

Consolidated Financial Statements of

EGI FINANCIAL HOLDINGS INC.

September 30, 2009

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

	September 30 2009	December 31 2008
Assets		
Cash and short-term deposits	\$ 59,108	\$ 29,111
Investments (note 3)	278,348	259,774
Reinsurers' share – unearned premiums	4,642	3,712
– provision for unpaid claims (note 4)	39,739	41,901
Accounts receivable	33,584	27,565
Income taxes recoverable	–	7,202
Due from insurance companies	4,405	9,063
Deferred policy acquisition costs	14,378	14,703
Property and equipment	901	1,182
Intangible assets	553	1,190
Future income taxes	3,466	3,172
Prepaid expenses and other assets	1,870	4,205
	\$440,994	\$402,780
Liabilities		
Bank indebtedness (note 8)	\$ 19,550	\$ 19,550
Provision for unpaid claims (note 4)	194,968	185,255
Unearned premiums	72,962	71,154
Unearned commission	381	363
Income taxes payable	6,381	429
Accounts payable and accrued liabilities	5,335	4,291
Payable to insurance companies	2,726	2,460
Other liabilities	824	674
	303,127	284,176
Shareholders' Equity		
Share capital (note 7)	67,963	67,056
Contributed surplus	414	403
Retained earnings	62,648	56,605
Accumulated other comprehensive income (loss)	6,842	(5,460)
	137,867	118,604
	\$440,994	\$402,780

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Income
(unaudited, in \$ thousands, except per share amounts)

	Quarter to September 30		9 months to September 30	
	2009	Restated (note 2) 2008	2009	2008
Revenue				
Direct written and assumed premiums	\$44,455	\$46,062	\$124,558	\$130,783
Net written and assumed premiums	40,753	43,062	113,932	121,464
Net earned premiums	\$35,881	\$36,150	\$112,940	\$117,708
Investment income (note 3)	3,403	3,186	11,294	12,491
	\$39,284	\$39,336	\$124,234	\$130,199
Expenses				
Incurring claims	22,822	21,764	74,643	78,668
Acquisition costs	8,197	7,896	26,235	28,046
Operating costs	4,578	3,596	11,947	10,343
Interest expense	306	305	910	913
	35,903	33,561	113,735	117,970
Income before income taxes	3,381	5,775	10,499	12,229
Income tax expense	1,120	1,817	3,637	3,927
Net income	\$ 2,261	\$ 3,958	\$ 6,862	\$ 8,302
Earnings per share (note 9)				
Net income per share – basic	\$ 0.19	\$ 0.36	\$ 0.58	\$ 0.82
Net income per share – diluted	\$ 0.18	\$ 0.33	\$ 0.54	\$ 0.76

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Changes in Shareholders' Equity
and Comprehensive Income
(unaudited, in \$ thousands)

	Quarter to September 30		9 months to September 30	
	2009	Restated (note 2) 2008	2009	2008
Share capital				
Balance, beginning of period	\$ 67,747	\$ 46,241	\$ 67,056	\$ 46,040
Common shares issued	216	20,837	907	21,038
Balance, end of period	67,963	67,078	67,963	67,078
Contributed surplus				
Balance, beginning of period	422	309	403	247
Stock options – granted (net of forfeitures)	19	45	122	131
– exercised	(27)	(3)	(111)	(27)
Balance, end of period	414	351	414	351
Retained earnings				
Balance, beginning of period	60,387	56,371	56,605	53,193
Net income	2,261	3,958	6,862	8,302
Dividends	–	(701)	(819)	(1,867)
Balance, end of period	62,648	59,628	62,648	59,628
Accumulated other comprehensive income (loss)				
Balance, beginning of period	1,192	(574)	(5,460)	2,191
Other comprehensive income (loss)	5,650	(7,634)	12,302	(10,399)
Balance, end of period	6,842	(8,208)	6,842	(8,208)
Shareholders' equity, end of period	\$137,867	\$118,849	\$137,867	\$118,849
Comprehensive income				
Net income	\$ 2,261	\$ 3,958	\$ 6,862	\$ 8,302
Other comprehensive income, net of income taxes				
Change in unrealized gains on available-for-sale securities:				
Net unrealized gains (losses) on available-for-sale securities	6,516	(7,627)	13,979	(8,574)
Reclassification of net realized (gains) losses to net income	(933)	27	(1,817)	(1,782)
Unrealized gains (losses) on translation of financial statements of self-sustaining foreign operations	67	(34)	140	(43)
Other comprehensive income (loss)	5,650	(7,634)	12,302	(10,399)
Total comprehensive income (loss)	\$ 7,911	\$ (3,676)	\$ 19,164	\$ (2,097)

