echelon

Insurance

2014 Annual Report

CONSISTENT PERFORMANCE

Echelon Insurance had another very successful year in 2014, generating significant growth, solid underwriting profits and its ninth consecutive profitable year since its initial public offering in December, 2005.

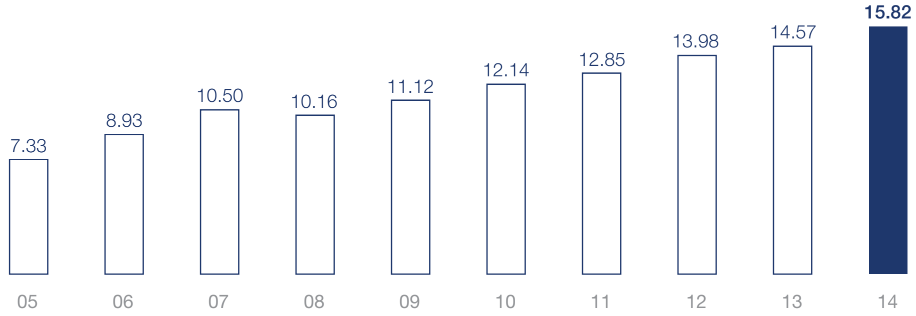
A CLEAR DIRECTION

Echelon is well positioned for future growth with a deep management team, a focused strategy, a strong regional presence and a scalable operating platform.

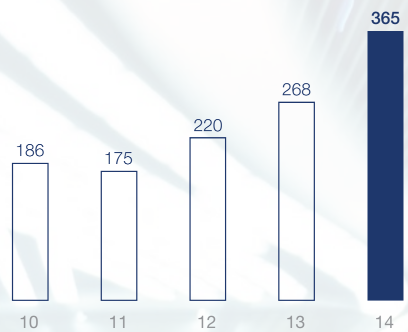
FINANCIAL STRENGTH

The health of the business is reflected in its balance sheet, with capital ratios well in excess of regulatory requirements, a conservative investment portfolio, no debt and excess available capital to support its growth plans.

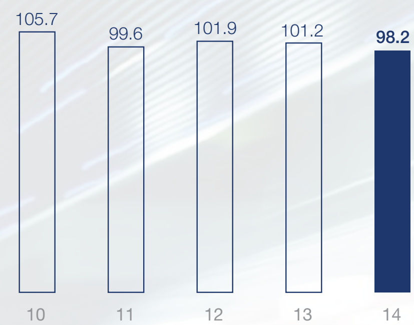
BOOK VALUE SINCE IPO
$ per share



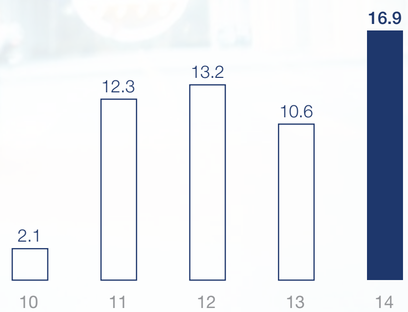
GROSS WRITTEN PREMIUMS
$ million



COMBINED RATIO
%

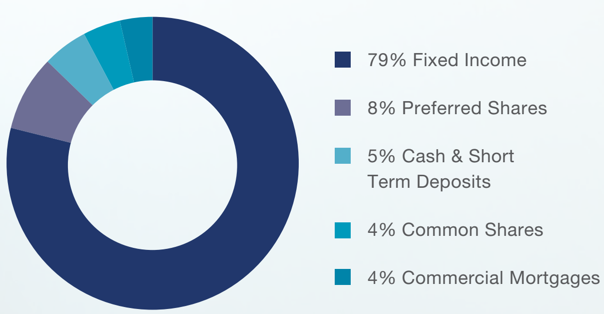


NET OPERATING INCOME
$ million

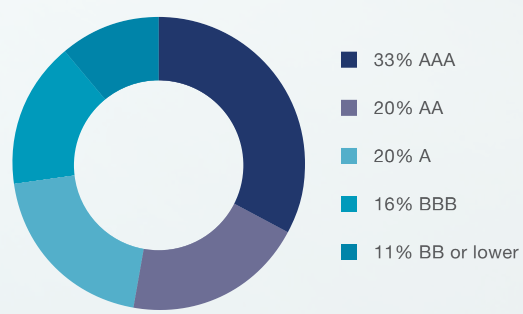


BOOK VALUE
$ per share

ASSET MIX



QUALITY OF FIXED INCOME

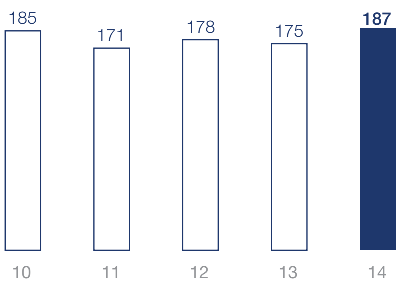


CANADA

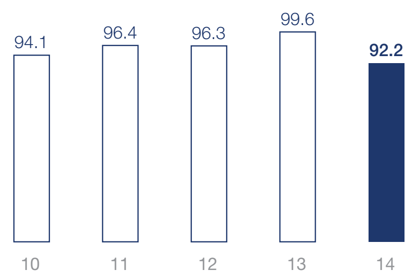
60% of net earned premiums

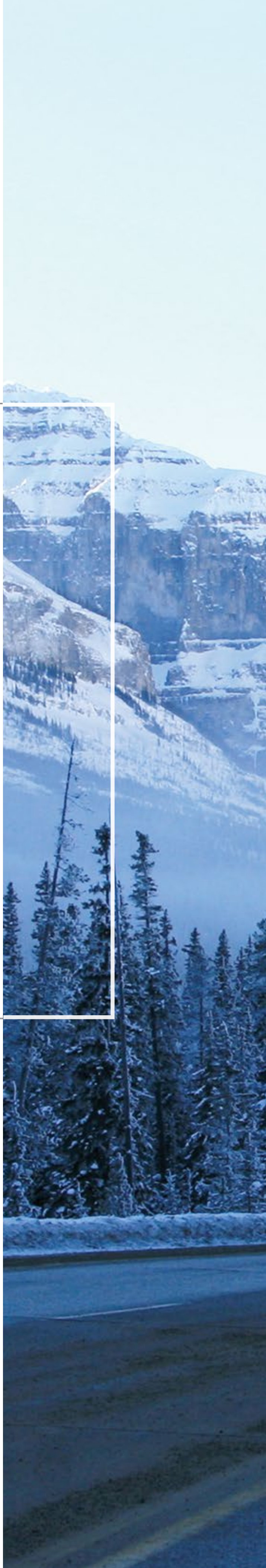
The Canadian business is focused on the underwriting of specialty automobile insurance sold through independent brokers – non-standard auto, motorcycles, antique and classic vehicles, trailers, motor homes and recreational vehicles. The core business is supported by specialty commercial products, such as warranty and creditor insurance. Echelon is federally regulated and licensed to transact business in all provinces and territories.

GROSS WRITTEN PREMIUMS
$ million



COMBINED RATIO
%





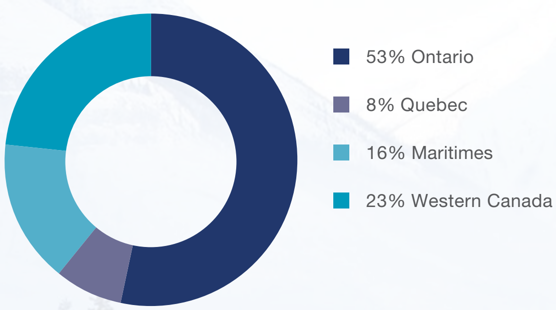
Minimum Capital Test Ratio

211%

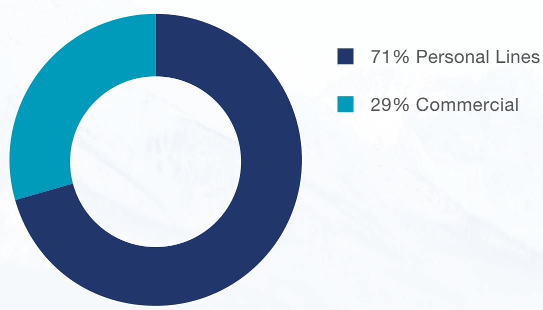
A.M. Best Financial Strength Rating (stable)

B++

GROSS WRITTEN PREMIUMS
by region



GROSS WRITTEN PREMIUMS
by product

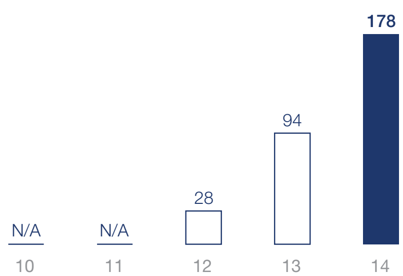


INTERNATIONAL

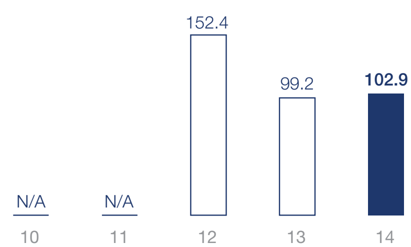
40% of net earned premiums

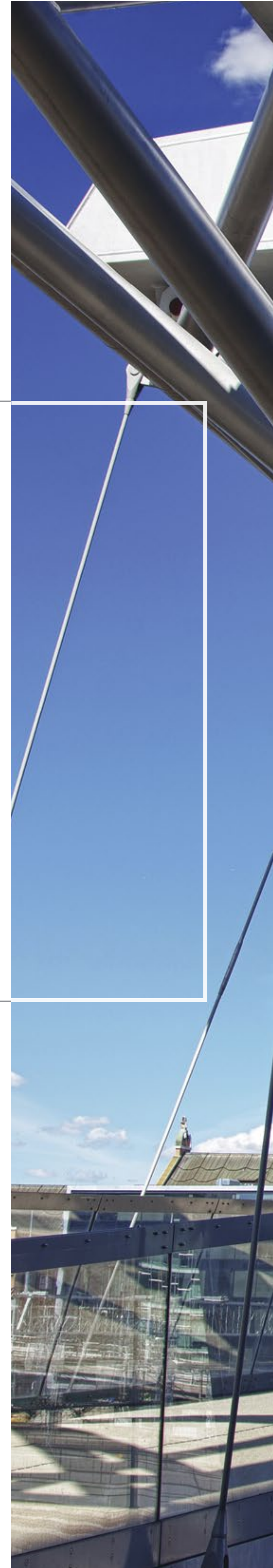
The International division writes specialty auto, warranty and other niche insurance products in Europe through managing general agencies. It is licensed by the Danish Financial Supervisory Authority to write property & casualty business throughout the European Union and Scandinavia.

GROSS WRITTEN PREMIUMS
$ million



COMBINED RATIO
%





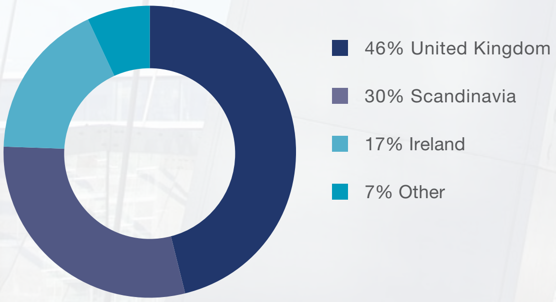
Solvency I Ratio

175%

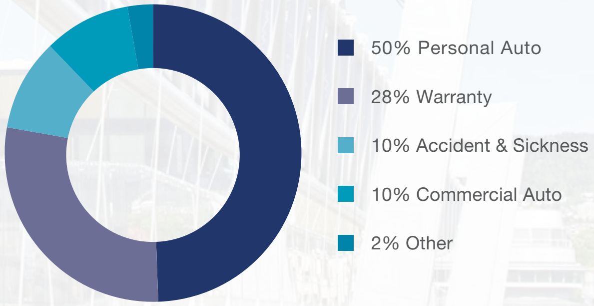
Individual Solvency Requirement Ratio

127%

GROSS WRITTEN PREMIUMS
by region



GROSS WRITTEN PREMIUMS
by product

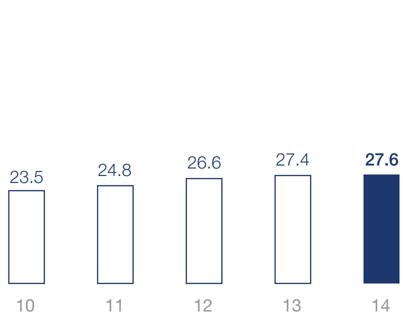


ICPEI

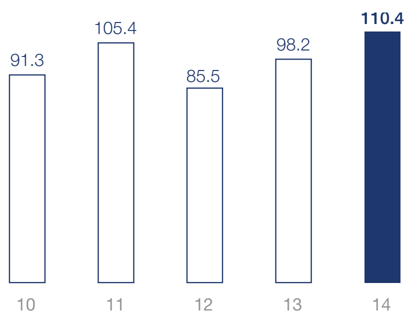
On June 30, 2014, the Company acquired 75% of The Insurance Company of Prince Edward Island in an all cash transaction.

Formed in 1987, ICPEI is the largest Maritime province based insurer in Canada which provides automobile, home and commercial insurance through a network of independent insurance brokers. With its head office in Charlottetown, Prince Edward Island, it also operates in New Brunswick and Nova Scotia.

GROSS WRITTEN PREMIUMS
$ million



COMBINED RATIO
%



Minimum Capital Test Ratio

230%

A.M. Best Financial Strength Rating (stable)

B++

GROSS WRITTEN PREMIUMS
by region

- 38% Prince Edward Island
- 35% New Brunswick
- 27% Nova Scotia

GROSS WRITTEN PREMIUMS
by product

- 68% Auto
- 14% Personal Property
- 18% Commercial

OUR MISSION

To focus on targeted solutions where we can differentiate ourselves in the market and that require the high level of expertise of our organization. We will differentiate ourselves through specialized underwriting, personalized service and the sophisticated management of risk. We will operate in a responsible, ethical manner while generating high growth, strong underwriting results and a superior return on shareholders' equity.

LETTER TO SHAREHOLDERS

2014 was a very successful year for Echelon Insurance. I'm very pleased with our strong finish to the year, reporting record underwriting profits and record operating earnings in the fourth quarter. And I'm even more excited for the future.

Our strategy is working. We remain focused on specialty auto insurance products sold through independent brokers. We continue to invest in our core businesses, particularly in people and infrastructure, and it's nice to see that these investments are paying off.

2014 was Echelon's ninth 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 $15.82 as at December 31, 2014. Common shareholder dividends paid over that period added further to shareholder value.

In 2014, book value per share increased by 8.8%. After consideration of shareholder dividends, the increase is very close to our target return of 12%.

A New Look

You may have noticed that our company has a new look! Subject to shareholder approval, we will be changing our name to Echelon Financial Holdings Inc. and will be operating as Echelon Insurance. The new look more closely aligns our corporate and retail brands and portrays a unified image to all of our stakeholders. It reflects the growth and maturity of our company as we've transitioned from a small privately held company to a medium-sized publicly traded insurer with a meaningful national presence. We are an insurance company and the new brand more clearly reflects that.

THE YEAR IN REVIEW

We embarked on the year with a focus on underwriting results and a balanced plan to allocate capital to initiatives with the highest long-term returns for our shareholders. Our goal is to allocate capital to:

- the growth of our business, both organic and by acquisition;
- building for the future; and
- returning capital to you, our shareholders

I'm pleased to see that we achieved success on all of these initiatives this past year!

