echelon
Insurance

ANNUAL REPORT 2015

ROOTED IN STRENGTH

ECHELON FINANCIAL HOLDINGS INC.

2015

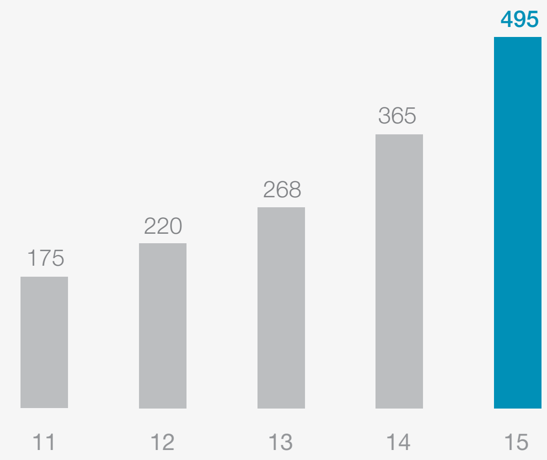
ECHELON INSURANCE ANNUAL REPORT

ECHELON INSURANCE OPERATES IN THE PROPERTY AND CASUALTY INSURANCE INDUSTRY AND UNDERWRITES PERSONAL AND COMMERCIAL INSURANCE PRODUCTS IN CANADA. IT ALSO UNDERWRITES SPECIALTY INSURANCE PRODUCTS ACROSS EUROPE.

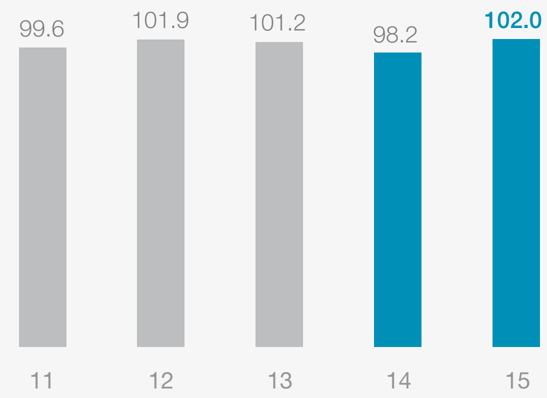
1

FINANCIAL HIGHLIGHTS

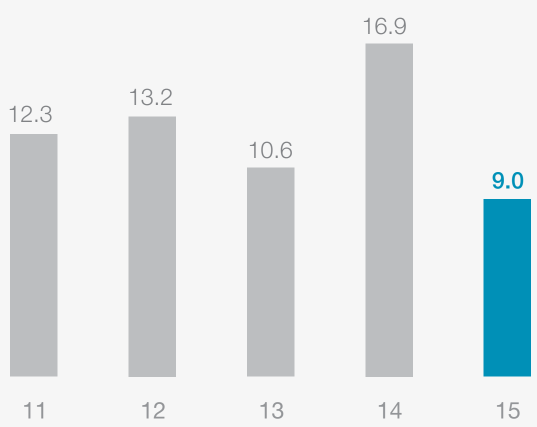
GROSS WRITTEN PREMIUMS
$ million



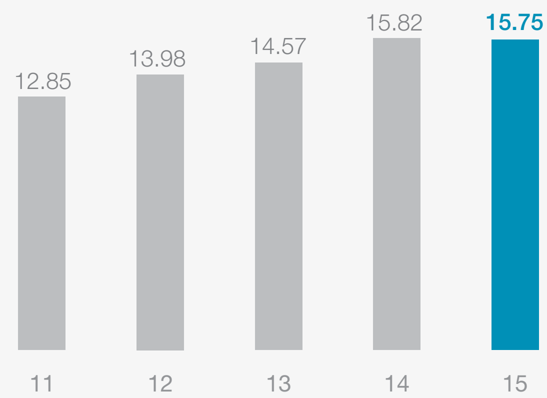
COMBINED RATIO
%



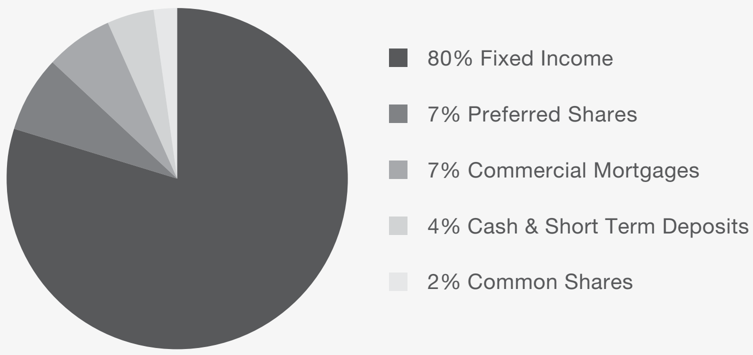
NET OPERATING INCOME
$ million



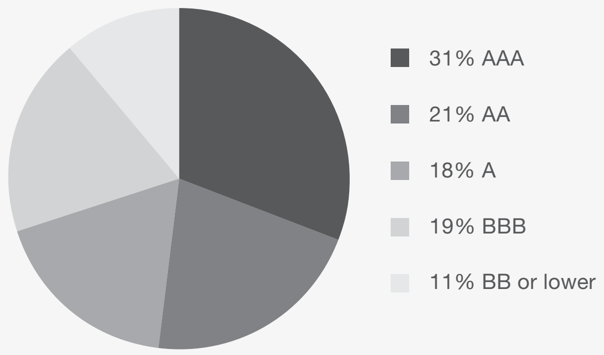
BOOK VALUE
$ per share



ASSET MIX



QUALITY OF FIXED INCOME



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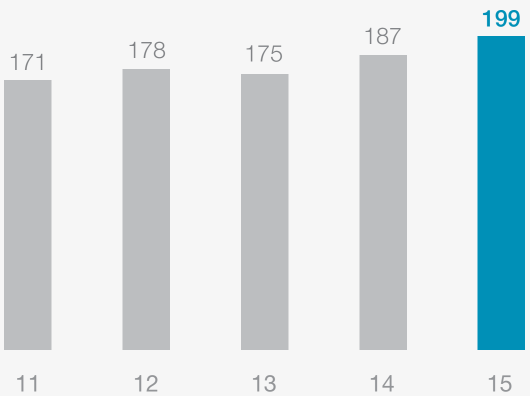
CORE CANADIAN BUSINESS

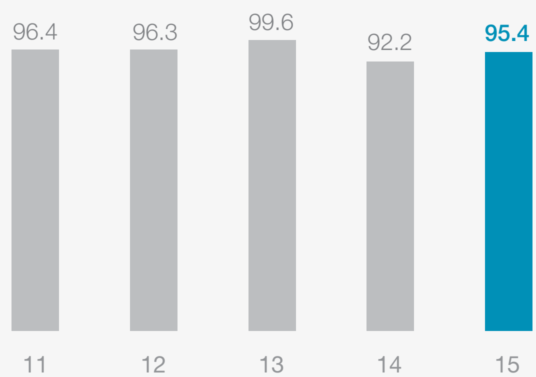
57% OF NET EARNED PREMIUMS

Our Canadian operations include personal and commercial products sold under the Echelon Insurance brand and through The Insurance Company of Prince Edward Island (ICPEI) in the Maritimes, exclusively through independent brokers.

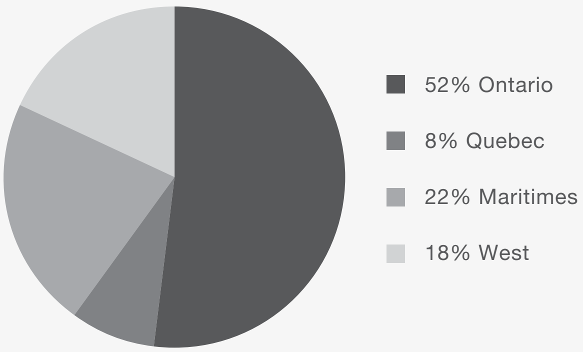
GROSS WRITTEN PREMIUMS
$ million



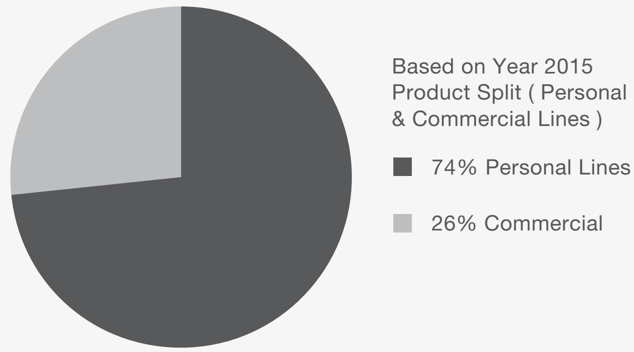
COMBINED RATIO
%



GROSS WRITTEN PREMIUMS
by region



GROSS WRITTEN PREMIUMS
by product



BALANCE SHEET STRENGTH

B++
Echelon Insurance A.M. Best financial strength rating (stable)

241%
Echelon Insurance minimum capital test ratio

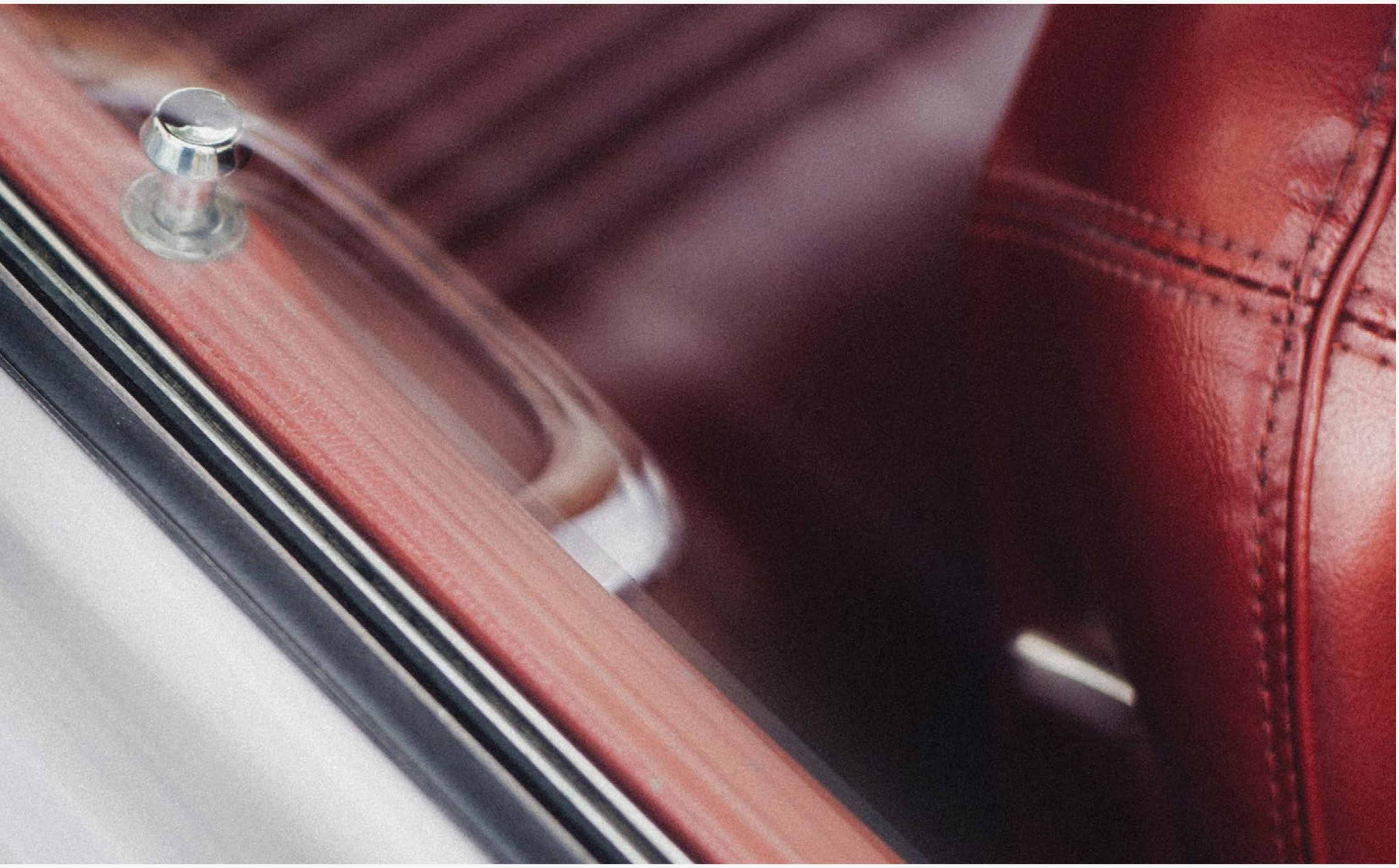
B++
ICPEI A.M. Best financial strength rating (stable)

296%
ICPEI minimum capital test ratio

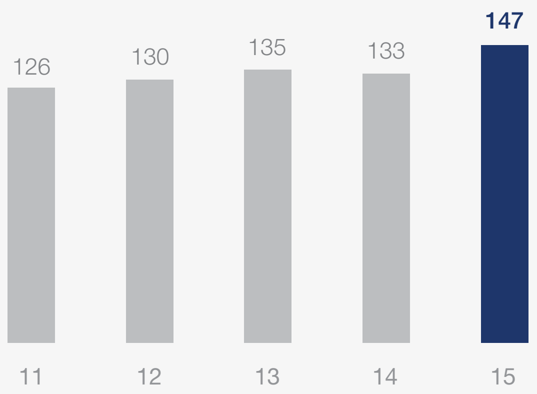
PERSONAL LINES

43% OF NET EARNED PREMIUMS

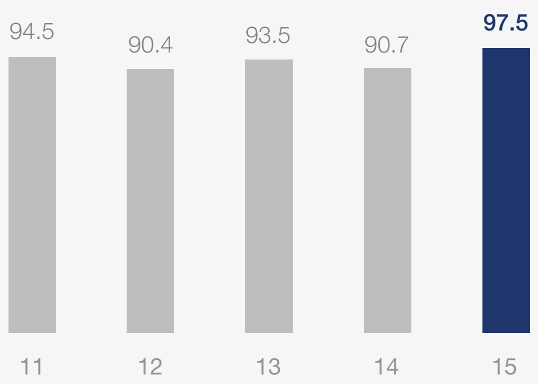
Personal Lines products include non-standard and standard car insurance, as well as insurance for recreational vehicles and motorcycles. Echelon’s Personal Lines business has been consistently profitable over the last five years.



GROSS WRITTEN PREMIUMS
$ million



COMBINED RATIO
%

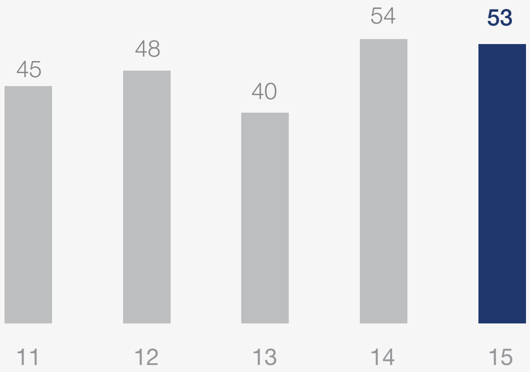


COMMERCIAL LINES

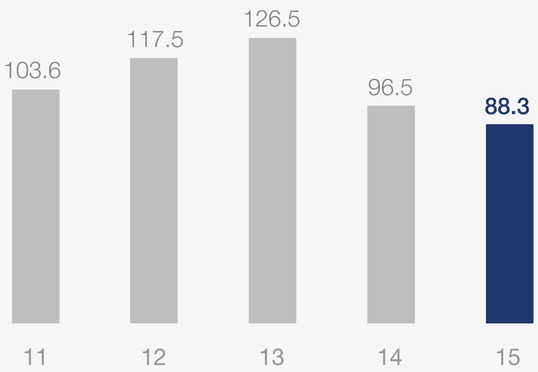
13% OF NET EARNED PREMIUMS

Commercial Lines has demonstrated strong performance, since corrective management actions were undertaken over the last two years. We are expanding our product offering in 2016 to include insurance for small- to medium-sized businesses as well as surety bonds and commercial auto. We expect commercial insurance to be a strong driver of growth over the next few years.

GROSS WRITTEN PREMIUMS
$ million



COMBINED RATIO
%



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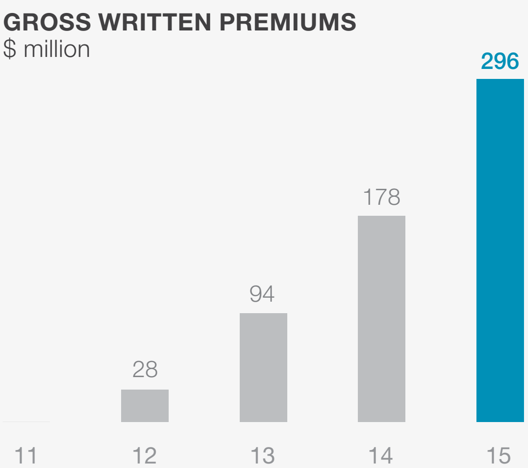
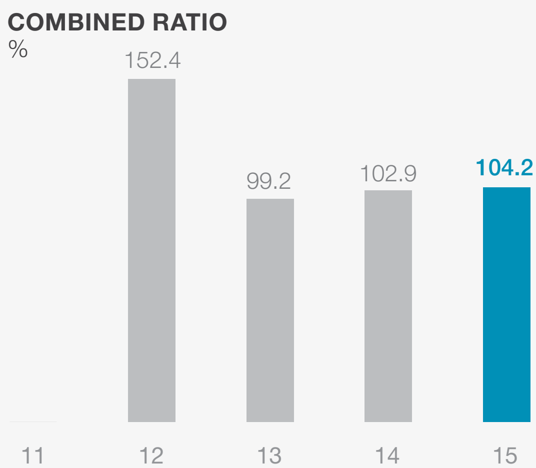
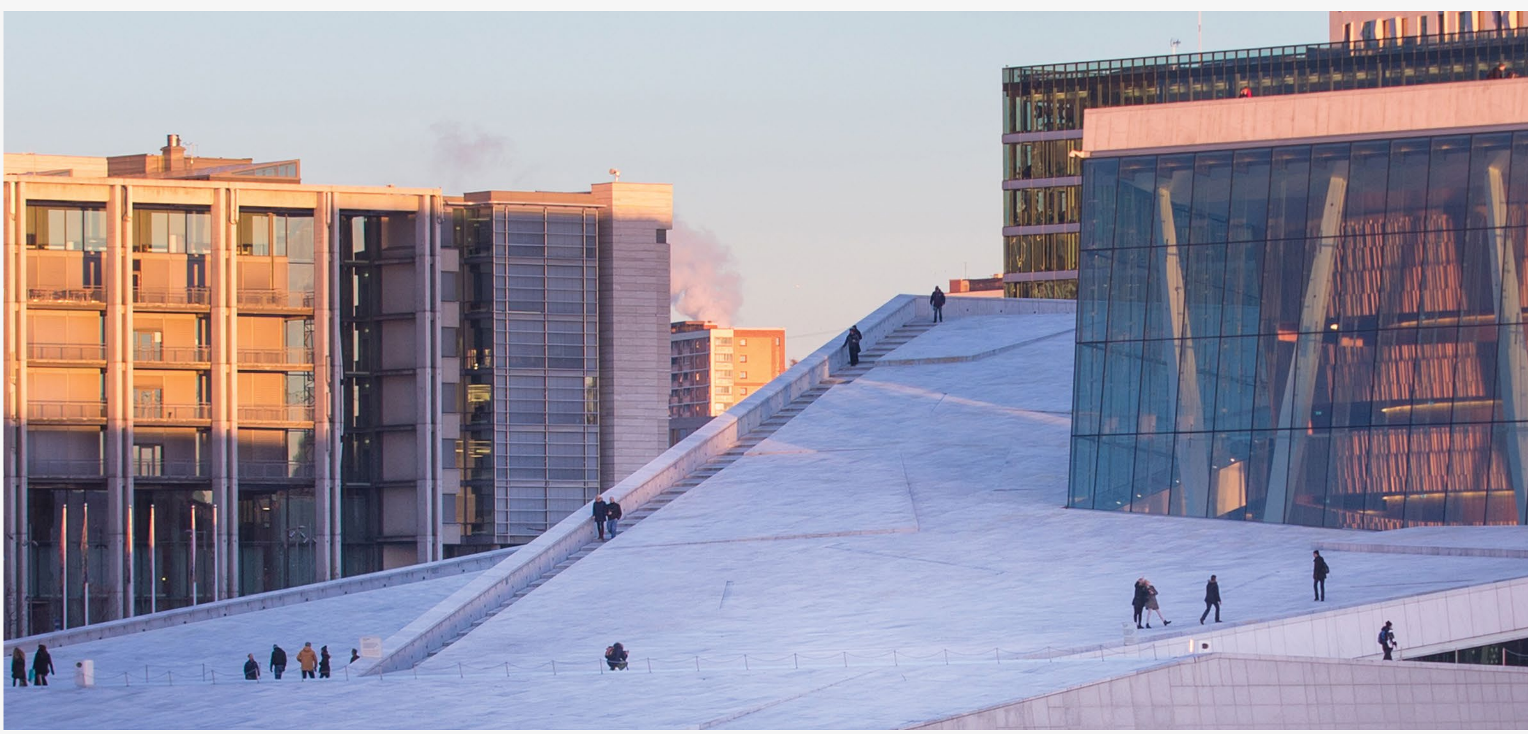
EUROPEAN OPERATIONS

43% OF NET EARNED PREMIUMS

We are currently assessing the strategy of our International operations and will explore the divestiture of the business. In 2016, we are focusing on reducing our exposure to unprofitable auto insurance in the United Kingdom.



