Unaudited Condensed Consolidated Interim Financial Statements of

Echelon Financial Holdings Inc.

For the nine months ended September 30, 2015 and 2014

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Balance Sheets
(Unaudited, in thousands of Canadian dollars)

	Note	September 30, 2015	December 31, 2014
Assets			
Cash and short–term deposits		29,679	27,326
Accounts receivable		88,208	52,726
Investments	6	506,447	504,290
Due from insurance companies		1,306	1,996
Deferred policy acquisition costs		73,772	49,353
Income taxes recoverable		6,097	955
Prepaid expenses and other assets		3,534	3,358
Reinsurers' share – unearned premiums		69,930	37,528
– provision for unpaid claims	7	73,538	48,737
Property and equipment		843	871
Intangible assets	9	5,949	6,804
Deferred income taxes		6,396	6,355
Total assets		865,699	740,299
Liabilities			
Income taxes payable		913	5,179
Accounts payable and accrued liabilities		25,994	18,535
Payable to insurance companies		11,246	6,407
Unearned premiums		240,700	168,555
Unearned commission		18,069	9,459
Provision for unpaid claims	7	382,136	344,692
Total liabilities		679,058	552,827
Equity			
Share capital		68,763	67,153
Contributed surplus		2,246	2,192
Retained earnings		105,674	105,354
Accumulated other comprehensive income	14	5,859	8,917
Equity attributed to shareholders of the Company		182,542	183,616
Non-controlling interest	16	4,099	3,856
Total equity		186,641	187,472
Total liabilities and equity		865,699	740,299

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

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statements of Income and Comprehensive Income
(Unaudited, in thousands of Canadian dollars)

	Note	3 months ended September 30		9 months ended September 30	
		2015	2014	2015	2014
Revenue					
Gross written and assumed premiums		131,164	104,876	359,809	286,072
Less: Premiums ceded to reinsurers		(36,401)	(24,677)	(87,335)	(63,679)
Net written and assumed premiums		94,763	80,199	272,474	222,393
(Increase) in gross unearned premiums		(17,514)	(8,083)	(60,154)	(40,485)
Increase in unearned premiums, reinsurers' share		6,937	4,444	17,088	18,635
Change in provision for unearned premiums		(10,577)	(3,639)	(43,066)	(21,850)
Net earned premiums		84,186	76,560	229,408	200,543
Investment income	6	(2,763)	6,345	7,099	17,974
Other income		—	—	748	—
Total revenue		81,423	82,905	237,255	218,517
Expenses					
Gross claims incurred		68,547	94,918	184,715	185,290
Less: claims recoveries from reinsurers		(16,546)	(48,679)	(43,627)	(62,108)
Net incurred claims		52,001	46,239	141,088	123,182
Gross acquisition costs		32,545	27,201	83,868	69,352
Less: acquisition cost recoveries from reinsurers		(8,093)	(5,650)	(18,008)	(11,961)
Net acquisition costs		24,452	21,551	65,860	57,391
Operating costs		8,662	8,649	25,219	23,352
ICPEI Integration costs		—	—	—	1,347
Total expenses		85,115	76,439	232,167	205,272
Income before taxes and discount rate impact on claims		(3,692)	6,466	5,088	13,245
Impact of change in discount rate on claims	7	(441)	—	(1,672)	(267)
Income / (loss) before income taxes		(4,133)	6,466	3,416	12,978
Income tax expense / (recovery)	12	(401)	930	(1,120)	2,650
Net (loss) / income		(3,732)	5,536	4,536	10,328
Attributed to:					
Shareholders of the Company		(3,640)	4,919	4,668	10,458
Non-controlling interest		(92)	617	(132)	(130)
Net (loss) / income		(3,732)	5,536	4,536	10,328
Earnings per share attributable to shareholders of the Company	15				
Earnings per share - basic		$(0.31)	$0.42	$0.40	$0.89
Earnings per share - diluted		$(0.31)	$0.41	$0.39	$0.87
Net (loss) / income		(3,732)	5,536	4,536	10,328
Other comprehensive income (loss), net of taxes that may be classified subsequently to net income					
Available-for-sale investments:					
Change in net unrealized (losses) gains		(5,009)	223	(3,136)	9,013
Reclassification of net realized (gains) to net income		(177)	(1,608)	(4,849)	(5,123)
Cumulative translation gain (loss)		3,761	(394)	3,036	471
Tax impact		1,277	268	1,887	(864)
Other comprehensive (loss) income		(148)	(1,511)	(3,062)	3,497