Underwriting Profits

Our primary goal is to consistently generate underwriting profits at a target combined operating ratio of 95%. In the fourth quarter, we reported our best underwriting results in the history of the company, with profits well in excess of targets and culminating a very successful year.

Equally notable is the consistency of underwriting results that has emerged across all lines of business. Personal Lines has now generated an underwriting profit in 16 of the past 17 quarters, including 7 in a row. Specialty Programs has reported an underwriting profit in 3 consecutive quarters. International, which commenced operations in 2012, has now generated underwriting profits in 5 of the past 7 quarters, including 2 in a row.

Overall, Echelon has delivered positive operating earnings in 17 of the past 19 quarters.

Organic Growth

In 2014, we continued to demonstrate strong top-line growth with a 36% increase in direct written premiums over the prior year. This was primarily due to the growth of our European business, which continues to exceed expectations. During the year, we allocated additional capital to Europe, and now have a 93% ownership in the business.

Growth by Acquisitions

On June 30, we completed the transaction to purchase a 75% interest in The Insurance Company of Prince Edward Island ("ICPEI"). We now have a strong presence in the Maritimes with over $40 million of premium, a regional management team, a local brand and a broad network of supportive distributors.

Building for the Future

At the same time, we purchased the licensing rights to a more automated, multi-product, customer-based policy administration system. The new system will be used for all of our Canadian broker-sold business and has already been implemented for ICPEI.

We also invested further in our people. We have reorganized our operations to align ourselves more closely with our customers and our distributors across the country. We now have a local service office in each of our major territories – Ontario, Quebec, the Maritimes and Western Canada. And we've attracted a high calibre of leadership to run these regional operations – Michelle Dodokin in Ontario and Western Canada, Ron Pavelack in Quebec and Jim Revell in the Maritimes. These new additions nicely complement our executive management. We have a strong team with deep expertise and diverse experience – and I feel privileged to be working with such a talented group.

Returning Capital to Shareholders

On January 1, 2014, our company started paying a quarterly dividend of $0.10 per share to common shareholders. One year later, the dividend was increased by 10% to $0.11 per share. We have confidence in the earnings of our business and are committed to increasing the dividend over time as our business grows.

We also returned capital to shareholders in the form of a normal course issuer bid, buying back $4.0 million of our stock at a significant discount to book value.

A Strong Balance Sheet

Echelon continues to maintain a strong balance sheet and a healthy capital position. All of our regulated entities are well capitalized, with solvency margins comfortably above regulatory requirements and above our own internal targets. We have a conservative investment portfolio with close to 80% of the portfolio in government and investment grade bonds. We have no debt on our balance sheet. We have very little goodwill and few intangible assets. We have a consistent record of prior period reserve redundancies. And we have excess deployable capital in liquid investments available to support our growth plans.

THE PAST FIVE YEARS

I have now been with the company for five years, the last four as Chief Executive Officer. I would like to take a few moments to reflect back on what we've achieved over this period of time.

Strong Leadership

From the outset, our top priority has been to ensure that we have the right people with the right skills and experience, and who reflect the core values of our company – teamwork, integrity, speed and innovation. Our leadership team is in place and has a chemistry that sets a positive tone for the culture of the entire organization.

Focused Strategy

Our next step was to set a clear direction for the business and provide a strategic framework for decision making. Our goal is to be known as THE specialty auto insurance company. We exited a number of businesses and product lines that were not consistent with this direction and where we did not have the scale, depth of expertise and organizational capabilities to compete effectively. We refocused our Specialty Programs business, instilling a stronger culture of underwriting discipline.

Deep Infrastructure

We have built a reliable and scalable infrastructure, investing in systems and processes consistent with our strategy and in areas where we can differentiate ourselves in the market – specialized underwriting, personalized service and the sophisticated selection and management of risk.

Exit the United States

When I joined the company, we established an objective to deliver an underwriting profit in the US within a three year time period. We made a lot of progress over the next three years but not enough to reach our goal. True to our word, in 2013, we sold our US operations, which had consistently been a drag on earnings for a number of years. The divestiture has allowed us to fully focus our management time on our profitable Canadian and European businesses.

Targeted Acquisitions

Over the past five years, we have made two acquisitions – a specialty managing general agency in Western Canada and a provincially regulated insurance company in the Maritimes. We are a disciplined acquirer. We will only make acquisitions that accelerate our strategy and meet our strict financial targets for return on investment and earnings accretion

Geographic and Product Diversification

Five years ago, we were very reliant on the highly-regulated Ontario private passenger auto insurance market, which represented close to 50% of our company's revenues. Ontario is still a very important market for us and our largest market in Canada. However, the exposure has been reduced to less than 20% of revenues through growth in the Maritimes, Western Canada and Europe. It's somewhat of a dichotomy, that the more we focus, the more diversified we've become. We now have a broad specialty auto product portfolio with regional distribution across the country.

Establish Europe

In the past five years, we have built a sizable and profitable insurance operation in Europe. The product profile is similar to what we have in Canada, with over 80% of the business focused on specialty auto and warranty coverages. We have assembled a full team of insurance professionals, developed a robust operational infrastructure and grown the business to $178 million of premium.

The Result

The result of all of this strategic change is evident in our financial results – strong top-line growth, record earnings and record underwriting profits.

Over the last five years, we have grown top-line premiums from $164 million to $365 million. We have grown bottom-line operating earnings from $0.2 million to $16.9 million and return on shareholder equity from 0.2% to 9.5%.

The good news is that the best is yet to come.

LOOKING AHEAD

Our focus over the past five years has shifted from fixing and repairing to investing and building. We are now shifting to a focus on growth. Our goal is to organically grow our top-line in Canada and our bottom-line in Europe.

Canada

Our primary goal in Canada is to grow our core auto insurance business, sold through independent brokers. We differentiate ourselves through specialized underwriting, personalized service and the analysis of data and specialty risks. We offer a broad automobile product portfolio comprised of non-standard private passenger, non-standard small commercial auto, motorcycles, trailers, motorhomes, antiques, ATVs and snowmobiles. We offer a seamless transition to standard insurance products to provide value to our customers and to ensure that we retain our best, claims-free drivers longer. We continue to invest in systems that provide seamless connectivity with brokers and make it easy for them to transact business with us.

We complement our Personal auto business with Specialty Programs and Commercial, where we continue to build deeper expertise in fewer product lines, focusing on our profitable warranty and creditor products and true specialty risks. We will leverage our expertise in small commercial lines, as we continue to transition to broker-sold, individually-underwritten policies in low to medium risk classifications.

Europe

The International division continues to exceed expectations. In 2014, in only its third full year of operation, it generated an overall profit for the second year in a row. We have grown top-line direct written premiums significantly and now have the scale required to operate profitably. Our focus for the immediate future is on underwriting profitability and bottom line results.

We have built the necessary operations, systems, processes, controls and risk management practices. We have instilled a culture of underwriting discipline. We have a deep understanding of the claims experience of the business through analytic tools and detailed data. Over the past three years, we have been making investments in the business and are now in a strong position to realize the benefits of these investments.

Overall, we're very pleased with the progress of our European operations and are excited by its outlook for the future.

On Track

Our plan for Europe is on track. And, more importantly, our plan for Echelon is on track.

Echelon is well positioned, both financially and strategically. We have a strong balance sheet, a profitable core business and attractive investment leverage, which is now three times shareholders equity. We have a focused business strategy and a scalable operational platform to accommodate future growth opportunities – both organic as well as through acquisitions.

THANK YOU

EGI's accomplishments over the past several years are a true testament to the talent, expertise and determination of our employees. Thanks to all of you! And thanks to our Board of Directors and our Chairman, Mr. Rob Purves, for their advice and guidance. I know that all of us working together will build Echelon into a world-class specialty insurance company.

Finally, thanks to you, our fellow shareholders. We appreciate your long-term support and are looking forward to sharing our future successes with you!

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, 2014

EGI Financial Holdings Inc. ("EGI" or "the Company") prepares its financial statements in accordance with International Financial Reporting Standards (IFRS), issued and effective as of December 31, 2012 as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook).

The financial data for 2014, 2013 and 2012 in this discussion has been prepared in accordance with IFRS.

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

The following discussion should be read in conjunction with EGI's audited consolidated financial statements and the related notes. The following commentary is current as of February 17, 2015. Additional information relating to EGI is available on SEDAR at www.sedar.com. Certain totals, subtotals and percentages may not reconcile due to rounding.

EGI 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. EGI 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 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 EGI 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 EGI's control, affect the operations, performance and results of EGI 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 EGI'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. EGI does not expect to update any forward-looking information.

COMPANY OVERVIEW

EGI 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 underserved markets.

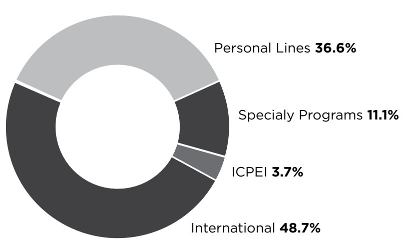
EGI operates in Canada through Echelon General Insurance Company ("Echelon"), a federally-regulated P&C insurance company and The Insurance Company of Prince Edward Island ("ICPEI"), a provincially regulated insurance company. It has three lines of insurance business in Canada – Personal Lines, Specialty Programs and ICPEI. Personal Lines focuses on the underwriting of EGI's non-standard automobile insurance and insurance for motorcycles, antique and classic vehicles, trailers, motor homes and recreational vehicles. Specialty Programs designs and underwrites specialized insurance programs, such as hard-to-place commercial property, primary and excess liability, creditor insurance and extended warranty. ICPEI primarily underwrites auto, personal and commercial property products distributed through independent brokers in Prince Edward Island, New Brunswick and Nova Scotia.

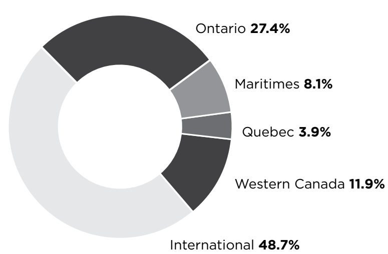
The International division underwrites specialty insurance programs in Europe through Qudos Insurance A/S ("Qudos"), a majority-owned insurance company. Qudos is domiciled in Denmark and is regulated throughout the European Union by the Danish Financial Supervisory Authority. Products include non-standard 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 and Scandinavia.

On November 30, 2013, EGI completed a definitive stock purchase agreement with White Pine Insurance Company for the sale of its U.S. operations. The U.S. operations are discontinued and the division's results are excluded from any comparative results.

On July 1, 2014, the Company acquired 75% of ICPEI in an all cash transaction.

The breakdown of direct written premiums by category of business and by region during 2014 is illustrated below.





On a Consolidated basis, 36% of gross written premiums in 2014 were attributable to the sale of Personal Lines policies in Canada. Specialty Programs accounted for 11% of gross written premiums, ICPEI accounted for 4% and the International segment for 49%. The Company's core non-standard automobile businesses in Canada accounted for approximately 26% of total premiums written across the Company.

Results relating to the discontinued U.S. division have been excluded and, accordingly, prior year comparatives have been restated to current year presentation. The restatement was made for comparative purposes only and does not affect net income after taxes.

QUARTERLY HIGHLIGHTS

- Net operating income of $0.75 per share compared to $0.08 in the fourth quarter of 2013.
- Underwriting income of $7.6 million for the quarter compared to an underwriting loss of $4.3 million in the same period in 2013.
- A combined operating ratio of 90% compared to 107% in the fourth quarter of 2013.
- A 6% increase in direct written premiums over the same period in 2013 to $ 78.8 million, driven by the acquisition of ICPEI.
- Total pre-tax return on invested assets of $6.8 million in the quarter compared to $8.3 million in the fourth quarter of 2013.
- An increase in book value per share of 4.1% in the quarter to $15.82 per share.

The following financial information compares the three months ended December 31, 2014, results with the same period in 2013.

($ THOUSANDS except per share amounts)	Q4 2014	Q4 2013	Variance $	Variance %
Direct written and assumed premiums	**78,832**	74,300	4,532	6
Net written premiums	**62,470**	60,737	1,733	3
Net earned premiums	**77,491**	59,738	17,753	30
Claims incurred	**39,550**	41,508	(1,958)	(5)
Acquisition costs	**22,290**	15,840	6,450	41
Operating expenses	**8,067**	6,699	1,368	20
Underwriting income (loss)	**7,584**	(4,309)	11,893	276
One-time expense	**(1,166)**	—	(1,166)	N/A
Investment income	**6,358**	4,791	1,567	33
Impact of foreign exchange on claims	**152**	—	152	N/A
Impact of discount rate on claims	**(2,124)**	946	(3,070)	(325)
Net income before income taxes	**10,804**	1,428	9,376	656
Income taxes expense	**2,401**	270	2,131	789
Net income – continued operations	**8,403**	1,158	7,245	625
Net income attributable to shareholders	**8,264**	2,271	5,993	264
Net operating income attributable to shareholders	**8,472**	937	7,535	804
Earnings per share on continuing operations				
Basic	**$0.70**	$0.17	$0.53	312
Diluted	**$0.68**	$0.16	$0.52	325
Return on equity (ROE)	**10.5%**	4.2%		
Return on equity (ROE) continuing operations	**10.5%**	7.9%		
Net operating income per share – diluted	**$0.75**	$0.08	$0.67	838

INSURANCE OPERATIONS

Written and Earned Premiums

In the fourth quarter of 2014, direct written premiums increased by $4.5 million, or 6%, to $78.8 million compared to $74.3 million in the same period last year. The increase was primarily due to the acquisition of ICPEI. Net earned premiums increased by $17.8 million, or 30%, to $77.5 million compared to $59.7 million in the same period last year, primarily due to growth in earned premiums in the International division and the acquisition of ICPEI.

Incurred Claims Expense

For the quarter ended December 31, 2014, net claims expense decreased by $2.0 million or 5% to $39.6 million compared to $41.5 million in the fourth quarter of 2013 decreasing the loss ratio to 51% for the three months ended December 31, 2014, compared to 69% for the same period in 2013.

On a consolidated basis, net favourable development of prior year claims of $0.9 million was recorded in the fourth quarter of 2014 compared to net unfavourable development of $0.7 million in the same period in 2013.

Acquisition Costs

Net acquisition costs, which consist mainly of commissions and premium taxes, increased by $6.5 million or 41% to $22.3 million in the quarter ended December 31, 2014, compared to $15.8 million in the same period in 2013. The increase is larger than the increase in the net earned premiums of 30% due to the larger acquisition costs in the International division, and Specialty Programs, driven by business mix changes in the year.

Operating Expenses

Operating expenses increased by $1.4 million or 20% to $8.1 million in the fourth quarter of 2014 compared to $6.7 million in the comparative quarter, primarily due to the inclusion of ICPEI operational costs and increased salaries.

Underwriting Income

Underwriting income of $7.6 million was recorded in the fourth quarter of 2014 compared to an underwriting loss of $4.3 million in the same period in 2013. The increase was attributable to higher underwriting income in all lines of operations, particularly in the Specialty Programs segment.

Investment Income

In the final quarter of 2014, income from investments increased to $6.4 million compared to $4.8 million in the fourth quarter of 2013. Income from interest and dividends net of investment expenses totaled $4.0 million in the fourth quarter of 2014 compared to $3.4 million in the same period in 2013.

Net Income Before Income Taxes

For the quarter ended December 31, 2014, income before income taxes increased by $9.4 million to $10.8 million compared to income of $1.4 million for the fourth quarter of 2013. This was the result of an increase in underwriting income by $11.9 million, an increase in investment income by $1.6 million, an increase in foreign exchange impact on claims of $0.2 million, partially offset by a one-time severance expense of $1.2 million and an increase of discount rate impact on unpaid claims of $2.1 million.

