Unaudited Condensed Consolidated Interim Financial Statements of

Echelon Financial Holdings Inc.

For three months ended March 31, 2016 and 2015

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

	Note	March 31, 2016	December 31, 2015
Assets			
Cash and short–term deposits		30,733	23,373
Accounts receivable		86,791	105,300
Investments	6	497,027	513,099
Due from insurance companies		706	1,821
Deferred policy acquisition costs		71,928	76,710
Income taxes recoverable		5,727	4,329
Prepaid expenses and other assets		5,073	4,596
Reinsurers' share – unearned premiums		78,274	89,953
– provision for unpaid claims	9	107,248	90,158
Derivative Financial Instrument	7	4,014	—
Property and equipment		1,323	1,032
Intangible assets	11	6,566	6,238
Deferred income taxes		6,925	6,440
Total assets		902,335	923,049
Liabilities			
Accounts payable and accrued liabilities		28,780	34,266
Payable to insurance companies		16,181	19,097
Unearned premiums		231,275	260,073
Unearned commission		22,841	23,689
Provision for unpaid claims	9	421,768	397,214
Total liabilities		720,845	734,339
Equity			
Share capital		69,785	69,653
Contributed surplus		382	436
Retained earnings		102,283	108,551
Accumulated other comprehensive income	16	5,081	6,060
Equity attributed to shareholders of the Company		177,531	184,700
Non-controlling interest	18	3,959	4,010
Total equity		181,490	188,710
Total liabilities and equity		902,335	923,049

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

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

		3 months ended March 31	
		2016	**2015**
Revenue			
Gross written and assumed premiums		94,400	90,886
Less: Premiums ceded to reinsurers		(31,306)	(21,029)
Net written and assumed premiums		63,094	69,857
Decrease (increase) in gross unearned premiums		26,234	(2,466)
(Decrease) increase in unearned premiums, reinsurers' share		(9,931)	1,806
Change in provision for unearned premiums		16,303	(660)
Net earned premiums		79,397	69,197
Investment income	6	5,185	5,912
Total revenue		84,582	75,109
Expenses			
Gross claims incurred		91,824	57,472
Less: claims recoveries from reinsurers		(34,364)	(12,956)
Net incurred claims		57,460	44,516
Gross acquisition costs		32,297	24,280
Less: acquisition cost recoveries from reinsurers		(10,159)	(4,629)
Net acquisition costs		22,138	19,651
Operating costs	14	11,213	8,539
Total expenses		90,811	72,706
Income (loss) before interest expense and income taxes		(6,229)	2,403
Interest Expense	8	44	—
Income tax (recovery)	12	(1,724)	(754)
Net income (loss)		(4,549)	3,157
Attributed to:			
Shareholders of the Company		(4,410)	3,507
Non-controlling interest	18	(139)	(350)
Net income (loss)		(4,549)	3,157
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		(720)	6,268
Reclassification of net realized (gains) to net income		(2,360)	(2,862)
Cumulative translation gain (loss)		(1,740)	(985)
Foreign exchange forward	7	3,483	—
Tax impact		352	(1,019)
Other comprehensive income (loss)		(985)	1,402
Attributed to:			
Shareholders of the Company		(979)	1,346
Non-controlling interest	18	(6)	56
Other comprehensive income (loss)		(985)	1,402
Total comprehensive income (loss)		(5,534)	4,559
Attributed to:			
Shareholders of the Company		(5,389)	4,853
Non-controlling interest	18	(145)	(294)
Total comprehensive income (loss)		(5,534)	4,559
Earnings per share attributable to shareholders of the Company	17		
Earnings per share - basic		$(0.38)	$0.30
Earnings per share - diluted		$(0.38)	$0.29
Net income (loss)		(4,549)	3,157

