Unaudited Condensed Consolidated Interim Financial Statements of

EGI FINANCIAL HOLDINGS INC.

For the quarters ended September 30, 2013 and 2012

EGI FINANCIAL HOLDINGS INC.
Consolidated Balance Sheets
(Unaudited, in thousands of Canadian dollars)

	Note	September 30 2013	December 31 2012
Assets			
Cash and short–term deposits		31,817	11,746
Accounts receivable		39,763	35,594
Investments	6	421,691	404,196
Due from insurance companies		1,425	3,326
Deferred policy acquisition costs		29,987	21,451
Income taxes recoverable		2,914	–
Prepaid expenses and other assets		3,434	2,874
Reinsurers' share – unearned premiums		14,595	9,169
– provision for unpaid claims	7	31,961	30,283
Property and equipment		723	747
Intangible assets	9	5,800	5,568
Deferred income taxes		5,836	5,346
Assets held for sale (discontinued operations)	15	15,799	16,727
		605,745	547,027
Liabilities			
Income taxes payable			426
Accounts payable and accrued liabilities		18,240	12,703
Payable to insurance companies		3,037	3,449
Unearned premiums		120,158	90,720
Unearned commission		2,462	1,770
Provision for unpaid claims	7	288,613	264,455
Liabilities of discontinued operations	15	11,580	8,101
		444,090	381,624
Equity			
Share capital		66,864	68,244
Contributed surplus		1,298	1,068
Retained earnings		92,323	91,237
Accumulated other comprehensive income	13	2,541	6,054
Equity attributed to shareholders of the Company		163,026	166,603
Non–controlling interest		(1,371)	(1,200)
Total equity		161,655	165,403
Total liabilities and equity		605,745	547,027

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Income and Comprehensive Income
(Unaudited, in thousands of Canadian dollars)

	Note	3 months ended September 30		9 months ended September 30	
		2013	**2012**	**2013**	**2012**
Revenue					
Gross written and assumed premiums		62,706	53,561	194,067	156,497
Less: Premiums ceded to reinsurers		(9,068)	(7,500)	(26,023)	(19,857)
Net written and assumed premiums		53,638	46,061	168,044	136,640
(Increase) decrease in gross unearned premiums		(2,206)	(6,334)	(25,670)	(19,653)
Increase (decrease) in unearned premiums, reinsurers' share		(721)	2,335	3,352	5,937
Change in provision for unearned premiums		(2,927)	(3,999)	(22,318)	(13,716)
Net earned premiums		50,711	42,062	145,726	122,924
Investment income	6	2,506	20,659	12,921	28,940
Total revenue		53,217	62,721	158,647	151,864
Expenses					
Gross claims incurred		33,603	25,973	97,305	81,927
Less: claims recoveries from reinsurers		(2,624)	(618)	(6,659)	(4,264)
Net incurred claims		30,979	25,355	90,646	77,663
Gross acquisition costs		15,930	12,034	46,047	34,010
Less: acquisition cost recoveries from reinsurers		(3,605)	(1,923)	(9,883)	(4,617)
Net acquisition costs		12,325	10,111	36,164	29,393
Operating costs		6,250	6,137	17,194	16,817
Total expenses		49,554	41,603	144,004	123,873
Income before taxes and discount rate impact on claims		3,663	21,118	14,643	27,991
Impact of change in discount rate on claims	7	(665)	(1,879)	(665)	(3,690)
Income (loss) before income taxes		2,998	19,239	13,978	24,301
Income tax expense	11	558	5,227	2,769	6,083
Net income on continued operations		2,440	14,012	11,209	18,218
Net income (loss) on discontinued operations attributable to shareholders of the Company	15	(7,508)	(133)	(8,970)	(3,365)
Net income (loss)		(5,068)	13,879	2,239	14,853
Attributed to: - Shareholders of the Company		(4,894)	14,062	2,410	15,660
- Non–controlling interest		(174)	(183)	(171)	(807)
Net income (loss)		(5,068)	13,879	2,239	14,853
Earnings per share attributable to shareholders of the Company	14				
Net income (loss) per share continuing operations – basic		$0.22	$1.18	$0.97	$1.58
Net income (loss) per share – basic		($0.42)	$1.17	$0.20	$1.30
Net income per share continuing operations – diluted		$0.22	$1.18	$0.95	$1.57
Net income (loss) per share – diluted		($0.42)	$1.17	$0.20	$1.29
Net (loss) income		(5,068)	13,879	2,239	14,853
Other comprehensive income (loss), that may be classified subsequently to net income					
Available-for-sale securities:					
Change in net unrealized gains		541	6,270	(1,082)	8,538
Reclassification of net realized (gains) losses to net income		(39)	(17,566)	(4,826)	(18,899)
Cumulative translation gain (loss)		(159)	(240)	553	(236)
Tax impact		(84)	3,455	1,842	3,143
Other comprehensive income (loss)		259	(8,081)	(3,513)	(7,454)
Total comprehensive income (loss)		(4,809)	5,798	(1,274)	7,399
Attributed to:					
Shareholders of the Company		(4,635)	5,981	(1,103)	8,206
Non-controlling interest		(174)	(183)	(171)	(807)
		(4,809)	5,798	(1,274)	7,399