Income Taxes

For the quarter ended December 31, 2014, the provision for income taxes reflects an expense of $2.4 million compared to $0.3 million for the same period last year, driven by higher profitability.

SEGMENTED FINANCIAL INFORMATION

PERSONAL LINES

	3 months ended December 31				12 months ended December 31			
($THOUSANDS)	**2014**	2013	$Variance	%Variance	**2014**	2013	$Variance	%Variance
Direct written premiums	**27,906**	28,974	(1,068)	(4)	**133,446**	134,902	(1,456)	(1)
Net earned premiums	**31,729**	30,993	736	2	**124,139**	125,404	(1,265)	(1)
Net claims:								
Current year claims	**18,282**	20,990	(2,708)	(13)	**83,704**	86,753	(3,049)	(4)
Current year loss ratio	**57.6%**	67.7%			**67.4%**	69.2%		
Favourable prior year claim development	**1,190**	1,825	(635)	(35)	**10,572**	8,124	2,448	30
Total net claims	**17,092**	19,165	(2,073)	(11)	**73,132**	78,629	(5,497)	(7)
Claims ratio(1)	**53.9%**	61.8%			**58.9%**	62.7%		
Expense ratio	**31.0%**	32.5%			**32.2%**	30.8%		
Combined ratio(1)	**84.9%**	94.3%			**91.1%**	93.5%		
Underwriting income (1)	**4,789**	1,767	3,022	171	**11,014**	8,181	2,833	35

(1) Before impact of change in discount rate increasing unpaid claims by $1.7 million in the quarter and $1.9 million in 2014, compared to a decrease in unpaid claims of $0.7 million in the quarter and $0.2 million in 2013.

Fourth Quarter 2014

Personal Lines recorded an underwriting income in the fourth quarter of 2014 of $4.8 million, compared to $1.8 million in the fourth quarter of 2013, an increase of $3.0 million resulting in a combined ratio of 84.9%.

This was due to the following factors:

1. Exceptional motorcycle results in the quarter, due to low frequency and severity experienced in the year.
2. Strong results in non-standard auto, with an overall combined ratio 95%, driven by Ontario and Quebec.
3. Strong performance of the Western branch, with a combined ratio of 89% compared to 114% in the fourth quarter of 2013.
4. This was partially offset by lower favourable prior year claims development compared to the comparative quarter.

Year to Date

Personal Lines recorded an underwriting income in the first twelve months of $11.0 million, compared to $8.2 million in the same period of 2013, an increase of $2.8 million.

The segment's combined ratio decreased to 91% in the year as a result of the following factors:

1. Continued strong performance in non-standard auto in Ontario and Quebec in 2014.
2. Increased positive development of prior year claims of $10.6 million year-to-date compared to $8.1 million the same period last year.
3. Improved performance of motorcycle, which recorded a combined ratio of 79% in 2014 compared to 92% in 2013, due to lower frequency and severity of claims.
4. This was partially offset by reduced performance of Atlantic auto, which recorded a combined ratio of 103% in the twelve months ended December 31, 2014, compared to 81% in the same period in 2013.

SPECIALTY PROGRAMS

	3 months ended December 31				12 months ended December 31			
($THOUSANDS)	**2014**	**2013**	**$Variance**	**%Variance**	**2014**	**2013**	**$Variance**	**%Variance**
Direct written premiums	**10,219**	10,428	(209)	(2)	**40,513**	39,702	811	2
Net earned premiums	**6,291**	8,102	(1,811)	(22)	**29,527**	28,733	794	3
Net claims:								
Current year claims	**2,566**	4,742	(2,176)	(46)	**14,768**	19,728	(4,960)	(25)
Current year loss ratio	**40.8%**	58.5%			**50.0%**	68.7%		
Favourable (unfavourable) prior year claim development	**1,488**	(3,892)	5,380	138	**2,836**	(3,005)	5,841	194
Total net claims	**1,078**	8,634	(7,556)	(88)	**11,932**	22,733	(10,801)	(48)
Claims ratio(1)	**17.1%**	106.6%			**40.4%**	79.1%		
Expense ratio	**55.8%**	51.8%			**57.0%**	47.4%		
Combined ratio(1)	**72.9%**	158.4%			**97.4%**	126.5%		
Underwriting income (loss)(1)	**1,704**	(4,732)	6,436	136	**770**	(7,614)	8,384	110

(1) Before impact of change in discount rate increasing unpaid claims by $0.4 million in the quarter and $0.4 million in 2014, compared to a decrease in unpaid claims of $0.2 million in the quarter and $nil in 2013.

Fourth Quarter 2014

Specialty Programs recorded an underwriting income of $1.7 million compared to an underwriting loss of $4.7 million in the fourth quarter of 2013.

This segment's combined ratio decreased to 73% in this quarter as a result of the following factors:

1. Strong performance in creditor insurance program in the quarter.
2. Liability and commercial property programs experienced a strong quarter with a 68% combined ratio.
3. Favourable claims development of $1.5 million compared to negative development of $3.9 million in Q4 2013.
4. There was a minimal impact to underwriting income from canceled programs

Year to Date 2014

Specialty Programs recorded an underwriting income of $0.8 million in the twelve months of 2014 compared to an underwriting loss of $7.6 million in the same period in 2013.

This segment's combined ratio decreased to 97% compared to 127% in 2013 as a result of the following factors:

1. Strong performance in creditor insurance with a 92% combined ratio.
2. Continued strong performance in warranty programs in 2014.
3. Favourable claims development of $2.8 million compared to negative development of $3.0 million in 2013.

ICPEI

($THOUSANDS)	3 months ended December 31				12 months ended December 31			
	2014	**2013**	**$Variance**	**%Variance**	**2014**	**2013**	**$Variance**	**%Variance**
Direct written premiums	**6,576**	—	6,576	—	**13,385**	—	13,385	—
Net earned premiums	**7,301**	—	7,301	—	**13,851**	—	13,851	—
Net claims:								
Current year claims	**4,334**	—	3,644	—	**8,527**	—	8,527	—
Current year loss ratio	**59.4%**	—		—	**61.6%**	—		—
Favourable (unfavourable) prior year claim development	**626**	—	626	—	**626**	—	626	—
Total net claims	**3,708**	—	3,708	—	**7,901**	—	7,901	—
Claims ratio	**50.8%**	—		—	**57.0%**	—		—
Expense ratio	**35.3%**	—		—	**33.5%**	—		—
Combined ratio	**86.1%**	—		—	**90.5%**	—		—
Underwriting income	**1,016**	—	1,016	—	**1,307**	—	1,307	—

Fourth Quarter 2014

ICPEI recorded an underwriting income of $1.0 million in the fourth quarter of 2014.

This segment's combined ratio was 86% in this quarter as a result of the following factors:

1. Strong performance in auto, especially in Prince Edward Island.
2. Favourable prior year claims development of $0.6 million in the quarter.

Year to Date 2014

ICPEI recorded an underwriting income of $1.3 million in the six months ended December 31, 2014.

This segment's combined ratio was 90.5% in this period as a result of the following factors:

1. Strong performance in auto, especially in Prince Edward Island.
2. Favourable prior year claims development of $0.6 million in 2014.
3. This was partially offset by challenging conditions in personal property, especially in New Brunswick.

INTERNATIONAL DIVISION

($THOUSANDS)	3 months ended December 31				12 months ended December 31			
	2014	2013	$Variance	%Variance	2014	2013	$Variance	%Variance
Direct written premiums	**34,131**	34,898	(767)	(2)	**177,560**	93,763	83,797	89
Net written premiums	**21,674**	25,952	(4,278)	(16)	**113,467**	71,664	41,803	58
Net earned premiums	**32,170**	20,643	11,527	56	**110,517**	51,327	59,190	115
Net claims:								
Current year claims	**15,269**	15,100	169	1	**66,377**	30,452	35,924	118
Current year loss ratio	**47.5%**	73.2%			**60.1%**	59.3%		
Favourable (unfavourable) prior year claim development	**(2,403)**	1,392	(3,795)	(273)	**(2,664)**	(339)	(2,325)	(686)
Total net claims	**17,672**	13,708	3,964	29	**69,041**	30,791	38,249	124
Claims ratio(1)	**54.9%**	66.4%			**62.5%**	60.0%		
Expense ratio	**41.0%**	35.2%			**40.4%**	39.2%		
Combined ratio(1)	**95.9%**	101.6%			**102.9%**	99.2%		
Underwriting income (loss) (1)	**1,293**	(338)	1,631	483	**(3,179)**	393	(3,571)	(911)

(1) Before impact of change in discount rate and foreign exchange rate decreasing claims by $0.2 million in the quarter and increasing claims by $0.6 million in 2014 compared to a change decreasing claims by $0.1 million in the quarter and $0.1 million in 2013.

Fourth Quarter 2014

The International division recorded $34.1 million of written premiums in the fourth quarter of 2014 compared to $34.9 million in the same period in 2013, a decrease of $0.8 million. At the end of the fourth quarter, the International division wrote programs through 20 MGAs, mainly in the UK and Scandinavia.

The International division recorded an underwriting income of $1.3 million in the fourth quarter compared to underwriting loss of $0.3 million in the comparable period in 2013. This is as a result of:

1. Lower current accident year claims ratio of 48% compared to 73% in the same period of the prior year, driven by strong warranty and commercial property performance.
2. Increased earned premiums which provides better general expense coverage.
3. This was partially offset by negative prior year claims development of $2.4 million in Q4 2014 compared to $1.4 million of positive development in the same period in 2013.

Year to Date 2014

The International division recorded $177.6 million of written premiums in the year compared to $93.8 million in the same period in 2013, an increase of $83.8 million. The strong growth in written premiums is due primarily to the organic growth in existing programs.

The International division recorded an underwriting loss of $3.2 million in the year compared to underwriting income of $0.4 million in the comparable period in 2013. This is as a result of:

1. Poor performance in UK motorcycle in early 2014 as a result of unusually warm and wet winter weather driving conditions, which resulted in a 30% increase in frequency. The impact of the increased frequency due to weather was approximately $1.6 million.
2. Negative prior year claims development of $2.7 million in Q4 2014 compared to $0.3 million in the same period in 2013.
3. Increase in IBNR reserves of approximately $3.5 million in the year.

SUMMARY OF QUARTERLY RESULTS

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

				2014				2013
($THOUSANDS EXCEPT PER SHARE DATA)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Direct written and assumed premiums	**78,832**	**104,876**	**101,428**	**79,768**	74,300	62,706	78,121	53,240
Net earned premiums and other revenue	**77,491**	**76,560**	**61,885**	**62,098**	59,738	50,711	50,449	44,566
Underwriting (loss) income (1)	**7,584**	**122**	**(3,311)**	**532**	(4,309)	1,157	4,080	(3,515)
Income (loss) before income taxes	**10,804**	**6,467**	**(154)**	**6,666**	1,428	2,998	11,167	(186)
Net (loss) income	**8,404**	**5,537**	**(603)**	**5,395**	1,158	2,440	8,739	30
Net operating income	**9,005**	**3,944**	**263**	**3,678**	937	3,798	5,849	(9)
Earnings (loss) per adjusted share								
(a) Basic	**$0.70**	**$0.42**	**$0.02**	**$0.45**	$0.17	$0.22	$0.73	$0.01
(b) Diluted	**$0.68**	**$0.41**	**$0.02**	**$0.44**	$0.16	$0.22	$0.72	$0.01
Net operating income per share - diluted	**$0.75**	**$0.33**	**$0.02**	**$0.30**	$0.08	$0.32	$0.49	$0.00
Selected financial ratios (%)								
Loss ratio(1)	**51.0**	**60.4**	**65.4**	**57.5**	69.5	61.1	54.8	71.9
Expense ratio	**39.2**	**39.4**	**39.9**	**41.6**	37.7	36.6	37.0	36.0
Combined(1)	**90.2**	**99.8**	**105.3**	**99.1**	107.2	97.7	91.8	107.9
Book value per share	**$15.82**	**$15.19**	**$14.99**	**$14.92**	$14.57	$13.98	$14.37	$14.09

(1) Before impact of change in discount rate increasing unpaid claims by $2.1 million in the three months ended December 31, 2014, compared to a $0.9 decrease in unpaid claims for the corresponding period in 2013.

The quarterly results reflect the seasonality of our business. While net earned premiums are relatively stable from quarter to quarter, underwriting results vary significantly by quarter as they are affected by changes in weather conditions.

NET OPERATING INCOME

Details of Net Operating Income are as follows:

		Year ended December 31				
($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	Q4 2014	2014	2013	2012	2011	2010
Net income	**8,404**	**18,732**	3,725	19,366	7,520	4,152
Impact of discount rate	**2,124**	**2,391**	(281)	3,887	1,843	488
Impact of foreign exchange on claims	**(152)**	**573**	—	—	—	—
Deduct net realized gains on investments	**(1,971)**	**(6,745)**	(5,797)	(20,996)	(137)	(5,110)
Fair value change on FVTPL	**(153)**	**(1,242)**	2,314	(227)	(209)	24
Discontinued operations	**—**	**—**	8,642	4,524	3,462	1,219
ICPEI integration costs	**—**	**1,347**	—	—	—	—
Severance & other expenses	**1,166**	**1,166**	—	1,383	—	—
Tax impact (1)	**(273)**	**678**	1,016	4,307	(427)	1,364
Net operating income	**9,145**	**16,900**	9,619	12,244	12,052	2,137
Non-controlling interest	**(140)**	**(10)**	956	987	213	—
Net operating income attributable to shareholders	**9,005**	**16,890**	10,575	13,231	12,265	2,137
Net operating income per share - diluted	**$0.75**	**$1.40**	$0.96	$1.18	$1.03	$0.18

(1) Statutory tax rate utilized for calculation purposes.

2014 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 2014	2014	2013
Gross premiums written	**78,832**	**364,904**	268,367
Net premiums written	**62,470**	**284,863**	228,781
Net premiums earned	**77,491**	**278,034**	205,464
Net interest and dividends	**3,965**	**15,289**	13,637
Realized and unrealized gains on investments	**2,124**	**7,987**	3,483
Foreign exchange gains	**269**	**1,057**	592
Total revenue	**83,849**	**302,367**	223,176

The main source of revenue was earned premiums from the sale of insurance policies. Gross written premiums totaled $364.9 million, an increase of 36% compared to $268.4 million of last year. The increase in gross premium was primarily due to the growth in the International division premiums to $177.6 million in 2014 compared to $93.8 million in 2013.

Personal Lines recorded $133.4 million of premiums in 2014 compared to $134.9 million in 2013, a decrease of 1%. Specialty Programs recorded an increase in gross written premiums of 2%, in 2014 compared to 2013. ICPEI had premiums of $13.4 million in 2014 compared to $nil in 2013.

Net earned premiums increased $72.6 million, or 35% in 2014, to $278.0 million from $205.5 million in 2013, mainly due to an increase in earned premium in the International division and the acquisition of ICPEI in 2014, partially offset by reduced earned premium in Personal Lines.

Investment income constituted approximately 8% of EGI's total revenue in 2014. Market fluctuations in interest rates and equity markets affect EGI'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 $9.0 million compared to net realized and unrealized gains of $4.1 million last year. Included in realized gains was impairment provisions of $nil in 2014 compared to $0.9 million in 2013.

