

## EGI Financial Reports 2008 Year End Results

*Net Operating Income Up 35% in Q4, Despite Difficult Market Conditions*

**TORONTO, February 23, 2009** - EGI Financial Holdings Inc. (TSX: EFH) today announced its results for the fourth quarter and year ended December 31, 2008.

“In the face of unprecedented turmoil in worldwide financial markets, our disciplined underwriting philosophy has enabled our Company to continue generating profits and year-over-year growth in 2008. In a tough operating environment within the Canadian P&C industry, we successfully drove significant organic growth within our Personal Lines division, while maintaining solid underwriting results and with an encouraging auto insurance combined ratio of 92.9%. After encountering unsatisfactory results earlier in 2008, in the Niche Products division’s Emergency Travel Health (“ETH”) program from the 2007/2008 travel season, we are pleased with the dramatic year-over-year improvement following our extensive reengineering of the program for the 2008/2009 season”, said Douglas McIntyre, Chief Executive Officer of EGI Financial. “With a loss ratio of 58.8% generated in the ETH 2008/2009 travel season as of December 31, 2008 and all other programs in the Niche Products division performing well, the Company is positioned to perform in line with our longer-term expectations of above average industry return in 2009.”

<b>\$000s</b>	<b>3 months ended Dec. 31, 2008</b>	<b>3 months ended Dec. 31, 2007</b>	<b>% Change</b>	<b>12 months ended Dec. 31, 2008</b>	<b>12 months ended Dec. 31, 2007</b>	<b>% Change</b>
Direct written and assumed premiums	\$39,948	\$43,098	(7.3)%	\$170,730	\$157,935	8.1%
Net written and assumed premiums	36,644	39,257	(6.7)%	158,107	146,511	7.9%
Net earned premiums	39,547	34,161	15.8%	157,255	119,606	31.5%
Underwriting income (loss)	(489)	868	(156.3)%	163	10,241	(98.4)%
Investment income (loss)	(2,481)	5,049	(149.1)%	10,009	12,954	(22.7)%
Net income (loss)	(2,323)	3,727	(162.3)%	5,979	15,065	(60.3)%
Net income (loss) per diluted share	(0.19)	0.35	(154.3)%	0.53	1.45	(63.4)%
Book value	10.16	10.50	(3.2)%	10.16	10.50	(3.2)%
Net operating income	\$3,037	\$2,256	34.6%	\$9,083	\$12,957	(29.9)%
Net operating income per share -diluted	\$0.24	\$0.22	9.1%	\$0.80	\$1.24	(35.4)%

## **Fourth Quarter Highlights**

Net operating income, defined as net income plus/minus after-tax realized losses/gains on investments, including 'other than temporary' impairments, increased \$0.8 million to \$3.0 million in the final quarter of 2008 compared to \$2.2 million in the same period in 2007. In the last three months of 2008, net operating income consisted of a net loss of \$2.3 million, including a downward market yield adjustment of \$1.1 million, plus after-tax realized losses on investments, including impairments, of \$5.3 million, as compared to net income of \$3.7 million less after-tax realized gains on investments of \$1.5 million, in 2007.

	<b>Q4 2008</b>	<b>Q4 2007</b>	<b>Change</b>	<b>YTD 2008</b>	<b>YTD 2007</b>	<b>Change</b>
Net income (loss)	\$(2,323)	\$ 3,727	(162.3)%	\$ 5,979	\$15,065	(60.3) %
Add losses (deduct gains) from sales of investments	7,998	(2,297)	(448.2)%	4,833	(3,350)	(244.2)%
Tax impact	(2,638)	828	(419.5)%	(1,729)	1,242	(239.2)%
Net operating income	\$ 3,037	\$ 2,256	34.6%	\$ 9,083	\$12,957	(29.9)%
Net operating income per share – diluted	\$0.24	\$0.22	9.1%	\$0.80	\$1.24	(35.4)%
Net operating income Per share - basic	\$0.26	\$0.23	13.0%	\$0.86	\$1.34	(35.8)%

The significant improvement in net operating income in the fourth quarter of 2008, compared to 2007, is primarily related to the improved results in the ETH line of business and the foreign exchange gain of \$2.3 million on U.S. funds held to offset the related claims liabilities.