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

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

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Shareholders' Equity	Non-controlling Interest	Total Equity
Balance at January 1, 2016	69,653	436	6,060	108,551	184,700	4,010	188,710
Net income (loss)	—	—	—	(4,410)	(4,410)	(139)	(4,549)
Other comprehensive income (loss)	—	—	(979)	—	(979)	(6)	(985)
Total comprehensive income (loss)	—	—	(979)	(4,410)	(5,389)	(145)	(5,534)
Common shares repurchased	(263)	—	—	(358)	(621)	—	(621)
Dividends paid	—	—	—	(1,406)	(1,406)	—	(1,406)
Investment in subsidiary - Qudos	—	—	—	(94)	(94)	94	—
Common shares issued on stock options exercised	395		—		395	—	395
Stock compensation expense	—	(54)	—	—	(54)	—	(54)
Balance at March 31, 2016	69,785	382	5,081	102,283	177,531	3,959	181,490

	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)	—	—	—	3,507	3,507	(350)	3,157
Other comprehensive income (loss)	—	—	1,346	—	1,346	56	1,402
Total comprehensive income (loss)	—	—	1,346	3,507	4,853	(294)	4,559
Common shares repurchased	(250)	—	—	(312)	(562)	—	(562)
Dividends paid	—	—	—	(1,299)	(1,299)	—	(1,299)
Investment in subsidiaries - ICPEI	—	—	—	—	—	250	250
Common shares issued on stock options exercised	1,497	—	—	—	1,497	—	1,497
Stock options expense	—	744	—	—	744	—	744
Balance at March 31, 2015	68,400	2,936	10,263	107,250	188,849	3,812	192,661

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

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

	March 31, 2016	March 31, 2015
Cash provided by (used in):		
Operating activities		
Net income (loss)	(4,549)	3,157
Adjusted for:		
Reinsurers' share of unearned premiums	11,679	(3,317)
Reinsurers' share of unpaid claims	(17,090)	(7,114)
Provision for unpaid claims	24,554	6,105
Unearned premiums	(28,798)	3,876
Deferred income taxes	(485)	(786)
Unearned commissions	(848)	1,167
Deferred policy acquisition costs	4,782	(4,113)
Amortization on property plant equipment and intangible assets	972	1,325
Amortization of premiums on bonds	760	724
Fair value change on FVTPL investments	1,903	1,877
Options expense	(54)	744
Currency translation	(1,740)	(985)
Foreign Exchange Forward	3,483	—
Prepaid expenses & other assets	(4,490)	15
	(5,372)	(482)
Cash flow from changes in		
Accounts receivable	18,509	(3,614)
Net realized (gains) losses	(2,041)	(2,871)
Income taxes (recoverable) payable	(1,046)	(4,567)
Due to insurance companies	(1,801)	(474)
Other liabilities	(5,485)	(2,143)
Cash (used in) continuing operating activities	(1,785)	(10,994)
Financing activities		
Proceeds from issue of common shares for stock options	395	1,497
Common share dividends	(1,406)	(1,299)
Share repurchases	(621)	(562)
Additional investment in ICPEI by minority interest	—	250
Cash (used in) financing activities	(1,632)	(114)
Investing activities		
Purchases of property, equipment and intangible assets	(1,591)	(607)
Purchases of investments	(99,972)	(136,876)
Sale/maturity of investments	112,340	146,207
Cash provided by investing activities	10,777	8,724
(Decrease) increase in cash and short-term deposits	7,360	(2,384)
Cash and short-term deposits, beginning of period	23,373	27,326
Cash and short-term deposits, end of period	30,733	24,942
Supplementary information		
Operating activities		
Income taxes paid (recovered)	11	3,697

The accompanying notes are an integral part of these condensed consolidated interim 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 97.9% 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 has increased to 97.9% from 97.5% at the beginning of the year due to capital injected to maintain its solvency ratio.

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.

2 Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS.

These consolidated financial statements have been authorized for issue by the Board of Directors, on May 3, 2016.

3 Summary of significant accounting policies

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

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.

IFRS 16, Leases

In January 2016, the IASB published IFRS 16 which is effective January 1, 2019. The new standard requires the capitalization of all leases by recognizing the present value of the lease payments and showing them as lease assets, and recognizing a financial liability representing an obligation to make future lease payments. The Company is currently evaluating the impact of IFRS 16 on its Consolidated Financial Statements.

4 Critical accounting estimates and assumptions

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual 2015 consolidated financial statements.

