EGI Financial Holdings Inc.

EGI FINANCIAL HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the quarter ending June 30, 2013

TABLE OF CONTENTS

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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 June 30, 2013, and 2012 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 second quarter of fiscal 2013 and 2012, 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 2012 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 June 30, 2013, and 2012.

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 operating income and underwriting ratios such as combined, expense and loss ratios. 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 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'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.

The following commentary is current as of August 8, 2013. Additional information relating to EGI is available on SEDAR at www.sedar.com. Certain totals, subtotals and percentages may not reconcile due to rounding.

QUARTERLY HIGHLIGHTS

1. **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**
2. **$0.28 or a 2% increase in book value per share to $14.37 from $14.09 at March 31, 2013 and an 11% increase from the second quarter of 2012**
3. **Net operating income of $0.43 per share compared to a loss of $0.05 per share in the second quarter of 2012**
4. **23% increase in direct written premiums over the same period in 2012 to $81.0 million**
5. **Underwriting income of $3.2 million, compared to a $4.3 million loss in the second quarter of 2012**
6. **Overall combined operating ratio of 94.1%, compared to 109.7% in the second quarter of 2012**

COMPANY OVERVIEW

EGI operates in the property and casualty ("P&C") insurance industry in Canada, the United States and Europe. The Company underwrites non-standard automobile insurance and other specialty insurance products, with a focus on opportunities not served by many of the larger, standard insurers.

EGI operates in Canada through 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 higher premium commercial property, primary and excess liability, and extended warranty.

Outside of Canada, EGI operates U.S. and International businesses. The U.S. is focused on non-standard automobile insurance in the Southeastern United States. It is currently writing insurance business in Florida and has licenses in Georgia, Alabama and Louisiana.

The International division underwrites specialty insurance programs in Europe through 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 is in the United Kingdom and Denmark.

The organization and nature of EGI's business are substantially the same as at the end of 2012. Refer to Note 1 of the annual 2012 consolidated financial statements.

OVERALL PERFORMANCE

For the quarter ended June 30, 2013, EGI's net income after income taxes was $8.2 million compared to a loss of $2.8 million for the second quarter of 2012. This increase in profitability was largely the result of an increase in underwriting income to $3.2 million compared to a loss of $4.3 million in the same period in 2012, and higher investment income of $5.6 million compared to $2.5 million in the same period in 2012, primarily due to higher realized gains. The impact of change in discount rate on unpaid claims in the second quarter of 2013 was a reduction of $1.8 million in claims incurred compared to an increase of $1.8 million in the same period in 2012.

Book value per share, which EGI management considers the most appropriate metric to measure the performance of the Company, increased by $0.28 or 2% in the quarter, to $14.37 from $14.09.

EGI's combined operating ratio decreased to 94% in the second quarter of 2013 from 110% in the second quarter of 2012. The Company's core Personal Lines division had a combined ratio of 85% while the Specialty Programs division produced a combined ratio of 109% in the quarter. The combined ratio for the U.S. division decreased significantly to 125% as a result of a greater proportion of more profitable renewable business and management actions detailed below. The International division's combined ratio of 92% has decreased as a result of increased earned premiums in the quarter and an improved claims ratio.

	3 months ended June 30		6 months ended June 30	
	2013	**2012**	**2013**	**2012**
Claims ratio (1)	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%

(1) Before the impact of discount rate change reducing unpaid claims by $1.8 million and $nil in the three and six months ended June 30, 2013, respectively, compared to a change increasing unpaid claims by $1.8 million for the corresponding three and six month period respectively in 2012

FINANCIAL OVERVIEW

The net income before taxes of $10.5 million in this quarter included the following items:

(i) Underwriting income of $4.5 million and $1.0 million in the Personal Lines and International Divisions respectively
(ii) Negative impact of cancelled programs in Specialty Programs of $0.5 million
(iii) Realized gains of $3.7 million in investment income
(iv) Favourable impact of the change in discount rate on claims of $1.8 million

