Unaudited Condensed Consolidated Interim Financial Statements of

Echelon Financial Holdings Inc.

For the six months ended June 30, 2015 and 2014

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

	Note	June 30, 2015	December 31, 2014
Assets			
Cash and short–term deposits		35,162	27,326
Accounts receivable		92,496	52,726
Investments	6	488,158	504,290
Due from insurance companies		1,379	1,996
Deferred policy acquisition costs		64,538	49,353
Income taxes recoverable		4,247	955
Prepaid expenses and other assets		3,850	3,358
Reinsurers' share – unearned premiums		53,348	37,528
– provision for unpaid claims	7	63,740	48,737
Property and equipment		866	871
Intangible assets	9	5,884	6,804
Deferred income taxes		6,264	6,355
Total assets		819,932	740,299
Liabilities			
Income taxes payable		940	5,179
Accounts payable and accrued liabilities		20,215	18,535
Payable to insurance companies		14,651	6,407
Unearned premiums		215,412	168,555
Unearned commission		13,837	9,459
Provision for unpaid claims	7	363,026	344,692
Total liabilities		628,081	552,827
Equity			
Share capital		68,412	67,153
Contributed surplus		2,636	2,192
Retained earnings		110,734	105,354
Accumulated other comprehensive income	13	5,973	8,917
Equity attributed to shareholders of the Company		187,755	183,616
Non-controlling interest	15	4,096	3,856
Total equity		191,851	187,472
Total liabilities and equity		819,932	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 June 30		6 months ended June 30	
		2015	2014	2015	2014
Revenue					
Gross written and assumed premiums		137,759	101,428	228,645	181,196
Less: Premiums ceded to reinsurers		(29,905)	(24,399)	(50,934)	(39,002)
Net written and assumed premiums		107,854	77,029	177,711	142,194
(Increase) in gross unearned premiums		(40,174)	(25,952)	(42,640)	(32,402)
Increase in unearned premiums, reinsurers' share		8,345	10,808	10,151	14,191
Change in provision for unearned premiums		(31,829)	(15,144)	(32,489)	(18,211)
Net earned premiums		76,025	61,885	145,222	123,983
Investment income	6	3,950	5,496	9,862	11,630
Other income		748	—	748	—
Total revenue		80,723	67,381	155,832	135,613
Expenses					
Gross claims incurred		58,696	49,890	116,168	90,372
Less: claims recoveries from reinsurers		(14,125)	(8,683)	(27,081)	(13,429)
Net incurred claims		44,571	41,207	89,087	76,943
Gross acquisition costs		27,043	20,987	51,323	42,151
Less: acquisition cost recoveries from reinsurers		(5,286)	(3,246)	(9,915)	(6,311)
Net acquisition costs		21,757	17,741	41,408	35,840
Operating costs		8,018	6,973	16,557	14,704
ICPEI Integration costs		—	1,347	—	1,347
Total expenses		74,346	67,268	147,052	128,834
Income before taxes and discount rate impact on claims		6,377	113	8,780	6,779
Impact of change in discount rate on claims	7	(1,231)	(267)	(1,231)	(267)
Income / (loss) before income taxes		5,146	(154)	7,549	6,512
Income tax expense / (recovery)	11	35	449	(719)	1,720
Net income / (loss)		5,111	(603)	8,268	4,792
Attributed to:					
Shareholders of the Company		4,801	244	8,308	5,539
Non-controlling interest		310	(847)	(40)	(747)
Net income / (loss)		5,111	(603)	8,268	4,792
Earnings per share attributable to shareholders of the Company	14				
Earnings per share - basic		$0.41	$0.02	$0.71	$0.47
Earnings per share - diluted		$0.40	$0.02	$0.69	$0.46
Net income / (loss)		5,111	(603)	8,268	4,792
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		(4,395)	3,222	1,873	8,790
Reclassification of net realized (gains) to net income		(1,810)	(1,646)	(4,672)	(3,515)
Cumulative translation gain (loss)		260	351	(725)	865
Tax impact		1,629	(143)	610	(1,132)
Other comprehensive income (loss)		(4,316)	1,784	(2,914)	5,008
Attributed to:					
Shareholders of the Company		(4,290)	1,784	(2,944)	5,008
Non-controlling interest		(26)	—	30	—