5 Seasonality

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

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

6 Investments

The following table provides a breakdown of the investment portfolio as at March 31, 2016, and December 31, 2015 .

	Fair values	
Available-for-sale	**As at March 31, 2016**	**As at December 31, 2015**
Fixed income		
Canadian		
Federal	42,102	45,524
Provincial	53,076	55,976
Municipal	535	1,386
Corporate	165,895	171,789
	261,608	274,675
Fixed income lent through securities lending program		
Federal	6,427	14,231
Provincial	7,012	3,800
Municipal	849	—
Corporate	3,124	4,673
	17,412	22,704
Foreign fixed income		
Government	20,945	17,555
Corporate	120,937	114,399
	141,882	131,954
Foreign lent through securities lending program		
Corporate	657	—
Total fixed income	421,559	429,333
Commercial mortgages pooled funds	17,093	17,017
Money market pooled funds	338	403
Short-term fixed income and mortgage pooled funds	17,048	16,934
Total pooled funds	34,479	34,354
Common shares		
Canadian	2,533	2,656
U.S.	1,579	8,012
Common shares lent through securities lending program		
Canadian	2	—
Total common shares	4,114	10,668
Total available-for-sale	460,152	474,355
Fair value through profit or loss		
Preferred shares	36,553	38,400
Preferred shares lent through securities lending program	322	344
Total preferred shares	36,875	38,744
Total investments	497,027	513,099

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 March 31, 2016, the Company had collateral of $19,494 (March 31, 2015 – $22,136) for the loaned securities or approximately 105% of the fair value of the loaned securities.

The Company invests in high-quality U.S. corporate bonds as a means to provide geographic diversification to its investment portfolio of Canadian Operations, which is mainly comprised of Canadian securities. As at March 31, 2016, the Company held $16.1 million (CDN) in U.S. fixed-income securities (December 31, 2015

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

– $14.8 million). Foreign currency exposure in the U.S. fixed-income portfolio is mitigated through the use of foreign-currency forward contracts

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 March 31, 2016, and December 31, 2015:

March 31, 2016				
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed income	—	421,559	—	421,559
Commercial mortgages pooled funds	—	17,093	—	17,093
Money market pooled funds	—	338	—	338
Short-term fixed income and mortgage pooled funds	—	17,048	—	17,048
Equities	4,114	—	—	4,114
Preferred Shares	36,875	—	—	36,875
	40,989	456,038	—	497,027

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

December 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

The fair value of the Company's investments, determined with the use of unobservable market information as inputs, is $nil (December 31, 2015 – $nil) of the total investment portfolio. All investments in a commercial mortgages pooled fund with a fair value of $17,093 are in level 2.

A reconciliation of Level 3 investments for the years ended March 31, 2016 and 2015, with the use of significant unobservable inputs from January 1 to March 31, is as follows:

	March 31, 2016	**December 31, 2015**
Balance at beginning of period	—	2,173
Addition during the year	—	—
Disposal / Reclassification during the year	—	(2,173)
Net unrealized gains included in other comprehensive income	—	—
Balance at end of period	—	—

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 March 31, 2016 and December 31, 2015.

The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers during the three months ended March 31, 2016 or 2015. 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.

No impairments on AFS investments were recognized for the period ended March 31, 2016, (March 31, 2015 – $nil). A remaining gross unrealized loss of $4,267 on AFS investments held as at March 31, 2016 (March 31, 2015 – $3,113) is recorded, net of tax, in the amount of $3,167 (March 31, 2015 – $2,413) in Accumulated Other Comprehensive Income.

Investment income

The table below provides additional details on net investment income:

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

	3 months ended March 31	
	2016	**2015**
Interest income	3,642	3,714
Dividend income	464	603
Net realized gains	2,041	2,871
Fair value change on FVTPL investments	(1,903)	(1,877)
Realized and unrealized foreign exchange gains	1,322	986
Investment expenses	(381)	(385)
Investment income	5,185	5,912

7 Derivative Financial Instrument

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 fair value of the forward was $3.5 million as at March 31, 2016. The contract was an effective hedge and there was no ineffectiveness. The contract has matured on April 22, 2016 with a realized value of $4.3 million.

