EGI Financial Holdings Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three and twelve month periods ended December 31, 2013

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EGI FINANCIAL HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three and twelve month periods ended December 31, 2013

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

The financial data for 2013, 2012 and 2011 in this discussion has been prepared in accordance with IFRS, and financial data for 2010 and prior has been prepared in accordance with Canadian GAAP effective then except for the non-GAAP measures noted below.

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

The following discussion should be read in conjunction with EGI's audited consolidated financial statements and the related notes. The following commentary is current as of February 20, 2014. Additional information relating to EGI is available on SEDAR at www.sedar.com. Certain totals, subtotals and percentages may not reconcile due to rounding.

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

The following discussion contains forward-looking information that involves risk and uncertainties based on current expectations. This information includes, but is not limited to, statements about the operations, business, financial condition, priorities, targets, ongoing objectives, strategies and outlook for EGI in 2014 and subsequent periods.

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

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

Company Overview

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

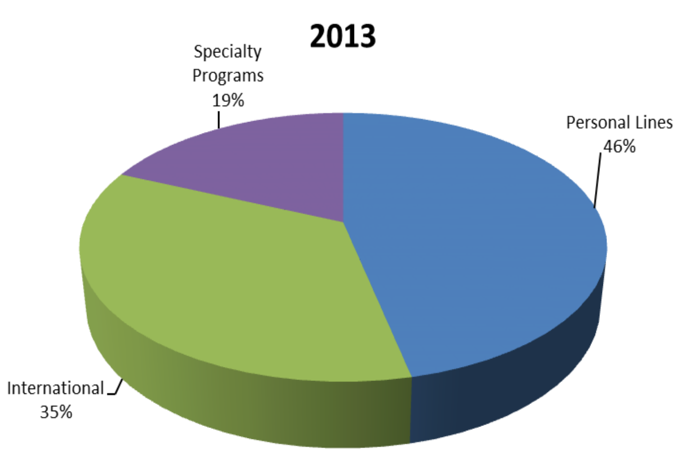
EGI operates in Canada through Echelon General Insurance Company ("Echelon"), a federally-regulated P&C insurance company. It has two lines of insurance business – Personal Lines and Specialty Programs. Personal Lines focuses on the underwriting of EGI's non-standard automobile insurance and insurance for motorcycles, antique and classic vehicles, trailers, motor homes and recreational vehicles. Specialty Programs designs and underwrites specialized insurance programs, such as hard to place commercial property, primary and excess liability, and extended warranty.

Outside of Canada, the International division underwrites specialty insurance programs in Europe through Qudos Insurance A/S ("Qudos"), a majority-owned insurance company. Qudos is domiciled in Denmark and is regulated throughout the European Union by the Danish Financial Supervisory Authority. Products include motorcycle, taxi, non-standard auto and warranty insurance. It commenced writing premiums in 2012 and, to date, the majority of the business written is in the United Kingdom and Denmark.

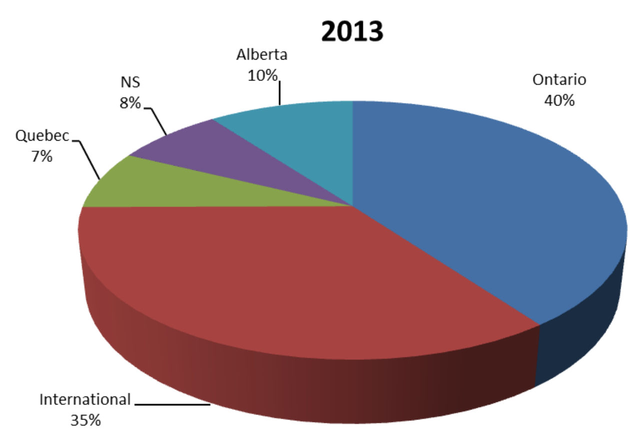
On November 30, 2013, EGI completed a definitive stock purchase agreement with White Pine Insurance Company for the sale of its U.S. operations. The U.S. results are referred to as discontinued operations in this document.

The breakdown of direct written premiums by category of business and by region during 2013 is illustrated below.

Gross Written Premiums by Line of Business



Gross Written Premiums



On a Consolidated basis, 46% of gross written premiums in 2013 were attributable to the sale of Personal Lines automobile policies in Canada. Specialty Programs accounted for 19% of gross written premiums, and International accounted for 35%. The Company's core non-standard automobile businesses in Canada accounted for approximately 38% of total premiums written across the Company.

In 2013, results relating to the discontinued U.S. division have been excluded, and accordingly prior year comparatives have been restated to current year presentation. The restatement was made for comparative purposes only and does not affect net income after taxes.

4th Quarter 2013 Highlights

- Net operating income of $0.08 per share compared to $0.30 per share in the fourth quarter of 2012.
- An underwriting loss of $4.3 million for the quarter, including a reserve strengthening of $4.5 million for the discontinued Specialty programs
- A combined operating ratio of 107% compared to 93% in the fourth quarter of 2012
- A 50% increase in direct written premiums over the same period in 2012 to $74.3 million, driven by the increase in premiums in the International division
- Total pre-tax return on invested assets of $8.3 million in the quarter compared to $2.7 million in the fourth quarter of 2012
- An increase in book value per share of 4.2% in the quarter to $14.57 per share

The following financial information compares the results for the fourth quarter 2013 with the fourth quarter 2012.

($THOUSANDS EXCEPT PER SHARE DATA)	Q4 2013	Q4 2012	Variance $	Variance %
Direct written and assumed premiums	74,300	49,513	24,787	50%
Net written premiums	60,737	45,825	14,912	33%
Net earned premiums	59,738	43,084	16,654	39%
Claims incurred	41,508	22,752	18,756	82%
Acquisition costs	15,840	10,043	5,797	58%
Operating expenses	6,699	7,158	(459)	(6)%
Underwriting income (loss)	(4,309)	3,131	(7,440)	(238)%
Investment income	4,791	4,738	53	1%
Impact of discount rate on claims	946	(187)	1,133	606%
Net income before income taxes	1,428	7,672	(6,244)	(81)%
Income taxes	270	2,000	(1,730)	(87)%
Net income	1,158	5,672	(4,514)	(80)%
Net operating Income attributable to shareholders	937	3,605	(2,668)	(74)%
Earnings per share – diluted	$0.16	$0.49	$(0.33)	(67)%
Net operating income per share – diluted	$0.08	$0.30	$(0.22)	(73)%
Book value per share	$14.57	$13.98	$0.59	4%

Insurance Operation

Written and Earned Premiums

In the fourth quarter of 2013, direct written premiums increased $24.8 million, or 50%, to $74.3 million compared to $49.5 million in the same period last year. The increase in written and earned was primarily due to growth in the International division.

Incurred Claims Expense

For the quarter ended December 31, 2013, net claims expense increased $18.8 million or 82% to $41.5 million compared to $22.8 million for the fourth quarter of 2012. This resulted in a loss ratio of 69.5% for the three months ended December 31, 2013, compared to 52.8% for the same period in 2012.

On a consolidated basis, net unfavourable development of prior year claims of $0.7 million was recorded in the fourth quarter of 2013 compared to favourable development of $2.6 million in the same period in 2012.

Acquisition Costs

Net acquisition costs, which consist mainly of commissions and premium taxes, increased $5.8 million or 58% to $15.8 million in the quarter ended December 31, 2013, compared to $10.0 million in the same period in 2012. The increase is larger than the increase in net earned premiums of 39% due to the large acquisition costs on International business.

