EGI Financial Holdings Inc.

2013 ANNUAL REPORT

OUR MISSION

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

LETTER TO SHAREHOLDERS

2013 was an important year for EGI, as we continued our steady transition to a more focused and disciplined company.

2013 was EGI's eighth consecutive profitable year since our initial public offering in December, 2005. Over that period, book value per share has increased consistently from $7.57 to $14.57 as at December 31, 2013.

A few of our more notable achievements in 2013 were the continued strong performance of our core Personal Lines business, the profitability and growth of our International division, our exit from the United States and the reinstatement of our quarterly dividend.

Personal Lines, which comprises close to 60% of earned premium, exceeded its target profitability for the third year in a row. All product lines and geographies continue to perform well.

International continues to exceed expectations. In 2013, it generated an underwriting profit in only its second full year of operation and the business has already reached the scale required to operate profitably. We continue to be very excited by the outlook of this business.

In December, we exited the United States through the sale of our U.S. operations. While significant progress had been made towards reaching underwriting profitability, results for this division were not trending as quickly as desired. This transaction is expected to add $0.30 per share to our annual earnings in 2014. Equally important, it allows us to focus all of our management time and resources on our profitable Canadian and European businesses.

At the same time, we announced the reinstatement of our quarterly dividend, declaring a $0.10 dividend per share. We are confident with the sustainability of our earnings, and intend to grow dividend distributions over time.

THE YEAR IN REVIEW

Net operating earnings for the year were $10.6 million. EGI has now delivered positive net operating income in 13 of the past 15 quarters. I'm pleased to see that the diversity of our business has allowed us consistently to generate positive results. Our investment results help to diversify our underwriting results. Furthermore, our underwriting portfolio is well diversified by product and geography.

Whereas profitability was our core focus this past year, we continue to grow our top line. Direct written premium increased by 30% to $268 million, primarily driven by the start-up International division.

Personal Lines remains the foundation and bedrock of our company, recording another strong year with a combined ratio of 93%. Personal Lines has now reported an underwriting profit in 12 of the past 13 quarters.

Results for Specialty Programs were mixed. A small underwriting loss on active product lines prompted further adjustments to our strategic focus. We have introduced underwriting restrictions on the active programs, and are focusing our attention on true specialty risks, such as our profitable warranty programs, credit protection, legal expense, prize indemnity and specialty distribution arrangements.

In the fourth quarter, we strengthened our balance sheet by setting aside $4.5 million of additional reserves for the run-off of discontinued Niche Products. Our goal is to ensure that we are fully reserved on the inactive programs to a high degree of certainty, and to protect the future earnings of our company. This allows us to enter 2014 on very solid footing.

In Europe, we are very pleased with the fast start to our International business, with $94 million of written premium in only its second year of operation. More importantly, the division is already contributing to company underwriting profits, the result of improvements in both claims and expenses.

Our investment portfolio continues to perform well, with a total rate of return of 3.6% for 2013. We benefit greatly from the investment leverage on our $481 million pool of invested assets that back policyholder liabilities and shareholder equity.

Overall, book value per share, our primary measure of shareholder value, increased by 4% to $14.57. Excluding one time charges for the U.S. exit and discontinued Niche Products, continuing operations contributed $1.90 per share, an increase of 14%, driven by solid underwriting results and strong investment income.

STRONG BALANCE SHEET

The focus on and strength of our core business have resulted in a balance sheet that is stronger than ever. All of our regulated entities are well capitalized, with solvency margins comfortably above regulatory requirements, as well as above our own internal targets. We have $30 million of excess deployable capital in liquid investments available to support our growth initiatives. We have a conservative investment portfolio with close to 80% in government and investment grade bonds, and the balance in high quality preferred shares and blue chip equities. We have no debt on our balance sheet. We have very little goodwill or intangible assets, and we have a consistent track record of redundant reserves.

ONTARIO AUTO

One of the most prominent industry issues remains Ontario Auto insurance. Ontario private passenger auto represents 28% of EGI's gross written premiums.

Ontario auto is a highly regulated and highly political environment. As a result of the most recent Ontario budget, the Financial Services Commission of Ontario has mandated that all companies file for rate reductions in an effort to reduce premiums for Ontario drivers. The goal is to reduce rates by 15% by August, 2015.

Motorcycles, commercial auto and specialty vehicles are not affected by this rate reduction.

These rate reductions form both an opportunity and a threat for EGI. Now, more than ever, we need to monitor industry developments and the actions of the standard insurers closely. If standard insurers are required to reduce rates below their target levels, they may contract their underwriting guidelines to restore profitability. More business will then flow to the non-standard market and, likely, to EGI. We will need to understand the source and the type of this increased business to determine whether it will be profitable for us at the higher non-standard prices. We aim to insure repenters, not repeaters, utilizing our deep expertise in risk assessment.

We fully support the government's drive for lower premiums. However, any further rate reductions can only be justified through lower claims costs, additional controls on fraudulent activities, a clear definition of catastrophic impairment and other initiatives to improve the functioning of the province's auto insurance system.

Longer term, we believe that the Ontario auto system requires a broader review. Claims costs and legal costs remain the highest in the country. The industry is in a perpetual cycle of applying temporary, stop-gap measures to combat escalating insurance costs. The system requires deeper change. We need to examine where insurance premium dollars are going. They should be going to accident victims, the people that need it, not to unnecessary legal fees or health care assessments. We need to develop standardized and enforceable accident benefits and bodily injury reward schedules. We need to restrict access to tort actions. A private auto insurance industry is essential to the economy of the province. Consumers need to be protected and accident victims require appropriate compensation. The current system needs deep reform to accomplish this and to encourage fluid, open market competition.

WEATHER RELATED EVENTS

The past several years have seen an increased number of catastrophic events related to severe weather. In 2013, a number of natural disasters had a material adverse impact on P&C insurers in Canada – flooding in Southern Alberta, flooding in Toronto and the ice storm in Eastern Canada, to name a few.

We are pleased to report that EGI continues to have only a modest exposure to these types of weather events.

Natural disasters remain at the forefront for politicians, insurance companies and homeowners. From the perspective of the insurance industry, we expect these events to accelerate hardening market conditions for personal property insurance, with price increases and more restrictive underwriting, particularly for overland flood coverage in certain high-risk areas of the country. This will be further amplified by higher prices for earthquake coverage as companies look to alleviate concentration risk in their portfolios and as companies incur higher reinsurance costs and increased capital requirements. This creates opportunities for EGI.

On the other hand, we are not expecting the same level of price increases for commercial property insurance, where the industry continues to witness the impact of a long and protracted soft market cycle. Signs of hardening conditions are emerging in the United States but we have not seen the same trend in Canada as of yet. In the meantime, we continue to reduce our exposure to Commercial Property, applying strict underwriting discipline, closely monitoring claims and only writing the product through our very best producers.

LOOKING FORWARD

In the short term, we remain focused on generating consistent underwriting profits and growing our bottom line net operating income. In the past four years, we have grown our bottom line threefold, from $3.5 million in 2009 to $10.6 million in 2013. Our goal is to develop this further.

Longer term, our goal is to utilize our strengths and our scalable platform to grow our business. Our objective is to focus our business on fewer product lines where we have proven expertise and deep operating and risk management capabilities. We will differentiate ourselves through our specialized underwriting, personalized service and the sophisticated pricing and management of specialty risks.

We will focus solely on Canada and Europe.

In Canada, our strategy is to concentrate our time and resources on growing our profitable auto insurance business through independent brokers. Over the years, we have built deep expertise in our people; our pricing and financial analytics; our underwriting and claims capabilities; and our systems, processes and administrative infrastructure. We have built a reliable and scalable operating platform. And we have created significant barriers to entry, to anyone who's not currently operating in the Canadian auto insurance market.

The primary strategic focus on auto insurance will be supplemented by specialty insurance programs. We will continue our evolution from an MGA distribution model to a broker distribution model in order to maintain stronger control over risk assessment. Again, our goal is to build deeper expertise in fewer product lines. We will develop a more standardized product offering and underwriting manual. We will continue to build internal capabilities in the areas of underwriting, billing and administration that will allow us to more effectively distribute individually underwritten policies through brokers.

In Europe, in the past two years, our International division has generated growth at a tremendous pace. The strategy is sound, the team is strong, the operations have been built and the business has started to generate underwriting profits. Our primary goals for this business are to focus on profitability and to ensure that we have adequate pricing, acceptable claims experience, appropriate controls, good governance and efficient capital management. Overall, we're very pleased with the progress of our European operations and excited by its outlook for the future.

THANK YOU

I'm very pleased with the progress our team has made over the past several years in focusing our business and growing our bottom line net income. We're proud of our demonstrated ability to consistently add shareholder value through growth in book value per share. We have strong top-line growth potential, a seasoned management team, and a diversified business. We have a strong balance sheet and a growing, more capital efficient investment portfolio. We are well capitalized and have the needed financial resources to support our growth initiatives.

EGI's accomplishments over the past several years are a true testament to the expertise, determination and resilience of our employees. Thanks to all of you!

I would also like to thank our Board of Directors and our Chairman, Mr. Rob Purves, for their advice and guidance. I feel privileged to have access to their experience, and I look forward to utilizing it to help build EGI into world-class specialty insurance company.

And finally, thanks to you, our fellow shareholders. We appreciate your long-term support and your patience. We believe the best is yet to come!

Yours truly,

Steve Dobronyi
Chief Executive Officer

CHAIRMAN OF THE BOARD'S MESSAGE

By the close of 2013, our company had entered a new era. We put our foray into the USA and legacy special programs behind us while seeing continued excellent results from our core automobile business in Canada and welcomed fine results from our start up European venture. Our confidence in the business caused us to reinstate quarterly dividends and the Board congratulates our management and all of our employees for their efforts on behalf of all our stakeholders.

GOVERNANCE

During the year, we strengthened our risk management by bringing on board a full-time director of Internal Audit; rewrote all of our committee mandate charters to encompass current governance standards; approved moving employee and management incentive plans from Stock Options to Restricted Share Units; and, together with senior management, engaged in corporate strategy sessions to develop a clear vision for the future.