The Company has entered into a revolving three month foreign exchange forward contract to manage the foreign currency risk on its investment in foreign fixed income securities. The Company agreed to buy $16.6 million (CAD) and sell $12.5 million (USD). The contract matures on June 15, 2016. The fair value of the forward was $0.5 million as at March 31, 2016.

8 Line of credit

The Company has a $10 million two-year secured revolving term credit facility effective June 30, 2015, 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 March 31, 2016. 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 March 31, 2016.

For the quarter ending March 31, 2016, the Company has expensed $44 thousand related to the maintenance of the credit.

9 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:

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

Entity	March 31, 2016	December 31, 2015
Echelon Insurance	2.44%	2.44%
ICPEI	1.63%	1.63%
Qudos	0.27%	0.27%

The Company recorded a $1,405 reduction to the net provision for unpaid claims relating to redundancies in prior years' estimates (March 31, 2015 – $2,352).

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 $21,629 as at March 31, 2016 (December 31, 2015 – $21,818).

Claims development

Provision for unpaid claims analysis	March 31, 2016	March 31, 2015
Unpaid claims, beginning of year, net	307,056	295,955
Favourable prior year claims development	1,405	(2,352)
Provision for claims occurring in current period	56,055	46,868
Paid on claims occurring during		
Current year	(26,266)	(6,848)
Prior year	(23,730)	(38,677)
Unpaid claims, end of period, net	314,520	294,946
Reinsurers' share	107,248	55,851
Gross unpaid claims	421,768	350,797

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

Assumptions used to develop the provision estimate for unpaid claims and adjustment expenses are selected by class of business and geographic location. Consideration is given to the characteristics of the risks, historical trends, and the amount of data available on individual claims, inflation and any other pertinent factors. Some assumptions require a significant amount of judgement such as the expected impacts of future judicial decisions and government legislation. The diversity of these considerations results in it not being practical to identify and quantify all individual assumptions that are more likely than others to have a significant impact on the measurement of the Company's insurance contracts. There were no new assumptions identified in the period as having a potential or identifiable material impact on the overall claims estimate.

10 Risk management

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

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

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

Insurance risk

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

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

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

Interest rate risk

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

The sensitivity analysis for interest rate risk as set out in the table below illustrates the impact of changes in interest rates on OCI relating to the fixed income investment portfolio as at March 31, 2016, and December 31, 2015, 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 March 31, 2016			
200 basis point rise	395,229	(6)%	(19,221)
100 basis point rise	408,395	(3)%	(9,610)
No change	421,559	—	—
100 basis point decline	434,725	3%	9,611
200 basis point decline	447,890	6%	19,223

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

Change in interest rates	Fair value of fixed income	Hypothetical change on fair value	Effect on OCI net of tax
As at December 31, 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

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 March 31, 2016, and December 31, 2015, are as follows:

March 31, 2016	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	26,325	120,416	110,773	164,045	421,559
Percentage of total	6%	29%	26%	39%	100%

December 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%

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at March 31, 2016, and December 31, 2015:

March 31, 2016	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	172,440	128,898	79,615	27,249	408,202
Less: Reinsurance recoverable (undiscounted)	54,088	27,865	19,705	2,516	104,174
Net actuarial liabilities	118,352	101,033	59,910	24,733	304,028

December 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

All other financial liabilities are for duration of one year or less. The contractual maturities for lease commitments are listed in note 15.

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

Equity price risk

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

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

The table below summarizes the potential impact of a 10% change in the value of the equity securities (common and preferred shares) on net income and OCI for the three months ended March 31, 2016, and the year ended December 31, 2015. 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	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
10% rise	2,692	2,828	300	779
10% decline	(2,692)	(2,828)	(300)	(779)

Credit risk

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

The Company is exposed to risk from reinsurers' inability to cover balances. 99.6% of the Company's reinsurance balances are from registered reinsurers. The Company holds sufficient collateral to cover the 0.4% of reinsurance balances from unregistered reinsurers.

The following table sets forth the Company's fixed income securities portfolio by credit quality as at March 31, 2016, and December 31, 2015.