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Changes in Equity
(Unaudited, in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Shareholders' Equity	Non–controlling interest	Total Equity
Balance at January 1, 2013	68,244	1,068	6,054	91,237	166,603	(1,200)	165,403
Net income	–	–	–	2,410	2,410	(171)	2,239
Other comprehensive income (loss)	–	–	(3,513)	–	(3,513)	–	(3,513)
Total comprehensive income (loss)	–	–	(3,513)	2,410	(1,103)	(171)	(1,274)
Common shares repurchased	(1,587)	–	–	(1,324)	(2,911)	–	(2,911)
Common shares issued	207	–	–	–	207	–	207
Stock options – expense	–	230	–	–	230	–	230
Balance at September 30, 2013	66,864	1,298	2,541	92,323	163,026	(1,371)	161,655

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Shareholders' Equity	Non–controlling interest	Total Equity
Balance at January 1, 2012	69,133	724	13,766	71,410	155,033	(213)	154,820
Net income (loss)	–	–	–	15,660	15,660	(807)	14,853
Other comprehensive income (loss)	–	–	(7,454)	–	(7,454)	–	(7,454)
Total comprehensive income (loss)	–	–	(7,454)	15,660	8,206	(807)	7,399
Common shares repurchased	(562)	–	–	(331)	(893)	–	(893)
Stock options – expense	–	245	–	–	245	–	245
Balance at September 30, 2012	68,571	969	6,312	86,739	162,591	(1,020)	161,571

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Cash Flows
(Unaudited, in thousands of Canadian dollars)

	9 months ended September 30,	
	2013	**2012**
Cash provided by (used in):		
Continuing Operating activities		
Net income from continuing operations	11,209	18,218
Items not involving cash:		
Reinsurers' share of unearned premiums	(5,426)	(5,961)
Reinsurers' share of unpaid claims	(1,678)	4,428
Provision for unpaid claims	24,158	10,050
Unearned premiums	29,438	19,642
Deferred income taxes	(490)	(248)
Unearned commissions	692	1,096
Deferred policy acquisition costs	(8,536)	(4,733)
Amortization on property plant equipment and intangible assets	2,291	2,436
Amortization of premiums on bonds	1,710	1,169
Fair value change on FVTPL investments	2,058	(189)
Options expense	230	245
Currency translation	309	(396)
Prepaid expenses & other assets	(560)	(871)
Other	1	3
	44,197	26,671
Cash flow from changes in		
Accounts receivable	(4,169)	(11,908)
Net realized (gains) losses	(4,896)	(19,410)
Income taxes payable/recoverable	(1,750)	3,838
Due to related parties	1,489	4,444
Other liabilities	5,537	(74)
Cash provided by continuing operating activities	40,408	3,561
Financing activities		
Issue of common shares	207	
Share repurchase	(2,911)	(893)
Cash provided by (used in) financing activities	(2,704)	(893)
Investing activities		
Purchases of property and equipment and intangible assets	(2,499)	(2,886)
Purchase of investments	(554,975)	(439,372)
Sale/maturity of investments	533,509	468,874
Cash (used in) investing activities	(23,965)	26,616
Cash flow from discontinued operations	1,887	2,384
Increase in cash and short-term deposits	26,835	49,886
Cash and short-term deposits, beginning of year	19,578	30,839
Cash and short-term deposits, end of period	46,413	80,725
Supplementary information		
Operating activities		
Income taxes paid	6,362	3,711