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statements of Income and Comprehensive Income
(Unaudited, in thousands of Canadian dollars)

Attributed to:				
Shareholders of the Company	(114)	(1,511)	(3,058)	3,497
Non-controlling interest	(34)	—	(4)	—
Other comprehensive (loss) income	(148)	(1,511)	(3,062)	3,497
Total comprehensive (loss) income	(3,880)	4,025	1,474	13,825
Attributed to:				
Shareholders of the Company	(3,754)	3,408	1,610	13,955
Non-controlling interest	(126)	617	(136)	(130)
Total comprehensive (loss) income	(3,880)	4,025	1,474	13,825

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

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statements of Changes in Equity
(Unaudited, 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, 2015	67,153	2,192	8,917	105,354	183,616	3,856	187,472
Net income (loss)	—	—	—	4,668	4,668	(132)	4,536
Other comprehensive income	—	—	(3,058)	—	(3,058)	(4)	(3,062)
Total comprehensive income (loss)	—	—	(3,058)	4,668	1,610	(136)	1,474
Common shares repurchased	(339)	—	—	(339)	(678)	—	(678)
Dividends paid	—	—	—	(3,880)	(3,880)	—	(3,880)
Investment in subsidiary - Qudos	—	—	—	(129)	(129)	129	—
Capital injection - ICPEI	—	—	—	—	—	250	250
Common shares issued on stock options exercised	1,949	—	—	—	1,949	—	1,949
Stock compensation expense	—	54	—	—	54	—	54
Balance at September 30, 2015	68,763	2,246	5,859	105,674	182,542	4,099	186,641

	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	94,593	170,535	(2,156)	168,379
Net income (loss)	—	—	—	10,458	10,458	(130)	10,328
Other comprehensive income (loss)	—	—	3,497	—	3,497	—	3,497
Total comprehensive income (loss)	—	—	3,497	10,458	13,955	(130)	13,825
Dividends paid	—	—	—	(3,523)	(3,523)	—	(3,523)
Investment in subsidiaries - Qudos	—	—	—	(3,095)	(3,095)	3,095	—
- ICPEI	—	—	—	—	—	2,944	2,944
Common shares issued on stock options exercised	646	—	—	—	646	—	646
Stock options expense	—	471	—	—	471	—	471
Balance at September 30, 2014	67,857	2,032	10,667	98,433	178,989	3,753	182,742

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

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statements of Cash Flows
(Unaudited, in thousands of Canadian dollars)