In the fourth quarter of 2008, EGI Financial generated direct written and assumed premiums totaling \$40.0 million, 7.3% below the \$43.1 million recorded in the fourth quarter of 2007. This decrease was the result of the planned reduction in premiums generated by the Niche Products division's ETH line of business. This line of business generated \$3.5 million of premiums, a decrease of \$8.0 million, compared to the \$11.5 million in the final quarter of 2007. The lower premiums in the ETH line of business is due to stricter underwriting restrictions put in place for the 2008/2009 travel season to return this line of business to profitability. Excluding the decline in ETH business, the Niche Products division continued to generate premium growth in the last quarter of 2008, with premiums written of \$10.1 million, an increase of \$2.4 million or 31.2% over the same period last year. In our Personal Lines division, direct written and assumed premiums increased \$0.5 million to \$22.2 million, an increase of 2.3% from 2007. In the International division assumed premiums increased \$1.9 million or 86.4% to \$4.1 million compared to \$2.2 million in the last quarter of 2007.

Net written and assumed premiums decreased \$2.7 million, or 6.9%, to \$36.6 million compared to \$39.2 million in the same period last year. This decrease is consistent with the decrease in direct written and assumed premiums in the period compared to 2007.

Net earned premiums for the three months ended December 31, 2008, totaled \$39.5 million, an increase of \$5.3 million, or 15.5% compared to \$34.2 million in the fourth quarter of 2007. The growth in earned premiums was achieved despite the decrease in net premiums written in the final quarter of 2008. This is the result of growth in lines of business other than ETH. As ETH premiums are earned primarily during the winter months (December to March), the premium

decline in this line of business in the fourth quarter of 2008 will not fully impact net earned premiums until the first quarter of 2009.

Both the Personal Lines and Niche Products divisions recorded underwriting gains in the fourth quarter of 2008 of \$0.5 million and \$0.2 million respectively. The Personal Lines result represents a decrease in underwriting income of \$1.5 million compared to the underwriting income of \$2.0 million in the fourth quarter of 2007. This was primarily due to an increase in the loss ratio to 70.2% in 2008 compared to 61.0% for the fourth quarter of 2007. The fourth quarter 2008 loss ratio was negatively impacted by a market yield adjustment due to the decline in the actuarial discount rate from 2.8% used in 2007 to 2.45% in 2008, which depressed our reported Canadian underwriting income by approximately \$1.0 million. The significant improvement in the Niche Products division from a loss of \$1.0 million in 2007 was primarily attributable to a decline in the loss ratio due to the improvement in the ETH line of business for the current 2008/2009 travel season. The International division which is still in its start-up phase incurred an underwriting loss of \$1.0 million as a result of adverse claims experience and development during the quarter. The International division has exited the third-party assumed reinsurance business to focus on becoming an insurer of U.S. business at the earliest possible time.

The combined ratio for the fourth quarter of 2008 (being the addition of the ratio of net losses incurred to net earned premiums and the ratio of underwriting expenses to net earned premiums) increased to 101.2% compared with 97.4% for the same period last year. EGI Financial believes that the full year combined ratio is the best measure of the profitability of its underwriting business.

