ECHELON FINANCIAL HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the twelve months ended December 31, 2016

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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, 2016

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, 2016, as set out in the Handbook of the Chartered Professional Accountants (CPA Handbook).

The financial data for 2016, 2015 and 2014 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 16, 2017. 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. Net operating income is defined as underwriting income plus interest and dividend income, net of tax. 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 and excludes impact of change in claims discount rates, FX on unpaid claims and investments, and non-recurring items. Net investment income consists of interest income, dividend income and premium financing charges, less interest expense, as per Note 6 of the Company's Financial Statements. Net operating income is adjusted to that attributable to shareholders for per share calculation.

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 2016 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.

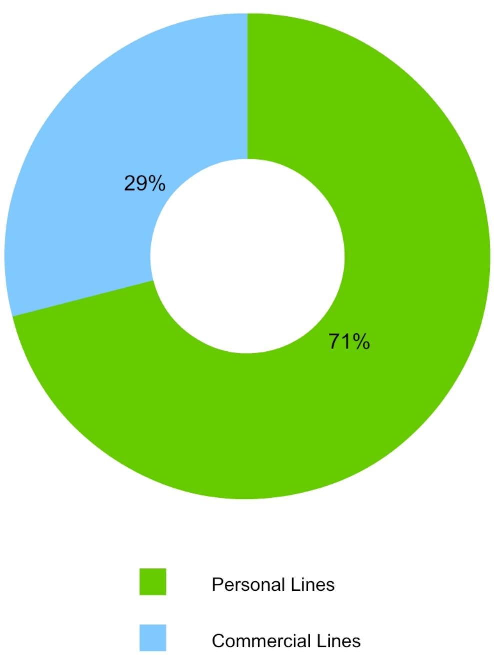
COMPANY OVERVIEW

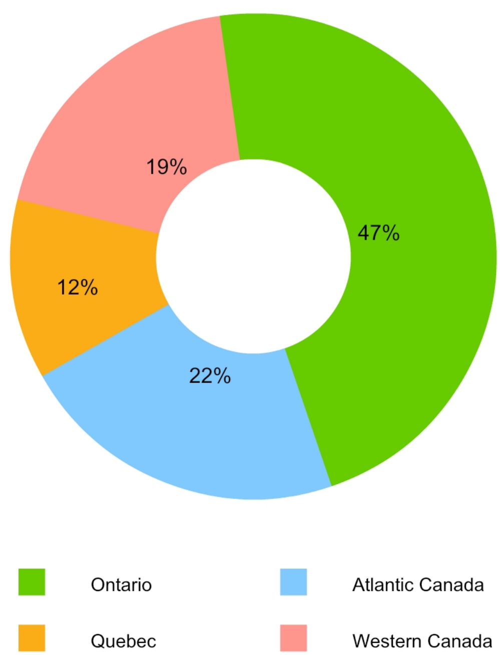
EFH operates in the property and casualty ("P&C") insurance industry in Canada and Europe. A divestiture process of the European business is awaiting regulatory approval. The Company underwrites automobile insurance and other specialty insurance products, with a focus on niche under-served markets. On August 4, 2016, EFH announced that it signed a definitive stock purchase agreement for the sale of its European operations, subject to customary closing. The European operation results and balance sheet fair value impairment associated with its sale are referred to as discontinued operations in this document.

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, motorhomes, recreational vehicles and personal property. Commercial Lines designs and underwrites specialized insurance programs, such as commercial property, commercial automobile, long-haul trucking, surety, 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. As mentioned above, the Company signed a definitive stock purchase agreement on August 4, 2016 for the sale of its European operations and is awaiting regulatory approval.

The breakdown of direct written premiums by category of business and by region in 2016 is shown below:





On a Consolidated basis, 71% of EFH's direct written premiums in 2016 were attributable to the sale of Personal Lines policies and Commercial Lines accounted for 29% of direct written premiums.

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

FOURTH QUARTER HIGHLIGHTS

- Net operating income on continued operations of $0.40 per share compared to an income of $0.39 per share in the fourth quarter of 2015.
- A Canadian combined operating ratio of 90% compared to 88% in the fourth quarter of 2015 driven by exceptionally strong commercial lines results in the quarter, offset by weaker performance in Ontario auto.
- A 15% increase in direct written premiums over the same period in 2015 to $49.4 million, primarily driven by additional new commercial lines products across Canada.
- Total pre-tax loss on invested assets of $0.6 million in the quarter compared to a pre-tax gain of $6.2 million in the fourth quarter of 2015, largely due to higher government bond yields and lower gains on preferred shares compared to prior year quarter.
- Closing book value per share of $11.70.
- We are awaiting approval from the Danish Financial services authority for the sale of the European operations. We have recognized an impairment of $23.4 million relating to the European operations in 2016.

The following financial information compares three months ended December 31, 2016, results with the same period in 2015.