	9 months ended September 30, 2015	9 months ended September 30, 2014
Cash provided by (used in):		
Operating activities		
Net income	4,536	10,328
Adjusted for:		
Reinsurers' share of unearned premiums	(32,402)	(17,763)
Reinsurers' share of unpaid claims	(24,801)	(14,473)
Provision for unpaid claims	37,444	31,419
Unearned premiums	72,145	38,146
Deferred income taxes	(41)	(691)
Unearned commissions	8,610	7,038
Deferred policy acquisition costs	(24,419)	(10,881)
Amortization on property plant equipment and intangible assets	3,728	3,821
Amortization of premiums on bonds	2,103	1,980
Fair value change on FVTPL investments	9,452	(1,089)
Options expense	54	471
Currency translation	3,036	471
Prepaid expenses & other assets	(176)	(4,357)
	54,733	34,092
Cash flow from changes in		
Accounts receivable	(35,482)	(9,487)
Net realized (gains)	(4,885)	(4,774)
Income taxes payable/(recoverable)	(7,521)	5,544
Due to insurance companies	5,529	7,733
Other liabilities	7,458	(6,394)
Cash provided by continuing operating activities	24,368	37,042
Financing activities		
Proceeds from issue of common shares for stock options	1,949	646
Common share dividends	(3,880)	(3,523)
Share repurchases	(678)	—
Cash (used in) financing activities	(2,609)	(2,877)
Investing activities		
Purchases of property, equipment and intangible assets	(2,845)	(5,793)
Sale of property and equipment & intangible assets	—	61
Additional investment in ICPEI by minority interest	250	3,162
Purchases of investments	(406,148)	(484,898)
Sale/maturity of investments	389,337	478,919
Cash (used in) investing activities	(19,406)	(8,549)
Increase in cash and short-term deposits	2,353	25,616
Cash and short-term deposits, beginning of period	27,326	18,156
Cash and short-term deposits, end of period	29,679	43,772
Supplementary information		
Operating activities		
Income taxes paid / (recovered)	6,110	(2,054)

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

1 Nature of operations

Echelon 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 Echelon Insurance ("Echelon"), CIM Reinsurance Company Ltd. ("CIM Re") and CUISA Managing General Agency Corporation ("CUISA MGA"). The Company also owns 75% of The Insurance Company of Prince Edward Island ("ICPEI") and all of the preferred shares, in addition to 95.5% of common shares of QIC Holdings ApS ("QIC"), which owns 100% of Qudos Insurance A/S ("Qudos").

2 Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2014, which have been prepared in accordance with IFRS.

These consolidated financial statements have been authorized for issue by the Board of Directors, on November 5, 2015.

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

3 Summary of significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year end and the Company has consistently applied the same accounting policies through all periods presented except as described below.

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 8, '*Operating segments*'. The standard is amended to require disclosure of judgements made by management in aggregating segments and a reconciliation of segment assets to the entity's assets when segment assets are reported. These changes are effective for periods beginning on or after July 1, 2014. IAS 24, '*Related party disclosures*' The standard is amended to clarify disclosure requirements on related party transactions beginning on or after July 1, 2014. The Company has adopted these amendments in its Q1 2015 financial statements. The adoption of the amendments did not have a significant impact on the consolidated financial statements.

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 July 1, 2014.

Retrospective adoption of the interpretation on January 1, 2014, did not have a significant impact on the consolidated financial statements.

Standards, amendments and interpretations not yet adopted or effective

IAS 1 - Presentation of financial statements

The standard is amended to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company is assessing the impact of adopting these amendments.

IAS 16 & IAS 38 - Clarification of acceptable methods of depreciation and amortization

Amendments for *IAS 16 Property Plant and Equipment* and *IAS 38 Intangible Assets* are to (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriate, and (ii) provide a rebuttable presumption for intangible assets. The Company is assessing the impact of adopting these amendments.

4 Critical accounting estimates and assumptions

The preparation of the Company's condensed consolidated interim 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 and judgements could change and impact future results.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual 2014 consolidated financial statements.

5 Seasonality

The P&C insurance business is seasonal in nature. While net earned premiums are generally stable from quarter to quarter, net underwriting income can be driven by weather conditions which may vary significantly by quarter.

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

6 Investments

The investment policies adopted are consistent with those of the previous financial year end and the Company has consistently applied the same investment policies through all periods presented.

The following table provides a breakdown of the investment portfolio as at September 30, 2015, and December 31, 2014