The loss ratio in the quarter ended December 31, 2008 (being net losses incurred expressed as a percentage of net earned premiums) was 68.7%, while the expense ratio (being expenses incurred expressed as a percentage of net earned premiums) was 32.5%. This compares with 65.1% and 32.3% respectively in the same period of 2007. Note that the fourth quarter 2008 loss ratio includes the negative impact of the market yield adjustment of \$1.1 million. The Personal Lines division loss ratio increased to 70.4% from 61.0% in the fourth quarter of 2007. The increase in the loss ratio was due to a decline in favourable loss development of prior year claims to \$0.1 million from \$2.0 million in the same period in 2007. The International division which is in its start-up phase saw its loss ratio increase to 90.3% in the fourth quarter compared to 72.1% in the previous year. The increase in 2008 was primarily due to adverse claims experience resulting from unfavourable loss development of 2007 accident year claims of \$0.3 million from assumed reinsurance business written in this division.

The Niche Products division recorded a much improved loss ratio of 56.5% for the quarter compared to 73.4% for the fourth quarter of 2007. The significant improvement is primarily due to the improvement in the ETH line of business loss ratio in 2008. As a result, the loss ratio for the ETH 2008/09 travel season as of December 31, 2008, was 58.8%, representing a significant improvement from the 91.9% loss ratio generated in the ETH 2007/2008 travel season as of December 31, 2007.

In the final quarter of 2008 income from investments decreased significantly to a net loss on investments of \$2.5 million compared to investment income of \$5.1 million in the final quarter of 2007. The result was due to the realization of losses of \$3.3 million on the sale of investments during the quarter, and the recording of investment impairments of \$4.7 million in the period brought on by the steep and prolonged downturn in the financial markets. Partially offsetting the

realized losses on sale of investments and impairments recorded in the quarter were foreign exchange gains of \$2.3 million. The gain resulted from the relative weakening of the Canadian dollar during the quarter and its positive impact on the value of bank balances held in U.S. currency to support related claims liabilities denominated in U.S. currency.

EGI has minimal exposure to non-bank asset backed commercial paper (ABCP) in its investment portfolio.

For the quarter ended December 31, 2008, the net loss before income taxes was \$3.3 million compared to net income of \$5.7 million for the final quarter of 2007, resulting from a higher combined ratio of 101.2%, compared to 97.5% for the same period in 2007, and the above mentioned investment losses and impairments compared to the gains in the prior 2007 period. The significant decline in the performance of the Company's investment portfolio led to a fully diluted loss per share of \$0.19 in the fourth quarter of 2008, compared to earnings of \$0.35 per share for the fourth quarter of 2007. Also negatively impacted due to the above mentioned decline in investment returns was the annualized return on equity on a last-twelve-months basis which fell to 5.4%, from 16.1% as of December 31, 2007, and 11.0% as of the end of the third quarter of 2008.

Q4 2008 Personal Lines division performance:

- Net earned premiums increased to \$25.5 million from \$22.5 million in 2007
- Underwriting income decreased to \$0.5 million from \$2.1 million in 2007\*
- Combined ratio of 98.2% compared with 90.9% for the 2007 period

Q4 2008 Niche Products division performance:

- Net earned premiums increased to \$10.2 million from \$9.2 million in 2007
- Underwriting income increased to \$0.2 million from a loss of \$1.0 million in 2007\*
- Combined ratio of 98.2% compared with 110.5% for the 2007 period

Q4 2008 International division performance:

- Net earned premiums increased to \$3.8 million from \$2.4 million in 2007
- Underwriting loss increased to \$1.0 million compared to a loss of \$0.1 million in 2007\*
- Combined ratio of 126.2% compared with 103.0% for the 2007 period

\*Note: The underwriting income for 2008 and 2007 was net of \$0.1 million of corporate and other expenses, for each period, which have not been allocated by division.

## **2008 Full Year Highlights**

For the year ended December 31, 2008, EGI Financial generated direct written and assumed premiums totaling \$170.7 million, 8.1% above the \$157.9 million level in the corresponding period last year. Premium growth has been achieved in both Canadian divisions in 2008. Despite difficult market conditions in the P&C Industry, direct written premiums from Personal Lines increased to \$107.5 million from \$97.4 million in 2007, an increase of 10.4%. Non-standard auto recorded growth of 6.3% and the motorcycle line achieved growth of 20.1% compared to the same period in 2007. The Niche Products division recorded written premiums of \$49.3 million in the year ended December 31, 2008 compared to \$48.1 million for the same period of 2007 for a growth rate of 2.5%. This increase has been achieved despite a significant decrease of \$7.6 million in the ETH written premiums to \$11.5 million from \$19.1 million in 2007. All other Niche lines of business recorded significant growth in 2008 compared to 2007 and management continues to view this division as a primary source of growth for EGI.