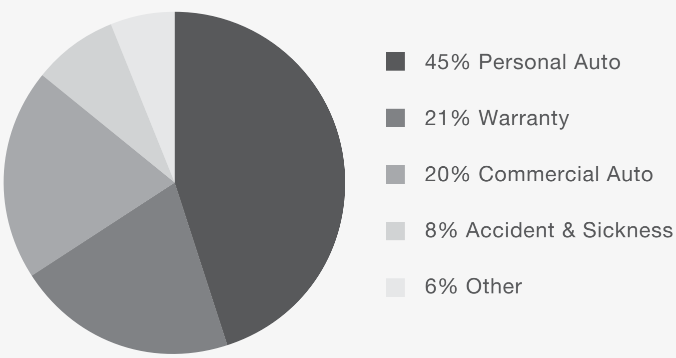




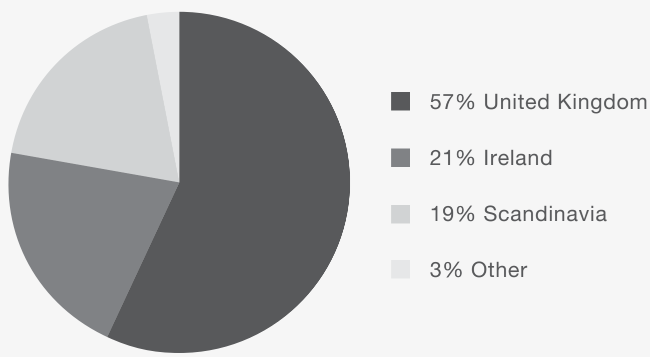
122%

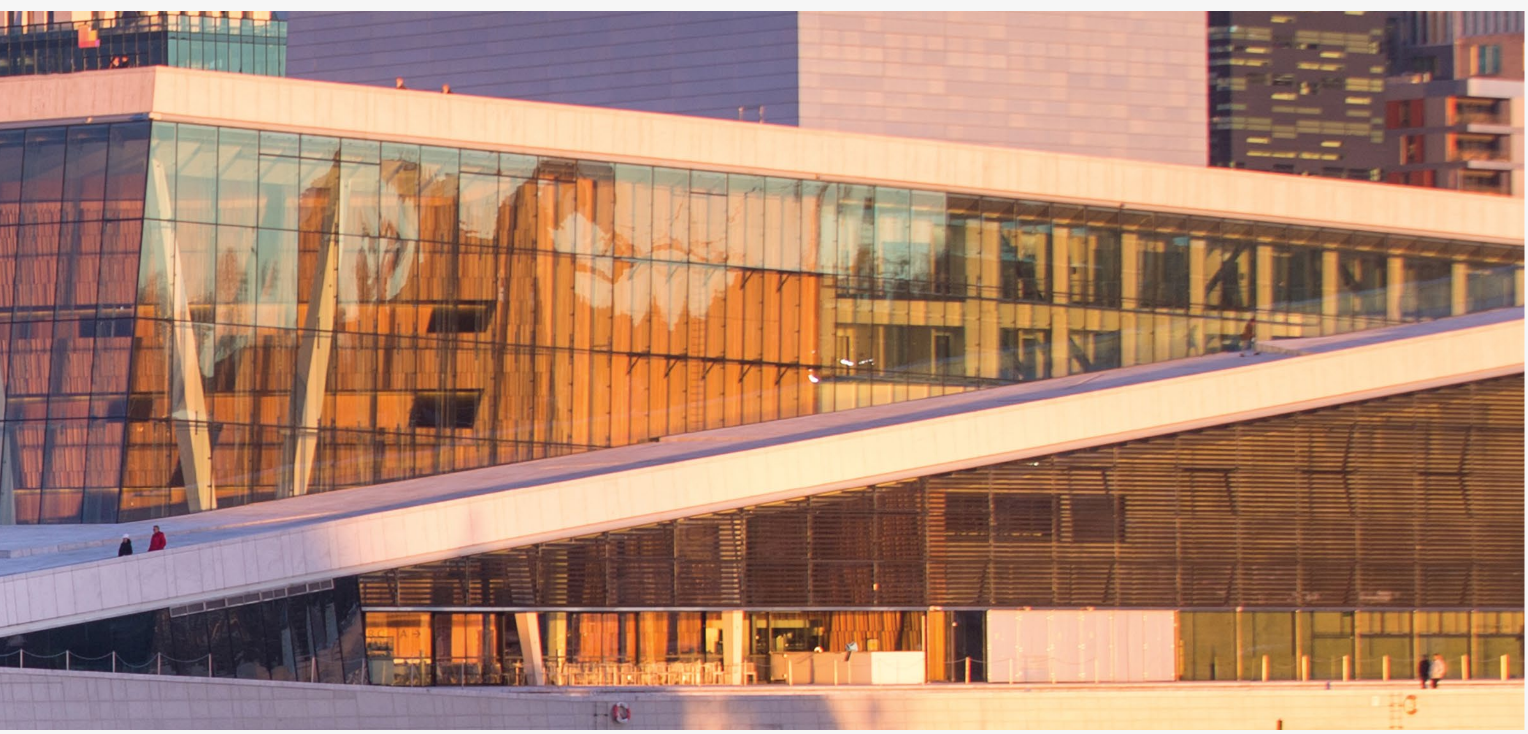
INDIVIDUAL SOLVENCY REQUIREMENT RATIO

GROSS WRITTEN PREMIUMS
by region



GROSS WRITTEN PREMIUMS
by product





INVESTMENT IN TECHNOLOGY

IN 2016 WE ARE FOCUSING ON TRANSITIONING TO AN ENHANCED POLICY ADMINISTRATION SYSTEM ACROSS CANADA TO ALLOW OUR BROKERS TO DO BUSINESS WITH US SEAMLESSLY AND TO ENHANCE THE EFFICIENCY OF OUR OPERATIONS.

As one of the few remaining insurance companies solely focused on the broker channel, we are differentiated in the marketplace. The introduction of faster and more agile technology is one of many investments we are making to strengthen and deepen those broker relationships.

BUILDING OUR TEAM

ECHELON INSURANCE CONTINUES TO INVEST IN ITS PEOPLE.

There have been several new additions to the senior management team in the last year with strong leadership capabilities, deep technical experience in new lines of business and long-standing broker relationships.

LETTER TO SHAREHOLDERS

2015 was the Company's tenth consecutive profitable year since our initial public offering in December, 2005. Over that period, book value per share has increased consistently from $7.57 to $15.75 at December 31, 2015. In addition, $1.51 of shareholder dividends was distributed over that period to further add to shareholder value. In total, this represents a 128% return over the ten year period.

2015 was another great year for Echelon's Canadian business. After a slow start, we finished the year strong with solid underwriting profits in each of the last three quarters. The success of our Canadian operations was tempered somewhat by the market performance of our preferred share portfolio and the underwriting results in Europe in the second half of the year.

THE YEAR IN REVIEW

Canada

Our Canadian business continued to perform exceptionally well in 2015, despite weather related underwriting losses in the first quarter. These were caused by harsh winter conditions, particularly in the Maritimes, where an increase in the frequency of automobile claims was coupled with losses on both commercial and residential property – often due to freezing pipes or collapsed roofs. This is the nature of our business. I'm pleased to see that we were there for our policyholders and our customers to assist them in their time of need.

After the winter snow melted, Canada reported strong underwriting profits for the remainder of the year.

Personal Lines, which comprises approximately 75% of the business, finished with an 90.2% combined ratio in the fourth quarter and an overall combined ratio of 97.5% for the full year, with profits distributed across a diverse range of products and geographies.

Commercial Lines, the remaining 25%, was even more impressive. It generated a 78.4% combined ratio in the fourth quarter and an 88.3% ratio for the full year.

Over the years, our Canadian business has developed a long track record of proven profitability. Overall, Personal Lines has delivered an underwriting profit in 19 of the past 21 quarters. And Commercial has generated 7 consecutive quarters of profitability.

Europe

Our European business did not fare as well in 2015. After starting the year with two good quarters, performance diminished in the second half. This was primarily due to the unplanned growth of the UK and Irish motor programs that adversely affected the mix of business and the overall underwriting profitability.

We reacted quickly and decisively to the emerging experience. Starting in the third quarter, we implemented a number of initiatives to control premium growth, restore underwriting profitability and reduce the need for future capital injections.

It's now been four years since our European operations were established. Compared to the original business plan, we're on track for premium growth and we're on track for building the supporting management team and operations; however, we are not on track in terms of demonstrating underwriting profitability. We're now at a crossroad in the development of our European business and have established a special committee to assess the strategy and future of the Company's International operations and to explore a divestiture of the business.

Capital Management

In 2015, we continued our track record to return capital to you, our shareholders. Our common shareholder dividend was increased for the second consecutive year, and an annual dividend of $0.48 per share provides a very attractive yield.

INDUSTRY UPDATE

Ontario Auto

Ontario auto remains an important market for our Company. In 2015, Ontario auto insurance represented over one-third of our Canadian written premiums.

We are pleased to see that the Ontario government continues to implement improvements in the province's automobile insurance product to reduce fraud and eliminate excess costs in the system. In 2015, Bill 15 of the Consumer Protection Act, the Fighting Fraud and Reducing Automobile Insurance Rates Act, came into effect. Among other things, Bill 15 introduced a more efficient claims dispute resolution system, a reduction of the prejudgment interest rate paid to claimants and the licensing of the towing industry.

On April 23, the Ontario budget announced even more significant changes – including an updated definition of catastrophic impairment and streamlined accident benefits for medical and rehabilitation. These changes become effective on June 1, 2016.

The 2016 changes appear to be more long term in nature and probably the most significant industry development since 2010. While the 2010 reforms primarily targeted minor injuries, these changes appear to be more focused on larger claims and catastrophic impairments.

This is good news for Ontario drivers and good news for the industry. If implemented effectively, we believe that the province's targeted 15% rate reduction might finally be possible.

In anticipation of these changes, we launched a new auto product on August 1, which includes a 3.8% overall rate increase, a return to 12-month policy terms and other policy enhancements. We have also started work on our next rate filing that will improve our territory segmentation and add certain endorsements that we believe will be attractive to both customers and brokers.

Broker Distribution

In 2015, Canadian P&C insurance companies continued to consolidate. The trend toward direct distribution also continued, with more insurers announcing their intention to operate under hybrid distribution models.

Longer term, these trends are positive for our Company, as the markets and options for brokers gradually become fewer and fewer.

Echelon remains committed to the independent broker distribution channel and is well positioned to offer brokers a specialty alternative to large standard insurers.

THE LAST 5 YEARS

Our Company has changed dramatically over the past five to six years.

We've grown the top line from $164 million to $200 million of gross written premium. And we've restored the underwriting profitability of our Canadian business, with an improvement in the combined ratio from 106% to 95%.

We've restructured the operations, exiting a number of non-core businesses and transitioning the unprofitable and fragmented Niche Products business to a profitable, more strategic Specialty Commercial business.

We divested the unprofitable US division.

We acquired The Insurance Company of Prince Edward Island, strengthening Echelon's Maritimes presence with a local management team, a broader product offering, distribution synergies and a customer-based policy administration system. We acquired CUISA MGA and converted it into an Echelon branch operation, providing the Company with a Western Canada servicing office and access to distribution through BC credit unions.

We now have a stable and consistently profitable Canadian business with a meaningful national presence. We are well diversified by product and geography – and our investment portfolio provides a natural diversification to our underwriting operations.

Over the years, we have evolved from fixing and repairing to investing and building. We have a deeper management team, a more focused strategy and a reliable and scalable operating platform.

We are now shifting to a focus on growth. Our goal is to organically grow our top-line in Canada and instill stability in Europe.

LOOKING AHEAD

Echelon truly has an exciting future!

Echelon is well positioned, both financially and strategically. We offer shareholders a unique and attractive mix of value, growth and income.

Since our initial public offering in 2005, we have demonstrated consistent growth in shareholder value. We have a strong balance sheet, a healthy capital position and solid financial strength ratings.

Our Canadian business has demonstrated consistent profitability and generates excess capital of approximately $15 million per year.

Our shareholder dividend yield remains very attractive. And we continue to repurchase our own stock at a discount to book value.

THANK YOU!

As we announced early this year, I will be stepping down as Chief Executive Officer at this year's annual general meeting on May 5. I'm proud of what we, as a team, have accomplished during my tenure. I'm proud to have successfully led the organization through a period of unprecedented challenges. I'm proud to have worked alongside a multitude of consummate professionals with astute business acumen and relentless worth ethic. And I'm proud to have been associated with an organization with a long track record of success.

Thank you to the Echelon Board of Directors for the opportunity to lead the Company over this important period of its lifecycle.

And thanks to all of you, my fellow shareholders, for your support over the years. I've truly enjoyed my time here and I know that I leave the Company in good hands.

Finally, thanks to all of our employees for your professionalism, integrity and dedication. You are what makes Echelon such a great place to work and I know that I am taking a small part of each of you with me.

Good luck and best wishes to all. I know the Company will continue to succeed and I will be cheering for all of you from the sidelines!

Yours truly,

Steve

Steve Dobronyi

Chief Executive Officer

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the period ending December 31, 2015

Echelon Financial Holdings Inc. ("EFH" or "the Company") prepares its financial statements in accordance with International Financial Reporting Standards (IFRS), issued and effective as of December 31, 2015, as set out in the Handbook of the Chartered Professional Accountants (CPA Handbook).

The financial data for 2015, 2014 and 2013 in this discussion has been prepared in accordance with IFRS.

References to "EFH" or "the Company" in this Management's Discussion and Analysis of Financial Condition and Results of Operations refer to Echelon Financial Holdings Inc. on a consolidated basis, both now and in its predecessor forms.

The following discussion should be read in conjunction with EFH's audited consolidated financial statements and the related notes. The following commentary is current as of February 17, 2016. Additional information relating to EFH is available on SEDAR at www.sedar.com. Certain totals, subtotals and percentages may not reconcile due to rounding.

The Company uses both IFRS and certain non-IFRS measures to assess performance. Securities regulators require that companies caution readers about non-IFRS measures that do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures used by other companies. EFH analyzes performance based on underwriting income and underwriting ratios such as combined, expense and loss ratios, which are non-IFRS measures. Underwriting income is defined as net earned premiums less net claims incurred, net acquisition expenses, general expenses and reversing any impact of change in discount rate and foreign exchange on claims.

The following discussion contains forward-looking information that involves risk and uncertainties based on current expectations. This information includes, but is not limited to, statements about the operations, business, financial condition, priorities, targets, ongoing objectives, strategies and outlook for the Company in 2015 and subsequent periods.

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a projection as reflected in the forward-looking information. By its nature, this information is subject to inherent risks and uncertainties that may be general or specific. A variety of material factors, many of which are beyond EFH's control, affect the operations, performance and results of the Company and its business and could cause actual results to differ materially from the expectations expressed in any of this forward-looking information (see "Risk Factors").

Forward-looking information is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. Additional information about the risks and uncertainties about EFH's business is provided in its disclosure materials, including its annual information form, filed with the securities regulatory authorities in Canada, available at www.sedar.com. EFH does not expect to update any forward-looking information.

COMPANY OVERVIEW

EFH operates in the property and casualty ("P&C") insurance industry in Canada and Europe. The Company underwrites non-standard automobile insurance and other specialty insurance products, with a focus on niche under-served markets.

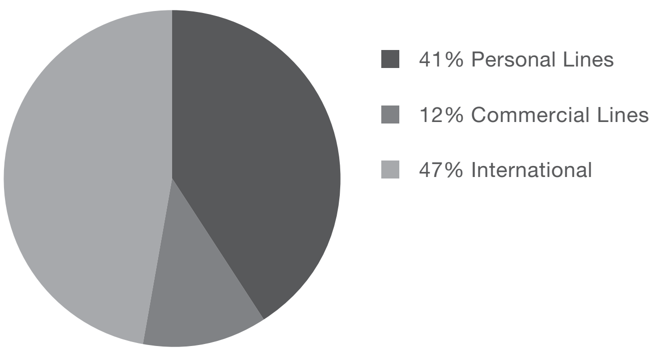
EFH operates in Canada through Echelon Insurance ("Echelon"), a federally-regulated P&C insurance company and The Insurance Company of Prince Edward Island ("ICPEI"), a provincially regulated P&C insurance company. It has two lines of insurance business in Canada – Personal Lines and Commercial Lines. Personal Lines focuses on the underwriting of non-standard automobile insurance and insurance for motorcycles, antique and classic vehicles, trailers, motor homes, recreational vehicles and personal property. Commercial Lines designs and underwrites specialized insurance programs, such as hard-to-place commercial property, primary and excess liability, creditor insurance, and extended warranty.

The International segment underwrites specialty insurance programs in Europe through Qudos Insurance A/S ("Qudos"), a majority-owned insurance company. Qudos is domiciled in Denmark and is regulated throughout the European Union by the Danish Financial Supervisory Authority. Products underwritten include non-standard auto, personal property and warranty insurance for new and existing homes. It commenced writing premiums in 2012 and, to date, the majority of the business written is in the United Kingdom, Ireland and Scandinavia.