($ THOUSANDS except per share amounts)	3 months ended December 31 2016	2015	Change $	%
Direct written and assumed premiums	49,403	43,100	6,303	15
Net written premiums	44,476	37,304	7,172	19
Net earned premiums	46,013	43,905	2,108	5
Net claims incurred	25,654	23,683	1,971	8
Net acquisition costs	10,680	9,476	1,204	13
Operating expenses	7,124	7,549	(425)	(6)
Underwriting income	2,555	3,197	(642)	(20)
Severance expense	(769)	—	(769)	—
Investment income	3,159	6,277	(3,118)	(50)
Impact of discount rate on claims	(1,370)	2,080	(3,450)	(166)
Net income before interest and income taxes	3,575	11,554	(7,979)	(69)
Interest expense	63	—	63	—
Income tax expense	911	2,747	(1,836)	(67)
Net income	2,601	8,807	(6,206)	(70)
Net income attributable to shareholders	2,598	8,628	(6,030)	(70)
Net operating income attributable to shareholders	4,857	4,705	152	3
Earnings per share				
Basic	$0.22	$0.74	$(0.52)	(70)
Diluted	$0.22	$0.72	$(0.50)	(69)
Net operating income per share – diluted (1)	$0.40	$0.39	$0.01	3
Trailing twelve month return on equity (ROE) - continuing operations (2)	4.2%	6.7%		

(1) Net operating income is defined as underwriting income plus interest and dividend income, net of tax. Underwriting income excludes impact of change in claims discount rates, FX on unpaid claims and investments, and non-recurring items. Net investment income consists of interest income, dividend income and premium financing charges, less interest expense, as per Note 6 of the Company's Financial Statements. 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, Net Written and Net Earned Premiums

In the fourth quarter of 2016, direct written premiums increased by 15% compared to the same period last year, while net written premiums increased by 19% to $44.5 million. The increase in premium was driven by growth in commercial lines, primarily through the introduction of new surety and commercial auto products.

Claims Incurred

For the quarter ended December 31, 2016, net claims expense increased by 8%, primarily driven by weaker results in Ontario personal auto.

Net favourable development of prior year claims of $3.4 million was recorded in the fourth quarter of 2016 compared to net favourable development of $8.3 million in the same period in 2015.

Acquisition Costs

Acquisition costs, which consist mainly of commissions, premium taxes and a portion of general expenses related to policy acquisitions, increased by 13%, in the quarter ended December 31, 2016, due to increase in premium and change of mix of business.

Operating Expenses

Operating expenses decreased by $0.4 million or 6%, to $7.1 million in the fourth quarter of 2016 compared to $7.5 million in the comparative quarter.

Underwriting Income

Underwriting income of $2.6 million was recorded in the fourth quarter of 2016 compared to an underwriting income of $3.2 million in the same period in 2015. The decrease was due to lower redundancy of claim reserves in the current period compared to the comparative quarter last year.

Investment Income

There was investment income of $3.2 million in the fourth quarter of 2016 compared to $6.3 million in the same period in 2015, primarily due to lower preferred shares gains in the quarter compared to prior year quarter.

Net Income before Income Taxes

For the quarter ended December 31, 2016, net income before taxes was $3.6 million compared to income of $11.6 million in the fourth quarter of 2015. This was primarily driven by lower underwriting income and investment income in the quarter.

Income Taxes

For the quarter ended December 31, 2016, the provision for income taxes reflects an expense of $0.9 million compared to an expense of $2.7 million for the same period last year.

SEGMENTED FINANCIAL INFORMATION (Continued Operations)

The segmented results below exclude corporate expenses.

Canadian Operations

	3 months ended December 31				Twelve months ended December 31			
($THOUSANDS)	**2016**	**2015**	**$Change**	**%Change**	**2016**	**2015**	**$Change**	**%Change**
Direct written premiums	49,403	43,100	6,303	15	217,486	199,473	18,013	9
Net earned premiums	46,013	43,905	2,108	5	181,060	176,468	4,592	3
Net claims:								
Current year claims	29,096	32,003	(2,907)	(9)	128,015	130,135	(2,120)	(2)
Current year loss ratio	63.2%	72.9%			70.7%	73.7%		
Favourable prior year claims development	3,442	8,320	(4,878)	(59)	17,243	20,308	(3,065)	(15)
Total net claims	25,654	23,683	1,971	8	110,772	109,827	945	1
Claims ratio	55.8%	53.9%			61.2%	62.2%		
Expense ratio	34.5%	33.6%			35.0%	33.2%		
Combined ratio	90.3%	87.5%			96.2%	95.4%		
Underwriting income	4,326	5,501	(1,175)	(21)	6,814	8,198	(1,384)	(17)

Personal Lines

	3 months ended December 31				Twelve months ended December 31			
($THOUSANDS)	**2016**	**2015**	**$Change**	**%Change**	**2016**	**2015**	**$Change**	**%Change**
Direct written premiums	31,171	30,300	871	3	154,992	146,578	8,414	6
Net earned premiums	35,285	33,726	1,559	5	139,616	134,791	4,825	4
Net claims:								
Current year claims	26,059	27,292	(1,233)	(5)	106,017	105,467	550	1
Current year loss ratio	73.9%	81.0%			76.0%	78.3%		
(Unfavourable) favourable prior year claims development	(1,560)	7,510	(9,070)	(121)	8,194	15,847	(7,653)	(48)
Total net claims	27,619	19,782	7,837	40	97,823	89,620	8,203	9
Claims ratio	78.3%	58.7%			70.1%	66.5%		
Expense ratio	31.8%	31.6%			32.2%	31.0%		
Combined ratio	110.1%	90.3%			102.3%	97.5%		
Underwriting income	(3,530)	3,303	(6,833)	(207)	(3,177)	3,309	(6,486)	(196)

Fourth quarter 2016

Personal Lines reported an underwriting loss of $3.5 million compared to an underwriting income of $3.3 million in the same period last year.

