

Unaudited Condensed Consolidated Interim Financial
Statements of

Echelon Financial Holdings Inc.

For six months ended June 30, 2020 and 2019

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2020. These financial statements have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Balance Sheet
(unaudited, in thousands of Canadian dollars)

	Note	June 30, 2020	December 31, 2019
Assets			
Cash and short-term deposits	7	72,355	70,932
Accounts receivable		10,876	10,020
Investments	7	48,595	48,019
Due from insurance companies		591	324
Deferred policy acquisition costs		4,431	4,209
Income taxes recoverable		854	1,184
Prepaid expenses and other assets		4,050	4,028
Reinsurers' share - unearned premiums		707	1,031
- provision for unpaid claims	8	2,923	3,268
Right of use asset		584	777
Deferred income taxes		115	228
Total assets		146,081	144,020
Liabilities			
Accounts payable and accrued liabilities		3,738	4,528
Lease liability		532	712
Unearned premiums		19,792	18,749
Unearned commission		186	195
Income taxes payable		408	-
Provision for unpaid claims	8	26,857	26,629
Total liabilities		51,513	50,813
Equity			
Share capital		2,794	2,794
Contributed surplus		1,507	1,507
Retained earnings		84,094	83,140
Accumulated other comprehensive income	12	1,941	2,034
Equity attributed to shareholders of the Company		90,336	89,475
Non-controlling interest	15	4,232	3,732
Total equity		94,568	93,207
Total liabilities and equity		146,081	144,020

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

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statement of Income and Comprehensive Income
(unaudited, in thousands of Canadian dollars, except per share amounts)

	Note	3 months ended June 30		6 months ended June 30	
		2020	2019	2020	2019
Revenue					
Gross written and assumed premiums		11,793	10,972	19,830	17,929
Less premiums ceded to reinsurers		(605)	(566)	(1,032)	(1,022)
Net written and assumed premiums		11,188	10,406	18,798	16,907
Change in gross unearned premiums		(2,292)	(2,509)	(1,044)	(1,206)
Change in unearned premiums, reinsurers' share		75	24	(324)	(239)
Change in provision for unearned premiums		(2,217)	(2,485)	(1,368)	(1,445)
Net earned premiums		8,971	7,921	17,430	15,462
Investment income	7	987	430	966	985
Total revenue		9,958	8,351	18,396	16,447
Expenses					
Gross claims incurred		4,977	4,534	9,299	9,471
Claims recoveries from reinsurers		(208)	319	(144)	(66)
Net incurred claims		4,769	4,853	9,155	9,405
Gross acquisition costs		2,210	1,720	4,117	3,401
Acquisition recoveries from reinsurers		(16)	(19)	(33)	(37)
Net acquisition costs		2,194	1,701	4,084	3,364
Operating costs	11	1,550	1,440	3,227	2,865
Total expenses		8,513	7,994	16,446	15,634
Income before taxes and discount rate impact on claims		1,445	357	1,930	813
Impact of change in discount rate on claims ⁽¹⁾		(131)	(138)	-	(308)
Income before interest expense and income taxes		1,314	219	1,930	505
Income tax expense	10	442	22	610	105
Net Income on continued operations		872	197	1,320	400
Net income on discontinued operations		-	55,405	-	46,220
Net income		872	55,602	1,320	46,620
Attributed to:					
Shareholders of the Company – continued operations		624	138	954	220
Shareholders of the Company – discontinued operations	14	-	55,405	-	46,220
Non-controlling interest – continued operations	15	248	59	366	180
Net income		872	55,602	1,320	46,620
Other comprehensive income (loss), net of taxes that may be classified subsequently to net income					
Available-for-sale investments:					
Change in net unrealized gains		2,747	124	378	1,932
Reclassification of net realized (gains) losses to net income		(37)	(48)	(102)	(81)
Tax impact		(343)	(22)	(235)	(142)
Other comprehensive income on continued operations		2,367	54	41	1,709
Other comprehensive income (loss) on discontinued operations	14	-	(753)	-	1,254
Other comprehensive income (loss)		2,367	(699)	41	2,963