Fixed income portfolio

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

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

	As at March 31, 2016		As at December 31, 2015	
	Fair value	**Fair value**	**Fair value**	**Fair value**
AAA	121,206	29%	132,195	31%
AA	80,454	19%	87,986	21%
A	75,181	18%	76,398	18%
BBB	92,521	22%	81,639	19%
BB	28,084	7%	25,888	6%
B	12,499	3%	14,717	3%
CCC	1,490	0%	537	0%
Unrated	10,124	2%	9,973	2%
Total	421,559	100%	429,333	100%

Preferred share portfolio

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

	As at March 31, 2016		As at December 31, 2015	
	Fair value	Fair value	Fair value	Fair value
P2	29,215	79%	30,702	79%
P3	7,660	21%	8,042	21%
Total	36,875	100%	38,744	100%

11 Intangible assets

	Opening cost	Purchases	Sales	End of period cost	Accumulated amortization	Net
Software						
March 31, 2016	23,014	1,142	—	24,156	17,990	6,166
December 31, 2015	19,430	3,584	—	23,014	17,176	5,838
Goodwill						
March 31, 2016	400	—	—	400	—	400
December 31, 2015	400	—	—	400	—	400
Total intangible assets						
March 31, 2016	23,414	1,142	—	24,556	17,990	6,566
December 31, 2015	19,830	3,584	—	23,414	17,176	6,238

12 Income taxes

The income tax (recovery) is as follows:

	3 months ended March 31	
	2016	**2015**
Current	(1,239)	32
Deferred	(485)	(786)
	(1,724)	(754)

The effective income tax rates are different from the combined federal and provincial income tax rates.

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

The consolidated statements of income and comprehensive income contain items that are non-taxable or non-deductible for income tax purposes, which cause the income tax expense to differ from what it would have been if based on statutory rates.

The difference is broken down as follows:

	3 months ended March 31	
	2016	**2015**
Income tax expense calculated at statutory rates	27.0 %	27.0 %
Increase (decrease) in income tax rates resulting from:		
Non-taxable dividend income	1.4 %	(8.0)%
Non-taxable (income) loss	7.8 %	(57.2)%
Non-deductible expenses	(1.9)%	10.1 %
Tax benefit of losses not previously recognized	0.6 %	— %
Statutory rate differences	(4.1)%	(10.4)%
Non-taxable portion of capital gains	0.6 %	(6.7)%
Other	(3.9)%	0.5 %
Effective income tax rate	27.5 %	(44.7)%

13 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 $1,091 (March 31, 2015 – $1,456); commissions paid were $124 (March 31, 2015 – $168) and investment management fees were $64 (March 31, 2015 – $67).

14 Operating Costs by nature

The table below presents operating costs by major category:

	Three Months Ended March 31	
	2016	**2015**
Salaries and benefits	5,981	5,703
Systems costs	1,944	1,690
Professional fees	785	655
Printing and postage	109	144
Other expenses	2,394	347
	11,213	8,539

Other expenses include an unusual one time severance of $2.0 million in the first quarter of 2016.

Corporate expenses include $0.1 million (2015 - $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 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.

15 Lease commitments

The Company is committed under lease agreements for office premises and computer equipment with minimum lease payments of $10,071 as follows:

Lease commitments	
2016	1,069
2017	1,118
2018	1,100
2019	1,052
2020	1,023
2021 and thereafter	4,709
	10,071

16 Accumulated other comprehensive income

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

	As at March 31, 2016	As at December 31, 2015
Gross unrealized gains	1,101	4,208
Foreign currency translation adjustments	449	2,151
Foreign Exchange forward	3,483	—
Tax impact	48	(299)
Ending balance	5,081	6,060

17 Earnings per share

	3 months ended March 31	
	2016	2015
Basic earnings per share:		
Net income available to shareholders	(4,410)	3,507
Average number of common shares (in thousands)	11,720	11,672
Basic earnings per share	$(0.38)	$0.30
Diluted earnings per share:		
Average number of common shares (in thousands)	11,720	11,672
Average number of dilutive common shares under employee stock compensation plan (in thousands)	272	312
Average number of diluted common shares (in thousands)	11,992	11,984
Diluted earnings per share	$(0.38)	$0.29