Operating Expenses

For the fourth quarter of 2013, operating expenses were $6.7 million compared to $7.2 million in the same period in 2012, a decrease of 6%. The decrease is due primarily to one-time unusual severance charges in 2012 of $1.4 million.

Underwriting Income

The quarter ended December 31, 2013, earned an underwriting loss of $4.3 million, compared to an underwriting income of $3.1 million in the same quarter of 2012, a decrease of 238%. The significant decrease was attributable to the increase in the loss ratio in Personal Lines and Specialty Programs, partially offset by improved International underwriting results.

Investment Income

In the final quarter of 2013, income from investments increased to $4.8 million compared to $4.7 million in the final quarter of 2012. Income from interest and dividends net of investment expenses totaled $3.4 million in the fourth quarter of 2013 compared to $3.1 million in the same period in 2012.

Net Income before Income Taxes

For the quarter ended December 31, 2013, income before income taxes was $1.4 million compared to $7.7 million for the final quarter of 2012. This was the result of a decrease in underwriting income of $7.4 million, offset by an increase in impact of discount rate on claims of $1.1 million and higher investment income of $0.1 million compared to the same period in 2012.

Income Taxes

For the quarter ended December 31, 2013, the provision for income taxes reflects an expense of $0.3 million compared to an expense of $2.0 million for the same period last year. The approximate effective tax rate was 18.9% for the last quarter of 2013 and 26.1% for the same period last year.

Segmented Financial Information

PERSONAL LINES

	3 months ended December 31				12 months ended December 31			
($THOUSANDS)	**2013**	**2012**	**$Variance**	**%Variance**	**2013**	**2012**	**$Variance**	**%Variance**
Direct written premiums	26,363	28,000	(1,637)	(6)%	124,862	129,606	(4,744)	(4)%
Net earned premiums	28,975	29,792	(817)	(3)%	118,541	123,937	(5,396)	(4)%
Net claims:								
Current year claims	19,880	17,414	2,466	14%	83,087	80,529	2,558	3%
Current year loss ratio	68.6%	58.5%			70.1%	65.0%		
Favourable prior year claims	1,825	2,572	(747)	(29)%	8,124	8,478	(354)	(4)%

	3 months ended December 31				12 months ended December 31			
($THOUSANDS)	2013	2012	$Variance	%Variance	2013	2012	$Variance	%Variance
development								
Total net claims	18,055	14,842	3,213	22%	74,963	72,051	2,912	4%
Claims ratio(1)	62.3%	49.8%			63.2%	58.1%		
Expense ratio	30.6%	29.7%			29.4%	29.8%		
Combined ratio(1)	92.9%	79.5%			92.7%	87.9%		
Underwriting income(1)	2,058	6,097	(4,039)	(66)%	8,677	14,945	(6,268)	(42)%

(1) Before impact of change in discount rate on claims adjustment of $0.7 million in the quarter and $0.2 million in 2013 and $0.1 million in the quarter and $3.2 million in 2012.

Fourth Quarter 2013

Personal Lines recorded an underwriting income in the fourth quarter of 2013 of $2.1 million compared to $6.1 million in the fourth quarter of 2012, a decrease of $4.0 million or 66%.

Personal Lines combined ratio increased to 92.9% in this quarter as a result of the following factors:

1. A higher combined ratio for the Ontario auto segment of 97.1% compared to 65.5% in the fourth quarter 2012. This is due to an increased frequency of claims caused by inclement weather conditions in the quarter compared to 2012.
2. Lower favourable development of prior year claims of $1.8 million in the fourth quarter of 2013 compared to $2.6 million in the same period in 2012.
3. The above were partially offset by the improved performance of the motorcycle product which had a combined ratio of 84.2% compared to 135.0% in the fourth quarter 2012 primarily due to the harsh winter weather shortening the driving season in the quarter.

Full Year 2013

Personal Lines recorded an underwriting income in 2013 of $8.7 million, compared to underwriting income of $14.9 million in the same period of 2012, a decrease of $6.3 million.

Personal Lines' combined ratio increased to 92.7% in the year from 87.9% in 2012 as a result of the following factors:

1. A combined ratio of 96.8% in Ontario non-standard auto for the year compared to 85.7% in the same period of 2012 due to increased claim frequency in the year caused by severe weather conditions at the beginning and end of 2013. No material changes were made in underwriting standards or brokers from previous years.
2. Lower favourable development of prior year claims of $8.1 million in the fourth quarter of 2013 compared to $8.5 million in the same period in 2012.
3. This was partially offset by the improved performance of the motorcycle product with a combined ratio of 92.4% in 2013 compared to 111.5% in 2012 primarily due to a shorter motorcycle driving season in 2013.

SPECIALTY PROGRAMS

	3 months ended December 31				12 months ended December 31			
($THOUSANDS)	2013	2012	$Variance	%Variance	2013	2012	$Variance	%Variance
Direct written premiums	13,039	12,202	837	7%	49,742	48,352	1,390	3%
Net earned premiums	10,120	9,310	810	9%	35,596	34,636	960	3%
Net claims:								
Current year claims	5,853	4,790	1,063	22%	23,395	20,372	3,023	15%
Current year loss ratio	57.8%	51.5%			65.7%	58.8%		
Unfavourable prior year claims development	(3,892)	(4)	(3,888)	(97,200)%	(3,005)	(2,643)	(362)	(14)%
Total net claims	9,745	4,794	(4,951)	(103)%	26,400	23,015	3,385	15%
Claims ratio(1)	96.3%	51.5%			74.2%	66.4%		
Expense ratio	53.3%	52.4%			48.6%	48.6%		
Combined ratio(1)	149.6%	103.9%			122.8%	115.0%		
Combined ratio active programs(1)	97.0%	97.7%			101.9%	92.3%		
Combined ratio cancelled programs(1)	2,125.9%	179.1%			595.1%	312.3%		
Underwriting income (loss)	(5,023)	(359)	(4,664)	(1,299)%	(8,110)	(5,198)	(2,912)	(56)%
Underwriting income (loss) on active programs	296	196	100	51%	(647)	2,381	(3,028)	(127)%
Underwriting income (loss) on cancelled programs	(5,319)	(555)	(4,764)	(858)%	(7,463)	(7,579)	116	2%

(1) Before impact of change in discount rate on claims adjustment of $nil in the quarter and $0.2 million in 2013 and $0.1 million in the quarter and $0.7 million in 2012.

Fourth Quarter 2013

Specialty Programs recorded an underwriting loss of $5.0 million compared to an underwriting loss of $0.4 million recorded in the fourth quarter of 2012. Active programs had a combined ratio of 97.0% compared to 97.7% in the fourth quarter of 2012. The overall combined ratio increased to 149.6% in this quarter from 103.9% in the same period last year as a result of the following factors:

1. An underwriting loss of $5.3 million on cancelled programs in Q4 2013 compared to an underwriting loss of $0.6 million in the same quarter in 2012. The large underwriting loss in cancelled programs was primarily driven by a bulk reserve of $4.5 million to offset any future negative development and late reported claims in cancelled programs.
2. Active Commercial Property programs contributed a combined ratio of 139% in the fourth quarter of 2013 compared to 107% in the same period of 2012 primarily due to increased severity.