	3 months ended June 30		6 months ended June 30	
($ THOUSANDS except per share amounts)	**2013**	**2012**	**2013**	**2012**
Direct written and assumed premiums	80,992	66,106	138,402	110,045
Net earned premiums	54,054	43,957	102,174	86,127
Underwriting income (loss) (1)	3,166	(4,273)	(1,282)	(5,249)
Investment income	5,584	2,501	10,649	8,461
Discount impact on claims	1,770	(1,811)	–	(1,811)
Income (loss) before taxes	10,520	(3,583)	9,367	1,401
Net income (loss)	8,218	(2,820)	7,308	974
Net operating income (loss) (2)	5,175	(559)	4,481	1,376
Net income (loss) per share				
Basic	$0.69	$(0.20)	$0.62	$0.13
Diluted	$0.68	$(0.20)	$0.61	$0.13
Return on equity (ROE) (3)	16%	3%	16%	3%
Net operating income (loss) per share – diluted	$0.43	$(0.05)	$0.37	$0.11

(1) Before the impact of discount rate change, reducing unpaid claims by $1.8 million and $nil in the three and six months ended June 30, 2013 respectively, compared to a change increasing the impact by $1.8 million for the corresponding three and six month periods respectively in 2012.

(2) Net operating income (loss) is a non-IFRS measure and defined as net income (loss) plus or minus after-tax impact of change in discount rate on unpaid claims, realized losses or gains on sale of investments less impairments and unrealized fair value changes on held-for-trading investments.

(3) Represents EGI's net income for the twelve months ended on the date indicated, divided by the average total equity over the same twelve-month period.

Net Operating Income

Details of Net Operating Income are as follows:

	3 months ended June 30		6 months ended June 30	
($ THOUSANDS)	**2013**	**2012**	**2013**	**2012**
Net income (loss)	8,218	(2,820)	7,308	974
Impact of discount rate	(1,770)	1,811	–	1,811
Realized gains (losses) on investments	(3,739)	642	(5,044)	(2,040)
Fair value change on HFT investments	1,466	44	1,175	(77)
Tax impact	1,092	(666)	1,045	84
Net operating income (loss)	5,267	(989)	4,484	752
Minority interest	(92)	430	(3)	624
Net operating income (loss) attributable to shareholders	5,175	(559)	4,481	1,376
Net operating income (loss) per share – diluted	$0.43	$(0.05)	$0.37	$0.11

Book Value per Share

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

($ THOUSANDS except shares outstanding and per share amounts)	As at June 30, 2013	As at December 31, 2012
Cash and short-term deposits	24,750	19,578
Investments	424,144	412,728
Total assets	590,167	547,028
Reserves	281,788	268,580
Total equity	167,867	166,603
Number of shares outstanding	11,685,132	11,914,932
Book value per share (1)	14.37	13.98

(1) Shareholders' equity divided by the number of shares issued and outstanding.

SEGMENTED FINANCIAL INFORMATION

Personal Lines

	3 months ended June 30				6 months ended June 30			
($THOUSANDS)	**2013**	**2012**	**$Variance**	**%Variance**	**2013**	**2012**	**$Variance**	**%Variance**
Direct written premiums	40,251	40,303	(52)	(0)%	67,838	70,100	(2,262)	(3)%
Net earned premiums	30,299	31,427	(1,128)	(4)%	59,601	62,904	(3,303)	(5)%
Net claims:								
Current year claims	19,603	20,016	(413)	(2)%	43,124	43,654	(530)	(1)%
Current year claims ratio	64.7%	63.7%			72.4%	69.4%		
Favourable prior year claim development	2,677	2,347	330	14%	4,146	4,432	(286)	(6)%
Total net claims	16,926	17,669	(743)	(4)%	38,978	39,222	(244)	(1)%
Claims ratio(1)	55.8%	56.2%			65.4%	62.4%		
Expense ratio	29.3%	30.6%			29.0%	29.2%		
Combined ratio(1)	85.1%	86.8%			94.4%	91.6%		
Underwriting income (1)	4,511	4,158	353	8%	3,361	5,296	(1,935)	(37)%

(1) Before the impact of discount rate change, reducing unpaid claims by $1.5 million and $nil in the three and six months ended June 30, 2013, respectively, compared to a change increasing the unpaid claims by $1.6 million for the corresponding three and six month periods respectively in 2012.

