

Consolidated Financial Statements of

EGI FINANCIAL HOLDINGS INC.

December 31, 2009 and 2008

Management's Responsibility for Financial Reporting

Roles of Management, Board of Directors and Audit and Risk Committee

Management is responsible for the preparation and fair presentation of the consolidated financial statements, management's discussion and analysis and other information in the annual report. The consolidated financial statements of EGI Financial Holdings Inc. (the Company) were prepared in accordance with Canadian generally accepted accounting principles. Where necessary, these consolidated financial statements reflect amounts based on the best estimates and judgment of management.

In meeting its responsibility for the reliability of the consolidated financial statements, management maintains the necessary system of internal controls. These controls are designed to provide management with reasonable assurance that the financial records are reliable for preparing consolidated financial statements and other financial information, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The Audit and Risk Committee, comprised of directors who are not officers or employees of the Company, meets, as required, with management, the Appointed Actuary and the external auditors to review actuarial, accounting, reporting and internal control matters. The Audit and Risk Committee is responsible for reviewing the consolidated financial statements and management's discussion and analysis and recommending them to the Board of Directors for approval.

Role of Appointed Actuary

The actuary is appointed by the Board of Directors, pursuant to the Insurance Companies Act. The Appointed Actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. The Appointed Actuary is also required to provide an opinion regarding the appropriateness of the policy liabilities to meet all policyholder obligations of the Company at the consolidated balance sheet dates. Examination of supporting data for accuracy and completeness and consideration of the Company's assets are important elements of the work required to form this opinion. The Appointed Actuary uses the work of the external auditors in verifying data used for valuation purposes. Policy liabilities include unearned premiums, provision for unpaid claims, reinsurers' share of unearned premiums and provision for unpaid claims and deferred policy acquisition costs.

Role of External Auditors

PricewaterhouseCoopers LLP, external auditors, have been appointed by the shareholders to conduct an independent audit of the consolidated financial statements of the Company in accordance with Canadian generally accepted auditing standards and report to the shareholders regarding the fairness of the annual consolidated financial statements. The external auditors consider the work of the Appointed Actuary in respect of policy liabilities included in the consolidated financial statements, on which the Appointed Actuary has rendered an opinion.

Toronto, Ontario
February 19, 2010

(Signed) Douglas E. McIntyre
Chief Executive Officer

(Signed) Hemraj Singh
Chief Financial Officer

APPOINTED ACTUARY'S REPORT

To the Shareholders of EGI Financial Holdings Inc.

I have valued the policy liabilities of the subsidiary insurance operations of EGI Financial Holdings Inc. in its consolidated balance sheets as at December 31, 2009 and 2008 in accordance with accepted actuarial practice, including the selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated balance sheets fairly present the results of the valuation.

Toronto, Ontario
February 19, 2010

(Signed) Joe S. Cheng, FCIA
J. S. Cheng & Partners Inc.

February 19, 2010

Auditors' Report

To the Shareholders of EGI Financial Holdings Inc.

We have audited the consolidated balance sheets of **EGI Financial Holdings Inc.** as at December 31, 2009 and 2008 and the consolidated statements of income, changes in shareholders' equity and comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountant

EGI FINANCIAL HOLDINGS INC.
Consolidated Balance Sheets
(in \$ thousands)

	December 31 2009	December 31 2008
Assets		
Cash and short-term deposits	\$ 46,885	\$ 29,111
Investments (note 4)	294,365	259,774
Reinsurers' share – unearned premiums (note 5)	4,972	3,712
– provision for unpaid claims (note 6)	38,736	41,901
Accounts receivable	32,950	27,565
Income taxes recoverable	–	7,202
Due from insurance companies	5,545	9,063
Deferred policy acquisition costs	14,807	14,703
Property and equipment (note 9)	838	996
Intangible assets (note 10)	468	1,376
Future income taxes (note 14)	3,952	3,172
Prepaid expenses and other assets	2,947	4,205
	\$446,465	\$402,780
Liabilities		
Bank indebtedness (note 15)	\$ 19,550	\$ 19,550
Provision for unpaid claims (note 6)	207,220	185,255
Unearned premiums (note 5)	72,643	71,154
Unearned commission	513	363
Income taxes payable	4,151	429
Accounts payable and accrued liabilities	6,312	4,291
Payable to insurance companies	1,829	2,460
Other liabilities	816	674
	313,034	284,176
Shareholders' Equity		
Share capital (note 11)	68,618	67,056
Contributed surplus (note 12)	403	403
Retained earnings	60,301	56,605
Accumulated other comprehensive income (loss)	4,109	(5,460)
	133,431	118,604
	\$446,465	\$402,780

On Behalf of the Board of Directors:

(Signed) Douglas E. McIntyre
Director

(Signed) Paul F. Little
Director

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Income
for the years ended December 31
(in \$ thousands)
(except per share amounts)

	2009	2008
Revenue		
Direct written and assumed premiums	\$163,862	\$170,730
Net written and assumed premiums	149,745	158,107
Net earned premiums	149,379	157,255
Investment income (note 4)	17,771	10,009
	167,150	167,264
Expenses		
Incurred claims	108,194	105,837
Acquisition costs	34,429	37,026
Operating costs	16,095	14,229
Interest	1,212	1,216
	159,930	158,308
Income before income taxes	7,220	8,956
Income tax expense (note 14)	2,705	2,977
Net income	\$ 4,515	\$ 5,979
Earnings per share (note 20)		
Net income per share – basic	\$ 0.38	\$ 0.57
Net income per share – diluted	\$ 0.36	\$ 0.53

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Changes in Shareholders' Equity
and Comprehensive Income (Loss)
for the years ended December 31
(in \$ thousands)