Net written and assumed premiums increased \$11.6 million, or 7.9%, to \$158.1 million compared to \$146.5 million in the same period last year. This increase is consistent with the increase in direct written and assumed premiums in the period compared to 2007.

For the year ended December 31, 2008 total underwriting contribution decreased \$10.0 million to an underwriting gain of \$0.2 million, compared to an underwriting gain of \$10.2 million for the comparable period in 2007.

The combined ratio for the year ended December 31, 2008 was 99.9% compared with 91.4% for the same period last year. The loss ratio in the 2008 period was 67.3% and the expense ratio was 32.6%. This compares with 59.5% and 31.9% respectively in the same period last year.

The Personal Lines division loss ratio was 65.6% for the year compared to 59.1% in 2007. The primary reason for the increase in the loss ratio was the decline in favourable loss development, related to prior year claims, to \$5.1 million compared to \$11.9 million in 2007. The Niche Products division loss ratio was 66.0% in 2008 compared to 56.1% for the full year 2007. The increase was the result of adverse claims experience in the ETH line of business related to the 2007/08 travel season. The loss ratio for the International division was 85.7% in 2008 compared to 73.9% in the prior year due to higher than expected claims incurred from assumed reinsurance arrangements.

Investment income for the year ended December 31, 2008 was \$10.0 million compared to \$12.9 million for the same period in 2007. The decline reflects \$4.7 million of investment impairments recorded at year end, as a result of the deep and prolonged drop in value of Canadian equities and the uncertainty of recovery. The net realized loss on investment of \$0.1 million compares to net realized gains on disposal of investments of \$3.4 million earned in 2007. Partly offsetting the net losses on investments were foreign exchange gains of \$2.7 million in 2008 derived from funds held in U.S. currency and the impact of the weakened Canadian dollar in 2008.

Net operating income, defined as net income plus/minus after-tax realized losses/gains on investments, including impairments, was \$9.2 million for the year ended December 31, 2008 compared to \$12.9 million in 2007. The decrease of \$3.7 million, or 29%, is much lower than the decline in net income primarily due to the investment impairments of \$4.7 million recorded at year end 2008

Net income before taxes decreased 60.7%, to \$9.0 million for the year ended December 31, 2008, compared to \$22.9 million for the same period in 2007, due primarily to the increase in the loss ratio and investment losses in 2008. Fully diluted net income per share, on the same basis, was \$0.53 in the 2008 period, compared to \$1.45 in the same period last year, a decrease of 63.4%.

Year ended December 31, 2008, Personal Lines division performance:

- Net earned premiums increased 12.5% to \$98.7 million
- Underwriting income decreased 33.8% to \$7.1 million\*
- Combined ratio of 92.9% compared with 87.8% in 2007

Year ended December 31, 2008, Niche Products division performance:

- Net earned premiums increased 92.5% to \$46.0 million
- Underwriting loss of \$3.2 million versus gain of \$0.3 million in 2007\*
- Combined ratio of 106.9% compared with 98.8% in 2007

Year ended December 31, 2008, International division performance:

- Net earned premiums increased 57.2% to \$12.6 million
- Underwriting loss of \$2.4 million versus breakeven in 2007\*
- Combined ratio of 119.1% compared with 100.2% in 2007

\*Note: The underwriting income for 2008 and 2007 was net of \$1.3 million and \$0.7 million of corporate and other expenses, respectively, which have not been allocated by division. The increase in corporate and other expenses in 2008 was due to expenses associated with potential acquisition reviews during the year.