EXPENSES

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

($ THOUSANDS)	Q4 2014	2014	2013
Expenses			
Incurred claims(1)	**39,550**	**162,007**	132,154
Acquisition expense	**22,290**	**79,681**	52,004
Operating expense	**8,067**	**31,419**	23,893
	69,907	**273,107**	208,051

Selected Underwriting Ratios	Q4 2014	2014	2013
Incurred claims ratio(1)	**51.0%**	**58.3%**	64.3%
Acquisition expense ratio	**28.8%**	**28.6%**	25.3%
Operating expense ratio	**10.4%**	**11.3%**	11.6%
Combined ratio(1)	**90.2%**	**98.2%**	101.2%

(1) Before impact of change in discount rate increasing unpaid claims by $2.1 million in Q4 2014, and $2.4 million in 2014 compared to a change decreasing unpaid claims by $0.3 million in 2013.

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 EGI'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 EGI to provincial and state governments, calculated as a percentage of direct written premiums.

Operating expenses are the non-commission selling, underwriting and administrative expenses incurred to support EGI'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, 2014 COMPARED TO 2013

2014 HIGHLIGHTS

- Net operating income increased by 46% to $1.40 per share from $0.96 per share.
- Underwriting income of $4.9 million compared to a loss of $2.6 million in 2013, an increase of 290%.
- A combined ratio of 98% compared to 101% in 2013.
- An increase in direct written premium of 36% in 2014, driven by growth in the International division and growth of ICPEI.
- Total pre-tax return of invested assets of $26.8 million compared to $14.3 million in 2013.
- An increase in book value per share of 8.6%.
- Quarterly dividend increased by 10% to $0.11 per share

The following financial information 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
Claims incurred	**162,007**	132,154	29,853	23
Acquisition costs	**79,681**	52,004	27,677	53
Operating expenses	**31,419**	23,893	7,526	31
Underwriting income (loss)(1)	**4,927**	(2,587)	7,514	290
ICPEI integration expense	**(1,347)**	—	(1,347)	—
One-time expense	**(1,166)**	—	(1,166)	—
Investment income	**24,333**	17,712	6,621	37
Impact of foreign exchange on claims	**(573)**	—	(573)	—
Impact of discount rate on claims	**(2,391)**	281	(2,672)	(951)
Net (loss) income before income taxes	**23,783**	15,406	8,377	54
Income taxes expense	**5,051**	3,039	2,012	66
Net income – continued operations	**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 on continuing operations				
Basic	**$1.61**	$1.13	$0.48	42
Diluted	**$1.56**	$1.11	$0.45	41
Return on equity (ROE)	**10.5%**	4.2%		
Return on equity (ROE) continuing operations	**10.5%**	10.5%		
Net operating income per share – diluted	**$1.40**	$0.96	$0.44	46

(1) Before the impact of discount rate change, increasing unpaid claims by $2.4 million in 2014 compared to decreasing unpaid claims by $0.3 million in 2013. Before the impact of foreign exchange rate change, increasing unpaid claims by $0.6 million in 2014 and $nil in 2013.

INSURANCE OPERATIONS

Written and Earned Premiums

Direct written and assumed premiums increased by $96.5 million or 36% to $364.9 million for the year ended December 31, 2014 compared to $268.4 million for 2013. The increase in written and earned premiums was primarily due to growth in the International division and the acquisition of the ICPEI.

Incurred Claims Expense

Net incurred claims expense increased in 2014. The resulting loss ratio of 58% for 2014 represents a decline of 6% over the 2013 loss ratio of 64%. This was primarily driven by improved performance in 2014 in all segments, particularly in Specialty Programs. In addition, net favourable development on prior year claims was higher in 2014 compared to 2013 by $6.6 million.

Acquisition Costs

Net acquisition costs consisting mainly of commission, premium taxes and general expenses, increased by 53%, primarily due to an increase in net earned premiums and a change in mix of business in Specialty Programs and the International division.

Operating Expenses

Operating expenses increased $7.5 million or 31% to $31.4 million in 2014 despite a 36% growth in gross written premiums, due to concerted actions to reduce discretionary spending.

Underwriting Income

Underwriting results reflect the revenues from net earned premiums less claims, acquisition and operating expenses. Overall, underwriting performance increased by $7.5 million to an income of $4.9 million for the year ended December 31, 2014, compared to an underwriting loss of $2.6 million for 2013. The underwriting results for 2014 and 2013 were net of corporate and other expenses of $5.0 million and $3.5 million in 2014 and 2013, respectively. Details by line of business are shown in the segmented financials section.

Investment Income

Investment income increased by $6.6 million, to $24.3 million in 2014 compared to $17.7 million in 2013. Net gains on investments totaled $6.7 million in 2014 compared to $5.8 million in 2013. No impairment provisions were recorded in 2014 compared to $0.9 million in 2013.

Income from interest and dividends was $16.7 million in 2014 compared to $14.9 million in 2013. The total fair value of the investment portfolio as at December 31, 2014, (including cash and short-term and premium financing receivable) was $539.0 million compared to $480.8 million as at December 31, 2013.

Income before Income Taxes

Income before income taxes was $23.8 million in 2014, compared to $15.4 million in 2013.

For the year ended December 31, 2014, an underwriting income of $4.9 million, plus investment income of $24.3 million, less impact of discount and foreign exchange rate on increasing unpaid claims of $2.9 million, less integration costs of $1.3 million, less severance expenses of $1.2 million, comprised income before income taxes of $23.8 million. This is compared to underwriting loss of $2.6 million, plus investment income of $17.7 million, plus discount rate impact on claims of $0.3 million, which comprised income before income taxes of $15.4 million in 2013.

Income Taxes

The provision for income taxes for the year ended December 31, 2014, was $5.1 million compared to $3.0 million for 2013. The approximate effective tax rate increased to 21.2% for 2014 from 19.7% for the previous year. Corporate tax rates for the Company remained at 27.0% in 2014 and 2013; however capital gains, dividend income and tax rate differences for income from foreign jurisdictions contributed to the higher effective tax rate for 2014.

BALANCE SHEET ANALYSIS

The Balance Sheet analysis that follows should be read in conjunction with the unaudited condensed consolidated interim financial statements for the fourth quarter of 2014 and notes therein.

BALANCE SHEET HIGHLIGHTS

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

					As at December 31
($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	**2014**	**2013**	**2012**	**2011**	**2010**
Balance Sheet Data					
Cash and short-term deposits	**27,326**	18,156	19,578	30,839	17,033
Investments	**504,290**	454,317	412,728	365,058	351,563
Total assets	**740,299**	619,928	548,852	493,527	476,607
Provision for unpaid claims	**344,692**	296,857	268,580	254,519	239,036
Unearned premiums	**168,555**	127,247	94,085	71,644	78,335
Total equity attributable to shareholders	**183,616**	172,360	168,427	156,857	148,190
Book value per share(1)	**$15.82**	$14.57	$13.98	$12.85	$12.14
Echelon General Insurance Company MCT ratio	**211%**	219%	250%	237%	241%

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

INVESTMENTS

EGI has an investment policy that seeks to provide a stable income base to support EGI'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.

EGI'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 EGI's invested assets as at December 31, 2014, and December 31, 2013.

			Carrying and fair values	
Available-for-sale	**As at December 31, 2014**	**% of Total**	**As at December 31, 2013**	**% of Total**
Fixed income				
Canadian				
Federal	**74,579**		54,374	
Provincial	**48,978**		42,718	
Municipal	**2,235**		5,714	
Corporate	**182,441**		162,316	
	308,233		265,122	
Fixed income lent through securities lending program				
Federal	**10,985**		49,165	
Provincial	**435**		7,656	
Municipal	**—**		411	
Corporate	**4,609**		3,980	
	16,029		61,212	
Foreign fixed income				
Government	**25,964**		12,799	
Corporate	**69,088**		45,608	
	95,052		58,407	
Total fixed income	**419,314**	**83%**	384,741	85%
Commercial Mortgages pooled fund	**2,173**		2,052	
Money market pooled fund	**110**		—	
Short-term fixed income and mortgage pooled fund	**16.476**		—	
Total pooled funds	**18.759**	**4%**	2,052	
Common shares				
Canadian	**7,784**		13,491	
Foreign	**13,690**		24,693	
Total common shares	**21,474**	**4%**	38,184	8%
Total available-for-sale	**459,547**		424,977	
Fair value through profit or loss				
Preferred shares	**44,323**		29,340	
Preferred shares lent through securities lending program	**420**		—	
Total Preferred Shares	**44,743**	**9%**	29,340	7%
Total investments	**504,290**	**100%**	454,317	100%

IMPAIRMENT ASSETS AND PROVISIONS FOR LOSSES

EGI has an established a 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 reduces investment income in the year recorded.

There was no impairment loss recognized in the fourth quarter of 2014 and no loss recognized in the fourth quarter of 2013.

A gross unrealized loss of $2.7 million (December 31, 2013 – $1.0 million) on investments held as at December 31, 2014 is recorded, net of tax, in the amount of $2.1 million (December 31, 2013 – $0.8 million) in Accumulated Other Comprehensive Income. The Company has concluded that, based on its review, these fair value deficiencies do not meet the criteria for impairment and they will be monitored on an ongoing basis.

FIXED INCOME SECURITIES

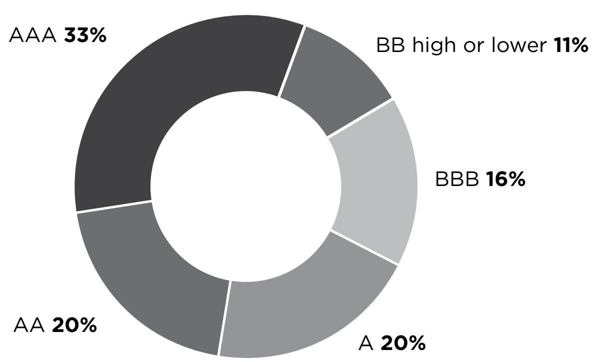
EGI holds fixed income securities to provide a steady, predictable level of income with reasonable liquidity and minimal risk of loss and a fixed sum at maturity. EGI's portfolio is diversified by selecting various types of government and corporate bonds. Constraints on types of issuers take liquidity,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

An additional $3.1 million of preferred shares were purchased in the quarter primarily fixed rate reset shares.

EGI's bond portfolio has a high overall credit quality with an average rating of A. The preferred shares have an average rating of P2. Duration of the bond portfolio is 3 years.

The chart below sets forth EGI's fixed income and preferred share portfolios by credit quality determined by rating agencies as at December 31, 2014.

Bond Ratings Q4 2013



SECTOR MIX BY ASSET CLASS

The following table shows sector exposure by asset class as at December 31, 2014:

Sector	Fixed Income Securities & Pooled funds	Preferred Shares	Common Shares	Total
Financial Services	34%	55%	19%	35%
Government	39%	—%	—%	33%
Consumer Discretionary	3%	—%	27%	4%
Technology	—%	—%	13%	1%
Telecommunication	5%	—%	7%	5%
Industrial Products	3%	6%	9%	4%
Energy	2%	—%	7%	1%
Pipelines	1%	19%	2%	3%
Utilities	2%	19%	10%	4%
Infrastructure	10%	1%	—%	9%
Other	1%	—%	6%	1%
Total	100%	100%	100%	100%
Total	438,073	44,743	21,474	504,290

COMMON SHARE PORTFOLIO

As at December 31, 2014, 36% of the common share portfolio was in Canadian equities with 64% in foreign equities.

RECOVERABLE FROM REINSURERS

($ THOUSANDS)	As at December 31, 2014	As at December 31, 2013
Reinsurers' share of unpaid claims	**48,737**	32,762
Reinsurers' share of unearned premiums	**37,528**	19,985
Total	**86,265**	52,747

As at December 31, 2014, the recoverable from reinsurers increased by $$33.5 million, or 64%, to $86.3 million from $52.7 million as at December 31, 2013. The increase was due to increased reliance on reinsured premiums in the International division partially offset by reduced reliance on Personal Lines claims reinsurance, as older claims with higher reinsurance run off. 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 EGI, for whom EGI holds deposits as collateral.

ACCOUNTS RECEIVABLE

($ THOUSANDS)	As at December 31, 2014	As at December 31, 2013
Premium financing receivables	**15,962**	15,680
Agents and brokers	**31,757**	15,627
Other	**5,007**	4,619
Total	**52,726**	35,926

Premium financing receivables represents 30% of total receivables as at December 31, 2014. Premium financing receivables increased to $16.0 million at December 31, 2014, from $15.7 at December 31, 2013. The increase in agent and broker receivables from $15.6 million in 2013 to $31.8 million in 2014 was mainly as a result of increased balances due to Qudos, in line with the increase of written premiums in this entity, as well as the acquisition of ICPEI.

PROVISION FOR UNPAID CLAIMS

EGI 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 EGI. 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. In order to help ensure that EGI's provision for unpaid claims (often called "reserves") is adequate, management has retained the services of an independent actuary. Provisions for unpaid claims are discounted to present value. The discount rate used for December 31, 2014, was 1.92%, a decrease from 2.05% at the end of 2013.

SHARE CAPITAL

As of February 17, 2015, there were 11,576,512 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 EGI's financial commitments and obligations as they come due. EGI 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 $1.6 million is due in less than a year and $4.6 million is due over the next nine years.

EGI is primarily a holding company and, as such, has limited direct operations of its own. EGI's principal assets are the shares of its insurance, reinsurance and insurance management subsidiaries. Accordingly, its future cash flows depend in part upon the availability of dividends and other statutorily permissible distributions from the 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 EGI.

CAPITAL MANAGEMENT

The total capitalization of EGI at December 31, 2014, was $187.5 million compared to $170.2 million at December 31, 2013.

The Minimum Capital Test (MCT) ratio of EGI's Canadian subsidiary, Echelon General Insurance Company, as at December 31, 2014, was 211%, which comfortably exceeds the supervisory regulatory capital level required by the Office of the Superintendent of Financial Institutions (OSFI).

In addition to excess capital at Echelon, the Company has approximately $18 million of excess deployable capital invested in liquid assets in the holding company. All regulated entities remain well-capitalized. In February 2014, EGI's European subsidiary received a $6.0 million capital injection, and in September 2014, an additional $5 million, from EGI to support its strong premium growth and strengthen its regulatory ratios. As a result, EGI's ownership stake increased to 93% at December 31, 2014, compared to 51% as at January 1, 2014, 71% as at March 31, 2014 and 75% as at June 30, 2014.

NORMAL COURSE ISSUER BID

Up to February 15, 2015, the Company purchased and cancelled 298,700 common shares under the NCIB bid programs at an average cost of $13.39 per share for a total consideration of $4.0 million.

SUBSEQUENT EVENTS

Dividends

The Board of Directors declared a quarterly dividend of $0.11 per outstanding common share. The dividend is payable on April 1, 2015, to shareholders of record on March 10, 2014.

Entity Amalgamation

On January 1, 2015, EGI amalgamated two legal entities, EGI Insurance Managers, Inc. and EGI Financial Holdings Inc. This was done to simplify the organizational structure for taxation and cash management purposes.