	2009	2008
Share capital		
Balance, beginning of year	\$ 67,056	\$ 46,040
Common shares issued	1,562	21,016
Balance, end of year	68,618	67,056
Contributed surplus		
Balance, beginning of year	403	247
Stock options – granted (net of forfeitures)	191	186
– exercised	(191)	(30)
Balance, end of year	403	403
Retained earnings		
Balance, beginning of year	56,605	53,193
Net income	4,515	5,979
Dividends – Common shares	(819)	(2,567)
Balance, end of year	60,301	56,605
Accumulated other comprehensive income (loss)		
Balance beginning of year	(5,460)	2,191
Other comprehensive income (loss)	9,569	(7,651)
Balance, end of year	4,109	(5,460)
Shareholders' equity, end of year	\$133,431	\$118,604
Comprehensive income		
Net income	\$ 4,515	\$ 5,979
Other comprehensive income (loss), net of taxes		
Change in unrealized gains on available-for-sale investments:		
Net unrealized gains (losses) on available-for-sale investments	14,344	(10,618)
Reclassification of net realized (gains) losses to net income	(4,250)	3,120
Unrealized losses on translation of financial statements of self-sustaining foreign operations	(525)	(153)
Other comprehensive income (loss)	9,569	(7,651)
Total comprehensive income (loss)	\$ 14,084	\$ (1,672)

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

	2009	2008
Cash provided by (used in):		
Operating activities		
Net income	\$ 4,515	\$ 5,979
Items not involving cash		
Amortization	1,326	674
Amortization of premiums on bonds	736	501
Realized (gains) losses on investments	(6,860)	4,833
Increase (decrease) in accrued investment income	97	(285)
Other	191	186
	5	11,888
Cash flow from changes in		
Reinsurers' share of unearned premiums	(1,260)	(110)
Reinsurers' share of unpaid claims	3,165	6,560
Accounts receivable	(5,385)	(2,183)
Income taxes recoverable	7,202	(3,495)
Due from insurance companies	3,518	(2,864)
Accounts payable and accrued liabilities	1,662	(2,794)
Provision for unpaid claims	21,965	16,164
Unearned premiums	1,489	1,964
Income taxes payable	(742)	-
Future income taxes	(780)	2,988
Prepaid expenses and other assets	1,258	(1,592)
Deferred policy acquisition costs	(104)	827
	32,013	27,353
Financing activities		
Issue of common shares	1,371	20,986
Common share dividends	(819)	(2,567)
	552	18,419
Investing activities		
Purchases of property and equipment and intangible assets	(260)	(1,796)
Purchase of investments	(256,454)	(249,873)
Sale/maturity of investments	241,923	212,223
	(14,791)	(39,446)
Increase in cash and short-term deposits	17,774	6,326
Cash and short-term deposits, beginning of year	29,111	22,785
Cash and short-term deposits, end of year	\$46,885	\$29,111
Supplementary information		
Income taxes paid	\$ 4,392	\$ 9,021
Interest paid	\$ 1,215	\$ 1,209

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements
(in \$ thousands, except per share amounts)

1 Organization and Basis of Presentation

The Company was incorporated on August 18, 1997, under the Business Corporations Act (Ontario). The Company is principally engaged, through its subsidiaries, in property and casualty insurance in Canada and the U.S.

The Company's wholly-owned subsidiaries are EGI Insurance Managers Inc., Echelon General Insurance Company (Echelon), EGI Insurance Services, Inc., Echelon Insurance Company of America (EICA), EGI Insurance Services (Florida), Inc., and CIM Reinsurance Company Ltd. (CIM Re).

EGI Insurance Services, Inc., EICA and EGI Insurance Services (Florida), Inc., are U.S based subsidiaries whose functional currency is U.S. dollars. The Company's Barbados based subsidiary, CIM Re changed its functional currency to U.S. dollars effective January 1, 2008. All subsidiaries operating outside of Canada are self-sustaining foreign subsidiaries and are therefore subject to foreign currency translation adjustments upon consolidation.

2 Significant Accounting Changes

Intangible Assets

On January 1, 2009, the Company adopted Handbook Section 3064, Goodwill and Intangible Assets, issued by The Canadian Institute of Chartered Accountants (CICA). Section 3064, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, provides clarifying guidance on the criteria that must be satisfied in order for an intangible asset to be recognized, including internally developed intangible assets.

The adoption of these standards did not have a material effect on the financial position of the Company.

Financial Instruments – Disclosures and Presentation

During 2009, CICA Handbook Section 3862, Financial Instruments – Disclosures, was amended to require additional disclosures about fair value measurements. This disclosure requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly
- Level 3 – Inputs that are not based on observable market data

A table providing the classification of the Company's investments within the fair value hierarchy is shown in note 4.

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements (continued)
(in \$ thousands, except per share amounts)

3 Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses for the reporting period of the consolidated statements of income. Actual results could differ from those estimates.

Cash and short-term deposits

Cash and short-term deposits include cash-on-hand, cash balances with banks and short-term investments maturing in 90 days or less from the date of acquisition. These financial assets are classified as held-to-maturity assets and are recorded at an amortized cost which approximates fair value.

Investments

Investments are carried at fair value, which is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices, as appropriate, in the most advantageous active market available. All investments have been classified as available-for-sale (AFS) investments.

Any change during the year in the fair values of investments classified as AFS are recognized in other comprehensive income (loss) (OCI). The cumulative change in the fair values of investments previously recognized in accumulated other comprehensive income (loss) (AOCI) is reclassified to net income when gains and losses are realized or the decline in value is considered to be other than temporary.

Transaction costs related to AFS investments are capitalized on initial recognition and, where applicable, are amortized to interest income using the effective yield method.

Investment income is recorded as it accrues. Dividend income on shares is accrued on the ex-dividend date. Gains and losses on disposal of investments are determined and recorded as at the transaction date and are calculated on the basis of the average cost of the investments held.

Provision for unpaid claims

Provision for unpaid claims includes adjustment expenses, which represent the estimated amounts required to settle all outstanding and unreported claims incurred to the end of the year. Unpaid claims liabilities are carried on an actuarial present value (APV) basis (discounted claims plus provisions for adverse deviations). Expected reinsurance recoveries on unpaid claims and adjustment expenses, net of any required provision for doubtful amounts, are recognized as assets at the same time, using principles consistent with the Company's method for establishing the related liability.