BOARD COMPOSITION

The Board terms of Scott Clark, Paul Little, Mark Curry and Pat Hodgson will come to an end. Messrs. Clark, Little and Curry have given us very wise counsel and leadership over more than a decade, as well as were instrumental in capitalizing the company in its infancy. Pat Hodgson, although on the Board for a shorter period, has imparted sage advice on many key issues in these past few years. Our sincere thanks go out to them all.

At our upcoming AGM we will be seeking the approval for the appointment of three new directors, who each bring key talents to our Board. Serge Lavoie brings a depth of P&C insurance knowledge and executive management experience. Carol Poulsen brings vast IT and executive management experience, while Ani Hotoyan-Joly brings a depth of knowledge and experience in financial services administration and P&C insurance accounting. We have a fine, hard-working Board and I thank all members for their efforts. We look forward to welcoming our new members' participation in the future governance of EGI.

As we move forward, the Board is confident in the leadership that our management group brings, our direction and our hardworking employees. We look forward to the company delivering continued shareholder value.

Robert Purves
Chairman of the Board

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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.

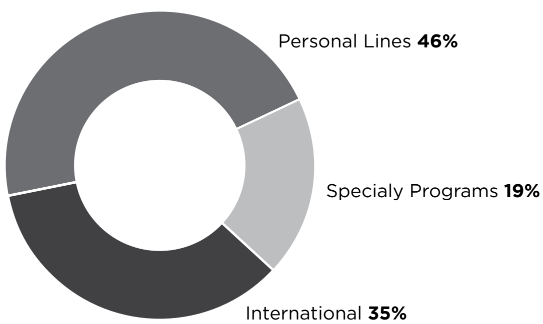
EGI operates in Canada through Echelon General Insurance Company ("Echelon"), a federally-regulated P&C insurance company. It has two lines of insurance business – Personal Lines and Specialty Programs. Personal Lines focuses on the underwriting of EGI's non-standard automobile insurance and insurance 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.

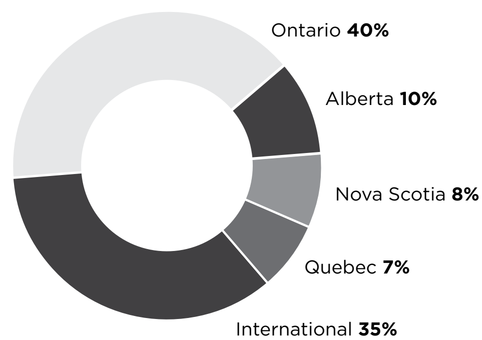
On November 30, 2013, EGI completed a definitive stock purchase agreement with White Pine Insurance Company for the sale of its U.S. operations. The U.S. results are referred to as discontinued operations in this document.

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

2013 Gross Written Premiums by Division



2013 Gross Written Premiums in Canada



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 development	**1,825**	2,572	(747)	(29)	**8,124**	8,478	(354)	(4)
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			
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.

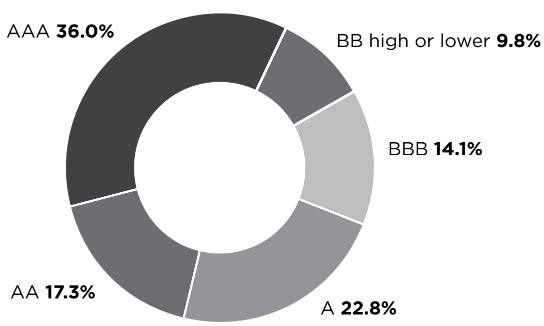
FIXED INCOME SECURITIES

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.

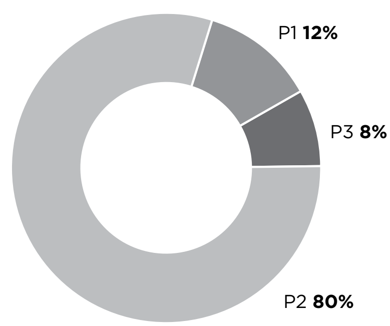
EGI's portfolio maintains a high overall credit quality level as measured by external rating agencies.

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 2013



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.

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Roles of Management, Board of Directors and Audit and Risk Committee

Management is responsible for the preparation and fair presentation of the consolidated financial statements, management's discussion and analysis and other information in the annual report. The consolidated financial statements of EGI Financial Holdings Inc. (the Company) were prepared in accordance with International Financial Reporting Standards. Where necessary, these consolidated financial statements reflect amounts based on the best estimates and judgment of management.

In meeting its responsibility for the reliability of the consolidated financial statements, management maintains the necessary system of internal controls. These controls are designed to provide management with reasonable assurance that the financial records are reliable for preparing consolidated financial statements and other financial information, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The Audit and Risk Committee, composed of directors who are not officers or employees of the Company, meets, as required, with management, the Appointed Actuary and the external auditor to review actuarial, accounting, reporting and internal control matters. The Audit and Risk Committee is responsible for reviewing the consolidated financial statements and management's discussion and analysis and recommending them to the Board of Directors for approval.

Role of Appointed Actuary

The actuary is appointed by the Board of Directors, pursuant to the Insurance Companies Act. The Appointed Actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. The Appointed Actuary is also required to provide an opinion regarding the appropriateness of the policy liabilities to meet all policyholder obligations of the Company at the consolidated balance sheet date. Examination of supporting data for accuracy and completeness and consideration of the Company's assets are important elements of the work required to form this opinion. The Appointed Actuary uses the work of the external auditor in verifying data used for valuation purposes. Policy liabilities include unearned premiums, provision for unpaid claims, reinsurers' share of unearned premiums and provision for unpaid claims and deferred policy acquisition costs.

Role of External Auditor

PricewaterhouseCoopers LLP, external auditor, has been appointed by the shareholders to conduct an independent audit of the consolidated financial statements of the Company in accordance with Canadian generally accepted auditing standards and report to the shareholders regarding the fairness of the annual consolidated financial statements. The external auditor considers the work of the Appointed Actuary in respect of policy liabilities included in the consolidated financial statements, on which the Appointed Actuary has rendered an opinion.

Toronto, Ontario
February 20, 2014

Steve Dobronyi Chief Executive Officer	Alvin Sharma Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

February 20, 2014

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
EGI Financial Holdings Inc.

We have audited the accompanying consolidated financial statements of EGI Financial Holdings Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2013 and 2012 and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of EGI Financial Holdings Inc. and its subsidiaries as at December 31, 2013 and 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

APPOINTED ACTUARY'S REPORT

To the Shareholders of EGI Financial Holdings Inc.:

I have valued the policy liabilities of the subsidiary insurance operations of EGI Financial Holdings Inc. for its consolidated statement of financial position at December 31, 2013 and their changes in the consolidated statements of income for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policy obligations and the consolidated financial statements fairly present the results of the valuation.

Joe S. Cheng,
Fellow, Canadian Institute of Actuaries

Toronto, Ontario
February 20, 2014

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)	Note	December 31, 2013	December 31, 2012
Assets			
Cash and short-term deposits		**18,156**	19,578
Accounts receivable		**35,926**	35,577
Investments	5	**454,317**	412,728
Due from insurance companies		**3,086**	3,326
Deferred policy acquisition costs	6	**32,608**	21,588
Income taxes recoverable		**3,770**	—
Prepaid expenses and other assets		**5,105**	3,118
Reinsurers' share —unearned premiums	7	**19,985**	9,169
—provision for unpaid claims	8	**32,762**	30,283
Property and equipment		**755**	743
Intangible assets	11	**5,360**	5,568
Deferred income taxes	12	**6,273**	5,350
		618,103	547,028
Liabilities			
Income taxes payable		**187**	663
Accounts payable and accrued liabilities		**17,079**	13,078
Payable to insurance companies		**4,731**	3,449
Unearned premiums	7	**127,247**	94,085
Unearned commission		**3,623**	1,770
Provision for unpaid claims	8	**296,857**	268,580
		449,724	381,625
Equity			
Share capital	13	**67,211**	68,244
Contributed surplus	14	**1,561**	1,068
Retained earnings		**94,593**	91,237
Accumulated other comprehensive income	21	**7,170**	6,054
Equity attributed to shareholders of the Company		**170,535**	166,603
Non-controlling interest	23	**(2,156)**	(1,200)
Total equity		**168,379**	165,403
Total liabilities and equity		**618,103**	547,028

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

On Behalf of the Board of Directors:

Steve Dobronyi
Director

Robert Purves
Director

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the years ended December 31

(in thousands of Canadian dollars, except per share amounts)	Note	2013	2012
Revenue			
Gross written and assumed premiums		**268,367**	206,010
Less: Premiums ceded to reinsurers		**(39,586)**	(23,545)
Net written and assumed premiums		**228,781**	182,465
Increase in gross unearned premiums		**(34,773)**	(20,536)
Increase in unearned premiums, reinsurers' share		**11,456**	4,079
Change in provision for unearned premiums		**(23,317)**	(16,457)
Net earned premiums		**205,464**	166,008
Investment income	5	**17,712**	33,678
Total revenue		**223,176**	199,686
Expenses			
Gross claims incurred		**143,001**	105,778
Less: claims recoveries from reinsurers		**(10,847)**	(5,363)
Net incurred claims		**132,154**	100,415
Gross acquisition costs		**59,341**	45,443
Less: acquisition cost recoveries from reinsurers		**(7,337)**	(6,007)
Net acquisition costs		**52,004**	39,436
Operating costs	16	**23,893**	23,975
Total expenses		**208,051**	163,826
Income before taxes and discount rate impact on claims		**15,125**	35,860
Impact of change in discount rate on claims	8	**281**	(3,887)
Income before income taxes		**15,406**	31,973
Income tax expense	12	**3,039**	8,083
Net income on continuing operations		**12,367**	23,890
Net loss on discontinued operations attributable to shareholders of the Company	24	**(8,642)**	(4,524)
Net income		**3,725**	19,366
Attributed to:			
Shareholders of the Company		**4,681**	20,353
Non-controlling interest	23	**(956)**	(987)
Net income		**3,725**	19,366
Earnings per share attributable to shareholders of the Company	22		
Net income per share continuing operations – basic		**$1.13**	$2.07
Net income per share – basic		**$0.40**	$1.70
Net income per share continuing operations – diluted		**$1.11**	$2.06
Net income per share – diluted		**$0.39**	$1.68
Net income		**3,725**	19,366
Other comprehensive income (loss), that may be classified subsequently to net income	21		
Available-for-sale investments:			
Change in net unrealized gains		**3,639**	9,081
Reclassification of net realized gains to net income		**(5,549)**	(20,989)
Cumulative translation gain		**1,486**	452
Tax Impact	12	**1,540**	3,744
Other comprehensive income		**1,116**	(7,712)
Total comprehensive income		**4,841**	11,654
Attributed to:			
Shareholders of the Company		**5,797**	12,641
Non-controlling interest		**(956)**	(987)
Total comprehensive income		**4,841**	11,654

