EGI Financial Holdings Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the period ending September 30, 2014

TABLE OF CONTENTS

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AND RESULTS OF OPERATIONS

For the period ending September 30, 2014

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

Important Note:

The condensed consolidated interim financial statements for the quarters ended September 30, 2014, and 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting. The policies applied in the condensed consolidated interim financial statements are based on IFRS and have been consistent with those of the previous financial year except for the ones explained in note 3 in the condensed financial statements.

The following discussion should be read in conjunction with EGI's unaudited condensed consolidated interim financial statements for the third quarter of fiscal 2014 and 2013, with the notes to the condensed consolidated interim financial statements, and with management's discussion and analysis (MD&A) and audited annual consolidated financial statements and accompanying notes in the Company's 2013 annual report. The financial data in this discussion has been prepared in accordance with IFRS and has been derived from the unaudited consolidated interim financial statements for the three months ended September 30, 2014, and 2013.

The following commentary is current as of November 6, 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, integration costs and excludes any impact of change in discount rate or foreign exchange 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 of EGI for 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.

EGI's actual results could differ materially from those anticipated in this forward-looking information as a result of various factors, including those discussed in this MD&A. Additional information about the general risks and uncertainties regarding 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 undertake to update any forward-looking information.*

COMPANY OVERVIEW

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

EGI operates in Canada through Echelon General Insurance Company ("Echelon"), a federally-regulated P&C insurance company and The Insurance Company of Prince Edward Island ("ICPEI"), a provincially regulated insurance company. It has three lines of insurance business – Personal Lines, Specialty Programs and ICPEI. Personal Lines focuses on the underwriting of EGI's non-standard automobile insurance and insurance for motorcycles, antique and classic vehicles, trailers, motor homes and recreational vehicles. Specialty Programs designs and underwrites specialized insurance programs, such as hard to place commercial property, primary and excess liability, credit insurance and extended warranty. ICPEI primarily underwrites auto, personal and commercial property products distributed through independent brokers in Prince Edward Island, New Brunswick and Nova Scotia.

The International division underwrites specialty insurance programs in Europe through Qudos Insurance A/S ("Qudos"), a majority-owned insurance company. Qudos is domiciled in Denmark and is regulated throughout the European Union by the Danish Financial Supervisory Authority. Products include non-standard auto, personal property and new and existing homes 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. operations are discontinued and the division's results are excluded from any comparative results.

On July 1, 2014 the Company acquired 75% of ICPEI in an all cash transaction.

QUARTERLY HIGHLIGHTS

- Net operating income of $0.33 per share compared to $0.32 in the third quarter of 2013.
- An underwriting income of $0.1 million for the quarter.
- A combined operating ratio of 99.8% compared to 97.7% in the third quarter of 2013.
- A 67% increase in direct written premiums over the same period in 2013 to $ 104.9 million, driven by the increase in premiums in the International division.
- Total pre-tax return on invested assets of $4.3 million in the quarter compared to $3.0 million in the third quarter of 2013.
- An increase in book value per share of 1.3% in the quarter to $15.19 per share.

The following financial information compares three and nine months ended September 30, 2014 results with the same period in 2013.

	3 months ended September 30		9 months ended September 30	
($ THOUSANDS except per share amounts)	**2014**	**2013**	**2014**	**2013**
Direct written and assumed premiums	104,876	62,706	286,072	194,067
Net written premiums	80,199	53,638	222,393	168,044
Net earned premiums	76,560	50,711	200,543	145,726
Net claims incurred	46,239	30,979	122,457	90,646
Net acquisition costs	21,551	12,325	57,391	36,164
Operating expenses	8,649	6,250	23,352	17,194
Underwriting income (loss) (1)	122	1,157	(2,657)	1,722
ICPEI integration expense	—	—	(1,347)	—
Investment income	6,345	2,506	17,975	12,921
Impact of foreign exchange on claims	—	—	(725)	—
Impact of discount rate on claims	—	(665)	(267)	(665)
Net income before income taxes	6,467	2,998	12,979	13,978
Income taxes expense	(930)	(558)	(2,650)	(2,769)
Net income – continued operations	5,537	2,440	10,329	11,209
Net income attributable to shareholders	4,919	(4,894)	10,458	2,410
Net operating income attributable to shareholders	3,944	3,798	7,885	9,638
Earnings per share on continuing operations				
Basic	$0.42	$0.22	$0.89	$0.97
Diluted	$0.41	$0.22	$0.87	$0.95
Return on equity (ROE) (1)	7.7%	4.2%	7.7%	4.2%
Return on equity (ROE) continuing operations (1)	10.9%	10.5%	10.9%	10.5%
Net operating income per share − diluted	$0.33	$0.32	$0.65	$0.80