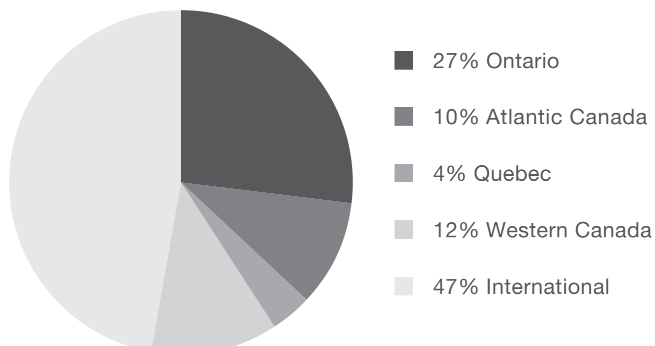
The breakdown of net written premiums by category of business and by region in 2015 is shown below:

On a Consolidated basis, 41% of EFH's net written premiums in 2015 were attributable to the sale of Personal Lines policies in Canada. Commercial Lines accounted for 12% of net written premiums, and the International segment 47%. The Company's core non-standard automobile businesses in Canada accounted for approximately 24% of total net premiums written by the Company.

CATEGORY OF BUSINESS



REGION



FOURTH QUARTER HIGHLIGHTS

- Net operating income of $0.01 per share compared to an income of $0.75 per share in the fourth quarter of 2014.
- An underwriting loss of $3.6 million for the quarter compared to an underwriting income of $7.6 million in the fourth quarter of 2014.
- A combined operating ratio of 104% compared to 90% in the fourth quarter of 2014 primarily due to weaker performance in the International segment.
- A 72% increase in direct written premiums over the same period in 2014 to $135.3 million, primarily driven by growth in the International segment.
- Total pre-tax return on invested assets of $8.4 million in the quarter compared to a pre-tax return of $6.8 million in the fourth quarter of 2014.
- An increase in book value per share of 1.3% in the quarter to $15.75 per share.

The following financial information compares three months ended December 31, 2015, results with the same period in 2014.

	3 months ended Dec. 31		Variance	
($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	**2015**	2014	$	%
Direct written and assumed premiums	**135,282**	78,832	56,450	72
Net written premiums	**65,828**	62,470	3,358	5
Net earned premiums	**81,503**	77,491	4,012	5
Net claims incurred	**52,486**	39,550	12,936	33
Net acquisition costs	**22,954**	22,290	664	3
Operating expenses	**9,654**	8,067	1,587	20
Underwriting (loss) income	**(3,591)**	7,584	(11,175)	(147)
One-time expense (1)	**—**	(1,166)	1,166	100
Investment income	**6,788**	6,358	430	7
Impact of foreign exchange on claims	**(70)**	152	(222)	(146)
Impact of discount rate on claims	**2,080**	(2,124)	4,204	198
Net income before income taxes	**5,207**	10,804	(5,597)	(52)
Income taxes expense	**1,525**	2,401	(876)	(36)
Net income	**3,682**	8,403	(4,721)	(56)
Net income attributable to shareholders	**3,590**	8,264	(4,674)	(57)
Net operating income attributable to shareholders	**151**	9,005	(8,854)	(98)
Earnings per share				
Basic	**$0.30**	$0.70	$(0.40)	(57)
Diluted	**$0.30**	$0.68	$(0.38)	(56)
Net operating income per share – diluted (2)	**$0.01**	$0.75	$(0.74)	(99)
Trailing twelve month return on equity (ROE) (3)	**4.5%**	10.5%		

(1) One time of expense of $1.2 million in 2014 is not included part of operating expenses in the MD&A hereof.

(2) Net operating income is defined as net income excluding the impact of the change in discount rate and foreign exchange rates on unpaid claims and investments, realized losses or gains on sale of investments, discontinued operations, unrealized fair value changes on Fair Value Through Profit or Loss (FVTPL) investments and one-time, non-recurring items. Net operating income is adjusted to that attributable to shareholders for per share calculation.

(3) ROE calculated on rolling twelve-month basis.

INSURANCE OPERATIONS

Direct Written and Net Earned Premiums

In the fourth quarter of 2015, direct written premiums increased by $56.5 million, or 72%, to $135.3 million compared to $78.8 million in the same period last year. Net earned premiums increased by $4.0 million, or by 5%, to $81.5 million compared to $77.5 million in the same period last year. The increase in written and earned premiums was primarily due to growth in the International segment.

Claims Incurred

For the quarter ended December 31, 2015, net claims expense increased by 33%, primarily driven by weaker results in the International segment.

On a consolidated basis, net favourable development of prior year claims of $8.1 million was recorded in the fourth quarter of 2015 compared to net favourable development of $1.1 million in the same period in 2014.

Acquisition Costs

Acquisition costs, which consist mainly of commissions, premium taxes and a portion of general expenses related to policy acquisitions, increased by 3%, in the quarter ended December 31, 2015, in line with the increase in net earned premiums.

Operating Expenses

Operating expenses increased by $1.6 million or 20%, to $9.7 million in the fourth quarter of 2015 compared to $8.1 million in the comparative quarter, primarily due to an increase in salaries and benefits.

Underwriting Income

Underwriting loss of $3.6 million was recorded in the fourth quarter of 2015 compared to underwriting income of $7.6 million in the same period in 2014. The decrease was primarily due to lower underwriting income in the International segment, primarily due to prior period reserve changes and one-time charges on cancelled binders. This was partially offset by underwriting income in Personal Lines and Commercial Lines.

Investment Income

There was investment income of $6.8 million in the fourth quarter of 2015 compared to $6.4 million in the same period in 2014, primarily due to increased income from the preferred share portfolio compared to the prior year quarter.

Net Income before Income Taxes

For the quarter ended December 31, 2015, net income before taxes was $5.2 million compared to income of $10.8 million in the fourth quarter of 2014. This was primarily due to decreased underwriting income, partially offset by an increase in investment income by $0.4 million and a decrease in discount rate impact on unpaid claims of $4.2 million.

Income Taxes

For the quarter ended December 31, 2015, the provision for income taxes reflects an expense of $1.5 million compared to an expense of $2.4 million for the same period last year.

SEGMENTED FINANCIAL INFORMATION

EFH realigned its segmented reporting such that ICPEI's results are not disclosed separately but are included in Personal Lines or Commercial Lines, depending on the type of the business written. Commencing with the quarter ended March 31, 2015, its financial statements reflect the new segmentation with prior periods adjusted accordingly. This disclosure is consistent with how senior management and the Board regularly review the business for purposes of allocating resources and assessing performance.

PERSONAL LINES

	3 months ended Dec. 31				Twelve months ended Dec. 31			
($THOUSANDS)	**2015**	2014	$Variance	%Variance	**2015**	2014	$Variance	%Variance
Direct written premiums	**30,300**	30,262	38	0	**146,578**	133,275	13,303	10
Net earned premiums	**33,726**	33,973	(247)	(1)	**134,791**	124,752	10,039	8
Net claims:								
Current year claims	**27,292**	21,614	5,678	26	**105,467**	84,423	21,044	25
Current year loss ratio	**81.0%**	63.6%			**78.3%**	67.7%		
Favourable prior year claims development	**7,510**	4,159	3,351	81	**15,847**	11,765	4,082	35
Total net claims (1)	**19,782**	17,455	2,327	13	**89,620**	72,658	16,962	23
Claims ratio	**58.7%**	51.4%			**66.5%**	58.2%		
Expense ratio	**31.5%**	32.3%			**31.0%**	32.5%		
Combined ratio	**90.2%**	83.7%			**97.5%**	90.7%		
Underwriting income	**3,303**	5,526	(2,223)	(40)	**3,309**	11,605	(8,296)	(71)

(1) Before impact of change in discount rate decreasing unpaid claims by $1.8 million in the quarter and $0.9 million in 2015, compared to an increase in unpaid claims of $1.7 million in the quarter and $1.9 million in 2014.

Fourth quarter 2015

Personal Lines direct written premiums were in line with the prior quarter.

Personal Lines reported lower underwriting income compared to the exceptional results in the prior year period. This segment exceeded its target profitability in the quarter.

This segment's combined ratio increased to 90% in the quarter as a result of the following factors:

1. Increased frequency of losses and strengthening of reserves in personal property in the West resulting in lower underwriting income in the West for the Personal Lines segment.
2. Prior period development in Atlantic auto reduced the underwriting income in the region.
3. The above were offset by strong underwriting results in Ontario auto and motorcycle driven by higher prior period redundancies than the fourth quarter of 2014.

Year-to-date 2015

Personal Lines recorded a 10% increase in direct written premiums primarily due to the inclusion of ICPEI's premiums for the full year and continued growth in Western Canada in 2015.

Personal Lines underwriting income year-to-date 2015 was $3.3 million, compared to underwriting income of $11.6 million in 2014, a decrease of $8.3 million.

This segment's combined ratio increased to 97.5% in the year as a result of the following factors:

1. Severe winter weather conditions in the Maritimes, four large losses in Ontario auto and an unusually large loss in Quebec Personal Lines contributed to a very weak first quarter of 2015 compared to the prior year quarter.
2. Poor performance in Western Canada in personal property compared to 2014.
3. The above factors were partially offset by increased positive development of prior year claims of $15.8 million compared to $11.8 million in the same period in 2014.

COMMERCIAL LINES

	3 months ended Dec. 31				Twelve months ended Dec. 31			
($THOUSANDS)	**2015**	2014	$Variance	%Variance	**2015**	2014	$Variance	%Variance
Direct written premiums	**12,800**	14,439	(1,639)	(11)	**52,895**	54,069	(1,174)	(2)
Net earned premiums	**10,179**	11,348	(1,169)	(10)	**41,677**	42,765	(1,088)	(3)
Net claims:								
Current year claims	**4,711**	3,760	951	25	**24,668**	22,548	2,120	9
Current year loss ratio	**46.3%**	33.1%			**59.2%**	52.7%		
Favourable (unfavourable) prior year claims development	**810**	(663)	1,473	222	**4,461**	2,241	2,220	99
Total net claims	**3,901**	4,423	(522)	(12)	**20,207**	20,307	(100)	0
Claims ratio	**38.3%**	39.0%			**48.5%**	47.5%		
Expense ratio	**40.1%**	43.6%			**39.8%**	49.0%		
Combined ratio	**78.4%**	82.6%			**88.3%**	96.5%		
Underwriting income	**2,198**	1,985	213	11	**4,889**	1,487	3,402	229

(1) Before impact of change in discount rate decreasing unpaid by $0.3 million in the quarter and $0.1 million in 2015, compared to an increase in unpaid claims of $0.4 million in the quarter and $0.5 million in 2014.

Fourth quarter 2015

Commercial Lines recorded underwriting income in the fourth quarter of 2015 of $2.2 million, compared to underwriting income of $2.0 million in the fourth quarter of 2014, an increase of $0.2 million, as each region improved over prior year results.

This segment's combined ratio improved to 78.4% in the quarter as a result of the following factors:

1. Improved results from Western Canada property & liability business, due to low current year frequency of claims.
2. Strong performance in Atlantic Canada due to redundancies on prior year claims.
3. Increased positive development of prior year claims of $0.8 million compared to negative development of prior year claims of $0.7 million in the same period in 2014.

Year-to-date 2015

Commercial Lines recorded underwriting income in the year of $4.9 million, compared to an underwriting income of $1.5 million in the same period of 2014, an increase of $3.4 million.

This segment's combined ratio decreased to 88.3% in the year as a result of the following factors:

1. Improved results in Ontario Property and Liability due to a minimal impact to underwriting income from cancelled programs.
2. Improved results in Atlantic commercial auto primarily due to redundancies on prior year claims
3. Increased positive development of prior year claims of $4.5 million, compared to $2.2 million in the same period in 2014.

INTERNATIONAL

($THOUSANDS)	3 months ended Dec. 31 2015	2014	$Variance	%Variance	Twelve months ended Dec. 31 2015	2014	$Variance	%Variance
Direct written premiums	**92,182**	34,131	58,051	170	**295,618**	177,560	118,058	66
Net earned premiums	**37,598**	32,170	5,428	17	**134,443**	110,517	23,926	22
Net claims:								
Current year claims	**28,591**	15,269	13,322	87	**80,996**	66,377	14,619	19
Current year loss ratio	**76.0%**	47.5%			**60.2%**	60.1%		
(Unfavourable) prior year claims development	**(212)**	(2,403)	2,191	91	**(2,500)**	(2,664)	164	6
Total net claims (1)	**28,803**	17,672	11,131	63	**83,496**	69,041	14,455	21
Claims ratio	**76.6%**	54.9%			**62.1%**	62.5%		
Expense ratio	**41.4%**	41.1%			**42.1%**	40.4%		
Combined ratio	**118.0%**	96.0%			**104.2%**	102.9%		
Underwriting income (loss)	**(6,786)**	1,293	(8,079)	(625)	**(5,651)**	(3,179)	(2,472)	(78)

(1) Before impact of change in foreign exchange rate increasing claims by $0.1 million in quarter in 2015 compared to a decrease in claims of $0.2 million in the same period 2014. For the year, the foreign exchange rate increased claims by $0.3 in 2015 and $0.6 million in 2014. Also, before impact of change in discount rate decreasing unpaid by $nil in the quarter and $0.6 million in 2015, compared to a $nil change in unpaid claims in 2014.

Fourth quarter 2015

The International segment recorded $92.2 million of written premiums in the fourth quarter of 2015 compared to $34.1 million in the same period in 2014, an increase of $58.1 million. The strong growth in written premiums is due to organic growth in existing programs. At the end of the fourth quarter, the International segment wrote programs through 25 Managing General Agents (MGAs), mainly in the UK, Ireland and Scandinavia.

The International segment recorded an underwriting loss of $6.8 million in the fourth quarter compared to underwriting income of $1.3 million in the comparable period in 2014. This was as a result of:

1. $5.7 million in underwriting losses in the quarter from programs provided notice of cancellation, including the UK learning driver telematics program. This includes one-time adjustments of $2.0 million for premium deficiencies, additional internal adjustment expenses and reserve recoveries related to the cancellation program.
2. High frequency of claims in a commercial auto program.
3. Negative development of prior year claims of $0.2 million compared to $2.4 million in the same period of 2014.

Year-to-date 2015

The International segment recorded $295.6 million of written premiums year-to-date compared to $177.6 million in the same period in 2014, an increase of $118.1 million. The strong growth in written premiums was due primarily to the organic growth in existing programs.

The International segment recorded an underwriting loss of $5.7 million year-to-date compared to a loss of $3.2 million in the comparable period in 2014. This was a result of:

1. $7.0 million in underwriting losses from cancelled programs in the year. This included $2.0 million in one-time increases in reserves stemming from premium decreases, increases on internal adjustment expenses booked and the write down of reserve recoveries.
2. The underwriting losses were driven by higher claims frequency than expected from the UK-based telematics learning driver program that has now been provided provisional notice of cancellation.
3. The above factors were offset by improved results in the Scandinavian and UK warranty product which continue to perform at a 87% combined ratio.

We are currently reviewing the strategy and the future of our International operations and our Company's capital allocation plans. At the same time, we continue to implement the measures to reduce our exposure to UK motor premiums and deliver consistent underwriting profitability in the International segment.

SUMMARY OF QUARTERLY RESULTS

A summary of the Company's last eight quarters is as follows:

				2015				2014
($ THOUSANDS EXCEPT PER SHARE DATA)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Direct written and assumed premiums	**135,282**	**131,164**	**137,759**	**90,886**	78,832	104,876	101,428	79,768
Net earned premiums and other revenue	**81,503**	**84,186**	**76,025**	**69,197**	77,491	76,560	61,885	62,098
Underwriting income (loss)	**(3,591)**	**(678)**	**1,679**	**(3,509)**	7,584	122	(3,311)	532
Income (loss) before income taxes	**5,207**	**(4,133)**	**5,146**	**2,403**	10,804	6,466	(154)	6,666
Net income (loss)	**3,682**	**(3,732)**	**5,111**	**3,157**	8,403	5,536	(603)	5,395
Net operating income	**151**	**1,754**	**5,081**	**2,062**	9,005	3,944	263	3,678
Earnings (loss) per adjusted share								
(a) Basic	**$0.30**	**($0.31)**	**$0.41**	**$0.30**	$0.70	$0.42	$0.02	$0.45
(b) Diluted	**$0.30**	**($0.31)**	**$0.40**	**$0.29**	$0.68	$0.41	$0.02	$0.44
Net operating income per share – diluted	**$0.01**	**$0.15**	**$0.42**	**$0.17**	$0.75	$0.33	$0.02	$0.30
Selected financial ratios								
Loss ratio	**64.4%**	**61.5%**	**58.6%**	**64.3%**	51.0%	60.4%	65.4%	57.5%
Expense ratio	**40.0%**	**39.3%**	**39.2%**	**40.8%**	39.2%	39.4%	39.9%	41.6%
Combined ratio	**104.4%**	**100.8%**	**97.8%**	**105.1%**	90.2%	99.8%	105.3%	99.1%
Book value per share	**$15.75**	**$15.55**	**$16.00**	**$16.11**	$15.82	$15.19	$14.99	$14.92

The quarterly results reflect the seasonality of the Company's business. While net earned premiums are relatively stable from quarter to quarter, except for acquisition-related growth, underwriting results vary significantly by quarter as they are affected by changes in weather conditions.

NET OPERATING INCOME

($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	**Q4 2015**	**2015**	2014	2013	2012	2011
Net income	**3,682**	**8,218**	18,732	3,725	19,366	7,520
Impact of discount rate	**(2,080)**	**(408)**	2,391	(281)	3,887	1,843
Impact of foreign exchange on claims	**70**	**321**	573	—	—	—
Realized (gains) losses on investments	**(422)**	**(5,307)**	(6,745)	(5,797)	(20,996)	(137)
Foreign exchange (gain) loss on Investments	**(142)**	**(92)**	—	—	—	—
FVTPL investments (gains) losses	**(2,137)**	**7,315**	(1,242)	2,314	(227)	(209)
Other (income) expense and severance	**—**	**(748)**	1,166	—	1,383	—
ICPEI integration expense	**—**	**—**	1,347	—	—	—
Discontinued operations	**—**	**—**	—	8,642	4,524	3,462
Tax impact [1]	**1,271**	**(291)**	678	1,016	4,307	(427)
Net operating income	**242**	**9,008**	16,900	9,619	12,244	12,052
Minority interest	**(91)**	**40**	(10)	956	987	213
Net operating income attributable to shareholders	**151**	**9,048**	16,890	10,575	13,231	12,265
Net operating income per share – diluted	**$0.01**	**$0.76**	$1.40	$0.96	$1.18	$1.03

(1) Statutory tax rate utilized for calculation purposes.

2015 FINANCIAL OVERVIEW

REVENUE

Revenue reflected in the consolidated financial statements includes net earned premiums, investment income, realized gains and losses on the sale of investments, and other revenue.

($ THOUSANDS)	Q4 2015	2015	2014
Gross premiums written	**135,282**	**495,091**	364,904
Net premiums written	**65,828**	**338,302**	284,863
Net earned premiums	**81,503**	**310,911**	278,034
Net interest and dividends	**4,087**	**15,803**	15,289
Realized and unrealized gains on investments	**2,559**	**(2,008)**	7,987
Foreign exchange gains	**142**	**92**	1,057
Other	**—**	**748**	—
Total revenue	**88,291**	**325,546**	302,367

The main source of revenue was earned premiums from the sale of insurance policies. Gross written premiums totaled $495.1 million, an increase of 36% compared to $364.9 million last year. The increase in gross premium was primarily due to the growth in the International segment premiums to $295.6 million in 2015 compared to $177.6 million in 2014.