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

Other comprehensive income (loss)	(4,316)	1,784	(2,914)	5,008
Total comprehensive income	795	1,181	5,354	9,800
Attributed to:				
Shareholders of the Company	511	2,028	5,364	10,547
Non-controlling interest	284	(847)	(10)	(747)
Total comprehensive income	795	1,181	5,354	9,800

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)	—	—	—	8,308	8,308	(40)	8,268
Other comprehensive income	—	—	(2,944)	—	(2,944)	30	(2,914)
Total comprehensive income (loss)	—	—	(2,944)	8,308	5,364	(10)	5,354
Common shares repurchased	(250)	—	—	(339)	(589)	—	(589)
Dividends paid	—	—	—	(2,589)	(2,589)	—	(2,589)
Capital injection - ICPEI	—	—	—	—	—	250	250
Common shares issued on stock options exercised	1,509	—	—	—	1,509	—	1,509
Stock compensation expense	—	444	—	—	444	—	444
Balance at June 30, 2015	68,412	2,636	5,973	110,734	187,755	4,096	191,851

	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)	—	—	—	5,539	5,539	(747)	4,792
Other comprehensive income (loss)	—	—	5,008	—	5,008	—	5,008
Total comprehensive income (loss)	—	—	5,008	5,539	10,547	(747)	9,800
Dividends paid	—	—	—	(2,344)	(2,344)	—	(2,344)
Investment in subsidiary - Qudos	—	—	—	(3,130)	(3,130)	3,130	—
Common shares issued on stock options exercised	542	—	—	—	542	—	542
Stock options expense	—	365	—	—	365	—	365
Balance at June 30, 2014	67,753	1,926	12,178	94,658	176,515	227	176,742

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)

	6 months ended June 30, 2015	6 months ended June 30, 2014
Cash provided by (used in):		
Operating activities		
Net income	8,268	4,792
Adjusted for:		
Reinsurers' share of unearned premiums	(15,820)	(13,254)
Reinsurers' share of unpaid claims	(15,003)	(6,067)
Provision for unpaid claims	18,334	16,513
Unearned premiums	46,857	30,421
Deferred income taxes	91	(167)
Unearned commissions	4,378	4,307
Deferred policy acquisition costs	(15,185)	(6,000)
Amortization on property plant equipment and intangible assets	2,659	2,355
Amortization of premiums on bonds	1,425	1,283
Fair value change on FVTPL investments	3,854	(1,353)
Options expense	444	365
Currency translation	(725)	865
Prepaid expenses & other assets	(492)	504
	30,817	29,772
Cash flow from changes in		
Accounts receivable	(39,770)	(16,810)
Net realized (gains)	(4,687)	(3,175)
Income taxes payable/(recoverable)	(6,921)	989
Due to insurance companies	8,861	6,020
Other liabilities	1,680	5,170
Cash (used in) provided by continuing operating activities	(1,752)	26,758
Financing activities		
Proceeds from issue of common shares for stock options	1,509	542
Common share dividends	(2,589)	(2,344)
Share repurchases	(589)	—
Cash (used in) financing activities	(1,669)	(1,802)
Investing activities		
Purchases of property, equipment and intangible assets	(1,734)	(4,965)
Additional investment in ICPEI by minority interest	250	—
Purchases of investments	(256,303)	(359,389)
Sale/maturity of investments	269,044	371,397
Cash provided by investing activities	11,257	7,104
Increase in cash and short-term deposits	7,836	32,060
Cash and short-term deposits, beginning of period	27,326	18,156
Cash and short-term deposits, end of period	35,162	50,216
Supplementary information		
Operating activities		
Income taxes paid	5,509	940

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

1 Organization and basis of presentation

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 93% 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 August 6, 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 period beginning on or after July 1, 2014. IAS 24, 'Related party disclosures' The standard is amended to clarify related disclosure requirements on related party transactions beginning on or after July 1, 2014. The Company has adopted these amendments in 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 appropriated, 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.

