EGI Financial Holdings Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the period ending December 31, 2014

TABLE OF CONTENTS

EGI Financial Holdings Inc.

EGI FINANCIAL HOLDINGS INC.

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.

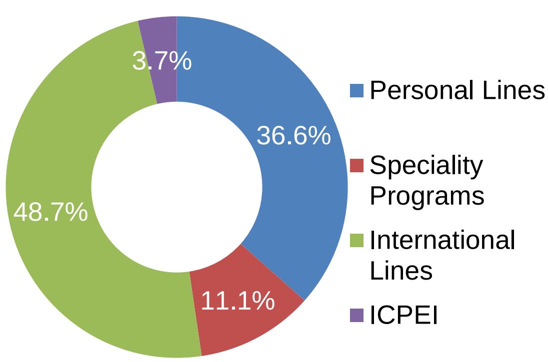
EGI operates in Canada through Echelon General Insurance Company ("Echelon"), a federally-regulated P&C insurance company and The Insurance Company of Prince Edward Island ("ICPEI"), a provincially regulated insurance company. It has three lines of insurance business in Canada – Personal Lines, Specialty 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.

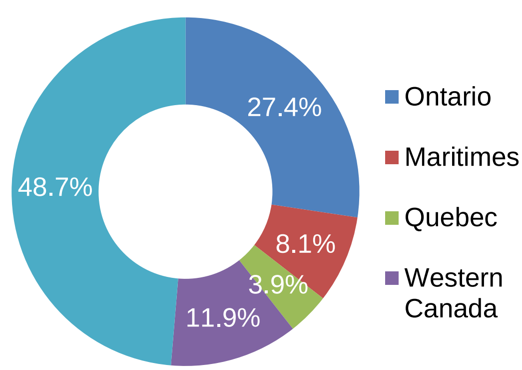
The International division underwrites specialty insurance programs in Europe through Qudos Insurance A/S ("Qudos"), a majority-owned insurance company. Qudos is domiciled in Denmark and is regulated throughout the European Union by the Danish Financial Supervisory Authority. Products include non-standard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

	Q4	Q4	Variance	Variance
($ THOUSANDS except per share amounts)	**2014**	**2013**	**$**	**%**
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 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

	3 months ended December 31				12 months ended December 31			
($THOUSANDS)	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

	3 months ended December 31				12 months ended December 31			
($THOUSANDS)	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 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) (1)	10.5%	4.2%		
Return on equity (ROE) continuing operations (1)	10.5%	10.5%		
Net operating income per share − diluted	$1.40	$0.96	$0.44	46

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 million compared to $481 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, 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	$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	74,5796		54,374	
Provincial	48,978		42,718	

Available-for-sale	Carrying and fair values As at December 31, 2014	% of Total	As at December 31, 2013	% of Total
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.

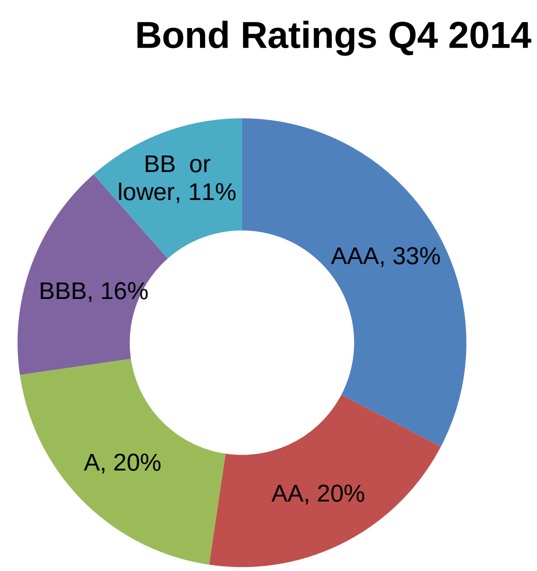
Fixed Income Securities

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



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) (1)	4.2%	12.7%		
Return on equity (ROE) continuing operations (1)	10.5%	15.5%		
Net operating income per share − diluted	$0.96	$1.18	$(0.22)	(19)

5 YEAR FINANCIAL HIGHLIGHTS

	Year ended December 31				
($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	**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

(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 rigors 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 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 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 recognized 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.

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 $xxx million and a 1% decrease in the discount rate would increase the net provision by $xxx 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.