Personal Lines recorded $146.6 million of premiums in 2015 compared to $133.3 million in 2014, an increase of 10%. Commercial Lines recorded $52.9 million of premiums in 2015 compared to $54.1 million in 2014, a decrease of 2%.

Net earned premiums increased $32.9 million, or 12% in 2015, to $310.9 million from $278.0 million in 2014, mainly due to an increase in earned premium in the International segment.

Investment income constituted approximately 4% of EFH's total revenue in 2015. Market fluctuations in interest rates and equity markets affect EFH's returns on the market value of fixed income, preferred shares, equity markets and short-term investments. Net realized and unrealized gains on invested assets totaled $1.9 million compared to net realized and unrealized gains of $9.0 million last year.

EXPENSES

EFH's expenses consist of incurred claims, acquisition costs and operating expenses.

($ THOUSANDS)	Q4 2015	2015	2014
Expenses			
Incurred claims (1)	**52,486**	**193,323**	162,007
Acquisition expense	**22,954**	**88,814**	79,681
Operating expense	**9,654**	**34,873**	31,419
	85,094	**317,010**	273,107

Selected Underwriting Ratios	Q4 2015	2015	2014
Incurred claims ratio (1)	**64.4%**	**62.2%**	58.3%
Acquisition expense ratio	**28.2%**	**28.6%**	28.6%
Operating expense ratio	**11.8%**	**11.2%**	11.3%
Combined ratio (1)	**104.4%**	**102.0%**	98.2%

(1) Before impact of change in discount rate decreasing unpaid claims by $0.4 million in 2015 and increasing unpaid claims by $2.4 million in 2014 and foreign exchange impact of $0.3 million in 2015 and $0.6 million in 2014.

Incurred claims, also referred to as losses, are the amounts payable under insurance policies relating to insured events. Loss adjustment expenses, also referred to as claims expenses, are the expenses of settling claims, including allocated (i.e. external) loss adjustment expenses and unallocated (i.e. internal) loss adjustment expenses (together, LAE). Achieving profitable results depends on EFH's ability to manage future claims and other costs through innovative product design, strict underwriting criteria and efficient claims management.

Acquisition costs consist mainly of commissions and premium taxes which are directly related to the acquisition of premiums. Commissions are the amounts paid to producers for selling insurance policies. The amount of commission is generally a percentage of the premium of the insurance policy sold or renewed. Contingent commissions are paid to brokers and MGAs on an annual basis if they meet certain targets. In general, these producers have to meet or exceed certain criteria, including written premium targets and profitability, on average over three years, to qualify for this compensation. Premium taxes are paid by EFH to provincial governments, calculated as a percentage of direct written premiums.

Operating expenses are the non-commission selling, underwriting and administrative expenses incurred to support EFH's business. A significant portion of these expenses is related to employee compensation and benefits. The effective control and management of these expenses can enhance the underwriting results from the operation.

YEAR ENDED DECEMBER 31, 2015 COMPARED TO 2014

2015 HIGHLIGHTS

- Net operating income decreased by 46% to $0.76 per share from $1.40 per share.
- Underwriting loss of $6.1 million compared to an underwriting income of $4.9 million in 2014, a decrease of 224%.
- A combined operating ratio of 102% compared to 98% in 2014.
- An increase of direct written premium of 36% in 2015, primarily driven by growth in the International segment.
- Total pre-tax return of invested assets of $13.6 million compared to $26.8 million in 2014.
- A decrease in book value per share of 0.4% to $15.75 per share.

The following financial information compares results for the full year 2015 and 2014.

($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	**2015**	2014	$ Variance	% Variance
Direct written and assumed premiums	**495,091**	364,904	130,187	36
Net written premiums	**338,302**	284,863	53,439	19
Net earned premiums	**310,911**	278,034	32,877	12
Net claims incurred	**193,323**	162,007	31,316	19
Net acquisition costs	**88,814**	79,681	9,133	11
Operating expenses	**34,873**	31,419	3,454	11
Underwriting (loss) income	**(6,099)**	4,927	(11,026)	(224)
Other income (expense) and severance	**748**	(1,166)	1,914	164
ICPEI integration expense	**—**	(1,347)	1,347	100
Investment income	**13,887**	24,333	(10,446)	(43)
Impact of foreign exchange	**(321)**	(573)	252	44
Impact of discount rate	**408**	(2,391)	2,799	117
Net income before income taxes	**8,623**	23,783	(15,160)	(64)
Income taxes expense	**405**	5,051	(4,646)	(92)
Net income	**8,218**	18,732	(10,514)	(56)
Net income attributable to shareholders	**8,258**	18,722	(10,464)	(56)
Net operating income attributable to shareholders	**9,048**	16,890	(7,842)	(46)
Earnings per share				
Basic	**$0.71**	$1.61	$(0.90)	(56)
Diluted	**$0.69**	$1.56	$(0.87)	(56)
Net operating income per share – diluted [1]	**$0.76**	$1.40	$(0.64)	(46)
Trailing twelve-month return on equity (ROE) [2]	**4.5%**	10.5%		

(1) Net operating income is defined as net income excluding the impact of the change in discount rate and foreign exchange rates on unpaid claims and investments, realized losses or gains on sale of investments, discontinued operations, unrealized fair value changes on FVTPL investments and one-time, non-recurring items. Net operating income is adjusted to that attributable to shareholders for per share calculation.

(2) ROE calculated on rolling twelve-month basis.

INSURANCE OPERATIONS

Direct Written and Net Earned Premiums

Direct written premiums increased by $130.2 million, or 36%, to $495.1 million compared to $364.9 million in the same period last year. Net earned premiums increased by $32.9 million, or by 12%, to $310.9 million compared to $278.0 million in the previous year. The increase in written and earned premiums was primarily due to growth in the International segment and the inclusion of ICPEI for the full year in 2015.

Claims Incurred

Net claims expense increased by $31.3 million, or 19%, to $193.3 million compared to $162.0 million in 2014. The resulting loss ratio of 62.2% for 2015 represents an increase of 3.9% over the 2014 loss ratio of 58.3%. This was primarily driven by weak results related to canceled programs in the International segment.

On a consolidated basis, net favourable development of prior claims of $17.9 million was recorded in the year compared to $11.3 million in 2014.

Acquisition Costs

Acquisition costs, which consist mainly of commissions, premium taxes and a portion of general expenses related to policy acquisitions, increased by 11% primarily due to an increase in net earned premiums and a change of mix of business in Commercial Lines and the International segment.

Operating Expenses

Operating expenses increased $3.5 million or 11% to $34.9 million in 2015 despite a 36% growth in gross written premiums, due to concerted actions to reduce discretionary spending.

Corporate expenses include $1.0 million of favourable development on ICPEI's prior year claims reserves 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 EFH the difference on January 1, 2019, to a maximum of $1.5 million.

Underwriting Income

Underwriting results reflect the revenues from net earned premiums less claims, and acquisition and operating expenses. Overall underwriting performance decreased by $11.0 million to a loss of $6.1 million for the year ended December 31, 2015, compared to underwriting income of $4.9 million for 2014. The underwriting results for 2015 and 2014 were net of corporate and other expenses of $8.6 million and $5.0 million, respectively. Details by line of business are shown in the segmented financial section.

Investment Income

Investment income decreased by $10.4 million, to $13.9 million in 2015 compared to $24.3 million in 2014. Net gains on investments totaled $5.3 million in 2015 compared to $6.7 million in 2014.

Income from fair value change on FVTPL investments decreased by $8.5 million to a loss of $7.3 million compared to an income of $1.2 million in the same period of 2014. The total fair value of the investment portfolio as at December 31, 2015, (including cash and short-term and premium financing receivables) was $550 million compared to $539 million as at December 31, 2014.

Other Income

One-time other income of $0.7 million, due to realized redundancies to the buyer of the US division, became payable to the Company 18 months after the sale.

Net Income before Income Taxes

Income before taxes was $8.6 million in 2015, compared to $23.8 million in 2014. This was primarily due to producing an underwriting loss in the year compared to an income in the prior year, as well as lower than expected investment income, as per above.

Income Taxes

The provision for income taxes for the year ended December 31, 2015, was an expense of $0.4 million compared to an expense of $5.1 million for the same period last year. The approximate effective rate decreased to 5% for 2015 from 21% for the previous year.

BALANCE SHEET ANALYSIS

The Balance Sheet analysis that follows should be read in conjunction with the audited consolidated financial statements for the fourth quarter of 2015, and notes therein.

BALANCE SHEET HIGHLIGHTS

Selected balance sheet highlights and book value per share details are as follows:

($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	**2015**	2014	2013	2012	2011
Cash and short-term deposits	**23,373**	27,326	18,156	19,578	30,839
Investments	**513,099**	504,290	454,317	412,728	365,058
Total assets	**923,049**	740,299	619,928	548,852	493,527
Provision for unpaid claims	**397,214**	344,692	296,857	268,580	254,519
Unearned premiums	**260,073**	168,555	127,247	94,085	71,644
Total equity attributable to shareholders	**184,700**	183,616	172,360	168,427	156,857
Book value per share (1)	**$15.75**	$15.82	$14.57	$13.98	$12.85
MCT Ratio – Echelon Insurance	**241%**	211%	219%	250%	237%
– ICPEI	**296%**	229%	N/A	N/A	N/A
Solvency II – Qudos	**122%**	120%	N/A	N/A	N/A

(1) Shareholders' equity divided by the number of shares issued and outstanding.

INVESTMENTS

EFH has an investment policy that seeks to provide a stable income base to support EFH's liabilities without incurring an undue level of investment risk. In addition to this risk-return analysis, the chosen asset mix also considers the amount of regulatory capital that is required.

EFH's investment portfolio is invested in well-established, active and liquid markets in Canada, the United States and Europe. Fair value for most investments is determined by reference to observable market data.

FAIR VALUE OF INVESTMENTS

The following table sets forth EFH's invested assets as at December 31, 2015, and December 31, 2014.

($ THOUSANDS)			**Carrying and fair values**	
Available-for-sale	**As at Dec. 31, 2015**	**% of Total**	As at Dec. 31, 2014	% of Total
Fixed income				
Canadian				
Federal	**45,524**		74,579	
Provincial	**55,976**		48,978	
Municipal	**1,386**		2,235	
Corporate	**171,789**		182,441	
	274,675		308,233	
Fixed income lent through securities lending program				
Federal	**14,231**		10,985	
Provincial	**3,800**		435	
Corporate	**4,673**		4,609	
	22,704		16,029	
Foreign fixed income				
Government	**17,555**		25,964	
Corporate	**114,399**		69,088	
	131,954		95,052	
Foreign lent through securities lending program				
Corporate	**—**			
Total fixed income	**429,333**	**84%**	419,314	83%
Commercial mortgages pooled funds	**17,017**		2,173	
Money market pooled funds	**403**		110	
Short-term fixed income and mortgage pooled funds	**16,934**		16,476	
Total Pooled Funds	**34,354**	**7%**	18,759	4%
Common shares				
Canadian	**2,656**		7,784	
US	**8,012**		13,690	
Total common shares	**10,668**	**1%**	21,474	4%
Total available-for-sale	**474,355**		459,547	
Fair value through profit or loss				
Preferred shares	**38,400**		44,323	
Preferred shares lent through securities lending program	**344**		420	
Total Preferred shares	**38,744**	**8%**	44,743	9%
Total investments	**513,099**	**100%**	504,290	100%

IMPAIRMENT ASSETS AND PROVISIONS FOR LOSSES

EFH has an established policy to write down or make a provision for any investment with objective evidence that the value of the investment is impaired.

Management has reviewed currently available information and the advice of its investment managers regarding those investments whose estimated fair values are less than carrying values. For those securities whose decline in fair value was considered to be objective evidence that the value of the investment is impaired, the Company recorded the difference between the carrying amount of the investment and its fair value as an impairment which reduced investment income in the year recorded.

An impairment loss was recognized during the twelve months ended December 31, 2015 of $0.3 million (2014 – $nil) primarily relating to US equities.

A gross unrealized loss of $3.2 million (December 31, 2014 – $2.7 million) on investments held as at December 31, 2015, is recorded, net of tax, in the amount of $2.5 million (December 31, 2014 – $2.1 million) in Accumulated Other Comprehensive Income. The Company has concluded, based on its review, that these fair value deficiencies do not meet the criteria for impairment and they will be monitored on an ongoing basis.

FIXED INCOME SECURITIES

EFH holds fixed income securities to provide a steady, predictable level of income with reasonable liquidity and minimal risk of loss and a fixed sum at maturity. EFH's portfolio is diversified by selecting various types of government and corporate bonds. Constraints on types of issuers take liquidity, diversification and risk into account by limiting the portfolio mix by issuer.

EFH's bond portfolio has a high overall credit quality with an average rating of A. The preferred shares have an average rating of P2. The duration of the bond portfolio is 2.9 years.

The chart below set forth EFH's fixed income portfolio by credit quality as at December 31, 2015.

Bond Ratings Q4 2015

SECTOR MIX BY ASSET CLASS

The following table shows sector exposure by asset class as at December 31, 2015:

Sector	Fixed Income Securities & Pooled Funds	Preferred Shares	Common Shares	Total
Financial Services	36%	59%	17%	36%
Government	33%	—%	—%	30%
Infrastructure	9%	—%	—%	8%
Telecommunication	6%	—%	5%	6%
Consumer Discretionary	3%	—%	32%	3%
Energy	3%	—%	6%	3%
Industrial Products	3%	6%	7%	3%
Pipelines	2%	16%	—%	3%
Utilities	1%	18%	7%	3%
Technology	—%	—%	23%	1%
Other	4%	—%	3%	3%
Total	100%	100%	100%	100%
Total (1) ($ Thousands)	463,242	38,744	10,667	512,653

(1) Fixed income securities & pooled funds do not include any cash being carried by the pooled funds, $0.4 million as at December 31, 2015.

COMMON SHARE PORTFOLIO

As at December 31, 2015, 25% of the common share portfolio was invested in Canadian equities with 75% in U.S. equities.

RECOVERABLE FROM REINSURERS

($ THOUSANDS)	As at Dec. 31, 2015	As at Dec. 31, 2014
Reinsurers' share of unpaid claims	**90,158**	48,737
Reinsurers' share of unearned premiums	**89,953**	37,528
Total	**180,111**	86,265

As at December 31, 2015, the recoverable from reinsurers increased by $93.8 million, or 109%, to $180.1 million from $86.3 million as at December 31, 2014. The increase was due to increased reinsured premiums in the International segment. All reinsurers, with balances due, have a rating of A– or above as determined by Standard & Poor's and A.M. Best, except for several Specialty Programs distributors who share a portion of the risk with EFH, for whom EFH holds deposits as collateral.

ACCOUNTS RECEIVABLE

($ THOUSANDS)	As at Dec. 31, 2015	As at Dec. 31, 2014
Agents and brokers	**78,849**	31,757
Premium financing receivables	**18,355**	15,962
Other	**8,096**	5,007
Total	**105,300**	52,726

Premium financing receivables represents 17.4% of total receivables as at December 31, 2015. Premium financing receivables increased to $18.4 million at December 31, 2015, from $16.0 million at December 31, 2014. The increase in agent and broker receivables from $31.8 million in 2014 to $78.8 million in 2015 was a result of increased balances due to Qudos agents & brokers.

PROVISION FOR UNPAID CLAIMS

EFH establishes loss reserves to provide for future amounts required to pay claims related to insured events that have occurred and been reported but have not yet been settled, and related to events that have occurred but have not yet been reported to EFH. Provision for unpaid claims consists of the aggregate amount of individual case reserves established and management's estimate of claims incurred but not reported, based on the volume of business currently in force and historical claims experience and are determined by EFH's appointed actuary. Provisions for unpaid claims are discounted to present value. The discount rate used for December 31, 2015 and 2014 for the following entities:

Entity	**2015**	2014
Echelon Insurance	**2.44%**	2.19%
ICPEI	**1.63%**	1.98%
Qudos	**0.27%**	0.36%

SHARE CAPITAL

As of February 17, 2016, there were 11,710,460 common shares issued and outstanding.

LIQUIDITY AND CAPITAL MANAGEMENT

The purpose of liquidity management is to ensure there is sufficient cash to meet all of EFH's financial commitments and obligations as they come due. EFH believes that it has the flexibility to obtain, from internal sources, the funds needed to fulfill its cash requirements, during the following financial year and to satisfy regulatory capital requirements.

Contractual obligations include operating leases, for which $1.4 million is due in less than a year and $9.0 million is due over the next nine years.

EFH is primarily a holding company and, as such, has limited direct operations of its own. EFH's principal assets are the shares of its insurance and reinsurance subsidiaries. Accordingly, its future cash flows depend in part upon the availability of dividends and other statutorily permissible distributions from its insurance subsidiaries. The ability to pay such dividends and to make such other distributions is limited by applicable laws and regulations of the jurisdictions in which the insurance subsidiaries are domiciled, which subject the insurance subsidiaries to significant regulatory restrictions. These laws and regulations require, among other things, that the insurance subsidiaries maintain minimum solvency requirements and may also limit the amount of dividends that the insurance subsidiaries can pay to EFH.

CAPITAL MANAGEMENT

The total capitalization of EFH at December 31, 2015, was $188.7 million compared to $187.5 million at December 31, 2014.

All regulated entities remain well-capitalized. The Minimum Capital Test (MCT) ratio of the Company's Canadian subsidiary, Echelon Insurance, as at December 31, 2015, was 241%, which comfortably exceeds the supervisory regulatory capital level required by the Office of the Superintendent of Financial Institutions (OSFI). ICPEI's MCT ratio of 296% was in excess of provincial supervisory targets. The Company's European subsidiary, Qudos, had a Danish Financial Services Authority (DKFSA) Individual Solvency ratio of 122%, in excess of the DKFSA target. In the fourth quarter of 2015, the Company injected $5 million of capital into its International operations to support its strong premium growth and strengthen its regulatory ratios. The Company's ownership stake has increased to 97.5% assuming no minority interest earn in from 95.5% as at September 30, 2015. In addition to excess capital at Echelon Insurance, the Company has approximately $11 million of excess deployable capital invested in liquid assets in the holding company.

NORMAL COURSE ISSUER BID (NCIB)

On August 19, 2014, the Company received approval from the TSX to commence an NCIB to repurchase and cancel up to 703,792 common shares, representing 10% of its public float issued and outstanding common shares at that time. This was in force until August 20, 2015.

On October 8, 2015, the Company received approval from the TSX to commence an NCIB to repurchase and cancel up to 619,265 common shares, representing 10% of its public float issued and outstanding common shares at that time. This is in force until October 7, 2016.

In the fourth quarter of 2015 there were 64,700 common shares repurchased at an average cost of $13.98 per share for a total consideration of $0.9 million. From October 8, 2015 to February 17, 2016, the Company purchased and canceled 83,200 common shares under the NCIB program at an average cost of $13.81 per share for a total consideration of $1.1 million.

SUBSEQUENT EVENTS

Dividends

The Board of Directors declared a quarterly dividend of $0.12 per outstanding common share. The dividend is payable on April 1, 2016, to shareholders of record on March 10, 2016.

Strategic Special Committee

On January 29, 2016 the Company announced the formation of a Special Strategic Review Committee that is comprised of four of the Company's independent directors. The Committee is responsible for assessing, examining and providing advice to the Board with respect to strategic and financial opportunities facing the Company, including its International operations. The Committee is in the process of selecting an independent financial advisor to assist in the assessment, strategy and future of the Company's International operations.