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 June 30, 2015, and December 31, 2014

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

	Carrying and fair values	
Available-for-sale	**As at June 30, 2015**	**As at December 31, 2014**
Fixed income		
Canadian		
Federal	55,454	74,579
Provincial	42,639	48,978
Municipal	542	2,235
Corporate	167,948	182,441
	266,583	308,233
Fixed income lent through securities lending program		
Federal	17,282	10,985
Provincial	13,788	435
Corporate	7,266	4,609
	38,336	16,029
Foreign fixed income		
Government	19,968	25,964
Corporate	78,128	69,088
	98,096	95,052
Total fixed income	403,015	419,314
Commercial mortgages pooled funds	2,214	2,173
Money market pooled funds	491	110
Short-term fixed income and mortgage pooled funds	16,702	16,476
Total pooled funds	19,407	18,759
Common shares		
Canadian	8,134	7,784
Foreign	16,061	13,690
Total common shares	24,195	21,474
Total available-for-sale	446,617	459,547
Fair value through profit or loss		
Preferred shares	41,536	44,323
Preferred shares lent through securities lending program	5	420
Total preferred shares	41,541	44,743
Total investments	488,158	504,290

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 June 30, 2015, the Company had collateral of $41,427 (2014 – $23,951) 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.

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

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 June 30, 2015, and December 31, 2014:

June 30, 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed income	—	403,015	—	403,015
Commercial mortgages pooled funds	—	—	2,214	2,214
Money market pooled funds	—	491	—	491
Short-term fixed income and mortgage pooled funds	—	16,702	—	16,702
Equities	65,736	—	—	65,736
	65,736	420,208	2,214	488,158

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	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 approximately 0.4% (December 31, 2014 – 0.4%) of the total investment portfolio required to be measured at fair value, and consists of investment in a commercial mortgages pooled fund with a fair value of $2,214 (December 31, 2014 – $2,173).

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

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

	3 months ended June 30		6 months ended June 30	
	2015	**2014**	**2015**	**2014**
Balance at beginning of period	2,197	2,075	2,173	2,052
Addition during the year	—	—	—	—
Disposal / Reclassification during the year	—	—	—	—
Net unrealized gains included in other comprehensive income	17	35	41	58
Balance at end of period	2,214	2,110	2,214	2,110

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 June 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. There were no transfers in any of the levels during the six months ended June 30, 2015 (June 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 June 30, 2015, and June 30, 2014. A remaining gross unrealized loss of $3,909 on AFS investments held as at June 30, 2015 (June 30, 2014 – $1,174) is recorded, net of tax, in the amount of $3,032 (June 30, 2014 – $897) in Accumulated Other Comprehensive Income.

Investment income

The table below provides additional details on net investment income:

	3 months ended June 30		6 months ended June 30	
	2015	**2014**	**2015**	**2014**
Interest income	3,483	3,297	7,197	6,687
Dividend income	744	627	1,347	1,084
Net realized gains	1,816	1,512	4,687	3,175
Fair value change on FVTPL investments	(1,977)	801	(3,854)	1,353
Realized and unrealized foreign exchange gains / (losses)	261	(388)	1,247	(3)
Investment expenses	(377)	(353)	(762)	(666)
Investment income	3,950	5,496	9,862	11,630

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.

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

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 $4,869 reduction to the net provision for unpaid claims relating to redundancies in prior years' estimates (June 30, 2014 – $5,053).

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 $22,212 as at June 30, 2015 (December 31, 2014 – $23,939).

Claims development

Provision for unpaid claims analysis	June 30, 2015	June 30, 2014
Unpaid claims, beginning of year, net	295,955	264,095
Change in undiscounted estimates for losses of prior years	2,446	1,308
Change in discount rate	1,231	267
Change in PFADs	1,192	3,478
Provision for claims occurring in current period	85,449	72,157
Paid on claims occurring during		
Current year	(24,229)	(20,825)
Prior year	(62,758)	(45,939)
Unpaid claims, end of period, net	299,286	274,541
Reinsurers' share	63,740	38,829
Gross unpaid claims	363,026	313,370

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.

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

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.

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 June 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 June 30, 2015			
200 basis point rise	377,456	(6)%	(18,658)
100 basis point rise	390,235	(3)%	(9,329)
No change	403,015	—	—
100 basis point decline	415,794	3%	9,329
200 basis point decline	428,574	6%	18,658

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

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.