	Carrying and fair values	
Available-for-sale	**As at September 30, 2015**	**As at December 31, 2014**
Fixed income		
Canadian		
Federal	36,417	74,579
Provincial	50,823	48,978
Municipal	536	2,235
Corporate	181,623	182,441
	269,399	308,233
Fixed income lent through securities lending program		
Federal	14,822	10,985
Provincial	6,530	435
Corporate	7,714	4,609
	29,066	16,029
Foreign fixed income		
Government	18,784	25,964
Corporate	98,864	69,088
	117,648	95,052
Foreign lent through securities lending program		
Corporate	487	—
Total fixed income	416,600	419,314
Commercial mortgages pooled funds	13,829	2,173
Money market pooled funds	257	110
Short-term fixed income and mortgage pooled funds	16,721	16,476
Total pooled funds	30,807	18,759
Common shares		
Canadian	6,859	7,784
US	15,561	13,690
Total common shares	22,420	21,474
Total available-for-sale	469,827	459,547
Fair value through profit or loss		
Preferred shares	36,615	44,323
Preferred shares lent through securities lending program	5	420
Total preferred shares	36,620	44,743
Total investments	506,447	504,290

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

In accordance with the securities lending agreement, the amount of the collateral must be at least 105% of the fair value of the securities loaned. As at September 30, 2015, the Company had collateral of $32,066 (2014 – $21,361) 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), 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 following table provides the classification of the Company's investments within the fair value hierarchy, as outlined above, as at September 30, 2015, and December 31, 2014:

September 30, 2015				
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed income	—	416,600	—	416,600
Commercial mortgages pooled funds	—	13,829	—	13,829
Money market pooled funds	—	257	—	257
Short-term fixed income and mortgage pooled funds	—	16,721	—	16,721
Equities and preferred shares	59,040	—	—	59,040
	59,040	447,407	—	506,447

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

December 31, 2014				
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed income	—	419,314	—	419,314
Commercial mortgages pooled funds	—	—	2,173	2,173
Money market pooled funds	—	110	—	110
Short-term fixed income and mortgage pooled funds	—	16,476	—	16,476
Equities and preferred shares	66,217	—	—	66,217
	66,217	435,900	2,173	504,290

The fair value of the Company's investments, determined with the use of unobservable market information as inputs, is 0.0% (December 31, 2014 – 0.4%) of the total investment portfolio required to be measured at fair value. All the Investment in a commercial mortgages pooled fund with a fair value of $13,829 are in level 2 , last year they were considered as level 3 (December 31, 2014 – $2,173).

A reconciliation of Level 3 investment with the use of significant unobservable inputs is as follows:

	3 months ended September 30		**9 months ended September 30**	
	2015	**2014**	**2015**	**2014**
Balance at beginning of period	2,214	2,110	2,173	2,052
Addition during the year	—	—	—	—
Disposal / Reclassification during the year	(2,214)	—	(2,173)	—
Net unrealized gains included in other comprehensive income	—	26	—	84
Balance at end of period	—	2,136	—	2,136

Investment in commercial mortgages pooled fund is valued using the Company's share of the net asset value of the commercial mortgage pooled fund as of September 30, 2015 and December 31, 2014.

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. During the nine months ended September 30, 2015, the Company transferred commercial mortgages with a carrying value of $2,173 from level 3 to level 2 (September 30, 2014 – $nil).

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.

No provision for impairments on investments was recognized for the periods ended September 30, 2015, and September 30, 2014. A remaining gross unrealized loss of $4,440 on AFS investments held as at September 30, 2015 (September 30, 2014 – $2,360) is recorded, net of tax, in the amount of $3,611 (September 30, 2014 – $1,801) in Accumulated Other Comprehensive Income.

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

Investment income

The table below provides additional details on net investment income:

	3 months ended September 30		9 months ended September 30	
	2015	**2014**	**2015**	**2014**
Interest income	3,685	4,090	10,882	10,777
Dividend income	582	459	1,929	1,543
Net realized gains	198	1,599	4,885	4,774
Fair value change on FVTPL investments	(5,598)	(264)	(9,452)	1,089
Realized and unrealized foreign exchange gains / (losses)	(1,297)	791	(50)	788
Investment expenses	(333)	(330)	(1,095)	(997)
Investment income	(2,763)	6,345	7,099	17,974

7 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 1.73% (December 31, 2014 – 1.92%) 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 a $9,700 reduction to the net provision for unpaid claims relating to redundancies in prior years' estimates (September 30, 2014 – $10,251).