TRANSACTIONS WITH RELATED PARTIES

EFH has entered into transactions with The Co-operators Group Limited ("Co-operators"), which is a significant shareholder of EFH. These transactions are carried out in the normal course of operations and are measured at arms length which approximates fair value. The transactions principally consist of an agent distribution channel, support services and investment management.

YEAR ENDED DECEMBER 31, 2014 COMPARED TO 2013

The following chart compares results for the full year 2014 and 2013:

($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	2014	2013	$ Variance	% Variance
Direct written and assumed premiums	364,904	268,367	96,537	36
Net written premiums	284,863	228,781	56,082	25
Net earned premiums	278,034	205,464	72,570	35
Net claims incurred	162,007	132,154	29,853	23
Net acquisition costs	79,681	52,004	27,677	53
Operating expenses	31,419	23,893	7,526	31
Underwriting (loss) income	4,927	(2,587)	7,514	290
Severance	(1,166)	—	(1,166)	—
ICPEI integration expense	(1,347)	—	(1,347)	—
Investment income	24,333	17,712	6,621	37
Impact of foreign exchange – increase in claims	(573)	—	(573)	—
Impact of discount rate – increase in claims	(2,391)	281	(2,672)	(951)
Net income before income taxes	23,783	15,406	8,377	54
Income taxes (recovery) expense	5,051	3,039	2,012	66
Net income	18,732	12,367	6,365	51
Net income attributable to shareholders	18,722	4,681	14,041	300
Net operating income attributable to shareholders	16,890	10,575	6,315	60
Earnings per share				
Basic	$1.61	$1.13	$0.48	42
Diluted	$1.56	$1.11	$0.45	41
Net operating income per share – diluted (1)	$1.40	$0.96	$0.44	46
Trailing twelve month return on equity (ROE) (2)	10.5%	10.5%		

5 YEAR FINANCIAL HIGHLIGHTS

($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	**2015**	2014	2013	2012	2011
					Year ended Dec. 31
Revenue					
Direct written and assumed premiums					
Personal Lines	**146,578**	133,275	134,902	129,606	126,220
Commercial Lines	**52,895**	54,069	39,702	48,352	44,678
International	**295,618**	177,560	93,763	28,052	—
Total direct written premiums	**495,091**	364,904	268,367	206,010	170,898
Net written premiums	**338,302**	284,863	228,781	182,465	156,134
Net earned premiums	**310,911**	278,034	205,464	166,008	163,171
Underwriting expenses					
Incurred claims	**193,323**	162,007	132,154	100,415	103,360
Acquisition costs	**88,814**	79,681	52,004	39,436	36,375
Operating expenses	**34,873**	31,419	23,893	23,975	19,549
Total underwriting expense	**317,010**	273,107	208,051	163,826	159,284
Underwriting income (loss)	**(6,099)**	4,927	(2,587)	2,182	3,887
Impact of discount rate on claims	**408**	(2,391)	281	(3,887)	(1,843)
Impact of FX on claims	**(321)**	(573)	—	—	—
ICPEI Integration Cost	**—**	(1,347)	—	—	—
One-Time Severance costs	**—**	(1,166)	—	—	—
Investment income	**13,887**	24,333	17,712	33,678	13,559
Other income	**748**	—	—	—	—
Income before income taxes	**8,623**	23,783	15,406	31,973	15,603
Income tax expense (recovery)					
Current	**479**	5,191	3,840	9,363	4,665
Deferred	**(74)**	(140)	(801)	(1,280)	(44)
	405	5,051	3,039	8,083	4,621
Net income on continued operations	**8,218**	18,732	12,367	23,890	10,982
Net income (loss) on discontinued operations attributable to shareholders of the Company	**—**	—	(8,642)	(4,524)	(3,462)
Net income	**8,218**	18,732	3,725	19,366	7,520
Attributed to:					
Shareholders of the Company	**8,258**	18,722	4,681	20,353	7,733
Non-controlling interest	**(40)**	10	(956)	(987)	(213)
	8,218	18,732	3,725	19,366	7,520
Earnings per share attributable to shareholders of the Company:					
Net income per share continuing operations basic	**$0.71**	$1.61	$1.13	$2.07	$0.93
Net income per share continuing operations diluted	**$0.69**	$1.56	$1.11	$2.06	$0.92
Book value per share	**$15.75**	$15.82	$14.57	$13.98	$12.85
Net operating income (1)	**9,048**	16,890	10,575	13,231	12,265
Net operating income per share – diluted (2)	**$0.76**	$1.40	$0.96	$1.18	$1.03

(1) Net operating income is defined as net income plus or minus after-tax impact of change in discount rate on unpaid claims, realized losses or gains on sale of investments, unrealized fair value changes on Fair Value Through Profit or Loss (FVTPL) investments and one time non recurring charges.

(2) Net operating income is adjusted to that attributable to shareholders for per share calculation.

OUTLOOK

EFH's target is to deliver a minimum 12% after tax return on shareholder's equity and a 95% combined ratio on its underwriting operations.

The Company has made significant progress in the past several years with a renewed focus on its core business in Canada and a return to sustainable profitability.

STRATEGY

EFH's mission is to focus on targeted solutions where it can differentiate itself in the market and that require the high level of expertise of the Company. It will differentiate itself through specialized underwriting, personalized service and the sophisticated management of risk. It will operate in a responsible, ethical manner while aiming to generate high growth, strong underwriting results and a superior return on shareholders' equity.

FOCUS ON CANADA

EFH is focused on growing its Canadian specialty insurance business. EFH will focus on profitability in Europe and manage the risks of a fast growing start-up insurance operation.

FOCUS ON AUTOMOBILE INSURANCE

EFH's resources are primarily directed toward growing and strengthening Personal Lines automobile insurance sold through the broker channel.

EFH maintains a dominant position in the Canadian non-standard auto insurance market, which has resulted in above industry average underwriting margins over the long term. It will protect that position through sophisticated pricing analytics and quality personal service to its distributors. EFH will continue to improve the sophistication of its pricing, utilizing predictive modeling techniques and a finer segmentation of risks. In addition, EFH will continue to make it easy for distributors to transact business with, providing them with tools and integrating with their business processes.

A broad product suite to support this channel will be maintained and further developed. The main focus will be non-standard auto, specialty auto, small commercial auto and recreational auto. Ancillary products to support the auto business will also be considered. EFH will concentrate on smaller niche markets where the larger, standard insurers are less focused. Non-standard auto insurance will continue to be the core product but, at the same time, there needs to be recognition of the ongoing blurring of traditional market boundaries between the standard and non-standard segments. EFH will continue to evolve towards underwriting certain "grey" and/or standard risks for renewal business, as it attempts to retain its best, claims-free customers. However, EFH will not compete, primarily on price, directly with main line standard insurers. EFH will also consider standard new business auto insurance that addresses the under-served needs of brokers in smaller geographic markets and/or with favoured access to distribution through specialty distribution channels, where it is less exposed to the rigors of what is generally a highly competitive standard market.

EFH will continue to focus on the rural and small urban markets, particularly in Ontario. It will continue to diversify geographically by applying a greater emphasis on British Columbia, Alberta, Quebec and the Maritime provinces.

EFH will increase its attention to acquisition opportunities in Canada that accelerate our strategic direction – non-standard auto insurers; specialty insurers; small regional insurers with favoured access to distribution and/or a differentiated selling proposition; specialty MGAs; and specialty brokers.

SUPPLEMENTED BY COMMERCIAL BUSINESS

Significant changes have been made to the Commercial Programs business in the past several years in an effort to restore profitability. EFH believes that certain lines of business are best underwritten on a 'case by case' basis, rather than only through programs sold through MGAs. Distribution will evolve from MGAs to include brokers for certain types of risks and the business will continue the transition to be more closely integrated with Personal Lines for operations, product, marketing and distribution. The investments, expertise and systems that are developed for broker-sold Commercial business will be used to support the management of MGA-distributed specialty programs.

ORGANIZATIONAL STRATEGIES

EFH's key to profitable growth is personalized service and sophisticated pricing, underwriting and claims management. EFH will invest in its business and its people. It will continue to develop a sophisticated and scalable operational platform to grow. EFH will continue to invest aggressively in technology, with a focus on service and financial analytics.

COMPETITIVE STRENGTHS

EFH believes that it is uniquely positioned to be the market leader in the specialty P&C insurance industry for the following reasons:

SPECIALIZED PRODUCTS AND UNDERWRITING

EFH offers its producers a comprehensive line of specialty auto insurance products such as non-standard auto, motorcycles, trailers, motorhomes, ATVs, snowmobiles and the like. It utilizes specialized underwriting techniques, allowing it to effectively assess risks that don't fit the fully-automated processes of larger, standard insurers.

ENTREPRENEURIAL CULTURE

EFH fosters a responsive, team environment which encourages experimentation and allows the flexibility to provide unique, tailor-made solutions. The Company's values are teamwork, speed, innovation and integrity.

PERSONALIZED CUSTOMER SERVICE

EFH believes that its strong reputation for service with its producers is a differentiating factor from both an underwriting and a claims standpoint. It provides a more personalized service experience, allowing producers direct access to underwriters and managers with decision-making authority.

FINANCIAL STRENGTH

EFH has a strong capital base with shareholder equity of $184.7 million. The Minimum Capital Test (MCT) ratio of Echelon Insurance as at December 31, 2015, was 241% comfortably in excess of the Office of the Superintendent of Financial Institutions' (OSFI) supervisory target. In addition to excess capital at Echelon, the Company has approximately $11 million of excess deployable capital invested in liquid assets in the holding company.

It has a high quality investment portfolio with approximately 88% of its fixed income portfolio in investment grade, 69% rated A and above and the average rating of the fixed income portfolio is A. It has no debt on its balance sheet, little goodwill and intangible assets consisting mostly of computer software. Echelon has an A.M. Best financial strength rating of B++ (Good). EFH intends to maintain its strong balance sheet through appropriate pricing, underwriting discipline and conservative accounting and loss reserving practices.

RISK FACTORS

Careful consideration should be given to the following factors, which must be read in conjunction with the detailed information appearing elsewhere in this report. Any of the matters highlighted in these risk factors could have a material adverse effect on EFH's results of operations, business prospects or financial condition.

NATURE OF THE INDUSTRY

The P&C insurance business in Canada is affected by many factors which can cause fluctuations in the results of operations of EFH. Many of these factors are beyond EFH's control. An economic downturn in those jurisdictions in which EFH writes business could result in less demand for insurance and lower policy amounts. As a P&C insurance company, EFH is subject to claims arising out of catastrophes, which may have a significant impact on its results of operations and financial condition. These factors, together with the industry's historically cyclical competitive pricing, could result in fluctuations in the underwriting results and net income of EFH. A significant portion of the earnings of insurance companies is derived from the income from their investment portfolios. EFH's investment income will fluctuate depending on the returns and values of securities in its investment portfolio.

REGULATION

EFH is subject to the laws and regulations of the jurisdictions in which it carries on business. These laws and regulations cover many aspects of its business, including premium rates for automobile insurance; the assets in which it may invest; the levels of capital and surplus and the standards of solvency that it must maintain; and the amount of dividends which it may declare and pay.

Changes to laws or regulations are impossible to predict and could materially adversely affect EFH's business, results of operations and financial condition. Should OSFI be concerned about an unsafe course of conduct or an unsound practice in conducting the business of a federally regulated insurance company, OSFI may direct the insurance company to refrain from a course of action or to perform acts necessary to remedy the situation. In certain circumstances, OSFI may take control of the assets of an insurance company or take control of the company itself. More restrictive laws, rules or regulations may be adopted in the future that could make compliance more difficult and/or expensive. Specifically, recently adopted legislation addressing privacy issues, among other matters, is expected to lead to additional regulation of the insurance industry in the coming years, which could result in increased expenses or restrictions on EFH's operations.

COMPETITION

The P&C insurance business is highly competitive with pricing being a primary means of competition. Other elements of competition include availability and quality of products, quality and speed of service, financial strength, distribution systems and technical expertise.

EFH competes with many other insurance companies. Certain of these competitors are larger and have greater financial resources than EFH has. In addition, certain competitors have from time to time decreased their prices in an apparent attempt to gain market share.

As competitors introduce new products and as new competitors enter the market, the Company and its insurance subsidiaries may encounter additional and more intense competition. There can be no assurance that EFH will continue to increase revenues or be profitable. To a large degree, future revenues of EFH are dependent upon its ability to continue to develop and market its products and to enhance the capabilities of its products to meet changes in customer needs.

CYCLICALITY

Historically, the results of companies in the P&C insurance industry have been subject to significant fluctuations and uncertainties. The profitability of P&C insurers can be affected significantly by many factors, including regulatory regimes, developing trends in tort and class action litigation, adoption of consumer initiatives regarding rates or claims handling procedures, and privacy and consumer protection laws that prevent insurers from assessing risk, or factors that have a high correlation with risks considered, such as credit scoring.

The financial performance of the P&C insurance industry has historically tended to fluctuate in cyclical patterns of "soft" markets characterized generally by increased competition, resulting in lower premium rates and underwriting standards, followed by "hard" markets characterized generally by lessening competition, stricter underwriting standards and increasing premium rates. EFH's profitability tends to follow this cyclical market pattern with profitability generally increasing in hard markets and decreasing in soft markets. These fluctuations in demand and competition could produce underwriting results that would have a negative impact on EFH's results of operations and financial condition.

UNPREDICTABLE CATASTROPHIC EVENTS

Catastrophes can be caused by various natural and unnatural events. Natural catastrophic events include hurricanes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and fires. Unnatural catastrophic events include hostilities, terrorist acts, riots, crashes and derailments. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas. Catastrophes can cause losses in a variety of P&C insurance lines. Claims resulting from natural or unnatural catastrophic events could cause substantial volatility in EFH's financial results for any fiscal quarter or year and could materially reduce EFH's profitability or harm EFH's financial condition. EFH's ability to write new business also could be affected. EFH may experience an abrupt interruption of activities caused by unforeseeable and/or catastrophic events. EFH's operations may be subject to losses resulting from such disruptions. Losses can relate to property, financial assets, trading positions and also to key personnel. If EFH's business continuity plans cannot be put into action or do not take such events into account, losses may further increase.

INTEREST RATES

An increase in interest rates may result in lower values for EFH's bond portfolio and increased costs of borrowing for EFH on future debt instruments, preferred shares or credit facilities. Such increased costs would negatively affect EFH's operating results.

NEGATIVE PUBLICITY IN THE INDUSTRY

EFH's products and services are ultimately distributed to individual consumers. From time to time, consumer advocacy groups or the media may focus attention on EFH's products and services, thereby subjecting its industry to periodic negative publicity. EFH also may be negatively impacted if its industry engages in practices resulting in increased public attention to its business. Negative publicity may also result in increased regulation and legislative scrutiny of practices in the P&C insurance industry as well as increased litigation. Such consequences may increase EFH's costs of doing business and adversely affect EFH's profitability by impeding its ability to market its products and services or increasing the regulatory burdens under which EFH operates.

RELIANCE ON BROKERS

EFH distributes its products primarily through a network of brokers. These brokers sell EFH's competitors' products and may stop selling EFH products altogether. Strong competition exists among insurers for brokers with demonstrated ability to sell insurance products. Premium volume and profitability could be materially adversely affected if there is a material decrease in the number of brokers that choose to sell EFH products. EFH's strategy of distributing through Co-operators' agent channel may also adversely impact its relationship with brokers who distribute EFH products.

PRODUCT AND PRICING

EFH prices its products taking into account numerous factors, including claims frequency and severity trends, product line expense ratios, special risk factors, the capital required to support the product line, and the investment income earned on that capital. EFH's pricing process is designed to ensure an appropriate return on capital and long-term rate stability, avoiding wide fluctuations in rate unless necessary. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

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

UNDERWRITING AND CLAIMS

EFH is exposed to losses resulting from the underwriting of risks being insured and the exposure to financial loss resulting from greater than anticipated adjudication, settlement and claims costs. EFH's success depends upon its ability to accurately assess the risks associated with the insurance policies that EFH writes.

EFH's underwriting objectives are to develop business within EFH's target markets on a prudent and diversified basis and to achieve profitable underwriting results (i.e. a combined operating ratio below 100%). EFH underwrites automobile business after a review of the applicant's driving record reports and claims experience. There can be no assurances that EFH will properly assess the risks associated with the insurance policies that it writes and may, therefore, experience increased adjudication, settlement and claims costs.

LOSS RESERVES AND CLAIMS MANAGEMENT

The amounts established and to be established by EFH for loss and loss adjustment expense reserves are estimates of future costs based on various assumptions, including actuarial projections of the cost of settlement and the administration of claims, estimates of future trends in claims severity and frequency, and the level of insurance fraud. Most or all of these factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact EFH's ability to accurately assess the risks of the policies that it writes. In addition, future adjustments to loss reserves and loss adjustment expenses that are unanticipated by management could have an adverse impact upon the financial condition and results of operations of EFH. Although EFH's management believes its overall reserve levels as at December 31, 2015, are adequate to meet its obligations under existing policies, actual losses may deviate, perhaps substantially, from the reserves reflected in EFH's financial statements. To the extent reserves prove to be inadequate, EFH would have to increase such reserves and incur a charge to earnings.

ERRORS AND OMISSIONS CLAIMS

Where EFH acts as a licensed insurance agency, it is subject to claims and litigation in the ordinary course of business resulting from alleged errors and omissions in placing insurance and handling claims. The placement of insurance and the handling of claims involve substantial amounts of money. Since errors and omissions claims against EFH may allege EFH's potential liability for all or part of the amounts in question, claimants may seek large damage awards and these claims can involve significant defense costs. Errors and omissions could include, for example, EFH's employees or sub-agents failing, whether negligently or intentionally, to place coverage or file claims on behalf of customers, to appropriately and adequately disclose insurer fee arrangements to its customers, to provide insurance providers with complete and accurate information relating to the risks being insured or to appropriately apply funds that it holds for its customers on a fiduciary basis. It is not always possible to prevent or detect errors and omissions, and the precautions EFH takes may not be effective in all cases.

EFH's business, financial condition and/or results may be negatively affected if in the future its errors and omissions insurance coverage proves to be inadequate or unavailable. In addition, errors and omissions claims may harm EFH's reputation or divert management resources away from operating the business.

EFH maintains liability insurance covering errors or omissions that may occur while acting in its role as an insurance consultant. This coverage has an aggregate limit of liability of $2 million.

INVESTMENTS

EFH's investment assets are exposed to any combination of risks related to interest rates, foreign exchange rates and changing market values.

EFH's investment portfolio consists of diversified investments in fixed-income securities and preferred and common stocks. Investment returns and market values of investments fluctuate from time to time. A decline in returns could reduce the overall profitability of EFH. A change in interest rates, market values or foreign exchange rates may affect Echelon's regulatory strength tests.

REINSURANCE

Consistent with industry practice, EFH utilizes reinsurance to manage its claims exposure and diversifies its business by types of insurance and geographic area. The availability and cost of reinsurance are subject to prevailing market conditions that are generally beyond the control of EFH and may affect EFH's level of business and profitability. There can be no assurance that developments may not occur in the future which might cause a shortage of reinsurance capacity in those classes of business which EFH underwrites, which could result in the curtailment of issuing of policies in a certain line of business or containing limits above a certain size.

REINSURER CREDIT RISK

EFH's reinsurance arrangements are with a limited number of reinsurers. This reinsurance may cause an adverse effect on EFH's results of operations if one or more of its reinsurers are unable to meet its financial obligations. Although all of its reinsurers were rated A or higher by A.M. Best at the time of entering into the reinsurance arrangements, these ratings are subject to change and may be lowered.