EGI Financial also announced that its Board of Directors has declared a dividend increase to \$0.07 per common share, payable on March 27, 2009 to shareholders of record on March 13, 2009.

For the year ended December 31, 2008, approximately 29% of EGI Financial's revenue was generated within the Niche Products division, 8% within the International division and the remaining 63% generated within the Personal Lines division. Geographically, EGI's business in 2008 was derived from Ontario (61%), Quebec (15%), Alberta (6%), British Columbia (5%), other jurisdictions in Canada (5%) and United States (8%).

The annualized ratio of net written premiums to shareholders' equity for the year ended December 31, 2008 was 1.3 times compared to 1.4 times at December 31, 2007. This level of leverage continues to be well below the 2.5:1 ratio which management feels is fully leveraged capital. Echelon's Minimum Capital Test (MCT) margin at December 31, 2008 was 268%, providing EGI Financial with the financial strength to grow its business utilizing its current resources.

Full Financial Statements and Management's Discussion and Analysis (MD&A) will be available at a later date on SEDAR and on the Company's web site at: [www.egi.ca](http://www.egi.ca).

“With the deep and prolonged downturn in the financial markets compounding problems currently faced by many insurance industry participants, EGI remains favourably positioned,

relative to its competitors, with a strong balance sheet to exploit growth opportunities as they arise in 2009” added Mr. McIntyre. “With standard lines insurers’ margins continuing to erode, competitive conditions are expected to continue easing in the non-standard auto marketplace during 2009.”

#### About EGI Financial

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

#### Non-GAAP Financial Measures

EGI Financial uses both Canadian generally accepted accounting principles (GAAP) and certain non-GAAP measures to assess performance. Readers are cautioned that non-GAAP measures do not have a standardized meaning under GAAP and are unlikely to be comparable to similar measures used by other companies. EGI Financial analyzes performance based on underwriting ratios such as combined, expense and loss ratios as defined in regulations established under the Insurance Companies Act (Canada). Return on equity (ROE) is a non-GAAP measure which represents EGI Financial’s net income for the twelve months ended on the date indicated divided by the average shareholders' equity over the same twelve-month period.

#### 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 Financial for 2009 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 Financial’s control, affect the operations, performance and results of EGI Financial and its business and could cause actual results to differ materially from the expectations expressed in any of this forward-looking information.

EGI Financial does not undertake to update any forward-looking information. Additional information about the risks and uncertainties about EGI Financial’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](http://www.sedar.com).

### Conference Call

A conference call for analysts and interested listeners will be held on Tuesday February 24, 2009 at 10:00 a.m. (ET). The call-in numbers for participants are (416) 644-3416 or toll free, (800) 733-7560. A live audio feed of the call will be broadcast on the internet through the Company's website at [www.egi.ca](http://www.egi.ca), or directly at:

<http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=2529340>.

A replay of the call will be available from 12:00 p.m. (ET) on February 24, 2009 until 11:59 p.m. on March 3, 2009. To access the replay, call (416) 640-1917 or toll free, (877) 289-8525, enter pass code number 21295719. The replay can also be accessed over the Internet at the above address.

For further information:

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# EGI FINANCIAL HOLDINGS INC.

## Unaudited Consolidated Balance Sheets

as at December 31

(in \$ thousands, except share amounts)