TRANSACTIONS WITH RELATED PARTIES

EGI has entered into transactions with The Co-operators Group Limited ("Co-operators"), who is a significant shareholder of EGI. 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, 2013 COMPARED TO 2012

The following chart compares results for the full year 2013 and 2012:

($ THOUSANDS except per share amounts)	2013	2012	$Variance	%Variance
Direct written and assumed premiums	268,367	206,010	62,357	30
Net written premiums	228,781	182,465	46,316	25
Net earned premiums	205,464	166,008	39,456	24
Claims incurred	132,154	100,415	31,739	32
Acquisition costs	52,004	39,436	12,568	32
Operating expenses	23,893	23,975	(82)	—
Underwriting income (loss)[1]	(2,587)	2,182	(4,769)	(219)
ICPEI Integration Expense	—	—	—	—
One-time expense	—	—	—	—
Investment income	17,712	33,678	(15,966)	(47)
Impact of foreign exchange on claims	—	—	—	—
Impact of discount rate on claims	281	(3,887)	4,168	(107)
Net (loss) income before income taxes	15,406	31,973	(16,567)	(52)
Income taxes expense	3,039	8,083	(5,044)	(62)
Net income – continued operations	12,367	23,890	(11,523)	(48)
Net income attributable to shareholders	4,681	20,353	(15,672)	(77)
Net operating income attributable to shareholders	10,575	12,231	(1,656)	(14)
Earnings per share on continuing operations				
Basic	$1.13	$2.07	$(0.94)	(45)
Diluted	$1.11	$2.06	$(0.95)	(46)
Return on equity (ROE)	4.2%	12.7%		
Return on equity (ROE) continuing operations	10.5%	15.5%		
Net operating income per share – diluted	$0.96	$1.18	$(0.22)	(19)

(1) Before the impact of discount rate change, decreasing unpaid claims by $0.3 million in 2013 compared to increasing unpaid claims by $3.9 million in 2012.

5 YEAR FINANCIAL HIGHLIGHTS*

($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	Year ended December 31 2014	2013	2012	2011	2010
Revenue					
Direct written and assumed premiums					
Personal Lines/Auto	**133,446**	134.902	129,606	126,220	134,041
Specialty Programs	**40.513**	39.702	48,352	44,678	51,423
ICPEI	**13.385**	—	—	—	—
International	**177,560**	93,763	28,052	—	—
Total direct written premiums	**364,904**	268,367	206,010	170,898	185,464
Net written premiums	**284,863**	228,781	182,465	156,134	166,859
Net earned premiums	**278,034**	205,464	166,008	163,171	162,715
Underwriting expenses					
Incurred claims	**162,007**	132,154	100,415	103,360	119,662
Acquisition costs	**79,681**	52,004	39,436	36,375	35,811
Operating expenses	**31,419**	23,893	23,975	19,549	15,261
Total underwriting expense	**273,107**	208,051	163,826	159,284	170,734
Underwriting income (loss)	**4,927**	(2,587)	2,182	3,887	(8,019)
Impact of discount rate on claims	**(2,391)**	281	(3,887)	(1,843)	(488)
Impact of FX on claims	**(573)**	—	—	—	—
ICPEI integration cost	**(1,347)**	—	—	—	—
One-time severance costs	**(1,166)**	—	—	—	—
Investment income	**24,333**	17,712	33,678	13,559	17,194
Interest expense	**—**	—	—	—	568
Income before income taxes	**23,783**	15,406	31,973	15,603	8,119
Income tax expense (recovery)					
Current	**5,191**	3,840	9,363	4,665	1,467
Deferred	**(140)**	(801)	(1,280)	(44)	1,281
	5,051	3,039	8,083	4,621	2,748
Net income on continued operations	**18,732**	12,367	23,890	10,982	5,371
Net income (loss) on discontinued operations attributable to shareholders of the Company	**—**	(8,642)	(4,524)	(3,462)	(1,219)
Net income	**18,732**	3,725	19,366	7,520	4,152
Attributed to:					
Shareholders of the Company	**18,722**	4,681	20,353	7,733	4,152
Non-controlling interest	**10**	(956)	(987)	(213)	—
	18,732	3,725	19,366	7,520	4,152
Earnings per share attributable to shareholders of the Company:					
Net income per share continuing operations basic	**$1.61**	1.13	2.07	0.93	$0.45
Net income per share continuing operations diluted	**$1.56**	1.11	2.06	0.92	$0.45
Book value per share	**$15.82**	$14.57	$13.98	$12.85	$12.14
Net operating income (1)	**16,890**	10,575	13,231	12,265	2,137
Net operating income per share - diluted (2)	**$1.40**	$0.96	$1.18	$1.03	$0.18

* Excludes results for US operations that were discontinued in 2013.
(1) Net operating income is defied 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

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

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

STRATEGY

EGI'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 personalized service and the sophisticated management of risk. It will operate in a responsible, ethical manner while generating high growth, strong underwriting results and a superior return on shareholders' equity.

The Company does not strive to compete on price. EGI's goal is to target niches that are currently underserved by the market and that require the high level of expertise of the organization.

FOCUS ON CANADA

EGI is focused on growing its Canadian specialty insurance business. EGI has now exited the United States. EGI will continue to support and build its European business and manage the risks of a fast growing start-up insurance operation.

FOCUS ON AUTOMOBILE INSURANCE

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

EGI 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 our distributors. EGI will continue to improve the sophistication of its pricing, utilizing predictive modeling techniques and a finer segmentation of risks. In addition, EGI 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. EGI 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. EGI 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, EGI will not compete, primarily on price, directly with main line standard insurers. EGI will also consider standard new business auto insurance that addresses the underserved 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 rigours of what is generally a highly competitive standard market.

EGI 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.

EGI 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 SPECIALTY PROGRAMS

Significant changes have been made to the Specialty Programs business in the past several years in an effort to restore profitability. EGI believes that certain lines of business are best underwritten on a 'case-by-case' basis, rather than 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 Specialty Programs.

Warranty business has, overall, been a consistently good performer. Our goal is to grow our Warranty business, building deeper expertise and operational infrastructure.

ORGANIZATIONAL STRATEGIES

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

COMPETITIVE STRENGTHS

EGI 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

EGI 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

EGI 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

EGI 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

EGI has a strong capital base with shareholder equity of $183.6 million. The Minimum Capital Test (MCT) ratio of Echelon as at December 31, 2014, was 211%, comfortably in excess of the Office of the Superintendent of Financial Institutions' (OSFI) supervisory target. All other regulated entities remain well-capitalized. In addition to excess capital at Echelon, the Company has approximately $18 million of excess deployable capital invested in liquid assets in the holding company.

It has a high quality investment portfolio with approximately 89% of its fixed income portfolio in investment grade, 73% 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). EGI 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 EGI'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 EGI. Many of these factors are beyond EGI's control. An economic downturn in those jurisdictions in which EGI writes business could result in less demand for insurance and lower policy amounts. As a P&C insurance company, EGI 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 EGI. A significant portion of the earnings of insurance companies is derived from the income from their investment portfolios. EGI's investment income will fluctuate depending on the returns and values of securities in its investment portfolio.

REGULATION

EGI 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 EGI's business, results of operations and financial condition. Where OSFI is 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 EGI'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.

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 EGI will continue to increase revenues or be profitable. To a large degree, future revenues of EGI 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.

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 EGI's financial results for any fiscal quarter or year and could materially reduce EGI's profitability or harm EGI's financial condition. EGI's ability to write new business also could be affected. EGI may experience an abrupt interruption of activities caused by unforeseeable and/or catastrophic events. EGI'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 EGI'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 EGI's bond portfolio and increased costs of borrowing for EGI on future debt instruments or credit facilities. Such increased costs would negatively affect EGI's operating results.

PRODUCT AND PRICING

EGI 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. EGI'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 EGI's best efforts, regulator decisions may impede automobile rate increases or other actions that EGI may wish to take. Also, during periods of intense competition for any product line to gain market share, EGI's competitors may price their products below the rates EGI considers acceptable. Although EGI may adjust its pricing up or down to maintain EGI's competitive position, EGI strives to ensure its pricing will produce an appropriate return on invested capital. There is no assurance that EGI will not lose market share during periods of intense pricing competition.

UNDERWRITING AND CLAIMS

EGI 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. EGI's success depends upon its ability to accurately assess the risks associated with the insurance policies that EGI writes.

EGI's underwriting objectives are to develop business within EGI's target markets on a prudent and diversified basis and to achieve profitable underwriting results (i.e. a combined operating ratio below 100%). EGI underwrites automobile business after a review of the applicant's driving record reports and claims experience. There can be no assurances that EGI 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 EGI 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 EGI'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 EGI. Although EGI's management believes its overall reserve levels as at December 31, 2014, are adequate to meet its obligations under existing policies, actual losses may deviate, perhaps substantially, from the reserves reflected in EGI's financial statements. To the extent reserves prove to be inadequate, EGI would have to increase such reserves and incur a charge to earnings.

ERRORS AND OMISSIONS CLAIMS

Where EGI 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 EGI may allege EGI'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, EGI'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 EGI takes may not be effective in all cases.

EGI'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 EGI's reputation or divert management resources away from operating the business.

EGI 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

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

EGI'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 EGI. A change in interest rates, market values or foreign exchange rates may affect Echelon's regulatory strength tests.

REINSURANCE

Consistent with industry practice, EGI 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 EGI and may affect EGI'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 EGI 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

EGI's reinsurance arrangements are with a limited number of reinsurers. This reinsurance may cause an adverse effect on EGI'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 EGI to the extent of the risk each reinsurer assumes, EGI is not relieved of its primary liability to its insureds as the direct insurer. As a result, EGI bears credit risk with respect to its reinsurers. EGI cannot ensure that its reinsurers will pay all reinsurance claims on a timely basis or at all. EGI 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 EGI under reinsurance arrangements would reduce EGI's net income and cash flow.

TECHNOLOGY

EGI 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. EGI continues to implement new computer applications as part of a comprehensive approach to improve systems technology. EGI 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 EGI will be able to respond to technology failures effectively and with minimal disruption.

LIQUIDITY

EGI manages its cash and liquid assets in an effort to ensure there is sufficient cash to meet all of EGI'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. EGI believes that internally generated funds provide the financial flexibility needed to fulfill cash commitments on an ongoing basis. EGI has no material commitments for capital expenditures. However, there can be no assurances that EGI's cash on hand and liquid assets will be sufficient to meet any future obligations that may come due.

REGULATION

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

RISK MANAGEMENT

EGI 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 the 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 EGI's assets and protect the organization and its stakeholders from risk.

As a provider of insurance products, effective risk management is fundamental to EGI's ability to protect the interests of EGI's customers and shareholders. The Company is exposed to risks of loss pertaining to insurance products. EGI 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 EGI'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 EGI 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 EGI'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 EGI 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.

EGI'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.

EGI is exposed to foreign exchange risk, through its International division's operations in Europe, primarily in the capital injected for growth and to maintain regulatory ratios. In general, assets and liabilities are matched by currency to provide a natural foreign exchange hedge.

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 EGI'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.

EGI'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 EGI'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, EGI's reinsurance brokers, to ensure that effective reinsurance programs are in place, which facilitate the desired growth of EGI's business and provide EGI 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 EGI'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. EGI 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

CHANGES IN ACCOUNTING POLICIES

Change in Policy for Acquisition Costs

The Company retroactively adopted on January 1, 2013 a new accounting policy for costs associated with acquiring or renewing insurance contracts consistent with guidance issued by the Accounting Standards Board and the Office of The Superintendent of Financial Institutions. In accordance with IFRS 4, Insurance Contracts, an entity is permitted to change its accounting policies for insurance contracts if, and only if, the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs.

In accordance with the new policy, deferred policy acquisition costs will now include general expenses that can be indirectly attributed to the process of acquiring new and renewal insurance contracts. These expenses were previously not deferred. The purchase of ICPEI triggered a review of our previous practices. We concluded that the new policy provides better matching of revenue and related expenses and is more in line with current industry practice.

The adoption of this new accounting policy resulted in an increase in equity of $1,825 at January 1, 2013.

Balance as at January 1, 2013	As Reported	Adjustment	As Amended
Deferred Policy Acquisition Costs	21,588	2,185	23,773
Deferred Income Taxes	5,350	(360)	4,990
Retained Earnings	91,237	1,825	93,062

The effects on the consolidated statements of income and comprehensive income and consolidated statements of cash flows for the current and prior years were not significant.

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

Amendment to IAS 32, Financial instruments: Presentation' on offsetting financial assets and financial liabilities

This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counter parties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The adoption of the amendments did not have a significant impact on the consolidated financial statements

IFRIC 21, Levies

IFRIC 21 sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized. The Company is not currently subjected to significant levies so the impact was not material to the consolidated financial statements.

STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ADOPTED OR EFFECTIVE

IFRS 9 Financial Instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income ("OCI") and Fair Value Through Profit and Loss ("FVTPL"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

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 recognised 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 1 January 2017 and earlier application is permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

Annual Improvements 2012

The IASB issued its Annual Improvements to IFRS 2010 - 2012 Cycle, which amended seven standards. The following amendments may have an impact on the company: IFRS 3, 'Business combinations.' The standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, 'Financial instruments: Presentation.' The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Consequential changes are also made to IFRS 9, IAS 37 and IAS 39. IFRS 13, 'Fair value measurement.' The IASB has amended the basis for conclusions of IFRS 13 to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases. IAS 24, 'Related party disclosures' The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'). The amendments are effective for annual periods beginning on or after 1 July 2014. The Company is assessing the impact of adopting these amendments.

Annual Improvements 2013

The IASB issued its Annual Improvements to IFRS 2011 - 2013 Cycle, which amended four standards. The following amendments may have an impact on the Company: IFRS 3, 'Business combinations.' The standard is amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. IFRS 13, 'Fair value measurement.' The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9). The amendments are effective for annual periods beginning on or after 1 July 2014. The Company is assessing the impact of adopting these amendments.

Annual Improvements 2014

The IASB issued its Annual Improvements to IFRS 2012 - 2014 Cycle, which amended four standards. The following amendments may have an impact on the Company. IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations Assets' (or disposal groups). The amendment to IFRS 5 clarifies that changing from one disposal method to the other should be considered a continuation of the original plan. The amendment also clarifies that changing the disposal method does not change the date of classification. IFRS 7 'Financial Instruments: Disclosures.' The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The amendments are effective for annual periods beginning on or after 1 January 2016. The Company is assessing the impact of adopting these amendments.

CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

EGI's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by EGI 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, 2014, 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 National Instrument 52-109. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures was effective.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

As at the financial year ended December 31, 2014, the Chief Executive Officer and the Chief Financial Officer evaluated the design and operating effectiveness 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 internal control over financial reporting was effective as at December 31, 2014, and provided 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 year ended December 31, 2014, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

EGI's significant accounting policies are disclosed in note 4 to the consolidated financial statements for the years ended December 31, 2014 and 2013.

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 EGI'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. In 2014, the discount rate used was 1.92% (2013 - 2.05%). 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, 2014, a 1% increase in the discount rate would result in a decrease in the net provision of $6.3 million and a 1% decrease in the discount rate would increase the net provision by $6.5 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.

GLOSSARY OF SELECTED INSURANCE TERMS

“Case method” means establishing a reserve liability equal to the most probable expected outcome for an individual claim.

“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.

“Retention” means the amount of liability for which an insurance company will be responsible after it has completed its reinsurance arrangements.

“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 consolidated financial statements, management's discussion and analysis and other information in the annual report. The consolidated financial statements of EGI Financial Holdings Inc. (the Company) were prepared in accordance with International Financial Reporting Standards. Where necessary, these consolidated financial statements reflect amounts based on the best estimates and judgment 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements. The external auditor considers the work of the Appointed Actuary in respect of policy liabilities included in the consolidated financial statements, on which the Appointed Actuary has rendered an opinion.

Toronto, Ontario

February 17, 2015

Steve Dobronyi	Alvin Sharma
Chief Executive Officer	Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

February 17, 2015

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
EGI Financial Holdings Inc.