This segment’s combined ratio increased to 110% in the quarter as a result of the following factors:

1. Weaker performance in Ontario auto in the quarter compared to the prior year quarter due to increased severity in claims, offset by strong results in the personal property line of business.

2. Adverse development on prior year claims of $1.6 million in 2016 compared to redundancies on prior year claims of $7.5 million in 2015.

Year-to-Date 2016

Personal Lines reported an underwriting loss of $3.2 million compared to an underwriting income $3.3 million in 2015, a decrease of $6.5 million.

This segment's combined ratio has increased to 102% in the year as a result of the following factors:

1. Weaker performance in Ontario auto in the year compared to the prior year offset by strong results in personal property.
2. $1.0 million of claims relating Fort McMurray fires.
3. Lower redundancies on prior year claims, a reduction to $8.2 million compared to $15.8 million in the prior year.

Commercial Lines

	3 months ended December 31				Twelve months ended December 31			
($THOUSANDS)	**2016**	**2015**	**$Change**	**%Change**	**2016**	**2015**	**$Change**	**%Change**
Direct written premiums	18,232	12,800	5,432	42	62,494	52,895	9,599	18
Net earned premiums	10,728	10,179	549	5	41,444	41,677	(233)	(1)
Net claims:								
Current year claims	3,037	4,711	(1,674)	(36)	21,998	24,668	(2,670)	(11)
Current year loss ratio	28.3%	46.3%			53.1%	59.2%		
Favourable prior year claims development	5,002	810	4,192	518	9,049	4,461	4,588	103
Total net claims	(1,965)	3,901	(5,866)	(150)	12,949	20,207	(7,258)	(36)
Claims ratio	(18.3)%	38.3%			31.2%	48.5%		
Expense ratio	45.2%	40.1%			44.7%	39.8%		
Combined ratio	26.9%	78.4%			75.9%	88.3%		
Underwriting income	7,856	2,198	5,658	257	9,991	4,889	5,102	104

Fourth quarter 2016

Commercial Lines recorded an underwriting income in the fourth quarter of $7.9 million, an increase of $5.7 million. Direct written premiums increased by 42% in the quarter primarily due to the launch of new products in commercial auto and surety lines.

This segment reported an exceptional combined ratio of 27% in the quarter due to:

1. Strong property and liability results in each region compared to the prior year quarter.
2. Increased redundancies on prior year claims of $5.0 million compared to redundancies on prior year claims of $0.8 million in the same period in 2015.

Year-to-Date 2016

Commercial Lines recorded an underwriting income of $10.0 million, compared to underwriting income of $4.9 million in the same period last year, an increase of $5.1 million.

This combined ratio of 76% was due to:

1. Strong performance in Ontario commercial auto, Atlantic commercial auto and property and liability results compared to the same period in 2015.
2. Increased redundancies on prior year claims of $9.0 million compared to redundancies of prior year claims of $4.5 million in the same period in 2015.
3. Offset partially by a $1.0 million impact on commercial lines from the Fort McMurray wild fire.

SEGMENTED FINANCIAL INFORMATION (Discontinued Operations)

The Company signed a definitive stock purchase agreement on August 4, 2016, for the sale of its European operations and is awaiting regulatory approval from the Danish Financial Services Authority.

SUMMARY OF QUARTERLY RESULTS

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

	2016				2015			
($ THOUSANDS except per share amounts)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Direct written and assumed premiums	49,403	58,171	67,791	42,121	43,100	50,769	63,378	42,226
Net earned premiums and other revenue	46,013	46,452	45,247	43,348	43,905	46,882	43,140	42,541
Underwriting income (loss)	2,555	(429)	(502)	(2,038)	3,197	1,420	271	(5,334)
Income (loss) before interest expense and income taxes	3,575	1,621	3,386	423	11,554	(1,186)	3,745	(175)
Net income (loss)	2,601	1,401	2,198	918	8,807	(1,277)	3,855	877
Net operating income (loss)	4,857	1,580	2,873	1,043	4,705	3,558	2,569	(910)
Earnings (loss) per adjusted share								
(a) Basic	$0.22	$0.10	$0.15	$0.08	$0.74	($0.11)	$0.31	$0.11
(b) Diluted	$0.22	$0.10	$0.15	$0.08	$0.72	($0.11)	$0.30	$0.11
Net operating income (loss) per share - diluted	$0.40	$0.01	$0.24	$0.08	$0.39	$0.30	$0.21	($0.06)
Selected financial ratios								
Loss ratio	55.8%	61.5%	62.4%	65.3%	53.9%	60.3%	61.4%	73.8%
Expense ratio	38.6%	39.4%	38.7%	39.4%	38.8%	36.7%	38.0%	38.7%
Combined ratio	94.4%	100.9%	101.1%	104.7%	92.7%	97.0%	99.4%	112.5%
Book value per share	$11.70	$12.90	$13.08	$15.16	$15.75	$15.55	$16.00	$16.11