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements (continued)
(in \$ thousands, except per share amounts)

Reinsurance

The Company reflects third party reinsurance balances on the consolidated balance sheets on a gross basis to indicate the extent of credit risk related to third party reinsurance and its obligations to policyholders and on a net basis in the consolidated statements of income to indicate the results of the retention of premiums written.

Revenue recognition

Insurance premiums written are deferred as unearned premiums and taken into income pro rata primarily over the terms of the underlying policies. The portion of the premium related to the unexpired term of the policy at the end of the fiscal year is reflected in unearned premiums.

Deferred policy acquisition costs

Commissions and premium taxes incurred in the writing of premiums are deferred only to the extent that they are expected to be recovered from unearned premiums and are amortized to income over the terms of the related insurance policies. If unearned premiums are not sufficient to pay expected claims and expenses, including policy maintenance expenses and unamortized policy acquisition costs, a premium deficiency is said to exist. Premium deficiencies are recognized initially by writing down deferred policy acquisition costs.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the assets using the straight-line method over the following terms:

Furniture and equipment	3 years
Computer hardware	3 years

Intangible assets

Intangible assets are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful life of the asset (2 years) using the straight-line method.

Employee benefits

The Company contributes to a group registered savings plan for employees as services are incurred. There are no other post-employment benefit expenses.

Income taxes

The Company follows the asset and liability method of accounting for income taxes, whereby future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the carrying values of existing assets and liabilities and their respective income tax bases and taxable losses and tax credit carry-forwards. Future income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the year which includes the date of

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements (continued)
(in \$ thousands, except per share amounts)

enactment or substantive enactment. Future income tax assets are recognized to the extent the realization of such assets is more likely than not.

Foreign currency translation

Foreign currency transactions are translated into Canadian dollars using the exchange rates in effect at the date the transactions occurred. Monetary assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the consolidated balance sheet dates. Exchange gains and losses are included in income, except unrealized gains or losses related to investments designated as AFS, which are recorded in AOCI.

Stock-based compensation

The Company has a stock option plan that is described in note 12. Stock options granted under the plan are accounted for using the fair value method. Under this method, the compensation cost of stock options granted is measured at estimated fair value at the grant date and recognized as an expense over the vesting period with a corresponding offset to contributed surplus.

4 Investments

The Company utilizes the prudent person approach to asset management, as required by the Insurance Companies Act. An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are employed to minimize risk. Policies limit investments in any entity or group of related entities to a maximum of 5% of the Company's assets. Limitations are also placed on the quality of investments, particularly relating to investment grade bonds.

The following table provides a comparison as at December 31:

	2009	2008
Available-for-sale	Carrying and fair values	Carrying and fair values
Bonds		
Canadian		
Federal	\$ 83,777	\$ 82,078
Provincial	44,696	45,162
Municipal	6,254	6,935
Corporate	90,024	86,570
	224,751	220,745
United States		
Corporate	6,819	2,717
Total bonds	231,570	223,462
Preferred shares	7,567	4,042
Common shares		
Canadian	52,210	29,049
United States	1,072	1,178
	53,282	30,227
Investment income due and accrued	1,946	2,043
	\$294,365	\$259,774

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements (continued)
(in \$ thousands, except per share amounts)

Fair value

The Company is responsible for determining the fair value of its investment portfolio by utilizing market driven fair value measurements from active markets where available, by considering other observable and unobservable inputs and by employing valuation techniques which make use of current market data. Considerable judgement may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented in these consolidated financial statements are not necessarily indicative of the amounts that could be realized in a current market exchange. The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. A description of the inputs used in the valuation of financial instruments is as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. The fair value, of the Company's common and preferred shares are, determined based on quoted prices in active markets obtained from external pricing sources.

Level 2 – Inputs, other than quoted prices, that are observable for the investment either directly or indirectly. These inputs include quoted prices for similar instruments exchanged in active markets; quoted prices for identical or similar instruments exchanged in inactive markets; inputs other than quoted prices that are observable for the instruments, such as interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates where available; and inputs that are derived principally from or corroborated by observable market data and correlation or other means.

The Company's investments in government securities (including federal, provincial and municipal bonds), corporate securities, private placements and infrequently traded securities are priced using publicly traded, over-the-counter prices or broker-dealer quotes which are based on market observable inputs. Observable inputs such as benchmark yields, reported trades, broker dealer quotes, issuer spreads and bids are available for these investments.

Level 3 – Inputs that are not based on observable market data. Management is required to use assumptions regarding unobservable inputs as there is little, if any, market activity in these investments or related observable inputs that can be corroborated at the measurement date. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets. To verify pricing, the Company assesses the reasonability of the fair values by comparing to industry-accepted valuation models, to movements in credit spreads and to recent transaction prices for similar assets where available.

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements (continued)
(in \$ thousands, except per share amounts)

The following table provides the classification of the Company's investments within the fair value hierarchy, as outlined above, as at December 31, 2009:

	Investments at fair value as at December 31, 2009			
	Level 1	Level 2	Level 3	Total
Bonds	–	231,120	450	231,570
Equities	60,849	–	–	60,849
	60,849	231,120	450	292,419

The fair value of the Company's investments, determined without the use of observable market information as inputs (approximately 0.1% of the total investment portfolio required to be measured at fair value) consist of corporate bonds with a fair value of \$450 at December 31, 2009.

A reconciliation of financial instruments measured at fair value on a recurring basis with the use of significant unobservable inputs from January 1, 2009 to December 31, 2009 follows:

Balance at January 1, 2009	\$457
Net unrealized gains (losses) included in other comprehensive income	<u>(7)</u>
Balance at December 31, 2009	<u>\$450</u>

Impaired assets and provisions for losses

The Board of Directors has established a policy to write down or make a provision for any investment with other-than-temporary impairment.

Management has reviewed currently available information regarding those investments whose estimated fair values are less than carrying values. For those investments whose decline in fair value was other than temporary, the Company has recorded the difference between the cost of the investment and its fair value as an impairment, which reduces investment income in the year recorded.