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

June 30, 2015	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	43,973	84,939	111,246	162,857	403,015
Percentage of total	11%	21%	28%	40%	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 June 30, 2015, and December 31, 2014:

June 30, 2015	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	137,856	120,378	62,961	30,562	351,757
Less: Reinsurance recoverable	20,457	12,693	8,128	7,724	49,002
Net actuarial liabilities	117,399	107,685	54,833	22,838	302,755

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

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

All other financial liabilities are for duration of one year or less. The contractual maturities for lease commitments are listed in note 12.

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 June 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.

Change in equity holdings	Effect on net income (loss)		Effect on OCI net of tax	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
10% rise	3,032	3,266	1,766	1,568
10% decline	(3,032)	(3,266)	(1,766)	(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. 99.6% of the Company's reinsurance balances are from registered reinsurers. The Company holds sufficient collateral to cover the 0.4% of reinsurance balances from unregistered reinsurers.

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

Fixed income portfolio

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

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

	As at June 30, 2015		As at December 31, 2014	
	Fair value	**Fair value**	**Fair value**	**Fair value**
AAA	121,215	30%	135,699	32%
AA	76,651	19%	80,965	19%
A	80,231	20%	86,643	21%
BBB	72,945	18%	66,349	16%
BB	21,657	5%	26,879	6%
B	18,220	5%	11,583	3%
CCC	428	0%	1,954	1%
Unrated	11,668	3%	9,242	2%
Total	403,015	100%	419,314	100%

Preferred share portfolio

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

	As at June 30, 2015		As at December 31, 2014	
	Fair value	Fair value	Fair value	Fair value
P1	4,697	11%	5,156	12%
P2	31,218	75%	33,129	74%
P3	5,626	14%	6,458	14%
Total	41,541	100%	44,743	100%

9 Intangible assets

	Opening cost	Purchases	Sales	End of period cost	Accumulated amortization	Net
Software						
June 30, 2015	19,430	1,482	—	20,912	15,428	5,484
December 31, 2014	13,301	6,129	—	19,430	13,026	6,404
Goodwill						
June 30, 2015	400	—	—	400	—	400
December 31, 2014	400	—	—	400	—	400
Total intangible assets						
June 30, 2015	19,830	1,482	—	21,312	15,428	5,884
December 31, 2014	13,701	6,129	—	19,830	13,026	6,804

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

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 $3,106 (June 30, 2014 – $3,649); commissions paid were $358 (June 30, 2014 – $421) and investment management fees were $133 (June 30, 2014 – $137).

11 Income taxes

The income tax expense (recovery) is as follows:

	3 months ended June 30		6 months ended June 30	
	2015	2014	2015	2014
Current	(852)	360	(821)	1,887
Deferred	887	89	102	(167)
	35	449	(719)	1,720

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 June 30		6 months ended June 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	(3.1)%	93.3 %	(4.2)%	(4.1)%
Non-taxable (income) loss	(5.5)%	(303.7)%	(17.1)%	2.7 %
Non-deductible expenses	(1.5)%	(0.5)%	1.2 %	1.4 %
Tax benefit of losses not previously recognized	(11.8)%	44.9 %	(9.9)%	(3.1)%
Statutory rate differences	0.6 %	(42.0)%	(1.9)%	1.0 %
Non-taxable portion of capital gains	(3.7)%	(10.0)%	(3.6)%	(1.8)%
Other	(1.4)%	(102.7)%	(1.0)%	3.3 %
Effective income tax rate	0.6 %	(293.7)%	(9.5)%	26.4 %

12 Lease commitments

The Company is committed under lease agreements for office premises and computer equipment with minimum lease payments of $5,092 as follows:

Lease commitments	
2015	826
2016	1,633
2017	1,313
2018	596
2019	177
2020 and thereafter	547
	5,092

13 Accumulated other comprehensive income

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

	As at June 30, 2015	As at December 31, 2014
Gross unrealized gains	8,601	11,435
Foreign currency translation adjustments	(969)	(244)
Tax impact	(1,659)	(2,274)
Ending balance	5,973	8,917