(1) Before the impact of discount rate change, increasing unpaid claims by $nil and $0.3 million in the three and nine months ended September 30, 2014, respectively, compared to a change increasing the unpaid claims by $0.6 million and $0.6 million for the corresponding three and nine month periods respectively in 2013. Before the impact of foreign exchange rate change, increasing unpaid claims by $nil and $0.7 million in the three and nine months ended September 30, 2014, respectively, compared to a change increasing the unpaid claims by $nil for the corresponding three and nine month periods in 2013. ROE calculated on a rolling twelve month basis.

Insurance Operations

Written and Earned Premiums

In the third quarter of 2014, direct written premiums increased $42.2 million, or 67%, to $104.9 million compared to $62.7 million in the same period last year. The increase in written and earned premiums was primarily due to an increase of $37.3 million, arising from continued growth in the International division.

Incurred Claims Expense

For the quarter ended September 30, 2014, net claims expense increased $15.3 million or 49% to $46.2 million compared to $31.0 million in the third quarter of 2013. This resulted in a decreased loss ratio of 60.4% for the three months ended September 30, 2014, compared to 61.1% for the same period in 2013 as the increase in net claims expense was lower than the 51% increase in earned premiums.

On a consolidated basis, net favourable development of prior year claims of $5.9 million was recorded in the third quarter of 2014 compared to net favourable development of $1.3 million in the same period in 2013.

Acquisition Costs

Net acquisition costs, which consist mainly of commissions and premium taxes, increased $9.2 million or 75% to $21.6 in the quarter ended September 30, 2014, compared to $12.3 in the same period in 2013. The increase is larger than the increase in the net earned premiums of 51% due to the larger acquisition costs in the International division.

Operating Expenses

Operating expenses increased $2.4 million or 38% to $8.6 million in the third quarter of 2014 compared to $6.3 million in the comparative quarter due to the 51% increase in earned premiums and amortization of information system initiatives.

Underwriting Income

Underwriting income of $0.1 million was recorded in the third quarter of 2014 compared to an underwriting income of $1.2 million in the same period in 2013. The decrease was attributable to lower underwriting income in Personal Lines, partially offset by improved performances in Specialty Programs and the International division. The lower Personal Lines underwriting income can be attributed to two large losses in the quarter.

Net Income before Income Taxes

For the quarter ended September 30, 2014, income before income taxes was $6.5 million compared to income of $3.0 million for the third quarter of 2013. This was the result of an increase in investment income of $3.8 million and an increase in discount rate effect on unpaid claims of $0.7 million. These items were offset by a decrease in underwriting income of $1.0 million compared to the same period in 2013.

Income Taxes

For the quarter ended September 30, 2014, the provision for income taxes reflects an expense of $0.9 million compared to $0.6 million for the same period last year.

SEGMENTED FINANCIAL INFORMATION

Personal Lines

($ THOUSANDS)	3 months ended September 30				9 months ended September 30			
	2014	2013	$ Variance	% Variance	2014	2013	$ Variance	% Variance
Direct written premiums	31,865	33,620	(1,755)	(5)	105,540	105,928	(388)	–
Net earned premiums	31,309	32,114	(805)	(3)	92,410	94,411	(2,001)	(2)
Net claims:								
Current year claims	21,122	21,153	(31)	0	65,422	65,763	(341)	(1)
Current year loss ratio	67.5 %	65.9 %			70.8%	69.7%		
Favourable prior year claims development	1,154	2,153	(999)	(46)	9,382	6,299	3,083	49
Total net claims	19,968	19,000	968	5	56,040	59,464	(3,424)	(6)
Claims ratio(1)	63.8 %	59.2 %			60.6 %	63.0 %		
Expense ratio	34.0 %	30.7 %			32.6 %	30.2 %		
Combined ratio(1)	97.8 %	89.9 %			93.2 %	93.2 %		
Underwriting income (1)	703	3,265	(2,562)	(78)	6,225	6,413	(188)	(3)

(1) Before the impact of discount rate change, increasing unpaid claims by $nil and $0.2 million in the three and nine months ended September 30, 2014, respectively, compared to a change increasing unpaid claims by $0.5 million and $0.5 million for the corresponding three and nine month periods respectively in 2013.

