ECHELON FINANCIAL HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the twelve months ended December 31, 2015

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ECHELON FINANCIAL HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

For the period ending December 31, 2015

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

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

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

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

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

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

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

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

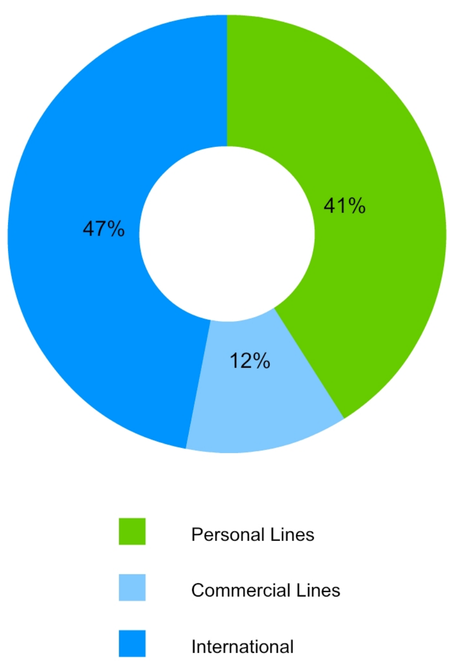
COMPANY OVERVIEW

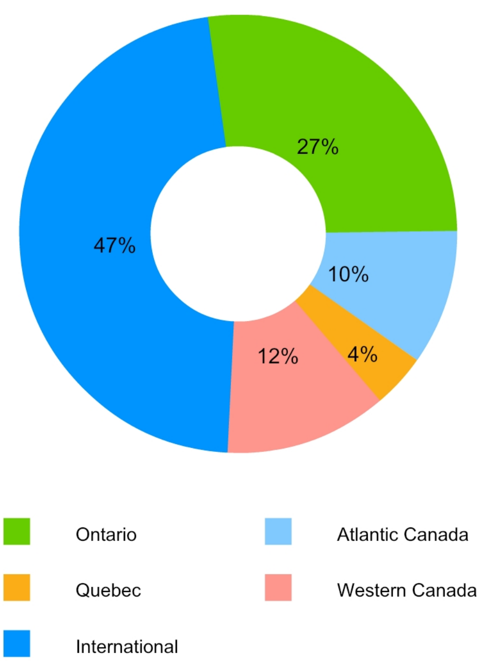
EFH operates in the property and casualty ("P&C") insurance industry in Canada and Europe. The Company underwrites non-standard automobile insurance and other specialty insurance products, with a focus on niche under-served markets.

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

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

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





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

FOURTH QUARTER HIGHLIGHTS

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

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

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

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

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

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

Insurance Operations

Direct Written and Net Earned Premiums

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

Claims Incurred

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

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

Acquisition Costs

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

Operating Expenses

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

Underwriting Income

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

Investment Income

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

Net Income before Income Taxes

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

Income Taxes

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

SEGMENTED FINANCIAL INFORMATION

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

Personal Lines

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

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

Fourth quarter 2015

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

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

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

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

Year-to-date 2015

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

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

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

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

Commercial Lines

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

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

Fourth quarter 2015

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

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

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

Year-to-date 2015

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

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

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

International

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

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

Fourth quarter 2015

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

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

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

Year-to-date 2015

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

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

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

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

SUMMARY OF QUARTERLY RESULTS

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

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

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

Net Operating Income

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

[1] Statutory tax rate utilized for calculation purposes.

2015 FINANCIAL OVERVIEW

Revenue

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

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

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

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

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

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

Expenses

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

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

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

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

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

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

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

YEAR ENDED DECEMBER 31, 2015 COMPARED TO 2014

2015 Highlights

- Net operating income decreased by 46% to $0.76 per share from $1.40 per share.
- Underwriting loss of $6.1 million compared to an underwriting income of $4.9 million in 2014, a decrease of 224%.
- A combined operating ratio of 102% compared to 98% in 2014.

- An increase of direct written premium of 36% in 2015, primarily driven by growth in the International segment.
- Total pre-tax return of invested assets of $13.6 million compared to $26.8 million in 2014.
- A decrease in book value per share of 0.4% to $15.75 per share.

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

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

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

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

Insurance Operations

Direct Written and Net Earned Premiums

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

Claims Incurred

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

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

Acquisition Costs

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

Operating Expenses

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

Corporate expenses include $1.0 million of favourable development on ICPEI's prior year claims reserves that, in accordance with terms of the share purchase agreement, are payable to SGI Canada on January 1, 2019, up to a maximum of $1.5 million. In the event that prior period losses are greater than the reserves held at June 30, 2014, SGI Canada will be required to pay EFH the difference on January 1, 2019, to a maximum of $1.5 million.