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 $22,074 as at September 30, 2015 (December 31, 2014 – $23,939).

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

Claims development

Provision for unpaid claims analysis	September 30, 2015	September 30, 2014
Unpaid claims, beginning of year, net	295,955	264,095
Favourable prior year claims development	9,700	10,251
Provision for claims occurring in current period	133,860	113,198
Paid on claims occurring during		
Current year	(41,343)	(41,377)
Prior year	(89,574)	(65,107)
Inclusion of ICPEI, net	—	19,785
Unpaid claims, end of period, net	308,598	300,845
Reinsurers' share	73,538	49,394
Gross unpaid claims	382,136	350,239

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

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.

8 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.

These condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements as at December 31, 2014.

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. There has been no significant change in risk management since year end.

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.

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

The concentration of insurance risk by product line, country, province or state, and underlying currency, will also impact financial results depending on the nature and location of events.

Compared to year end there was no material change to insurance risk.

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 September 30, 2015, and December 31, 2014, 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**
As at September 30, 2015			
200 basis point rise	391,963	(6)%	(17,985)
100 basis point rise	404,281	(3)%	(8,993)
No change	416,600	—	—
100 basis point decline	428,919	3%	8,994
200 basis point decline	441,237	6%	17,986

Change in interest rates	**Fair value of fixed income**	**Hypothetical change on fair value**	**Effect on OCI net of tax**
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

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.

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

The maturity profile of bonds as at September 30, 2015, and December 31, 2014, are as follows:

September 30, 2015	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	35,024	110,157	114,970	156,449	416,600
Percentage of total	8%	26%	28%	38%	100%

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%

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at September 30, 2015, and December 31, 2014:

September 30, 2015	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	148,608	124,546	65,036	31,619	369,809
Less: Reinsurance recoverable	33,816	18,395	10,972	9,145	72,328
Net actuarial liabilities	114,792	106,151	54,064	22,474	297,481

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

All other financial liabilities are for duration of one year or less. The contractual maturities for lease commitments are listed in note 13.

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 six months ended September 30, 2015 , and the year ended December 31, 2014. 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.

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

Change in equity holdings	Effect on net income (loss)		Effect on OCI net of tax	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
10% rise	2,673	3,266	1,637	1,568
10% decline	(2,673)	(3,266)	(1,637)	(1,568)

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 is exposed to risk from reinsurers' inability to cover balances. 99.8% of the Company's reinsurance balances are from registered reinsurers. The Company holds sufficient collateral to cover the 0.2% of reinsurance balances from unregistered reinsurers.

The following table sets forth the Company's fixed income securities portfolio by credit quality as at September 30, 2015, and December 31, 2014.

Fixed income portfolio

A breakdown of the fixed income portfolio by credit rating is shown below:

	As at September 30, 2015		As at December 31, 2014	
	Fair value	Fair value	Fair value	Fair value
AAA	112,886	27%	135,699	32%
AA	87,081	21%	80,965	19%
A	86,037	21%	86,643	21%
BBB	78,905	19%	66,349	16%
BB	25,144	6%	26,879	6%
B	16,273	4%	11,583	3%
CCC	386	0%	1,954	1%
Unrated	9,888	2%	9,242	2%
Total	416,600	100%	419,314	100%

Preferred share portfolio

A breakdown of the preferred shares portfolio by credit rating is shown below:

	As at September 30, 2015		As at December 31, 2014	
	Fair value	Fair value	Fair value	Fair value
P1	4,281	12%	5,156	12%
P2	24,560	67%	33,129	74%
P3	7,779	21%	6,458	14%
Total	36,620	100%	44,743	100%

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

9 Intangible assets

	Opening cost	Purchases	Sales	End of period cost	Accumulated amortization	Net
Software						
September 30, 2015	19,430	2,496	—	21,926	16,377	5,549
December 31, 2014	13,301	6,129	—	19,430	13,026	6,404
Goodwill						
September 30, 2015	400	—	—	400	—	400
December 31, 2014	400	—	—	400	—	400
Total intangible assets						
September 30, 2015	19,830	2,496	—	22,326	16,377	5,949
December 31, 2014	13,701	6,129	—	19,830	13,026	6,804

10 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 $4,566 (September 30, 2014 – $5,247); commissions paid were $527 (September 30, 2014 – $599) and investment management fees were $197 (September 30, 2014 – $205).