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Cash Flows
(unaudited, in \$ thousands)

	Quarter to September 30		9 months to September 30	
	2009	Restated (note 2) 2008	2009	2008
Cash provided by (used in):				
Operating activities:				
Net income	\$ 2,261	\$ 3,958	\$ 6,862	\$ 8,302
Items not involving cash:				
Amortization of property and equipment and intangible assets	527	196	941	471
Amortization of premiums on bonds	223	157	540	309
Realized (gains) losses on investments	(1,420)	49	(3,098)	(3,166)
Net change in other non-cash balances	13,156	8,521	22,438	16,149
	14,747	12,881	27,683	22,065
Financing activities:				
Issue of common shares	190	20,816	796	20,993
Common share dividends	-	(701)	(819)	(1,867)
	190	20,115	(23)	19,126
Investing activities:				
(Purchases) disposals, of property and equipment and intangible assets	659	(207)	(23)	(1,377)
Purchase of investments	(54,126)	(66,972)	(154,471)	(195,742)
Sale/maturity of investments	37,963	41,236	156,831	161,959
	(15,504)	(25,943)	2,337	(35,160)
Increase (decrease) in cash and short-term deposits	(567)	7,053	29,997	6,031
Cash and short-term deposits, beginning of period	59,675	21,763	29,111	22,785
Cash and short-term deposits, end of period	\$59,108	\$28,816	\$59,108	\$28,816
Supplementary information				
Income taxes paid	\$ 844	\$ 2,019	\$ 3,556	\$ 7,633
Interest paid	\$ 306	\$ 302	\$ 910	\$ 906

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

1 Organization and basis of presentation

These interim consolidated financial statements include the accounts of EGI Financial Holdings Inc. and its subsidiaries (the Company or EGI) and have not been reviewed by the Company's external auditors. They do not include all disclosures required by Canadian generally accepted accounting principles for annual financial statements, and accordingly, should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2008 as set out on pages 54 to 78 of the Company's 2008 Annual Report. These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies, except as described in note 2 below, as were used for the Company's consolidated financial statements for the year ended December 31, 2008.

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).

The Company's Barbados based subsidiary, CIM Re changed its functional currency to U.S. dollars effective January 1, 2008. CIM Re is operating as a self-sustaining foreign subsidiary and is therefore subject to foreign currency translation adjustments upon consolidation.

2 Significant accounting changes

Provision for unpaid claims

As at January 1, 2009, the Company changed the methodology used to estimate incurred but not reported (IBNR) reserves for motorcycle business. The purpose of the change was to more accurately match incurred claims to earned premiums which are recognized into income pro rata over the terms of the underlying policies. This objective was achieved by determining IBNR based on an annualized loss ratio instead of a quarterly loss ratio which was previously used. The methodology change represents a change in accounting policy which management believes provides more relevant information because it more accurately reflects the claims costs associated with the earned premiums recorded in the quarter.

This change in accounting policy has been accounted for retrospectively, and the comparative statements for the quarter ended September 30, 2008, have been restated. The change in methodology did not impact the consolidated statement of income for the nine months ended September 30, 2008. The effect of the change on the quarter ended September 30, 2008 is as follows:

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

For the quarter ended September 30, 2008	Previously Reported	Adjustment	Restated
Incurring claims	\$23,145	\$(1,381)	\$21,764
Income tax expense	1,368	449	1,817
Net income	3,026	932	3,958
Net income per share – basic	\$ 0.28	\$ 0.08	\$ 0.36
Net income per share – diluted	\$ 0.26	\$ 0.07	\$ 0.33

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. As a result of adopting Section 3064, the Company has reclassified \$553 of computer software from Property and Equipment to Intangible Assets on the Consolidated Balance Sheet. Amounts for prior periods have also been reclassified.

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.

3 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 financial assets are non-derivatives and have been classified as available-for-sale (AFS) investments.