The Company considers an impairment to be other than temporary if it is unlikely the Company will recover an investment's amortized cost in a reasonable period of time. Factors considered by the Company include but are not limited to the impact of issuer-specific events, industry-specific events, current and expected future market and economic conditions, the nature of the investment and the severity and duration of the fair value deficiency.

An impairment loss of nil (2008 – \$4,713) was recognized.

A remaining gross unrealized loss of \$3,277 on investments held as at December 31, 2009, is recorded, net of tax, in the amount of \$2,208 as Accumulated Other Comprehensive Loss. The Company concluded during its review, that these fair value deficiencies are considered temporary in nature.

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements (continued)
(in \$ thousands, except per share amounts)

Investment income

Investment income was derived from the following:

	2009	2008
Interest income	\$11,661	\$11,596
Dividend income	1,470	1,664
Net realized gains (losses) and impairments (1)	6,860	(4,833)
Foreign exchange gain (loss) (2)	(1,116)	2,706
Investment expenses	(1,104)	(1,124)
	\$17,771	\$10,009

- (1) Net realized gains (losses) and impairments include realized gains (losses) of \$6,860 (2008 – loss of \$121) and impairments of \$nil (2008 – \$4,712).
- (2) The foreign exchange loss of \$1,116 (2008 – gain of \$2,706) arises primarily from cash balances held during the year, denominated in U.S. dollars, used to fund U.S. dollars denominated claims liabilities and other corporate purposes.

5 Unearned premiums

	2009		2008	
	Gross	Ceded	Gross	Ceded
Personal Lines:				
Automobile				
– accident benefits	\$17,526	\$1,100	\$15,592	\$ 821
– liability	24,994	1,499	23,803	1,051
– other	12,080	167	11,746	112
Total Personal Lines	54,600	2,766	51,141	1,984
Niche Products:				
Property				
– commercial	4,376	1,105	5,743	666
– personal	6,627	551	1,284	141
Liability	5,180	539	4,526	795
Accident and sickness	502	11	6,941	94
Other	1,358	–	1,519	32
Total Niche Products	18,043	2,206	20,013	1,728
	\$72,643	\$4,972	\$71,154	\$3,712

6 Provision for unpaid claims

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of three major variables or quanta, being development of claims, reinsurance recoveries and the effects of discounting, to establish a best estimate of the value of the respective liability or asset.

The provision for unpaid claims and adjustment expenses is an estimate subject to variability and the variability could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, significant changes in the severity or frequency of claims

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements (continued)
(in \$ thousands, except per share amounts)

from historical trends, the timing of claim payments, recoverability of reinsurance and future rates of investment return. The estimates are principally based on the Company's historical experience. Methods of estimation have been used, which the Company believes produce reasonable results given current information.

All provisions are periodically reviewed and evaluated considering emerging claims experience and changing circumstances. The process of determining the provisions necessarily involves risks that actual results may differ, perhaps materially, from the best estimates made. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the current year.

The fair value of the provision for unpaid claims approximates carrying value determined in accordance with Canadian generally accepted actuarial methods, which discount estimated future cash flows and include a margin for adverse deviation.

The Company discounts its best estimate of claim provisions at a rate of interest of 2.56% (2008 – 2.45%) for all lines of business. The Company determines the discount rate based on the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

The Company has recorded a \$712 (2008 – \$5,097) reduction to the net provision for unpaid claims relating to redundancies in prior years' estimates.

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience, and to provide greater comfort that the actuarial liabilities are adequate to pay future claims, the Company includes provisions for adverse deviations (PFADs) in some assumptions relating to claim development, reinsurance recoveries and future investment income. The PFADs selected are in the mid-range of those recommended by the Canadian Institute of Actuaries.

The following table shows the effects of discounting on unpaid claims and adjustment expenses:

	Undiscounted	Effect of present value	PFADs	APV
2009				
Provision for unpaid claims and adjustment expenses	\$201,459	\$(16,927)	\$22,688	\$207,220
Reinsurers' share of unpaid claims	36,378	(1,135)	3,493	38,736
	\$165,081	\$(15,792)	\$19,195	\$168,484
2008				
Provision for unpaid claims and adjustment expenses	\$179,426	\$(14,273)	\$20,102	\$185,255
Reinsurers' share of unpaid claims	39,411	(1,423)	3,913	41,901
	\$140,015	\$(12,850)	\$16,189	\$143,354

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements (continued)
(in \$ thousands, except per share amounts)

The provision for unpaid claims on an actuarial present value (APV) gross and ceded basis by line of business is as follows:

APV basis	2009		2008	
	Gross	Ceded	Gross	Ceded
Personal Lines:				
Accident benefits	\$ 86,805	\$19,290	\$ 72,008	\$21,396
Liability	92,311	15,169	91,555	17,218
Other	3,914	667	4,336	656
Total Personal lines	183,030	35,126	167,899	39,270
Niche Products:				
Property				
Commercial	3,278	266	3,273	247
Personal	307	109	332	20
Liability	16,291	2,903	8,377	1,960
Accident and sickness	3,222	332	4,728	404
Other	1,092	–	646	–
Total Niche	24,190	3,610	17,356	2,631
	\$207,220	\$38,736	\$185,255	\$41,901

Claims Development

	2009	2008
Unpaid claims, beginning of year, net	\$143,354	\$120,629
Change in undiscounted estimates for losses of prior years	144	(3,929)
Change in discount rate	(9)	924
Change in PFADs	(4,759)	(3,562)
Interest cost	3,911	1,469
Provision for claims occurring in current year	108,682	111,713
Paid on claims occurring during		
Current year	(39,939)	(50,278)
Prior year	(42,900)	(33,612)
Unpaid claims, end of year, net	168,484	143,354
Reinsurers' share	38,736	41,901
	\$207,220	\$185,255

7 Underwriting policy and reinsurance ceded

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavourable underwriting results by purchasing reinsurance to share all or part of the insurance risks originally accepted by the Company in

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements (continued)
(in \$ thousands, except per share amounts)

writing premiums. This reinsurance does not relieve the Company of its primary obligation to policyholders.