11 Operating Costs by nature

	2015	2014
Salaries and benefits	15,231	13,076
Systems costs	5,301	6,157
Professional fees	1,389	1,418
Printing and postage	1,131	1,543
Other expenses	1,168	1,157
ICPEI purchase price adjustment	1,000	—
	25,219	23,352

Corporate expenses include $1.0 million of positive development on prior year claims reserves of ICPEI that in accordance with terms of the share purchase agreement are payable to SGI Canada on January 1, 2019, up to a maximum of $1.5 million. In the event that prior period losses are greater than the reserves held at June 30, 2014, SGI Canada will be required to pay Echelon the difference on January 1, 2019, to a maximum of $1.5 million.

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

12 Income taxes

The income tax expense (recovery) is as follows:

	3 months ended September 30		9 months ended September 30	
	2015	**2014**	**2015**	**2014**
Current	(269)	1,489	(1,090)	3,376
Deferred	(132)	(559)	(30)	(726)
	(401)	930	(1,120)	2,650

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:

	3 months ended September 30		9 months ended September 30	
	2015	**2014**	**2015**	**2014**
Income tax expense calculated at statutory rates	27.0 %	27.0 %	27.0 %	27.0 %
Increase (decrease) in income tax rates resulting from:				
Non-taxable dividend income	3.7 %	(1.6)%	(13.7)%	(2.8)%
Non-taxable (income) loss	(11.5)%	(7.6)%	(23.7)%	(2.4)%
Non-deductible expenses	(8.5)%	0.8 %	12.7 %	1.1 %
Tax benefit of losses not previously recognized	0.6 %	(1.8)%	(22.6)%	(2.4)%
Statutory rate differences	(2.5)%	0.9 %	(1.2)%	0.4 %
Non-taxable portion of capital gains	0.6 %	(3.1)%	(8.8)%	(2.4)%
Other	0.3 %	(0.2)%	(2.5)%	2.0 %
Effective income tax rate	9.7 %	14.4 %	(32.8)%	20.5 %

13 Lease commitments

The Company is committed under lease agreements for office premises and computer equipment with minimum lease payments of $10,725 as follows:

Lease commitments	
2015	368
2016	1,452
2017	1,120
2018	1,108
2019	1,040
2020 and thereafter	5,637
	10,725

14 Accumulated other comprehensive income

A breakdown of the accumulated other comprehensive income is shown below.

	As at September 30, 2015	As at December 31, 2014
Gross unrealized gains	3,454	11,435
Foreign currency translation adjustments	2,793	(244)
Tax impact	(388)	(2,274)
Ending balance	5,859	8,917

15 Earnings per share

	3 months ended September 30		9 months ended September 30	
	2015	2014	2015	2014
Basic earnings per share:				
Net income available to shareholders	(3,640)	4,919	4,668	10,458
Average number of common shares (in thousands)	11,739	11,779	11,675	11,744
Basic earnings per share	$(0.31)	$0.42	$0.40	$0.89
Diluted earnings per share:				
Average number of common shares (in thousands)	11,739	11,779	11,675	11,744
Average number of dilutive common shares under employee stock compensation plan (in thousands)	295	323	305	344
Average number of diluted common shares (in thousands)	12,034	12,102	11,980	12,088
Diluted (loss)/earnings per share	$(0.31)	$0.41	$0.39	$0.87