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

1 Organization and basis of presentation

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

EGI Financial Holdings Inc. (the Company) was incorporated on August 18, 1997, under the Business Corporations Act (Ontario) and is incorporated and domiciled in Canada. The Company is principally engaged, through its subsidiaries, in property and casualty insurance in Canada, U.S. and Europe. The Company's head office is located at 2680 Matheson Blvd. East, Suite 300, Mississauga, Ontario.

The Company's wholly–owned subsidiaries are EGI Insurance Managers Inc., Echelon General Insurance Company (Echelon), EGI Insurance Services, Inc., American Colonial Insurance Company (ACIC), EGI Insurance Services (Florida), Inc., CIM Reinsurance Company Ltd. (CIM Re) and CUISA Managing General Agency Corporation ("CUISA MGA"). The Company also owns all of the preferred shares plus 51% of common shares of QIC Holdings ApS, which owns 100% of Qudos Insurance A/S.

2 Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS.

These consolidated financial statements have been authorized for issue by the Board of Directors, on November 7, 2013.

Prior period figures have been reclassified to conform to the current period presentation.

3 Summary of significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year end and the Company has consistently applied the same accounting policies through all periods presented except as described below.

Discontinued Operations

As described in Note 15, on August 8, 2013, the Company entered into a definitive stock purchase agreement to sell EGI Insurance Services Inc. and all of its subsidiary companies, the U.S. operations. The sale of the U.S. operations is reflected as discontinued operations on the Consolidated Balance Sheets and Consolidated Statements of Income and Comprehensive Income and for all periods presented.

Assets are classified as held-for-sale (discontinued operations) if their carrying amounts are recovered principally through a sales transaction rather than through continuing use. This condition is satisfied when the asset is available for immediate sale in its present condition, managment is committed to the sale, and it is highly probable to occur within 1 year. Assets classified as held-for-sale are measured at the lower of their previous carrying amount and fair value and are presented separately from other assets on our Consolidated Balance Sheets.

A disposal group is classified as a discontinued operation if it meets the following conditions: (a) it is a component that can be distinguished operationally and financially from the rest of our operations, and (b) it represents either a separate major line of business or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Income taxes

Taxes on income in the interim periods are accrued using the estimated annual tax rate that would be applicable to expected total annual income.

Amendment to IAS 1 Presentation of Financial Statements

In June 2011, the IASB issued an amendment to IAS 1 that changes the presentation of items in the consolidated statements of comprehensive income. This amendment requires the components of other comprehensive income to be presented in two separate groups, based on whether or not the components may be recycled to the consolidated statements of earnings in the future. Companies will continue to have a choice of whether to present components of OCI before or after tax. Those that present components of OCI before tax will be required to disclose the amount of tax related to the two groups separately. This amendment is effective for annual periods beginning on or after July 1, 2012, is applied retrospectively, with early adoption permitted.

The Company assessed its presentation of financial statements conclusions on January 1, 2013, and determined that the adoption of IAS 1 did not result in any change in the presentation of financial status of the Company.