Second Quarter 2013

Personal Lines recorded underwriting income in the second quarter of 2013 of $4.5 million, compared to $4.2 million in the second quarter of 2012, an increase of $0.3 million.

The division's combined ratio decreased to 85% in this quarter as a result of the following factors:

1. Performance of Ontario non-standard auto, which recorded a combined ratio of 82% and underwriting income of $3.6 million in the second quarter compared to 88% and underwriting income of $2.3 million in the second quarter of 2012. There were no new large claims over $0.1 million in the second quarter in 2013 compared to three new large claims in the second quarter of 2012.

2. EGI's Personal Lines Auto outside Ontario and Specialty vehicles business which recorded a strong combined ratio of 83% in the quarter compared to 73% in the same period in 2012.

3. More positive development of prior year claims in the second quarter of 2013 compared to the same period in 2012.

Year-to-Date 2013

Personal Lines recorded underwriting income in the first six months of 2013 of $3.4 million, compared to an underwriting income of $5.3 million in the same period of 2012, a decrease of $1.9 million.

The division's combined ratio increased to 94% in the first six months as a result of the following factors:

1. A combined ratio of 101% in Ontario non-standard auto in the six months ended June 2013 compared to 94% in the same period of 2012. In 2013 the long winter in Ontario had a negative impact on the severity of claims received in the first quarter. No material changes were made in

underwriting standards or brokers from previous quarters.

2. EGI's Motorcycle and Personal Lines business outside of Ontario recorded a strong combined ratio of 83% in the six months ended June 2013 compared to an 87% combined ratio in the same period in 2012.

3. Lower positive development of prior year claims in the second quarter of 2013 compared to the same period in 2012.

Specialty Programs

	3 months ended June 30				6 months ended June 30			
($THOUSANDS)	**2013**	**2012**	**$Variance**	**%Variance**	**2013**	**2012**	**$Variance**	**%Variance**
Direct written premiums	13,853	13,522	331	2%	24,622	23,344	1,278	5%
Net earned premiums	8,201	8,242	(41)	(0)%	16,500	16,623	(123)	(1)%
Net claims:								
Current year claims	5,559	4,581	978	21%	11,145	9,893	1,252	13%
Current year loss ratio	67.8%	55.6%			67.5%	59.5%		
Favourable prior year claim development	493	(4,065)	4,558	112%	393	(2,314)	2,707	117%
Total net claims	5,066	8,646	(3,580)	(41)%	10,752	12,207	(1,455)	(12)%
Claims ratio(1)	61.8%	104.9%			65.2%	73.4%		
Expense ratio	46.7%	48.4%			46.9%	46.7%		
Combined ratio(1)	108.5%	153.3%			112.1%	120.1%		
Underwriting income (loss) (1)	(700)	(4,390)	3,690	84%	(2,001)	(3,348)	1,347	40%
Underwriting income (loss) on active programs (1)	(228)	960	(1,188)	(124)%	(1,045)	2,430	(3,475)	(143)%
Underwriting income (loss) on cancelled programs (1)	(472)	(5,350)	4,878	91%	(956)	(5,778)	4,822	83%

(1) Before the impact of discount rate change, reducing unpaid claims by $0.4 million and $nil in the three and six months ended June 30, 2013 respectively, compared to a change increasing the impact by $0.2 million for the corresponding three and six month period respectively in 2012.

Second Quarter 2013

Direct written premiums increased by $0.3 million or 2% in the second quarter of 2013 as a result of property programs from the expansion into Western Canada.

Specialty Programs recorded an underwriting loss of $0.7 million compared to an underwriting loss of $4.4 million recorded in the second quarter of 2012. The division's combined ratio decreased to 109% in this quarter compared to 153% in the same period last year as a result of the following factors:

1. An underwriting loss of $0.5 million on cancelled programs in Q2 2013 compared to an underwriting loss of $5.4 million in the same quarter in 2012.