Although reinsurance makes the assuming reinsurers liable to EFH to the extent of the risk each reinsurer assumes, EFH is not relieved of its primary liability to its insureds as the direct insurer. As a result, EFH bears credit risk with respect to its reinsurers. EFH cannot ensure that its reinsurers will pay all reinsurance claims on a timely basis or at all. EFH evaluates each reinsurance claim based on the facts of the case, historical experience with the reinsurer on similar claims, and existing law and includes in its reserve for uncollectible reinsurance any amounts deemed uncollectible. The inability to collect amounts due to EFH under reinsurance arrangements would reduce EFH's net income and cash flow.

TECHNOLOGY

EFH is heavily dependent on systems technology to process large volumes of transactions and there would be a risk if the technology employed is inadequate or inappropriate to support current and future business needs and objectives. EFH continues to implement new computer applications as part of a comprehensive approach to improve systems technology. EFH regularly tests and improves its Disaster Recovery and Business Continuity Plan to protect itself, its producers and policyholders in the event of a technology failure; however, there is no assurance that EFH will be able to respond to technology failures effectively and with minimal disruption.

LIQUIDITY

EFH manages its cash and liquid assets in an effort to ensure there is sufficient cash to meet all of EFH's financial obligations as they fall due. As a federally regulated insurance company, Echelon is required to maintain an asset base comprised of liquid securities that can be used to satisfy its ongoing commitments. EFH believes that internally-generated funds provide the financial flexibility needed to fulfill cash commitments on an ongoing basis. EFH has no material commitments for capital expenditures; however, there can be no assurances that EFH's cash on hand and liquid assets will be sufficient to meet any future obligations that may come due.

FUTURE CAPITAL REQUIREMENTS

EFH's future capital requirements will depend upon many factors, including the expansion of EFH's sales and marketing efforts and the status of competition. There can be no assurance that financing will be available to EFH on acceptable terms, or at all. If additional funds are raised by issuing equity securities, further dilution to the existing stockholders will result. If adequate funds are not available, EFH may be required to delay, scale back or eliminate its programs. Accordingly, the inability to obtain such financing could have a material adverse effect on EFH's business, financial condition and results of operations.

REGULATION

The industry in which EFH operates is regulated for the sale of P&C insurance. Changes in these regulations may significantly affect the operations and financial results of EFH.

RISK MANAGEMENT

EFH has developed a comprehensive process of risk management and internal control which emphasizes the proactive identification of risks facing the organization and the effective management and control of these risks. The foundation of the process is ongoing thorough operational analysis by senior management committees and a structured oversight process undertaken by the Board of Directors and appointed committees. Underlying this structure are internal control procedures which are designed to safeguard EFH's assets and protect the organization and its stakeholders from risk.

As a provider of insurance products, effective risk management is fundamental to EFH's ability to protect the interests of EFH's customers and shareholders. The Company is exposed to risks of loss pertaining to insurance products. EFH is exposed to potential loss from various market risks, including interest rate and equity market fluctuation risk, credit risk, liquidity risk and, to a lesser extent, foreign currency risk.

Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. This risk is mitigated by matching liabilities and assets.

The primary market risk to the investment portfolio is the interest rate risk associated with investments in fixed income securities. The Company's exposure to unhedged foreign exchange risk is not significant. The investment policy is capital efficient and minimizes interest rate mismatch risk. Management does not currently anticipate significant changes in EFH's primary market risk exposures or in how those exposures are managed in future reporting periods based upon what is known or expected to be in effect in future reporting periods.

Interest Rate and Equity Market Fluctuation

Movements in short and long-term interest rates, as well as fluctuations in the value of equity securities, affect the level and timing of recognition of gains and losses on securities that EFH holds, and cause changes in realized and unrealized gains and losses. Generally, the Company's investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income securities are called, mature, or are sold and the proceeds are reinvested at lower rates. During periods of rising interest rates, the market value of EFH's existing fixed income securities will generally decrease and the realized gains on fixed income securities will likely be reduced. These will be partially offset by changes on the Company's discounted actuarial liabilities. General economic conditions, political conditions and many other factors can also adversely affect the stock markets and, consequently, the value of the equity securities EFH owns.

Credit Risk

Credit risk is the possibility that counterparties may not be able to meet payment obligations when they become due. The credit risk exposure is concentrated primarily in the fixed income and preferred share investment portfolios and, to a lesser extent, in reinsurance recoverables.

EFH's risk management strategy and investment policy is to invest in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer. The Company attempts to limit its credit exposure by imposing fixed income portfolio limits on individual corporate issuers based upon credit quality (see "Investments" – "Fixed Income Securities" and "Reinsurance" sections).

Foreign Exchange Risk

Foreign exchange risk is the possibility that changes in exchange rates may produce an unintended effect on earnings and equity when measured in domestic currency. This risk is largest when asset backing liabilities are payable in one currency and are invested in financial instruments of another currency.

EFH is exposed to foreign exchange risk, through its International segment's operations in Europe. As at December 31, 2015, EFH has provided capital of $48.9 million to its Danish-based insurance company.

On January 21, 2016, the Company entered into a three month foreign exchange forward contract to manage the foreign currency risk on its investment in its European subsidiary, Qudos. The Company agreed to buy $47.8 million (CAD) and sell €30 million (EUR). The contract matures on April 22, 2016.

CORPORATE GOVERNANCE

Active oversight remains a priority for the Board of Directors. The board is directly involved, through its committees, in overseeing all aspects of EFH's operation. The objective of the board is to meet or exceed best practices in corporate governance. There is independent oversight from the board and the respective committees to key corporate functions such as financial reporting, compliance, risk assessment and management, as well as human resources and succession planning.

EFH's Board of Directors has established the following committees to ensure that risks are effectively identified, monitored, controlled and reported on:

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee reviews all financial information, monitors internal controls and provides oversight of management's risk-control processes, specifically focusing on financial related risks. Echelon also has an Audit and Risk Committee of its directors in accordance with the requirements of the Insurance Companies Act (Canada).

GOVERNANCE COMMITTEE

The Governance Committee is responsible for director nominations, monitoring related party transactions, officer compensation, benefit plans and the monitoring of regulatory compliance and market conduct programs put in place by management to ensure their effectiveness.

INVESTMENT COMMITTEE

The Investment Committee ensures that risks associated with the investment of corporate and policyholder funds are effectively managed to accomplish EFH's investment objectives of prudent, conservative management of funds and compliance with regulatory restrictions while achieving competitive rates of return.

REINSURANCE COMMITTEE

This committee of senior executives works closely with AON Benfield Canada, EFH's reinsurance brokers, to ensure that effective reinsurance programs are in place, which facilitate the desired growth of EFH's business and provide EFH with protection against the occurrence of significant and unusual claims risk and development.

In addition to these committees, management has formed a number of working committees which have been assigned the responsibility of identifying and managing specific corporate risks, including (i) underwriting and claims committees to manage the risks associated with the development and pricing of EFH's products, claims adjudication and reserving; (ii) a technology committee and a system prioritization committee to ensure the prioritization and implementation of effective technology solutions; (iii) an Enterprise Risk Management committee to instill a consistent approach to risk management and appropriate processes and procedures are in place to ensure compliance with all applicable regulatory requirements. EFH has established a Disaster Recovery Plan and a Business Continuity Plan with the objectives of protecting critical Company information and infrastructure and resuming business operations in a timely effective manner in the event of a catastrophic event.

FUTURE CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE

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 is currently evaluating the impacts of IFRS 9 on its consolidated financial statements, as well as the implementation options for insurers proposed in the December 2015 Exposure Draft Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Proposed amendments to IFRS 4).

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 Revenue from contracts with customers deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by EFH is recorded, processed, summarized and reported in a timely manner. This includes controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2015, an evaluation was carried out, under the supervision of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as defined under Multilateral Instrument 52-109. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of these disclosure controls and procedures was effective.

Internal Controls over Financial Reporting

As at the quarter ended December 31, 2015, the Chief Executive Officer and the Chief Financial Officer evaluated the design of the Company's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of internal controls as at December 31, 2015, was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2015, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

EFH's significant accounting policies are disclosed in note 3 to the consolidated financial statements for the years ended December 31, 2015 and 2014.

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

POLICY LIABILITIES

Policy liabilities consist of provisions for unpaid claims.

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

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

The provision for unpaid claims and adjustment expenses is discounted to take into account the time value of money. Changes in market interest rates and investment portfolio yield are the primary factors influencing the discount rate. Based on the net provision for unpaid claims and adjustment expenses as at December 31, 2015, a 1% increase in the discount rate would result in a decrease in the net provision of $6.5 million and a 1% decrease in the discount rate would increase the net provision by $6.7 million. It also includes a provision for adverse deviation, as required by Canadian accepted actuarial practice.

IMPAIRMENT OF FINANCIAL ASSETS

The Company considers an impairment if there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its carrying value. The Company considers an impairment if there is objective evidence that a loan or receivable collectability is impaired at which time the Company will write down the loan or receivable to the expected recoverable cost.

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

a) significant financial difficulty of the issuer or obligor;

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

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

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

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

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

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

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

REINSURANCE

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

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

INCOME TAXES

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

DEFERRED POLICY ACQUISITION COST

Portion of the deferred policy acquisition costs include general expenses that are capitalized based on management judgement.

GLOSSARY OF SELECTED INSURANCE TERMS

"Cede" means the act of an insurer transferring or assigning part or all of the risk on an insurance policy written by it to a reinsurer by purchasing insurance from such reinsurer to cover the risk or part thereof.

"Combined ratio" of an insurer for any period means the sum of the loss ratio and the expense ratio of the insurer for such period.

"Direct written premiums" of an insurer for any period means the total premiums on insurance, including assumed reinsurance, written by the insurer during such period.

"Expense ratio" for any period means the sum of expenses, including commissions, premium taxes and operating expenses incurred, expressed as a percentage of net earned premiums.

"Loss adjustment expenses" or **"LAE"** means the expense of settling claims, including certain legal and other fees and the expense of administering the claims adjustment process.

"Loss ratio" for any period means the sum of claims and claims adjustment expenses incurred, net of reinsurance, expressed as a percentage of net earned premiums.

"Minimum Capital Test" means the OSFI's Minimum Capital Test (MCT) Guideline under which a federally regulated insurer is measured for the adequacy of its capital.

"Net earned premiums" of an insurer means the portion of the written premium equal to the expired portion of the time for which insurance or reinsurance was in effect.

"Net Operating Income" means net income plus or minus the after tax impact of change in discount rate on unpaid claims, realized losses or gains on sale of investments, discontinued operations, unrealized fair value changes on FVTPL investments and one time non recurring charges.

"Net written premiums" of an insurer means direct written premiums less amounts ceded to reinsurers.

"Producers" refers to, collectively, insurance brokers, agents and managing general agencies.

"Reinsurance" means an arrangement in which an insurance company, the reinsurer, agrees to indemnify another insurance or reinsurance company, the ceding company, against all or a portion of the insurance or reinsurance risks underwritten by the ceding company under one or more policies.

"Return on equity" or **"ROE"** for a period means net income expressed as a percentage of the average total shareholder equity in that period.

"Underwriting" means the assumption of risk for designated loss or damage by issuing a policy of insurance in respect thereof.

"Unearned premiums" means the portion of premiums received relating to the period of risk in subsequent accounting periods and which is deferred to such subsequent accounting periods.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

ROLES OF MANAGEMENT, BOARD OF DIRECTORS AND AUDIT AND RISK COMMITTEE

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

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

ROLE OF APPOINTED ACTUARY

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

ROLE OF EXTERNAL AUDITOR

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

Toronto, Ontario
February 17, 2016

Steve Dobronyi
Chief Executive Officer

Alvin Sharma
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

February 17, 2016

TO THE SHAREHOLDERS OF ECHELON FINANCIAL HOLDINGS INC.

TO THE SHAREHOLDER OF ECHELON FINANCIAL HOLDINGS INC.

We have audited the accompanying consolidated financial statements of Echelon Financial Holdings Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2015 and 2014 and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Echelon Financial Holdings Inc. and its subsidiaries as at December 31, 2015 and 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants,
Licensed Public Accountants

APPOINTED ACTUARY'S REPORT

TO THE SHAREHOLDER OF ECHELON FINANCIAL HOLDINGS INC.

I have valued the policy liabilities of the subsidiary insurance operations of Echelon Financial Holdings Inc. for its statement of financial condition at December 31, 2015, and their changes in the statements of income and comprehensive income for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policy obligations and the consolidated financial statements fairly present the results of the valuation.

Toronto, Ontario
February 17, 2016

Michel Trudeau,
Fellow, Canadian Institute of Actuaries

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)

	Note	Dec. 31, 2015	Dec. 31, 2014
Assets			
Cash and short–term deposits		**23,373**	27,326
Accounts receivable		**105,300**	52,726
Investments	6	**513,099**	504,290
Due from insurance companies		**1,821**	1,996
Deferred policy acquisition costs	8	**76,710**	49,353
Income taxes recoverable		**4,329**	955
Prepaid expenses and other assets		**4,596**	3,358
Reinsurers' share – unearned premiums	9	**89,953**	37,528
– provision for unpaid claims	10	**90,158**	48,737
Property and equipment		**1,032**	871
Intangible assets	13	**6,238**	6,804
Deferred income taxes	14	**6,440**	6,355
Total assets		**923,049**	740,299
Liabilities			
Income taxes payable		**—**	5,179
Accounts payable and accrued liabilities		**34,266**	18,535
Payable to insurance companies		**19,097**	6,407
Unearned premiums	9	**260,073**	168,555
Unearned commission	8	**23,689**	9,459
Provision for unpaid claims	10	**397,214**	344,692
Total liabilities		**734,339**	552,827
Equity			
Share capital	15	**69,653**	67,153
Contributed surplus	16	**436**	2,192
Retained earnings		**108,551**	105,354
Accumulated other comprehensive income	23	**6,060**	8,917
Equity attributed to shareholders of the Company		**184,700**	183,616
Non-controlling interest	25	**4,010**	3,856
Total equity		**188,710**	187,472
Total liabilities and equity		**923,049**	740,299

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

On behalf of the Board of Directors:

Steve Dobronyi
Director

Robert Purves
Director

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

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

	Note	Twelve months ended Dec. 31 2015	2014
Revenue			
Gross written and assumed premiums		**495,091**	364,904
Less: Premiums ceded to reinsurers		**(156,789)**	(80,041)
Net written and assumed premiums		**338,302**	284,863
(Increase) in gross unearned premiums		**(74,820)**	(24,429)
Increase in unearned premiums, reinsurers' share		**47,429**	17,600
Change in provision for unearned premiums		**(27,391)**	(6,829)
Net earned premiums		**310,911**	278,034
Investment income	6	**13,887**	24,333
Other income		**748**	—
Total revenue		**325,546**	302,367
Expenses			
Gross claims incurred		**267,271**	195,568
Less: claims recoveries from reinsurers		**(73,627)**	(32,988)
Net incurred claims		**193,644**	162,580
Gross acquisition costs		**117,759**	93,855
Less: acquisition cost recoveries from reinsurers		**(28,945)**	(14,174)
Net acquisition costs		**88,814**	79,681
Operating costs	18	**34,873**	32,585
ICPEI Integration costs		**—**	1,347
Total expenses		**317,331**	276,193
Income before taxes and discount rate impact on claims		**8,215**	26,174
Impact of change in discount rate on claims (1)		**408**	(2,391)
Income before income taxes		**8,623**	23,783
Income tax expense	14	**405**	5,051
Net income		**8,218**	18,732
Attributed to:			
Shareholders of the Company		**8,258**	18,722
Non-controlling interest	25	**(40)**	10
Net income		**8,218**	18,732
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	23	**(1,754)**	11,558
Reclassification of net realized (gains) to net income		**(5,512)**	(6,791)
Cumulative translation gain (loss)		**2,421**	(1,771)
Tax impact	14	**1,994**	(1,230)
Other comprehensive (loss) income		**(2,851)**	1,766
Attributed to:			
Shareholders of the Company		**(2,857)**	1,747
Non-controlling interest	25	**6**	19
Other comprehensive (loss) income		**(2,851)**	1,766
Total comprehensive income		**5,367**	20,498
Attributed to:			
Shareholders of the Company		**5,401**	20,469
Non-controlling interest	25	**(34)**	29
Total comprehensive income		**5,367**	20,498
Earnings per share attributable to shareholders of the Company	24		
Earnings per share – basic		**$0.71**	$1.61
Earnings per share – diluted		**$0.69**	$1.56
Net income		**8,218**	18,732

(1) As the interest rate changes every year there is an impact to the incurred claims. Management believes it is beneficial to the user 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 consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(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)	**—**	**—**	**—**	**8,258**	**8,258**	**(40)**	**8,218**
Other comprehensive income	**—**	**—**	**(2,857)**	**—**	**(2,857)**	**6**	**(2,851)**
Total comprehensive income (loss)	**—**	**—**	**(2,857)**	**8,258**	**5,401**	**(34)**	**5,367**
Common shares repurchased	**(642)**	**—**	**—**	**(871)**	**(1,513)**	**—**	**(1,513)**
Dividends paid	**—**	**—**	**—**	**(5,171)**	**(5,171)**	**—**	**(5,171)**
Investment in subsidiary – Qudos	**—**	**—**	**—**	**62**	**62**	**(62)**	**—**
Capital injection – ICPEI	**—**	**—**	**—**	**—**	**—**	**250**	**250**
Common shares issued on stock options exercised	**3,142**	**(1,834)**	**—**	**919**	**2,227**	**—**	**2,227**
Stock compensation expense	**—**	**78**	**—**	**—**	**78**	**—**	**78**
Balance at December 31, 2015	**69,653**	**436**	**6,060**	**108,551**	**184,700**	**4,010**	**188,710**

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	Dec. 31, 2015	Dec. 31, 2014
Cash provided by (used in):		
Operating activities		
Net income	**8,218**	18,732
Adjusted for:		
Reinsurers' share of unearned premiums	**(52,425)**	(17,481)
Reinsurers' share of unpaid claims	**(41,421)**	(13,816)
Provision for unpaid claims	**52,522**	25,632
Unearned premiums	**91,518**	27,668
Deferred income taxes	**(85)**	(60)
Unearned commissions	**14,230**	5,836
Deferred policy acquisition costs	**(27,357)**	(11,627)
Amortization on property plant equipment and intangible assets	**4,687**	5,122
Amortization of premiums on bonds	**2,796**	2,716
Fair value change on FVTPL investments	**7,315**	(1,242)
Options expense	**78**	631
Currency translation	**2,421**	(1,771)
Prepaid expenses & other assets	**(1,238)**	1,801
	53,041	23,409
Cash flow from changes in		
Accounts receivable	**(52,574)**	(3,180)
Net realized (gains)	**(5,307)**	(6,745)
Income taxes (recoverable) payable	**(6,559)**	6,577
Due to insurance companies	**12,865**	2,766
Other liabilities	**15,731**	(2,874)
Cash provided by continuing operating activities	**25,415**	38,685
Financing activities		
Proceeds from issue of common shares for stock options	**2,227**	1,409
Common share dividends	**(5,171)**	(4,701)
Share repurchases	**(1,513)**	(3,457)
Additional investment in ICPEI by minority interest	**250**	3,281
Cash (used in) financing activities	**(4,207)**	(3,468)
Investing activities		
Purchases of property, equipment and intangible assets	**(4,282)**	(6,725)
Sale of property and equipment & intangible assets	**—**	61
Purchases of investments	**(516,837)**	(605,106)
Sale/maturity of investments	**495,958**	585,723
Cash (used in) investing activities	**(25,161)**	(26,047)
(Decrease) increase in cash and short-term deposits	**(3,953)**	9,170
Cash and short-term deposits, beginning of period	**27,326**	18,156
Cash and short-term deposits, end of period	**23,373**	27,326
Supplementary information		
Operating activities		
Income taxes paid (recovered)	**5,712**	(1,473)

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

1 NATURE OF OPERATIONS

Echelon Financial Holdings Inc. ("the Company"), formerly EGI Financial Holdings Inc , 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 97.5% of the common shares of QIC Holdings ApS ("QIC"). QIC owns100% of Qudos Insurance A/S ("Qudos") that is headquartered in Denmark and underwrites insurance products primarily in the United Kingdom, Ireland, and Denmark. The Company's ownership in Qudos has increased to 97.5% from 93% at the beginning of the year due to capital injected to maintain its solvency ratio and fund growth of the operations.

