

EGI Financial Reports second quarter results

TORONTO, August 7, 2014 - EGI Financial Holdings Inc. (“EGI” or “the Company”) (TSX: EFH), which operates in the property and casualty insurance industry in Canada and Europe, today reported net income attributable to shareholders of \$0.2 million, or \$0.02 per diluted share, for the three months ended June 30, 2014.

Second Quarter 2014 Highlights

- Net operating income of \$0.02 per share compared to \$0.49 per share in the second quarter of 2013
- An underwriting loss of \$3.3 million for the quarter, compared to income of \$4.1 million in the second quarter 2013
- A combined operating ratio of 105% compared to 92 % in the second quarter of 2013
- A 30% increase in direct written premiums over the same period in 2013 to \$101 million, driven by the increase in premiums in the International division
- Total pre-tax return on invested assets of \$6.6 million in the quarter compared to \$3.5 million in the second quarter of 2013
- An increase in book value per share of 0.5% in the quarter to \$14.99 per share.

“We are pleased with the performance of our operations in Canada,” stated Steve Dobronyi, Chief Executive Officer of EGI. “We continue to demonstrate consistent profitability in our core Personal Lines business, which has now recorded an underwriting profit in 14 of the past 15 quarters.”

“Specialty Programs also reported an underwriting profit, which is a good indication that recent management actions are having a favourable impact.”

“However, the strong results in Canada and Investments have been overshadowed by the poor performance in International, which was badly affected by wet weather conditions experienced in the UK earlier in the year”, Mr. Dobronyi continued. “We continue to believe strongly in our European business and are reviewing the experience on the specific programs to determine whether underwriting changes are needed.”

“Finally, in the second quarter, we also finalized the transaction to acquire a majority ownership in the Insurance Company of Prince Edward Island”, he concluded. “ICPEI gives us a strong foundation for growth in the Maritimes and we are already well along in our integration of the business with our operations.”

Dividend

The Board of Directors declared a quarterly dividend of 10 cents per outstanding common share. The dividend is payable on October 1, 2014, to shareholders of record on September 9, 2014.

Financial Summary

\$000s (except per share amounts)	3 months ended June 30, 2014	3 months ended June 30, 2013	% Change	6 months ended June 30, 2014	6 months ended June 30, 2013	% Change
Direct written premiums	101,428	78,121	30	181,196	131,361	38
Net earned premiums	61,885	50,449	23	123,983	95,015	30
Underwriting income (loss)	(3,311)	4,080	(181)	(2,779)	565	(592)
Investment income	5,496	5,328	3	11,630	10,416	12
Net income	(603)	8,739	(107)	4,792	8,769	(45)
Net income attributable to shareholders	244	8,126	(97)	5,539	7,305	(24)
Net operating income ⁽¹⁾	263	5,848	(96)	3,941	5,840	(33)
Net income per diluted share	0.02	0.73	(97)	0.46	0.74	(38)
Net operating income per diluted share ⁽²⁾	0.02	0.49	(96)	0.33	0.49	(33)
Book value per share	14.99	14.37	4	14.99	14.37	4

(1) Net operating income is defined as net income excluding the impact of the change in discount rate and foreign exchange rates on unpaid claims, realized losses or gains on sale of investments, discontinued operations, 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.

Second Quarter Review

Net operating income of \$0.3 million or \$0.02 per share was recorded in the quarter, compared to \$5.8 million or \$0.49 per share in the second quarter of 2013. The decrease was due to an underwriting loss of \$3.3 million compared to underwriting income of \$4.1 million for the same period in 2013.

Personal Lines generated underwriting income of \$2.5 million. All geographies and products contributed to the strong results.

Specialty Programs recorded a \$0.6 million underwriting profit. EGI continues to actively manage this line of business, having reduced its exposure to soft market conditions in commercial property and focusing its attention on profitable warranty and true specialty risk programs.

International produced an underwriting loss of \$5.4 million for the quarter. The performance was primarily the result of increased claim frequency in UK auto due to warm and extremely wet winter weather conditions. Claim frequency increased by 30%, which adversely impacted underwriting profit by \$1.6 million. An additional IBNR of \$3.3 million was also included to reflect the increased frequency and further strengthen the reserves.

Direct written premiums increased by 30%, attributable primarily to a \$19.3 million or 80% growth in the International division.

Investment income was strong at \$5.5 million compared to \$5.3 million in the second quarter of 2013. The total pre-tax return on invested assets was \$6.6 million in the quarter compared to \$3.5 million in the second quarter of 2013. The fair value of EGI's investment portfolio, including finance receivables, was \$499.6 million, up 0.4% from the first quarter of the year.