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statement of Income and Comprehensive Income
(unaudited, in thousands of Canadian dollars, except per share amounts)

	Note	3 months ended June 30		6 months ended June 30	
		2020	2019	2020	2019
Attributed to:					
Shareholders of the Company – continued operations		2,170	40	(93)	1,628
Shareholders of the Company – discontinued operations	14	-	(753)	-	1,254
Non-controlling interest – continued operations	15	197	14	134	81
Other comprehensive income (loss)		2,367	(699)	41	2,963
Total comprehensive income		3,239	54,903	1,361	49,583
Attributed to:					
Shareholders of the Company – continued operations		2,794	178	861	1,848
Shareholders of the Company – discontinued operations	14	-	54,652	-	47,474
Non-controlling interest – continued operations	15	445	73	500	261
Total comprehensive income		3,239	54,903	1,361	49,583
Earnings per share attributable to shareholders of the Company	13				
Earnings per share continued operations – basic		\$0.05	\$0.01	\$0.08	\$0.02
Earnings per share discontinued operations – basic		-	\$4.62	-	\$3.86
Earnings per share – basic		\$0.05	\$4.64	\$0.08	\$3.88
Earnings per share continued operations – diluted		\$0.05	\$0.01	\$0.08	\$0.02
Earnings per share discontinued operations – diluted		-	\$4.54	-	\$3.77
Earnings per share – diluted		\$0.05	\$4.55	\$0.08	\$3.79

(1) As interest rates may change each period, and have an impact to the incurred claims and therefore management believes it is beneficial to the users to see the impact of this change separately in order to understand the true movement in claims incurred.

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

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statement 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, 2020	2,794	1,507	2,034	83,140	89,475	3,732	93,207
Net income				954	954	366	1,320
Other comprehensive (loss) income			(93)		(93)	134	41
Total comprehensive (loss) income			(93)	954	861	500	1,361
Balance at June 30, 2020	2,794	1,507	1,941	84,094	90,336	4,232	94,568

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Shareholders' Equity	Non- controlling Interest	Total Equity
Balance at January 1, 2019	71,997	303	(2,877)	76,244	145,667	3,842	149,509
Net income	-	-	-	46,440	46,440	180	46,620
Other comprehensive income	-	-	2,882	-	2,882	81	2,963
Total comprehensive income	-	-	2,882	46,440	49,322	261	49,583
Dividends Paid	(69,611)	-	-	(36,020)	(105,631)	-	(105,631)
Commons shares issued on stock options exercised	408	-	-	-	408	-	408
Balance at June 30, 2019	2,794	303	5	86,664	89,766	4,103	93,869

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

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statement of Cash Flows

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

	6 months ended	
	June 30, 2020	June 30, 2019
Cash provided by (used in)		
Operating activities		
Net income from continued operations	1,320	400
Net income from discontinued operations	-	46,220
Adjusted for		
Reinsurers' share of unearned premiums	324	239
Reinsurers' share of unpaid claims	345	1,085
Provision for unpaid claims	228	(934)
Unearned premiums	1,043	1,205
Deferred income taxes	113	187
Unearned commissions	(9)	-
Deferred policy acquisition costs	(222)	(263)
Amortization on leased assets	193	147
Amortization on property plant equipment and intangible assets	123	12
Amortization of premiums on bonds	16	9
Fair value change on FVTPL investments	352	9
Prepaid expenses & other assets	45	(41)
	2,551	1,655
Cash flow from changes in		
Accounts receivable	(856)	(5,861)
Net realized gains	(71)	(61)
Income taxes payable (recoverable)	504	(581)
Due to insurance companies	-	1,188
Due from insurance companies	(267)	-
Other liabilities	(790)	(3,403)
Cash provided (used) by continuing operating activities	2,391	(6,663)
Cash used by discontinued operating activities	-	(241,744)
Cash inflow (outflow) from operating activities	2,391	(248,407)
Financing activities		
Proceeds from issuing of common shares for stock options	-	408
Dividends paid	-	(105,631)
Payment of lease liabilities	(181)	(66)
Cash used by continuing financing activities	(181)	(105,289)
Cash outflow from financing activities	(181)	(105,289)
Investing activities		
Purchases of property, equipment and intangible assets	(189)	(390)
Purchases of investments	(10,638)	(11,835)
Sale/maturity of investments	10,040	12,769