Any change during the period in the fair values of investments classified as AFS are recognized in Other Comprehensive Income (OCI). The cumulative change in the fair values of investments previously recognized in Accumulated Other Comprehensive Income (AOCI) are reclassified to Net Income when they are realized or the decline in value is considered to be other than temporary.

Transaction costs related to AFS financial assets 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.

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Notes to Consolidated Financial Statements (continued)
(unaudited, in \$ thousands except per share amounts)

Fair value of Investments

The following table provides a comparison as at September 30, 2009, and December 31, 2008:

	September 30 2009	December 31 2008
Available for sale	Fair value	Fair value
Bonds		
Canadian		
Federal	\$ 75,255	\$ 82,078
Provincial	43,285	45,162
Municipal	6,322	6,935
Corporate	85,064	86,570
United States		
Corporate	7,982	2,717
Total Bonds	217,908	223,462
Preferred shares	6,738	4,042
Common shares		
Canadian	50,014	29,049
United States	1,039	1,178
	51,053	30,227
Investment income due and accrued	2,649	2,043
	\$278,348	\$259,774

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 value is less than carrying value. For those securities 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 period recorded.

The Company considers an impairment as 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 or duration of the fair value deficiency.

There were no impairment provisions recorded in the third quarter of 2009.

A gross unrealized loss of \$3,749 on investments held as at September 30, 2009, is recorded, net of tax, in the amount of \$2,512 as AOCI. The Company has concluded that these fair value deficiencies are considered temporary in nature.

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Notes to Consolidated Financial Statements (continued)
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Investment income

Investment income was derived from the following:

	Quarter to September 30		9 months to September 30	
	2009	2008	2009	2008
Interest income	\$2,965	\$3,051	\$ 8,847	\$ 8,593
Dividend income	377	273	1,044	1,249
Net realized gains (losses) and impairments	1,420	(49)	3,098	3,166
Foreign exchange gain (loss) ⁽¹⁾	(1,038)	148	(907)	378
Investment expenses	(321)	(237)	(788)	(895)
	\$3,403	\$3,186	\$11,294	\$12,491

(1) The foreign exchange loss for the nine months ended September 30, 2009 of \$(907) (2008 – gain of \$378) arises primarily from cash balances held, denominated in U.S. dollars, used to fund claims liabilities denominated in U.S. dollars and other corporate purposes. For the quarter ended September 30, 2009, the foreign exchange loss was \$(1,038) (2008 – gain of \$148).

4 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 for 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 generally accepted actuarial methods in Canada, which discount estimated future cash flows and include a provision for adverse deviation.

The Company discounts its best estimate of claim provisions at a rate of interest of 2.3% for 2009 (2008 – 2.8%) 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.

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For the nine months ended September 30, 2009, the Company recorded a \$2,255 (2008 – \$5,327) reduction to the net provision for unpaid claims relating to redundancies in prior year estimates. For the quarter ended September 30, 2009, the recorded redundancy related to prior year estimates was \$16 (2008 – \$1,892).

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 aggregate impact of the provision for adverse deviation is to increase the provision for unpaid claims on a gross basis by \$22,624 as at September 30, 2009 (December 31, 2008 – \$20,102).

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

APV basis	September 30, 2009		December 31, 2008	
	Gross	Ceded	Gross	Ceded
Personal Lines:				
Accident benefits	\$ 77,122	\$20,550	\$ 72,008	\$21,396
Liability	94,968	16,544	91,555	17,218
Other	3,268	527	4,336	656
Total Personal Lines	175,358	37,621	167,899	39,270
Niche Products:				
Property				
Commercial	3,581	248	3,273	247
Personal	195	73	332	20
Liability	11,948	1,653	8,377	1,960
Accident and sickness	2,671	144	4,728	404
Other	1,215	–	646	–
Total Niche Products	19,610	2,118	17,356	2,631
	\$194,968	\$39,739	\$185,255	\$41,901

5 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 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).

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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 judgement, 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.

6 Risk management

As a provider of insurance products, effective risk management is fundamental to EGI's ability to protect the interests of EGI's customers and shareholders. EGI 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. EGI is also exposed to potential loss from various risks, including interest rate risk and equity market fluctuation risk, credit risk, liquidity risk, and to a lesser extent foreign exchange risk.