IFRS 10, Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements, replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

The Company assessed its consolidation conclusions on January 1, 2013, and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the disclosure requirements under IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures. The enhanced disclosures in the new standard are intended to help financial statement readers evaluate the nature, risks and financial effects of an entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12.

The Company assessed its disclosure of interest in other entities conclusions on January 1, 2013, and determined that the adoption of IFRS 12 did not result in any change in the disclosure of interest in other status of any of its subsidiaries and investees.

IFRS 13, Fair Value Measurement

IFRS 13, Fair Value Measurement, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013, on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

4 Critical accounting estimates and assumptions

The preparation of the Company's condensed consolidated interim financial statements requires management to use estimates and judgements that affect the amounts reported in the financial statements. These estimates and judgements principally relate to the establishment of reserves for claims and expenses, impairments of investment securities, amounts recoverable from reinsurers and income taxes. As more information becomes known, these estimates and judgements could change and impact future results.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual 2012 consolidated financial statements.

5 Seasonality

The P&C insurance business is seasonal in nature. While net earned premiums are generally stable from quarter to quarter, net underwriting income is driven mainly by weather conditions which may vary significantly by quarter.

6 Investments

The investment policies adopted are consistent with those of the previous financial year end and the Company has consistently applied the same investment policies through all periods presented.

(Unaudited, in thousands of Canadian dollars, except per share amounts)

	Carrying and fair values	
Available-for-sale	**As at September 30, 2013**	**As at December 31, 2012**
Bonds		
Government	161,909	190,277
Corporate	195,705	173,036
Total bonds	357,614	363,313
Commercial Mortgages pooled fund	2,025	–
Common shares	33,436	15,737
Total available-for-sale	393,075	379,050
Fair value through profit or loss		
Preferred shares	28,616	25,146
Total investments	421,691	404,196

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. 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 is 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.

(Unaudited, in thousands of Canadian dollars, except per share amounts)

There have been no significant changes in the business circumstances that affect the fair value of the financial assets. The economic circumstances that affect the fair value of the Company's financial assets have changed in the period with the increasing interest rates.

The following table provides the classification of the Company's investments within the fair value hierarchy, as outlined above, as at September 30, 2013, and December 31, 2012:

September 30, 2013	**Investments at fair value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Bonds	–	357,614	–	357,614
Commercial Mortgages pooled fund	–	–	2,025	2,025
Common Shares	33,436	–	–	33,436
Preferred Shares	28,616	–	–	28,616
	62,052	357,614	2,025	421,691

December 31, 2012	**Investments at fair value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Bonds	–	362,829	484	363,313
Common Shares	15,737	–	–	15,737
Preferred Shares	25,146	–	–	25,146
	40,883	362,829	484	404,196

A reconciliation of Level 3 investment with the use of significant unobservable inputs are as follows:

		9 months ended September 30	
		2013	**2012**
Balance at beginning of year		484	1,721
Add: Additions during period	- Commercial Mortgages pooled fund	2,025	–
Less: Disposals and write-down during period	- Preferred Shares	–	(917)
	- Bonds	–	(229)
Reclassification in/(out) of level 3	- Bonds	(484)	(111)
Net unrealized gains (losses) included in other comprehensive income		–	20
Balance at end of period		2,025	484

Investment in commercial mortgages pooled fund is valued using the Company's share of the net asset value of the commercial mortgage pooled fund as at September 30, 2013. During the year there was $484 transferred from level 3 to level 2 (September 30, 2012 - $111). The Company is now receiving the price for these transferred investments from source.

(Unaudited, in thousands of Canadian dollars, except per share amounts)

Impaired assets and provisions for losses

Management has reviewed currently available information regarding those investments where estimated fair values are less than carrying values. For those investments that are considered impaired, the Company has recorded the difference between the cost, or amortized cost, of the investment and its fair value as an impairment, which reduces investment income recorded in the period.