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statement of Cash Flows (continued)
(unaudited, in thousands of Canadian dollars, except per share amounts)

	6 months ended	
	June 30, 2020	June 30, 2019
Cash (used) provided by continuing investing activities	(787)	544
Cash provided by discontinued investing activities	-	294,064
Cash (outflow) inflow from investing activities	(787)	294,608
Increase (Decrease) in cash and short-term deposits	1,423	(59,088)
Cash and short-term deposits, beginning of year	70,932	129,604
Cash and short-term deposits, end of year	72,355	70,516
Supplementary information		
Income taxes (recovered) paid	(5)	2,460

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

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements

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

1. Nature of operations

Echelon Financial Holdings Inc. ("the Company") was incorporated in Canada on August 18, 1997, under the Business Corporations Act (Ontario). The Company is domiciled in Canada and principally engaged, through its subsidiary, in property and casualty insurance in Canada. The Company's head office is located at 2800 Skymark Avenue, Suite 200, Mississauga, Ontario. The Company has a 75% owned subsidiary – The Insurance Company of Prince Edward Island ("ICPEI").

2. COVID-19 pandemic

The rapid spread of the COVID-19 virus, which was declared by the World Health Organization to be a pandemic on March 11, 2020, and actions taken in Canada and globally in response to COVID-19, has significantly disrupted business activities. ICPEI implemented its emergency operational plan which included transitioning most employees to work from home and only a small number of staff in the office to perform functions which could not be performed remotely. Although the office was closed to the public, claim services and support for brokers continued during this time. Since June 2020, ICPEI has resumed full operations in its office in Charlottetown.

ICPEI has provided a number of accommodations to its policyholders if they experience hardship because of COVID-19 and adjust their auto premiums due to reduction of use. ICPEI has only experienced a very minor increase in the number of customer defaults and very few requests to lower monthly premiums based on lower usage of vehicles. These did not have a significant impact on the results of the Company. In the first quarter of 2020 as it recorded a provision of \$200 for expenses. In the second quarter, provision for unpaid claims was increased by \$647 as provision for adverse development ("PFAD") to incorporate uncertainty of COVID 19 impact on claims. The number of motor vehicle claims decreased in the month of March and has continued to be lower compared to prior year during second quarter. The impact is reflected in the lower claims expense.

ICPEI has postponed auto rate increase in New Brunswick, which was to be effective June 1, 2020 to be effective September 1, 2020, and at the same time offered a 10% COVID discount to New Brunswick auto rates. ICPEI implemented a slight reduction in auto rates in the Nova Scotia province.

The effects on the Company's development of critical estimates during the second quarter of 2020 are described below:

Investment valuation

The Company's valuation technique and recognition of impairment remain unchanged. The Company's investments are valued at fair value using Level 1 or Level 2 inputs that are primarily based on quoted market prices. The Company has no Level 3 investments that require more assumptions and judgement in their valuation. As at the end of second quarter, the Company recorded a loss in investment of \$281 in its profit and loss and recorded \$378 of unrealized gain in its other comprehensive income.

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(unaudited, in thousands of Canadian dollars, except per share amounts)

Provision for unpaid claims

ICPEI does not provide insurance coverage specifically for pandemic risk. However, in its commercial property policies, it offers coverage for business interruption. Based on outside legal counsel review and Insurance Bureau of Canada guidance, ICPEI does not believe that business interruption claims from pandemic Covid-19 are covered perils. PFAD margin factors were revised to incorporate uncertainty of COVID 19 impact on claims, which resulted in increase in IBNR of \$647 in the second quarter. ICPEI will continue to monitor all developments in future.