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

18 Non-controlling interest

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

	Three Months Ended March 31					
	2016			2015		
	ICPEI	Qudos	Total	ICPEI	Qudos	Total
Revenue						
Gross written and assumed premiums	1,461	1,098	2,559	1,400	3,406	4,806
Net earned premiums	1,537	748	2,285	1,547	934	2,481
Investment income	8	26	34	(12)	41	29
Total revenue	1,545	774	2,319	1,535	975	2,510
Expenses						
Net incurred claims	998	606	1,604	1,592	511	2,103
Net acquisition costs	354	255	609	367	279	646
Operating costs	254	36	290	194	97	291
Total expenses	1,606	897	2,503	2,153	887	3,040
Income (loss) before income taxes	(61)	(123)	(184)	(618)	88	(530)
Income tax expense (recovery)	(19)	(26)	(45)	(201)	21	(180)
Net income (loss) attributable to NCI	(42)	(97)	(139)	(417)	67	(350)
OCI attributable to NCI	10	(16)	(6)	56	—	56
Comprehensive income attributable to NCI	(32)	(113)	(145)	(361)	67	(294)

	As at March 31, 2016			As at December 31, 2015		
	ICPEI	Qudos	Total	ICPEI	Qudos	Total
Assets						
Cash and investments	8,306	2,543	10,849	8,337	2,886	11,223
Other assets	4,290	5,539	9,829	4,417	7,217	11,634
Total assets	12,596	8,082	20,678	12,754	10,103	22,857
Liabilities						
Unearned premium	3,189	2,853	6,042	3,428	3,981	7,409
Unpaid claims	5,863	3,290	9,153	5,682	3,291	8,973
Other liabilities	294	1,230	1,524	362	2,103	2,465
Total liabilities	9,346	7,373	16,719	9,472	9,375	18,847
Equity						
Share capital	—	903	903	—	825	825
AOCI	19	29	48	9	46	55
Retained earnings	3,231	(223)	3,008	3,273	(143)	3,130
Total equity	3,250	709	3,959	3,282	728	4,010
Total liabilities and equity	12,596	8,082	20,678	12,754	10,103	22,857

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

	As at March 31, 2016			As at December 31, 2015		
	ICPEI	**Qudos**	**Total**	**ICPEI**	**Qudos**	**Total**
Cash flows from operating activities	29	(135)	(106)	(581)	689	108
Cash flow from investing activities	(94)	(324)	(418)	(201)	(963)	(1,164)
Cash flow from financing activities	—	210	210	250	500	750
Net increase (decrease) in cash and short-term deposits	(65)	(249)	(314)	(532)	226	(306)

19 Segmented information

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.

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

	3 months ended March 31	
	2016	**2015**
Revenue		
Earned premiums		
Canada – Personal Lines	33,360	33,038
– Commercial Lines	9,988	9,503
Total Canada	43,348	42,541
International	36,049	26,656
Total earned premium	79,397	69,197
Net claims Incurred		
Canada – Personal Lines	21,932	26,513
– Commercial Lines	6,371	4,896
Total Canada	28,303	31,409
International	29,157	13,107
Total net claims incurred	57,460	44,516
Net expenses		
Canada – Personal Lines	10,685	10,191
– Commercial Lines	4,380	4,163
Total Canada	15,065	14,354
International	14,266	11,724
Corporate Expenses	4,020	2,112
Total net expenses	33,351	28,190
Income (loss) before income taxes		
Canada – Personal Lines	743	(3,666)
– Commercial Lines	(763)	444
Total Canada	(20)	(3,222)
International	(7,374)	1,825
Corporate and other	(4,020)	(2,112)
Underwriting income (loss)	(11,414)	(3,509)
Investment income (loss)	5,185	5,912
Total income (loss) before income taxes	(6,229)	2,403

Segmented long-term assets

	As at March 31, 2016	**As at December 31, 2015**
Canada – Personal Lines	6,663	6,240
– Commercial Lines	826	575
Total Canada	7,489	6,815
International	400	455
Total segmented long-term assets	7,889	7,270