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

Net Operating Income

($ THOUSANDS except per share amounts)	Q4 2016	2016	2015	2014	2013	2012
Net investment income	2,439	11,502	14,050	13,650	13,349	12,277
Underwriting income (loss)	2,555	(414)	(447)	8,106	(2,980)	6,081
Add: CAT losses	1,334	3,334	—	—	—	—
Pre-tax operating income	6,328	14,422	13,603	21,756	10,369	18,358
Income tax	(1,468)	(3,556)	(3,673)	(5,874)	(2,800)	(4,957)
Net operating income	4,860	10,866	9,930	15,882	7,569	13,401
Minority interest	(3)	(512)	(8)	(129)	—	—
Net operating income attributable to shareholders	4,857	10,354	9,922	15,753	7,569	13,401
Net operating income per share - diluted	$0.40	$0.86	$0.83	$1.31	$0.63	$1.11

2016 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 2016	2016	2015
Gross premiums written	49,403	217,486	199,473
Net premiums written	44,476	199,601	180,336
Net earned premiums	46,013	181,060	176,468
Net interest and dividends	2,439	11,502	14,050
Realized and unrealized gains (losses) on investments	345	4,150	(1,380)
Foreign exchange gains	375	855	(57)
Other	—	—	748
Total revenue	49,172	197,567	189,829

The main source of revenue was earned premiums from the sale of insurance policies. Gross written premiums totaled $217.5 million, an increase of 9% compared to $199.5 million last year. The increase in gross premium was primarily due to the introduction of the surety and commercial auto lines.

Personal Lines recorded $155.0 million of premiums in 2016 compared to $146.6 million in 2015, an increase of 6%. Commercial Lines recorded $62.5 million of premiums in 2016 compared to $52.9 million in 2015, an increase of 18%.

Net earned premiums increased $4.6 million, or 3% in 2016, to $181.1 million from $176.5 million in 2015.

Investment income constituted approximately 8% of EFH's total revenue in 2016. 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 $5.0 million compared to net realized and unrealized loss of $1.4 million last year.

Expenses

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

($ THOUSANDS)	Q4 2016	2016	2015
Expenses			
Incurred claims(1)	25,654	110,772	109,827
Acquisition expense	10,680	41,545	39,448
Operating expense (2)	7,124	29,157	27,639
	43,458	181,474	176,914

Selected Underwriting Ratios	Q4 2016	2016	2015
Incurred claims ratio(1)	55.8%	61.2%	62.2%
Acquisition expense ratio	23.2%	22.9%	22.4%
Operating expense ratio	15.4%	16.1%	15.7%
Combined ratio(1)	94.4%	100.2%	100.3%

(1) Before impact of change in discount rate decreasing unpaid claims by $2.8 million in 2016 and increasing unpaid claims by $1.0 million in 2015.

(2) Operating expenses do not include severance costs of $4.3 million in 2016, nil in 2015.

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 Managing General Agents (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 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, 2016 COMPARED TO 2015

2016 Highlights

- Net operating income increased by 4% to $0.86 per share from $0.83 per share.
- A Canadian combined ratio of 96% compared to 95% driven by weak performance in Ontario auto, offset by strong commercial lines results.
- An increase of direct written premium of 9% in 2016, primarily driven by the introduction of new commercial line products during the year.
- Total pre-tax return of invested assets of $7.5 million compared to $6.0 million in 2015 driven by strong preferred shares returns in the year.

The following financial information compares results for the full year 2016 and 2015.

($ THOUSANDS except per share amounts)	2016	2015	$ Change	% Change
Direct written and assumed premiums	217,486	199,473	18,013	9 %
Net written premiums	199,601	180,336	19,265	11 %
Net earned premiums	181,060	176,468	4,592	3 %
Net claims incurred	110,772	109,827	945	1 %
Net acquisition costs	41,545	39,448	2,097	5 %
Operating expenses	29,157	27,639	1,518	5 %
Underwriting (loss)	(414)	(447)	33	7 %
Other income	—	748	(748)	(100)%
Severance expense	(4,266)	—	(4,266)	— %
Investment income	16,507	12,613	3,894	31 %
Impact of discount rate	(2,822)	1,024	(3,846)	(376)%
Net income before interest expense and income taxes	9,005	13,938	(4,933)	(35)%
Interest expense	217	—	217	— %
Income taxes expense	1,670	1,676	(6)	0 %
Net income	7,118	12,262	(5,144)	(42)%
Net income attributable to shareholders	6,606	12,254	(5,648)	(46)%
Net operating income attributable to shareholders	10,354	9,922	432	4 %
Earnings per share				
Basic	$0.56	$1.05	$(0.49)	(47)%
Diluted	$0.55	$1.02	$(0.47)	(46)%
Net operating income per share – diluted	$0.86	$0.83	$0.03	4 %
Trailing twelve month return on equity (ROE) - continuing operations [1]	4.2%	6.7%		

[1] ROE calculated on rolling twelve-month basis

Insurance Operations

Direct Written and Net Earned Premiums

Direct written premiums increased by $18.0 million, or 9%, to $217.5 million compared to $199.5 million in the same period last year, attributable predominantly to new product lines in surety and commercial auto and stronger broker relationships. Net earned premiums increased by $4.6 million, or by 3%, to $181.1 million.

Claims Incurred

Net claims expense increased by $0.9 million, or 1%, to $110.8 million compared to $109.8 million in 2015. The resulting loss ratio of 61.2% for 2016 represents an improvement of 1.0% over 2015. Included in the claims incurred was approximately $3.3 million relating to catastrophic losses, primarily relating to the Fort McMurray fire.

On a consolidated basis, lower net favourable development of prior claims of $17.2 million was recorded in the year compared to $20.3 million in 2015.