Credit risk

During the second quarter of 2020, the Company's exposure to credit risk continued to remain high primarily due to the continued potential effects of COVID-19 pandemic on the Company's reinsurers, insurance contract receivables from customers, and issuers of the Company's investments in bonds. There were no significant changes used in the second quarter of 2020 to monitor and evaluate credit risks. There was no downgrade of reinsurers' credit rating and there were no significant delinquent payments from customers. Valuation of investment bonds is based on observable market values, which already reflect the associated credit risks associated with the issuers.

3. 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, 2019, which have been prepared in accordance with IFRS.

These consolidated financial statements have been authorized for issue by the Board of Directors on August 20, 2020.

4. Summary of significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year-end.

Standards, amendments and interpretations not yet adopted or effective

IFRS 9, Financial Instruments

In July 2014, the IASB published the complete version of IFRS 9, which is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The new standard includes requirements on the classification and measurement of financial assets and liabilities, an expected credit loss model that replaces the existing incurred loss impairment model, and new hedge accounting guidance. The Company has evaluated and meets the requirements to defer the adoption of IFRS 9, since the percentage of liabilities connected with insurance contracts over total liabilities meets the 90% threshold. The company has deferred adoption, until the new insurance contracts standard is adopted effective January 1, 2023

IFRS 17, Insurance Contracts

IASB published IFRS 17 with effective date delayed to January 1, 2023, with retrospective application. The standard replaces IFRS 4. The standard is comprehensive in scope and addresses recognition,

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(unaudited, in thousands of Canadian dollars, except per share amounts)

measurement, presentation and disclosure for insurance contracts. The standard requires the entity to recognize a group of insurance contracts it issues from the earliest of the following: (a) the beginning of the coverage period of the group of contracts; (b) the date when the first payment from a policyholder in the group becomes due; and (c) for a group of onerous contracts, when the group becomes onerous. The measurement approach is based on the following building blocks: (i) a current, unbiased probability-weighted estimate of future cash flows expected to arise as the insurer fulfills the contract; (ii) the effect of the time value of money; (iii) a risk adjustment that measures the effects of uncertainty about the amount and timing of future cash flows; and (iv) a contractual service margin which represents the unearned profit in a contract (that is recognized in net earnings as the insurer fulfills its performance obligations under the contract). Estimates are required to be re-measured each reporting period. In addition, a simplified measurement approach is permitted for short-duration contracts in which the coverage period is approximately one year or less. The Company is currently evaluating the impacts of IFRS 17 on its consolidated financial statements.

5. 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 re-insurers, 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 2019 consolidated financial statements except for impacts discussed in note 2.

6. Seasonality

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

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(unaudited, in thousands of Canadian dollars, except per share amounts)

7. Investments

The following table provides a breakdown of the investment portfolio:

Available for sale	Fair values	
	As at June 30, 2020	As at December 31, 2019
Fixed income		
Canadian		
Federal	4,601	5,053
Provincial	3,059	2,771
Municipal	110	-
Corporate	4,755	4,336
Total fixed income	12,525	12,160
Corporate value pooled fund	5,562	5,320
Money market pooled funds	805	604
Short-term fixed income and mortgage pooled funds	14,187	13,550
Total pooled funds	20,554	19,474
Common shares		
Canadian	1,515	1,798
Foreign	2,319	2,057
Global Equity Pooled Fund	8,389	8,784
Total common shares	12,223	12,639
Total available for sale	45,302	44,273
Fair value through profit or loss		
Preferred shares	3,293	3,746
Total preferred shares	3,293	3,746
Total investments	48,595	48,019
Cash and short-term deposits	72,355	70,932
Total investments including cash and short-term deposits	120,950	118,951

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
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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 technique employed has remained the same from December 31, 2019. 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, commercial mortgage pooled funds, money market pooled funds 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 rationality 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.