Full Year 2013

Specialty Programs recorded an underwriting loss of $8.1 million compared to an underwriting loss of $5.2 million recorded in the same period in 2012. Active programs had a combined ratio of 101.9% compared to 92.3% in the same period in 2012. The overall combined ratio increased to 122.8% from 115.0% in 2012 as a result of the following factors:

1. An underwriting loss of $7.5 million on cancelled programs in the year compared to an underwriting loss of $7.6 million in the same period in 2012 primarily driven by a bulk reserve of $ 4.5 million to offset any future negative development and late reported claims in cancelled programs.
2. Active Commercial Property programs contributed a combined ratio of 136% in 2013 compared to 106% in the same period of 2012 due to increased severity of losses.
3. Negative impact of $0.4 million from the Alberta and Toronto floods.

INTERNATIONAL

	3 months ended December 31				12 months ended December 31			
($THOUSANDS)	**2013**	**2012**	**$Variance**	**%Variance**	**2013**	**2012**	**$Variance**	**%Variance**
Direct written premiums	34,898	9,311	25,587	275%	93,763	28,052	65,711	234%
Net earned premiums	20,643	3,980	16,663	419%	51,327	7,435	43,892	590%
Net claims:								
Current year claims	15,100	3,116	11,984	385%	30,452	5,349	25,103	469%
Current year loss ratio	73.2%	78.3%			59.3%	71.9%		
Favourable / (unfavourable) prior year claims development	1,392		1,392	N/A	(339)	–	(339)	N/A
Total net claims	13,708	3,116	10,592	340%	30,791	5,349	25,442	476%
Underwriting income(1) (loss)	(338)	(1,506)	1,168	78%	393	(3,899)	4,292	110%
Claims ratio(1)	66.4%	78.3%			60.0%	71.9%		
Expense ratio	35.2%	59.5%			39.2%	80.5%		
Combined ratio(1)	101.6%	137.8%			99.2%	152.4%		
Underwriting income(1)	(338)	(1,506)	(1,168)	(78%)	393	(3,899)	4,292	110%

(1) Before impact of change in discount rate on claims adjustment of $0.1 in the quarter and $0.1 in 2013 and $nil in the quarter and $nil in 2012.

Fourth Quarter 2013

The International division, which began writing business in the first quarter of 2012, recorded $34.9 million in written premiums in the fourth quarter of 2013 compared to $9.3 million in the same period in 2012, an increase of $25.6 million. The strong growth in written premiums is due to the growth in existing programs and an increase in the number of programs offered over the year. At the end of the fourth quarter, the International division wrote 29 programs, mainly in the UK and Denmark.

The International division recorded an underwriting loss of $0.3 million in the fourth quarter compared to a underwriting loss of $1.5 million in the comparable period in 2012. This is a result of:

1. Higher earned premiums as the business begins to mature reducing the expense ratios.
2. Decrease in the division's claims ratio to 66.4% from 78.3%, due to the improved performance of the UK motorcycle and auto Danish warranty programs. The above was impacted by $1.4 million of favourable development on prior period reserves in Q4 2013 compared to no development in the same period in 2012 primarily due to seasonality on the motorcycle business in 2012.
3. An increase in current year reserves of $2.7 million in the quarter following an actuarial review.

Full Year 2013

The International division recorded $93.8 million of written premiums in 2013 compared to $28.1 million in the same period in 2012, an increase of $65.7 million.

The International division recorded an underwriting income of $0.4 million in 2013 compared to an underwriting loss of $3.9 million in the same period in 2012. This is a result of:

1. Higher earned premiums as the business begins to mature, reducing the expense ratios.
2. Decrease in the division's claims ratio to 60.0% from 71.9%, due to writing motorcycle premiums in the traditionally low loss ratio winter months in addition to lower claims and expenses on the Danish warranty business.
3. The above were partially offset by $0.3 million of negative prior year reserve development in 2013 compared to no development in the same period in 2012.

Summary of Quarterly Results

	2013				2012			
($ THOUSANDS EXCEPT PER SHARE DATA)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Direct written and assumed premiums	74,300	62,706	78,121	53,240	49,513	53,561	62,857	40,079
Net earned premiums and other revenue	59,738	50,711	50,449	44,566	43,084	42,063	40,834	40,027
Underwriting income (loss)(1)	(4,309)	1,157	4,080	(3,515)	3,131	459	(2,011)	603
Income (loss) before income taxes	1,428	2,998	11,167	(186)	7,672	19,239	(1,397)	6,459
Net income (loss)	1,158	2,440	8,739	30	5,672	14,012	(872)	5,078
Earnings (loss) per adjusted share								
(a) Basic	$0.17	$0.22	$0.73	$0.01	$0.49	$1.18	$(0.04)	$0.44
(b) Diluted	$0.16	$0.22	$0.72	$0.01	$0.49	$1.18	$(0.04)	$0.44
Net operating income (loss) per share - diluted	$0.08	$0.32	$0.49	$0.00	$0.30	$0.23	$0.14	$0.24
Selected financial ratios (%)								
Loss ratio(1)	69.5%	61.1%	54.8%	71.9%	52.8%	60.3%	66.3%	63.0%
Expense ratio	37.7%	36.6%	37.0%	36.0%	39.9%	38.6%	38.6%	35.5%
Combined(1)	107.2%	97.7%	91.8%	107.9%	92.7%	98.9%	104.9%	98.5%
Book value per share	$14.57	$13.98	$14.37	$14.09	$13.98	$13.58	$12.99	$13.14

(1) Before impact of change in discount rate on claims adjustment for $0.3 million in 2013 and $3.9 million in 2012

5 Year Financial Highlights

	Year ended December 31				
($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	2013	2012	2011	2010	2009
Revenue					
Direct written and assumed premiums					
Personal Lines/Auto	124,862	129,606	126,220	134,041	117,291
Specialty Programs	49,742	48,352	44,678	51,423	46,571
International	93,763	28,052	–	–	–
Total direct written premiums	268,367	206,010	170,898	185,464	163,862
Net written premiums	228,781	182,465	156,134	166,859	149,745
Net earned premiums	205,464	166,008	163,171	162,715	144,082
Underwriting expenses					
Incurred claims	132,154	100,415	103,360	119,662	101,529
Acquisition costs	52,004	39,436	36,375	35,811	33,276
Operating expenses	23,893	23,975	19,549	15,261	14,695
Total underwriting expense	208,051	163,826	159,284	170,734	149,500
Underwriting income (loss)	(2,587)	2,182	3,887	(8,019)	(5,418)
Impact of discount rate on claims	281	(3,887)	(1,843)	(488)	9
Investment income	17,712	33,678	13,559	17,194	17,694
Interest expense	–	–	–	568	1,212
Income before income taxes	15,406	31,973	15,603	8,119	11,073
Income tax expense (recovery)					
Current	3,840	9,363	4,665	1,467	3,792
Deferred	(801)	(1,280)	(44)	1,281	(826)
	3,039	8,083	4,621	2,748	2,966
Net income on continued operations	12,367	23,890	10,982	5,371	8,107
Net income (loss) on discontinued operations attributable to shareholders of the company	(8,642)	(4,524)	(3,462)	(1,219)	(3,592)
Net income	3,725	19,366	7,520	4,152	4,515
Attributed to:					
Shareholders of the Company	4,681	20,353	7,733	4,152	4,515
Non-controlling interest	(956)	(987)	(213)	–	–
	3,725	19,366	7,520	4,152	4,515
Earnings per share attributable to shareholders of the Company:					
Net income per share continuing operations – basic	$1.13	$2.07	$0.93	$0.45	$0.69
Net income per share continuing operations – diluted	$1.11	$2.06	$0.92	$0.45	$0.64
Book value per share	$14.57	$13.98	$12.85	$12.14	$11.12
Net operating income (1)	10,575	13,231	12,265	2,137	3,485
Net operating income per share – diluted (2)	$0.96	$1.18	$1.03	$0.18	$0.28

(1) Net operating income is defined as net income plus or minus after-tax impact of change in discount rate on unpaid claims, realized losses or gains on sale of investments, unrealized fair value changes on Fair Value Through Profit or Loss (FVTPL) investments and one time non recurring charges.