Acquisition Costs

Acquisition costs, which consist mainly of commissions, premium taxes and a portion of general expenses related to policy acquisitions, increased by 5% primarily due to an increase in net earned premiums and a change of mix of business in Commercial Lines.

Operating Expenses

Operating expenses increased $1.5 million or 5% to $29.2 million in 2016 due to costs associated of upgrading and rolling out of a new policy management system.

Corporate expenses include $0.5 million (2015 - $1.0 million) relating to positive development on prior year claims reserves of ICPEI, that in accordance with terms of the share purchase agreement are payable to SGI Canada on January 1, 2019, up to a maximum of the lesser of $1.5 million or 75% of the surplus. The indemnification liability is offset by positive development of the reserve in ICPEI. In the event that prior period losses are greater than the reserves held at June 30, 2014, SGI Canada will be required to pay the Company the difference on January 1, 2019, to a maximum of the lesser of $1.5 million or 75% of the deficiency.

Underwriting Income

Overall underwriting performance has remained unchanged for the year ended December 31, 2016, compared to 2015. The underwriting results for 2016 and 2015 include corporate and other expenses of $7.2 million and $8.6 million, respectively. Details by line of business are shown in the segmented financial section.

Investment Income

Investment income increased by $3.9 million, to $16.5 million in 2016 compared to $12.6 million in 2015. Net gains on investments totaled $0.3 million in 2016 compared to $5.9 million in 2015.

Income from fair value change on FVTPL investments, primarily preferred shares investments increased by $11.2 million to an income of $3.9 million compared to a loss of $7.3 million in the same period of 2015. The total fair value of the investment portfolio as at December 31, 2016, (including cash and short-term and premium financing receivables) was $410 million compared to $536 million as at December 31, 2015.

Net Income before Income Taxes

Income before taxes was $9.0 million in 2016, compared to $13.9 million in 2015. This was primarily due to $4.3 million of severance expenses incurred in 2016 compared to nil in 2015.

Income Taxes

The provision for income taxes for the year ended December 31, 2016, was an expense of $1.7 million compared to an expense of $1.7 million for the same period last year. The approximate effective rate increased to 19% for 2016 from 11% 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 2016, and notes therein.

Balance Sheet Highlights

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

($ THOUSANDS except per share amounts)	2016	2015	2014	2013	2012
Cash and short-term deposits	50,588	23,373	27,326	18,156	19,578
Investments	336,535	513,099	504,290	454,317	412,728
Total assets	800,219	923,795	740,299	619,928	548,852
Provision for unpaid claims	255,129	397,214	344,692	296,857	268,580
Unearned premiums	120,184	264,584	168,555	127,247	94,085
Total equity attributable to shareholders	137,414	180,935	183,616	172,360	168,427
Book value per share (1)	$11.70	$15.75	$15.82	$14.57	$13.98
MCT Ratio - Echelon Insurance	237%	241%	211%	219%	250%
- ICPEI	340%	296%	229%	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. 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, 2016, and December 31, 2015.

($ Thousands)	Fair values			
Available-for-sale	As at December 31, 2016	% of Total	As at December 31, 2015	% of Total
Fixed income				
Canadian				
Federal	67,826		45,524	
Provincial	44,147		55,976	
Municipal	519		1,386	
Corporate	136,984		171,789	
	249,476		274,675	
Fixed income lent through securities lending program				
Federal	15,390		14,231	
Provincial	998		3,800	
Municipal	845		—	
Corporate	1,885		4,673	
	19,118		22,704	
Foreign fixed income				
Government	—		17,555	
Corporate	—		114,399	
	—		131,954	
Total fixed income	268,594	69%	429,333	80%
Commercial mortgages pooled funds	17,423		17,017	
Money market pooled funds	200		403	
Short-term fixed income and mortgage pooled funds	17,229		16,934	
Total pooled funds	34,852	9%	34,354	6%
Common shares				
Canadian	312		2,656	
U.S.	—		8,012	
Total common shares	312	—%	10,668	2%
Total available-for-sale	303,758		474,355	
Fair value through profit or loss				
Preferred shares	32,678		38,400	
Preferred shares lent through securities lending program	99		344	
Total preferred shares	32,777	8%	38,744	7%
Total investments	336,535	86%	513,099	95%
Cash and short-term deposits	50,588	14%	23,373	5%
Total investments including cash and short-term deposits	387,123	100%	536,472	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.

There was no impairment loss recognized during the twelve months ended December 31, 2016 . In year 2015 impairment loss of $0.3M was recognized.

A gross unrealized loss of $1.7 million (December 31, 2015 – $3.2 million) on investments held as at December 31, 2016, is recorded, net of tax, in the amount of $1.2 million (December 31, 2015 – $2.5 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.

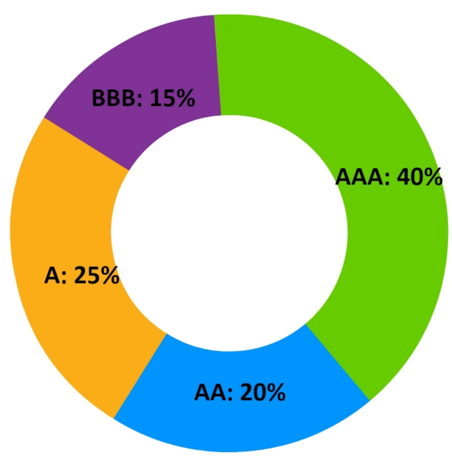
Fixed Income Securities

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.