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(unaudited, in thousands of Canadian dollars, except per share amounts)

The following table provides the classification of the Company's investments within the fair value hierarchy, as outlined, as at June 30, 2020 and December 31, 2019:

June 30, 2020			
	Level 1	Level 2	Total
Fixed income	-	12,525	12,525
Corporate value pooled funds	-	5,562	5,562
Money market pooled funds	-	805	805
Short-term fixed income and mortgage pooled funds	-	14,187	14,187
Global equity pooled funds	-	8,389	8,389
Common Shares	3,834	-	3,834
Preferred Shares	3,293	-	3,293
	7,127	41,468	48,595

December 31, 2019			
	Level 1	Level 2	Total
Fixed income	-	12,160	12,160
Corporate value pooled funds	-	5,320	5,320
Money market pooled funds	-	604	604
Short-term fixed income and mortgage pooled funds	-	13,550	13,550
Global equity pooled funds	-	8,784	8,784
Common Shares	3,855	-	3,855
Preferred Shares	3,746	-	3,746
	7,601	40,418	48,019

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 from the existing portfolio for the quarter ended June 30, 2020 or December 31, 2019.

The fair values of cash and short-term deposits, account receivables and financial liabilities approximate their carrying values due to their short-term nature.

The Company has interests in unconsolidated structured entities, through investments in pooled funds, which are included in investments on the balance sheet. These entities are not controlled by the Company. The carrying value of pooled funds and maximum exposure to loss as of June 30, 2020 was \$28,943 (December 31, 2019 – \$28,258). Investments in pooled funds consist of units invested in underlying money market and mortgage securities managed by third-party managers in addition to units invested in a Global Equity Pooled Fund. The pooled funds are perpetual private trusts created under trust agreements. Financing is only provided to the pooled funds through the purchase of units and is therefore limited to the investment made.

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(unaudited, in thousands of Canadian dollars, except per share amounts)

Impaired assets and provisions for losses

A gross unrealized loss of \$109 on Available for Sale (AFS) investments at June 30, 2020 (December 31, 2019 – \$395) is recorded, net of tax, in the amount of \$99 (December 31, 2019 – \$292) in Accumulated Other Comprehensive Income.

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 records the difference between the amortized cost of the financial assets and its fair value as an impairment which reduces investment income recorded in the year.

An impairment of \$124 on AFS investments was recognized for the 6 month period ended June 30, 2020 (June 30, 2019- Nil).

Investment income

The table below provides additional details on net investment income.

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Interest income	471	388	1,163	812
Dividend income	114	147	217	247
Net realized gains	18	48	195	61
Fair value change on FVTPL investments	450	(87)	(352)	(8)
Impairment loss recognized on AFS Investment	-	-	(124)	-
Investment expenses	(66)	(66)	(133)	(127)
Investment income	987	430	966	985

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 discounts future cash flows and includes a margin for adverse deviation.

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 discounts its best estimate as follows, which is for all lines of business within the reporting entity:

Entity	June 30, 2020	December 31, 2019
ICPEI	2.5%	2.5%

The Company recorded a \$381 reduction, as at June 30, 2020, to the net provision for unpaid claims relating to favourable development in prior years' estimates (December 31, 2019 – \$2,391 unfavourable).

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 \$2,193 as at June 30, 2020 (December 31, 2019 – \$1,595). PFAD margin factors were revised to incorporate COVID 19 impact, which resulted in increase in IBNR of \$647 in the second quarter.

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(unaudited, in thousands of Canadian dollars, except per share amounts)

Claims development

Provision for unpaid claims analysis	June 30, 2020	December 31, 2019
Unpaid claims, beginning of year, net	23,361	19,201
(Favourable) unfavourable prior year claims development	(381)	2,391
Net claims incurred in current year	9,537	20,962
Paid on claims occurring during		
Current year	(4,245)	(12,476)
Prior year	(4,338)	(6,717)
Unpaid claims, end of year, net	23,934	23,361
Reinsurers' share	2,923	3,268
Gross unpaid claims	26,857	26,629

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 judgement 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. PFAD margin factors were revised to incorporate COVID 19 impact, which resulted in increase in IBNR of \$647 in the second quarter.

9. 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 foreign exchange risk.

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 claims frequency or severity 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.

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.

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(unaudited, in thousands of Canadian dollars, except per share amounts)

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 other comprehensive income ("OCI") relating to the fixed income investment portfolio as at June 30, 2020, and December 31, 2019, based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments.