(2) Net operating income is adjusted to that attributable to shareholders for per share calculation.

Net Operating Income

Components of Net Operating Income are shown below:

($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	Q4 2013	Year ended December 31 2013	2012	2011	2010	2009
Net income [1]	1,486	3,725	19,366	7,520	4,152	4,515
Add (deduct) impact of change in discount rate	(946)	(281)	3,887	1,843	488	(9)
Add (deduct) net realized loss (gain) on investments	(901)	(5,797)	(20,996)	(137)	(5,110)	(6,856)
Fair value change on FVTPL	256	2,314	(227)	(209)	24	–
Discontinued operations	(328)	8,642	4,524	3,462	1,219	3,592
Severance & other expenses	–	–	1,383	–	–	–
Tax impact	585	1,016	4,307	(427)	1,364	2,243
Net operating income	152	9,619	12,244	12,052	2,137	3,485
Minority interest	785	956	987	213	–	–
Net operating income attributable to shareholders	937	10,575	13,231	12,265	2,137	3,485
Net operating income per share – diluted	$0.08	$0.96	$1.18	$1.03	$0.18	$0.28

(1) Net income including discontinued operations.

Balance Sheet Highlights

The table below shows significant balance sheet items over a 5 year period:

($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	As at December 31 2013	2012	2011	2010	2009
Balance Sheet Data					
Cash and short-term deposits	18,156	19,578	30,839	17,033	46,885
Investments	454,317	412,728	365,058	351,563	292,419
Total assets	618,103	547,028	491,703	474,783	446,465
Provision for unpaid claims	296,857	268,580	254,519	239,036	207,220
Unearned premiums	127,247	94,085	71,644	78,335	72,643
Bank indebtedness	–	–	–	–	19,550
Total equity attributable to shareholders	170,535	166,603	155,033	146,366	133,431
Book value per share	$14.57	$13.98	$12.85	$12.14	$11.12
Echelon MCT ratio	219%	250%	237%	241%	309%

The following table shows the Company's selected financial ratios and return on equity (ROE) data. These ratios are defined in the "Glossary of Selected Insurance Terms".

Selected Financial Ratios [1] and Return on Equity (ROE) Data (%)	Q4 2013	Year ended December 31 2013	2012	2011	2010	2009
Loss ratio [2]	69.5	64.3	60.5	63.1	73.5	70.5
Expense ratio	37.7	36.9	38.2	34.3	31.4	33.3
Combined ratio [2]	107.2	101.2	98.7	97.4	104.9	103.8
Return on equity (ROE) continuing operations	7.9	7.9	15.5	7.3	3.8	6.4

(1) The underwriting ratios (the loss and expense ratios and the combined ratio) are all non-IFRS measures which are common insurance industry measures of performance. Expenses include all Corporate and overhead costs.

(2) Before impact of change in discount rate on claims adjustment for $0.2 million in 2013 and $3.9 million in 2012.

2013 Financial Overview

($ THOUSANDS)	Full Year 2013	Q4	Q3	Q2	Q1	Full Year 2012	Q4
Underwriting income (loss)[1]	(2,587)	(4,309)	1,157	4,080	(3,515)	2,182	3,132
Net income (loss) on continuing operations	12,367	1,158	2,440	8,739	30	23,890	5,672
Net operating income	10,575	937	3,798	5,849	(8)	13,231	4,505

(1) Before impact of change in discount rate on claims adjustment of $0.2 million in 2013 and $3.9 million in 2012.

Net operating income, as defined above, has decreased over last year, from $13.2 million in 2012 to $10.6 million in 2013. This was due primarily to adverse development on cancelled Specialty Programs and under-performance in the Ontario non-standard auto segment, partially offset by improved performance in the International division.

Book value per share, which EGI management considers to be the most appropriate metric to measure the performance of the Company, increased by approximately 4% in 2013, to $14.57 from $13.98 in 2012.

Net income after taxes on continuing operations for 2013 was $12.4 million, a decrease of $11.5 million, or 48%, compared to $23.9 million in 2012. The decrease is attributable to lower net realized investment gains in addition to a larger underwriting loss in 2013. A gain of $1.1 million was recorded in other comprehensive income (OCI) in 2013, due to an increase in fair value of the investment portfolio, reflecting the performance of the investment portfolio.

At 2013 year end, total equity attributable to shareholders increased by 2% to $170.5 million from $166.3 million as at December 31, 2012.

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 2013	2013	2012
Gross premiums written	74,300	268,367	206,010
Net premiums written	60,737	228,781	182,465
Net premiums earned	59,738	205,464	166,008
Net interest and dividends	3,434	13,637	12,443
Realized and unrealized gains on investments	645	3,483	21,223
Foreign exchange gains	712	592	12
Total revenue	64,529	223,176	199,686

The main source of revenue was earned premiums from the sale of insurance policies. Gross written premiums totaled $268.4 million, an increase of 30% compared to $206.0 million last year. The increase in gross premium was primarily due to the growth in the International division premiums to $93.8 million in 2013 compared to $28.1 million in 2012.

Personal Lines recorded $124.9 million of premiums in 2013 compared to $129.6 million in 2012, a decrease of 4%. Specialty Programs recorded an increase in gross written premiums of 3%, in 2013 compared to 2012, primarily due to greater volumes written in the Western Branch.

Net earned premiums increased $39.5 million, or 24% in 2013, to $205.5 million from $166.0 million in 2012, mainly due to an increase in earned premium in the International division in 2013 partially offset by reduced earned premium in Personal Lines.

Investment income constituted approximately 8% of EGI's total revenue in 2013. Market fluctuations in interest rates and equity markets affect EGI's returns on, and the market value of, fixed income, preferred shares, equity markets and short-term investments. Net realized and unrealized gains on invested assets totaled $4.1 million compared to net realized and unrealized gains of $21.2 million last year. Included in realized gains was an impairment provision of $0.9 million in 2013 compared to $2.2 million in 2012.

Expenses

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

($ THOUSANDS)	Q4 2013	2013	2012
Expenses			
Incurred claims[(1)]	41,508	132,154	100,415
Acquisition expense	15,840	52,004	39,436
Operating expense	6,699	23,893	23,975
	64,047	208,051	163,826

Selected Underwriting Ratios	Q4 2013	2013	2012
Incurred claims ratio[(1)]	69.5%	64.3%	60.5%
Acquisition expense ratio	26.5%	25.3%	23.8%
Operating expense ratio	11.2%	11.6%	14.4%
Combined ratio[(1)]	107.2%	101.2%	98.7%

(1) Before impact of change in discount rate on claims adjustment of $0.3 million in 2013 and $3.9 million in 2012

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

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

Operating expenses are the non-commission selling, underwriting and administrative expenses incurred to support EGI's business. A significant portion of these expenses is related to employee compensation and benefits. The effective control and management of these expenses can enhance the underwriting results from the operation. The decrease in operating expense ratio in 2013 compared to 2012 was due to increased scale from the increased earned premiums in the International division.