Product and pricing

EGI 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. EGI'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, EGI's competitors may price their products below the rates the Company considers acceptable. Although EGI may adjust its pricing up or down to maintain the Company's competitive position, EGI strives to ensure its pricing will produce an appropriate return on invested capital. There is no assurance that EGI will not lose market share during periods of pricing competition.

Underwriting and claims

EGI 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.

EGI's underwriting objectives are to develop business within the Company's target markets on a prudent and diversified basis and to achieve profitable underwriting results. EGI underwrites automobile business after a review of the applicant's driving record reports and claims experience. Specialty commercial and personal risks are selected by EGI, 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

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the insurance policies that it writes can be identified and assessed, and EGI may, therefore, experience increased adjudication, settlement and claims costs.

EGI 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 EGI's financial statements. To the extent provisions prove to be inadequate, EGI would have to re-evaluate such provisions and may incur a charge to earnings in the future.

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 EGI's financial results and could materially reduce EGI's profitability or harm EGI'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.

EGI's ability to write new business also could be affected. EGI may experience an abrupt interruption of activities caused by unforeseeable and/or catastrophic events. EGI's operations may be subject to losses resulting from such disruptions. Losses can relate to property, financial assets, trading positions and also to key personnel. EGI 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.

Asset and liability matching

The Company is exposed to:

- changes in the value of its fixed income securities 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 a security 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 investment securities; and
- foreign exchange risks with respect to investments, receivables and policy liabilities denominated in foreign currencies.

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To mitigate these risks, the Company has policies to ensure that 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.

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 flows of the Company's fixed income securities portfolio. Generally, the Company's investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income securities 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 securities 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 securities portfolio as at September 30, 2009, and December 31, 2008, based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments.

Change in interest rates	As at September 30, 2009			As at December 31, 2008		
	Fair value of fixed income portfolio	Hypothetical % change on fair value	2009 Effect on OCI	Fair value of fixed income portfolio	Hypothetical % change on fair value	2008 Effect on OCI
200 basis point rise	\$196,335	(10%)	\$(14,454)	\$202,324	(9%)	\$(14,162)
100 basis point rise	206,577	(5%)	(7,592)	212,438	(5%)	(7,386)
No change	217,908	—	—	223,462	—	—
100 basis point decline	230,329	6%	8,322	235,533	5%	8,087
200 basis point decline	244,057	12%	17,520	248,463	11%	16,751

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 securities.

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The maturity profile of bonds as at September 30, 2009, is as follows:

	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	\$9,066	\$39,706	\$55,359	\$113,777	\$217,908
Percentage of total	4.1%	18.2%	25.4%	52.3%	100%

Future cash flows

The following table summarizes the expected timing of cash flows arising from insurance obligations, on an undiscounted basis (note 4), as at September 30, 2009:

	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	\$58,145	\$68,415	\$37,201	\$24,794	\$188,555
Less: Reinsurance recoverable	13,940	13,719	6,196	3,506	37,361
Net actuarial liabilities	\$44,205	\$54,696	\$31,005	\$21,288	\$151,194

Equity price risk

Fluctuations in the value of equity securities 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 securities held.

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

The table below summarizes the potential impact of a 20% change in the value of the equity securities (common and preferred shares) on OCI for the nine months ended September 30, 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.

<u>Change in equity holdings</u>	<u>Effect on OCI</u>
20% rise	\$ 7,744
20% decline	\$(7,744)

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. EGI's credit exposure to any one individual policyholder is not material. The Company has policies which limit its exposure to individual reinsurers and regular review processes to assess the creditworthiness of reinsurers with whom it transacts business.

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The following table sets forth EGI's fixed income securities portfolio by credit quality according to DBRS as at September 30, 2009, and December 31, 2008.