Change in interest rates As at June 30, 2020	Fair value of fixed income	Hypothetical change on fair value	Effect on OCI net of tax
200 basis point rise	31,165	(6)%	(1,334)
100 basis point rise	32,122	(3)%	(667)
No change	33,079	-	-
100 basis point decline	34,036	3%	667
200 basis point decline	34,993	6%	1,334

Change in interest rates As at December 31, 2019	Fair value of fixed income	Hypothetical change on fair value	Effect on OCI net of tax
200 basis point rise	30,081	(5)%	(1,082)
100 basis point rise	30,858	(2)%	(541)
No change	31,634	-	-
100 basis point decline	32,410	2%	541
200 basis point decline	33,187	5%	1,082

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 is as follows, as at June 30, 2020 and December 31, 2019:

June 30, 2020	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	2,272	1,578	5,367	3,308	12,525
Cash and cash equivalents	72,355	-	-	-	72,355
Accounts receivable	10,876	-	-	-	10,876
Total	85,503	1,578	5,367	3,308	95,756
Percentage of total	89%	2%	6%	3%	100%

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December 31, 2019	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	227	3,664	3,335	4,934	12,160
Cash and cash equivalents	70,932	-	-	-	70,932
Accounts receivable	10,020	-	-	-	10,020
Total	81,179	3,664	3,335	4,934	93,112
Percentage of total	87%	4%	4%	5%	100%

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at June 30, 2020 and December 31, 2019:

June 30, 2020	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Gross claim liabilities (undiscounted)	11,183	8,320	3,357	2,406	25,266
Less: Reinsurance recoverable (undiscounted)	1,670	888	131	84	2,773
Net actuarial liabilities	9,513	7,432	3,226	2,322	22,493

December 31, 2019	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Gross claim liabilities (undiscounted)	11,414	8,410	3,488	2,530	25,842
Less: Reinsurance recoverable (undiscounted)	1,655	1,093	265	159	3,172
Net actuarial liabilities	9,759	7,317	3,223	32,371	22,670

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 three months ended June 30, 2020, and the year ended December 31, 2019. 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)			
	net of tax		Effect on OCI net of tax	
	June 30, 2020	December 31, 2019	June 30, 2019	December 31, 2019
10% rise	229	261	892	923
10% decline	(229)	(261)	(892)	(923)

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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.

Fixed income portfolio

A breakdown of the fixed income portfolio by credit rating is shown below as at June 30, 2020 and December 31, 2019:

	As at June 30, 2020		As at December 31, 2019	
	Fair value	%	Fair value	%
AAA	5,644	45%	5,940	49%
AA	2,631	21%	2,321	19%
A	3,610	29%	2,861	23%
BBB	640	5%	1,038	9%
Total	12,525	100%	12,160	100%

Preferred share portfolio

A breakdown of the preferred shares portfolio by credit rating is shown below as at June 30, 2020 and December 31, 2019:

	As at June 30, 2020		As at December 31, 2019	
	Fair value	%	Fair value	%
P2	2,874	87%	3,305	88%
P3	419	13%	441	12%
Total	3,293	100%	3,746	100%

10. Income taxes

The income tax is as follows:

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Current	427	(39)	497	60
Deferred	15	61	113	45
	442	22	610	105

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.

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The difference is broken down as follows:

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Income tax expense calculated on statutory rates	27.0%	27.0%	27.0%	27.0%
Increase (decrease) in income tax rates resulting from:				
Non-taxable dividend income	(2.1)%	(23.0)%	(2.8)%	(13.5)%
Statutory rate difference	3.7%	6.0%	3.7%	7.2%
Other	5.0%	0.0%	3.7%	0.2%
Effective income tax rate	33.6%	10.0 %	31.6%	20.9%

11. Operating costs by nature

The table below presents operating costs by major category.

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Salaries and benefits	814	273	1,517	810
Systems costs	72	-	187	90
Professional fees	167	159	249	417
Directors' and Regulatory Filing fees	77	34	131	181
Occupancy and lease cost	148	136	297	183
Printing and postage	46	45	80	89
Facility	126	87	238	159
Management Fees*	49	349	93	676
Other expenses	51	357	435	260
	1,550	1,440	3,227	2,865

*ICPEI was paying management fees to Echelon till May 31, 2019 to provide for support services. Since June 1, 2019, ICPEI has been working as a standalone company.