On July 1st, 2014, the Company acquired 75% of ICPEI from SGI Canada, a provincially regulated insurance company. ICPEI has provided insurance to the Maritimes since 1987. Refer to Note 18 for additional expenses incurred after acquisition date.

2 BASIS OF PREPARATION

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

These consolidated financial statements have been authorized for issue by the Board of Directors, on February 17, 2016.

Prior period figures in the segment reporting in Note 27 have been reclassified to conform to the current period presentation.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF MEASUREMENT

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

BALANCE SHEET PRESENTATION

The Company does not classify its assets and liabilities as current and non-current on its balance sheets. As a financial institution, the Company provides insurance services over a period of years, rather than within a clearly identifiable short-term operating cycle. For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and more relevant than a current / non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle. The maturity profile of the investment portfolio is described in note 12 based on expected settlements. The estimated payment period for insurance claims, less related reinsurance recoverable, is provided in note 12. Property and equipment assets are charged to expense over their estimated useful lives of up to three years. Intangible assets with definite useful lives are charged to expense over their estimated useful lives of two years while an impairment analysis is done on all other intangible assets. Cash and short term deposits, accounts receivables, due from insurance companies, income taxes receivables and payable, accounts payable and accrued liabilities are expected to be recovered or settled within twelve months of the period end.

CONSOLIDATION

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

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

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

SEGMENT REPORTING

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

BUSINESS COMBINATIONS

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

FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

Items included in the financial statements of each consolidated entity of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

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

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

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

(ii) Transactions and balances

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

CASH AND SHORT-TERM DEPOSITS

Cash and short-term deposits include cash-on-hand, cash balances with banks and short-term investments. Short-term investments are defined as loans of less than one year to maturity at the time of acquisition. These financial assets are classified as loans and receivables and are recorded at an amortized cost which approximates fair value.

INVESTMENTS UNDER SECURITIES LENDING PROGRAM

Securities lending transactions are entered into on a collateralized basis. The securities lent are not derecognized on the consolidated balance sheet given that the risks and rewards of ownership are not transferred from the Company to the counterparties in the course of such transactions. Securities received from counterparties as collateral are not recorded on the consolidated balance sheet given that the risks and rewards of ownership are not transferred from the counterparties to the Company in the course of such transactions.

In the event that any loan made pursuant to the securities lending agreement is terminated and the loaned Security, or any portion thereof, is not returned to the Company for any reason (including, without limitation, the insolvency or bankruptcy of the Borrower) within the time specified by the applicable Borrowing Agreement, the agent shall be jointly and severally liable, at its expense to:

(i) Promptly replace such Security, or any portion thereof, not so returned with other securities of the same issuer, class, and denomination and with the same interest/dividend rights and other economic benefits as such , should the security have been returned, or

(ii) If it is unable to purchase such Security on the open market, the agent will credit Echelon in cash with the market value of such unreturned security, such market value to be determined as of the close of business on the date on which such security was required to be returned, including any future economic benefits that the company would have earned on holding the security.

FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

IMPAIRMENT OF FINANCIAL ASSETS

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

1. Significant financial difficulty of the obligor;
2. Delinquencies in interest, principal or dividend payments; and
3. It becomes probable that the borrower will enter bankruptcy or other financial reorganization.

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

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

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

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

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

INSURANCE CONTRACTS

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

PROVISION FOR UNPAID CLAIMS

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

STRUCTURED SETTLEMENTS

In the normal course of claims adjudication, the Company settles certain obligations to claimants through the purchase of annuities from third party life insurance companies under structured settlement arrangements (structured settlements). In accordance with OSFI Guideline D-5, these contracts are categorized as either Type 1 or Type 2 based on the characteristics of the claim settlement. When the Company does not retain a reversionary interest under the contractual arrangement to any current or future benefits of the annuity, and the Company has obtained a legal release of the obligation from the claimant, it will be classified as a Type 1 structured settlement. For such contracts, any gain or loss arising on the purchase of an annuity is recognized in the consolidated statement of income at the date of purchase and the related claims liabilities are derecognized. All other structured settlements that do not meet these criteria are classified as Type 2, with the Company recognizing the annuity contract in other investments within invested assets. A corresponding liability representing the outstanding obligation to the claimant is recognized in insurance contracts.

REINSURANCE

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

REVENUE RECOGNITION

Premiums and unearned premiums

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

Ceded Premiums and reinsurers' share of unearned premiums

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

DEFERRED POLICY ACQUISITION COSTS

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

UNEARNED COMMISSION

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

PROPERTY AND EQUIPMENT

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

Furniture and equipment	3 years
Computer hardware	3 years

INTANGIBLE ASSETS

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

EMPLOYEE BENEFITS

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

INCOME TAXES

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

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

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

STOCK-BASED COMPENSATION

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

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

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

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

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

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

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

PROVISIONS

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

SHARE CAPITAL

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

DIVIDENDS

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

EARNINGS PER SHARE

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

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 is currently evaluating the impacts of IFRS 9 on its consolidated financial statements, as well as the implementation options for insurers proposed in the December 2015 Exposure Draft Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Proposed amendments to IFRS 4).

IFRS 15, Revenue from Contracts with Customers

IFRS 15, Revenue from contracts with customers deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Valuation of provisions for unpaid claims

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

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

Impairment of Financial Assets

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

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

a) significant financial difficulty of the issuer or obligor;

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

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

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

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

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

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

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

Valuation of Reinsurer's share of provision for unpaid claims

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

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

Valuation of deferred tax asset

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

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

	Carrying and fair values	
Available-for-sale	**As at Dec. 31, 2015**	As at Dec. 31, 2014
Fixed income		
Canadian		
Federal	**45,524**	74,579
Provincial	**55,976**	48,978
Municipal	**1,386**	2,235
Corporate	**171,789**	182,441
	274,675	308,233
Fixed income lent through securities lending program		
Federal	**14,231**	10,985
Provincial	**3,800**	435
Corporate	**4,673**	4,609
	22,704	16,029
Foreign fixed income		
Government	**17,555**	25,964
Corporate	**114,399**	69,088
	131,954	95,052
Total fixed income	**429,333**	419,314
Commercial mortgages pooled funds	**17,017**	2,173
Money market pooled funds	**403**	110
Short-term fixed income and mortgage pooled funds	**16,934**	16,476
Total pooled funds	**34,354**	18,759
Common shares		
Canadian	**2,656**	7,784
U.S.	**8,012**	13,690
Total common shares	**10,668**	21,474
Total available-for-sale	**474,355**	459,547
Fair value through profit or loss		
Preferred shares	**38,400**	44,323
Preferred shares lent through securities lending program	**344**	420
Total preferred shares	**38,744**	44,743
Total investments	**513,099**	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 December 31, 2015, the Company had collateral of $24,507 (2014 – $19,207) for the loaned securities or approximately 106% 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, commercial mortgage pooled funds, money market pooled fundsand 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 December 31, 2015, and December 31, 2014:

Dec. 31, 2015

	Level 1	**Level 2**	**Level 3**	**Total**
Fixed income	**—**	**429,333**	**—**	**429,333**
Commercial mortgages pooled funds	**—**	**17,017**	**—**	**17,017**
Money market pooled funds	**—**	**403**	**—**	**403**
Short-term fixed income and mortgage pooled funds	**—**	**16,934**	**—**	**16,934**
Equities	**10,668**	**—**	**—**	**10,668**
Preferred Shares	**38,744**	**—**	**—**	**38,744**
	49,412	**463,687**	**—**	**513,099**

Dec. 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	21,474	—	—	21,474
Preferred Shares	44,743	—	—	44,743
	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 nil (December 31, 2014 – 0.4%) of the total investment portfolio. All investments in a commercial mortgages pooled fund with a fair value of $17,017 are in level 2. Last year they were considered as level 3, as there was not an observable market compared to this year (December 31, 2014 – $2,173).

A reconciliation of Level 3 investments for the years ended December 31, 2015 and 2014, with the use of significant unobservable inputs from January 1 to December 31, is as follows:

	2015	2014
Balance at beginning of period	**2,173**	2,052
Addition during the year	**—**	—
Disposal / Reclassification during the year	**(2,173)**	—
Net unrealized gains included in other comprehensive income	**—**	121
Balance at end of period	**—**	2,173

Investment in commercial mortgages pooled funds is valued using the Company's share of the net asset value of the commercial mortgage pooled fund as of December 31, 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 twelve months ended December 31, 2015, the Company transferred commercial mortgages with a carrying value of $2,173 from level 3 to level 2 (December 31, 2014 – $nil). There were no transfers from Level 2 to Level 1, or vice versa in the period.

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

IMPAIRED ASSETS AND PROVISIONS FOR LOSSES

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

A provision for impairments on AFS investments of $267 was recognized for the period ended December 31, 2015, primarily relating to US equity investments, held at CIM Re (December 31, 2014 – $nil). A remaining gross unrealized loss of $3,232 on AFS investments held as at December 31, 2015 (December 31, 2014 – $2,668) is recorded, net of tax, in the amount of $2,506 (December 31, 2014 – $2,068) in Accumulated Other Comprehensive Income.

INVESTMENT INCOME

The table below provides additional details on net investment income:

	2015	2014
Interest income	**14,705**	14,458
Dividend income	**2,605**	2,231
Net realized gains	**5,574**	6,745
Impairment loss recognized on AFS investment	**(267)**	—
Fair value change on FVTPL investments	**(7,315)**	1,242
Realized and unrealized foreign exchange gains	**92**	1,057
Investment expenses	**(1,507)**	(1,400)
Investment income	**13,887**	24,333

7 LINE OF CREDIT

The Company has a $10 million two-year secured revolving term credit facility maturing on July 1, 2017. This credit facility may be drawn at the prime rate plus a margin or as bankers' acceptances rate plus a margin. This facility was undrawn as at December 31, 2015. As part of the covenants of the loans under the credit facilities, the Company is required to maintain certain ratios and limits. All financial limits and ratios have been met as at December 31, 2015.

8 DEFERRED POLICY ACQUISITION COSTS

Reconciliation of deferred policy acquisition costs (DPAC) at December 31:

	2015		2014	
	Gross	**Ceded**	Gross	Ceded
Balance at the beginning of the year	**49,353**	**9,459**	37,726	3,692
Acquisition costs during the year	**139,920**	**42,059**	104,908	19,591
Amortization of acquisition costs during the year	**(115,350)**	**(27,523)**	(93,855)	(14,174)
Premium deficiency relating to Qudos UK auto	**(2,409)**	**(1,422)**	—	—
Currency translation	**5,196**	**1,116**	574	350
Acquisition costs deferred at end of the year	**76,710**	**23,689**	49,353	9,459

9 UNEARNED PREMIUMS

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

	2015		2014	
	Gross	**Ceded**	Gross	Ceded
Automobile				
– accident benefits	**23,523**	**7,785**	16,549	2,835
– liability	**94,961**	**43,571**	49,792	14,004
– other	**51,650**	**21,486**	26,486	6,579
Property				
– commercial	**5,167**	**718**	5,326	513
– personal	**75,131**	**16,042**	54,897	8,657
Liability	**3,755**	**222**	4,550	258
Accident and sickness	**5,472**	**21**	2,792	89
Commercial Auto	**—**	**50**	7,715	4,529
Other	**414**	**58**	448	64
	260,073	**89,953**	168,555	37,528

A reconciliation of unearned premium is shown below:

	2015		2014	
	Gross	**Ceded**	Gross	Ceded
Unearned premium at the beginning of the year	**168,555**	**37,528**	141,510	20,047
Premium written and ceded during the year	**495,091**	**156,789**	364,904	80,041
Premium earned in income	**(420,271)**	**(109,360)**	(340,475)	(62,441)
Currency translation	**16,698**	**4,996**	2,616	(119)
Unearned premium at the end of the year	**260,073**	**89,953**	168,555	37,528

10 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 for each entity, which is for all lines of business within reporting entity:

Entity	2015	2014
Echelon Insurance	**2.44%**	2.19%
ICPEI	**1.63%**	1.98%
Qudos	**0.27%**	0.36%

The Company recorded a $18,012 reduction to the net provision for unpaid claims relating to redundancies in prior years' estimates (December 31, 2014 – $11,347).

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 $21,818 as at December 31, 2015 (December 31, 2014 – $23,939).

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

	2015		2014	
	Gross	**Ceded**	Gross	Ceded
Automobile				
– accident benefits	**102,467**	**23,153**	86,765	17,973
– liability	**193,368**	**43,125**	166,828	17,500
– other	**41,964**	**17,637**	20,781	6,163
Property				
– commercial	**5,750**	**1,243**	7,365	820
– personal	**17,799**	**3,308**	6,395	294
Liability	**30,720**	**910**	34,363	6
Accident and sickness	**4,636**	**682**	5,492	1,400
Commercial Auto	**257**	**100**	11,039	3,819
Other	**253**	**—**	5,664	762
Total Unpaid Claims	**397,214**	**90,158**	344,692	48,737

CLAIMS DEVELOPMENT

Provision for unpaid claims analysis	**Dec. 31, 2015**	Dec. 31, 2014
Unpaid claims, beginning of year, net	**295,955**	264,095
Favourable prior year claims development	**18,012**	11,347
Provision for claims occurring in current period	**175,224**	153,624
Paid on claims occurring during		
Current year	**(79,113)**	(72,824)
Prior year	**(103,022)**	(80,269)
Inclusion of ICPEI, net (note 1)	**—**	19,982
Unpaid claims, end of period, net	**307,056**	295,955
Reinsurers' share	**90,158**	48,737
Gross unpaid claims	**397,214**	344,692

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

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

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

Assumptions used to develop the provision estimate for unpaid claims and adjustment expenses are selected by class of business and geographic location. Consideration is given to the characteristics of the risks, historical trends, and the amount of data available on individual claims, inflation and any other pertinent factors. Some assumptions require a significant amount of 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. There were no new assumptions identified in the period as having a potential or identifiable material impact on the overall claims estimate.

CLAIMS DEVELOPMENT TABLE, GROSS OF REINSURANCE

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

										Calendar Year
	2006 & prior	2007	2008	2009	2010	2011	2012	2013	2014	2015
Provision for claims including LAE	146,101	169,091	185,255	207,220	239,036	254,519	268,580	296,856	344,692	397,214
Reserve re-estimate as of:										
1 year later	138,483	163,465	186,446	203,920	232,472	246,972	269,499	284,934	326,083	
2 years later	134,769	162,916	189,093	201,044	239,117	245,331	252,279	276,565		
3 years later	133,932	164,290	186,429	206,039	239,338	232,772	250,266			
4 years later	134,173	161,852	190,342	205,646	228,612	230,271				
5 years later	131,660	163,440	189,297	197,841	228,628					
6 years later	133,355	163,069	183,341	199,637						
7 years later	133,205	159,402	187,392							
8 years later	131,646	163,480								
9 years later	133,837									
Cumulative favourable (unfavourable) development	12,264	5,611	(2,137)	7,583	10,408	24,248	18,314	20,291	18,609	

CLAIMS DEVELOPMENT TABLE, NET OF REINSURANCE

										Calendar Year
	2006 & prior	2007	2008	2009	2010	2011	2012	2013	2014	2015
Provision for claims including LAE	97,716	120,630	143,354	168,484	202,884	221,250	238,297	264,094	295,955	307,056
Reserve re-estimate as of:										
1 year later	85,726	115,530	142,641	164,393	196,517	215,191	233,517	252,747	277,943	
2 years later	81,199	112,960	143,980	162,651	203,632	214,128	225,958	245,568		
3 years later	79,470	112,595	142,924	166,901	203,367	204,365	220,530			
4 years later	77,794	111,267	144,486	166,300	195,502	197,028				
5 years later	76,878	110,883	143,125	160,078	192,120					
6 years later	76,584	110,001	138,578	159,189						
7 years later	76,695	107,439	139,649							
8 years later	75,063	108,297								
9 years later	75,509									
Cumulative favourable (unfavourable) development	22,207	12,333	3,705	9,295	10,764	24,222	17,767	18,526	18,012	

11 UNDERWRITING POLICY AND REINSURANCE CEDED

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

During 2015, the Company followed the policy of underwriting and reinsuring contracts of insurance, which limits the net exposure of the Company to a maximum amount on any one loss to $1,500 (2014 – $1,750). In addition, the Company obtained catastrophe reinsurance which limits the loss from a series of claims arising from a single occurrence to $2,000 (2014 – $2,000), to a maximum coverage of $35,000 (2014 – $23,000).

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

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

REINSURANCE RECOVERABLE

The following tables summarize the balances outstanding from reinsurers as at December 31, 2015 and 2014, by risk rating:

Dec. 31, 2015

Credit rating	**Gross reinsurance recoverable**	**Less: Deposits held in trust**	**Net exposure**
A or higher	**180,011**	**1,308**	**178,703**
Not rated	**1,779**	**1,417**	**362**
	181,790	**2,725**	**179,065**

Dec. 31, 2014

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

Included in gross reinsurance recoverable is reinsurers' share of unearned premiums of $89,953 (December 31, 2014 – $37,528), reinsurers' share of provision for unpaid claims of $90,158 (December 31, 2014 – $48,737), and receivables from reinsurers presented as due from insurance companies of $1,679 (December 31, 2014 – $1,881). No balances due from reinsurers are considered past due as at December 31, 2015 and 2014. There is no valuation allowance or amounts written off during the years ended December 31, 2015 and 2014.

12 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 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.