2. The Liability line of business broke even in Q2 2013 compared to underwriting losses of $4.1 million in Q2 2012.

3. Positive prior year claims development of $0.5 million compared to negative development of $4.1 million in the second quarter of 2012.

4. Partially offsetting these improvements in liability was deterioration of commercial property to an underwriting loss of $0.4 million in 2013 compared to an underwriting income of $0.3 million in 2012.

5. 2013 includes an impact of $0.2 million from the Alberta floods.

Year-to-Date 2013

Direct written premiums increased by $1.3 million or 5% in the first six months of 2013 as a result of property programs from the expansion in Western Canada.

Specialty Programs recorded an underwriting loss of $2.0 million compared to an underwriting loss of $3.3 million recorded in the first six months of 2012. The division's combined ratio decreased to 112% from 120% in 2012 as a result of the following factors:

1. This business segment was also impacted by an underwriting loss of $1.0 million on cancelled programs for the six months ended June 30, 2013, compared to an underwriting loss of $5.8 million in the same period in 2012.

2. The liability line of business experienced underwriting losses of $0.1 million in the six months ended June 30, 2013, compared to $3.7 million in the same period in 2012.

3. Positive prior year claims development of $0.4 million compared to negative development of $2.3 million in the same period of 2012.

4. Western Canada expansion had $4.5 million of written premiums with a combined ratio of 69%.

5. Offsetting these improvements in liability was deterioration of commercial property to an underwriting loss of $1.8 million in 2013 compared to an underwriting income of $0.6 million in 2012.

6. 2013 includes an impact of $0.2 million from the Alberta floods.

U.S. Division

	3 months ended June 30				6 months ended June 30			
($THOUSANDS)	**2013**	**2012**	**$Variance**	**%Variance**	**2013**	**2012**	**$Variance**	**%Variance**
Direct written premiums	2,871	3,251	(380)	(12)%	7,041	7,109	(68)	(1)%
Net earned premiums	3,607	3,115	492	16%	7,161	5,265	1,896	36%
Net claims:								
Current year claims	3,084	4,353	(1,269)	(29)%	5,901	6,860	(959)	(14)%
Current year loss ratio	85.5%	139.7%			82.4%	130.3%		
Favourable prior year claim development	(190)	116	306	264%	(504)	138	(642)	(465)%
Total net claims	3,274	4,237	(963)	(23)%	6,405	6,722	(317)	(5)%
Claims ratio	90.8%	136.0%			89.4%	127.7%		
Expense ratio	34.6%	36.8%			36.4%	45.3%		

	3 months ended June 30				6 months ended June 30			
($THOUSANDS)	2013	2012	$Variance	%Variance	2013	2012	$Variance	%Variance
Combined ratio	125.4%	172.8%			125.8%	173.0%		
Underwriting income (loss)	(915)	(2,267)	1,352	60%	(1,847)	(3,841)	1,994	52%

Second Quarter 2013

The U.S. division recorded an underwriting loss of $0.9 million in the second quarter compared to a loss of $2.3 million in the comparable period in 2012. The improvement was the result of the following items:

1. Exit from the Texas market with claims currently in run off status.
2. Newly implemented underwriting and pricing changes toward the end of 2012 in Florida.
3. Greater proportion of more profitable renewal business against the comparable quarter.
4. Improved expense coverage due to the larger earned premiums.
5. The improvement was offset partially by $0.2 million negative development of prior year claims in the second quarter compared to a positive development of $0.1 million in the same period of 2012.

Year-to-Date 2013

The U.S. division recorded an underwriting loss of $1.8 million in the first six months of 2013 compared to a loss of $3.8 million in first six months of 2012. The improvement was the result of the following items:

1. Exit from the Texas market with claims currently in run off status.
2. Newly implemented underwriting and pricing changes toward the end of 2012 in Florida.
3. Greater proportion of more profitable renewal business against the comparable period.
4. Improved expense coverage due to the larger earned premiums.
5. The improvement was offset partially by $0.5 million negative development of prior year claims in the second quarter compared to a positive development of $0.1 million in the same period of 2012.