During 2009, the Company followed the policy of underwriting and reinsuring contracts of insurance, which limits the net exposure of the Company to a maximum amount on any one loss to \$1,500 (2008 – \$1,500). In addition, the Company obtained catastrophe reinsurance which limits the loss from a series of claims arising from a single occurrence to \$2,000 (2008 – \$2,000), to a maximum coverage of \$23,000 (2008 – \$18,000).

The Company places all its automobile reinsurance with Canadian registered reinsurers. There are non-registered reinsurers participating in the specialty property and casualty program business. The Company has access to trust funds that, in the Company's judgment, are adequate to secure the liabilities that the Company has ceded to non-registered reinsurers.

Failure of reinsurers to honour their obligations could result in losses to the Company. Consequently, the Company continually evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses. There have been no defaults and no provision made in the accounts for defaults based on management's review of the creditworthiness of its reinsurers.

Reinsurance recoverables

The following table summarizes the balances outstanding from reinsurers as at December 31, 2009, by risk rating:

Credit rating	Gross reinsurance recoverable	Less: Provisions and deposits held	Net exposure
A	\$44,590	\$ –	\$44,590
Not rated	1,201	4,637	–
	\$45,791	\$4,637	\$44,590

Included in gross reinsurance recoverable is reinsurers' share of unearned premiums of \$4,972, reinsurers' share of provision for unpaid claims of \$38,736, and receivables from reinsurers presented as due from insurance companies of \$2,083. No balances due from reinsurers are considered past due as at December 31, 2009.

8 Risk management

As a provider of insurance products, effective risk management is fundamental to the Company's ability to protect the interests of its customers and shareholders. The Company is exposed to risks of loss pertaining to insurance products. These include risks surrounding product and pricing, underwriting and claims, catastrophic exposure, and matching of assets and liabilities. The Company is also exposed to potential loss from various risks, including interest rate risk, equity market fluctuation risk, credit risk, liquidity risk, and to a lesser extent foreign exchange risk.

The Company has written principles for overall risk management, as well as written policies covering specific areas such as underwriting, reinsurance, foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements (continued)
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Product and pricing

The Company prices its products taking into account numerous factors, including claims frequency and severity trends, product line expense ratios, special risk factors, the capital required to support the product line, and the investment income earned on that capital. The Company's pricing process is designed to ensure an appropriate return on capital and long-term rate stability avoiding wide fluctuations in rates, unless necessary. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

Pricing for automobile insurance must be submitted to each provincial government regulator and, in certain provinces, pre-approved by the regulator. Regulatory decisions may impede automobile rate increases or other actions that the Company may wish to take. Also, during periods of intense competition for any product line, to gain market share, The Company's competitors may price their products below the rates the Company considers acceptable. Although the Company may adjust its pricing up or down to maintain a competitive position, the Company strives to ensure its pricing will produce an appropriate return on invested capital. There is no assurance that the Company will not lose market share during periods of pricing competition.

Underwriting and claims

The Company is exposed to loss resulting from the underwriting of risks being insured and the exposure to financial loss resulting from greater than anticipated adjudication, settlement and claims costs.

The Company's underwriting objectives are to develop business within target markets on a prudent and diversified basis and to achieve profitable underwriting results. The Company underwrites automobile business after a review of the applicant's driving record and claims experience. Specialty commercial and personal risks are selected by the Company, working with its external brokers, after consideration of various risk factors associated with these lines of business. Despite its best efforts, and consideration of all known risk factors, there can be no assurance that all risks associated with the insurance policies that it writes can be identified and assessed, and the Company may, therefore, experience increased adjudication, settlement and claims costs.

The Company estimates its claims reserves on a quarterly basis and this is supported by quarterly assessments by the independent consulting actuary. Every quarter, for each line of business, the Company compares actual and expected claims development. To the extent that actual results differ from expected development, assumptions are re-evaluated and new estimates are derived. Although the Company believes its overall provision levels to be adequate to satisfy its obligations under existing policies, actual losses may deviate, perhaps substantially, from the amounts reflected in the Company's consolidated financial statements. To the extent provisions prove to be inadequate, the Company would have to re-evaluate such provisions and may incur a charge to earnings in the future.

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Notes to Consolidated Financial Statements (continued)
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Unpredictable catastrophic events

Catastrophes can be caused by various natural and unnatural events. Natural catastrophic events include hurricanes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and fires. Unnatural catastrophic events include hostilities, terrorist acts, riots, crashes and derailments. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas.

Catastrophes can cause losses in a variety of business lines. Claims resulting from natural or unnatural catastrophic events could cause substantial volatility in the Company's financial results and could materially reduce the Company's profitability or harm the Company's financial condition. The Company manages the impact of losses which may result from catastrophic events by purchasing excess of loss and catastrophe reinsurance to share all or part of the insurance risks originally accepted by the Company (note 7).

The Company's ability to write new business also could be affected. The Company may experience an abrupt interruption of activities caused by unforeseeable and/or catastrophic events. The Company's operations may be subject to losses resulting from such disruptions. Losses can relate to property, financial assets, trading positions and to key personnel. The Company has developed business continuity plans designed to allow the Company to continue operations in case of a catastrophic event; however, if these plans cannot be put into action or do not take such events into account, losses may further increase.

Financial asset and liability matching

The Company is exposed to:

- changes in the value of its fixed income investments and policy liabilities to the extent that market interest rates change;
- equity price fluctuations, which affect the fair values of equities held by the Company;
- the risk of losses to the extent that the sale of an investment prior to its maturity is required to provide liquidity to satisfy policyholder and other cash outflows;
- the risk that future inflation of policyholder cash flows exceed returns on long-term investments; and
- foreign exchange risks with respect to investments, receivables and policy liabilities denominated in foreign currencies.

To mitigate these risks, the Company has policies to ensure that financial assets and liabilities are broadly matched in terms of their duration and currency. The Company's exposures are monitored on a regular basis and actions are taken to balance investment positions when approved risk tolerance limits are exceeded.

Risk management is carried out by the Investment Committee under policies approved by the Board of Directors.