A provision for impairments on investments of $901 was recognized in 2013 (September 30, 2012 – $2,203). A remaining gross unrealized loss of $1,780 on AFS investments held as at September 30, 2013 (September 30, 2012 – $229) is recorded, net of tax, in the amount of $1,347 (September 30, 2012 – $168) as Accumulated Other Comprehensive Loss.

Investment income

Investment income was derived from the following:

	3 months ended September 30		9 months ended September 30	
	2013	**2012**	**2013**	**2012**
Interest income	3,318	3,132	9,692	9,348
Dividend income	523	310	1,427	1,230
Net realized gains (losses)	(74)	17,382	5,797	21,613
Impairment loss	–	(17)	(901)	(2,203)
Fair value change on FVTPL investments	(883)	112	(2,058)	189
Realized and unrealized foreign exchange gains (losses)	(120)	170	(120)	18
Investment expenses	(258)	(430)	(916)	(1,255)
Investment Income	2,506	20,659	12,921	28,940

7 Provision for unpaid claims

The fair value of the provision for unpaid claims approximates the carrying value determined in accordance with generally accepted actuarial methods in Canada, 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 2.52% (December 31, 2012 – 2.65%) 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 recorded a $5,455 reduction to the net provision for unpaid claims relating to redundancies in prior years' estimates (September 30, 2012 – $3,267).

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 claims development, reinsurance recoveries and future investment income. The PFADs selected are in the midrange 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 $27,126 as at September 30, 2013 (December 31, 2012 – $27,713).

(Unaudited, in thousands of Canadian dollars, except per share amounts)

Claims development

Provision for unpaid claims analysis	September 30, 2013	September 30, 2012
Unpaid claims, beginning of year, net	234,172	219,885
Change in undiscounted estimates for losses of prior years	(3,239)	(4,686)
Change in discount rate	655	4,809
Change in PFADs	(6,132)	(6,547)
Interest cost	3,261	3,157
Provision for claims occurring in current period	96,101	80,930
Paid on claims occurring during		
Current year	(26,625)	(20,279)
Prior year	(41,541)	(42,744)
Unpaid claims, end of period, net	256,652	234,525
Reinsurers' share	31,961	28,841
Unpaid claims, gross	288,613	263,366

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims.

Assumptions used to develop the provision estimate for unpaid claims and adjustment expenses are selected by class of business and geographic location. Consideration is given to the characteristics of the risks, historical trends, and the amount of data available on individual claims, inflation and any other pertinent factors. Some assumptions require a significant amount of judgment such as the expected impacts of future judicial decisions and government legislation. The diversity of these considerations results in it not being practical to identify and quantify all individual assumptions that are more likely than others to have a significant impact on the measurement of the Company's insurance contracts. There were no new assumptions identified in the period as having a potential or identifiable material impact on the overall claims estimate.

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.

(Unaudited, in thousands of Canadian dollars, except per share amounts)

These condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements as at December 31, 2012.

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. There has been no significant change in risk management since year end.

Insurance risk

The risk under any one insurance contract is the possibility that the event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable. The principal risk that the Company faces under its insurance contract is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or the severity of the claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the estimate.

The concentration of insurance risk by product line, country, province or state, and underlying currency, will also impact financial results depending on the nature and location of events.

Compared to year end there was no material change to insurance risk.

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 September 30, based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments.

	As at September 30, 2013			As at December 31, 2012		
Change in interest rates	**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	331,157	(7%)	(19,314)	334,130	(6%)	(21,303)
100 basis point rise	343,933	(4%)	(9,987)	348,152	(3%)	(11,067)
No change	357,614	–	–	363,313	–	–
100 basis point decline	372,166	3%	10,623	379,700	3%	11,963
200 basis point decline	386,406	8%	21,018	395,927	7%	23,808

(Unaudited, in thousands of Canadian dollars, except per share amounts)

Liquidity risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. The Company's liquidity management strategy is to ensure that there is sufficient cash to meet its financial commitments as they become due. To manage cash flow requirements, the Company maintains a portion of invested assets in liquid investments.