The full impact of auto reforms that took effect in Florida on January 1, 2013, cannot be assessed until late in the year. The industry continues to witness legal and political difficulties with its implementation.

International Division

	3 months ended June 30				6 months ended June 30			
($THOUSANDS)	2013	2012	$Variance	%Variance	2013	2012	$Variance	%Variance
Direct written premiums	24,016	9,030	14,986	166%	38,900	9,492	29,408	310%
Net earned premiums	11,947	1,173	10,774	918%	18,912	1,335	17,577	1,317%
Net claims:								
Current year claims	5,407	762	4,645	610%	9,558	879	8,679	99%
Current year loss ratio	45.3%	65.0%			50.5%	65.8%		
Favourable prior year claim	(245)	–	(245)	N/A	(380)	–	(380)	N/A

	3 months ended June 30				6 months ended June 30			
($THOUSANDS)	2013	2012	$Variance	%Variance	2013	2012	$Variance	%Variance
development								
Total net claims	5,652	762	4,890	642%	9,938	879	9,059	1,031%
Claims ratio(1)	47.3%	65.0%			52.5%	65.8%		
Expense ratio	44.2%	109.6%			43.9%	159.9%		
Combined ratio	91.5%	174.6%			96.4%	225.7%		
Underwriting income (loss) (1)	1,015	(874)	1,889	216%	682	(1,677)	2,359	141%

(1) Before the impact of discount rate change increasing unpaid claims by $0.1 million and $nil in the three and six months ended June 30, 2013, respectively, compared to $nil for the corresponding three and six month period respectively in 2012

Second Quarter 2013

The International division, which began writing business in the first quarter of 2012, recorded $24.0 million of written premiums in the second quarter of 2013 compared to $9.0 million in the same period in 2012, an increase of $15.0 million. The strong growth in written premiums is due to the increase in the number of programs offered. At the end of the second quarter the International division wrote 26 programs, mainly in the UK and Denmark.

The International division recorded an underwriting income of $1.0 million in the second quarter compared to a loss of $0.9 million in the comparable period in 2012. This is as a result of:

1. Higher earned premiums as the business begins to mature reducing the claims and expense ratios.
2. Decrease in the division’s claims ratio to 47% from 65%. The improvement comes from the motorcycle product which had a claims ratio of 58% in the second quarter of 2013 compared to an 81% claims ratio in the same period in 2012.
3. The above were partially offset by $0.2 million of negative development in Q2 2013 compared to no development in the same period in 2012.

Year-to-Date 2013

The International division recorded $38.9 million of written premiums in the first six months of 2013 compared to $9.5 million in the first six months of 2012, an increase of $29.4 million.

The International division recorded an underwriting income of $0.7 million in first six months of 2013 compared to a loss of $1.7 million in the first six months of 2012. This is as a result of:

1. Higher earned premiums as the business begins to mature reducing the claims and expense ratios.
2. Decrease in the division’s claims ratio to 53% from 66%. The improvement comes from the motorcycle product which had a claims ratio of 59% in the first six months of 2013 compared to an 81% claims ratio in the same period in 2012 as a result of not writing business in the traditionally low claims season in the first quarter.
3. The above were partially offset by $0.4 million of negative development in the first six months of 2013 compared to no development in the same period in 2012.

CONSOLIDATED FINANCIAL RESULTS

The following financial information compares second quarter 2013 results with the second quarter of 2012.

