.67	8.77

(in thousands of Canadian dollars, except per share amounts)

As at December 31, 2014, the outstanding stock options consist of the following:

Stock Option price per share	Number	Average Remaining contractual life	Number of options exercisable
$10.01 - $11.00	135,750	0.25	135,750
$9.01 - $10.00	20,250	2.05	6,750
$8.01 - $9.00	225,150	4.23	26,000
$7.00 - $8.00	188,800	2.52	36,800

The fair values of the stock options were determined using the Black-Scholes option pricing model with the following assumptions: (i) risk-free rate of 1.25%; (ii) life expectancy of 2-5 years; and (iii) estimated volatility of 2.5%. The grant-date fair value of total options granted during the year is estimated at $2,375 (2013 - $2,375). The weighted average grant-date fair value per share option to date is $3.20.

Restricted share unit (RSU) plan

The restricted share units are share-settled awards for which the provision recorded as at December 31, 2014 was $736 (2013 - $345). The amount charged to operating expenses for 2014 was $391 (2013 - $153).

15 Related party transactions

The Co–operators Group Limited and Co–operators General Insurance Company (collectively Co–operators), significant shareholders of the Company, provide services to the Company, including but not limited to product distribution and investment management services under arms length contracts. Direct written premiums derived from Co–operators' agents were $6,923 (December 31, 2013 – $8,837); commissions paid were $790 (December 31, 2013 – $1,024) and investment management fees were $268 (December 31, 2013 – $345).

Key management

Key management includes named executive officers and directors. Compensation to these individuals are summarized in the following table:

Compensation	2014	2013
Salaries, directors' fees and other short-term benefits	1,465	2,047
Equity-settled and cash-settled compensation benefits	646	693
	2,111	2,740

16 Operating costs by nature

The table below presents operating costs by major category:

(in thousands of Canadian dollars, except per share amounts)

	2014	2013
Salaries and benefits	17,142	14,215
Systems costs	7,897	5,019
Professional fees	1,942	1,293
Printing and postage	2,020	1,287
Other expenses	3,584	2,079
	32,585	23,893

17 Lease commitments

The Company is committed under lease agreements for office premises and computer equipment with minimum lease payments of $5,867 as follows:

Lease commitments	
2015	1,629
2016	1,607
2017	1,311
2018	596
2019	177
2020 and thereafter	547
Total	5,867

18 Structured settlements

In the normal course of claims adjudication, the Company may settle certain long-term losses through the purchase of annuities (structured settlements) from life insurance companies. The fair estimated value of these annuity contracts amounts to $30,078 (December 31, 2013 - $22,713) using a discount rate of 2.33% (December 31, 2013 - 3.08%). It is the policy of the Company to purchase annuities from life insurers with proven financial stability. The net risk to the Company is the credit risk related to the life insurance companies and this risk is reduced to the extent of coverage provided by Assuris, the life insurance compensation insurance plan. The Company has determined that no credit risk provision is required.

19 Contingencies

From time to time, in connection with its insurance operations, the Company is named as a defendant in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome, such actions have generally been resolved with minimal damage or expense in excess of amounts provided as policy liabilities. The Company does not believe that it will incur any significant additional loss or expense in connection with such actions.

20 Rate regulations

The Company writes business subject to rate regulation, including non-standard automobile and motorcycle insurance in Canada, which comprises approximately 37% (2013 - 46%) of gross premiums written and assumed. The Company's automobile insurance premiums can be impacted by mandatory rate rollbacks and mandatory rate assessments as legislated by provincial law and by regulation in certain provinces. This could result in lower future premium rates or reductions to premium rates charged by the Company in prior years. In addition, the Company is required, under certain provincial legislation, to participate in risk sharing pools, which may impact positively or negatively on underwriting results. Certain benefit payments are also subject to provincial government regulation, including automobile accident benefits.

21 Accumulated other comprehensive income

	As at December 31, 2014	As at December 31, 2013
Gross unrealized gains	11,435	6,694
Foreign currency translation adjustments	(244)	1,527
Tax impact	(2,274)	(1,051)
Balance at December 31	8,917	7,170

22 Earnings per share

	2014	2013
Basic earnings per share on continuing operations:		
Net continuing income available to shareholders	18,722	13,323
Average number of common shares (in thousands)	11,656	11,809
Basic earnings per share on continuing operations	$1.61	$1.13
Diluted earnings per share on continuing operations:		
Average number of common shares (in thousands)	11,656	11,809
Average number of dilutive common shares under employee stock option plan (in thousands)	336	245
Average number of diluted common shares (in thousands)	11,992	12,054
Diluted earnings per share on continuing operations	$1.56	$1.11

	2014	2013
Basic earnings per share:		
Net income available to shareholders	18,722	4,681
Average number of common shares (in thousands)	11,656	11,809
Basic earnings per share	$1.61	$0.40
Diluted earnings per share:		
Average number of common shares (in thousands)	11,656	11,809
Average number of dilutive common shares under employee stock option plan (in thousands)	336	245
Average number of diluted common shares (in thousands)	11,992	12,054
Diluted earnings per share	$1.56	$0.39

(in thousands of Canadian dollars, except per share amounts)