We have audited the accompanying consolidated financial statements of EGI Financial Holdings Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013 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 audits 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 EGI Financial Holdings Inc. and its subsidiaries as at December 31, 2014 and December 31, 2013 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 Shareholders of EGI Financial Holdings Inc.:

I have valued the policy liabilities of the subsidiary insurance operations of EGI Financial Holdings Inc. for its consolidated statement of financial position at December 31, 2014 and their changes in the consolidated statements of income and comprehensive income for the years 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.

Michel Trudeau,
Fellow, Canadian Institute of Actuaries

Toronto, Ontario
February 17, 2015

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF CANADIAN DOLLARS)	Note	December 31, 2014	Amended December 31, 2013 (Note 3)
Assets			
Cash and short–term deposits		**27,326**	18,156
Accounts receivable		**52,726**	35,926
Investments	5	**504,290**	454,317
Due from insurance companies		**1,996**	3,086
Deferred policy acquisition costs	6	**49,353**	34,793
Income taxes recoverable		**955**	3,770
Prepaid expenses and other assets		**3,358**	5,105
Reinsurers' share – unearned premiums	7	**37,528**	19,985
– provision for unpaid claims	8	**48,737**	32,762
Property and equipment		**871**	755
Intangible assets	11	**6,804**	5,360
Deferred income taxes	12	**6,355**	5,913
Total assets		**740,299**	619,928
Liabilities			
Income taxes payable		**5,179**	187
Accounts payable and accrued liabilities		**18,535**	17,079
Payable to insurance companies		**6,407**	4,731
Unearned premiums	7	**168,555**	127,247
Unearned commission		**9,459**	3,623
Provision for unpaid claims	8	**344,692**	296,857
Total liabilities		**552,827**	449,724
Equity			
Share capital	13	**67,153**	67,211
Contributed surplus	14	**2,192**	1,561
Retained earnings		**105,354**	96,418
Accumulated other comprehensive income	21	**8,917**	7,170
Equity attributed to shareholders of the Company		**183,616**	172,360
Non-controlling interest	23	**3,856**	(2,156)
Total equity		**187,472**	170,204
Total liabilities and equity		**740,299**	619,928

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

For the years ended December 31

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)	Note	2014	2013
Revenue			
Gross written and assumed premiums		**364,904**	268,367
Less: Premiums ceded to reinsurers		**(80,041)**	(39,586)
Net written and assumed premiums		**284,863**	228,781
(Increase) in gross unearned premiums		**(24,429)**	(34,773)
Increase (decrease) in unearned premiums, reinsurers' share		**17,600**	11,456
Change in provision for unearned premiums		**(6,829)**	(23,317)
Net earned premiums		**278,034**	205,464
Investment income	5	**24,333**	17,712
Total revenue		**302,367**	223,176
Expenses			
Gross claims incurred		**195,568**	143,001
Less: claims recoveries from reinsurers		**(32,988)**	(10,847)
Net incurred claims		**162,580**	132,154
Gross acquisition costs		**93,855**	59,341
Less: acquisition cost recoveries from reinsurers		**(14,174)**	(7,337)
Net acquisition costs		**79,681**	52,004
Operating costs	16	**32,585**	23,893
ICPEI Integration costs		**1,347**	—
Total expenses		**276,193**	208,051
Income before taxes and discount rate impact on claims		**26,174**	15,125
Impact of change in discount rate on claims	8	**(2,391)**	281
Income before income taxes		**23,783**	15,406
Income tax expense	12	**5,051**	3,039
Net income on continuing operations		**18,732**	12,367
Net loss on discontinued operations attributable to shareholders of the Company	3	**—**	(8,642)
Net income		**18,732**	3,725
Attributed to:			
Shareholders of the Company		**18,722**	4,681
Non-controlling interest	23	**10**	(956)
Net Income		**18,732**	3,725
Earnings per share attributable to shareholders of the Company	22		
Earnings per share continuing operations - basic		**$1.61**	$1.13
Earnings per share - basic		**$1.61**	$0.40
Earnings per share continuing operations - diluted		**$1.56**	$1.11
Earnings per share - diluted		**$1.56**	$0.39
Net income		**18,732**	3,725
Other comprehensive income (loss), net of taxes that may be classified subsequently to net income			
Available-for-sale investments:	21		
Change in net unrealized gains		**11,558**	3,639
Reclassification of net realized (gains) to net income		**(6,791)**	(5,549)
Cumulative translation gain (loss)		**(1,771)**	1,486
Tax impact	12	**(1,230)**	1,540
Other comprehensive income		**1,766**	1,116
Total comprehensive income		**20,498**	4,841
Attributed to:			
Shareholders of the Company		**20,469**	5,797
Non-controlling interest		**29**	(956)
Total comprehensive income		**20,498**	4,841

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31

(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, 2014	**67,211**	**1,561**	**7,170**	**96,418**	**172,360**	**(2,156)**	**170,204**
Net income	—	—	—	**18,722**	**18,722**	**10**	**18,732**
Other comprehensive income	—	—	**1,747**	—	**1,747**	**19**	**1,766**
Total comprehensive income	—	—	**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 subsidiary	—	—	—	**(3,095)**	**(3,095)**	**3,095**	—
Non-controlling interest 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**

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Shareholders' Equity	Non-controlling interest	Total Equity
Amended balance at January 1, 2013 (Note 3)	68,244	1,068	6,054	93,062	168,428	(1,200)	167,228
Net income (loss)	—	—	—	4,681	4,681	(956)	3,725
Other comprehensive (loss)	—	—	1,116	—	1,116	—	1,116
Total comprehensive income (loss)	—	—	1,116	4,681	5,797	(956)	4,841
Common shares repurchased	(1,587)	—	—	(1,325)	(2,912)	—	(2,912)
Common shares issued on stock options exercised	554	—	—	—	554	—	554
Stock options - expense	—	493	—	—	493	—	493
Balance at December 31, 2013	67,211	1,561	7,170	96,418	172,360	(2,156)	170,204

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31

(IN THOUSANDS OF CANADIAN DOLLARS)	2014	2013
Cash provided by (used in):		
Operating activities		
Net income from continuing operations	**18,732**	12,367
Net income from discontinued operations	**—**	(8,642)
Adjusted for:		
Reinsurers' share of unearned premiums	**(17,481)**	(10,816)
Reinsurers' share of unpaid claims	**(13,816)**	(2,479)
Provision for unpaid claims	**25,632**	28,277
Unearned premiums	**27,668**	33,162
Deferred income taxes	**(60)**	(923)
Unearned commissions	**5,836**	1,853
Deferred policy acquisition costs	**(11,627)**	(11,020)
Amortization on property plant equipment and intangible assets	**5,122**	3,426
Amortization of premiums on bonds	**2,716**	2,496
Fair value change on FVTPL investments	**(1,242)**	2,314
Options expense	**631**	493
Currency translation	**(1,771)**	1,486
Prepaid expenses & other assets	**1,801**	(1,985)
	23,409	46,284
Cash flow from changes in		
Accounts receivable	**(3,180)**	(349)
Net realized (gains)	**(6,745)**	(6,412)
Income taxes payable/recoverable	**6,577**	(2,706)
Due to insurance companies	**2,766**	1,522
Other liabilities	**(2,874)**	4,001
Cash provided by continuing operating activities	**38,685**	46,065
Financing activities		
Proceeds from issue of common shares	**1,409**	554
Common share dividends	**(4,701)**	—
Share repurchases	**(3,457)**	(2,912)
Cash (used in) financing activities	**(6,749)**	(2,358)
Investing activities		
Purchases of property, equipment and intangible assets	**(6,725)**	(3,425)
Sale of property and equipment & intangible assets	**61**	195
Acquisition of ICPEI	**3,281**	
Purchase of investments	**(605,106)**	(740,810)
Sale/maturity of investments	**585,723**	698,911
Cash (used in) investing activities	**(22,766)**	(45,129)
Increase / (decrease) in cash and short-term deposits	**9,170**	(1,422)
Cash and short-term deposits, beginning of year	**18,156**	19,578
Cash and short-term deposits, end of year	**27,326**	18,156
Supplementary information		
Operating activities		
Income taxes paid	**(1,473)**	7,525

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1 NATURE OF OPERATIONS

EGI Financial Holdings Inc. ("the Company") was incorporated on August 18, 1997, under the Business Corporations Act (Ontario) and is incorporated and domiciled in Canada. The Company is principally engaged, through its subsidiaries, in property and casualty insurance in Canada and Europe. The Company's head office is located at 2680 Matheson Blvd. East, Suite 300, Mississauga, Ontario.

The Company's wholly-owned subsidiaries are EGI Insurance Managers Inc., Echelon General Insurance Company ("Echelon"), CIM Reinsurance Company Ltd. ("CIM Re") and CUISA Managing General Agency Corporation ("CUISA MGA"). The Company owns 75% of The Insurance Company of Prince Edward Island ("ICPEI") acquired on July 1, 2014. The Company also owns all of the preferred shares in addition to 93% of common shares of QIC Holdings ApS ("QIC"), which owns 100% of Qudos Insurance A/S ("Qudos").

2 BASIS OF PREPARATION

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, 2015.

Prior period figures 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.

DISCONTINUED OPERATIONS

On August 8, 2013, the Company entered into a definitive stock purchase agreement to sell EGI Insurance Services Inc. and all of its subsidiary companies (collectively the U.S. operations). The sale closed on November 30, 2013. For the periods presented, the operating performance of the U.S. operations has been disclosed in the Company's Consolidated Statements of Income and Comprehensive Income as discontinued operations.

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. Classification of assets and liabilities in the balance sheets as current or non-current does not provide relevant information. The maturity profile of the investment portfolio is described in note 10. The estimated payment period for insurance claims, less related reinsurance recoverable, is provided in note 10. 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 EGI Financial Holdings Inc. and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are those entities which EGI 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 EGI Financial Holdings Inc. controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by EGI 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 (CEO) 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 other comprehensive income 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 other comprehensive income 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 other comprehensive income (OCI). Changes in the fair value of monetary securities denominated in foreign currency classified as AFS 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 other comprehensive income.

CASH AND SHORT-TERM DEPOSITS

Cash and short-term deposits include cash-on-hand, cash balances with banks and short-term investments maturing in 90 days or less from the date 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. The securities are reported separately in the notes to the financial statement on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession. 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.

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 fair value through profit or loss by management. The Company has designated as fair value through profit and loss 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 preferred shares are classified as FVTPL.

(ii) Available-for-sale investments: Available-for-sale 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 available-for-sale assets comprise marketable securities and investments in debt and common equity securities.

Available-for-sale 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 available-for-sale investments, calculated using the effective interest method, is recognized in the consolidated statements of income and comprehensive income within investment income. Dividends on available-for-sale 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 available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income 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 net income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to investment income in 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.

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 other comprehensive income 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 and 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 (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 Corporation 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.

CHANGES IN ACCOUNTING POLICIES

Change in Policy for Acquisition Costs

The Company retroactively adopted on January 1, 2013 a new accounting policy for costs associated with acquiring or renewing insurance contracts consistent with guidance issued by the Accounting Standards Board and the Office of The Superintendent of Financial Institutions. In accordance with IFRS 4, Insurance Contracts, an entity is permitted to change its accounting policies for insurance contracts if, and only if, the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs.

In accordance with the new policy, deferred policy acquisition costs will now include general expenses that can be indirectly attributed to the process of acquiring new and renewal insurance contracts. These expenses were previously not deferred. The purchase of ICPEI triggered a review of our previous practices. We concluded that the new policy provides better matching of revenue and related expenses and is more in line with current industry practice.

The adoption of this new accounting policy resulted in an increase in equity of $1,825 at January 1, 2013.

Balance as at January 1, 2013	As Reported	Adjustment	As Amended
DPAC	21,588	2,185	23,773
Deferred Income Taxes	5,388	(360)	5,028
Retained Earnings	91,237	1,825	93,062

The effects on the consolidated statements of income and comprehensive income and consolidated statements of cash flows for the current and prior years were not significant.

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

Amendment to IAS 32, Financial instruments: Presentation' on offsetting financial assets and financial liabilities

This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counter parties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The adoption of the amendments did not have a significant impact on the consolidated financial statements.

IFRIC 21, Levies

IFRIC 21 sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'.
The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized.
The Company is not currently subjected to significant levies and therefore the impact is not material

STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ADOPTED OR EFFECTIVE

IFRS 9 Financial Instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

A new expected credit losses model replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted however not recommended by Office of the Superintendent of Financial Institutions (OSFI) at this time for Federally Regulated Entities. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

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 1 January 2017. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early

Annual Improvements 2012

The IASB issued its Annual Improvements to IFRS 2010 - 2012 Cycle, which amended seven standards. The following amendments may have an impact on the Company: IFRS 3, 'Business combinations.' The standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, 'Financial instruments: Presentation.' The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Consequential changes are also made to IFRS 9, IAS 37 and IAS 39. IFRS 13, 'Fair value measurement.' The IASB has amended the basis for conclusions of IFRS 13 to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases. IAS 24, 'Related party disclosures' The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'). The amendments are effective for annual periods beginning on or after 1 July 2014. The Company is assessing the impact of adopting these amendments

Annual Improvements 2013

The IASB issued its Annual Improvements to IFRS 2011 - 2013 Cycle, which amended four standards. The following amendments may have an impact on the Company: IFRS 3, 'Business combinations.' The standard is amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. IFRS 13, 'Fair value measurement.' The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9). The amendments are effective for annual periods beginning on or after 1 July 2014. The Company is assessing the impact of adopting these amendments.

Annual Improvements 2014

The IASB issued its Annual Improvements to IFRS 2012 - 2014 Cycle, which amended four standards. The following amendments may have an impact on the Company. IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations Assets' (or disposal groups). The amendment to IFRS 5 clarifies that changing from one disposal method to the other should considered a continuation of the original plan. The amendment also clarifies that changing the disposal method does not change the date of classification. IFRS 7 'Financial Instruments: Disclosures.' The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The amendments are effective for annual periods beginning on or after 1 January 2016. The Company is assessing the impact of adopting these amendments.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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 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 EGI'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 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.

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 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.

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

5 INVESTMENTS

The following table provides a comparison as at December 31, 2014 and 2013:

	Carrying and fair values	
Available-for-sale	**As at December 31, 2014**	**As at December 31, 2013**
Fixed income		
Canadian		
Federal	**74,579**	54,374
Provincial	**48,978**	42,718
Municipal	**2,235**	5,714
Corporate	**182,441**	162,316
	308,233	265,122
Fixed income lent through securities lending program		
Federal	**10,985**	49,165
Provincial	**435**	7,656
Municipal	**—**	411
Corporate	**4,609**	3,980
	16,029	61,212
Foreign fixed income		
Government	**25,964**	12,799
Corporate	**69,088**	45,608
	95,052	58,407
Total fixed income	**419,314**	384,741
Commercial mortgages pooled fund	**2,173**	2,052
Money market pooled fund	**110**	—
Short-term fixed income and mortgage pooled fund	**16,476**	—
Total Pooled funds	**18,759**	2,052
Common shares		
Canadian	**7,784**	13,491
Foreign	**13,690**	24,693
Total common shares	**21,474**	38,184
Total available-for-sale	**459,547**	424,977
Fair value through profit or loss		
Preferred shares	**44,323**	29,340
Preferred shares lent through securities lending program	**420**	—
Total preferred shares	**44,743**	29,340
Total investments	**504,290**	454,317

In accordance with the securities lending agreement, the amount of the collateral held must be at least 105% of the fair value of the securities loaned. As at December 31, 2014, the Company had collateral of $19,207 (2013 – $69,529) for the loaned securities, which is in excess of 105% of the fair value of the loaned securities.