Third Quarter 2014

Personal Lines recorded an underwriting income in the third quarter of 2014 of $0.7 million, compared to $3.3 million in the third quarter of 2013, a decrease of $2.6 million.

This line's combined ratio increased to 97.8% in the quarter due to:

1. Ontario non-standard auto combined ratio of 97.2% was weaker than the exceptional comparative ratio of 81.9% in the third quarter of 2013. This is primarily due to two large losses reported in Ontario Auto in the quarter.
2. Decreased positive development of prior year claims of $1.2 million compared to $2.2 million in the same period in 2013.

Year-to-Date

Personal Lines recorded an underwriting income in the first nine months of $6.2 million, compared to $6.4 million in the same period of 2013, a decrease of $0.2 million.

The division's combined ratio is unchanged in total with the following regional and product mix factors:

1. Improved performance of Ontario non-standard auto, which recorded a combined ratio of 93.9% in the nine months ended September 30, 2014 compared to 95.4% in the same period of 2013 despite harsh winter driving conditions in early 2014.
2. Increased positive development of prior year claims of $9.4 million year-to-date 2014 compared to $6.3 million the same period last year.
3. Weaker performance of Atlantic auto, which recorded a combined ratio of 93.8% in the nine months ended September 30, 2014, compared to a 77.1% combined ratio in the same period in 2013.

Specialty Programs

	3 months ended September 30				9 months ended September 30			
($ THOUSANDS)	2014	2013	$ Variance	% Variance	2014	2013	$ Variance	% Variance
Direct written premiums	8,903	9,122	(219)	(2)	30,294	29,274	1,020	3
Net earned premiums	6,494	6,825	(331)	(5)	23,236	20,631	2,605	13
Net claims:								
Current year claims	5,378	5,328	50	1	12,202	14,986	(2,784)	(19)
Current year loss ratio	82.8 %	78.1 %			52.5%	72.6 %		
Favourable (unfavourable) prior year claims development	3,123	494	2,629	532	1,348	887	461	52
Total net claims	2,255	4,834	(2,579)	(53)	10,854	14,099	(3,245)	(23)
Claims ratio(1)	34.7 %	70.8 %			46.7%	68.3 %		
Expense ratio	61.1 %	45.2 %			57.3%	45.6 %		
Combined ratio(1)	95.8 %	116.0 %			104.0%	113.9 %		
Underwriting income (loss) (1)	271	(1,093)	1,364	125	(934)	(2,881)	1,947	68

(1) Before the impact of discount rate change, increasing unpaid claims by $nil and $0.1 million in the three and nine months ended September 30, 2014, respectively, compared to a change increasing unpaid claims by $0.2 million and $0.2 million for the corresponding three and nine month periods respectively in 2013.

Third Quarter 2014

Specialty Programs recorded an underwriting income of $0.3 million compared to an underwriting loss of $1.1 million in the third quarter of 2013.

This segment's combined ratio decreased to 95.8% in this quarter as a result of the following factors:

1. Strong performance in creditor insurance
2. Improved performance in the commercial property and liability in the quarter.

Year to Date 2014

Specialty Programs recorded an underwriting loss of $0.9 million in the first nine months of 2014 compared to an underwriting loss of $2.9 million in the same period in 2013.

This segment's combined ratio decreased to 104.0% compared to 113.9% in 2013 as a result of the following factors:

1. Strong performance in creditor insurance.
2. Improved performance in the commercial property and liability lines in the period.