($ THOUSANDS)	2nd Quarter 2013	2nd Quarter 2012	Variance $	Variance %
Direct written and assumed premiums	80,992	66,106	14,886	23%
Net written premiums	72,070	57,381	14,689	26%
Net earned premiums	54,054	43,957	10,097	23%
Other revenue	205	530	(325)	(61)%
Claims incurred	30,918	31,314	(396)	(1)%
Acquisition costs	13,265	10,733	2,532	24%
Operating expenses	6,910	6,713	197	3%
Underwriting income (loss) (1)	3,166	(4,273)	7,439	174%
Investment income	5,584	2,501	3,083	123%
Impact of discount rate on claims	1,770	(1,811)	3,581	198%
Net income before income taxes	10,520	(3,583)	14,103	394%
Income tax expense (recovery)	2,302	(763)	3,065	402%
Net income (loss)	8,218	(2,820)	11,038	391%
Net operating income (loss) attributable to shareholders	5,175	(559)	5,734	1,026%

(1) Before impact of discount rate change, reducing the unpaid claims by $1.8 million in the three months ended June 30, 2013, compared to a change increasing the impact by $1.8 million for the corresponding three month period in 2012.

Additional Income Statement Analysis

Second Quarter 2013

Written Premiums

In the three months ended June 30, 2013, direct written premiums increased $14.9 million, or 23%, to $81.0 million compared to $66.1 million in the same period last year. The increase resulted mainly from the International division.

Net Written Premiums

For the three months ended June 30, 2013, net written premiums increased by $14.7 million or 26% to $72.1 million compared to $57.4 million for the same period in 2012. This increase was consistent with the increase in direct written premiums in the international division.

Earned Premiums

For the three months ended June 30, 2013, net earned premiums increased by $10.1 million or 23% to $54.1 million compared to $44.0 million in the same period in 2012. The increase in net earned premiums is due to International net written premiums being largely earned.

Operating Expenses

For the three months ended June 30, 2013, operating expenses increased by $0.2 million or 3% to $6.9 million compared to $6.7 million in the same period in 2012, despite a 23% increase in earned premiums, due to a concerted effort by management to control expenses.

Income Taxes

The effective tax rate of 27% recorded in the second quarter of 2013 was slightly lower than the 27.5% rate used in the second quarter of 2012. For the three months ended June 30, 2013, income tax expense increased by $3.1 million or 402% to $2.3 million compared to a $0.8 million recovery in the same period in 2012. The increase is a direct result of the increased net income in the period.

Discount Rate

The discount rate used as at June 30, 2013, increased to 2.65% from 2.29% at March 31, 2013, and is unchanged from 2.65% at December 31, 2012. This compares to 3.10% used on June 30, 2012, 3.50% on March 31, 2012 and 3.50% on December 31, 2011.

The change in discount rate in June 2013 from March 2013 created a $1.8 million profit in the quarter compared to $1.8 million expense for the same period in 2012. This impact is not included in the claims ratio analysis previously discussed.

BALANCE SHEET ANALYSIS

The Balance Sheet analysis that follows should be read in conjunction with the unaudited condensed consolidated interim financial statements for the second quarter of 2013 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 has outsourced buy/sell decisions on individual securities to a small number of reputable professional investment managers. Using the "prudent person" approach, EGI monitors the performance of each manager, measuring his or her performance against an appropriate market index benchmark.

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.

There has been no significant change in the Company's investment policy since the end of 2012.

The following table sets forth EGI's invested assets as at June 30, 2013, and December 31, 2012.

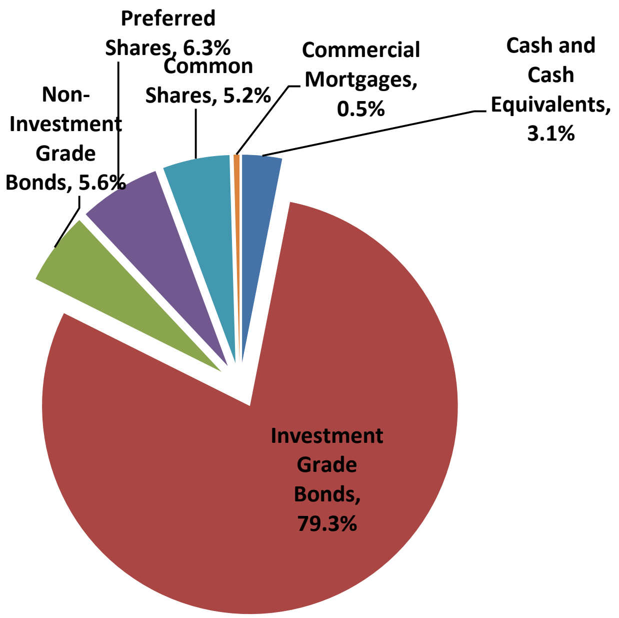
Available-for-sale	**Carrying and fair values**	
	June 30, 2013	**December 31, 2012**
Bonds		
Government	169,008	192,540
Corporate	202,686	178,101
Total bonds	371,694	370,641
Commercial Mortgages	2,000	–
Common shares	22,756	16,941
Total available-for-sale	396,450	387,582
Fair Value through profit or loss		
Preferred shares	27,694	25,146
Total investments	424,144	412,728