The maturity profile of bonds as at September 30, 2013, and December 31, 2012, are as follows:

September 30, 2013	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	39,002	93,129	142,166	83,317	357,614
Percentage of total	11%	26%	40%	23%	100%

December 31, 2012	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	28,342	79,972	118,556	136,443	363,313
Percentage of total	8%	22%	32%	38%	100%

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at September 30, 2013, and December 31, 2012:

September 30, 2013	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	85,490	98,887	54,300	38,306	276,983
Less: Reinsurance recoverable	12,846	9,877	4,720	2,926	30,369
Net actuarial liabilities	72,644	89,010	49,580	35,380	246,614

December 31, 2012	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	74,440	90,959	52,062	35,980	253,441
Less: Reinsurance recoverable	11,782	9,592	4,747	2,605	28,726
Net actuarial liabilities	62,658	81,367	47,315	33,375	224,715

All other financial liabilities are for duration of one year or less. The contractual maturities for lease commitments are listed in note 12.

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.

(Unaudited, in thousands of Canadian dollars, except per share amounts)

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 10% change in the value of the equity securities (common and preferred shares) on net income and OCI for the quarter ended September 30, 2013, and the year ended December 31, 2012. Certain shortcomings are inherent in the method of analysis presented, as the analysis is based on the assumption that all equity holdings increased/decreased by 10% with all other variables held constant.

Change in equity holdings	Effect on Net Income		Effect on OCI net of tax	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
10% rise	2,089	1,836	2,441	1,149
10% decline	(2,089)	(1,836)	(2,441)	(1,149)

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 participates in a securities lending program managed by a federally regulated financial institution whereby the Company lends securities it owns to other financial institutions to allow them to meet their delivery commitments. The Company receives collateral for securities loaned. At September 30, 2013, securities, which are included in invested assets, with a fair value of $74,219 (December 31, 2012 – Nil) have been loaned. Securities with a fair value of $78,435 (December 31, 2012 – nil) were received as collateral. The collateral received has not been recorded on the Company's consolidated balance sheet.

The Company is exposed to risk from reinsurers' inability to cover balances. 93.0% of the Company's reinsurance balances are from registered reinsurers. The Company holds sufficient collateral to cover the 7.0% of reinsurance balances from unregistered reinsurers.

The following table sets forth the Company's fixed income securities portfolio by credit quality as at September 30, 2013, and December 31, 2012.

(Unaudited, in thousands of Canadian dollars, except per share amounts)

Fixed income portfolio

	As at September 30, 2013		As at December 31, 2012	
	Fair value	**Fair value**	**Fair value**	**Fair value**
AAA	119,670	34%	134,854	37%
AA	73,663	21%	72,348	21%
A	92,876	26%	105,762	29%
BBB	43,977	12%	39,718	10%
BB	18,741	5%	6,626	2%
B	1,400	–	455	–
CCC	2,153	1%	277	–
Unrated	5,134	1%	3,273	1%
Total	357,614	100%	363,313	100%

Preferred share portfolio

	As at September 30, 2013		As at December 31, 2012	
	Fair value	**Fair value**	**Fair value**	**Fair value**
P1	6,623	23%	9,179	36%
P2	19,522	69%	9,766	39%
P3	2,471	8%	6,201	25%
Total	28,616	100%	25,146	100%

9 Intangible assets

	Opening cost	Purchases	Sales	End of period cost	Accumulated amortization	Net
Software						
September 30, 2013	10,598	2,132	–	12,730	7,330	5,400
December 31, 2012	7,607	2,991	–	10,598	5,430	5,168
Goodwill						
September 30, 2013	400	–	–	400	–	400
December 31, 2012	–	400	–	400	–	400
Total intangible assets						
September 30, 2013	10,998	2,132	–	13,130	7,330	5,800
December 31, 2012	7,607	3,391	–	10,998	5,430	5,568

10 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 under arms-length contracts. Direct written premiums derived from Co–operators' agents were $6,789 (September 30, 2012 – $8,462), commissions paid were $781 (September 30, 2012 – $973) and investment management fees were $271 (September 30, 2012 – $296).

