

## **THE ECONOMICAL INSURANCE GROUP REPORTS STRONG UNDERWRITING PROFITS FOR FIRST QUARTER 2011**

- **Net income increased to \$29.0 million**
- **Underwriting results improved by \$27.2 million**
- **Combined ratio improves 6.6 percentage points to 93.6%**
- **Total policyholders' equity increased by \$36.1 million since 2010 year-end**

WATERLOO, ON, May 6, 2011 – The Economical Insurance Group® (“Economical” or “The Group”), one of Canada’s largest property and casualty insurance companies, today announced significant improvements in its consolidated financial results for the three months ended March 31, 2011.

The increase over the first quarter of last year continues the trend of the year-over-year financial improvement reported for 2010.

The Group reported consolidated net income of \$29.0 million for the first quarter of 2011. The increase was primarily due to significantly improved underwriting performance, with the combined ratio improving by 6.6 percentage points over 2010 to 93.6% and resulting in a return to underwriting profits for the quarter.

The Group’s total policyholders’ equity was \$1,246.6 million at March 31, a 3.0% increase in the first three months of 2011.

“Economical’s performance has been strong this quarter, building on the momentum generated in 2010,” said Kathy Mabe, President and Chief Executive Officer. “The significant improvement in the combined ratio demonstrates the results of the decision last year to focus our ongoing efforts on high-quality, profitable business. In particular, the return to underwriting profitability and the marked improvement in the performance of our personal automobile business are especially gratifying. We are starting to see the benefits of the 2010 auto reforms in Ontario, which is combining with our recent increased focus on proactive broker management and underwriting discipline to generate stronger results.”

Mabe added: “Our policy volumes have also stabilized. Now that we have executed the tough actions needed to return to profitability, the improved quality of our insurance business, combined with our strong capital position, will form an excellent base for sustained, profitable growth in keeping with our long-term vision.”

## The Economical Insurance Group Consolidated Highlights

(\$ in millions, except as otherwise noted)

|                             | Q1<br>2011 | Q1<br>2010 | Variance |
|-----------------------------|------------|------------|----------|
| Gross written premiums      | 360.6      | 375.7      | (15.1)   |
| Claims ratio                | 59.6%      | 69.6%      | (10.0)   |
| Combined ratio              | 93.6%      | 100.2%     | (6.6)    |
| Underwriting income (loss)  | 26.1       | (1.1)      | 27.2     |
| Investment income           | 16.4       | 24.3       | (7.9)    |
| Net income                  | 29.0       | 16.0       | 13.0     |
| Total policyholders' equity | 1246.6     | 1210.5     | 36.1     |

(\*Note: These amounts reflect the implementation of International Financial Reporting Standards effective January 1, 2010.)

**Gross written premiums** declined 4.0% from the first quarter of 2010, reflecting the continued impact of initiatives undertaken in 2010, which focus on profitability rather than volume. Importantly, policy volumes have now begun to stabilize in 2011, declining by only 1.2% during the first quarter. After taking successful action in 2010 to reduce overall volumes in unprofitable segments, The Group has restored profitability to its insurance business and is positioned for sustainable growth in 2011 and beyond.

The Group continues to build on the efforts undertaken in 2010 to reduce its relative exposure to the Ontario automobile business, which was the primary driver for the reduction in premium levels this quarter. Excluding personal automobile, The Group has generated premium growth in the quarter.

**Underwriting results** improved significantly in the first quarter, continuing the momentum achieved throughout 2010. First quarter underwriting income was \$26.1 million, compared with an underwriting loss of \$1.1 million in the same quarter a year ago. Efforts undertaken to stabilize the combined ratio in 2010 have clearly taken hold as The Group recorded a combined ratio of 93.6% in the first quarter, reflecting a substantial 10.0 percentage point decrease in the claims ratio. The positive impact of the Ontario auto reforms and a lack of weather-related claims activity also contributed to this significant improvement. As part of the Company's continued efforts to move toward a public company reporting environment, we have continued to refine our actuarial reserving processes.

The Group returned its personal automobile business to profitability during the first three months of 2011, producing an underwriting profit of \$11.0 million compared with an underwriting loss of \$31.3 million for the same period a year ago. The Group's personal property business continued to perform well, posting a combined ratio of 97.1% during the quarter.

The commercial automobile business produced a first quarter combined ratio of 95.4% compared with 97.4% in 2010, primarily as a result of a reduction in large losses in 2011. Commercial property and liability was the only segment to post an underwriting loss during the first quarter of 2011. The segment was affected by an increase in large-loss activity in Ontario and produced an underwriting loss of \$7.6 million, compared with an underwriting profit of \$1.9 million in the first quarter of 2010.

**Investment income** decreased \$7.9 million compared with the first quarter of 2010 as a result of the continued low interest rate environment and a reduction in realized gains during the quarter compared to 2010. Investment quality remains strong and there were no investment write-downs taken during the quarter.

**Economical's capital position** continues to strengthen and total policyholders' equity increased a further \$36.1 million during the first quarter of 2011. The Group's minimum capital test ratio also increased to 257% at March 31, 2011.

### **Annual and Special Meeting**

Mutual policyholders are urged to vote as soon as possible on the important resolutions to be considered at Economical's Annual and Special Meeting. They are reminded that the deadline for submitting the Company's BLUE proxies for voting at the Annual and Special is 1 p.m. May 16, 2011. The BLUE proxy was included with the Management Circular mailed on April 11, 2011. Information about voting the proxy is available by calling the Company at 1-519-570-8500 ext. 42997.

### **About The Economical Insurance Group**

*Founded in 1871, The Economical Insurance Group is one of Canada's leading property and casualty insurers with \$4.5 billion in assets and policyholders' equity of approximately \$1.3 billion. Canadian owned and operated, Economical provides a wide range of insurance products throughout North America. The Group's Member Companies include Economical Mutual Insurance Company<sup>®</sup> (including Western General<sup>®</sup> Farm Division), Waterloo Insurance Company<sup>®</sup>, Perth Insurance Company<sup>®</sup>, The Missisquoi Insurance Company<sup>®</sup>, Federation Insurance Company of Canada<sup>™</sup>, Family Insurance Solutions and The Mattei Companies.*

*A mutual insurance company since it was founded, The Economical Insurance Group announced its intention to demutualize in December, 2010, making it the first property and casualty insurer to take this step under current Canadian legislation. It is currently*

*developing a demutualization plan for approval by regulators and The Group's mutual policyholders.*

## **Forward Looking Statements**

*This document may contain forward looking statements that involve risks and uncertainties. The Group's actual results could differ materially from these forward looking statements as a result of various factors.*

## **Definitions**

|                      |  |
|----------------------|--|
| Combined Ratio       | Claims and adjustment expenses, commission expenses, operating expenses and premium taxes during a defined period, expressed as a percentage of net premiums earned for the same period. |
| Minimum Capital Test | A regulatory formula defined by The Office of the Superintendent of Financial Institutions that is a risk-based test of capital available relative to capital required.                  |

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