Regulation

The industry in which EGI operates is regulated for the sale of P&C insurance. Changes in these regulations may significantly affect the operations and financial results of EGI. Government reforms in Ontario aimed at addressing the rapidly escalating costs of automobile insurance claims were enacted to apply to coverages issued on and after September 1, 2010. This has lowered the claims costs of accident benefits.

Year Ended December 31, 2013 compared to 2012

The following financial information compares results for the full year 2013 and 2012.

($ THOUSANDS)	2013	2012	Variance $	Variance %
Direct written premiums	268,367	206,010	62,357	30%
Net written premiums	228,781	182,465	46,316	25%
Net earned premiums	205,464	166,008	39,456	24%
Claims incurred	132,154	100,415	31,739	32%
Acquisition costs	52,004	39,436	12,568	32%
Operating expenses	23,893	23,975	(82)	0%
Underwriting income (loss)	(2,587)	2,182	(4,769)	(219)%
Impact of discount rate on claims	281	(3,887)	4,168	107%
Investment income	17,712	33,678	(15,966)	(47)%
Net income before income taxes	15,406	31,973	(16,567)	(52)%
Income taxes	3,039	8,083	(5,044)	(62)%
Net income	12,367	23,890	(11,523)	(48)%
Net operating income	10,575	13,231	(2,656)	(20)%

Insurance Operations

Written and Earned Premiums

Direct written and assumed premiums increased $62.4 million or 30% to $268.4 million for the year ended December 31, 2013 compared to $206.0 million for 2012. The increase in written and earned premium was primarily due to growth in the newly-formed International division in 2013.

Incurred Claims Expense

Net incurred claims expense increased in 2013. The resulting loss ratio of 64.3% for 2013 represents an decline of 3.8% over the 2012 loss ratio of 60.5%. This was primarily driven by higher claims, particularly in Ontario Auto and on cancelled programs in Specialty Programs. In addition, net favourable development on prior year claims was lower in 2013, compared to 2012 by $1.0 million.

Acquisition Costs

Net acquisition costs consisting mainly of commissions and premium taxes, increased by 32% primarily due to an increase in net earned premiums and a change in mix of business in Specialty Programs and the International division.

Operating Expenses

Operating expenses were relatively flat in 2013 despite an increase in gross written premiums due to concerted actions to reduce discretionary spending.

Underwriting Income

Underwriting results reflect the revenues from net earned premiums less claims, acquisition and operating expenses. Overall underwriting performance decreased by $4.8 million to a loss of $2.6 million for the year ended December 31, 2013, compared to underwriting income of $2.2 million for 2012. The underwriting results for 2013 and 2012 were net of corporate and other expenses of $3.5 million and $3.7 million in 2013 and 2012, respectively. Details by line of business are shown in the segmented financials section.

Investment Income

Investment income decreased by $16.0 million, to $17.7 million in 2013 compared to $33.7 million in 2012. Net gains on investments totaled $5.8 million in 2013 compared to $21.0 million in 2012. Impairment provisions of $0.9 million were recorded in 2013 compared to $2.2 million in 2012.

Income from interest and dividends was $14.9 million in 2013 compared to $14.0 million in 2012. The result reflected the lower interest rate environment in the year despite higher invested assets in 2013 compared to 2012. The total fair value of the investment portfolio as at December 31, 2013, (including cash and short-term and premium financing receivable) was $480.8 million compared to $438.6 million as at December 31, 2012.

Income before Income Taxes

Income before income taxes was $15.4 million in 2013, compared to $32.0 million in 2012.

For the year ended December 31, 2013, an underwriting loss of $2.6 million, plus impact of discount rate on claims of $0.3 million, plus investment income of $17.7 million, comprised income before income taxes of $15.4 million. This is compared to underwriting income of $2.2 million, less discount rate impact on claims of $3.9 million, plus investment income of $33.7 million, which comprised income before income taxes of $32.0 million in 2012.

Income Taxes

The provision for income taxes for the year ended December 31, 2013, was $3.0 million compared to $8.1 million for 2012. The approximate effective tax rate decreased to 19.7% for 2013 from 25.3% for the previous year. Corporate tax rates for the Company remained at 27.0% in 2013 and 2012; however capital gains, dividend income and tax rate differences for income from foreign jurisdictions contributed to the lower effective tax rate for 2013.

Year Ended December 31, 2012 compared to 2011

The following chart compares results for the full year 2012 and 2011.

($ THOUSANDS)	**2012**	**2011**	**Variance $**	**Variance %**
Direct written premiums	206,010	170,898	35,112	21%
Net written premiums	182,465	156,134	26,331	17%
Net earned premiums	166,008	163,171	2,837	2%
Claims incurred	100,415	103,360	(2,945)	(3)%
Acquisition costs	39,436	36,375	3,061	8%
Operating expenses	23,975	19,549	4,426	23%
Underwriting income	2,182	3,887	(1,705)	(44)%
Impact of discount rate on claims	(3,887)	(1,843)	(2,044)	(111)%
Investment income	33,678	13,559	20,119	148%
Net income before income taxes	31,973	15,603	16,370	105%
Income taxes	8,083	4,621	3,462	75%
Net income	23,890	10,982	12,908	118%
Net operating income	13,231	12,265	966	8%

Further analysis of 2012 versus 2011 results were provided in EGI's 2012 MD&A.

Balance Sheet Analysis

Investments

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

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

Fair value of Investments

The following table provides a comparison of investments as at December 31, 2013, and December 31, 2012:

	Carrying and fair values	
($ THOUSANDS)	**As at December 31, 2013**	**As at December 31, 2012**
Available-for-sale		
Fixed income		
Canadian		
Federal	54,374	111,034
Provincial	42,718	62,393
Municipal	5,714	16,851
Corporate	162,316	167,372
	265,122	357,650
Fixed income lent through securities lending program		
Federal	49,165	–
Provincial	7,656	–
Municipal	411	–
Corporate	3,980	–
	61,212	–
Foreign fixed income		
Government	12,799	2,262
Corporate	45,608	10,729
	58,407	12,991
Total fixed income	384,741	370,641
Commercial Mortgages pooled fund	2,052	–
Common shares		
Canadian	13,491	11,889
Foreign	24,693	5,052
	38,184	16,941
Total available-for-sale	424,977	387,582
Fair value through profit or loss		
Preferred shares	29,340	25,146
Total investments	454,317	412,728

Impaired assets and provisions for losses

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

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

Impairment provisions of $0.9 million were recorded by EGI in 2013 compared to $2.2 million in 2012.

A gross unrealized loss of $1.0 million (2012 – $0.5) on investments held as at December 31, 2013, is recorded, net of tax, in the amount of $0.8 million (2012 – $0.4 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.