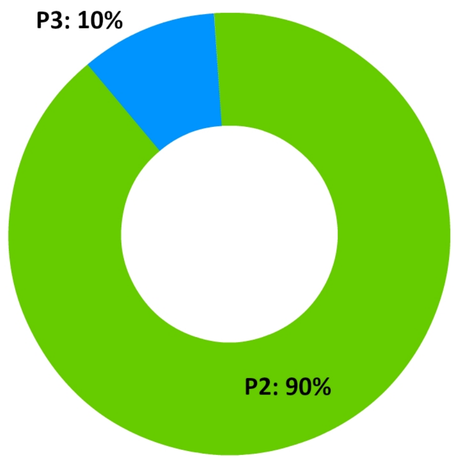
EFH's bond portfolio has a high overall credit quality with an average rating of AA. The preferred shares have an average rating of P2. The duration of the bond portfolio is 3 years.

The chart below shows EFH's fixed income portfolio by credit quality as at December 31, 2016.

Bond Ratings Q4 2016



Preferred Shares Q4 2016



Sector Mix by Asset Class

The following table shows sector exposure by asset class as at December 31, 2016:

Sector	Fixed Income Securities & Pooled Funds	Preferred Shares	Common Shares	Total
Government	45%	—%	—%	41%
Financial Services	28%	63%	68%	31%
Infrastructure	10%	1%	—%	9%
Telecomunication	3%	—%	—%	2%
Consumer Discretionary	—%	—%	—%	—%
Energy	3%	—%	21%	3%
Industrial Products	4%	8%	—%	4%
Pipelines	1%	12%	—%	2%
Utilities	—%	16%	11%	2%
Other	6%	—%	—%	6%
Total	100%	100%	100%	100%
Total	$303,180	$32,777	$312	$336,269

(1) Fixed income securities & pooled funds do not include any cash being carried by the pooled funds, $0.3 million as at December 31, 2016.

Common Share Portfolio

As at December 31, 2016, 100% of the common share portfolio was invested in Canadian equities.

Fair Value Impairment

The fair value impairment on sale of discontinued operations of $23.4 million, including all costs to dispose the operations, being recorded against the unearned premiums included within the liabilities of the disposable group held for sale.

Recoverable from Reinsurers

($ THOUSANDS)	As at December 31, 2016	As at December 31, 2015
Reinsurers' share of unpaid claims	27,023	90,158
Reinsurers' share of unearned premiums	8,975	89,953
Total	35,998	180,111

As at December 31, 2016, the recoverable from reinsurers decreased by $144.1 million, or 80%, to $36.0 million from $180.1 million as at December 31, 2015. The decrease was due to reclassification of discounted operations. 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 the Company holds deposits as collateral.

Accounts Receivable

($ THOUSANDS)	As at December 31, 2016	As at December 31, 2015
Premium financing receivables	26,335	18,355
Agents and brokers	15,668	78,849
Other	4,702	8,096
Total	46,705	105,300

Premium financing receivables represents 56% of total receivables as at December 31, 2016. Premium financing receivables increased to $26.3 million at December 31, 2016, from $18.4 million at December 31, 2015 due to the introduction of new products. Agent and broker receivables decreased from $78.8 million in 2015 to $15.7 million in 2016 due to reclassification of discontinued operations.

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 rates used for December 31, 2016 and 2015 for the following entities are below:

Entity	As at December 31, 2016	As at December 31, 2015
Echelon Insurance	1.90%	2.44%
ICPEI	1.75%	1.63%

Share Capital

As of February 16, 2017, there were 11,749,736 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 $1.6 million is due in less than a year and $9.9 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, 2016, was $141.4 million compared to $184.9 million at December 31, 2015.

The Minimum Capital Test (MCT) ratio of the Company's Canadian subsidiary, Echelon Insurance, as at December 31, 2016, was 237%, which comfortably exceeds the supervisory regulatory capital level required by the Office of the Superintendent of Financial Institutions (OSFI). ICPEI's MCT ratio of 340% was in excess of provincial supervisory targets. In addition to any excess capital at Echelon Insurance, the Company has approximately $5.0 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 was in force until October 7, 2016.

In 2016 there were 55,867 common shares repurchased at an average cost of $13.24 per share for a total consideration of $0.7 million. From October 8, 2015 to February 16, 2017, the Company purchased and canceled 115,700 common shares under the NCIB program at an average cost of $13.65 per share for a total consideration of $1.6 million.