Underwriting Income

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

Investment Income

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

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

Other Income

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

Net Income before Income Taxes

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

Income Taxes

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

BALANCE SHEET ANALYSIS

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

Balance Sheet Highlights

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

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

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

Investments

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

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

Fair Value of Investments

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

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

Impairment Assets and Provisions for Losses

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

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

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

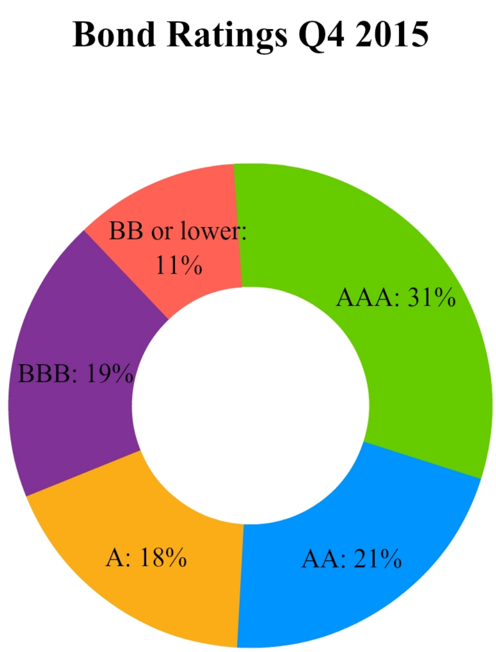
A gross unrealized loss of $3.2 million (December 31, 2014 – $2.7 million) on investments held as at December 31, 2015, is recorded, net of tax, in the amount of $2.5 million (December 31, 2014 – $2.1 million) in Accumulated Other Comprehensive Income. The Company has concluded, based on its review,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

Fixed Income Securities

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

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

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



Sector Mix by Asset Class

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

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

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

Common Share Portfolio

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

Recoverable from Reinsurers

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

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

Accounts Receivable

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

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

Provision for Unpaid Claims

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

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

Share Capital

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

LIQUIDITY AND CAPITAL MANAGEMENT

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

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

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

Capital Management

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

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

Normal Course Issuer Bid (NCIB)

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

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

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

Subsequent Events

Dividends

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

Strategic Special Committee

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

Transactions with Related Parties

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

YEAR ENDED DECEMBER 31, 2014 COMPARED TO 2013

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

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

5 YEAR FINANCIAL HIGHLIGHTS

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

[1] Net operating income is 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

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

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

STRATEGY

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

Focus on Canada

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

Focus on Automobile Insurance

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

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

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

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

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

Supplemented by Commercial Business

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

Organizational Strategies

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

COMPETITIVE STRENGTHS

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

Specialized products and underwriting

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

Entrepreneurial culture

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

Personalized customer service

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

Financial strength

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

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

RISK FACTORS

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

Nature of the Industry

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

Regulation

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

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

Competition

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

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

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

Cyclicality

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

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

Unpredictable Catastrophic Events

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

Interest Rates

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

Negative Publicity in the Industry

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

Reliance on Brokers

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

Product and Pricing

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

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

Underwriting and Claims

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

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

Loss Reserves and Claims Management

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

Errors and Omissions Claims

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

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

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

Investments

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

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

Reinsurance

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

Reinsurer Credit Risk

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

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

Technology

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

Liquidity

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

Future Capital Requirements

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

Regulation

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

Risk Management

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

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

Market Risk

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

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

Interest Rate and Equity Market Fluctuation

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

Credit Risk

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

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

Foreign Exchange Risk

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

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

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

CORPORATE GOVERNANCE

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

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

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

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

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

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

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

FUTURE CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE

Standards, amendments and interpretations not yet adopted or effective

IFRS 9 *Financial Instruments*
In July 2014 the IASB published the complete version of IFRS 9 which is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The new standard includes requirements on the classification and measurement of financial assets and liabilities, an expected credit loss model that replaces the existing incurred loss impairment model and new hedge accounting guidance. The Company is currently evaluating the impacts of IFRS 9 on its consolidated financial statements, as well as the implementation options for insurers proposed in the December 2015 Exposure Draft Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Proposed amendments to IFRS 4).

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

Internal Controls over Financial Reporting

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

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Policy Liabilities

Policy liabilities consist of provisions for unpaid claims.

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

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

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

Impairment of Financial Assets

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

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

a) significant financial difficulty of the issuer or obligor;

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

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

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

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

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

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

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

Reinsurance

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

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

Income Taxes

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

Deferred policy acquisition cost

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

GLOSSARY OF SELECTED INSURANCE TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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