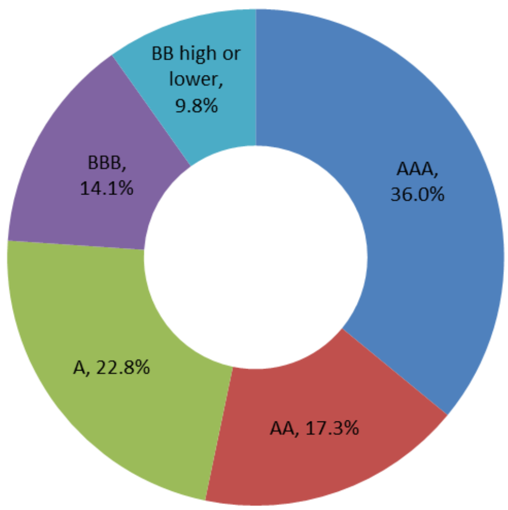
Fixed Income Securities

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

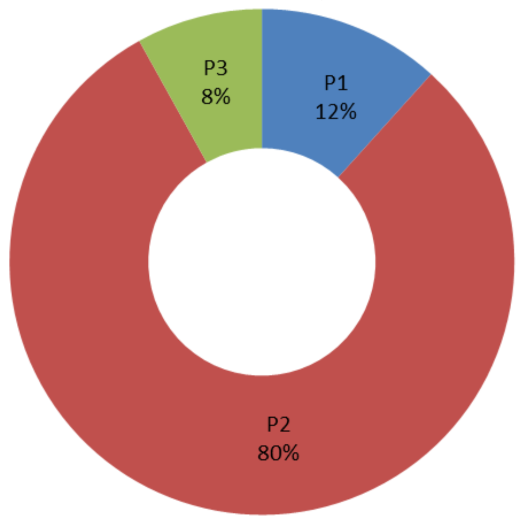
EGI's portfolio maintains a high overall credit quality level as measured by external rating agencies.

The charts below set forth EGI's fixed income and preferred share portfolios by credit quality determined by DBRS ratings as at December 31, 2013.

Bond Ratings Q4 2013



Preferred Share Ratings Q4 2014



Common Shares

Common shares are a key component of EGI's portfolio to enhance the capital appreciation opportunities of EGI's invested assets. Diversification by industry sector also reduces the overall risk level inherent in EGI's common share portfolio.

Common Share Portfolio

The following table outlines EGI's Canadian common share exposure to industry sectors as at December 31, 2013, and 2012.

	As at December 31			
	2013		2012	
($ THOUSANDS)	Fair value and carrying amount	% of fair value	Fair value and carrying Amount	% of fair value
U.S. equity pooled fund	15,923	42	3,848	23
Canadian equity pooled fund	13,014	34	11,736	69
Consumer Goods	3,168	8	–	–
Technology	2,352	6	–	–
Services	1,348	4	387	2
Health Care	960	3	–	–
Energy	491	1	970	6
Conglomerates	446	1	–	–
Other	482	1	–	–
Total	38,184	100	16,941	100

As at December 31, 2013, 35% of the common share portfolio was in Canadian equities with 65% in foreign equities.

Recoverable from Reinsurers

	As at December 31	
($ THOUSANDS)	2013	2012
Reinsurers' share of unpaid claims	32,762	30,283
Reinsurers' share of unearned premiums	19,985	9,169
Total	52,747	39,452

As at December 31, 2013, the amount recoverable from reinsurers increased by $13.3 million, or 34%, to $52.7 million from $39.4 million at December 31, 2012. The increase was due to increased reliance on reinsured premiums in the International division partially offset by reduced reliance on Personal Lines claims reinsurance as older claims, with higher reinsurance, run off. All reinsurers, with balances due, have a rating of A^{-} or above as determined by Standard & Poor's and A.M. Best, except for several Specialty Programs distributors who share a portion of the risk with EGI, for whom EGI holds deposits.

EGI has reinsurance treaties with several unaffiliated reinsurers, all of whom are selected on the basis of their creditworthiness. EGI purchases reinsurance to reduce its exposure to the insurance risks that it assumes in writing business. For 2013, the maximum net retention on a single risk was $1.5 million (2012 – $1.5 million).

In accordance with industry practice, EGI's reinsurance recoverables with Canadian licensed reinsurers are generally unsecured because Canadian regulations require these reinsurers to maintain minimum asset and capital balances in Canada to meet their Canadian obligations. However, policy liabilities rank in priority to any subordinate creditors a reinsurer may have. For reinsurance recoverables with non-licensed reinsurers, EGI maintains high quality collateral against reinsurance recoverables in the form of cash, letters of credit and/or assets held in trust accounts. At December 31, 2013, EGI was the assigned beneficiary of such trust accounts totaling $3.9 million (December 31, 2012 – $4.3 million) in guarantees from unlicensed reinsurers.

EGI purchases renewable excess of loss and catastrophe reinsurance from third-party reinsurers, covering its automobile and general liability business. In both 2013 and 2012, such coverage was for a total of $1.5 million. Other than general liability, coverages for the programs in Specialty Programs are reinsured on a program-by-program basis when necessary.

Using reinsurance, EGI's policy is to limit its loss exposure in any one claim to not more than 2% of its shareholders' equity.

EGI depends upon the financial stability of its reinsurers in the same way that EGI's insureds rely upon EGI. Accordingly, EGI carefully selects its reinsurers and only deals with creditworthy reinsurers. EGI's Reinsurance Committee is responsible for evaluating and approving companies to which EGI cedes reinsurance. The committee consults with AON Benfield Canada regarding the financial ratings of EGI's reinsurers. Reinsurers are selected based on their financial strength ratings, services, reputation and prices offered on the required reinsurance. EGI's reinsurance broker reported that all reinsurers providing coverage under EGI's 2014 excess of loss and catastrophe treaties were rated A^{-} or better by A.M. Best as at December 2013.

Accounts Receivables

	As at December 31	
($ THOUSANDS)	**2013**	**2012**
Premium financing receivables	15,680	16,316
Agents and brokers	15,627	13,749
Other	4,619	5,512
Total	35,926	35,577

Premium financing receivables represents 44% of total receivables as at December 31, 2013. Premium financing receivables decreased to $15.7 million at December 31, 2013, from $16.3 million at December 31, 2012. The increase in agent and broker receivables from $13.7 million in 2012 to $15.6 million in 2013 was due mainly to increase in balances due to Qudos.

Provision for Unpaid Claims

EGI establishes loss reserves to provide for future amounts required to pay claims related to insured events that have occurred and been reported but have not yet been settled, as well as for those related to events that have occurred but have not yet been reported to EGI. Claims provisions (i.e., reserves for claims liability) are established at the individual file level by the "case method" as claims are reported. The provisions are subsequently adjusted as additional information affecting the estimated amount of a claim becomes known during the course of its settlement. With the assistance of EGI's consulting actuary, a reserve provision is also made for management's calculation of factors affecting the future development of claims, including a provision for IBNR claims, based on the volume of business currently in force and the historical experience on claims. Reserves are also established for the estimated internal and external loss adjustment expenses which will be incurred during the claims settlement process.

The provision for unpaid claims and adjustment expenses is discounted to take into account the time value of money as required by EGI's primary insurance regulator. It also includes a provision for adverse deviation as required by accepted Canadian actuarial practice. EGI's consulting actuary reports on the adequacy of EGI's claims reserves on a quarterly basis. As time passes, more information about the claims becomes known and provisional estimates are appropriately adjusted upward or downward. Adjustments to reserves are reflected in the results of operations in the periods in which the estimates are changed.

The development of the provision for claims is shown by the difference between estimates of reserves as of the initial year-end and the re-estimated liability at each subsequent year-end. This is based on actual payments in full or partial settlement of claims, plus re-estimates of the reserves required for claims still open or claims still unreported. Favourable development means that the original reserve estimates were higher than subsequently indicated. Unfavourable development means that the original reserve estimates were lower than subsequently indicated.