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Notes to Consolidated Financial Statements (continued)
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Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign exchange rates and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial assets are traded. Below is a discussion of the Company's primary market risk exposures and how these exposures are currently managed.

Interest rate risk

Fluctuations in interest rates have a direct impact on the fair valuation and future cash flow of the Company's fixed income investment portfolio. Generally, the Company's investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income investments mature or are sold and the proceeds are reinvested at lower rates. During periods of rising interest rates, the fair value of the Company's existing fixed income investments will generally decrease and gains on fixed income securities will likely be reduced.

The sensitivity analysis for interest rate risk as set out in the table below illustrates the impact of changes in interest rates on OCI relating to the fixed income investment portfolio as at December 31, based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments.

Change in interest rates	As at December 31, 2009			As at December 31, 2008		
	Fair value of fixed income portfolio	Hypothetical change on fair value	Effect on OCI	Fair value of fixed income portfolio	Hypothetical change on fair value	Effect on OCI
200 basis point rise	209,222	(10%)	\$(14,302)	\$202,324	(9%)	\$(14,162)
100 basis point rise	219,883	(5%)	(7,830)	212,438	(5%)	(7,386)
No change	231,570	—	—	223,462	—	—
100 basis point decline	244,428	6%	8,615	235,533	5%	8,087
200 basis point decline	258,510	12%	\$18,050	\$248,463	11%	\$16,751

As discussed in note 6, the discount rate used in the determination of the provision for unpaid claims is based on the expected return of assets on its investment portfolio with appropriate assumptions for interest rates relating to reinvestment of maturing investments. Fluctuations in market interest rates will therefore have an impact on the discount rate used in the valuation of the net provision for unpaid claims. The table below shows the potential impact of interest rate fluctuations on the net provision for unpaid claims:

Change in discount rate	As at December 31, 2009			As at December 31, 2008		
	Net provision for unpaid claims	Hypothetical change in value	Effect on net income	Net provision for unpaid claims	Hypothetical change in value	Effect on net income
100 basis point rise	\$164,529	(2%)	\$ 2,650	\$140,085	(2%)	\$ 2,190
No change	168,484	—	—	143,354	—	—
100 basis point decline	\$172,691	2%	\$(2,819)	\$146,799	2%	\$(2,308)

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Notes to Consolidated Financial Statements (continued)
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Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash flow requirements associated with financial instruments. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. To manage cash flow requirements, the Company maintains a portion of invested assets in liquid investments.

The maturity profile of bonds as at December 31, 2009 is as follows:

	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	\$16,796	\$36,058	\$61,473	\$117,243	\$231,570
Percentage of total	7%	16%	26%	51%	100%

The following table summarizes the expected timing of cash flows arising from insurance obligations, on an undiscounted basis (note 6), as at December 31, 2009:

	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	\$62,995	\$71,130	\$39,645	\$27,687	\$201,457
Less: Reinsurance recoverable	12,815	12,879	6,934	3,750	36,378
Net actuarial liabilities	\$50,180	\$58,251	\$32,711	\$23,937	\$165,079

All other financial liabilities including bank indebtedness (note 15) are for a duration of one year or less. The contractual maturities for lease commitments are listed in note 16.

Equity price risk

Fluctuations in the value of equity investments affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. General economic conditions, political conditions and many other factors can also adversely affect the stock and bond markets and, consequently, the value of the equity and fixed income investments held.

The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of equity investments.

The table below summarizes the potential impact of a 20% change in the value of the equity investments (common and preferred shares) on OCI for the year ended December 31, 2009. Certain shortcomings are inherent in the method of analysis presented, as the analysis is based on the assumptions that all equity holdings increased/decreased by 20%, with all other variables held constant.

Change in equity holdings	Effect on OCI
20% rise	\$8,153
20% decline	(\$8,153)

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Notes to Consolidated Financial Statements (continued)
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Credit risk

The Company is exposed to credit risk principally through its investment securities and balances receivable from policyholders and reinsurers. The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of investment securities which do not carry the guarantee of a national or Canadian provincial government. The Company's credit exposure to any one individual policyholder is not material. The Company has policies that limit its exposure to individual reinsurers and regular review processes to assess the creditworthiness of reinsurers with whom it transacts business.

The Company's maximum exposure to credit risk, without taking into account amounts held as collateral, is \$295,284 comprised of \$231,570 of bonds, \$44,590 of gross reinsurance recoverables, \$3,462 of amounts due from insurance companies, \$5,994 of accounts receivables and \$9,668 in structured settlements.

The following table sets forth the Company's fixed income securities portfolio by credit quality according to DBRS as at December 31.

Fixed income portfolio

	As at December 31, 2009		As at December 31, 2008	
	Fair value	Fair value	Fair value	Fair value
AAA	\$111,702	48%	\$107,830	48%
AA	64,446	28%	60,713	27%
A	48,090	21%	48,080	22%
BBB	6,882	3%	6,765	3%
B	321	–	–	–
CCC	129	–	74	–
Total	\$231,570	100%	\$223,462	100%

Foreign exchange risk

Foreign exchange risk is the possibility that changes in foreign exchange rates produce an unintended effect on earnings and equity when measured in domestic currency.

A portion of the Company's premiums are written in US dollars and a portion of loss reserves are also in US dollars. In addition, premiums relating to the Emergency Travel Health line of business are remitted in Canadian dollars however a significant portion of the claims incurred for this line of business is in US dollars. A portion of the Company's cash and investments is also held in US dollars.

In general, the Company attempts to manage foreign exchange risk on liabilities by investing in financial instruments denominated in the same currency as the financial liabilities which they back. The Company may, nevertheless, from time to time experience losses resulting from fluctuations in the value of the US dollar, which could adversely affect operating results.

The table below illustrates the expected impact on net income and OCI of a 10% change in the Canadian dollar ("CAD") compared to the US dollar ("USD") as at December 31, 2009. Computations of the prospective effects of hypothetical foreign exchange changes are based on numerous assumptions, including the maintenance of the existing level and composition of

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financial assets and financial liabilities, and should not be relied on as indicative of actual or future results.