ICPEI

	3 months ended September 30				9 months ended September 30			
($ THOUSANDS)	**2014**	**2013**	**$ Variance**	**% Variance**	**2014**	**2013**	**$ Variance**	**% Variance**
Direct written premiums	6,809	–	6,809	–	6,809	–	6,809	–
Net earned premiums	6,550	–	6,550	–	6,550	–	6,550	–
Net claims:								
Current year claims	4,193	–	4,193	–	4,193	–	4,193	–
Current year loss ratio	64.0%				64.0 %			
Favourable prior year claims development	–	–	–	–	–	–	–	–
Total net claims	4,193	–	4,193	–	4,193	–	4,193	–
Claims ratio(1)	64.0 %				64.0 %			
Expense ratio	31.5 %				31.5 %			
Combined ratio(1)	95.5 %				95.5 %			
Underwriting income (1)	291	–	291	–	291	–	291	–

Third Quarter and Year to Date 2014

ICPEI reported results under EGI for the first time this quarter.

ICPEI recorded an underwriting income of $0.3 million in the third quarter of 2014. This segment's combined ratio was 95.5% in this quarter as a result of the following factors:

1. Strong performance in auto particularly in Prince Edward Island.
2. Improvement in personal property loss ratios and continued strong performance in commercial liability.

International Division

	3 months ended September 30				9 months ended September 30			
($ THOUSANDS)	**2014**	**2013**	**$ Variance**	**% Variance**	**2014**	**2013**	**$ Variance**	**% Variance**
Direct written premiums	57,298	19,964	37,334	187	143,429	58,865	84,564	144
Net Written Premium	36,634	15,016	21,618	144	91,794	45,712	46,082	101
Net earned premiums	32,207	11,772	20,435	174	78,347	30,684	47,663	155
Net claims:								
Current year claims	21,421	5,794	15,627	270	51,109	15,352	35,757	233
Current year loss ratio	66.5%	49.2%			65.2%	50.0%		
Favourable (unfavourable) prior year claims development	1,598	(1,351)	2,949	218	(261)	(1,731)	1,470	85
Total net claims	19,823	7,145	12,678	177	52,095	17,083	35,012	205
Claims ratio(1)	61.5%	60.7%			65.6%	55.7%		
Expense ratio	36.7%	38.9%			40.1%	41.9%		

	3 months ended September 30				9 months ended September 30			
($ THOUSANDS)	2014	2013	$ Variance	% Variance	2014	2013	$ Variance	% Variance
Combined ratio(1)	98.2%	99.6%			105.7%	97.6%		
Underwriting income (loss) (1)	569	50	519	1,038	(4,472)	731	(5,203)	(712)

(1) Before impact of change in foreign exchange rate increasing claims by $nil and $0.7 million in the three and nine months ended September 30, 2014 compared to $nil and $nil in the corresponding three and nine months in 2013 respectively.

Third Quarter 2014

The International division recorded $57.3 million of written premiums in the third quarter of 2014 compared to $20.0 million in the same period in 2013, an increase of $37.3 million. The strong growth in written premiums is due primarily to the organic growth in existing programs. At the end of the third quarter, the International division wrote approximately 25 programs, mainly in the UK and Denmark.

The International division recorded an underwriting income of $0.6 million in the third quarter compared to underwriting income of $0.1 million in the comparable period in 2013. This is as a result of:

1. Improved performance in the quarter in the motorcycle and UK auto segments. The Danish warranty business continues to perform strongly.
2. Increased earned premiums which provides better general expense coverage.
3. Positive prior year claims development of $1.6 million in Q3 2014 compared to $1.4 million of negative development in the same period in 2013.

Year to Date 2014

The International division recorded $143.4 million of written premiums in the year compared to $58.9 million in the same period in 2013, an increase of $84.6 million. The strong growth in written premiums is due primarily to the organic growth in existing programs.

The International division recorded an underwriting loss of $4.5 million in the year compared to underwriting income of $0.7 million in the comparable period in 2013. This is as a result of:

1. Higher current accident year claims ratio of 65.2% compared to 50.0% in the same period of the prior year as a result of poor performance of the auto book in the UK market due to warm and extremely wet winter weather conditions in the UK that increased the frequency of claims in its auto book by approximately 30% in the second quarter of 2014. The impact of UK weather in the year was $ 1.6 million.
2. Lower negative prior year claims development of $0.3 million in Q3 2014 compared to $1.7 million in the same period in 2013.