12. Accumulated other comprehensive income

A breakdown of the accumulated other comprehensive income is shown below as at June 30, 2020 and December 31, 2019:

	As at June 30, 2020	As at December 31, 2019
Gross unrealized gains	2,021	1,938
Tax impact	(80)	96
Ending balance	1,941	2,034

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13. Earnings per share

Earnings per share are calculated in the following table:

	3 months ended		6 months ended	
	June 30		June 30	
Earnings per share on Continued Operations	2020	2019	2020	2019
Basic earnings per share on continued operations:				
Net income available to shareholders	624	138	954	220
Average number of common shares	12,007	11,983	12,007	11,966
Basic (loss) earnings per share on continued operations	\$0.05	\$0.01	\$0.08	\$0.02
Diluted earnings per share:				
Average number of common shares	12,007	11,983	12,007	11,966
Average number of dilutive common shares under employee stock compensation plan	-	229	-	288
Average number of diluted common shares	12,007	12,212	12,007	12,021
Diluted (loss) earnings per share on continued operations	\$0.05	\$0.01	\$0.08	\$0.02
	3 months ended		6 months ended	
	June 30		June 30	
Earnings per share on Discontinued Operations	2020	2019	2020	2019
Basic (loss) per share on discontinued operations:				
Net income (loss) available to shareholders	-	55,405	-	46,220
Average number of common shares	12,007	11,983	12,007	11,966
Basic earnings (loss) per share on discontinued operations	-	\$4.62	-	\$3.86
Diluted earnings per share:				
Average number of common shares	12,007	11,983	12,007	11,966
Average number of dilutive common shares under employee stock compensation plan	-	229	-	288
Average number of diluted common shares	12,007	12,212	12,007	12,254
Diluted earnings (loss) per share on discontinued operations	-	\$4.54	-	\$3.77
Total Earnings per Share	2020	2019	2020	2019
Basic earning per share:				
Net income available to shareholders	624	55,543	954	46,440
Average number of common shares	12,007	11,983	12,007	11,966
Basic earnings per share	\$0.05	\$4.64	\$0.08	\$3.88
Diluted earnings per share:				
Average number of common shares	12,007	11,983	12,007	11,966
Average number of dilutive common shares under employee stock compensation plan	-	229	-	288
Average number of diluted common shares	12,007	12,212	12,007	12,254
Diluted earnings per share	\$0.05	\$4.55	\$0.08	\$3.79

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14. Net income (loss) from discontinued operations

The table below presents results of discontinued operations for the period ended June 30, 2020 and June 30, 2019:

	3 months ended		6 months ended	
	June 30		June 30	
	2020	2019	2020	2019
Revenue				
Net earned premiums	-	59,044	-	133,164
Investment Income	-	1,519	-	4,656
Total revenue	-	60,563	-	137,820
Expenses				
Net incurred claims	-	40,554	-	99,889
Net acquisition costs	-	13,099	-	31,402
Operating costs	-	7,778	-	16,411
Total expenses	-	61,431	-	147,702
Profit (loss) before income taxes	-	(868)	-	(9,882)
Income tax recovery	-	(46)	-	(2,974)
Net loss on discontinued operations	-	(822)	-	(6,908)
Gain on sale, net of expenses	-	56,227	-	53,128
Net income on discontinued operations	-	55,405	-	46,220

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15. Non-controlling interest

The Company has non-controlling interests attributable to the subsidiary of ICPEI. Please refer to Note 1. The following tables summarize the comprehensive income attributable to the non-controlling shareholders:

	3 months ended		6 months ended	
	June 30		June 30	
	2020	2019	2020	2019
Revenue				
Gross written and assumed premiums	2,948	2,743	4,958	4,482
Net earned premiums	2,243	1,980	4,358	3,866
Investment Income	207	82	126	192
Total revenue	2,450	2,062	4,484	4,057
Expenses				
Net incurred claims	1,225	1,248	2,289	2,428
Net acquisition costs	548	425	1,021	841
Operating costs	324	310	659	541
Total expenses	2,098	1,983	3,969	3,810
Income before income taxes	352	79	515	248
Income tax expense	104	20	149	68
Net income attributable to NCI	248	59	366	180
Other comprehensive income attributable to NCI	197	14	134	81
Comprehensive income attributable to NCI	445	73	500	261