FAIR VALUE

The Company is responsible for determining the fair value of its investment portfolio by utilizing market-driven fair value measurements from active markets, where available, by considering other observable and unobservable inputs and by employing valuation techniques which make use of current market data. The Company uses a fair-value hierarchy to categorize the inputs used in valuation techniques to measure fair value. A description of the inputs used in the valuation of financial instruments is as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. The fair value of the Company's common and preferred shares is determined based on quoted prices in active markets obtained from external pricing sources.

Level 2 – Inputs, other than quoted prices, that are observable for the investment either directly or indirectly. These inputs include quoted prices for similar instruments exchanged in active markets; quoted prices for identical or similar instruments exchanged in inactive markets; inputs other than quoted prices that are observable for the instruments, such as interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates where available; and inputs that are derived principally from or corroborated by observable market data and correlation or other means.

The Company's investments in government securities (including federal, provincial and municipal bonds), pooled funds, corporate securities, private placements and infrequently traded securities are priced using publicly traded, over-the-counter prices or broker-dealer quotes which are based on market observable inputs. Observable inputs such as benchmark yields, reported trades, broker dealer quotes, issuer spreads and bids are available for these investments.

Level 3 – Inputs that are not based on observable market data. Management is required to use assumptions regarding unobservable inputs as there is little, if any, market activity in these investments or related observable inputs that can be corroborated at the measurement date. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets. To verify pricing, the Company assesses the reasonability of the fair values by comparing to industry-accepted valuation models, to movements in credit spreads and to recent transaction prices for similar assets where available.

The economic circumstances that affect the fair value of the Company's financial assets have changed in the period with the increasing interest rates.

The following table provides the classification of the Company's investments within the fair value hierarchy, as outlined above, as at December 31, 2014, and December 31, 2013:

December 31, 2014	**Investments at fair value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed Income	**—**	**419,314**	**—**	**419,314**
Commercial Mortgages pooled fund	**—**	**—**	**2,173**	**2,173**
Money market pooled fund	**—**	**110**	**—**	**110**
Short-term fixed income and mortgage pooled fund	**—**	**16,476**	**—**	**16,476**
Equities	**66,217**	**—**	**—**	**66,217**
	66,217	**435,900**	**2,173**	**504,290**

December 31, 2013	**Investments at fair value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed Income	—	384,741	—	384,741
Commercial Mortgages pooled fund	—	—	2,052	2,052
Equities	67,524	—	—	67,524
	67,524	384,741	2,052	454,317

The fair value of the Company's investments, determined with the use of unobservable market information as inputs, is approximately 0.4% (December 31, 2013 – 0.5%) of the total investment portfolio, and consists of investments in a commercial mortgages pooled fund with a fair value of $2,173 (December 31, 2013 – $2,052).

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

A reconciliation of Level 3 investment for the years ended December 31, 2014 and 2013, with the use of significant unobservable inputs from January 1 to December 31, is as follows:

	2014	2013
Balance at beginning of year	**2,052**	484
Addition during the year	**–**	2,040
Disposal / Reclassification during the year	**–**	(484)
Net unrealized gains included in other comprehensive income	**121**	12
Balance at end of year	**2,173**	2,052

Investment in the commercial mortgages pooled fund is valued using the Company's share of the net asset value of the aggregate commercial mortgage pooled fund as of December 31, 2014 and December 31, 2013.

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 twelve months ended December 31, 2014 (December 31, 2013 – $484). The Company started receiving quoted prices for the bonds transferred from Level 3 to Level 2 in the prior period. There were no transfers from Level 2 to Level 1, or vice versa in the period.

The fair values of cash equivalents, loans and 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 investments of $nil was recognized in 2014 (December 31, 2013 – $904). A remaining gross unrealized loss of $2,668 on AFS investments held as at December 31, 2014 (December 31, 2013 – $1,041) is recorded, net of tax, in the amount of $2,068 (December 31, 2013 – $804) in Accumulated Other Comprehensive Income.

INVESTMENT INCOME

The table below provides additional details on net investment income:

	2014	2013
Interest income	**14,458**	12,980
Dividend income	**2,231**	1,931
Net realized gains	**6,745**	6,701
Impairment loss	**–**	(904)
Fair value change on FVTPL investments	**1,242**	(2,314)
Realized and unrealized foreign exchange gains	**1,057**	592
Investment expenses	**(1,400)**	(1,274)
Investment Income	**24,333**	17,712

6 DEFERRED POLICY ACQUISITION COSTS

Reconciliation of deferred policy acquisition costs at December 31:

	2014		2013	
	Gross	Ceded	Gross Amended (Note 3)	Ceded
Balance at the beginning of the year	**34,793**	**3,623**	23,773	1,770
DPAC Acquired from ICPEI	**2,933**	**69**	—	—
Acquisition costs during the year	**104,585**	**19,591**	70,185	8,717
Amortization of acquisition costs during the year	**(93,855)**	**(14,174)**	(59,341)	(7,337)
Deferred General Expenses	**323**	**—**	—	—
Currency translation difference	**574**	**350**	785	473
Discontinued operations	**—**	**—**	(609)	—
Acquisition costs deferred at end of the year	**49,353**	**9,459**	34,793	3,623

7 UNEARNED PREMIUMS

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

	As at December 31, 2014		As at December 31, 2013	
	Gross	Ceded	Gross	Ceded
Automobile				
- Accident benefits	**16,549**	**2,835**	13,992	1,273
- Liability	**49,792**	**14,004**	37,477	4,295
- Other	**26,486**	**6,579**	19,117	1,720
Property				
- Commercial	**5,326**	**513**	5,724	825
- Personal	**54,897**	**8,657**	38,431	10,726
Liability	**4,550**	**258**	3,583	183
Accident and sickness	**2,792**	**89**	1,890	—
Commercial auto	**7,715**	**4,529**	6,646	963
Other	**448**	**64**	387	—
	168,555	**37,528**	127,247	19,985

A reconciliation of unearned premium is shown below:

	2014		2013	
	Gross	Ceded	Gross	Ceded
Unearned premium at the beginning of the year	**127,247**	**19,985**	94,085	9,169
Unearned premium acquired from ICPEI	**14,263**	**62**	—	—
Premium written and ceded during the year	**364,904**	**80,041**	268,367	39,586
Premium earned in income	**(340,475)**	**(62,441)**	(233,594)	(28,130)
Currency translation difference	**2,616**	**(119)**	1,778	(640)
Discontinued operations	**—**		(3,389)	—
Unearned premium at the end of the year	**168,555**	**37,528**	127,247	19,985

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

8 PROVISION FOR UNPAID CLAIMS

The fair value of the provision for unpaid claims approximates the carrying value determined in accordance with generally accepted actuarial methods in Canada, which discount estimated future cash flows and include a margin for adverse deviation.

The Company discounts its best estimate of claim provisions at a rate of interest of 1.92% (December 31, 2013 – 2.05%) for all lines of business. The Company determines the discount rate based on the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

The Company recorded a $11,347 reduction to the net provision for unpaid claims relating to redundancies in prior years' estimates (December 31, 2013 – $4,780).

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 $23,939 as at December 31, 2014 (December 31, 2013 – $25,515).

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

	December 31 2014		December 31, 2013	
APV basis	**Gross**	**Ceded**	**Gross**	**Ceded**
Automobile				
Accident benefits	**86,765**	**17,973**	90,674	15,360
Liability	**166,828**	**17,500**	135,613	11,038
Other	**20,781**	**6,163**	8,986	1,184
Property				
Commercial	**7,365**	**820**	8,691	902
Personal	**6,395**	**294**	4,653	46
Liability	**34,363**	**6**	32,910	—
Accident and sickness	**5,492**	**1,400**	4,017	1,120
Commercial auto	**11,039**	**3,819**	10,496	2,982
Other	**5,664**	**762**	817	130
Total unpaid claims	**344,692**	**48,737**	296,857	32,762

CLAIMS DEVELOPMENT

Provision for unpaid claims analysis	2014	2013
Unpaid claims, beginning of year, net	**264,095**	238,297
Change in undiscounted estimates for losses of prior years	**10,348**	1,575
Change in discount rate	**2,391**	(281)
Change in PFADs	**(1,392)**	(7,113)
Interest cost	**—**	1,039
Provision for claims occurring in current period	**153,624**	136,653
Paid on claims occurring during		
Current year	**(72,824)**	(56,480)
Prior year	**(80,269)**	(62,081)
Impact of discontinued items on claims	**—**	12,486
Inclusion of ICPEI, net	**19,982**	—
Unpaid claims, end of period, net	**295,955**	264,095
Reinsurers' share	**48,737**	32,762
Gross unpaid claims	**344,692**	296,857

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

The following tables 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 judgment such as the expected impacts of future judicial decisions and government legislation. The diversity of these considerations results in it not being practical to identify and quantify all individual assumptions that are more likely than others to have a significant impact on the measurement of the Company's insurance contracts. There were no new assumptions identified in the period as having a potential or identifiable material impact on the overall claims estimate.

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

CLAIMS DEVELOPMENT TABLE, GROSS OF REINSURANCE

The following tables show the estimates of cumulative incurred claims, including IBNR, for the seven 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
	2005 & prior	2006	2007	2008	2009	2010	2011	2012	2013	2014
Provision for claims including LAE	129,173	146,101	169,091	185,255	207,220	239,036	254,519	268,580	296,856	344,692
Reserve re-estimate as of:										
1 year later	113,839	138,483	163,465	186,446	203,920	232,472	246,972	264,449	284,934	
2 years later	113,817	134,769	162,916	189,093	201,044	239,117	245,331	252,279		
3 years later	112,224	133,932	164,290	186,429	206,039	239,338	232,772			
4 years later	110,157	134,173	161,852	190,342	205,646	228,612				
5 years later	110,577	131,660	163,440	189,297	197,841					
6 years later	107,647	133,355	163,069	183,341						
7 years later	109,096	133,205	159,402							
8 years later	108,838	131,646								
9 years later	108,758									
Cumulative favourable (unfavourable) development	20,415	14,455	9,689	1,914	9,379	10,424	21,747	16,301	11,922	

CLAIMS DEVELOPMENT TABLE, NET OF REINSURANCE

										Calendar Year
	2005 & prior	2006	2007	2008	2009	2010	2011	2012	2013	2014
Provision for claims including LAE	75,130	97,716	120,630	143,354	168,484	202,884	221,250	238,297	264,095	295,955
Reserve re-estimate as of:										
1 year later	63,060	85,726	115,530	142,641	164,393	196,517	215,191	233,517	252,748	
2 years later	60,693	81,199	112,960	143,980	162,651	203,632	214,128	225,958		
3 years later	57,706	79,470	112,595	142,924	166,901	203,367	204,365			
4 years later	56,094	77,794	111,267	144,486	166,300	195,502				
5 years later	55,325	76,878	110,883	143,125	160,078					
6 years later	53,882	76,584	110,001	138,578						
7 years later	53,790	76,695	107,439							
8 years later	53,937	75,063								
9 years later	53,251									
Cumulative favourable (unfavourable) development	21,879	22,653	13,191	4,776	8,406	7,382	16,885	12,339	11,347	

9 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 2014, 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 $1,750 (2013 -$1,500). In addition, the Company obtained catastrophe reinsurance which limits the loss from a series of claims arising from a single occurrence to $2,000 (2013 - $2,000), to a maximum coverage of $23,000 (2013 -$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 judgment, 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, 2014 and 2013, by risk rating:

December 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**

December 31, 2013

Credit rating	Gross reinsurance recoverable	Less: Deposits held in trust	Net exposure
A or higher	52,080	—	52,080
Not rated	3,451	3,864	—
	55,531	3,864	52,080

Included in gross reinsurance recoverable is reinsurers' share of unearned premiums of $37,284 (December 31, 2013 - $19,985), reinsurers' share of provision for unpaid claims of $48,981 (December 31, 2013 - $32,762), and receivables from reinsurers presented as due from insurance companies of $1,881 (December 31, 2013 - $2,784). No balances due from reinsurers are considered past due as at December 31, 2014 and 2013. There is no valuation allowance or amounts written off during the years ended December 31, 2014 and 2013.

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

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 to a lesser extent 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.

A more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. EGI has developed their insurance underwriting strategy to diversify the type of insurance risks accepted. As at December 31, 2014, 36% of direct written premiums were derived from Personal Lines (December 31, 2013 - 46%); Specialty Programs 11% (December 31, 2013 - 19%); ICPEI 4% (December 31, 2013 - nil); and International Lines 49% (December 31, 2013 - 35%). The regional split of direct written premiums was Ontario 27% (December 31, 2013 - 40%), Atlantic Canada 8% (December 31, 2013 - 8%), Quebec 4% (December 31, 2013 - 7%), Western Canada 12% (December 31, 2013 - 10%) and International 49% (December 31, 2013 - 35%).

	December 31, 2014	December 31, 2013
	Direct Written Premiums	Direct Written Premiums
Lines		
Personal Lines	**36%**	46%
Specialty Lines	**11%**	19%
ICPEI	**4%**	—
International	**49%**	35%
Regions		
Ontario	**27%**	40%
Atlantic Canada	**8%**	8%
Quebec	**4%**	7%
Western Canada	**12%**	10%
International	**49%**	35%

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.

	2014		2013	
Sensitivity Factor	**Net income before income taxes**	**Shareholders' equity**	**Net income before income taxes**	**Shareholders' equity**
Increase of 1% to loss ratio	**(2,780)**	**(2,029)**	(2,054)	(1,500)
Increase of 1% to claims settlement costs	**(2,960)**	**(2,161)**	(2,641)	(1,928)

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, 2014 and December 31, 2013 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	Effect on Net Income (Loss)
As at December 31, 2014				
200 basis point rise	**393,788**	**(6)%**	**(18,649)**	**—**
100 basis point rise	**406,551**	**(3)%**	**(9,324)**	**—**
No change	**419,314**	**—**	**—**	**—**
100 basis point decline	**432,077**	**3%**	**9,323**	**—**
200 basis point decline	**444,840**	**6%**	**18,651**	**—**

Change in interest rates	Fair value of fixed income	Hypothetical change on fair value	Effect on OCI net of tax	Effect on Net Income (Loss)
As at December 31, 2013				
200 basis point rise	360,267	(6)%	(17,865)	—
100 basis point rise	372,150	(3)%	(9,190)	—
No change	384,741	—	—	—
100 basis point decline	398,051	3%	9,716	—
200 basis point decline	409,773	6%	18,274	—

As discussed in note 8, 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
As at December 31, 2014			
100 basis point rise	289,700	(2)%	4,566
No change	295,955	—	—
100 basis point decline	302,411	(2)%	(4,713)
As at December 31, 2013			
100 basis point rise	257,853	(2)%	4,557
No change	264,095	—	—
100 basis point decline	270,664	2%	4,795

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

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, 2014, and December 31, 2013, are as follows:

December 31, 2014	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	**16,549**	**124,311**	**134,630**	**143,824**	**419,314**
Percentage of total	**4%**	**30%**	**32%**	**34%**	**100%**

December 31, 2013	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	45,254	93,212	134,353	111,922	384,741
Percentage of total	12%	24%	35%	29%	100%

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at December 31, 2014, and December 31, 2013:

December 31, 2014	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	**126,635**	**115,947**	**60,758**	**29,404**	**332,744**
Less: Reinsurance recoverable	**21,155**	**11,838**	**7,689**	**7,668**	**48,350**
Net actuarial liabilities	**105,480**	**104,109**	**53,069**	**21,736**	**284,394**

December 31, 2013	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	90,588	99,657	54,688	40,276	285,209
Less: Reinsurance recoverable	12,664	9,809	4,936	3,715	31,124
Net actuarial liabilities	77,924	89,848	49,752	36,561	254,085

All other financial liabilities are for duration of one year or less. The contractual maturities for lease commitments are listed in note 17.