Operating expenses incurred in the second quarter in 2014 increased by 22% over the prior year, in line with the 23% increase in net earned premiums. Amortization of information system initiatives was the main contributor to this increase.

On a consolidated basis, a net favourable development of prior year claims of \$1.8 million was recorded in the second quarter of 2014 compared to favourable development of \$2.9 million in the same period in 2013.

Operating Results

Underwriting Income (Loss)⁽¹⁾ \$000s	3 months ended June 30, 2014	3 months ended June 30, 2013	6 months ended June 30, 2014	6 months ended June 30, 2013
Personal Lines	2,461	4,478	5,373	3,146
Specialty Programs	557	(667)	(1,072)	(1,786)
International	(5,429)	1,015	(5,042)	682
Key Operating Ratios				
Loss ratio ⁽²⁾	65.4%	54.8%	61.5%	62.8%
Expense ratio	39.9%	37.0%	40.8%	36.6%
Combined ratio	105.3%	91.8%	102.3%	99.4%
Loss Ratios⁽²⁾				
Personal Lines	60.0%	55.7%	58.7%	65.0%
Specialty Programs	39.9%	64.0%	51.4%	67.1%
International	81.9%	47.3%	68.4%	52.5%

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

(2) Loss ratio excludes impact of change in discount and foreign exchange rate on unpaid claims

Six-Month Review

Net operating income of \$3.9 million or \$0.33 per share was recorded for the six months ended June 30, 2014, compared to \$5.8 or \$0.49 per share in the first half of 2013. The decrease was due to an increase in underwriting loss to \$2.8 million compared to underwriting income of \$0.6 million for the same period in 2013.

Personal Lines generated an underwriting income of \$5.4 million with all geographies and product lines contributing strongly.

Specialty Programs recorded a \$1.1 million underwriting loss. Strong results in the second quarter were offset by a few large commercial property losses early in the year.

The International division produced an underwriting loss of \$5.0 million for the first half of the year. The performance was due to increased claims frequency in UK Auto, along with the establishment of additional IBNR. EGI's focus for the remainder of 2014 is to closely monitor underwriting profitability and ensure that it maintains sound risk management practices.

Direct written premiums increased by 38%, attributable primarily to a \$47 million or 121% growth in the International division.

Investment income was strong at \$11.6 million compared to \$10.4 million in the first six months of 2013. The total YTD pre-tax return on invested assets was \$15.8 million compared to \$3.1 million in the first half of 2013. The fair value of EGI's investment portfolio, including finance receivables, was \$499.6 million, up 4.0% from the beginning of the year.

Operating expenses incurred in the first six months of 2014 increased by 34% over the prior year, higher than the 30% increase in net earned premiums due to increased amortization on information technology related expenditures that will improve the analytical capabilities and customer service of the organization.

On a consolidated basis, a net favourable development of prior year claims of \$5.1 million was recorded in the six months ending June 30, 2014, compared to favourable development of \$4.2 million in the same period in 2013.

Overall net income was \$4.8 million, as compared to \$8.8 in the same period last year, due to a decrease in underwriting income.

Capital Management

The Minimum Capital Test (MCT) ratio of EGI's Canadian subsidiary, Echelon General Insurance Company, as at June 30, 2014, was 216%, which comfortably exceeds the supervisory regulatory capital level required by the Office of the Superintendent of Financial Institutions (OSFI).

In addition to excess capital at Echelon, the Company has approximately \$20 million of excess deployable capital invested in liquid assets in the holding company. All regulated entities remain well-capitalized.

In July 2014, EGI injected \$2 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 75% from 71% as at March 31, 2014, and 51% at the beginning of the year.

For the three months ended June 30, 2014, total shareholders' equity increased by \$1 million to \$176.5 million from March 31, 2014.

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.

Insurance Company of Prince Edward Island

EGI acquired 75% of the Insurance Company of Prince Edward Island (ICPEI) from SGI Canada for \$9.7 million. The transaction closed on June 30, 2014, and is accounted for commencing July 1, 2014. ICPEI is the largest Maritimes-based property and casualty insurance company, operating through independent brokers in Prince Edward Island, New Brunswick, and Nova Scotia.

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 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 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 8, 2014, at 11:00 a.m. (ET). The call-in numbers for participants are 647-427-7450 or toll free 1-888-231-8191, Conference ID 67668544. 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/1379857/1530485>

A replay of the call will be available until August 15, 2014. To access the replay, call 416-849-0833, or toll free 1-855-859-2056, enter password 67668544.

About EGI Financial Holdings Inc.

Founded in 1997, EGI Financial operates in the property and casualty insurance industry in Canada and Europe, primarily focusing on non-standard automobile insurance and other niche and specialty general insurance products.

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