

**The Dominion of Canada General Insurance Company ("The Dominion")  
Q1 2009 Financial Summary \***

The Dominion incurred a net loss of \$148.2 million in the first quarter of 2009 due to a provision for impairment in the value of common equity investments, in contrast to a net loss of \$2.9 million in the first quarter of 2008. The combined ratio for the quarter was 108.7 (113.5 for the first quarter of 2008) and the combined ratio excluding the effects of changes in the claims discount rate was 106.5 for the quarter, compared to 104.7 for the first quarter of 2008, reflecting higher claims frequency.

Management's assessment of industry dynamics, risks and risk management, critical accounting estimates and strategy for The Dominion remains consistent with Management's Discussion and Analysis ("MD&A") in the 2008 annual report.

The Dominion's financial results for the first quarter of 2009 and 2008 are summarized as follows:

(millions of dollars)

For the three months ended March 31	Automobile		Personal Property		Commercial Property & Casualty		Total		
	2009	2008	2009	2008	2009	2008	2009	2008	
Gross premiums written	\$ 153	\$ 144	\$ 44	\$ 41	\$ 50	\$ 49	\$ 247	\$ 234	
Growth rate %	6.0	4.1	9.6	6.0	1.7	7.3	5.7	5.1	
Mix of business %	62	62	18	17	20	21	100	100	
Loss ratio %	77.8	88.5	81.2	78.9	70.7	62.7	77.2	81.9	
Loss ratio % - excluding change in discount rate	75.7	78.1	80.6	77.7	66.7	51.6	75.0	73.1	
<b>Revenue</b>									
Net premiums earned							\$ 263	\$ 253	
Premium finance fee							2	2	
Investment income							22	22	
Net realized gains (losses) on investments and impairment provision							(224)	5	
								63	282
<b>Expenses</b>									
Claims expense							203	207	
Other expenses, including premium taxes							83	80	
Recovery of taxes							(75)	(2)	
								211	285
<b>Net loss</b>								\$ (148)	\$ (3)

Total gross premiums written in the first quarter increased by 5.7%, compared to the first quarter of 2008, consisting of an increase in The Dominion's written policies of 2.0%, an increase in The Dominion's average premiums of 4.9% and a 1.2% decrease from The Dominion's share of Facility Association business. The increase in policies written includes a decrease of 1.4% from the termination of competitor-owned brokers referred to in the 2008 Annual Management's Discussion and Analysis ("MD&A").

Changes in the claims discount rate increased the claims expense by \$5.7 million (2.2 points of loss ratio) in the first quarter of 2009 and by \$22.2 million (8.8 points of loss ratio) in the first quarter of 2008. The claims discount rate is changed each quarter as a result of changes in the current market yields on investments, mostly bonds, which are held by The Dominion to fund policy liabilities. Excluding the effect of changes in the claims discount rate, the first quarter loss ratio was 75.0 in 2009, compared to 73.1 in 2008. The net increase reflects higher frequency in general. Claims incurred resulting from large losses, which are random by nature, had a similar impact on the total loss ratio for the quarter, compared to the prior year's first quarter; however, there were variances in large losses on the individual lines' loss ratios, compared to the prior year's first quarter, as described in the following analyses by line of business.

\* The Dominion is 100% owned by E-L Financial Corporation ("E-L"). The following is an excerpt from the Q1 2009 MD&A of E-L. The quarterly financial statements and MD&As of E-L are available on SEDAR at [www.sedar.com](http://www.sedar.com).

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**Automobile**

Excluding Facility Association business, The Dominion's automobile gross premiums written in the first quarter increased 7.9% compared to the first quarter of 2008. Policies written increased by 2.5% and average gross premiums written increased 5.4%. The Dominion's share of Facility Association business caused a decrease of 1.9%, resulting in a 6.0% increase overall. Rates have been increased in all regions resulting in an increase in average premiums written. Excluding the impact of changes in the claims discount rate, the automobile loss ratio improved by 2.4 points, mainly due to a decrease in large losses reported for the quarter, compared to the first quarter of 2008.

**Personal property**

Gross premiums written this quarter have increased 9.6% in comparison to the first quarter of 2008. The increase consists of a 1.9% increase in policies written and a 7.7% increase in average premiums written per policy. Consistent with previous quarters, the increase in average premiums mainly reflects increases in estimated insured values which are used to compute premiums. The insurance industry's estimates for insured values have not kept pace with actual replacement costs, which include labour and materials. The Dominion and its brokers are continuing to make a concerted effort to increase the accuracy of estimates used. The 2.9 point increase in the first quarter's loss ratio, excluding the impact of changes in discount rates, reflects higher claims costs resulting from large losses and a general increase in claims frequency, compared to the first quarter of 2008.

**Commercial property, casualty and surety**

Gross premiums written in the first quarter increased 1.7% compared to the first quarter of 2008, consisting of a 2.0% increase in average premiums, partly offset by a 0.3% decrease in policies written. Average premiums are starting to increase which is a sign of a hardening market. Excluding the effects of changes in discount rates, the large 15.1 point increase in the first quarter loss ratio is mainly due to higher claims costs for large losses, weather-related claims and an increase in claims frequency, compared to the first quarter of 2008.