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31

(in thousands of Canadian dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehen-sive Income	Retained Earnings	Shareholders' Equity	Non-Controlling Interest	Total Equity
Balance at January 1, 2013	**68,244**	**1,068**	**6,054**	**91,237**	**166,603**	**(1,200)**	**165,403**
Net income (loss)	**—**	**—**	**—**	**4,681**	**4,681**	**(956)**	**3,725**
Other comprehensive income	**—**	**—**	**1,116**	**—**	**1,116**	**—**	**1,116**
Total comprehensive income (loss)	**—**	**—**	**1,116**	**4,681**	**5,797**	**(956)**	**4,841**
Common shares repurchased	**(1,587)**	**—**	**—**	**(1,325)**	**(2,912)**	**—**	**(2,912)**
Common shares issued on stock options exercised	**554**	**—**	**—**	**—**	**554**	**—**	**554**
Stock options – expense	**—**	**493**	**—**	**—**	**493**	**—**	**493**
Balance at December 31, 2013	**67,211**	**1,561**	**7,170**	**94,593**	**170,535**	**(2,156)**	**168,379**

	Share Capital	Contributed Surplus	Accumulated Other Comprehen-sive Income	Retained Earnings	Shareholders' Equity	Non-controlling interest	Total Equity
Balance at January 1, 2012	69,133	724	13,766	71,410	155,033	(213)	154,820
Net income (loss)	—	—	—	20,353	20,353	(987)	19,366
Other comprehensive loss	—	—	(7,712)	—	(7,712)	—	(7,712)
Total comprehensive Income (loss)	—	—	(7,712)	20,353	12,641	(987)	11,654
Common shares repurchased	(889)	—	—	(526)	(1,415)	—	(1,415)
Stock options – expense	—	344	—	—	344	—	344
Balance at December 31, 2012	68,244	1,068	6,054	91,237	166,603	(1,200)	165,403

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(in thousands of Canadian dollars)	2013	2012
Cash provided by (used in):		
Net income from continuing operations	**12,367**	23,890
Net income from discontinued operations	**(8,642)**	(4,524)
Items not involving cash:		
Reinsurers' share of unearned premiums	**(10,816)**	(4,080)
Reinsurers' share of unpaid claims	**(2,479)**	2,986
Provision for unpaid claims	**28,277**	14,061
Unearned premiums	**33,162**	22,441
Deferred income taxes	**(923)**	(1,201)
Unearned commissions	**1,853**	741
Deferred policy acquisition costs	**(11,020)**	(6,022)
Amortization on property plant equipment and intangible assets	**3,426**	3,050
Amortization of premiums on bonds	**2,496**	1,853
Unrealized foreign exchange loss	**—**	32
Fair value change on fair value through profit or loss Investments	**2,314**	(227)
Options expense	**493**	344
Currency translation	**1,486**	452
Prepaid expenses & other assets	**(1,987)**	(701)
Other	**2**	18
	46,284	33,747
Cash flow from changes in:		
Accounts receivable	**(349)**	(9,530)
Net realized gains	**(6,412)**	(20,990)
Income taxes payable/recoverable	**(2,706)**	4,842
Due to insurance companies	**1,522**	2,350
Other liabilities	**4,001**	4,937
Cash provided by continuing operating activities	**42,340**	15,356
Financing activities		
Issue of common shares from stock options exercised	**554**	—
Share repurchase	**(2,912)**	(1,415)
Cash provided by (used in) financing activities	**(2,358)**	(1,415)
Investing activities		
Purchases of property and equipment and intangible assets	**(3,425)**	(4,338)
Sale of property and equipment and intangible assets	**195**	29
Purchase of investments	**(740,810)**	(643,305)
Sale/maturity of investments	**698,911**	603,046
Cash (used in) investing activities	**(45,129)**	(44,568)
Increase in cash and short-term deposits	**(1,422)**	(11,261)
Cash and short-term deposits, beginning of year	**19,578**	30,839
Cash and short-term deposits, end of year	**18,156**	19,578
Supplementary information		
Operating activities:		
Income taxes paid	**7,525**	4,827

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

1. ORGANIZATION AND BASIS OF PRESENTATION

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

The Company's wholly-owned subsidiaries are EGI Insurance Managers Inc., Echelon General Insurance Company (Echelon), CIM Reinsurance Company Ltd. (CIM Re) and CUISA Managing General Agency Corporation ("CUISA MGA"). The Company also owns all of the preferred shares plus 51% of common shares of QIC Holdings ApS (QIC), which owns 100% of Qudos Insurance A/S (Qudos).

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements have been authorized for issue by the Board of Directors, on February 20, 2014.

Prior period figures have been reclassified to conform to the current period presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention, except for investments which are carried at fair value.

DISCONTINUED OPERATIONS

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

A disposal group is classified as a discontinued operation if it meets the following conditions: (a) it is a component that can be distinguished operationally and financially from the rest of our operations, and (b) it represents either a separate major line of business or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; and has been disposed of or classified as held for sale.

BALANCE SHEET PRESENTATION

The Company does not classify its assets and liabilities as current and non-current on its balance sheets. As a financial institution, the Company provides insurance services over a period of years, rather than within a clearly identifiable short-term operating cycle. Classification of assets and liabilities in the balance sheets as current or non-current does not provide relevant information. The maturity profile of the investment portfolio is described in note 10. The estimated payment period for insurance claims, less related reinsurance recoverable, is provided in note 10. Property and equipment assets are charged to expense over their estimated useful lives of up to three years. Intangible assets with definite useful lives are charged to expense over their estimated useful lives of two years while an impairment analysis is done on all other intangible assets. Cash and short term deposits, accounts receivables, due from insurance companies, income taxes payable, accounts payable and accrued liabilities are expected to be recovered or settled within twelve months of the period end.

CONSOLIDATION

The consolidated financial statements of the Company consolidate the accounts of EGI Financial Holdings Inc. and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are those entities, including special purpose entities, which EGI Financial Holdings Inc. controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether EGI Financial

Holdings Inc. controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by EGI Financial Holdings Inc. and are de-consolidated from the date that control ceases.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as the chief executive officer of the Company.

BUSINESS COMBINATIONS

Consideration transferred in a business combination is measured at fair value at the date of acquisition and includes any cash paid plus the fair value of assets given, liabilities incurred and equity instruments issued by the Company. The consideration transferred also includes contingent consideration arrangements, if any, recorded at fair value. Directly attributable acquisition-related costs are expensed in the current period and reported within operating expenses. At the date of acquisition, the Company recognizes the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business. The identifiable assets acquired and the liabilities assumed are initially recognized at fair value. The excess of the consideration paid over the fair value of net assets acquired is recorded as goodwill. Where the fair value of consideration paid is less than the fair value of net assets acquired, the difference is recognized in the income statement. Any pre-existing equity interests in an acquiree are re-measured to fair value at the date of the business combination and any resulting gain or loss is recognized in the income statement.

FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

Items included in the financial statements of each consolidated entity of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

The financial statements of entities that have a functional currency different from the presentation currency of the Company ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the balance sheet, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income (OCI) as cumulative translation adjustments.

QIC's, Qudos' and CIM Re's functional currency is Danish Krone and is subject to foreign currency translation adjustments upon consolidation.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in the income statement. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates in effect at the date the transactions occurred. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities are recognized in investment income in the consolidated statements of income. Exchange gains and losses related to non-monetary investments classified as AFS are recorded in OCI.

CASH AND SHORT-TERM DEPOSITS

Cash and short-term deposits include cash-on-hand, cash balances with banks and short-term investments maturing in 90 days or less from the date of acquisition. These financial assets are classified as loans and receivables and are recorded at an amortized cost which approximates fair value.

INVESTMENTS UNDER SECURITIES LENDING PROGRAM

Securities lending transactions are entered into on a collateralized basis. The securities lent are not derecognized on the consolidated balance sheet given that the risks and rewards of ownership are not transferred from the Company to the counterparties in the course of such transactions. The securities are reported separately in the notes to the financial statement on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession. Securities received from counterparties as collateral are not recorded on the consolidated balance sheet given that the risks and rewards of ownership are not transferred from the counterparties to the Company in the course of such transactions.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss (FVTPL): A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term, or if it is designated at fair value through profit or loss by management. The Company has designated as fair value through profit and loss under the fair value option financial assets which contain embedded derivatives that significantly alter the cash flows of the underlying asset.

Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented in the consolidated statement of income within investment income in the period in which they arise. The Company's preferred shares are classified as FVTPL.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. The Company's available-for-sale assets comprise marketable securities and investments in debt and common equity securities.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in OCI.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the consolidated statements of income within investment income. Dividends on available-for-sale equity instruments are recognized in the consolidated statements of income as part of investment income when the Company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the consolidated statements of income and included within investment income.

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of accounts receivables, due from insurance companies, and cash and short term deposits. Loans and receivables are initially recognized at fair value plus transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less any provision for impairment.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable. Accounts payable are initially recognized at fair value. Subsequently, accounts payable are measured at amortized cost using the effective interest method.

IMPAIRMENT OF FINANCIAL ASSETS

The Company determines, at each reporting date, whether there is objective evidence that a financial asset is impaired. The criteria used to determine if objective evidence of an impairment loss include:

1) Significant financial difficulty of the obligor;
2) Delinquencies in interest, principal or dividend payments; and
3) It becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If such evidence exists, the Company recognizes an impairment loss, as follows:

AFS: The impairment loss is the difference between the amortized cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the consolidated statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to the consolidated statements of income.