Direct Written Premium	**Dec. 31, 2015**	Dec. 31, 2014
Lines		
Personal Lines	**30%**	36%
Commercial Lines	**10%**	15%
International	**60%**	49%
Region		
Ontario	**21%**	27%
Atlantic Canada	**9%**	8%
Quebec	**3%**	4%
Western Canada	**7%**	12%
International	**60%**	49%

Sensitivity to insurance risk

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

	2015		2014	
Sensitivity Factor	**Net income before income taxes**	**Shareholders' equity**	Net income before income taxes	Shareholders' equity
Increase of 1% to loss ratio	**(3,109)**	**(2,270)**	(2,780)	(2,029)
Increase of 1% to claims settlement costs	**(3,071)**	**(2,242)**	(2,960)	(2,161)

PRODUCT AND PRICING

The Company prices its products taking into account numerous factors, including claims frequency and severity trends, product line expense ratios, special risk factors, the capital required to support the product line, and the investment income earned on that capital. The Company's pricing process is designed to ensure an appropriate return on capital and long-term rate stability avoiding wide fluctuations in rates, unless necessary. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

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

UNDERWRITING AND CLAIMS

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

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

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

UNPREDICTABLE CATASTROPHIC EVENTS

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

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

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

ASSET AND LIABILITY MATCHING

The Company is exposed to:

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

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

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

MARKET RISK

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

INTEREST RATE RISK

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

The sensitivity analysis for interest rate risk as set out in the table below illustrates the impact of changes in interest rates on OCI relating to the fixed income investment portfolio as at December 31, 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 Dec. 31, 2015			
200 basis point rise	**404,244**	**(6)%**	**(18,315)**
100 basis point rise	**416,788**	**(3)%**	**(9,158)**
No change	**429,333**	**—**	**—**
100 basis point decline	**441,879**	**3%**	**9,159**
200 basis point decline	**454,425**	**6%**	**18,317**

Change in interest rates	Fair value of fixed income	Hypothetical change on fair value	Effect on OCI net of tax
As at Dec. 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

As discussed in note 10, the discount rate used in the determination of the provision for unpaid claims is based on the expected return of assets on its investment portfolio with appropriate assumptions for interest rates relating to reinvestment of maturing investments. Fluctuations in market interest rates will therefore have an impact on the discount rate used in the valuation of the net provision for unpaid claims. The table below shows the potential impact of interest rate fluctuations on the net provision for unpaid claims and income statement:

Change in discount rate	**Net provision for unpaid claims**	**Hypothetical change in value**	**Effect on net income net of tax**
As at Dec. 31, 2015			
100 basis point rise	**300,563**	**(2)%**	**4,740**
No change	**307,056**	**—%**	**—**
100 basis point decline	**313,755**	**2%**	**(4,890)**
As at Dec. 31, 2014			
100 basis point rise	289,700	(2)%	4,566
No change	295,955	—	—
100 basis point decline	302,411	2%	(4,713)

LIQUIDITY RISK

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

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

Dec. 31, 2015	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Greater than 5 years**	**Total**
Bonds	**36,949**	**121,892**	**125,709**	**144,783**	**429,333**
Percentage of total	**9%**	**28%**	**29%**	**34%**	**100%**

Dec. 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 December 31, 2015, and December 31, 2014:

Dec. 31, 2015	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Greater than 5 years**	**Total**
Actuarial liabilities (undiscounted)	**157,206**	**121,333**	**73,855**	**26,267**	**378,661**
Less: Reinsurance recoverable (undiscounted)	**45,441**	**24,209**	**16,700**	**2,518**	**88,868**
Net actuarial liabilities	**111,765**	**97,124**	**57,155**	**23,749**	**289,793**

Dec. 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 (undiscounted)	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 19.

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 twelve months ended December 31, 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) net of tax**		**Effect on OCI net of tax**	
	Dec. 31, 2015	Dec. 31, 2014	**Dec. 31, 2015**	Dec. 31, 2014
10% rise	**2,828**	3,266	**779**	1,568
10% decline	**(2,828)**	(3,266)	**(779)**	(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's maximum exposure to credit risk, without taking into account amounts held as collateral, is:

	As at Dec. 31, 2015	As at Dec. 31, 2014
Bonds	**429,333**	419,314
Gross Reinsurance Recoverable	**180,111**	86,265
Accounts receivable	**105,300**	52,726
Structured Settlements	**33,009**	30,078
Cash	**23,373**	27,326
Total	**771,126**	615,709

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

FIXED INCOME PORTFOLIO

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

	As at Dec. 31, 2015		As at Dec. 31, 2014	
	Fair value	Fair value	Fair value	Fair value
AAA	**132,195**	**31%**	135,699	32%
AA	**87,986**	**21%**	80,965	19%
A	**76,398**	**18%**	86,643	21%
BBB	**81,639**	**19%**	66,349	16%
BB	**25,888**	**6%**	26,879	6%
B	**14,717**	**3%**	11,583	3%
CCC	**537**	**0%**	1,954	1%
Unrated	**9,973**	**2%**	9,242	2%
Total	**429,333**	**100%**	419,314	100%

PREFERRED SHARE PORTFOLIO

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

	As at Dec. 31, 2015		As at Dec. 31, 2014	
	Fair value	Fair value	Fair value	Fair value
P1	**–**	**0%**	5,156	12%
P2	**30,702**	**79%**	33,129	74%
P3	**8,042**	**21%**	6,458	14%
Total	**38,744**	**100%**	44,743	100%

The decline of P1 holdings was the result of a revision to DBRS's rating methodology for insurance holding companies and was not related to any fundamental change in the underlying credit quality of the issuers.

FOREIGN EXCHANGE RISK

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

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

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

The table below illustrates the expected impact on net income after tax and OCI after tax of a 10% change in CAD compared to the GBP and DKK as at December 31, 2015 and 2014. The impact to changes in USD is not significant. Computations of the prospective effects of hypothetical foreign exchange changes are based on numerous assumptions, including the maintenance of the existing level and composition of financial assets and financial liabilities, and should not be relied on as indicative of actual or future results.

Change in CAD/DKK rate	Effect on Net Income		Effect on OCI	
	2015	2014	**2015**	2014
10% rise	**(2,203)**	(1,455)	**2,078**	1,541
10% decline	**2,203**	1,455	**(2,078)**	(1,541)
Change in CAD/GBP rate	**Effect on Net Income**		**Effect on OCI**	
	2015	2014	**2015**	2014
10% rise	**(2,822)**	(2,240)	**3,124**	2,291
10% decline	**2,822**	2,240	**(3,124)**	(2,291)

CAPITAL MANAGEMENT

Capital is comprised of the Company's total equity. As at December 31, 2015, the Company's equity was $184,700 (December 31, 2014 – $183,616). The Company's objectives when managing capital are to maintain capital above minimum regulatory levels, above internally determined risk management levels, for financial strength and protect its claims paying abilities, to maintain creditworthiness and to maximize returns to shareholders over the long term.

All of the Company's subsidiaries exceeded the minimum capital requirements in their local jurisdictions as at December 31, 2015 and 2014.

13 INTANGIBLE ASSETS

	Opening cost	Purchases	Sales	End of period cost	Accumulated amortization	Net
Software						
December 31, 2015	**19,430**	**3,584**	**—**	**23,014**	**17,176**	**5,838**
December 31, 2014	13,301	6,129	—	19,430	13,026	6,404
Goodwill						
December 31, 2015	**400**	**—**	**—**	**400**	**—**	**400**
December 31, 2014	400	—	—	400	—	400
Total intangible assets						
December 31, 2015	**19,830**	**3,584**	**—**	**23,414**	**17,176**	**6,238**
December 31, 2014	13,701	6,129	—	19,830	13,026	6,804

14 INCOME TAXES

The income tax expense (recovery) is as follows:

	2015	2014
Current	**479**	5,191
Deferred	**(74)**	(140)
	405	5,051

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:

	2015	2014
Income tax expense calculated at statutory rates	**27.0%**	27.0%
Increase (decrease) in income tax rates resulting from:		
Non-taxable dividend income	**(7.0)%**	(2.0)%
Non-taxable (income) loss	**(0.5)%**	(2.6)%
Non-deductible expenses	**1.4%**	1.0%
Tax benefit of losses not previously recognized	**(7.5)%**	0.0%
Statutory rate differences	**(0.2)%**	0.0%
Non-taxable portion of capital gains	**(6.7)%**	(1.9)%
Other	**(1.8)%**	(0.3)%
Effective income tax rate	**4.7%**	21.2%

Deferred income taxes are comprised of the following:

	Losses Carried Forward	**Reserves**	**Investments**	**Property, equipment and intangible assets**	**Total**
Balance – January 1, 2015	**956**	**4,730**	**(55)**	**724**	**6,355**
Amounts recorded in the income statement	**190**	**28**	**23**	**(156)**	**85**
Balance – December 31, 2015	**1,146**	**4,758**	**(32)**	**568**	**6,440**

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

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

The Company has tax losses available resulting from capital losses of $8,979 for which no deferred tax asset has been set up. These losses have no expiry date.

INCOME TAXES INCLUDED IN OCI

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

	2015	2014
Change in unrealized gains	**(250)**	2,074
Reclassification to net income of (gains) and losses	**(1,744)**	(844)
Total income tax expense included in OCI	**(1,994)**	1,230

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

15 SHARE CAPITAL

	As at Dec. 31, 2015	As at Dec. 31, 2014
Authorized		
Unlimited common shares (no par value)		
Unlimited special shares issuable in Series (no par value)		
Issued		
11,729,112 common shares (December 31, 2014 – 11,609,057 common shares)	**69,653**	67,153

In 2015, 202,125 common shares (2014 – 153,275) with a value of $3,142 (2014 – $1,409) were issued for the exercise of stock options. In 2015, 21,530 common shares (2014 – 7,500) were issued pursuant to the Share Unit Plan for eligible employees. During 2015, 103,600 shares or $1,513 were repurchased under the normal course issuer bid and subsequently cancelled (2014 – 254,800 shares or $3,457).

DIVIDENDS

During the year ended December 31, 2015, the Company declared dividends on its common shares of $0.45 per share (December 31, 2014 – $0.41).

16 EMPLOYEE STOCK OPTION PLAN

For the year ended December 31, 2015, the Company recorded a compensation expense of $78 (2014 – $631), with an offsetting credit to contributed surplus in relation to its stock option plan. Stock options granted have varying vesting periods. It also recorded an expense of $629 (2014 – $346) in relation to its Share Unit Plan. No stock options were granted in 2015.

The following is a continuity schedule of stock options outstanding as at December 31, 2015 and 2014.

	Number of options		Weighted average exercise price per share	
	2015	2014	**2015**	2014
Outstanding, beginning of year	**569,950**	742,225	**8.67**	8.77
Granted during year	**—**	—	**—**	—
Exercised during year	**(202,125)**	(153,275)	**9.51**	9.19
Canceled during year	**(58,500)**	(19,000)	**8.48**	8.48
Outstanding, end of year	**309,325**	569,950	**8.15**	8.67

As at December 31, 2015, the outstanding stock options consist of the following:

Stock Option price per share	Number	Average remaining contractual life	Number of options exercisable
$8.01 – $8.98	163,400	3.88	54,000
$7.18 – $8.00	145,925	1.58	55,625

The fair values of the stock options issued in 2015 were determined using the Black-Scholes option pricing model with the following assumptions: (i) risk-free rate of 1.25%; (ii) life expectancy of 2-5 years; and (iii) estimated volatility of 2.5%. The grant-date fair value of total options granted during the year is estimated at nil (2014 – $nil). The weighted average grant-date fair value per share option to date is $3.20.

RESTRICTED SHARE UNIT (RSU) PLAN

The restricted share units are share-settled awards for which the provision recorded as at December 31, 2015 was $727 (2014 – $736). The amount credited to operating expenses for 2015 was $9 (2014 – $391).

17 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 $5,973 (December 31, 2014 – $6,923); commissions paid were $689 (December 31, 2014 – $790) and investment management fees were $262 (December 31, 2014 – $268).

KEY MANAGEMENT

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

Compensation	2015	2014
Salaries, directors' fees and other short-term benefits	**2,220**	1,465
Equity-settled and cash-settled compensation benefits	**642**	646
	2,862	2,111

18 OPERATING COSTS BY NATURE

The table below presents operating costs by major category:

	2015	2014
Salaries and benefits	**20,875**	17,142
Systems costs	**6,916**	7,897
Professional fees	**2,716**	1,942
Printing and postage	**1,549**	2,020
Other expenses	**2,817**	3,584
	34,873	32,585

Corporate expenses include $1.0 million (2014 – $nil) relating to 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 the lesser of $1.5 million or 75% of the surplus. The indemnification liability is offset by the positive development of the reserve in ICPEI. In the event that prior period losses are greater than the reserves held at June 30, 2014, SGI Canada will be required to pay the Company the difference on January 1, 2019, to a maximum of the lesser of $1.5 million or 75% of the deficiency.

19 LEASE COMMITMENTS

The Company is committed under lease agreements for office premises and computer equipment with minimum lease payments of $10,496 as follows:

Lease commitments	
2016	1,464
2017	1,131
2018	1,118
2019	1,051
2020	1,023
2021 and thereafter	4,709
	10,496

20 STRUCTURED SETTLEMENTS

In the normal course of claims adjudication, the Company may settle certain long-term losses through the purchase of annuities (structured settlements) from life insurance companies. The fair estimated value of these annuity contracts amounts to $33,009 (December 31, 2014 – $30,078) using a discount rate of 2.15% (December 31, 2014 – 2.33%). It is the policy of the Company to purchase annuities from life insurers with proven financial stability. The net risk to the Company is the credit risk related to the life insurance companies and this risk is reduced to the extent of coverage provided by Assuris, the life insurance compensation insurance plan. The Company has determined that no credit risk provision is required.

21 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.

22 RATE REGULATIONS

The Company writes business subject to rate regulation, including non-standard automobile and motorcycle insurance in Canada, which comprises approximately 27% (2014 – 37%) of gross premiums written and assumed. The Company's automobile insurance premiums can be impacted by mandatory rate rollbacks and mandatory rate assessments as legislated by provincial law and by regulation in certain provinces. This could result in lower future premium rates or reductions to premium rates charged by the Company in prior years. In addition, the Company is required, under certain provincial legislation, to participate in risk sharing pools, which may impact positively or negatively on underwriting results. Certain benefit payments are also subject to provincial government regulation, including automobile accident benefits.

23 ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at Dec. 31, 2015	As at Dec. 31, 2014
Gross unrealized gains	**4,208**	11,435
Foreign currency translation adjustments	**2,151**	(244)
Tax impact	**(299)**	(2,274)
Ending balance	**6,060**	8,917

24 EARNINGS PER SHARE

	2015	2014
Basic earnings per share:		
Net income available to shareholders	**8,258**	18,722
Average number of common shares (in thousands)	**11,669**	11,656
Basic earnings per share	**$0.71**	$1.61
Diluted earnings per share:		
Average number of common shares (in thousands)	**11,669**	11,656
Average number of dilutive common shares under employee stock compensation plan (in thousands)	**300**	336
Average number of diluted common shares (in thousands)	**11,969**	11,992
Diluted earnings per share	**$0.69**	$1.56

25 NON-CONTROLLING INTEREST

The Company has non controlling interests attributable to the subsidiaries of ICPEI and Qudos, please refer to Note 1.

			2015			2014
	ICPEI	**Qudos**	**Total**	ICPEI	Qudos	Total
Revenue						
Gross written and assumed premiums	**6,869**	**7,390**	**14,259**	3,346	47,186	50,532
Net earned premiums	**6,413**	**1,710**	**8,123**	3,319	13,672	16,991
Investment income	**51**	**17**	**68**	140	418	558
Total revenue	**6,464**	**1,727**	**8,191**	3,459	14,090	17,549
Expenses						
Net incurred claims	**4,165**	**1,175**	**5,340**	2,035	8,079	10,114
Net acquisition costs	**1,479**	**471**	**1,950**	697	4,885	5,582
Operating costs	**867**	**147**	**1,014**	550	1,280	1,830
Total expenses	**6,511**	**1,793**	**8,304**	3,282	14,244	17,526
Income (loss) before income taxes	**(47)**	**(66)**	**(113)**	177	(154)	23
Income tax expense	**(55)**	**(18)**	**(73)**	48	(35)	13
Net income (loss) attributable to NCI	**8**	**(48)**	**(40)**	129	(119)	10
OCI attributable to NCI	**(11)**	**17**	**6**	19	—	19
Comprehensive income attributable to NCI	**(3)**	**(31)**	**(34)**	148	(119)	29
Assets						
Cash and investments	**8,337**	**2,886**	**11,223**	8,937	5,844	14,781
Other assets	**4,417**	**7,217**	**11,634**	3,900	9,926	13,826
Total assets	**12,754**	**10,103**	**22,857**	12,837	15,770	28,607
Liabilities						
Unearned premium	**3,428**	**3,981**	**7,409**	3,423	7,395	10,818
Unpaid claims	**5,682**	**3,291**	**8,973**	5,601	4,746	10,347
Other liabilities	**362**	**2,103**	**2,465**	778	2,808	3,586
Total liabilities	**9,472**	**9,375**	**18,847**	9,802	14,949	24,751
Equity						
Share capital	**—**	**825**	**825**	—	2,447	2,447
AOCI	**9**	**46**	**55**	19	516	535
Retained earnings	**3,273**	**(143)**	**3,130**	3,016	(2,142)	874
Total equity	**3,282**	**728**	**4,010**	3,035	821	3,856

			2015			2014
	ICPEI	**Qudos**	**Total**	ICPEI	Qudos	Total
Cash flows from operating activities	**(581)**	**689**	**108**	314	1,211	1,525
Cash flow from investing activities	**(201)**	**(963)**	**(1,164)**	(1,156)	(1,833)	(2,989)
Cash flow from financing activities	**250**	**500**	**750**	(463)	910	447
Net increase (decrease) in cash and short-term deposits	**(532)**	**226**	**(306)**	(1,305)	288	(1,017)

26 SUBSEQUENT EVENTS

DIVIDEND

The Board of Directors declared a quarterly dividend of $0.12 cents per outstanding common share. The dividend is payable on April 1, 2016, to shareholders of record on March 10, 2016.

FORWARD CONTRACT

On January 21, 2016, the Company entered into a three month foreign exchange forward contract to manage the foreign currency risk on its investment in its European subsidiary, Qudos. The Company agreed to buy $47.8 million (CAD) and sell €30 million (EUR). The contract matures on April 22, 2016.

27 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, as the type of the business written are similar in economic circumstances. 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.

	2015	2014
Revenue		
Earned premiums		
Canada – Personal Lines	**134,791**	124,752
– Commercial Lines	**41,677**	42,765
Total Canada	**176,468**	167,517
International	**134,443**	110,517
Total earned premium	**310,911**	278,034
Net claims Incurred		
Canada – Personal Lines	**89,620**	72,659
– Commercial Lines	**20,207**	20,307
Total Canada	**109,827**	92,966
International	**83,817**	69,614
Total net claims incurred	**193,644**	162,580
Net expenses		
Canada – Personal Lines	**41,862**	40,489
– Commercial Lines	**16,581**	20,972
Total Canada	**58,443**	61,461
International	**56,598**	44,655
Corporate Expenses	**8,646**	6,150
Total net expenses	**123,687**	112,266
Income (loss) before income taxes		
Canada – Personal Lines	**3,309**	11,604
– Commercial Lines	**4,889**	1,486
Total Canada	**8,198**	13,090
International	**(5,972)**	(3,752)
Corporate and other	**(8,646)**	(6,150)
Underwriting (loss) income	**(6,420)**	3,188
Impact of change in net claims discount rate	**408**	(2,391)
ICPEI integration cost	**—**	(1,347)
Other Income	**748**	—
Investment income	**13,887**	24,333
Total income before income taxes	**8,623**	23,783

Segmented long-term assets

	As at Dec. 31, 2015	As at Dec. 31, 2014
Canada – Personal Lines	**6,240**	6,578
– Commercial Lines	**575**	700
Total Canada	**6,815**	7,278
International	**455**	397
Total segmented long-term assets	**7,270**	7,675

SHAREHOLDER INFORMATION

ECHELON FINANCIAL HOLDINGS INC.

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TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, ON M5J 2Y1

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbol "EFH"

COMMON SHARES OUTSTANDING

11,729,112 (as at December 31, 2015)

DIVIDENDS

All dividends paid by the Company are "eligible dividends" for Canadian income tax purposes unless indicated otherwise

GENERAL COUNSEL

Blake, Cassels & Graydon LLP

APPOINTED ACTUARY

Michel Trudeau

AUDITORS

PricewaterhouseCoopers LLP

INVESTOR RELATIONS

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