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

16 Non- controlling interest

	3 months ended September 30		9 months ended September 30	
	2015	2014	2015	2014
Revenue				
Gross written and assumed premiums	2,643	16,256	14,456	46,499
Net earned premiums	1,856	6,086	6,982	14,110
Investment income	(121)	194	(42)	452
Total revenue	1,735	6,280	6,940	14,562
Expenses				
Net incurred claims	1,150	3,188	4,671	8,500
Net acquisition costs	443	1,761	1,708	4,785
Operating costs	259	510	814	1,447
Total expenses	1,852	5,459	7,193	14,732
Income (loss) before income taxes	(117)	821	(253)	(170)
Income tax expense	(25)	204	(121)	(40)
Net income (loss) attributable to non-controlling interests	(92)	617	(132)	(130)
OCI attributable to non-controlling interest	(34)	—	(4)	—
Comprehensive income attributable to non-controlling interest	(126)	617	(136)	(130)

	September 30, 2015	December 31, 2014
Assets		
Cash and investments	13,948	14,781
Other assets	16,495	13,826
Total assets	30,443	28,607
Liabilities		
Unearned premium	11,893	10,818
Unpaid claims	10,807	10,347
Other liabilities	3,644	3,586
Total liabilities	26,344	24,751
Equity		
Share capital	1,035	2,447
AOCI	115	535
Retained earnings	2,949	874
Total equity	4,099	3,856
Total liabilities and equity	30,443	28,607

17 Segmented information

Commencing in the first quarter of 2015, the Company realigned its segmented reporting such that ICPEI’s results will not be disclosed separately but will be included in Personal Lines or Commercial Lines, depending on the type of the business written. This disclosure is consistent with how senior management and the Board regularly review the business for purposes of allocating resources and assessing performance.

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

The Company operates through three segments: Personal Lines and Commercial Lines businesses in Canada, 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 Commercial Lines, the Company designs and underwrites specialized non–auto insurance programs, such as higher premium property, primary and excess liability, legal expense, creditor insurance and warranty coverage. Through the International division the Company underwrites European property, automobile and other niche and specialty insurance products, mainly in the UK and Scandinavia.

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.

	3 months ended September 30		**9 months ended September 30**	
	2015	**2014**	**2015**	**2014**
Revenue				
Earned premiums				
Canada – Personal Lines	33,935	34,843	101,065	90,779
– Commercial Lines	12,947	9,510	31,498	31,417
Total Canada	46,882	44,353	132,563	122,196
International	37,304	32,207	96,845	78,347
Total earned premium	84,186	76,560	229,408	200,543
Net claims Incurred				
Canada – Personal Lines	21,553	22,793	69,838	55,203
– Commercial Lines	6,718	3,623	16,306	15,884
Total Canada	28,271	26,416	86,144	71,087
International	23,730	19,823	54,944	52,095
Total net claims incurred	52,001	46,239	141,088	123,182
Net expenses				
Canada – Personal Lines	10,526	11,572	31,221	29,497
– Commercial Lines	4,236	5,083	12,501	16,031
Total Canada	14,762	16,655	43,722	45,528
International	15,922	11,815	41,016	31,450
Corporate Expenses	2,430	1,730	6,341	3,766
Total net expenses	33,114	30,200	91,079	80,744
Income (loss) before income taxes				
Canada – Personal Lines	1,856	478	6	6,079
– Commercial Lines	1,993	804	2,691	(498)
Total Canada	3,849	1,282	2,697	5,581
International	(2,348)	569	885	(5,198)
Corporate and other	(2,430)	(1,730)	(6,341)	(3,766)
Underwriting (loss) income	(929)	122	(2,759)	(3,383)
Impact of change in net claims discount rate	(441)	—	(1,672)	(267)
ICPEI integration cost	—	—	—	(1,347)
Other Income	—	—	748	—
Investment income	(2,763)	6,344	7,099	17,974
Total income before income taxes	(4,133)	6,466	3,416	12,978

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

Segmented long-term assets

		As at September 30, 2015	As at December 31, 2014
Canada	– Personal Lines	5,710	6,578
	– Commercial Lines	621	700
Total Canada		6,331	7,278
International		461	397
Total segmented long-term assets		6,792	7,675