23 Non- controlling interest

	2014	2013
Revenue		
Gross written and assumed premiums	50,532	45,944
Net earned premiums	16,991	12,798
Investment income	558	(56)
Total Revenue	17,549	12,742
Expenses		
Net incurred claims	10,114	7,131
Net acquisition costs	5,582	4,403
Operating costs	1,830	2,217
Total expenses	17,526	13,751
Income (loss) before income taxes	23	(1,009)
Income tax expense	13	(53)
Net income (loss) attributable to non-controlling interests	10	(956)
OCI attributable to non controlling interests	19	
Comprehensive income attributable to NCI	29	(956)

	2014	2013
Assets		
Cash and investments	14,781	18,937
Other assets	13,826	28,944
Total assets	28,607	47,881
Liabilities		
Unearned premium	10,818	27,056
Unpaid claims	10,347	11,923
Other liabilities	3,586	11,058
Total liabilities	24,751	50,037
Equity		
Share capital	2,447	—
AOCI	535	—
Retained earnings	874	(2,156)
Total equity	3,856	(2,156)
Total liabilities and equity	28,607	47,881

(in thousands of Canadian dollars, except per share amounts)

24 Acquisition of ICPEI

On July 1st, 2014 -the Company acquired 75% of ICPEI, a provincially regulated insurance company. ICPEI has provided insurance to the Maritimes since 1987. The following table summarizes the purchase consideration paid and the fair value of various assets acquired and liabilities assumed at the date of acquisition.

Purchase consideration	
Cash paid	8,709
Assets acquired	
Cash & Term Deposits	11,990
Investments	20,551
Receivables, net	13,620
Deferred Tax Asset	302
Other assets	135
Capital assets, net	18
Recoverable balance	2,221
Deferred policy acquisition costs	2,933
Total Assets	51,770
Liabilities assumed	
Provision for unpaid claims	22,203
Unearned Premiums	14,263
Accounts payable and other liabilities	3,707
Total liabilities	40,173
Fair value of net assets acquired	11,597
Less non controlling interest	(2,888)
Net assets acquired	8,709

The Company incurred business acquisition expenses of $1,347 in the year 2014 relating to the purchase. In the six months since the date of acquisition to December 31, 2014, the Company generated premium of $13,385 and net income of $516. Had the ICPEI acquisition occurred at the beginning of the year, the revenue generated and income loss incurred would have been approximately $27,385 and ($1,017), respectively.

25 Subsequent events

On January 1, 2015, EGI amalgamated two legal entities, EGI Insurance Managers Inc. and EGI Financial Holdings Inc. This was done to simplify the organizational structure for taxation and cash management purposes.

Dividends

The Board of Directors declared a quarterly dividend of $0.11 per outstanding common share. The first quarter dividend is payable on April 1, 2015, to shareholders of record on March 10, 2015.

26 Segmented information

The Company operates through four segments: Personal Lines and Specialty Programs businesses in Canada, ICPEI in the Maritime Provinces, and specialty business in the International division. Through its Personal Lines segment, the Company is engaged primarily in the underwriting of high premium, non–standard automobile insurance.

Through its Specialty Programs segment, the Company designs and underwrites specialized non–auto insurance programs, such as higher premium property, primary and excess liability, legal expense, accident and health insurance and warranty coverage. ICPEI primarily underwrites Auto, Personal and Commercial Property products in Prince Edward Island, New Brunswick and Nova Scotia. Through the International division the Company underwrites European property, automobile and other niche and specialty insurance products.

The effect of reinsurance is reflected in the revenue and results of each segment. The investment activities consist of managing the investment portfolio for the Company as a whole. Investment income is shown net of investment expenses. The corporate and other activities include holding company expenses not attributable to a division.

(in thousands of Canadian dollars, except per share amounts)

	12 months ended December 31,	
	2014	**2013**
Revenue		
Earned premiums		
Canada – Personal Lines	124,139	125,404
– Specialty Programs	29,527	28,733
– ICPEI	13,851	—
Total Canada	167,517	154,137
International	110,517	51,327
Total earned premium	278,034	205,464
Net claims Incurred		
Canada – Personal Lines	73,132	78,629
– Specialty Programs	11,932	22,734
– ICPEI	7,901	—
Total Canada	92,965	101,363
International	69,615	30,791
Total net claims incurred	162,580	132,154
Net expenses		
Canada – Personal Lines	39,992	38,594
– Specialty Programs	16,825	13,613
– ICPEI	4,644	—
Total Canada	61,461	52,207
International	44,655	20,143
Corporate Expenses	6,150	3,546
Total net expenses	112,266	75,896
Income (loss) before income taxes		
Canada – Personal Lines	11,014	8,181
– Specialty Programs	770	(7,614)
– ICPEI	1,307	—
Total Canada	13,091	567
International	(3,753)	393
Corporate and other	(6,150)	(3,546)
Underwriting (loss) income	3,188	(2,586)
Impact of change in net claims discount rate	(2,391)	281
ICPEI Integration Cost	(1,347)	—
Investment income	24,333	17,712
Total income before income taxes – continuing operations	23,783	15,407

(in thousands of Canadian dollars, except per share amounts)

Segmented long-term assets

	As at December 31	
	2014	**2013**
Canada – Personal Lines	6,441	5,051
– Specialty Programs	561	804
– ICPEI	275	—
	7,277	5,855
International	397	260
Total segmented long-term assets	7,674	6,115