EGI Financial Holdings Inc.

EGI Financial Announces Second Quarter Results, Agreement to Sell US Insurance Operations

TORONTO, August 8, 2013 - EGI Financial Holdings Inc. ("EGI" or "the Company") (TSX: EFH), which operates in the property and casualty insurance industry in Canada, the United States and Europe, today reported net operating income of $5.2 million, or $0.43 per diluted share, for the three months ended June 30, 2013. This compares to a net operating loss of $0.6 million, or $0.05 per diluted share, for the same period in 2012.

The Company also announced today that it has entered into a definitive stock purchase agreement with White Pine Insurance Company, a Michigan-based specialty insurance company, to sell its United States non-standard automobile insurance operations. The transaction will result in a pre-tax $5.7 million reduction in book value, which will be reflected in its third quarter financial statements.

"The results of our U.S. business were not tracking to profitability as quickly as originally planned", commented Steve Dobronyi, Chief Executive Officer. "The exit from the U.S. is expected to add $0.30 per share to our annual 2014 earnings and will allow management to concentrate its time and resources on our profitable Canadian and European businesses."

Quarterly Highlights

- Net income of $8.2 million, or $0.68 per diluted share, compared to a loss of $2.8 million, or $0.20 per diluted share, in the second quarter of 2012
- $0.28 or 2% increase in Book Value per Share to $14.37 from March 31, 2013, and an 11% increase from the second quarter of 2012
- Underwriting income of $3.2 million, compared to a $4.3 million loss in the second quarter of 2012
- Overall combined operating ratio of 94%, compared to 110% in the second quarter of 2012
- 23% increase in direct written premiums over the same period in 2012 to $81 million

"These are our best underwriting results in over 5 years", stated Steve Dobronyi, Chief Executive Officer of EGI. "We exceeded our overall profit targets, despite the impact of natural disasters on industry results and we continue to generate steady increases in book value per share, despite the impact of rising interest rates on our investment portfolio."

"All of our businesses recorded improved underwriting results over the same period in 2012", continued Mr. Dobronyi. "Our core Personal Lines business continues to produce consistently strong results, and has now reported underwriting profits in 10 of the past 11 quarters."

"The results of the International Division are equally impressive", concluded Mr. Dobronyi. "International has emerged as a key contributor, reporting underwriting profits ahead of schedule and continuing to generate exceptional premium growth", Mr. Dobronyi concluded. "2013 is emerging as a transformational year for the International business and for our Company as a whole".

Financial Summary

$000s (except per share amounts)	3 months ended June 30, 2013	3 months ended June 30, 2012	% Change	6 months ended June 30, 2013	6 months ended June 30, 2012	% Change
Direct written premiums	80,992	66,106	23%	138,402	110,045	26%
Net earned premiums	54,054	43,957	23%	102,174	86,127	19%
Underwriting income (loss)	3,166	(4,273)	174%	(1,282)	(5,249)	76%
Investment income	5,584	2,501	123%	10,649	8,461	26%
Net income (loss)	8,218	(2,820)	391%	7,308	974	650%
Net operating income (loss)(1)	5,175	(559)	1,026%	4,481	1,376	226%
Net income (loss) per diluted share	0.68	$(0.20)	440%	0.61	0.13	369%
Net operating income (loss) per diluted share(2)	0.43	(0.05)	960%	0.37	0.11	236%
Book value per share	14.37	12.99	11%	14.37	12.99	11%

(1) Net operating income (attributable to shareholders) 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 and unrealized fair value changes on Fair Value Through Profit or Loss (FVTPL) investments excluding non-controlling interest.

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

Second Quarter Review

Net operating income of $5.2 million was recorded in the quarter, compared to a net operating loss of $0.6 million in the second quarter of 2012. Net operating income per share was $0.43, an increase from net operating loss of $0.05 per share for the same period in 2012.