(Unaudited, in thousands of Canadian dollars, except per share amounts)

The Company has a 100% Quota Share reinsurance treaty with Co–operators General Insurance Company for policies written in 2001 and 2002. Reinsurers share of unpaid claims includes a recoverable of $316 (September 30, 2012 – $316) from Co-operators General Insurance Company. The payable to insurance companies balance includes amounts due to Co-operators General Insurance Company of $70 (September 30, 2012 – $34).

11 Income taxes

Income tax expense is recognized based on managements estimate of the weighted annual income tax rate expected for the full financial year. The estimated annual tax rate used for the three and nine months ended September 30, 2013, was 27%. The estimated tax rate for the three and nine months ended September 30, 2012, was 27.5%.

The income tax expense (recovery) is as follows:

	3 months ended September 30		9 months ended September 30	
	2013	**2012**	**2013**	**2012**
Current	424	5,510	3,159	6,334
Deferred	134	(283)	(390)	(251)
	558	5,227	2,769	6,083

12 Lease commitments

The Company is committed under lease agreements for office premises and computer equipment with minimum lease payments of $6,795 as follows:

Lease commitments	
2013	372
2014	1,422
2015	1,347
2016	1,319
2017	1,187
2018 and thereafter	1,148
	6,795

13 Accumulated other comprehensive income

	9 months ended September 30	
	2013	**2012**
Beginning Balance that may subsequently be classified to profit and loss	6,054	13,766
Unrealized gains (losses) on fixed maturities and equity investments arising during the period	(1,082)	8,540
Reclassification adjustment for (gains) losses included in net income	(4,826)	(18,899)
Foreign currency translation adjustments	553	(236)
Tax impact	1,842	3,141
Ending balance	2,541	6,312

	As at September 30, 2013	As at December 31, 2012
Gross unrealized gains	2,696	8,604
Foreign currency translation adjustments	594	41
Tax impact	(749)	(2,591)
Ending balance	2,541	6,054

14 Earnings per share

	3 months ended September 30		9 months ended September 30	
	2013	**2012**	**2013**	**2012**
Basic earnings per share on continuing operations:				
Net continuing income available to shareholders	2,614	14,195	11,380	19,025
Average number of common shares (in thousands)	11,674	12,001	11,789	12,018
Basic earnings per share on continuing operations	$0.22	$1.18	$0.97	$1.58
Diluted earnings per share on continuing operations:				
Average number of common shares (in thousands)	11,674	12,001	11,789	12,018
Average number of dilutive common shares under employee stock option plan (in thousands)	235	61	206	91
Average number of diluted common shares (in thousands)	11,909	12,062	11,995	12,109
Diluted earnings per share on continuing operations	$0.22	$1.18	$0.95	$1.57

	3 months ended September 30		9 months ended September 30	
	2013	**2012**	**2013**	**2012**
Basic earnings per share:				
Net income available to shareholders	(4,894)	14,062	2,410	15,660
Average number of common shares (in thousands)	11,674	12,001	11,789	12,018
Basic earnings per share	($0.42)	$1.17	$0.20	$1.30
Diluted earnings per share:				
Average number of common shares (in thousands)	11,674	12,001	11,789	12,018
Average number of dilutive common shares under employee stock option plan (in thousands)	–	61	206	91
Average number of diluted common shares (in thousands)	11,674	12,062	11,995	12,109
Diluted earnings per share	($0.42)	$1.17	$0.20	$1.29

15 Discontinued Operations

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

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

	September 30 2013	December 31 2012
Assets held for sale (discontinued operations)		
Cash and short–term deposits	14,596	7,832
Investments	913	8,532
Deferred policy acquisition costs	85	137
All other assets	205	226
	15,799	16,727
Liabilities of discontinued operations		
Accounts payable and accrued liabilities	3,293	612
Unearned premiums	3,528	3,365
Provision for unpaid claims	4,759	4,124
	11,580	8,101