EGI's investment portfolio including finance receivables, based on fair values, increased to $457.3 million, or 8.5%, compared to total fair values of $421.3 million as at June 30, 2012.

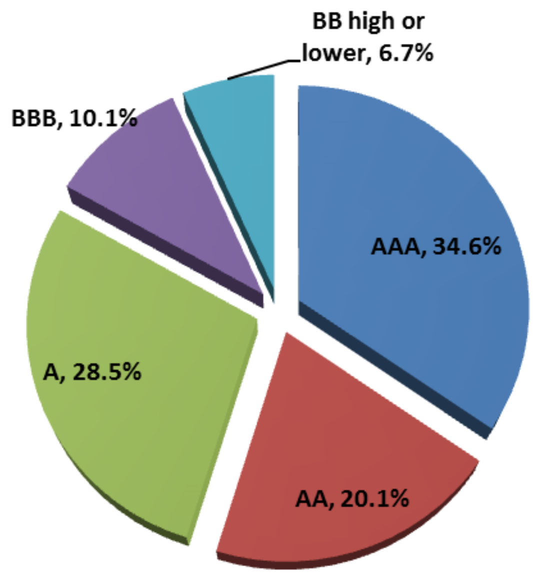
The chart below shows the investment portfolio mix in Q2 2013 and ratings for the fixed income securities.

We continue to have a conservative fixed income portfolio with 93.3% being investment grade and 54.7% at AA or higher with an average rating of A+.

Investment Portfolio – Q2 2013



EGI Bond Ratings – Q2 2013



The Company participates in a securities lending program managed by a federally regulated financial institution whereby the Company lends securities it owns to other financial institutions to allow them to meet their delivery commitments. The Company receives collateral for securities loaned and income is recorded as part of investment income. At June 30, 2013 securities, which are included in invested assets, with a fair value of $88 million (December 31, 2012 – nil) have been loaned. Securities with a fair value of $93 million (December 31, 2012 – nil) were received as collateral. The collateral received has not been recorded on the Company's consolidated balance sheet.

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 an impairment loss of $896 million recognized in the second quarter of 2013 with $1,947 million recognized in 2012. The majority of this write down was due to the impact of the increase in bond rates in the quarter reducing the fair value.

Recoverable from Reinsurers

($ THOUSANDS)	As at June 30, 2013	As at December 31, 2012
Reinsurers' share of unpaid claims	30,942	30,283
Reinsurers' share of unearned premiums	12,983	9,169
Total	43,925	39,452

As at June 30, 2013, the recoverable from reinsurers increased to $43.9 million compared to $39.4 million as at December 31, 2012. The increase was due to the high percentage of reinsurance on programs written by the International division. 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.

Accounts Receivable

($ THOUSANDS)	As at June 30, 2013	As at December 31, 2012
Premium financing receivables	19,645	16,316
Agents and brokers	21,797	13,749
Other	7,029	5,512
Total	48,471	35,577

Premium financing receivables increased to $19.6 million at June 30, 2013, from $16.3 million at December 31, 2012, due to the seasonality of motorcycle receivables. The majority of the Personal Lines business is billed directly to policyholders and remitted on a monthly basis. The increase in agent and broker receivables from $13.7 million in 2012 to $21.8 million in 2013 was due mainly to an increase in balances due to Qudos in line with the increase of written premiums.