YEAR ENDED DECEMBER 31, 2015 COMPARED TO 2014

The following chart compares results for the full year 2015 and 2014**:**

($ THOUSANDS except per share amounts)	2015	2014	$ Variance	% Variance
Direct written and assumed premiums	199,473	187,344	12,129	6 %
Net written premiums	180,336	171,396	8,940	5 %
Net earned premiums	176,468	167,517	8,951	5 %
Net claims incurred	109,827	92,966	16,861	18 %
Net acquisition costs	39,448	40,824	(1,376)	(3)%
Operating expenses	27,639	25,621	2,018	8 %
Underwriting income (loss)	(447)	8,106	(8,553)	106 %
Severance	—	(1,166)	1,166	100 %
ICPEI integration expense	—	(1,347)	1,347	100 %
Investment income	12,613	22,019	(9,406)	(43)%
Impact of discount rate – increase in claims	1,024	(2,391)	3,415	(143)%
Other income	748	—	748	—
Net income before income taxes	13,938	25,221	(11,283)	(45)%
Income taxes expense	1,676	5,051	(3,375)	(67)%
Net income	12,262	20,170	(7,908)	(39)%
Net income attributable to shareholders	12,254	18,722	(6,468)	(35)%
Net operating income attributable to shareholders	9,922	15,753	(5,831)	(37)%
Earnings per share				
Basic	$1.05	$1.72	$(0.67)	(39)%
Diluted	$1.02	$1.67	$(0.65)	(39)%
Net operating income per share – diluted (1)	$0.83	$1.31	$(0.48)	(37)%
Trailing twelve month return on equity (ROE) (2)	6.7%	10.5%		

5 YEAR FINANCIAL HIGHLIGHTS

	Year ended December 31				
($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	**2016**	**2015**	**2014**	**2013**	**2012**
Revenue					
Direct written and assumed premiums					
Personal Lines	154,992	146,578	133,275	134,902	129,606
Commercial Lines	62,494	52,895	54,069	39,702	48,352
Total direct written premiums	217,486	199,473	187,344	174,604	177,958
Net written premiums	199,601	180,336	171,396	157,117	161,623
Net earned premiums	181,060	176,468	167,517	154,137	158,573
Underwriting expenses					
Incurred claims	110,772	109,827	92,966	101,363	95,066
Acquisition costs	41,545	39,448	40,824	36,799	37,277
Operating expenses	29,157	27,639	25,621	18,955	20,149
Total underwriting expense	181,474	176,915	159,411	157,117	152,492
Underwriting income (loss)	(414)	(447)	8,106	(2,980)	6,081
Impact of discount rate on claims	(2,822)	1,024	(2,391)	207	(3,887)
ICPEI Integration Cost	—	—	(1,347)	—	—
Severance expense	(4,266)	—	(1,166)	—	—
Investment income	16,507	12,613	22,019	17,474	33,556
Other income	—	748	—	—	—
Income before interest expense and income taxes	9,005	13,938	25,221	14,701	35,750
Interest expense	217	—	—	—	—
Income tax expense (recovery)					
Current	1,738	1,555	5,300	4,129	9,523
Deferred	(68)	121	209	(895)	(646)
	1,670	1,676	5,509	3,234	8,877
Net income on continued operations	7,118	12,262	19,712	11,467	26,873
Net income (loss) on discontinued operations attributable to shareholders of the Company	(36,646)	(5,677)	(980)	(7,742)	(7,507)
Net income	(29,528)	6,585	18,732	3,725	19,366
Attributed to:					
Shareholders of the Company	6,606	12,254	18,722	4,681	20,353
Non-controlling interest	512	8	10	(956)	(987)
	7,118	12,262	18,732	3,725	19,366
Earnings per share attributable to shareholders of the Company:					
Net income per share continued operations basic	$0.56	$1.05	$1.72	$0.97	$2.24
Net income per share continued operations diluted	$0.55	$1.02	$1.67	$0.95	$2.22
Book value per share	$11.70	$15.75	$15.82	$14.57	$13.98
Net operating income [(1)]	10,354	9,922	15,753	7,569	13,401
Net operating income per share - diluted [(2)]	$0.86	$0.83	$1.31	$0.63	$1.11

[(1)]Net operating income is defined as underwriting income plus interest and dividend income, net of tax. Net operating income is adjusted to that attributable to shareholders for per share calculation.

[(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 year focusing on its core business in Canada and a return to sustainable profitability. In 2017, we will continue to execute on the strategy outlined below with a focus on underwriting profitability and maximizing our return on equity. We have a strong balance sheet that will provide us with a solid launching pad for 2017 and beyond.

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.
EFH is focused on growing its Canadian specialty insurance business.

EFH's products are distributed exclusively through insurance brokers and agents. With a growing number of insurers selling directly to consumers, EFH's commitment to the broker channel differentiates Echelon and ICPEI from competitors and forms a foundation for mutually beneficial relationships. On this commitment, the Company has built and maintained an effective network of distribution partners by:

Focus on Canada Offering Diverse Products that Satisfy Unmet Needs

The bulk of EFH's products are designed to respond to the unmet needs of our distribution partners.

EFH has excelled in the non-standard auto market by delivering expertly underwritten coverage for hard to insure drivers. ICPEI's nuanced understanding of Maritime families and businesses has shaped the products and coverages that meet the unique needs of Atlantic Canadians. Now, EFH has identified new areas where brokers are unsatisfied with existing products and service, and is responding by launching Surety and Long Haul Trucking (LHT) solutions.

Investing in Talent and Leveraging Relationships

EFH's management and underwriting teams have the skillsets to understand and effectively underwrite risks. EFH and ICPEI benefit from this seasoned expertise, but also from employee reputations and long-standing relationships in their industries. With the addition of LHT and Surety teams in 2016, EFH gained a number of new broker relationships.

Improving Technology and Connectivity

EFH is committed to investing in technology to connect more seamlessly with its brokers and agents. In 2015, Echelon purchased and launched a new policy management system (GIS) that will be instrumental in streamlining how brokers and agents write business with EFH. EFH has rolled out the GIS system across Canada and by 2018, GIS will be EFH's sole policy management system, greatly simplifying broker system interactions.