Loans and receivables carried at amortized costs: The loss is the difference between the amortized cost of the loan and receivables and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases or the fair value of financial assets carried at amortized cost increases and the decrease/increase can be related objectively to an event occurring after the impairment was recognized. In contrast, impairment losses on AFS equity instruments are not reversed.

INSURANCE CONTRACTS

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk arises when the Company agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. Significant risk is defined as the possibility of having to pay significantly more in a scenario where the insured event occurs than when it does not occur.

PROVISION FOR UNPAID CLAIMS

Provision for unpaid claims, including adjustment expenses, represents the estimated amounts required to settle all outstanding and unreported claims incurred to the end of the period. Unpaid claims liabilities are discounted to take into account the time value of money. It also includes a provision for adverse deviation. Expected reinsurance recoveries on unpaid claims and adjustment expenses, net of any required provision for doubtful amounts, are recognized as assets at the same time, using principles consistent with the Company's method for establishing the related liability.

REINSURANCE

The Company reflects third party reinsurance balances on the consolidated balance sheets on a gross basis to indicate the extent of credit risk related to third party reinsurance and its obligations to policyholders and on a gross basis in the consolidated statements of income to indicate the results of direct and ceded premiums written and the portion of gross claims expense that is recoverable from reinsurers.

REVENUE RECOGNITION

Premiums and unearned premiums

Insurance premiums written are deferred as unearned premiums and recorded in income as the premium is earned on a straight line basis over the terms of the underlying policies, except on certain long term policies for which premiums are earned using an actuarial risk assessment that matches claim expectations. The portion of the premiums related to the unexpired term of the policy at the end of the period is reflected in unearned premiums.

Ceded Premiums and reinsurers' share of unearned premiums

The reinsurers' share of unearned premiums, net of a provision for doubtful amounts, is recognized as an asset at the same time and using principles consistent with the Company's method for determining the unearned premium liability.

DEFERRED POLICY ACQUISITION COSTS

Commissions and premium taxes incurred in the writing of premiums are deferred only to the extent that they are expected to be recovered from unearned premiums and are amortized to income as the related premiums are earned. If unearned premiums are not sufficient to pay expected claims and expenses, including policy maintenance expenses and unamortized policy acquisition costs, a premium deficiency is said to exist. Premium deficiency is recognized by a charge to income initially by writing down deferred policy acquisition costs. If the premium deficiency is greater than the deferred policy acquisition costs, a liability would be accrued for the excess deficiency.

UNEARNED COMMISSION

Unearned commissions are based on ceded premiums with a coverage period beyond the current year end. Unearned commission are recognized as liabilities using principles consistent with the Company's method of determining policy acquisition costs.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost less accumulated amortization and impairment. Amortization is provided over the estimated useful lives of the assets using the straight-line method over the following terms:

Furniture and equipment	3 years
Computer hardware	3 years

INTANGIBLE ASSETS

Intangible assets with definite useful lives, comprised primarily of computer software, are recorded at cost less accumulated amortization and impairment. Amortization is provided over the estimated useful life of the asset (2-3 years) using the straight-line method. Intangible assets with indefinite lives are recorded at lower of cost and recoverable amount.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or 'CGUs'). Recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management).

The Company evaluates impairment losses, for potential reversals when events or circumstances warrant such consideration.

EMPLOYEE BENEFITS

The Company contributes to a group registered savings plan for employees as services are incurred. Contributions are charged to operating expenses. There are no other post-employment benefit expenses.

INCOME TAXES

Income taxes are recognized in the consolidated statements of income except to the extent that it relates to items recognized in OCI or directly in equity. In those cases, the related taxes are also recognized in OCI or directly in equity, respectively.

Current income tax is based on the results of the operations, adjusted for items that are not taxable or not deductible, that is payable for the current year. Current income tax is calculated based on income tax laws and rates enacted or substantively enacted as at the balance sheet date.

The Company follows the asset and liability method of accounting for income taxes, whereby deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the carrying values of existing assets and liabilities and their respective income tax bases and taxable losses and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income or other comprehensive income or equity in the year which includes the date of enactment or substantive enactment. Deferred income tax assets are recognized only to the extent the realization of such assets is probable. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is intention to settle the balances on a net basis.

STOCK-BASED COMPENSATION

The Company has a stock option plan that provides for the issuance of shares of the Company's common stock not exceeding 10% of the total issued and outstanding shares (on a diluted basis) and shares reserved for issuance under the employee stock option plans, options for services and employee stock purchase plans.

The Company utilizes the fair-value-based method of accounting for stock based compensation. The fair value of stock based compensation determined using an option pricing model, is recorded over the vesting period as a charge to net earnings with a corresponding credit to contributed surplus and awards are equity settled.

Stock options which contain a graded vesting feature (the total options granted vest on a graded basis such as annually over 5 years) are accounted for separately based on the date of vesting. At the time the options are granted, expected forfeiture rates are estimated and used to reduce the amount expensed over the life of the options. The estimated forfeiture rate is adjusted to actual forfeiture experience as information becomes available.

The Company has established a Share Unit Plan, under which the Board of Directors may from time to time determine (i) those eligible employees (a "participant") who shall receive a grant of Restricted Share Units ("RSUs") and/or Performance Share Units ("PSUs") (RSUs and PSUs are collectively referred to as "Share Units"), (ii) the number of such RSUs and/or PSUs and (iii) the grant date(s) applicable to such RSUs and/or PSUs. Compensation expense and the related liability are recorded equally over the vesting period, taking into account fluctuations in the market price of The Company's share price.

Each Share Unit granted under the Share Unit Plan will entitle the participant, upon satisfying all applicable vesting criteria, to receive one common share or, at the discretion of the Company, a cash payment equal to the market value of such share, calculated based on the weighted average trading price per common share on the Toronto Stock Exchange for the 5 trading days prior to a fixed date. The grant of a Share Unit will not entitle the participant to exercise any voting rights, or exercise any other right which attaches to ownership of common shares.

Grant date fair value of each Share Unit is calculated based on the weighted average trading price per common share on the Toronto Stock Exchange for the 5 trading days prior to a fixed date. The fair value of the Share Unit is re-measured each period for subsequent changes in the market value of common shares.

Certain members of the Board, who are not otherwise a employee of the Corporation or any affiliate and are not employed by a corporation that holds at least 100,000 Shares of the Corporation, are eligible to participate in a Deferred Share Unit Incentive Plan which allows them to elect to defer all or a portion of their annual retainer and meeting fees received in the form of deferred share units (DSUs), each of which is equivalent in value to one common share of the Company. The number of DSUs is established by dividing the amount of retainers not paid in cash by the weighted average trading price of the Common Shares for the last 5 trading days preceding the determination. Whenever cash dividends are paid on the common shares, the director's account under the DSU plan is credited with additional DSUs corresponding to the dividend paid on the common shares. The fair value of the DSUs is re-measured each period for subsequent changes in the market value of common shares.

PROVISIONS

Provisions are recognized as liabilities when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

SHARE CAPITAL

Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. The cost method is used to account for the shares purchased under a normal course issuer bid with the average cost of the shares reducing share capital and any excess recorded as a deduction to retained earnings.

DIVIDENDS

Dividends on common shares are recognized in the Company's consolidated financial statements in the period in which the dividends are approved by the Board of Directors.

EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the net income (loss) for the period attributable to shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, and similar instruments is computed using the treasury stock method. The Company's potentially dilutive common shares comprise stock options, DSU's and RSUs granted to employees.

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.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

VALUATION OF PROVISIONS FOR UNPAID CLAIMS.

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

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

IMPAIRMENT OF FINANCIAL ASSETS

The Company considers an impairment if there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its carrying value.

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

a) significant financial difficulty of the issuer or obligor;

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

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

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

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

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

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

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

VALUATION OF REINSURER'S SHARE OF PROVISION FOR UNPAID CLAIMS

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

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

VALUATION OF DEFERRED TAX ASSET

Deferred income taxes, accumulated as a result of temporary differences, which are probable to reverse, are included in the consolidated balance sheet. In addition, the consolidated statements of income 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 of tax planning strategies and the expiry date of tax losses.

5. INVESTMENTS

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

	Carrying and fair values	
Available-for-sale	**As at December 31, 2013**	**As at December 31, 2012**
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	**29,414**	11,889
Foreign	**8,770**	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

In accordance with the securities lending agreement, the amount of the collateral must be at least 105% of the fair value of the securities loaned. As at December 31, 2013 the Company held collateral of $69,529 (2012 – $nil) for the loaned securities, which represents 106% of the fair value of the loaned securities.

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

FAIR VALUE

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

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

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

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

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

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

The following table provides the classification of the Company's investments within the fair value hierarchy, as outlined above, as at December 31, 2013 and 2012:

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

December 31, 2012				**Investments at fair value**
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed Income	—	370,157	484	370,641
Equities	42,087	—	—	42,087
	42,087	370,157	484	412,728

The fair value of the Company's investments, determined with the use of unobservable market information as inputs is approximately 0.5% (December 31, 2012 – 0.1%) of the total investment portfolio measured at fair value, and consists of commercial mortgages pooled fund with a fair value of $2,052 (December 31, 2012 – Corporate bonds with a fair value of $484).

A reconciliation of Level 3 investment for the years ended December 31, 2013, and 2012, with the use of significant unobservable inputs from January 1 to December 31 follows:

		2013	2012
Balance at beginning of year		**484**	1,721
Add: Additions during period	– Commercial Mortgages pooled fund	**2,040**	—
Less: Disposals and write-down during period	– Preferred shares	**—**	(917)
	– Bonds	**—**	(229)
Reclassification in/(out) of level 3	– Bonds	**(484)**	(111)
Net unrealized gains (losses) included in other comprehensive income		**12**	20
Balance at end of year		**2,052**	484

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

The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the year ended December 31, 2013, the Company transferred bonds with a carrying value of $484 from level 3 to level 2 (December 31, 2012 – $111) as the Company is now receiving a quoted price for these bonds. There were no transfers from Level 2 into Level 1, or vice versa in the period.

The fair values of cash equivalents, loans and receivables and financial liabilities, other than the provision for unpaid claims, approximate their carrying values due to their short-term nature.