Refer to note 8 in EGI's consolidated financial statements for the year ended December 31, 2013, for the historical development triangles. Further discussion of EGI's reserving methods and underlying assumptions are also presented in "Critical Accounting Estimates and Assumptions – Policy Liabilities".

Share Capital

As of February 20, 2014, there were 11,727,232 common shares issued and outstanding. See also note 13 to the consolidated financial statements for the year ended December 31, 2013.

Liquidity and Capital Resources

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

Contractual obligations include operating leases, for which $1.4 million is due in less than a year and $5.1 million is due over the next nine years.

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

The total capitalization of EGI at December 31, 2013, was $168.4 million compared to $165.4 million at December 31, 2012. The elements that increased equity consist of net income of $3.7 million, the increase in common share and contributed surplus of $0.5 million and other comprehensive income of $1.1 million in 2013, reflecting (i) an increase in the fair value of investments designated as available-for-sale investments of $3.6 million (ii) a reclassification for gains realized in 2013 of $5.5 million to net income in the year (iii) unrealized gains of $1.5 million on translation of financial statements whose functional currency was not Canadian dollars, all net of (iv) tax impact of $1.5 million.

The continued growth in capitalization reflects the strengthening of EGI's balance sheet and provides for better capital adequacy as a P&C insurance underwriter. A common measure of capital adequacy is the net written premium ratio to surplus or equity. This ratio was 1.4:1 as at December 31, 2013, compared to 1.2:1 in 2012. EGI's current capitalization provides it with adequate financial resources for planned growth.

Equity	**As at December 31**	
($ THOUSANDS)	**2013**	**2012**
Common shares	67,211	68,244
	(11,703,082 shares)	(11,914,932 shares)
Retained earnings	94,593	91,237
Contributed surplus	1,561	1,068
Accumulated other comprehensive income	7,170	6,054
Non-controlling Interest	(2,156)	(1,200)
Total capitalization	168,379	165,403

Normal Course Issuer Bid

On March 30, 2012, the Company received approval from the TSX to commence a normal course issuer bid (NCIB) to repurchase and cancel up to 671,147 common shares, representing approximately 10% of its public float of issued and outstanding common shares at that time. The NCIB expired on April 2, 2013.

On April 8, 2013, the Company received approval from the TSX to recommence an NCIB to repurchase and cancel up to 665,559 common shares, representing approximately 10% of its public float of issued and outstanding common shares at that time.

Up to February 20, 2014, the Company purchased and cancelled 277,000 common shares under the NCIB bid programs at an average cost of $10.49 per share for a total consideration of $2.9 million. No shares were repurchased in the fourth quarter of 2013.

Subsequent Events

In February 2014, the Company committed to a $6.0 million capital injection to its European subsidiary to support its strong premium growth and strengthen its regulatory ratios.

Dividends

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

Transactions with Related Parties

EGI has entered into transactions with two related parties, The Co-operators Group Limited (Co-operators) and Purves Redmond Limited (Purves Redmond). These transactions are carried out in the normal course of operations and are measured at arms length which approximates fair value. The transactions involving Co-operators, which is a significant shareholder of EGI, principally consist of an agent distribution channel, support services and investment management. Purves Redmond is involved in arranging insurance coverage for the companies within the EGI group. Robert Purves, a shareholder and director of EGI and a director of Echelon, is also a shareholder and the Chairman of Purves Redmond.

Outlook

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

EGI continues to focus its business in areas where it has deep competencies. It now only operates in Canada and Europe. In 2013, it made the decision to exit the United States. After several years of building of the business, EGI reached the conclusion that the results were not trending to profitability as quickly as desired.

In Canada, EGI is looking to grow its core auto insurance business and ancillary product lines that support it.

In Europe, EGI's primary goal is to manage the risks of a rapidly expanding start-up operation. To date, the business is meeting and exceeding initial expectations. EGI will continue to monitor claims experience and ensure that appropriate controls, good governance and efficient capital management are in place.

A few industry wide issues that emerged in 2013 were:

- Mandated rate reductions in Ontario Auto
- The impact of natural disasters
- The competitive state of the property insurance market

As a result of the most recent Ontario budget, The Financial Services Commission of Ontario (FSCO) has mandated that all companies file for a series of rate reductions in an effort to reduce premiums for Ontario drivers. EGI has been ordered to file for an average rate reduction of 8.7% effective May 1, 2014. It is expected that the rate reduction will reduce the earned premium of Ontario auto by 3.6% in 2014 and a further 4.9% in 2015.

There has been an increase in the number of weather-related catastrophic events, which have had a material adverse impact on most Property & Casualty insurers in Canada. A few of the largest in 2013 were the Southern Alberta floods in June, the Toronto floods in July and the Eastern Canada ice storm in December.

The Commercial Property market continues to witness soft market conditions. Until conditions change and market prices increase, EGI will continue to reduce its written premiums. It will not write unprofitable business in an effort to maintain market share. EGI expects that market conditions for homeowner's insurance to harden over the next year or two. This is due to the result of weather-related events, as well as heightened risk management practices and reduced reinsurance capacity for earthquake coverage.

Looking ahead, in the short term, EGI remains focused on generating consistent underwriting profitability and growing its bottom line net income. Personal Lines is now consistently profitable, having generated underwriting income in 12 of the past 13 quarters. Specialty Programs continues to evolve toward fewer product lines where the Company has deeper expertise. Europe produced an underwriting profit in 2013, in only its second full year of operation.

Longer term, EGI is looking to grow its top line premium revenue in Canada, both organically and through acquisitions.

Strategy

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

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

Focus on Canada

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

Focus on Automobile Insurance

All investments – management time, resources, systems, etc. – are primarily directed toward growing and strengthening Personal Lines automobile insurance sold through the broker channel.

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

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

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

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

Supplemented by Specialty Programs

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

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

Organizational Strategies

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

Competitive Strengths

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

Specialized products and underwriting.

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

Entrepreneurial culture.

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

Personalized customer service.

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

Financial strength.

EGI has a strong capital base with shareholder equity of $168.4 million. The Minimum Capital Test (MCT) ratio of Echelon as at December 31, 2013, was 219%, comfortably in excess of the Office of the Superintendent of Financial Institutions' (OSFI) supervisory target. Other insurance subsidiaries are well capitalized and there is approximately $35 million of excess capital invested in cash and liquid securities in the holding company and our Barbados reinsurance company, CIM Re. EGI's net Premiums-to-Capital ratio is a conservative 1.4. It has a high quality investment portfolio with over 53% of its fixed income portfolio in investment grade with an average rating of 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). EGI intends to maintain its strong balance sheet through appropriate pricing, underwriting discipline and conservative accounting and loss reserving practices.

Risk Factors

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

Nature of the Industry

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

Regulation

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

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

Competition

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

EGI competes with many other insurance companies. Certain of these competitors are larger and have greater financial resources than EGI 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 EGI will continue to increase revenues or be profitable. To a large degree, future revenues of EGI are dependent upon its ability to continue to develop and market its products and to enhance the capabilities of its products to meet changes in customer needs.

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. EGI'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 EGI'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 EGI's financial results for any fiscal quarter or year and could materially reduce EGI's profitability or harm EGI's financial condition. EGI's ability to write new business also could be affected. EGI may experience an abrupt interruption of activities caused by unforeseeable and/or catastrophic events. EGI's operations may be subject to losses resulting from such disruptions. Losses can relate to property, financial assets, trading positions and also to key personnel. If EGI's business continuity plans cannot be put into action or do not take such events into account, losses may further increase.