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 quarter ended December 31, 2014 , and the year ended December 31, 2013. Certain shortcomings are inherent in the method of analysis presented, as the analysis is based on the assumption that all equity holdings increased/decreased by 10% with all other variables held constant.

Change in equity holdings	Effect on Net Income (Loss)		Effect on OCI net of tax	
	2014	2013	2014	2013
10% rise	**3,266**	2,142	**1,568**	2,787
10% decline	**(3,266)**	(2,142)	**(1,568)**	(2,787)

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 December 31, 2014	**As at December 31, 2013**
Bonds	**419,314**	384,741
Gross Reinsurance Recoverable	**88,146**	55,531
Accounts Receivable	**50,845**	35,926
Structured Settlements	**30,078**	22,713
Cash	**27,326**	18,156
Total	**615,709**	517,067

The following table sets forth the Company's fixed income securities portfolio by credit quality as at December 31, 2014, and December 31, 2013.

FIXED INCOME PORTFOLIO

	As at December 31, 2014		**As at December 31, 2013**	
	Fair value	**Fair value**	**Fair value**	**Fair value**
AAA	**135,699**	**32%**	138,283	36%
AA	**80,965**	**19%**	66,644	17%
A	**86,643**	**21%**	87,761	23%
BBB	**66,349**	**16%**	54,248	14%
BB	**26,879**	**6%**	23,730	6%
B	**11,583**	**3%**	4,554	1%
CCC	**1,954**	**0%**	1,969	1%
Unrated	**9,242**	**2%**	7,552	2%
Total	**419,314**	**100%**	384,741	100%

PREFERRED SHARE PORTFOLIO

	As at December 31, 2014		**As at December 31, 2013**	
	Fair value	**Fair value**	**Fair value**	**Fair value**
P1	**5,156**	**12%**	3,428	12%
P2	**33,129**	**74%**	23,540	80%
P3	**6,458**	**14%**	2,372	8%
Total	**44,743**	**100%**	29,340	100%

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

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 is 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 of a 10% change in CAD compared to the GBP and DKK as at December 31, 2014 and 2013. 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	
	2014	**2013**	**2014**	**2013**
10% rise	**(1,455)**	(1,901)	**1,541**	(312)
10% decline	**1,455**	1,901	**(1,541)**	312

Change in CAD/GBP rate	Effect on Net Income		Effect on OCI	
	2014	**2013**	**2014**	**2013**
10% rise	**(2,240)**	(2,124)	**2,291**	(2,850)
10% decline	**2,240**	2,124	**(2,291)**	2,850

CAPITAL MANAGEMENT

Capital is comprised of the Company's total equity. As at December 31, 2014, the Company's equity was $183,616 (December 31, 2013 - $172,360). 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 exceed the minimum capital requirements in their local jurisdictions are well capitalized.

11 INTANGIBLE ASSETS

	Opening cost	Purchases	Sales	End of period cost	Accumulated amortization	Net
Software						
December 31, 2014	13,301	6,129	—	19,430	13,026	6,404
December 31, 2013	10,403	2,898	—	13,301	8,341	4,960
Goodwill						
December 31, 2014	400			400		400
December 31, 2013	595	—	195	400	—	400
Total intangible assets						
December 31, 2014	13,701	6,129	—	19,830	13,026	6,804
December 31, 2013	10,998	2,898	195	13,701	8,341	5,360

12 INCOME TAXES

The income tax expense (recovery) is as follows:

	2014	2013
Current	**5,191**	3,802
Deferred	**(140)**	(763)
	5,051	3,039

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:

	2014	2013
Income tax expense calculated at statutory rates	**27.0%**	27.0%
Increase(decrease) in income tax rates resulting from:		
Non-taxable dividend income	**(2.0)%**	(3.2)%
Non-taxable income	**(2.6)%**	(3.5)%
Non-deductible expenses	**1.0%**	1.4%
Non-taxable portion of capital gains	**(1.9)%**	(2.9)%
Other	**(0.3)%**	0.9%
Effective income tax rate	**21.2%**	19.7%

Deferred income taxes are comprised of the following:

	Losses Carried Forward	Provision for unpaid claims	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**

	Losses Carried Forward	Provision for unpaid claims	Investments	Property, equipment and intangible assets	Total
Amended Balance - January 1, 2013 (Note 3)	907	3,945	(162)	338	5,028
Amounts recorded in the income statement	432	227	(23)	127	763
Amounts recorded in equity	—	—	122	—	122
Balance - December 31, 2013	1,339	4,172	(63)	465	5,913

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 $11,396, for which no deferred tax asset has been set up. These losses have no expiry date.

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

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:

	2014	2013
Change in unrealized gains	**2,074**	14
Reclassification to net income of (gains) and losses	**(844)**	(1,554)
Total income tax expense included in OCI	**1,230**	(1,540)

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

13 SHARE CAPITAL

	As at December 31, 2014	As at December 31, 2013
Authorized		
Unlimited common shares (no par value)		
Unlimited special shares issuable in Series (no par value)		
Issued		
11,609,057 common shares (December 31, 2013 - 11,703,082 common shares)	**67,153**	67,211

In 2014, 153,275 (2013 - 66,150) common shares with a value of $1,409 (2013 - $554) were issued for the exercise of stock options. In 2014, 7,500 common shares (2013 - Nil) were issued pursuant to the Share Unit Plan for eligible employees. During 2014 254,800 shares or $3,457 were repurchased under the normal course issuer bid and subsequently cancelled (2013 - 278,000 or $2,912).

DIVIDENDS

During the year ended December 31, 2014 the Company declared dividends on its common shares of $0.41 per share (December 31, 2013 - $0.10)

14 EMPLOYEE STOCK OPTION PLAN

For the year ended December 31, 2014, the Company recorded a compensation expense of $631 (2013 - $493), 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 $346 (2013 - $153) in relation to its Share Unit Plan. No stock options were granted in 2014.

The following is a continuity schedule of stock options outstanding as at December 31, 2014 and 2013.

	Number of options		Weighted average exercise price per share	
	2014	2013	2014	2013
Outstanding, beginning of year	**742,225**	906,578	**8.77**	9.07
Granted during year	**—**	—	**—**	—
Exercised during year	**(153,275)**	(66,150)	**9.19**	8.05
Canceled during year	**(19,000)**	(98,203)	**8.48**	12.01
Outstanding, end of year	**569,950**	742,225	**8.67**	8.77

As at December 31, 2014, the outstanding stock options consist of the following:

Stock Option price per share	Number	Average Remaining contractual life	Number of options exercisable
$10.01 - $11.00	135,750	0.25	135,750
$9.01 - $10.00	20,250	2.05	6,750
$8.01 - $9.00	225,150	4.23	26,000
$7.00 - $8.00	188,800	2.52	36,800

The fair values of the stock options 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 $2,375 (2013 - $2,375). 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, 2014 was $736 (2013 - $345). The amount charged to operating expenses for 2014 was $391 (2013 - $153).

15 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 arm's length contracts. Direct written premiums derived from Co–operators' agents were $6,923 (December 31, 2013 – $8,837); commissions paid were $790 (December 31, 2013 – $1,024) and investment management fees were $268 (December 31, 2013 – $345).

KEY MANAGEMENT

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

Compensation	2014	2013
Salaries, directors' fees and other short-term benefits	**1,465**	2,047
Equity-settled and cash-settled compensation benefits	**646**	693
	2,111	2,740

16 OPERATING COSTS BY NATURE

The table below presents operating costs by major category:

	2014	2013
Salaries and benefits	**17,142**	14,215
Systems costs	**7,897**	5,019
Professional fees	**1,942**	1,293
Printing and postage	**2,020**	1,287
Other expenses	**3,584**	2,079
	32,585	23,893

17 LEASE COMMITMENTS

The Company is committed under lease agreements for office premises and computer equipment with minimum lease payments of $5,867 as follows:

Lease commitments	
2015	1,629
2016	1,607
2017	1,311
2018	596
2019	177
2020 and thereafter	547
Total	5,867

18 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 $30,078 (December 31, 2013 - $22,713) using a discount rate of 2.33% (December 31, 2013 - 3.08%). 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.

19 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.

20 RATE REGULATIONS

The Company writes business subject to rate regulation, including non-standard automobile and motorcycle insurance in Canada, which comprises approximately 37% (2013 - 46%) 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.

21 ACCUMULATED OTHER COMPREHENSIVE INCOME

	As at December 31, 2014	As at December 31, 2013
Gross unrealized gains	**11,435**	6,694
Foreign currency translation adjustments	**(244)**	1,527
Tax impact	**(2,274)**	(1,051)
Balance at December 31	**8,917**	7,170

22 EARNINGS PER SHARE

	2014	2013
Basic earnings per share on continuing operations:		
Net continuing income available to shareholders	**18,722**	13,323
Average number of common shares (in thousands)	**11,656**	11,809
Basic earnings per share on continuing operations	**$1.61**	$1.13
Diluted earnings per share on continuing operations:		
Average number of common shares (in thousands)	**11,656**	11,809
Average number of dilutive common shares under employee stock option plan (in thousands)	**336**	245
Average number of diluted common shares (in thousands)	**11,992**	12,054
Diluted earnings per share on continuing operations	**$1.56**	$1.11

	2014	2013
Basic earnings per share:		
Net income available to shareholders	**18,722**	4,681
Average number of common shares (in thousands)	**11,656**	11,809
Basic earnings per share	**$1.61**	$0.40
Diluted earnings per share:		
Average number of common shares (in thousands)	**11,656**	11,809
Average number of dilutive common shares under employee stock option plan (in thousands)	**336**	245
Average number of diluted common shares (in thousands)	**11,992**	12,054
Diluted earnings per share	**$1.56**	$0.39

23 NON-CONTROLLING INTEREST

	2014	2013
Revenue		
Gross written and assumed premiums	**50,532**	45,944
Net earned premiums	**16,991**	12,798
Investment income	**558**	(56)
Total Revenue	**17,549**	12,742
Expenses		
Net incurred claims	**10,114**	7,131
Net acquisition costs	**5,582**	4,403
Operating costs	**1,830**	2,217
Total expenses	**17,526**	13,751
Income (loss) before income taxes	**23**	(1,009)
Income tax expense	**13**	(53)
Net income (loss) attributable to non-controlling interests	**10**	(956)
OCI attributable to non controlling interests	**19**	
Comprehensive income attributable to NCI	**29**	(956)

	2014	2013
Assets		
Cash and investments	**14,781**	18,937
Other assets	**13,826**	28,944
Total assets	**28,607**	47,881
Liabilities		
Unearned premium	**10,818**	27,056
Unpaid claims	**10,347**	11,923
Other liabilities	**3,586**	11,058
Total liabilities	**24,751**	50,037
Equity		
Share capital	**2,447**	—
AOCI	**535**	—
Retained earnings	**874**	(2,156)
Total equity	**3,856**	(2,156)
Total liabilities and equity	**28,607**	47,881

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

24 ACQUISITION OF ICPEI

On July 1, 2014 -the Company acquired 75% of ICPEI, a provincially regulated insurance company. ICPEI has provided insurance to the Maritimes since 1987. The following table summarizes the purchase consideration paid and the fair value of various assets acquired and liabilities assumed at the date of acquisition.

Purchase consideration	
Cash paid	8,709
Assets acquired	
Cash & Term Deposits	11,990
Investments	20,551
Receivables, net	13,620
Deferred Tax Asset	302
Other assets	135
Capital assets, net	18
Recoverable balance	2,221
Deferred policy acquisition costs	2,933
Total Assets	51,770
Liabilities assumed	
Provision for unpaid claims	22,203
Unearned Premiums	14,263
Accounts payable and other liabilities	3,707
Total liabilities	40,173
Fair value of net assets acquired	11,597
Less non controlling interest	(2,888)
Net assets acquired	8,709

The Company incurred business acquisition expenses of $1,347 in the year 2014 relating to the purchase. In the six months since the date of acquisition to December 31, 2014, the Company generated premium of $13,385 and net income of $516. Had the ICPEI acquisition occurred at the beginning of the year, the revenue generated and income loss incurred would have been approximately $27,385 and ($1,017), respectively.

25 SUBSEQUENT EVENTS

On January 1, 2015, EGI amalgamated two legal entities, EGI Insurance Managers Inc. and EGI Financial Holdings Inc. This was done to simplify the organizational structure for taxation and cash management purposes.

DIVIDENDS

The Board of Directors declared a quarterly dividend of $0.11 per outstanding common share. The first quarter dividend is payable on April 1, 2015, to shareholders of record on March 10, 2015.

26 SEGMENTED INFORMATION

The Company operates through four segments: Personal Lines and Specialty Programs businesses in Canada, ICPEI in the Maritime Provinces, 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 Specialty Programs segment, the Company designs and underwrites specialized non–auto insurance programs, such as higher premium property, primary and excess liability, legal expense, accident and health insurance and warranty coverage. ICPEI primarily underwrites Auto, Personal and Commercial Property products in Prince Edward Island, New

Brunswick and Nova Scotia. Through the International division the Company underwrites European property, automobile and other niche and specialty insurance products.

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.

		12 months ended December 31,	
		2014	**2013**
Revenue			
Earned premiums			
Canada	– Personal Lines	**124,139**	125,404
	– Specialty Programs	**29,527**	28,733
	– ICPEI	**13,851**	—
Total Canada		**167,517**	154,137
International		**110,517**	51,327
Total earned premium		**278,034**	205,464
Net claims Incurred			
Canada	– Personal Lines	**73,132**	78,629
	– Specialty Programs	**11,932**	22,734
	– ICPEI	**7,901**	—
Total Canada		**92,965**	101,363
International		**69,615**	30,791
Total net claims incurred		**162,580**	132,154
Net expenses			
Canada	– Personal Lines	**39,992**	38,594
	– Specialty Programs	**16,825**	13,613
	– ICPEI	**4,644**	—
Total Canada		**61,461**	52,207
International		**44,655**	20,143
Corporate Expenses		**6,150**	3,546
Total net expenses		**112,266**	75,896
Income (loss) before income taxes			
Canada	– Personal Lines	**11,014**	8,181
	– Specialty Programs	**770**	(7,614)
	– ICPEI	**1,307**	—
Total Canada		**13,091**	567
International		**(3,753)**	393
Corporate and other		**(6,150)**	(3,546)
Underwriting (loss) income		**3,188**	(2,586)
Impact of change in net claims discount rate		**(2,391)**	281
ICPEI Integration Cost		**(1,347)**	—
Investment income		**24,333**	17,712
Total income before income taxes – continuing operations		**23,783**	15,407

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

Segmented long-term assets

		As at December 31	
		2014	**2013**
Canada	– Personal Lines	**6,441**	5,051
	– Specialty Programs	**561**	804
	– ICPEI	**275**	—
		7,277	5,855
International		**397**	260
Total segmented long-term assets		**7,674**	6,115

SHAREHOLDER INFORMATION

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STOCK EXCHANGE LISTING
Toronto Stock Exchange
Trading Symbol "EFH"

COMMON SHARES OUTSTANDING
11,609,057 (as at December 31, 2014)

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

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APPOINTED ACTUARY
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AUDITORS
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INVESTOR RELATIONS
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