SUMMARY OF QUARTERLY RESULTS

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

	2014			2013				2012
($ THOUSANDS EXCEPT PER SHARE DATA)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Direct written and assumed premiums	104,876	101,428	79,768	74,300	62,706	78,121	53,240	49,513
Net earned premiums and other revenue	76,560	61,885	62,098	59,738	50,711	50,449	44,566	43,084
Underwriting (loss) income[(1)]	122	(3,311)	532	(4,309)	1,157	4,080	(3,515)	3,131
Income (loss) before income taxes	6,467	(154)	6,666	1,428	2,998	11,167	(186)	7,672
Net (loss) income	5,537	(603)	5,395	1,158	2,440	8,739	30	5,672
Earnings per adjusted share								
(a) Basic	$0.42	$0.02	$0.45	$0.17	$0.22	$0.73	$0.01	$0.49
(b) Diluted	$0.41	$0.02	$0.44	$0.16	$0.22	$0.72	$0.01	$0.49
Net operating income per share – diluted [(2)]	$0.33	$0.02	$0.30	$0.08	$0.32	$0.49	$0.00	$0.30
Selected financial ratios								
Loss ratio[(1)]	60.4%	65.4%	57.5%	69.5%	61.1%	54.8%	71.9%	52.8%
Expense ratio	39.4%	39.9%	41.6%	37.7%	36.6%	37.0%	36.0%	39.9%
Combined[(1)]	99.8%	105.3%	99.1%	107.2%	97.7%	91.8%	107.9%	92.7%
Book value per share	$15.19	$14.99	$14.92	$14.57	$13.98	$14.37	$14.09	$13.98

(1) Before impact of change in discount rate adjusting unpaid claims in each period.

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

The quarterly results reflect the seasonality of our business. While net earned premiums are relatively stable from quarter to quarter, underwriting results vary significantly by quarter as they are affected by changes in weather conditions.

Net Operating Income

Details of Net Operating Income are as follows:

	3 months ended September 30		9 months ended September 30	
($ THOUSANDS except per share amounts)	**2014**	**2013**	**2014**	**2013**
Net income (loss)	5,536	(5,068)	10,328	2,239
Impact of discount rate	—	665	267	665
Impact of foreign exchange on claims	—	—	725	—
Realized (gains) losses on investments	(1,599)	74	(4,774)	(4,896)
FVTPL investments	264	883	(1,089)	2,058
Discontinued operations	—	7,508	—	8,970
ICPEI integration expense	—	—	1,347	—
Tax impact [(1)]	360	(438)	951	431
Net operating income (loss)	4,561	3,624	7,755	9,467
Minority interest	(617)	174	130	171
Net operating income attributable to shareholders	3,944	3,798	7,885	9,638
Net operating income per share – diluted	$0.33	$0.32	$0.65	$0.80

(1)Statutory tax rate utilized for calculation purposes.

Balance Sheet Highlights

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

($ THOUSANDS except per share amounts)	As at September 30, 2014	As at December 31, 2013
Cash and short-term deposits	43,772	18,156
Investments	488,618	454,317
Total assets	751,899	618,103
Provision for unpaid claims	350,239	296,857
Unearned premiums	179,033	127,247
Total equity attributable to shareholders	178,989	170,535
Book value per share [1]	$15.19	$14.57
Echelon MCT Ratio	218%	219%

[1] Shareholders' equity divided by the number of shares issued and outstanding.

BALANCE SHEET ANALYSIS

The Balance Sheet analysis that follows should be read in conjunction with the unaudited condensed consolidated interim financial statements for the third quarter of 2014 and notes therein.

Investments

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

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

Fair Value of Investments

The following table sets forth EGI's invested assets as at September 30, 2014, and December 31, 2013.