The type, and number of distributors that EFH partners with varies by business line. *Property and Automobile* products are marketed through a broad network of insurance brokers and agents across Canada, including Co-operators agents with whom Echelon has a distribution agreement. Specialty products, including *Long Haul Trucking* and *Surety* are distributed exclusively through specialty brokers at this time. These specialty distributors have both the expertise to underwrite good risks, and the volume of premium to support good loss ratios in these business lines.

Lines of Business

PERSONAL LINES

EFH offers standard and specialty private passenger vehicle coverage through ICPEI in the Maritime provinces and Echelon Insurance in the rest of Canada, respectively. Both brands also provide coverage for specialty and recreational vehicles.

In addition to automobile products which form the bulk of EFH's Personal Lines business, Property coverage is offered in select provinces.

Personal Automobile

Non-standard automobile insurance is the largest single component of EFH's business, with approximately $100M in direct premiums written over the 12 months ended December 31, 2016. Offered through Echelon Insurance, the non-standard automobile product targets drivers of private passenger and single commercial vehicles who are unable to obtain coverage from standard insurers.

EFH writes specialty automobiles and recreational vehicles through both Echelon and ICPEI. Coverage is available for motorcycles, antique and classic cars, trailers, motorhomes, snowmobiles and all-terrain vehicles. Standard personal and commercial automobile insurance is offered across the Maritimes through ICPEI only.

Moving forward, the Company intends to increase focus on profitable automobile products, evaluating whether these could be successfully expanded into new regional markets within Canada. At the same time, unprofitable products will be reviewed and refined.

Personal Property

EFH offers homeowners, condo and tenant packages through ICPEI in the Maritimes and through Echelon in Quebec and British Columbia.

Commercial Lines

EFH writes commercial property, liability and automobile coverage for small- to mid-sized businesses under the Echelon and ICPEI brands.

In addition to standard commercial policies, Echelon also excels in niche business lines, including Surety, Long Haul Trucking, and Specialty Programs. In 2016, the Company grew its Commercial Lines Management and underwriting teams to include seasoned experts with proven track-records and deep networks in their respective markets.

With a now-profitable portfolio and an experienced and connected management team, steps are underway to expand the Company's commercial product offering into Ontario, Quebec and Alberta. Echelon will target underserved and specialty brokers, offering flexible, risk-underwritten coverage.

COMMERCIAL PROPERTY

EFH offers commercial property coverage in the Maritimes, Quebec and British Columbia, differentiating from competitors by applying risk vs. class underwriting. Simple, low-touch packages target small to mid-sized businesses like contractors and professional service providers. Coverages can be customized to meet the more unique needs of larger businesses.

COMMERCIAL AUTOMOBILE

The Company offers commercial automobile coverage through Echelon in Alberta, Ontario and Quebec, and through ICPEI in the Maritimes. Coverage is available for single vehicles, cargo trailers and small fleets, and both standard and non-standard risks are written.

LONG-HAUL TRUCKING (LHT)

In response to growing market demands, Echelon expanded its Commercial Automobile offering to include LHT products. Echelon writes policies for both fleets and owner operators that package commercial automobile, motor truck cargo liability, commercial general liability, and garage coverages, as well as special endorsements.

The head of Echelon's LHT line brings 35 years of experience and strong relationships with specialty brokers, which has led to rapid growth in 2016.

SPECIALTY PROGRAMS

Echelon partners with MGAs across Canada to underwrite a range of specialty and warranty programs including home, home system and major appliance warranties. In 2017, Echelon will continue to grow its warranty programs by building deeper expertise and operational infrastructure in home, product and equipment warranty.

SURETY

In early 2016, Echelon introduced a Surety division to meet growing demand for mid-market surety bonds. Initially, Echelon will focus on distributing contract bonds through specialty surety brokers and will expand to include commercial bonds, and access will be extended to a broader group of brokers.

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 $137.4 million. The Minimum Capital Test (MCT) ratio of Echelon Insurance as at December 31, 2016, was 237% comfortably in excess of the Office of the Superintendent of Financial Institutions' (OSFI) supervisory target. In addition to any excess capital at Echelon, the Company has approximately $5.0 million of excess deployable capital invested in liquid assets in the holding company.

It has a high quality investment portfolio with 100% of its fixed income portfolio in investment grade, 85% rated A and above and the average rating of the fixed income portfolio is AA. 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, 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.

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, 2016, 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 and Cyber Security Risk

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.

The threat of Cyber attacks is a major Infrastructure Risk. As with all financial services, EFH faces continual challenges to protect its data and customer information. These attacks can come through hacking security controls and identity theft, including installing ransomware technology within our network. To ensure the Company is protected from these attacks EFH has implemented cyber security programs to respond and manage through immediate detection of such threats, using sound best practices software and notification technologies.

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. The Company entered into forward contracts for hedging the sales proceeds of its European subsidiary. The gain of $0.4 million has been booked in the investment income in FX gains. The net payable on the contracts as at December 31, 2016 is $0.3 million.

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 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, 2016, 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, 2016, 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, 2016, 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, 2016, 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, 2016 and 2015.

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, 2016, a 1% increase in the discount rate would result in a decrease in the net provision of $4.7 million and a 1% decrease in the discount rate would increase the net provision by $4.9 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.