IMPAIRED ASSETS AND PROVISIONS FOR LOSSES

Management has reviewed currently available information regarding those financial assets where estimated fair values are less than amortized cost. For those financial assets that are considered impaired, the Company has recorded the difference between the amortized cost of the financial assets and its fair value as an impairment, which reduces investment income recorded in the period.

A provision for impairments on investments of $904 was recognized in 2013 (2012 - $2,222). A remaining gross unrealized loss of $1,041 on AFS investments held as at December 31, 2013 (December 31, 2012 – $549) is recorded, net of tax, in the amount of $804 (December 31, 2012 – $399) as Accumulated Other Comprehensive Loss.

COMPONENTS OF NET INVESTMENT INCOME

The table below provides additional details on net investment income:

	2013	2012
Interest income	**12,980**	12,633
Dividend income	**1,931**	1,409
Net realized gains	**6,701**	23,218
Impairment loss	**(904)**	(2,222)
Fair value change on FVTPL investments	**(2,314)**	227
Realized and unrealized foreign exchange gain (loss)	**592**	12
Investment expenses	**(1,274)**	(1,599)
Investment Income	**17,712**	33,678

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

6. DEFERRED POLICY ACQUISITION COSTS

Reconciliation of deferred policy acquisition costs as at December 31:

	2013		2012	
	Gross	**Ceded**	**Gross**	**Ceded**
Balance at the beginning of the year	**21,588**	**1,770**	15,566	1,029
Acquisition costs during the year	**70,185**	**8,717**	51,020	6,735
Amortization of acquisition costs during the year	**59,341**	**7,337**	45,443	6,007
Currency translation difference	**785**	**473**	99	13
Discontinued operations	**(609)**	**—**	346	
Acquisition costs deferred at end of the year	**32,608**	**3,623**	21,588	1,770

7. UNEARNED PREMIUMS

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

	As at December 31, 2013		As at December 31, 2012	
	Gross	**Ceded**	**Gross**	**Ceded**
Personal Lines:				
Automobile				
– accident benefits	**13,992**	**1,273**	14,634	1,137
– liability	**37,477**	**4,295**	30,234	3,031
– other	**19,117**	**1,720**	15,493	1,021
Total Personal Lines	**70,586**	**7,288**	60,361	5,189
Specialty Programs:				
Property				
– commercial	**5,724**	**825**	6,385	726
– personal	**38,431**	**10,726**	22,996	3,019
Liability	**3,583**	**183**	3,833	227
Accident and sickness	**1,890**	**—**	80	8
Commercial auto	**6,646**	**963**	—	—
Other	**387**	**—**	430	—
Total Specialty Programs	**56,661**	**12,697**	33,724	3,980
	127,247	**19,985**	94,085	9,169

A reconciliation of unearned premium is shown below:

	2013		2012	
	Gross	**Ceded**	**Gross**	**Ceded**
Unearned premium at the beginning of the year	**94,085**	**9,169**	71,644	5,089
Premium written and ceded during the year	**268,367**	**39,586**	206,010	23,545
Premium earned in income	**233,594**	**28,130**	185,474	19,466
Currency translation difference	**1,778**	**(640)**	333	1
Discontinued operations	**(3,389)**	**—**	1,572	—
Unearned premium at the end of the year	**127,247**	**19,985**	94,085	9,169

8. PROVISION FOR UNPAID CLAIMS

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

The Company discounts its best estimate of claim provisions at a rate of interest of 2.05% (2012 – 2.65%) for Personal lines and Specialty divisions and 1.55% for International division (2012 – nil). The Company determines the discount rate based on the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

The Company recorded a $4,780 reduction to the net provision for unpaid claims relating to redundancies in prior years' estimates (2012 – $5,835).

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience, and to provide greater comfort that the actuarial liabilities are adequate to pay future claims, the Company includes provisions for adverse deviations (PFADs) in some assumptions relating to claim development, reinsurance recoveries and future investment income. The PFADs selected are in the mid-range of those recommended by the Canadian Institute of Actuaries. The aggregate impact of the provision for adverse deviation is to increase the provision for unpaid claims on a gross basis by $25,515 as at December 31, 2013 (December 31, 2012 - $27,282).

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

		2013		**2012**
APV Basis	**Gross**	**Ceded**	**Gross**	**Ceded**
Personal Lines:				
Accident benefits	**90,674**	**15,360**	91,049	16,182
Liability	**135,613**	**11,038**	128,820	10,145
Other	**8,986**	**1,184**	3,890	208
Total Personal Lines	**235,273**	**27,582**	223,759	26,535
Specialty Programs:				
Property				
Commercial	**8,691**	**902**	5,055	591
Personal	**4,653**	**46**	1,453	195
Liability	**32,910**	**—**	28,300	—
Accident and sickness	**4,017**	**1,120**	3,959	1,302
Commercial auto	**10,496**	**2,982**	5,256	1,569
Other	**817**	**130**	798	91
Total Specialty Programs	**61,584**	**5,180**	44,821	3,748
	296,857	**32,762**	268,580	30,283

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

CLAIMS DEVELOPMENT

Provision for unpaid claims analysis	2013	2012
Unpaid claims, beginning of year, net	**238,297**	221,250
Change in undiscounted estimates for losses of prior years	**1,575**	(4,810)
Change in discount rate	**(281)**	3,887
Change in PFADs	**(7,113)**	(8,498)
Interest cost	**1,039**	3,586
Provision for claims occurring in current year	**136,653**	110,137
Paid on claims occurring during		
Current year	**(56,480)**	(46,079)
Prior year	**(62,081)**	(53,930)
Impact of discontinued items on claims	**12,486**	12,754
Unpaid claims, end of year, net	**264,095**	238,297
Reinsurers' share	**32,762**	30,283
	296,857	268,580

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

The tables below illustrate how the Company's estimate of ultimate gross claims incurred and estimate of reinsurers' share of ultimate claims incurred for each accident year have changed at successive year-ends.

The tables also reconcile the most recent estimate of ultimate gross claims incurred and estimate of reinsurers' share of ultimate claims incurred to the claims liability and reinsurers' share of the claims liability recognized on the financial statements.

Assumptions used to develop the provision estimate for unpaid claims and adjustment expenses are selected by class of business and geographic location. Consideration is given to the characteristics of the risks, historical trends and the amount of data available on individual claims, inflation and any other pertinent factors. Some assumptions require a significant amount of judgment such as the expected impacts of future judicial decisions and government legislation. The diversity of these considerations result in it not being practical to identify and quantify all individual assumptions that are more likely than others to have a significant impact on the measurement of the Company's insurance contracts. There were no new assumptions identified in the year as having a potential or identifiable material impact on the overall claims estimate.

CLAIMS DEVELOPMENT TABLE, GROSS OF REINSURANCE

The following tables show the estimates of cumulative incurred claims, including IBNR, for the seven most recent accident years, elected in year of adoption as permitted by IFRS 4, with subsequent developments during the periods and together with cumulative payments to date. The original reserve estimates are evaluated quarterly for redundancy or deficiency. The evaluation is based on actual payments in full or partial settlement of claims and current estimates of claims liabilities for claims still unreported.

Calendar Year

	2005 & prior	2006	2007	2008	2009	2010	2011	2012	2013
Provision for claims including LAE	129,173	146,101	169,091	185,255	207,220	239,036	254,519	268,580	296,857
Reserve re-estimate as of:									
1 year later	113,839	138,483	163,465	186,446	203,920	232,472	246,972	264,449	
2 years later	113,817	134,769	162,916	189,093	201,044	239,117	245,331		
3 years later	112,224	133,932	164,290	186,429	206,039	239,338			
4 years later	110,157	134,173	161,852	190,342	205,646				
5 years later	110,577	131,660	163,440	189,297					
6 years later	107,647	133,355	163,069						
7 years later	109,096	133,205							
8 years later	108,838								
Cumulative favourable (unfavourable) development	20,335	12,896	6,022	(4,042)	1,547	(302)	9,188	4,131	

CLAIMS DEVELOPMENT TABLE, NET OF REINSURANCE

Calendar Year

	2005 & prior	2006	2007	2008	2009	2010	2011	2012	2013
Provision for claims including LAE	75,130	97,716	120,630	143,354	168,484	202,884	221,250	238,297	264,095
Reserve re-estimateas of:									
1 year later	63,060	85,726	115,530	142,641	164,393	196,517	215,191	233,517	
2 years later	60,693	81,199	112,960	143,980	162,651	203,632	214,128		
3 years later	57,706	79,470	112,595	142,924	166,901	203,367			
4 years later	56,094	77,794	111,267	144,486	166,300				
5 years later	55,325	76,878	110,883	143,125					
6 years later	53,882	76,584	110,001						
7 years later	53,790	76,695							
8 years later	53,937								
Cumulative favourable (unfavourable) development	21,193	21,021	10,629	229	2,184	(483)	7,122	4,780	

The provision for unpaid claims relating to the U.S. operations, sold during the year was treated as paid in the development table above.

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

9. UNDERWRITING POLICY AND REINSURANCE CEDED

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavourable underwriting results by purchasing reinsurance to share all or part of the insurance risks originally accepted by the Company in writing premiums. This does not relieve the Company of its primary obligation to policyholders.

During 2013, the Company followed the policy of underwriting and reinsuring contracts of insurance, which limits the net exposure of the Company to a maximum amount on any one loss to $1,500 (2012 – $1,500). In addition, the Company obtained catastrophe reinsurance which limits the loss from a series of claims arising from a single occurrence to $2,000 (2012 – $2,000), to a maximum coverage of $23,000 (2012 – $23,000).

The Company places all its automobile reinsurance with Canadian registered reinsurers. There are non-registered reinsurers participating in the specialty property and casualty program business. The Company has access to trust funds that, in the Company's judgment, are adequate to secure the liabilities that the Company has ceded to non-registered reinsurers.

Failure of reinsurers to honour their obligations could result in losses to the Company. Consequently, the Company continually evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses. There have been no defaults and no provision made in the accounts for defaults based on management's review of the creditworthiness of its reinsurers.