**Expenses**

The 2009 expense ratio for the first quarter is 31.5% (31.6% in 2008). First quarter expenses are higher than those of the prior year's first quarter by \$2.9 million reflecting planned increases for staff levels and technology development costs. Growth in net premiums earned kept pace with expenses leaving the expense ratio relatively unchanged.

**Investments, cash flow and capital**

Investment income (interest and dividends) before tax was \$22.3 million for the first quarter, an increase of \$0.8 million over the prior year's first quarter. The increase in income reflects an annualized investment yield, on an amortized cost basis, of 3.9% for the first quarter, compared to 3.8% in the prior year's first quarter.

Net realized gains on sale of investment, before taxes, were \$1.3 million for the first quarter, versus \$4.9 million in the prior year. Generally, investment gains and losses are unpredictable and arise from investment decisions focused on optimizing the long term returns on the portfolios.

On April 2, 2009, The Dominion appointed a new third-party investment firm to manage its common equity investments. Consequently, The Dominion's common equity pooled fund units will be redeemed and the proceeds will be reinvested during the second quarter of 2009. As a result of the decision to change the investment manager, the first quarter's net income includes an impairment provision of \$161.7 million, which equals the after-tax unrealized loss on these units, as at March 31, 2009. When these units are redeemed, the impairment provision will be reversed and a realized loss on sale of investments will be recorded.

Total cash and investments decreased by \$8.0 million year to date, compared to a decrease of \$45.0 million in the prior year to date. Cash flow from operations was a negative \$20.5 million for the first quarter, compared to positive \$4.8 million for the first quarter of 2008. The Dominion typically pays an annual dividend in the first quarter of each year. The Dominion did not pay a dividend in the first quarter of 2009, compared to a \$40.0 million dividend paid in the first quarter of 2008. The Dominion's dividends are fully eliminated in the consolidated financial statements of E-L Financial Corporation Limited.

The Dominion's regulatory solvency test ("Minimum Capital Test", or "MCT") result is 183% at the end of the first quarter (182% at December 31, 2008). The federal regulator of financial institutions has established a supervisory target MCT result of 150% to provide a safety buffer above the legally required minimum MCT of 100%. The Dominion's capital has exceeded the requirements of the Insurance Companies Act and applicable regulations throughout the first quarter and to the date of this report.

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**Other comprehensive income**

Other comprehensive income ("OCI") was \$210.1 million for the first quarter (loss of \$14.5 million in the first quarter of 2008). This quarter's OCI consists of \$26.5 million unrealized losses and \$236.6 million reclassification adjustment. The reclassification adjustment reflects the impairment provision on the pooled fund units, where the unrealized loss on the pooled fund units was reclassified from OCI to Net income. OCI of \$210.1 million and Net loss of \$148.2 million results in Comprehensive income of \$61.9 million in the first quarter of 2009, compared to a Comprehensive loss of \$17.4 million in the first quarter of 2008.

**Substantively enacted tax changes and unused tax losses**

As discussed in the 2008 annual report's MD&A, unused capital losses for tax purposes, and deductible temporary differences that will become unused capital losses for tax purposes when realized, were not recognized in The Dominion's financial statements at December 31, 2008. This was based on tax laws that were in effect on December 31, 2008 which permitted these losses to be applied only against future taxable capital gains. On March 4, 2009, proposed amendments to the Income Tax Act (Canada) passed third reading in the House of Commons causing them to be substantively enacted for accounting purposes. Under the amendments, the unrecognized capital losses are re-characterized as income losses which may, therefore, be carried forward against future regular taxable income, such as underwriting income and interest income. In addition, the unused losses have become 100% deductible as income losses, instead of being 50% deductible as capital losses. Management's assessment is that the unused tax losses are now, therefore, recoverable and have been recognized in The Dominion's financial statements in the first quarter of 2009. The material effects of the substantively enacted tax changes, as of March 4, 2009, were substantially all related to the unrealized losses on the pooled fund units and resulted in an increase in income tax recovery and net income of \$84.8 million, an increase in the future tax asset of \$76.0 million, and increases in current tax balances for the difference. The impact is higher than the estimate that was provided in the 2008 Annual Report's MD&A, which was based on December 31, 2008 values, as a result of further unrealized losses on the pooled fund units incurred from January 1 to March 4, 2009.

**Outlook**

Price hardening in the Canadian P&C industry in personal and commercial lines is expected to continue in 2009. Claims costs continue to outpace earned price increases and this may not reverse until after 2009, resulting in flat or deteriorating loss ratios for the year. Investment income will likely be depressed while a global recession runs its course. Management expects that improvement in industry results will likely occur in 2010, if not in late 2009. The Dominion's goal remains to pursue long term earnings growth by maintaining underwriting discipline and reasonable pricing throughout all phases of the market cycle.

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