Underwriting income of $3.2 million was generated versus an underwriting loss of $4.3 million for the same period in 2012. This was due to increased income in each division of $3.7 million in Specialty Programs, $1.9 million in International, $1.4 million in the U.S. and $0.4 million in Personal Lines over the same period in 2012.

Direct written premiums increased overall by 23%, attributable primarily to a $15.0 million increase in written premium from the International division. Growth of Specialty Programs was primarily attributable to the expansion into Western Canada. The decline in the U.S. division premiums was due to exiting the Texas market. Personal Lines written premiums were flat.

Investment income was a $5.6 million compared to $2.5 million in Q2 of 2012, reflecting higher realized gains. Including unrealized losses, total return on invested assets was a negative $2.9 million, due to the impact of rising interest rates on the bond portfolio. A market yield adjustment on the actuarial reserves of $1.8 million partially mitigated the impact. The fair value of EGI's investment portfolio, including financing receivables, was $457 million, up 8.5% compared to June 30, 2012.

Operating expenses increased $0.2 million or 3% to $6.9 million, despite a 23.0% increase in earned premiums.

On a consolidated basis, net favourable development of prior year claims of $2.8 million was recorded in the second quarter of 2013 compared to negative development of $1.6 million in the same period in 2012.

Overall net income was $8.2 million, compared to a net loss of $2.8 million for the same period last year, primarily due to higher underwriting income, higher net realized gains in investment income and higher net favourable development of prior year claims.

Operating Results

	3 months ended June 30, 2013	3 months ended June 30, 2012	6 months ended June 30, 2013	6 months ended June 30, 2012
Underwriting Income (Loss)(1) $000s				
Personal Lines	4,511	4,158	3,361	5,296
Specialty Programs	(700)	(4,390)	(2,001)	(3,348)
U.S.	(915)	(2,267)	(1,847)	(3,841)
International	1,015	(874)	682	(1,677)
Key Operating Ratios				
Claims ratio(2)	57.2%	71.2%	64.7%	68.5%
Expense ratio	36.9%	38.5%	36.6%	37.6%
Combined ratio	94.1%	109.7%	101.3%	106.1%
Combined Ratio(2)				
Personal Lines	85.1%	86.8%	94.4%	91.6%
Specialty Programs	108.5%	153.3%	112.1%	120.1%
U.S.	125.4%	172.8%	125.8%	173.0%
International	91.5%	174.6%	96.4%	225.7%

(1) Excluding head office overhead costs and impact of change in discount rate on unpaid claims

(2) Claims ratio excludes impact of change in discount rate on unpaid claims

The $4.5 million underwriting income recorded by Personal Lines was attributable to the performance of the core non-standard auto business. All geographic regions exceeded their target profit margin.

The $0.7 million underwriting loss in Specialty Programs was due to a few large losses in commercial property and adverse development on existing liquor liability claims partially offset by favourable prior year claims development of $0.5 million. The run-off of discontinued product lines had an underwriting loss of $0.5 million compared to a loss of $5.4 million in the second quarter of 2012.

The U.S. operations recorded a substantial improvement in its performance, resulting in a combined ratio of 125.4% versus 172.8% for the same period last year. The improved performance was due to the Company's exit from the Texas market; newly implemented underwriting and pricing changes towards the end of 2012 in Florida; larger scale and a greater proportion of more profitable renewal business compared to the prior year. Offsetting these developments was $0.2 million of negative development of prior year claims in the second quarter compared to positive development of $0.1 million in the same period in 2012. The full impact of auto reforms that took effect in Florida on January 1, 2013, cannot be assessed until later in 2013.

Performance of the International division was particularly strong. The division recorded underwriting income of $1.0 million, its best quarterly result since it started writing premiums one year ago. It generated significant growth in written premiums of 66% or $15.0 million, compared to the second quarter last year.