REINSURANCE RECOVERABLE

The following tables summarize the balances outstanding from reinsurers as at December 31, 2013 and 2012, by risk rating:

December 31, 2013

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

December 31, 2012

Credit rating	Gross reinsurance recoverable	Less: Deposits held in trust	Net exposure
A or higher	39,196	—	39,196
Not rated	3,582	4,342	—
	42,778	4,342	39,196

Included in gross reinsurance recoverable is reinsurers' share of unearned premiums of $19,985 (December 31, 2012 – $9,169), reinsurers' share of provision for unpaid claims of $32,762 (December 31, 2012 – $30,283), and receivables from reinsurers presented as due from insurance companies of $2,784 (December 31, 2012 – $3,326). No balances due from reinsurers are considered past due as at December 31, 2013 and 2012. There is no valuation allowance or amounts written off during the years ended December 31, 2013 and 2012.

10. RISK MANAGEMENT

As a provider of insurance products, effective risk management is fundamental to the Company's ability to protect the interests of its customers and shareholders. The Company is exposed to risks of loss pertaining to insurance products. These include risks surrounding product and pricing, underwriting and claims, catastrophic exposure, and matching of assets and liabilities. The Company is also exposed to potential loss from various risks, including interest rate risk, equity market fluctuation risk, credit risk, liquidity risk, and to a lesser extent foreign exchange risk.

The Company has written principles for overall risk management, as well as written policies covering specific areas such as underwriting, reinsurance, foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

INSURANCE RISK

The risk under any one insurance contract is the possibility that the event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable. The principal risk that the Company faces under its insurance contract is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or the severity of the claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the estimate.

A more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. EGI has developed their insurance underwriting strategy to diversify the type of insurance risks accepted. As at December 31, 2013, 46% of direct written premiums were derived from Personal Lines (December 31, 2012 – 63%); Specialty Programs 19% (December 31, 2012 – 23%) and International Lines 35% (December 31, 2012 – 14%). The regional split of direct written premiums was Ontario 40% (December 31, 2012 – 58%), Atlantic Canada 8% (December 31, 2012 – 9%), Quebec 7% (December 31, 2012 – 9%), Western Canada 10% (December 31, 2012 – 10%) and International 35% (December 31, 2012 – 14%).

SENSITIVITY TO INSURANCE RISK

The table below shows the sensitivity of earnings from operations before income taxes and total equity after giving effect to a one percentage point increase in the loss ratio and claims settlement costs. The loss ratio is regarded as a non-IFRS measure and is calculated by the Company with respect to its ongoing insurance operations as losses on claims incurred (including losses and loss adjustment expenses) expressed as a percentage of net premiums earned. Such an increase could arise from higher frequency of losses, increased severity of losses, or from a combination of both. The sensitivity analysis presented below does not consider the probability of such losses to loss frequency or severity occurring or any non-linear effects of reinsurance and as a result, each additional percentage point increase in the loss ratio would result in a linear impact on earnings from operations before income taxes and total equity.

	2013		**2012**	
Sensitivity Factor	**Net income before income taxes**	**Shareholders' equity**	**Net income before income taxes**	**Shareholders' equity**
Increase of 1% to loss ratio	**(2,054)**	**(1,500)**	(1,786)	(1,304)
Increase of 1% to claims settlement costs	**(2,641)**	**(1,928)**	(2,383)	(1,740)

PRODUCT AND PRICING

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

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

UNDERWRITING AND CLAIMS

The Company is exposed to loss resulting from the underwriting of risks being insured and the exposure to financial loss resulting from greater than anticipated adjudication, settlement and claims costs.

The Company's underwriting objectives are to develop business within target markets on a prudent and diversified basis and to achieve profitable underwriting results. The Company underwrites automobile business after a review of the applicant's driving record and claims experience. Specialty commercial and personal risks are selected by the Company, working with its external brokers, after consideration of various risk factors associated with these lines of business. Despite its best efforts, and consideration of all known risk factors, there can be no assurance that all risks associated with the insurance policies that it writes can be identified and assessed, and the Company may, therefore, experience increased adjudication, settlement and claims costs.

The Company estimates its claims reserves on a quarterly basis and this is supported by quarterly assessments by the independent appointed actuary. Every quarter, for each line of business, the Company compares actual and expected claims development. To the extent that actual results differ from expected development, assumptions are re-evaluated and new estimates are derived. Although the Company believes its overall provision levels to be adequate to satisfy its obligations under existing policies, actual losses may deviate, perhaps substantially, from the amounts reflected in the Company's consolidated financial statements. To the extent provisions prove to be inadequate, the Company would have to re-evaluate such provisions and may incur a charge to earnings in the future.

UNPREDICTABLE CATASTROPHIC EVENTS

Catastrophes can be caused by various natural and unnatural events. Natural catastrophic events include hurricanes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and fires. Unnatural catastrophic events include hostilities, terrorist acts, riots, crashes and derailments. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas.

Catastrophes can cause losses in a variety of business lines. Claims resulting from natural or unnatural catastrophic events could cause substantial volatility in the Company's financial results and could materially reduce the Company's profitability or harm the Company's financial condition. The Company manages the impact of losses which may result from catastrophic events by purchasing excess of loss and catastrophe reinsurance to share all or part of the insurance risks originally accepted by the Company as well as geographic diversification.

The Company's ability to write new business also could be affected. The Company may experience an abrupt interruption of activities caused by unforeseeable and/or catastrophic events. The Company's operations may be subject to losses resulting from such disruptions. Losses can relate to property, financial assets, trading positions and to key personnel. The Company has developed business continuity plans designed to allow the Company to continue operations in case of a catastrophic event; however, if these plans cannot be put into action or do not take such events into account, losses may further increase.

ASSET AND LIABILITY MATCHING

The Company is exposed to:

- changes in the value of its fixed income investments and policy liabilities to the extent that market interest rates change;
- equity price fluctuations, which affect the fair values of equities held by the Company;
- the risk of losses to the extent that the sale of an investment prior to its maturity is required to provide liquidity to satisfy policyholder and other cash outflows;
- the risk that future inflation of policyholder cash flows exceed returns on long-term investments; and
- foreign exchange risks with respect to investments, receivables and policy liabilities denominated in foreign currencies.

The Company's exposures are monitored on a regular basis and actions are taken to balance investment positions when approved risk tolerance limits are exceeded.

Risk management is carried out by the Investment Committee under policies approved by the Board of Directors.

MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign exchange rates and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial assets are traded. Below is a discussion of the Company's primary market risk exposures and how these exposures are currently managed.

INTEREST RATE RISK

Fluctuations in interest rates have a direct impact on the fair valuation and future cash flow of the Company's fixed income investment portfolio. Generally, the Company's investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income investments mature or are sold and the proceeds are reinvested at lower rates. During periods of rising interest rates, the fair value of the Company's existing fixed income investments will generally decrease and gains on fixed income securities will likely be reduced.

The sensitivity analysis for interest rate risk as set out in the table below illustrates the impact of changes in interest rates on OCI relating to the fixed income investment portfolio as at December 31, based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments.

Change in interest rates	Fair value of fixed income and preferred share portfolio	Hypothetical change on fair value	Effect on OCI net of tax	Effect on Net Income
As at December 31, 2013				
200 basis point rise	**385,134**	**(7)%**	**(17,865)**	**(3,266)**
100 basis point rise	**399,254**	**(4)%**	**(9,190)**	**(1,634)**
No change	**414,081**	**—**	**—**	**—**
100 basis point decline	**429,669**	**4%**	**9,716**	**1,663**
200 basis point decline	**443,668**	**7%**	**18,274**	**3,325**

Change in interest rates	Fair value of fixed income and preferred share portfolio	Hypothetical change on fair value	Effect on OCI net of tax	Effect on Net Income
As at December 31, 2012				
200 basis point rise	362,038	(9)%	(21,838)	(2,798)
100 basis point rise	378,329	(4)%	(11,345)	(1,400)
No change	395,787	—	—	—
100 basis point decline	414,524	5%	12,254	1,424
200 basis point decline	433,066	9%	24,364	2,850

As discussed in note 8, the discount rate used in the determination of the provision for unpaid claims is based on the expected return of assets on its investment portfolio with appropriate assumptions for interest rates relating to reinvestment of maturing investments. Fluctuations in market interest rates will therefore have an impact on the discount rate used in the valuation of the net provision for unpaid claims. The table below shows the potential impact of interest rate fluctuations on the net provision for unpaid claims and income statement:

Change in discount rate	Net provision for unpaid claims	Hypothetical change in value	Effect on net income
As at December 31, 2013			
100 basis point rise	**257,853**	**(2)%**	**4,557**
No change	**264,095**	**—**	**—**
100 basis point decline	**270,664**	**2%**	**4,795**
As at December 31, 2012			
100 basis point rise	232,483	(2)%	4,244
No change	238,297	—	—
100 basis point decline	244,422	3%	(4,471)

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

LIQUIDITY RISK

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. The Company's liquidity management strategy is to ensure that there is sufficient cash to meet its financial commitments as they become due. To manage cash flow requirements, the Company maintains a portion of invested assets in liquid investments.

The maturity profile of bonds as at December 31, 2013 and 2012 are as follows:

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

December 31, 2012	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	28,342	81,864	120,066	140,369	370,641
Percentage of total	8%	22%	32%	38%	100%

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at December 31, 2013 and 2012:

December 31, 2013	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	**90,588**	**99,657**	**54,687**	**40,276**	**285,209**
Less: Reinsurance recoverable	**12,664**	**9,809**	**4,936**	**3,715**	**31,124**
Net actuarial liabilities	**77,924**	**89,848**	**49,752**	**36,561**	**254,085**

December 31, 2012	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	76,651	92,256	52,211	35,980	257,098
Less: Reinsurance recoverable	11,782	9,592	4,747	2,605	28,726
Net actuarial liabilities	64,869	82,664	47,464	33,375	228,372

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

EQUITY PRICE RISK

Fluctuations in the value of equity investments affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. General economic conditions, political conditions and many other factors can also adversely affect the stock and bond markets and, consequently, the value of the equity and fixed income investments held.

The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of equity securities.

The table below summarizes the potential impact of a 10% change in the value of the equity securities (common and preferred shares) on net income and OCI for the years ended December 31, 2013, and 2012. Certain shortcomings are inherent in the method of analysis presented, as the analysis is based on the assumptions that all equity holdings increased/decreased by 10% with all other variables held constant.