<b>Assets</b>	<b>2008</b>	<b>2007</b>
Cash and short-term deposits	29,111	22,785
Investments	259,774	238,310
Reinsurers' share - unearned premiums	3,712	3,602
- provision for unpaid claims	41,901	48,461
Accounts receivable	27,565	25,382
Income taxes recoverable	7,202	3,278
Due from insurance companies	9,063	6,199
Deferred policy acquisition costs	14,703	15,530
Fixed assets	2,372	1,250
Future income taxes	3,172	2,674
Prepaid expenses and other assets	4,205	2,613
	<u>402,780</u>	<u>370,084</u>
<b>Liabilities</b>		
Bank indebtedness	19,550	19,550
Provision for unpaid claims	185,255	169,091
Unearned premiums	71,154	69,190
Unearned commission	363	291
Income taxes payable	429	-
Accounts payable and accrued liabilities	4,291	5,444
Payable to insurance companies	2,460	3,894
Other liabilities	674	953
	<u>284,176</u>	<u>268,413</u>
<b>Shareholders' Equity</b>		
Share capital	67,056	46,040
Contributed surplus	403	247
Retained earnings	56,605	53,193
Accumulated other comprehensive (loss) income	(5,460)	2,191
	<u>118,604</u>	<u>101,671</u>
	<u>402,780</u>	<u>370,084</u>

**EGI FINANCIAL HOLDINGS INC.**  
**Unaudited Consolidated Statements of Income**  
**For the Years Ended December 31**  
(in \$ thousands, except share amounts)

	<b>2008</b>	<b>2007</b>
Revenue:		
Direct written and assumed premiums	<u>170,730</u>	<u>157,935</u>
Net written and assumed premiums	<u>158,107</u>	<u>146,511</u>
Net earned premiums	157,255	119,606
Investment income	<u>10,009</u>	<u>12,954</u>
	<u>167,264</u>	<u>132,560</u>
Expenses		
Incurred claims	105,837	71,179
Acquisition costs	37,026	26,143
Operating costs	14,229	12,043
Interest	<u>1,216</u>	<u>259</u>
	<u>158,308</u>	<u>109,624</u>
Income before income taxes	8,956	22,936
Income tax expense	<u>2,977</u>	<u>7,871</u>
Net income	<u>5,979</u>	<u>15,065</u>
Earnings per share		
Net income per share - basic	\$0.57	\$1.56
Net income per share - diluted	\$0.53	\$1.45



**EGI FINANCIAL HOLDINGS INC.**  
**Unaudited Consolidated Statements of Cash Flows**  
**for the years ended December 31**  
(in \$ thousands)

	<u>2008</u>	<u>2007</u>
Cash provided by (used in):		
Operating activities		
Net income	\$ 5,979	\$15,065
Items not involving cash		
Amortization of capital assets	674	406
Amortization of premiums on bonds	501	368
Realized losses (gains) on investments	4,833	(3,350)
Increase in accrued investment income	(285)	(426)
Other	186	123
	<u>11,888</u>	<u>12,186</u>
Cash flow from changes in		
Reinsurers' share of unearned premiums	(110)	229
Reinsurers' share of unpaid claims	6,560	(76)
Accounts receivable	(2,183)	(3,200)
Income taxes recoverable	(3,495)	(2,706)
Due from insurance companies	(2,864)	(2,203)
Accounts payable and accrued liabilities	(2,794)	590
Provision for unpaid claims	16,164	22,990
Unearned premiums	1,964	26,036
Income taxes payable	-	(3,151)
Future income taxes	2,988	547
Prepaid expenses and other assets	(1,592)	(2,343)
Deferred policy acquisition costs	827	(8,065)
	<u>27,353</u>	<u>40,834</u>
Financing activities		
Increase in bank indebtedness	-	19,550
Issue of common shares	20,986	182
Common share dividends	(2,567)	(1,931)
	<u>18,419</u>	<u>17,801</u>
Investing activities		
Purchase of capital assets	(1,796)	(857)
Purchase of investments	(249,873)	(256,245)
Sale/maturity of investments	212,223	204,099
	<u>(39,446)</u>	<u>(53,003)</u>
Increase in cash and short-term deposits	\$ 6,326	\$ 5,632
Cash and short-term deposits, beginning of year	22,785	17,153
Cash and short-term deposits, end of year	<u>\$29,111</u>	<u>\$22,785</u>
Supplementary information		
Income taxes paid	\$ 9,021	\$13,095
Interest paid	\$ 1,209	\$ 196