Interest Rates

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

Negative Publicity in the Industry

EGI's products and services are ultimately distributed to individual consumers. From time to time, consumer advocacy groups or the media may focus attention on EGI's products and services, thereby subjecting its industry to periodic negative publicity. EGI 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 EGI's costs of doing business and adversely affect EGI's profitability by impeding its ability to market its products and services or increasing the regulatory burdens under which EGI operates.

Reliance on Brokers

EGI distributes its products primarily through a network of brokers. These brokers sell EGI's competitors' products and may stop selling EGI 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 EGI products. EGI's strategy of distributing through Co-operators' agent channel may also adversely impact its relationship with brokers who distribute EGI products.

Product and Pricing

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

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

Underwriting and Claims

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

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

Loss Reserves and Claims Management

The amounts established and to be established by EGI for loss and loss adjustment expense reserves are estimates of future costs based on various assumptions, including actuarial projections of the cost of settlement and the administration of claims, estimates of future trends in claims severity and frequency, and the level of insurance fraud. Most or all of these factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact EGI's ability to accurately assess the risks of the policies that it writes. In addition, future adjustments to loss reserves and loss adjustment expenses that are unanticipated by management could have an adverse impact upon the financial condition and results of operations of EGI. Although EGI's management believes its overall reserve levels as at December 31, 2013, are adequate to meet its obligations under existing policies, actual losses may deviate, perhaps substantially, from the reserves reflected in EGI's financial statements. To the extent reserves prove to be inadequate, EGI would have to increase such reserves and incur a charge to earnings.

Errors and Omissions Claims

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

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

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

Investments

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

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

Reinsurance

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

Reinsurer Credit Risk

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

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

Technology

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

Liquidity

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

Future Capital Requirements

EGI's future capital requirements will depend upon many factors, including the expansion of EGI's sales and marketing efforts and the status of competition. There can be no assurance that financing will be available to EGI 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, EGI 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 EGI's business, financial condition and results of operations.

Risk Management

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

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

Market Risk

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

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

Interest Rate and Equity Market Fluctuation

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

Credit Risk

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

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

Foreign Exchange Risk

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

EGI is exposed to foreign exchange risk, through its International division's operations in Europe. As at December 31, 2013, EGI has provided capital of EURO $11.9 million to its Danish-based insurance company.

Corporate Governance

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

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

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

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

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

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

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

Future Changes in Accounting Policies and Disclosure

Changes in accounting policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IAS 1 Presentation of Financial Statements

In June 2011, the IASB issued an amendment to IAS 1 that changes the presentation of items in the consolidated statements of comprehensive income. This amendment requires the components of other comprehensive income to be presented in two separate groups, based on whether or not the components may be recycled to the consolidated statements of earnings in the future. Companies will continue to have a choice of whether to present components of OCI before or after tax. Those that present components of OCI before tax will be required to disclose the amount of tax related to the two groups separately. This amendment is effective for annual periods beginning on or after July 1, 2012, is applied retrospectively, with early adoption permitted.

The Company assessed its presentation of the financial statements on January 1, 2013, and determined that the adoption of IAS 1 did not result in any adjustment to other comprehensive income or comprehensive income. The Company has made presentation changes in Statements of income and Comprehensive income, by identifying those items in other comprehensive income that can subsequently be reclassified to net income.

IFRS 10 *Consolidated Financial Statements*

IFRS 10, Consolidated Financial Statements, replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

The Company assessed its consolidation conclusions on January 1, 2013, and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the disclosure requirements under IFRS 10 *Consolidated Financial Statements,* IFRS 11 *Joint Arrangements* and IAS 28 *Investments in Associates and Joint Ventures.* The enhanced disclosures in the new standard are intended to help financial statement readers evaluate the nature, risks and financial effects of an entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12.

Enhanced disclosures required by IFRS 12 are included in Note 23 of these consolidated financial statements.

IFRS 13 Fair Value Measurement

IFRS 13, Fair Value Measurement, provides a single framework for measuring fair value and requires enhanced disclosures when fair value is used for measurement. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013, on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013. Enhanced disclosures are included in these consolidated financial statements.

IFRS 7 Disclosures-Offsetting Financial Assets and Liabilities

In December 2011 the IASB issued Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). The new disclosures will provide information about the effect or potential effect of netting arrangements on an entity's financial position. The adoption of the amendments to IFRS 7 did not have a significant impact on its financial statements.

Standards, amendments and interpretations not yet adopted or effective

IFRS 9 *Financial Instruments*

In November 2009 the IASB published IFRS 9. It addresses classification and measurement of financial assets and liabilities and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments are never recycled to profit and loss, but accumulated gains or losses can be transferred within shareholder's equity.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

The effective date for IFRS 9 has been deferred by the IASB. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IAS 32, Financial Instruments – Presentation

Amended to clarify the requirements for offsetting of financial assets and financial liabilities. The amendments clarify that the right must be available today and must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. Changes are effective beginning on or after January 1, 2014. The Company has assessed the impact of this change and determined that this will not result in a material impact on the consolidated financial statements.

IFRIC 21 – Levies

IFRIC 21 provides guidance on when a Company should recognize a liability for a levy imposed by a government, other than those levies within the scope of other standards such as income taxes and fines or penalties imposed for breaches of legislation. This standard is effective January 1, 2014.

A liability to pay levies is recognized when an obligating event takes place, such as the generation of revenue in the current period. There is no obligating event where a levy is triggered in a future period and an entity is economically compelled to continue to operate in the future period or the financial statements are prepared on a going concern basis suggesting that the entity will continue to operate in the future period. If the obligating event occurs over a period of time, the liability is recognized progressively; if the obligating event is reaching a minimum threshold, the liability is recognized when the minimum threshold is met.

Management is currently assessing the impact of this standard on the consolidated financial statements.

Controls and Procedures

Disclosure Controls and Procedures

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

As of December 31, 2013, an evaluation was carried out, under the supervision of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as defined under National Instrument 52-109. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures was effective.

Internal Controls over Financial Reporting

As at the financial year ended December 31, 2013, the Chief Executive Officer and the Chief Financial Officer evaluated the design and operating effectiveness of the Company's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the internal control over financial reporting was effective as at December 31, 2013, and provided reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no changes in the Company's internal control over financial reporting during the year ended December 31, 2013, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Critical Accounting Estimates and Assumptions

EGI's significant accounting policies are disclosed in note 4 to the consolidated financial statements for the years ended December 31, 2013 and 2012.

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

Policy Liabilities

Policy liabilities consist of provisions for unpaid claims.

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

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

The provision for unpaid claims and adjustment expenses is discounted to take into account the time value of money. In 2013, the discount rate used was 2.05% (2012 – 1.65%). 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, 2013, a 1% increase in the discount rate would result in a decrease in the net provision of $6.2 million and a 1% decrease in the discount rate would increase the net provision by $6.6 million. It also includes a provision for adverse deviation, as required by Canadian accepted actuarial practice.

Impairment of Financial Assets

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

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

a) significant financial difficulty of the issuer or obligor;

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

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

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

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

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

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

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

Reinsurance

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

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

Income Taxes

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

GLOSSARY OF SELECTED INSURANCE TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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