Change in equity holdings	Effect on Net Income		Effect on OCI net of tax	
	2013	2012	**2013**	2012
10% rise	**2,142**	1,836	**2,787**	1,237
10% decline	**(2,142)**	(1,836)	**(2,787)**	(1,237)

CREDIT RISK

The Company is exposed to credit risk principally through its investment securities and balances receivable from policyholders and reinsurers. The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of investment securities which do not carry the guarantee of a national or Canadian provincial government. The Company's credit exposure to any one individual policyholder is not material. The Company has policies that limit its exposure to individual reinsurers and regular review processes to assess the creditworthiness of reinsurers with whom it transacts business.

The Company's maximum exposure to credit risk, without taking into account amounts held as collateral, is:

	As at December 31, 2013	As at December 31, 2012
	Fair value	**Fair value**
Bonds	**384,741**	370,641
Gross Reinsurance Recoverable	**52,747**	39,452
Accounts receivable	**35,926**	35,577
Structured Settlements	**22,713**	21,119
Cash	**18,156**	19578
Due from insurance companies	**2,784**	3,326
Total	**517,067**	489,693

The following table sets forth the Company's fixed income securities portfolio by credit quality as at December 31, 2013, and 2012.

FIXED INCOME PORTFOLIO

		As at December 31, 2013		As at December 31, 2012
	Fair value	**Fair value**	**Fair value**	**Fair value**
AAA	**138,283**	**36%**	134,855	37%
AA	**66,644**	**17%**	76,636	21%
A	**87,761**	**23%**	108,801	29%
BBB	**54,248**	**14%**	39,718	10%
BB	**23,730**	**6%**	6,626	2%
B	**4,554**	**1%**	455	—
CCC	**1,969**	**1%**	277	—
Unrated	**7,552**	**2%**	3,273	1%
Total	**384,741**	**100%**	370,641	100%

PREFERRED SHARE PORTFOLIO

		As at December 31, 2013		As at December 31, 2012
	Fair value	**Fair value**	**Fair value**	**Fair value**
P1	**3,428**	**12%**	9,179	36%
P2	**23,540**	**80%**	9,766	39%
P3	**2,372**	**8%**	6,201	25%
Total	**29,340**	**100%**	25,146	100%

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

FOREIGN EXCHANGE RISK

Foreign exchange risk is the possibility that changes in foreign exchange rates produce an unintended effect on earnings and equity when measured in Canadian dollars (CAD), the Company's functional currency. The Company is exposed to foreign currency risk through transactions conducted in currencies other than CAD, and through its investments in subsidiaries that have a functional currency other than the CAD.

A portion of the Company's premiums are written in U.S. dollars (USD), Great British Pounds (GBP) and Danish Kroner (DKK) and a portion of loss reserves are also in USD, GBP and DKK. A portion of the Company's cash and investments is also held in USD and DKK.

In general, the Company attempts to manage foreign exchange risk on liabilities by investing in financial instruments denominated in the same currency as the corresponding financial liabilities. The Company may, nevertheless, from time to time experience losses resulting from fluctuations in the value of the USD, GBP and DKK, which could adversely affect operating results.

The table below illustrates the expected impact on net income after tax and OCI of a 10% change in CAD compared to the GBP and DKK as at December 31, 2013 and 2012. Computations of the prospective effects of hypothetical foreign exchange changes are based on numerous assumptions, including the maintenance of the existing level and composition of financial assets and financial liabilities, and should not be relied on as indicative of actual or future results.

Change in CAD/DKK rate	Effect on Net Income		Effect on OCI	
	2013	2012	**2013**	2012
10% rise	**(1,901)**	—	**312**	(554)
10% decline	**1,901**	—	**(312)**	554

Change in CAD/GBP rate	Effect on Net Income		Effect on OCI	
	2013	2012	**2013**	2012
10% rise	**(2,124)**	—	**(2,850)**	—
10% decline	**2,124**	—	**2,850**	—

CAPITAL MANAGEMENT

Capital is comprised of the Company's total equity. As at December 31, 2013, the Company's equity was $168,379 (December 31, 2012 – $165,403). The Company's objectives when managing capital are to maintain capital above minimum regulatory levels, above internally determined risk management levels, for financial strength and protect its claims paying abilities, to maintain creditworthiness and to maximize returns to shareholders over the long term.

All of the Company's subsidiaries met the minimum capital requirements in their local jurisdictions as at December 31, 2013.

On February 20, 2014, the Company injected additional capital of $6.0 million in Qudos in order to strengthen its regulatory capital ratios.

Legislation applicable to Qudos and CIM Re, in their relevant jurisdictions, imposes certain restrictions on their ability to pay dividends to the Company.

11. INTANGIBLE ASSETS

	Opening cost	Purchases	Sales	End of period cost	Accumulated amortization	Net
Software						
December 31, 2013	10,403	2,898	—	13,301	8,341	4,960
December 31, 2012	7,412	2,991	—	10,403	5,430	4,973
Goodwill						
December 31, 2013	595	—	195	400	—	400
December 31, 2012	195	400	—	595	—	595
Total intangible assets						
December 31, 2013	10,998	2,898	195	13,701	8,341	5,360
December 31, 2012	7,607	3,391	—	10,998	5,430	5,568

12. INCOME TAXES

The income tax expense (recovery) is as follows:

	2013	**2012**
Current	**3,840**	9,363
Deferred	**(801)**	(1,280)
	3,039	8,083

The effective income tax rates are different from the combined federal and provincial income tax rates. The consolidated statements of income and comprehensive income contain items that are non-taxable or non-deductible for income tax purposes, which cause the income tax expense to differ from what it would have been if statutory rates were used. The differences are outlined below.

	2013	**2012**
Combined basic federal and provincial income tax rate	**27.0%**	27.0%
Non-taxable dividend income	**(3.2)%**	(1.3)%
Non-taxable income	**(3.5)%**	0.4%
Non-deductible expenses	**1.4%**	0.4%
Non-taxable portion of capital gains	**(2.9)%**	(0.1)%
Other	**0.9%**	(1.2)%
Effective tax rate	**19.7%**	25.3%

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

Deferred income taxes are comprised of the following:

	Losses Carried Forward	Provision for unpaid claims	Deferred Premium Acquisition Costs	Investments	Property, equipment and intangible assets	Total
Balance – January 1, 2013	**907**	**3,945**	**322**	**(162)**	**338**	**5,350**
Amounts recorded in the income statement	**432**	**227**	**38**	**(23)**	**127**	**801**
Amounts recorded in equity	**—**	**—**	**—**	**122**	**—**	**122**
Balance – December 31, 2013	**1,339**	**4,172**	**360**	**(63)**	**465**	**6,273**

	Losses Carried Forward	Provision for unpaid claims	Deferred Premium Acquisition Costs	Investments	Property, equipment and intangible assets	Total
Balance – January 1, 2012	235	3,678	373	(107)	(30)	4,149
Amounts recorded in the income statement	672	267	(51)	24	368	1,280
Amounts recorded in equity	—	—	—	(79)	—	(79)
Balance – December 31, 2012	907	3,945	322	(162)	338	5,350

Management reviews the recoverability of the deferred income tax asset on an ongoing basis and adjusts as necessary, to reflect its anticipated realization. Management expects that the recorded deferred income tax asset will be realized in the normal course of operations.

The Company has tax losses available resulting from capital losses of $14.6 million for which no deferred tax asset has been set up. These losses have no expiry date.

INCOME TAXES INCLUDED IN OCI

The amounts included in the consolidated statements of comprehensive income for the years ended December 31 are shown net of the following tax benefit:

	2013	2012
Change in unrealized gains	**14**	1,990
Reclassification to net income of (gains) and losses	**(1,554)**	(5,734)
Total income tax expense included in OCI	**(1,540)**	(3,744)

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

13. SHARE CAPITAL

	As at December 31, 2013	As at December 31, 2012
Authorized		
Unlimited common shares (no par value)		
Unlimited special shares issuable in Series (no par value)		
Issued		
11,703,082 common shares (December 31, 2012 – 11,914,932 common shares)	**67,211**	68,244

During 2013 66,150 common shares or $554 were issued from exercise of stock options (2012 – nil). In 2013, no common shares (2012 – 4,019) were issued pursuant to the Share Unit Plan for eligible employees. During 2013 278,000 shares or $2,912 were repurchased under the normal course issuer bid and subsequently cancelled (2012 – 155,100 or $1,415).

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.

14. EMPLOYEE STOCK OPTION PLAN

For the year ended December 31, 2013, the Company recorded a compensation expense of $493 (2012 – $344), with an offsetting credit to contributed surplus in relation to its stock option plan. All stock options granted have varying vesting periods. It also recorded an expense of $153 (2012 - $131) in relation to its Share Unit Plan.

The following is a continuity schedule of stock options outstanding as at December 31, 2013 and 2012.

	Number of options		Weighted average exercise price per share	
	2013	**2012**	**2013**	**2012**
Outstanding, beginning of year	**906,578**	864,125	**9.07**	9.66
Granted during year	**—**	225,750	**—**	8.59
Exercised during year	**(66,150)**	—	**8.05**	—
Cancelled during year	**(98,203)**	(183,297)	**12.01**	11.27
Outstanding, end of year	**742,225**	906,578	**8.77**	9.07

As at December 31, 2013, the outstanding stock options consist of the following:

Stock Option price per share	Number	Average Remaining contractual life	Number of options exercisable
$10.01 - $11.00	220,375	0.43	112,625
$9.01 - $10.00	20,250	1.83	—
$8.01 - $9.00	292,600	2.27	51,600
$7.00 - $8.00	209,000	2.40	4,000

The fair values of the stock options issued in 2013 were determined using the Black-Scholes option pricing model with the following assumptions: (i) risk-free rate of 1.25%; (ii) life expectancy of 2-5 years; and (iii) estimated volatility of 25%. The grant-date fair value of total options granted is estimated at $2,375 (2012 – $2,375). The weighted average grant-date fair value per share option to date is $3.20.

15. RELATED PARTY TRANSACTIONS

The Co-operators Group Limited and Co-operators General Insurance Company (collectively Co-operators), significant shareholders of the Company, provide services to the Company, including but not limited to product distribution and investment management services under arms length contracts. Direct written premiums derived from Co-operators' agents were $8,837 (2012 – $11,027), commissions paid were $1,024 (2012 – $1,267) and investment management fees were $345 (2012 – $397).