(Unaudited, in thousands of Canadian dollars, except per share amounts)

	3 months ended September 30		9 months ended September 30	
	2013	**2012**	**2013**	**2012**
Revenue				
Gross written and assumed premiums	3,619	4,216	10,659	11,326
Change in provision for unearned premiums	(155)	(545)	(35)	(2,389)
Net earned premiums	3,464	3,671	10,624	8,937
Investment income	554	132	787	311
Total revenue	4,018	3,803	11,411	9,248
Expenses				
Net incurred claims	4,497	2,739	10,902	9,449
Net acquisition costs	453	477	1,257	1,123
Operating costs	1,138	775	2,937	2,521
Total expenses	6,088	3,991	15,096	13,093
Income (loss) before income taxes	(2,070)	(188)	(3,685)	(3,845)
Income tax expense	262	55	415	480
Net Income on discontinued operations	(1,808)	(133)	(3,270)	(3,365)
Write down on sale of discontinued operations	(5,700)	–	(5,700)	–
Net income (loss) on discontinued operations	(7,508)	(133)	(8,970)	(3,365)

	9 months ended September 30	
	2013	**2012**
Discontinued cash provided by (used in):		
Net income	(8,970)	(3,365)
Operating activities	3,459	5,712
Financing activities	3,351	–
Investing activities	4,047	37
Cash flow from discontinued operations	1,887	2,384

16 Segmented information

The Company operates through three segments: Personal Lines and Specialty Programs divisions in Canada and specialty business in the International division. Through its Personal Lines division, the Company is engaged primarily in the underwriting of high premium, non–standard automobile insurance.

Through its Specialty Programs 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. Through the International division the Company underwrites European property, automobile and other niche and specialty insurance products.

The effect of reinsurance is reflected in the revenue and results of each segment. 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.

(Unaudited, in thousands of Canadian dollars, except per share amounts)

	3 months ended September 30		9 months ended September 30	
	2013	**2012**	**2013**	**2012**
Revenue				
Earned premiums				
Canada – Personal Lines	29,963	31,239	89,566	94,143
– Specialty Programs	8,976	8,703	25,476	25,326
	38,939	39,942	115,042	119,469
International	11,772	2,120	30,684	3,455
Total earned premium	50,711	42,062	145,726	122,924
Net claims Incurred				
Canada – Personal Lines	17,931	17,987	56,908	57,209
– Specialty Programs	5,903	6,014	16,655	18,221
	23,834	24,001	73,563	75,430
International	7,145	1,354	17,083	2,233
Total net claims incurred	30,979	25,355	90,646	77,663
Net expenses				
Canada – Personal Lines	8,774	9,700	26,039	28,086
– Specialty Programs	4,159	4,180	11,908	11,944
	12,933	13,880	37,947	40,030
International	4,577	1,482	12,870	3,615
Corporate Expenses	1,065	886	2,541	2,565
Total net expenses	18,575	16,248	53,358	46,210
Income (loss) before income taxes				
Canada – Personal Lines	3,258	3,552	6,619	8,848
– Specialty Programs	(1,086)	(1,491)	(3,087)	(4,839)
	2,172	2,061	3,532	4,009
International	50	(716)	731	(2,393)
Corporate and other	(1,065)	(886)	(2,541)	(2,565)
Underwriting (loss) income	1,157	459	1,722	(949)
Impact of change in net claims discount rate	(665)	(1,879)	(665)	(3,690)
Investment income	2,506	20,659	12,921	28,940
Total income before taxes	2,998	19,239	13,978	24,301

(Unaudited, in thousands of Canadian dollars, except per share amounts)

Segmented long-term assets

	September 30, 2013	**December 31, 2012**
Canada – Personal Lines	5,543	5,382
– Specialty Programs	819	816
	6,362	6,198
International	161	118
Total segmented long-term assets	6,523	6,316