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 actuary. Provisions for unpaid claims are discounted to present value. The discount rate used for June 30, 2013, was 2.65%, unchanged from 2.65% at the end of 2012.

Subsequent Event

On August 8, 2013, the Company entered into a definitive stock purchase agreement to sell EGI Insurance Services, Inc. and all its subsidiary companies, including American Colonial Insurance Company, a Florida domiciled insurance company, and EGI Insurance Services (Florida), Inc., a Florida based managing general agency. The transaction will result in a reduction of book value of $5,700, before tax, on closing and the U.S. segment will be classified as a discontinued operation, which will be reflected in the third quarter financial statements.

The transaction is expected to close in the fall, subject to regulatory approval.

Share Capital

As of August 8, 2013, there were 11,654,032 common shares issued and outstanding.

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 $4.6 million is due over the next five 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.

Normal Course Issuer Bid

On March 30, 2012, the Company received approval from the TSX to commence a normal course issuer bid 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 a normal course issuer bid 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.

As at August 7, 2013, the Company has purchased and cancelled 263,900 common shares under the normal course issuer bid programs at an average cost of $10.48 per share for a total consideration of $2.8 million.

In the second quarter of 2013, the Company purchased and cancelled 208,300 common shares under the Normal Course Issuer Bid programs at an average cost of $10.46 per share for a total consideration of $2.2 million.

The Company believes that it is in the best interest of the Company to purchase shares for cancellation because management believes the shares are trading at a significant discount relative to their value.

Capital Resources

The total capitalization of EGI at June 30, 2013, was $166.7 million compared to $165.4 million at December 31, 2012.

The MCT ratio of Echelon General, EGI's largest subsidiary, was 236% at June 30, 2013. This is well in excess of internal and supervisory targets. All other regulated entities remain well capitalized. In addition to the excess capital at Echelon General, EGI has approximately $35 million of excess capital in the holding company and its Barbados reinsurance company, CIM Re.

Equity		
($ THOUSANDS)	**As at June 30, 2013**	**As at December 31, 2012**
Common shares	66,897	68,244
	(11,685,132 shares)	(11,914,932 shares)
Retained earnings	97,424	91,237
Contributed surplus	1,266	1,068
Accumulated other comprehensive income	2,280	6,054
Non-controlling Interest	(1,197)	(1,200)
Total capitalization	166,670	165,403

SUMMARY OF QUARTERLY RESULTS

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

	2013		2012				2011	
($ THOUSANDS EXCEPT PER SHARE DATA)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Direct written and assumed premiums	80,992	57,410	52,326	57,778	66,106	43,939	44,324	46,966
Net earned premiums	54,054	48,120	46,713	45,735	43,957	42,170	42,375	41,672
Underwriting income (loss)(1)	3,166	(4,448)	1,833	181	(4,309)	(976)	1,450	471
Income (loss) before income taxes	10,520	(1,153)	6,428	19,057	(3,583)	4,984	6,097	165
Net income (loss)	8,218	(910)	4,513	13,879	(2,820)	3,794	3,254	(171)
Earnings (loss) per adjusted share								
(a) Basic	$0.69	$(0.07)	$0.40	$1.17	$(0.20)	$0.33	$0.29	$(0.01)
(b) Diluted	$0.68	$(0.07)	$0.38	$1.17	$(0.20)	$0.33	$0.29	$(0.01)
Net operating income (loss) per share - diluted	$0.43	$(0.06)	$0.38	$0.23	$(0.05)	$0.16	$0.22	$0.18
Selected financial ratios (%)								
Claims ratio(1)	57.2%	73.1%	55.8%	61.4%	71.2%	65.7%	59.2%	63.0%
Expense ratio	36.9%	36.1%	40.3%	38.3%	38.5%	36.6%	37.4%	35.9%
Combined(1)	94.1%	109.2%	96.1%	99.7%	109.7%	102.3%	96.6%	98.9%

(1) Before adjusting for change in discount rate on claims

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.

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 June 30, 2013.

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 June 30, 2013. 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 June 30, 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 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 June 30, 2013, 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 June 30, 2013, 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 June 30, 2013, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.