($ THOUSANDS)	Carrying and fair values	
Available-for-sale	**As at September 30, 2014**	**As at December 31, 2013**
Fixed income		
Canadian		
Federal	72,513	54,374
Provincial	44,512	42,718
Municipal	4,688	5,714
Corporate	191,522	162,316
	313,235	265,122
Fixed income lent through securities lending program		
Federal	12,449	49,165
Provincial	1,446	7,656
Municipal	—	411
Corporate	4,799	3,980
	18,694	61,212
Foreign fixed income		
Government	22,077	12,799
Corporate	68,767	45,608
	90,844	58,407
Total fixed income	422,773	384,741
Commercial Mortgages pooled fund	4,243	2,052
Common shares		
Canadian	6,941	13,491
Foreign	13,035	24,693
Total common shares	19,976	38,184
Total available-for-sale	446,992	424,977
Fair value through profit or loss		
Preferred shares	41,572	29,340
Preferred shares lent through securities lending program	54	—
Total Preferred shares	41,626	29,340
Total investments	488,618	454,317

Impairment 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.

There was no impairment loss recognized in the third quarter of 2014 and no loss recognized in the third quarter of 2013.

A gross unrealized loss of $2.4 million (September 30, 2013 – $1.8 million) on investments held as at September 30, 2014 is recorded, net of tax, in the amount of $1.8 million (September 30, 2013 – $1.3 million) in Accumulated Other Comprehensive Income. The Company has concluded, based on its review, these fair value deficiencies do not meet the criteria for impairment and they will be monitored on an ongoing basis.

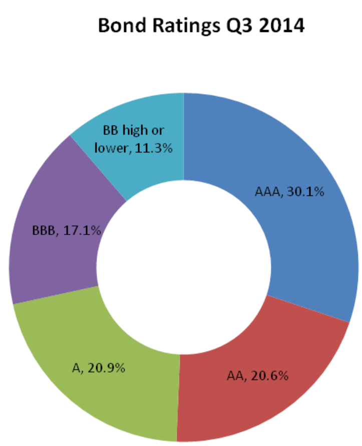
Fixed Income Securities

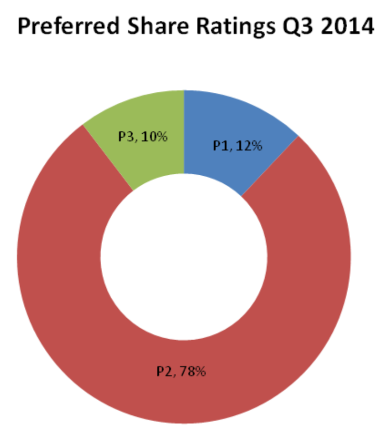
EGI holds fixed income securities to provide a steady, predictable level of income with reasonable liquidity and minimal risk of loss and a fixed sum at maturity. EGI's portfolio is diversified by selecting various types of government and corporate bonds. Constraints on types of issuers take liquidity,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

An additional $6.2 million of preferred shares were purchased in the quarter, primarily fixed rate reset shares.

EGI's bond portfolio has a high overall credit quality with an average rating of A, while the preferred shares have an average rating of P2. Duration of the bond portfolio is 3.1 years.

The charts below set forth EGI's fixed income and preferred share portfolios by credit quality determined by rating agencies' ratings as at September 30, 2014.





Common Shares

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

Common Share Portfolio

The following table outlines EGI's common share exposure to industry sectors as at September 30, 2014 and December 31, 2013.

	As at September 30, 2014		As at December 31, 2013	
($ THOUSANDS)	Fair value and carrying amounts	% of fair value	Fair value and carrying amounts	% of fair value
U.S. Pool Funds	7,485	37	15,923	42
Canadian Pool Funds	6,120	32	13,014	34
Technology	2,392	12	2,352	6
Consumer Goods	787	4	3,168	8
Services	1,218	6	1,348	4
Health Care	1,204	6	960	3
Conglomerates	414	2	446	1
Energy	98	—	491	1
Other	258	1	482	1
Total	19,976	100	38,184	100

As at September 30, 2014, 62.5% of the common share portfolio was in Canadian equities with 37.5% in foreign equities.

Recoverable from Reinsurers

($ THOUSANDS)	As at September 30, 2014	As at December 31, 2013
Reinsurers' share of unpaid claims	49,394	32,762
Reinsurers' share of unearned premiums	37,810	19,985
Total	87,204	52,747

As at September 30, 2014, the recoverable from reinsurers increased by $34.5 million, or 65.3%, to $87.2 million from $52.7 million as at December 31, 2013. The increase was due to increased reliance on reinsured premiums in the International division partially offset by reduced reliance on Personal Lines claims reinsurance, as older claims with higher reinsurance run off. All reinsurers, with balances due, have a rating of A− or above as determined by Standard & Poor's and A.M. Best, except for several Specialty Programs distributors who share a portion of the risk with EGI, for whom EGI holds deposits as collateral.