Change in CAD / USD rate	Effect on Net Income	Effect on OCI
10% rise	(\$360)	(\$1,360)
10% decline	360	1,360

Capital management

Capital is comprised of the Company's shareholders' equity and bank indebtedness. As at December 31, 2009, the Company's shareholders' equity was \$133,431 and bank indebtedness was \$19,550. The Company's objectives when managing capital are to maintain financial strength and protect its claims paying abilities, to maintain creditworthiness and to maximize returns to shareholders over the long term.

A common measure of capital adequacy in the property and casualty industry used by management is the ratio of premiums to surplus (or shareholders' equity). A lower ratio implies a higher measure of capital adequacy. The Company's ratio as at December 31, 2009 was 1.2:1. This level is well below the 2.5:1 ratio considered by management to be the maximum acceptable ratio.

The Company's Canadian insurance subsidiary, Echelon, is required to maintain minimum capital levels as required by the Office of the Superintendent of Financial Institutions. As at December 31, 2009 and 2008, the Company exceeded the minimum regulatory capital requirement. Legislation applicable to insurance companies imposes certain restrictions on the Company's ability to pay dividends.

9 Property and equipment

	2009			2008		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Furniture and equipment	\$1,806	\$1,043	\$763	\$1,577	\$663	\$914
Computer hardware	415	340	75	293	211	82
	\$2,221	\$1,383	\$838	\$1,870	\$874	\$996

10 Intangible assets

	2009			2008		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Computer software	\$2,938	\$2,470	\$468	\$3,029	\$1,653	\$1,376

During the year, system development costs of \$600 related to an abandoned policy and claims administration system were written off.

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11 Share capital

	2009	2008
Authorized		
Unlimited common shares		
Unlimited special shares issuable in Series		
Issued		
12,000,582 common shares (2008 – 11,676,282 common shares)	\$68,618	\$67,056

In July 2008, the Company issued rights to eligible holders of outstanding common shares of the Company of record on July 4, 2008, to subscribe for and purchase from the Company an aggregate of 1,943,630 common shares, at a price of \$10.75 per share.

Completion of the rights offering on July 31, 2008, resulted in the issuance of 1,943,630 common shares for \$20,773 in net proceeds. The Company intends to use the proceeds for general corporate purposes.

During 2009, 324,500 (2008 – 50,500) common shares were issued pursuant to the exercise of employee stock options, with an issue cost of \$4.82 (2008 – \$4.82) per share and 200 shares were purchased and cancelled by the Company pursuant to a normal course issuer bid.

12 Employee stock option plan

The Company sponsors a stock option plan. The stock option plan provides for the issuance of shares of the Company's common stock not exceeding 10% of the total issued and outstanding shares (on a non-diluted basis) and shares reserved for issuance under employee stock option plans, options for services and employee stock purchase plans. The Board of Directors determines the terms and conditions of the awards under the stock option plan as well as any award allocations.

For the year ended December 31, 2009, the Company recorded a compensation expense of \$191 (2008 – \$186), with an offsetting credit to contributed surplus. During 2009, 324,500 (2008 – 50,500) stock options were exercised and 94,500 were forfeited (2008- nil). All stock options granted are for a term of five years with varying vesting periods.

The following is a continuity schedule of stock options outstanding as at December 31:

	Number of shares		Weighted average exercise price per share	
	2009	2008	2009	2008
Outstanding, beginning of year	902,750	825,500	\$ 8.18	\$7.79
Granted during year	304,750	127,750	6.56	9.11
Exercised during year	(324,500)	(50,500)	4.23	4.23
Forfeited during year	(94,500)	–	9.66	–
Outstanding, end of year	788,500	902,750	\$10.94	\$8.18

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As at December 31, 2009, the outstanding stock options consist of the following:

Stock Option price per share	Number	Remaining contractual life	Number of options exercisable
\$ 5.09	45,000	0.3 years	36,000
\$10.61	90,500	0.8 years	–
\$10.31	6,750	1.3 years	–
\$ 9.26	70,500	1.8 years	–
\$11.03	3,000	2.3 years	–
\$11.68	20,000	2.6 years	8,000
\$12.80	26,750	2.6 years	8,000
\$11.68	10,000	2.6 years	4,000
\$12.34	45,000	2.7 years	–
\$14.26	92,000	2.8 years	–
\$13.89	6,750	3.0 years	–
\$13.20	3,000	3.3 years	–
\$11.80	6,750	3.4 years	–
\$10.65	6,000	3.6 years	–
\$10.47	6,750	3.7 years	–
\$ 8.03	81,750	3.8 years	–
\$ 6.35	6,750	4.0 years	–
\$ 7.25	13,000	4.3 years	–
\$ 8.93	6,750	4.4 years	–
\$ 8.59	20,000	4.4 years	–
\$ 9.00	6,000	4.6 years	–
\$ 9.26	6,750	4.7 years	–
\$10.06	154,750	4.8 years	–
\$10.25	97,500	4.8 years	–

The fair values of the stock options issued in 2009 were determined using the Black-Scholes option pricing model with the following assumptions: (i) risk-free rate of 2.0%; (ii) life expectancy of four years; and (iii) estimated volatility of 30%. The grant-date fair value of total options granted is estimated at \$1,940. The weighted average grant-date fair value of stock options granted to date is \$1.44.

13 Related party transactions

The Co-operators Group Limited and Co-operators General Insurance Company (collectively Co-operators), significant shareholders of the Company, provide services to the Company, including but not limited to product distribution and investment management services. Direct written premiums derived from Co-operators' agents were \$10,797 (2008 – \$12,564), commissions paid were \$1,242 (2008 – \$1,493) and investment management fees were \$218 (2008 – \$200).

The Company holds deposits of \$1,126 (2008 – \$1,421) under the terms of a 2001 100% Quota Share reinsurance treaty with Co-operators General Insurance Company, with income

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resulting from the investment of these deposits for their account. Reinsurers' share of unpaid claims includes a recoverable of \$1,690 (2008 – \$1,714) from Co-operators General Insurance Company. The payable to insurance companies balance includes amounts due to Co-operators General Insurance Company of \$1,126 (2008 – \$1,426).