Fixed income portfolio

	As at September 30, 2009		As at December 31, 2008	
	Fair value	Fair value	Fair value	Fair value
AAA	\$100,662	46%	\$107,830	48%
AA	61,475	28%	60,713	27%
A	47,878	22%	48,080	22%
BBB	7,462	4%	6,765	3%
BB	302	–	–	–
CCC	129	–	74	–
Total	\$217,908	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 U.S. dollars and a portion of loss reserves are also in U.S. dollars. In addition, premiums relating to the Emergency Travel Health line of business are remitted in Canadian dollars but a significant portion of the claims incurred for this line of business are in U.S. dollars. A portion of the Company's cash and investments are also held in U.S. 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 U.S. 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 U.S. dollar ("USD") as at September 30, 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 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	\$(192)	\$(913)
10% decline	\$192	\$ 918

Reinsurance recoverables

The following table summarizes the balances outstanding from reinsurers as at September 30, 2009 by risk rating:

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Credit rating	Gross reinsurance recoverable	Less: Provisions and securities held	Net reinsurance recoverable
A	\$47,219	\$ –	\$47,219
Not rated	1,567	\$2,563	–
	\$48,786	\$2,563	\$47,219

Included in gross reinsurance recoverable is reinsurers' share of unearned premiums of \$4,642, reinsurers' share of provision for unpaid claims of \$39,739 and receivables from reinsurers presented as due from insurance companies of \$4,405.

No balances due from reinsurers are considered past due as at September 30, 2009.

Capital management

Capital is comprised of the Company's shareholders' equity and bank indebtedness. As at September 30, 2009, the Company's shareholders' equity was \$137,867 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 September 30, 2009, is 1.1:1. 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. At September 30, 2009, and December 31, 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.

7 Share capital

	September 30 2009	December 31 2008
Authorized:		
Unlimited common shares		
Issued:		
11,864,582 common shares		
(2008 – 11,676,282 common shares)	\$67,963	\$67,056

On March 27, 2009, common share dividends of \$819 or \$0.07 per share were paid to common shareholders of record March 13, 2009. No dividends were declared or paid in the second and third quarters of 2009.

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During 2009, 188,500 common shares were issued pursuant to the exercise of options under the employee stock option plan.

During the first quarter of 2009, the Company, pursuant to its normal course issuer bid, purchased and cancelled 200 shares.

8 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.

9 Income per share

	Quarter to September 30		9 months to September 30	
	2009	Restated (note 2) 2008	2009	2008
Basic income per share:				
Net income available to common shareholders	\$ 2,261	\$ 3,958	\$ 6,862	\$ 8,302
Average number of common shares (in thousands)	11,842	11,016	11,767	10,142
Basic income per share	\$ 0.19	\$ 0.36	\$ 0.58	\$ 0.82
Diluted income per share:				
Average number of common shares (in thousands)	11,842	11,016	11,767	10,142
Average number of common shares obligation under employee stock option plan (in thousands)	741	805	825	810
Average number of diluted common shares (in thousands)	12,583	11,821	12,592	10,952
Diluted income per share	\$ 0.18	\$ 0.33	\$ 0.54	\$ 0.76

10 Segmented information

The Company operates through three divisions. The Personal Lines and Niche Products divisions operate in Canada while the International division assumes premiums from U.S 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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	Quarter to September 30		9 months to September 30	
		Restated (note 2)		
	2009	2008	2009	2008
Revenue				
Earned premiums and other revenue				
Property and casualty insurance				
Canada – Personal Lines	\$26,965	\$25,579	\$77,221	\$73,165
– Niche Products	8,474	7,374	30,719	35,774
	35,439	32,953	107,940	108,939
International (United States)	442	3,197	5,000	8,769
	35,881	36,150	112,940	117,708
Interest and dividends, net of investment expenses	3,021	3,087	9,103	8,947
Realized investment gains (losses)	1,420	(49)	3,098	3,166
Foreign exchange gains (losses)	(1,038)	148	(907)	378
Total revenue	\$39,284	\$39,336	\$124,234	\$130,199
Income (loss) before income taxes				
Property and casualty insurance				
Canada – Personal Lines	\$ 805	\$ 2,653	\$ 3,799	\$ 6,592
– Niche Products	429	1,046	160	(3,368)
	1,234	3,699	3,959	3,224
International (United States)	(677)	(323)	(2,862)	(1,405)
Corporate and other	(273)	(482)	(982)	(1,168)
Underwriting income	284	2,894	115	651
Interest and dividends, net of investment expenses	3,021	3,087	9,103	8,947
Realized investment gains (losses)	1,420	(49)	3,098	3,166
Foreign exchange gains (losses)	(1,038)	148	(907)	378
Interest expense	(306)	(305)	(910)	(913)
Total income before income taxes	\$ 3,381	\$ 5,775	\$10,499	\$12,229