Six-Month Review

A net operating income of $4.5 million was recorded for the six months ended June 30, 2013, compared to net operating income of $1.4 million in the first half of 2012. Net operating income per share was $0.37, an increase from net operating income of $0.11 per share for the same period in 2012.

An underwriting loss of $1.3 million was incurred versus an underwriting loss of $5.2 million for the same period in 2012. This was mainly due to an increase in underwriting profit of $2.4 million in the International division; $2.0 million in the U.S.; $1.3 million in Specialty Programs, partially offset by a $1.9 million decrease in underwriting profit in Personal Lines compared to the same period in 2012.

Direct written premiums increased overall by 26%, attributable primarily to a significant $29.4 million increase in written premium from the International division. The combined increase in written premium of $1.2 million for the U.S. and Specialty Programs divisions were offset by a $2.3 million decrease for Personal Lines. Growth of Specialty Programs was primarily attributable to the expansion into Western Canada. The decline for Personal Lines premiums was primarily due to a decrease in written premiums in Ontario auto.

Investment income was $10.6 million compared to $8.5 million in the first half of 2012, reflecting higher realized gains. Including unrealized gains, total return on invested assets was $4.2 million.

Operating expenses increased $0.5 million or 4%, despite a 19% increase in earned premiums.

On a consolidated basis, net favourable development of prior year claims of $3.7 million was recorded in the first half of 2013 compared to favourable development of $2.3 million in the same period in 2012.

Overall net income was $7.3 million, compared to net income of $1.0 million for the same period last year, primarily due to lower underwriting losses, higher net realized gains in investment income and lower net favourable development of prior year claims.

Capital Management

At the end of Q2 2013, Echelon General's Minimum Capital Test (MCT) ratio was 236%, which significantly exceeds internal targets and the supervisory regulatory capital level of 150% required by the Office of the Superintendent of Financial Institutions (OSFI). All other regulated entities remain well-capitalized.

Including the excess capital in Echelon General, EGI has approximately $35 million of excess capital in the holding company and its Barbados reinsurance company, CIM Re.

As at August 7, 2013, the Company has purchased and cancelled 263,900 common shares under its normal course issuer bid programs for a total consideration of $2.8 million. Share repurchases were $2.2 million for the three months ended June 30, 2013.

For the three months ended June 30, 2013, total shareholders' equity increased by $0.3 million to $167.9 million from March 31, 2013.

Full Financial Statements and Management's Discussion and Analysis (MD&A) are available on SEDAR and on the Company's web site at www.egi.ca.

About EGI

Founded in 1997, EGI operates in the property and casualty insurance industry in Canada, the United States and Europe, primarily focusing on non-standard automobile insurance and other specialty general insurance products. EGI's common shares are traded on the Toronto Stock Exchange under the symbol EFH.

Non-IFRS Financial Measures

EGI uses International Financial Reporting Standards (IFRS) and certain non-IFRS measures to assess performance. Readers are cautioned that non-IFRS measures do not have a standardized meaning under IFRS and may not be comparable to similar measures used by other companies. EGI analyzes performance based on operating income and underwriting ratios such as combined, expense and loss ratios.

Forward-looking Information

This news release contains forward-looking information 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 2013 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 does not undertake to update any forward-looking information. Additional information about the risks and uncertainties about EGI's business is provided in its disclosure materials, including its Annual Information Form and Management Discussion & Analysis, filed with the securities regulatory authorities in Canada, available at www.sedar.com.

Conference Call

A conference call for analysts and interested listeners will be held on Friday, August 9, 2013, at 11:00 a.m. (ET). The call-in numbers for participants are 647-427-7450 or toll free 888-231-8191, Conference ID 16614576. A live audio feed of the call will be available online through the Company's website at www.egi.ca, or directly at http://www.newswire.ca/en/webcast/detail/1195885/1311279

A replay of the call will be available until August 16, 2013. To access the replay, call 416-849-0833, or toll free 1-855-859-2056, enter password 16614576.

For further information:

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