14 Earnings per share

	3 months ended June 30		6 months ended June 30	
	2015	**2014**	**2015**	**2014**
Basic earnings per share:				
Net income available to shareholders	4,801	244	8,308	5,539
Average number of common shares (in thousands)	11,737	11,767	11,674	11,738
Basic earnings per share	$0.41	$0.02	$0.71	$0.47
Diluted earnings per share:				
Average number of common shares (in thousands)	11,737	11,767	11,674	11,738
Average number of dilutive common shares under employee stock compensation plan (in thousands)	301	350	308	355
Average number of diluted common shares (in thousands)	12,038	12,117	11,982	12,093
Diluted earnings per share	$0.40	$0.02	$0.69	$0.46

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

15 Non- controlling interest

	3 months ended June 30		6 months ended June 30	
	2015	**2014**	**2015**	**2014**
Revenue				
Gross written and assumed premiums	7,007	12,518	11,813	30,243
Net earned premiums	2,645	3,170	5,126	8,024
Investment income	50	169	79	258
Total revenue	2,695	3,339	5,205	8,282
Expenses				
Net incurred claims	1,418	2,884	3,521	5,312
Net acquisition costs	619	1,210	1,265	3,024
Operating costs	264	377	555	937
Total expenses	2,301	4,471	5,341	9,273
Income (loss) before income taxes	394	(1132)	(136)	(991)
Income tax expense	84	(285)	(96)	(244)
Net income (loss) attributable to non-controlling interests	310	(847)	(40)	(747)
OCI attributable to non-controlling interest	(26)	—	30	—
Comprehensive income attributable to non-controlling interest	284	(847)	(10)	(747)

	June 30 2015	December 31, 2014
Assets		
Cash and investments	14,646	14,781
Other assets	18,870	13,826
Total assets	33,516	28,607
Liabilities		
Unearned premium	13,153	10,818
Unpaid claims	11,745	10,347
Other liabilities	4,522	3,586
Total liabilities	29,420	24,751
Equity		
Share capital	2,447	2,447
AOCI	565	535
Retained earnings	1,084	874
Total equity	4,096	3,856
Total liabilities and equity	33,516	28,607

16 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.

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.

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

	3 months ended June 30		**6 months ended June 30**	
	2015	**2014**	**2015**	**2014**
Revenue				
Earned premiums				
Canada – Personal Lines	34,092	28,167	67,130	55,936
– Commercial Lines	9,048	10,750	18,551	21,907
Total Canada	43,140	38,917	85,681	77,843
International	32,885	22,968	59,541	46,140
Total earned premium	76,025	61,885	145,222	123,983
Net claims Incurred				
Canada – Personal Lines	21,772	15,898	48,285	32,410
– Commercial Lines	4,692	5,762	9,588	12,261
Total Canada	26,464	21,660	57,873	44,671
International	18,107	19,547	31,214	32,272
Total net claims incurred	44,571	41,207	89,087	76,943
Net expenses				
Canada – Personal Lines	10,504	8,963	20,695	17,925
– Commercial Lines	4,102	5,278	8,265	10,948
Total Canada	14,606	14,241	28,960	28,873
International	13,370	9,575	25,094	19,635
Corporate Expenses	1,799	898	3,911	2,036
Total net expenses	29,775	24,714	57,965	50,544
Income (loss) before income taxes				
Canada – Personal Lines	1,816	3,306	(1,850)	5,601
– Commercial Lines	254	(290)	698	(1,302)
Total Canada	2,070	3,016	(1,152)	4,299
International	1,408	(6,154)	3,233	(5,767)
Corporate and other	(1,799)	(898)	(3,911)	(2,036)
Underwriting (loss) income	1,679	(4,036)	(1,830)	(3,504)
Impact of change in net claims discount rate	(1,231)	(267)	(1,231)	(267)
ICPEI integration cost	—	(1,347)	—	(1,347)
Other Income	748	—	748	—
Investment income	3,950	5,496	9,862	11,630
Total income before income taxes	5,146	(154)	7,549	6,512

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

Segmented long-term assets

		As at June 30, 2015	As at December 31, 2014
Canada	– Personal Lines	5,861	6,578
	– Commercial Lines	425	700
Total Canada		6,286	7,278
International		464	397
Total segmented long-term assets		6,750	7,675