The Company has a 2001 100% Quota Share reinsurance treaty with Co-operators General Insurance Company. Reinsurers' share of unpaid claims includes a recoverable of $298 (December 31, 2012 – $316) from Co-operators General Insurance Company. The payable to insurance companies balance includes amounts due to Co-operators General Insurance Company of $385 (December 31, 2012 – $360).

KEY MANAGEMENT

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

Compensation

	2013	**2012**
Salaries, directors' fees and other short-term benefits	**2,047**	1,732
Equity-settled and cash-settled compensation benefits	**693**	1,034
	2,740	2,766

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

16. OPERATING COSTS BY NATURE

The table below presents operating costs by major category:

	2013	2012
Salaries and benefits	**14,215**	15,103
Systems costs	**5,019**	4,804
Professional fees	**1,293**	1,799
Printing and postage	**1,287**	1,456
Other expenses	**2,079**	813
	23,893	23,975

17. LEASE COMMITMENTS

The Company is committed under lease agreements for office premises and computer equipment with minimum lease payments of $6,500 as follows:

2014	1,429
2015	1,376
2016	1,356
2017	1,190
2018	489
2019 and thereafter	660
	6,500

18. STRUCTURED SETTLEMENTS

In the normal course of claims adjudication, the Company may settle certain long-term losses through the purchase of annuities (structured settlements) from life insurance companies. The fair estimated value of these annuity contracts amounts to $22,713 (December 31, 2012 – $21,119) using a discount rate of 3.08% (December 31, 2012 – 2.51%). It is the policy of the Company to purchase annuities from life insurers with proven financial stability. The net risk to the Company is the credit risk related to the life insurance companies and this risk is reduced to the extent of coverage provided by Assuris, the life insurance compensation insurance plan. The Company has determined that no credit risk provision is required.

19. CONTINGENCIES

From time to time, in the normal course of operations, the Company is named as a defendant in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome, such actions have generally been resolved with minimal damage or expense in excess of amounts provided as policy liabilities. The Company does not believe that it will incur any significant additional loss or expense in connection with such actions.

20. RATE REGULATIONS

The Company writes business subject to rate regulation, including non-standard automobile and motorcycle insurance, which comprises approximately 46% of gross premiums written and assumed. The Company's automobile insurance premiums can be impacted by mandatory rate rollbacks and mandatory rate assessments as legislated by provincial law and by regulation in certain provinces. This could result in lower future premium rates or reductions to premium rates charged by the Company in prior years. In addition, the Company is required, under certain provincial legislation, to participate in risk sharing pools, which may impact positively or negatively on underwriting results. Certain benefit payments are also subject to provincial government regulation, including automobile accident benefits.

The Company is not aware of any proposed or pending rate rollbacks related to prior years.

21. ACCUMULATED OTHER COMPREHENSIVE INCOME

	As at December 31, 2013	As at December 31, 2012
Gross unrealized gains	**6,694**	8,604
Foreign currency translation adjustments	**1,527**	41
Tax impact	**(1,051)**	(2,591)
Balance at December 31	**7,170**	6,054

22. EARNINGS PER SHARE

	2013	2012
Basic earnings per share on continuing operations:		
Net continuing income available to shareholders	**13,323**	24,877
Average number of common shares (in thousands)	**11,809**	11,990
Basic earnings per share on continuing operations	**$1.13**	$2.07
Diluted earnings per share on continuing operations:		
Average number of common shares (in thousands)	**11,809**	11,990
Average number of dilutive common shares under employee stock option plan (in thousands)	**245**	95
Average number of diluted common shares (in thousands)	**12,054**	12,085
Diluted earnings per share on continuing operations	**$1.11**	$2.06

	2013	2012
Basic earnings per share:		
Net income available to shareholders	**4,681**	20,353
Average number of common shares (in thousands)	**11,809**	11,990
Basic earnings per share	**$0.40**	$1.70
Diluted earnings per share:		
Average number of common shares (in thousands)	**11,809**	11,990
Average number of dilutive common shares under employee stock option plan (in thousands)	**245**	95
Average number of diluted common shares (in thousands)	**12,054**	12,085
Diluted earnings per share	**$0.39**	$1.68

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

23. NON-CONTROLLING INTEREST

For the years ended December 31, 2013 and 2012, the income attributable to non controlling interests is as follows. Set out below is summarized consolidated financial information for QIC, a subsidiary that has a non-controlling interest of 49%.

Summarized Statements of Income and Comprehensive income:

	2013	2012
Revenue		
Gross written and assumed premiums	**45,944**	13,746
Net earned premiums	**12,798**	2,033
Investment income	**(56)**	60
Total revenue	**12,742**	2,093
Expenses		
Net incurred claims	**7,131**	1,220
Net acquisition costs	**4,403**	657
Operating costs	**2,217**	1,514
Total expenses	**13,751**	3,391
Loss before income taxes	**(1,009)**	(1,298)
Income tax expense	**(53)**	(311)
Net loss attributable to non controlling interests	**(956)**	(987)

Summarized Balance Sheets:

	2013	2012
Assets		
Cash and Investments	**26,727**	8,844
Other Assets	**28,944**	10,113
Total Assets	**55,671**	18,957
Liabilities		
Unearned Premium	**27,056**	8,543
Unpaid Claims	**11,923**	2,247
Other Liabilities	**11,058**	4,174
Total Liabilities	**50,037**	14,964
Equity		
Share Capital	**7,790**	5,193
Retained Earnings	**(2,156)**	(1,200)
Equity	**5,634**	3,993
Total Liabilities and Equity	**55,671**	18,957

24. DISCONTINUED OPERATIONS

On November 30, 2013, the Company closed a definitive stock purchase agreement to sell the U.S. operations. The transaction resulted in a loss on disposal of $5,700, before tax.

For the years ended December 31, 2013 and 2012, the income from discontinued operations included in the consolidated statements of income is as follows.

	2013	**2012**
Revenue		
Gross written and assumed premiums	**12,652**	14,139
Change in provision for unearned premiums	**179**	(1,572)
Net earned premiums	**12,831**	12,567
Investment income	**832**	366
Total revenue	**13,663**	12,933
Expenses		
Net incurred claims	**12,486**	12,754
Net acquisition costs	**1,534**	1,399
Operating costs	**2,999**	3,867
Total expenses	**17,019**	18,020
Loss before income taxes	**(3,356)**	(5,087)
Income tax expense	**414**	563
Loss on disposal	**(2,942)**	(4,524)
Write down on sale of discontinued operations	**(5,700)**	—
Net loss on Discontinued Operations	**(8,642)**	(4,524)

	2013	2012
Discontinued cash provided by (used in):		
Net income	**(8,642)**	(4,524)
Operating activities	**(616)**	602
Financing activities	**—**	—
Investing activities	**8,414**	295
Cash flow from discontinued operations	**(844)**	(3,627)

25. SEGMENTED INFORMATION

The Company operates through three segments: Personal Lines and Specialty Programs divisions in Canada, and specialty business in the International division. Through its Personal Lines division, the Company is engaged primarily in the underwriting of high premium, non-standard automobile insurance.

Through its Specialty Programs division, the Company designs and underwrites specialized non-auto insurance programs, such as higher premium property, primary and excess liability, legal expense, accident and health insurance and warranty coverage. Through the International division the Company underwrites European property, automobile and other niche and specialty insurance products.

The effect of reinsurance is reflected in the revenue and results of each segment. The investment activities consist of managing the investment portfolio for the Company as a whole. Investment income is shown net of investment expenses. The corporate and other activities include holding company expenses not attributable to a division.

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

	12 months ended December 31	
	2013	**2012**
Revenue		
Earned premiums and other revenue		
Canada – Personal Lines	**118,541**	123,937
– Specialty Programs	**35,596**	34,636
	154,137	158,573
International	**51,327**	7,435
Total earned premium and other revenue	**205,464**	166,008
Net claims incurred		
Canada – Personal Lines	**74,963**	72,051
– Specialty Programs	**26,400**	23,015
	101,363	95,066
International	**30,791**	5,349
Total net claims incurred	**132,154**	100,415
Net expenses		
Canada – Personal Lines	**34,901**	36,941
– Specialty Programs	**17,306**	16,819
	52,207	53,760
International	**20,143**	5,985
Corporate Expenses	**3,547**	3,666
Total net expenses	**75,897**	63,411
Income (loss) before income taxes		
Canada – Personal Lines	**8,677**	14,945
– Specialty Programs	**(8,110)**	(5,198)
	567	9,747
International	**393**	(3,899)
Corporate and other	**(3,547)**	(3,666)
Underwriting (loss) income	**(2,587)**	2,182
Impact of change in net claims discount rate	**281**	(3,887)
Investment income	**17,712**	33,678
Total income before income taxes	**15,406**	31,973

Segmented long-term intangibles and property plant and equipment

	As at December 31	
	2013	**2012**
Canada – Personal Lines	**5,051**	5,362
– Specialty Programs	**804**	816
	5,855	6,178
International	**260**	118
U.S.	**—**	15
Total segmented long term intangibles and property plant and equipment	**6,115**	6,311

SHAREHOLDER INFORMATION

HEAD OFFICE

2680 Matheson Blvd. E., Suite 300
Mississauga, ON L4W 0A5
Tel: 905-214-7880
Fax: 905-214-8028

DIRECTORS

Robert Purves (Chairman)
Douglas E. McIntyre (Vice-Chairman)
Peter Crawford
Mark Curry
Steve Dobronyi
Patrick Hodgson
Paul Little
Angus Ross
Bruce West

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, ON M5J 2Y1

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbol "EFH"

COMMON SHARES OUTSTANDING

11,703,082 (as at December 31, 2013)

DIVIDENDS

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

GENERAL COUNSEL

Blake, Cassels & Graydon LLP

APPOINTED ACTUARY

J.S. Cheng & Partners Inc.

AUDITORS

PricewaterhouseCoopers LLP

INVESTOR RELATIONS

Kathy Shulman, Investor Relations Manager

WEBSITE

www.egi.ca

EGI Financial Holdings Inc.

2680 Matheson Blvd. East, Suite 300
Mississauga, Ontario L4W 0A5

www.egi.ca