Accounts Receivable

($ THOUSANDS)	As at September 30, 2014	As at December 31, 2013
Agents and brokers	33,387	15,627
Premium financing receivables	18,718	15,680
Other	6,633	4,619
Total	58,738	35,926

Premium financing receivables represent 31.9% of total receivables as at September 30, 2014. Premium financing receivables increased to $18.7 million at September 30, 2014, from $15.7 at December 31, 2013. The increase in agent and broker receivables from $15.6 million in 2013 to $33.4 million in 2014 was mainly as a result of increased balances due to Qudos, in line with the increase of written premiums in this entity, as well as the acquisition of ICPEI.

Provision for Unpaid Claims

EGI establishes loss reserves to provide for future amounts required to pay claims related to insured events that have occurred and been reported but have not yet been settled, and related to events that have occurred but have not yet been reported to EGI. Provision for unpaid claims consists of the aggregate amount of individual case reserves established and management's estimate of claims incurred but not reported, based on the volume of business currently in force and historical claims experience. In order to help ensure that EGI's provision for unpaid claims (often called "reserves") is adequate, management has retained the services of an independent appointed actuary. Provisions for unpaid claims are discounted to present value. The discount rate used for September 30, 2014, was 1.98%, a decrease from 2.05% at the end of 2013.

Share Capital

As of November 6, 2014, there were 11,786,982 common shares issued and outstanding.

LIQUIDITY AND CAPITAL MANAGEMENT

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

Contractual obligations include operating leases, for which $1.6 million is due in less than a year and $4.6 million is due over the next nine years.

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

Capital Management

The total capitalization of EGI at September 30, 2014, was $182.7 million compared to $168.4 million at December 31, 2013.

The Minimum Capital Test (MCT) ratio of EGI's Canadian subsidiary, Echelon General Insurance Company, as at September 30, 2014, was 218%, which comfortably exceeds the supervisory regulatory capital level required by the Office of the Superintendent of Financial Institutions (OSFI).

In September 2014, EGI injected $5 million of capital into its European subsidiary to support its strong premium growth and strengthen its regulatory ratios. As a result, EGI's ownership stake will increase to 93% from 51% at the beginning of the year, assuming no minority interest earn in, 71% as at 31st March 2014 and 75% as at 30th June 2014. All regulated entities remain well-capitalized. In addition to excess capital at Echelon, the Company has approximately $14 million of excess deployable capital invested in liquid assets in the holding company.

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-to-surplus or equity ratio. This ratio was 1.6:1 as at September 30, 2014, compared to 1.2:1 in 2013. EGI's current capitalization provides it with adequate financial resources for planned growth.

Equity		
($ THOUSANDS)	As at September 30, 2014	As at December 31, 2013
Common shares	67,857	67,211
	11,785,782 Shares	11,703.082 Shares
Retained earnings	98,433	94,593
Contributed surplus	2,032	1,561
Accumulated other comprehensive income	10,667	7,170
Non-controlling interest	3,753	(2,156)
Total capitalization	182,742	168,379

ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared in accordance with IFRS and in compliance with IAS 34 "Interim Financial Reporting." Please refer to note 3 of the unaudited condensed consolidated interim financial statements for the quarter ended September 30, 2014.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

For a description of EGI's accounting policies, which are on an IFRS basis, refer to note 3 in the condensed consolidated interim financial statements for the quarter ended September 30, 2014. A description of EGI's critical accounting estimates and assumptions is also detailed in note 4 of the interim financial statements.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by 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 September 30, 2014, an evaluation was carried out, under the supervision of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as defined under Multilateral Instrument 52-109. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of these disclosure controls and procedures was effective.

Internal Controls over Financial Reporting

As at the quarter ended September 30, 2014, the Chief Executive Officer and the Chief Financial Officer evaluated the design of the Company's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of internal controls as at September 30, 2014, was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2014, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.