14 Income taxes

The income tax expense (recovery) is as follows:

	2009	2008
Current	\$3,531	\$3,453
Future	(826)	(476)
	\$2,705	\$2,977

The provision for income taxes reflects an effective rate, which differs from the corporate tax rate as follows:

	2009	2008
Combined basic Canadian federal and provincial income tax rate	32.68%	33.5%
Income tax expense at statutory rates	\$2,360	\$2,998
Permanent differences	(57)	(16)
Future income tax rate changes	153	212
Other	249	(217)
	\$2,705	\$2,977

Future income taxes are comprised of the following:

	2009	2008
Losses carried forward	\$1,083	\$ 273
Provision for unpaid claims	3,083	2,896
Investments	(336)	(326)
Deferred costs	–	152
Property and equipment and intangible assets	122	177
	\$3,952	\$3,172

Income taxes included in OCI

The amounts included in the consolidated statements of changes in shareholders' equity and comprehensive (loss) income for the years ended December 31 are shown net of the following tax benefit:

Income tax impact on:

	2009	2008
Change in unrealized gains (losses)	\$6,998	\$(5,215)
Reclassification to net income of (gains) and losses	(2,534)	1,729
Total income tax benefit included in OCI	\$4,464	\$(3,486)

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15 Bank indebtedness

On October 11, 2007, the Company entered into a non-revolving term loan facility with a major Canadian bank in the amount of \$19,550. The facility has a term of three years, bearing an interest rate of 6.20%. During the term of the loan, monthly payments will include interest only, and on maturity, a balloon payment of \$19,550 will be made to settle the principal amount.

16 Lease commitments

The Company is committed under lease agreements for office premises and computer equipment with minimum lease payments of \$8,165 as follows:

2010	\$1,091
2011	1,062
2012	970
2013	970
2014	940
2015 and thereafter	3,132
	\$8,165

17 Structured settlements

In the normal course of claims adjudication, the Company may settle certain long-term losses through the purchase of annuities (structured settlements) from life insurance companies. The fair value of these annuity contracts amounts to \$9,668 (2008 – \$7,677) using a discount rate of 4.09% (2008 – 3.45%). It is the policy of the Company to purchase annuities from life insurers with proven financial stability. The net risk to the Company is the credit risk related to the life insurance companies and this risk is reduced to the extent of coverage provided by Assuris, the life insurance compensation insurance plan. The Company has determined that no credit risk provision is required.

18 Contingencies

From time to time, in connection with its insurance operations, the Company is named as a defendant in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome, such actions have generally been resolved with minimal damage or expense in excess of amounts provided as policy liabilities. The Company does not believe that it will incur any significant additional loss or expense in connection with such actions.

19 Rate regulations

The Company writes business subject to rate regulation, including non-standard automobile and motorcycle insurance, which comprises approximately 70% of net premiums written. The Company's automobile insurance premiums can be impacted by mandatory rate rollbacks and mandatory rate assessments as legislated by provincial law and by regulation in certain provinces. This could result in lower future premium rates or reductions to premium rates charged by the Company in prior years. In addition, the Company is required, under certain provincial legislation, to participate in risk sharing pools, which may impact positively or

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negatively on underwriting results. Certain benefit payments are also subject to provincial government regulation, including automobile accident benefits.

The Company is not aware of any proposed or pending rate rollbacks related to prior years.

20 Earnings per share

	2009	2008
Basic earnings per share:		
Net income available to shareholders	\$4,515	\$ 5,979
Average number of common shares (in thousands)	11,808	10,532
Basic earnings per share	\$ 0.38	\$ 0.57
Diluted earnings per share:		
Average number of common shares (in thousands)	11,808	10,532
Average number of common shares obligation under employee stock option plan (in thousands)	803	814
Average number of diluted common shares (in thousands)	12,611	11,346
Diluted earnings per share	\$ 0.36	\$ 0.53

21 Segmented information

The Company operates through three segments. The Personal Lines and Niche Products divisions operate in Canada while the International division assumes premiums from US resident companies that specialize in the non-standard automobile market. Through its Personal Lines division, the Company is engaged primarily in the underwriting of high premium, non-standard automobile insurance. Through its Niche Products division, the Company designs and underwrites specialized non-auto insurance programs, such as higher premium property, primary and excess liability, legal expense, accident and health insurance and warranty coverage.

The effect of reinsurance is reflected in the revenue and results of the three divisions. The investment activities consist of managing the investment portfolio for the Company as a whole. Investment income is shown net of investment expenses. The corporate and other activities include holding company expenses not attributable to a division. Interest expense represents interest on bank indebtedness.

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Notes to Consolidated Financial Statements (continued)
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	Year ended December 31	
	2009	2008
Revenue		
Earned premiums and other revenue		
Property and casualty insurance		
Canada – Personal Lines	\$104,978	\$ 98,665
– Niche Products	39,104	46,009
	144,082	144,674
International (United States)	5,297	12,581
	149,379	157,255
Interest and dividends, net of investment expense	12,027	12,136
Realized investment gains (losses)	6,860	(4,833)
Foreign exchange gains (losses)	(1,116)	2,706
Total revenue	\$167,150	\$167,264
Income (loss) before income taxes		
Property and casualty insurance		
Canada – Personal Lines	\$(717)	\$ 7,058
– Niche Products	(3,366)	(3,183)
	(4,083)	3,875
International (United States)	(3,930)	(2,404)
Corporate and other	(1,326)	(1,308)
Underwriting income (loss)	(9,339)	163
Interest and dividends, net of investment expense	12,027	12,136
Realized investment gains (losses)	6,860	(4,833)
Foreign exchange gains (losses)	(1,116)	2,706
Interest expense	(1,212)	(1,216)
Total income before income taxes	\$ 7,220	\$ 8,956

22 Comparative figures

Certain comparative figures have been reclassified to conform with the current consolidated financial statement presentation.