The following tables summarize the net assets of the non-controlling shareholders as at June 30, 2020 and December 31, 2019:

	June 30 2020	December 31 2019
Assets		
Cash and investments	10,843	10,019
Other assets	5,925	5,881
Total assets	16,768	15,900
Liabilities		
Unearned premium	4,948	4,687
Unpaid claims	6,714	6,657
Other liabilities	873	824
Total liabilities	12,535	12,168
Equity		
AOCI	88	(47)
Retained earnings	4,145	3,779
Total equity	4,233	3,732
Total liabilities and equity	16,768	15,900

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	As at June 30 2020	As at December 31 2019
Cash flow from operating activities	791	893
Cash flow from investing activities	(155)	(44)
Cash flow from financing activities	(45)	(99)
Net increase in cash and short-term deposits	591	750

16. Segmented information

The Company operates through two segments: Personal Lines and Commercial Lines businesses. Through its Personal Lines segment, the Company is engaged primarily in the underwriting of automobile insurance and personal property. Through its Commercial Lines, the Company designs and underwrites commercial property, commercial automobile. Discontinued Canadian Operations are excluded.

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.

The following table summarizes the net income before interest and income taxes by Personal and Commercial Lines:

	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Revenue				
Net earned premiums				
- Personal Lines	6,229	5,333	12,205	10,418
- Commercial Lines	2,742	2,588	5,225	5,044
Total net earned premium	8,971	7,921	17,430	15,462
Net claims incurred				
- Personal Lines	2,968	3,804	5,819	7,120
- Commercial Lines	1,801	1,047	3,336	2,285
Net claims	4,769	4,852	9,155	9,405
Net expenses				
- Personal Lines	2,376	1,909	4,557	3,559
- Commercial Lines	1,114	1,032	2,161	1,967
Total	3,490	2,941	6,718	5,526
Total net expenses	8,260	7,793	15,873	14,931
Underwriting income (loss) before income taxes				
- Personal Lines	884	(380)	1,829	(260)
- Commercial Lines	(173)	508	(272)	792
Total	711	128	1,557	531
Corporate and other	(253)	(201)	(593)	(703)
Underwriting (loss)	458	(73)	964	(172)
Impact of change in net claims discount rate	(131)	(138)	-	(308)
Investment income	987	430	966	985
Total income before interest expense and income taxes	1,314	219	1,930	505

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17. 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.

New Nordic Advisors Limited (NNA) filed a Statement of Claim with the Danish Institute of Arbitration in October 2018. The Claim seeks €45.8 million in damages arising from the sale of 100% of EFH's interest in QIC Holdings ApS to New Nordic Odin Denmark Ltd in March of 2017. The Statement of Claim alleges breach of contract and willful misrepresentation. On July 16, 2019 the claim was dismissed with costs (approx. C\$ 365,000) payable to EFH. There is no right to an appeal.

On August 2, 2019 New Nordic Odin Denmark (NNOD) filed a Statement of Claim with the Danish Institute of Arbitration. The Claim is essentially the same claim made by NNA but with a different plaintiff. The Claim seeks €45.8 million in damages arising from the sale of 100% of EFH's interest in QIC Holdings ApS to NNOD in March of 2017. The Statement of Claim alleges breach of contract and willful misrepresentation with respect to the amount of required reserves for Qudos claim liabilities and the overall value of Qudos. It is alleged that officers of Qudos and EFH were aware of the underfunded reserves and failed to disclose to NNOD. A preliminary defence has been filed by EFH, pleading that NNOD has no legal right to bring the claim and seeking an order for security for costs. EFH has filed a substantive defence and expects the case will proceed in the 4th quarter of 2020. EFH does not believe there is any merit to the claim.