



The Economical Insurance Group Reports Financial Results for Third Quarter 2011

- **Improved underwriting results by \$7.3 million**
- **Improved combined ratio by 1.6 percentage points**
- **Earned net income of \$1.4 million, despite recording significant weather-related losses of \$31.3 million and investment impairment charges of \$23.2 million**
- **Increased total mutual policyholders' equity by \$57.8 million since December 31, 2010**

WATERLOO, ON, November 24, 2011 – The Economical Insurance Group (“Economical”), one of Canada’s leading property and casualty insurance companies, today announced consolidated financial results for the three month and nine month periods ended September 30, 2011.

Economical reported consolidated net income of \$1.4 million for the third quarter of 2011, despite incurring \$31.3 million in losses due to weather-related catastrophic events and recognizing \$23.2 million in investment impairments as a result of the exceptional market volatility and fall in equity markets at the end of the third quarter. Net income in the same quarter a year ago was \$11.5 million.

The company’s combined ratio in the third quarter was 102.0%, bringing the year-to-date combined ratio to 99.8%, a significant improvement from 104.4% in 2010.

“Economical registered a resilient performance this quarter, sustaining underwriting profitability and recording growth in policy volumes while absorbing significant investment impairment charges and weather-related losses stemming mostly from the Goderich-area tornado,” said President and CEO Karen Gavan. “Adjusting for these weather-related losses, the company’s underwriting results continue to be very strong.”

Economical’s total mutual policyholders’ equity was \$1,260.5 million at September 30th, a 4.8% increase in the first nine months of 2011.

Commenting on Economical's planned demutualization, Gavan said: "In addition to solid operating performance, we are encouraged by the Department of Finance's clear and sustained commitment to providing a regulatory framework for demutualization. We anticipate draft regulations may be developed by year's end, and that there may be a concluding round of public comment prior to the regulations being finalized."

The Economical Insurance Group Consolidated Highlights*

(\$ in millions, except as otherwise noted)

	Q3 2011	Q3 2010	Variance	YTD 2011	YTD 2010	Variance
Gross written premiums	430.8	436.2	(5.4)	1,289.8	1,308.0	(18.2)
Claims ratio	67.9%	67.5%	0.4%	65.6%	71.1%	(5.5)%
Combined ratio	102.0%	103.6%	(1.6)%	99.8%	104.4%	(4.6)%
Underwriting income (loss)	(7.8)	(15.1)	7.3	2.2	(55.6)	57.8
Investment income	51.8	61.4	(9.6)	123.9	134.8	(10.9)
Net income	1.4	11.5	(10.1)	53.5	24.0	29.5
	Sept 30, 2011	Dec 31, 2010	Variance			
Total mutual policyholders' equity	1,260.5	1,202.7	57.8			

*Note: All amounts reflect Economical's implementation of International Financial Reporting Standards effective January 1, 2010. Claims ratio, combined ratio and underwriting income (loss) exclude the impact of discounting.

Gross written premiums decreased slightly in the third quarter from the same quarter a year ago, however policy volumes increased by 0.7% during the quarter. After the intentional reduction of policy volumes in recent years, resulting from management's increased focus on disciplined underwriting, Economical has returned to planned growth in the third quarter. For the nine months ended September 30, 2011, total gross written premiums declined modestly by 1.4%.

Underwriting results continued to improve in the third quarter, reducing the underwriting loss to \$7.8 million from a loss of \$15.1 million a year ago. This reduction resulted in a combined ratio improvement of 1.6 percentage points.

Economical continued to be affected by weather-related catastrophic losses during the third quarter, totalling \$31.3 million, compared to \$7.7 million during the same quarter in 2010. These catastrophic losses, which were primarily related to Alberta wind and hail storms in July and the tornado in Goderich and Hurricane Irene in August, amounted to a 7.8 percentage point increase in the third quarter combined ratio. Excluding weather-related catastrophic losses the third quarter combined ratio was 94.2% compared to 100.2% in 2010.

Economical's personal auto business generated an underwriting profit of \$27.9 million for the third quarter, compared to an underwriting loss of \$19.6 million a year ago. These improved results continue to reflect management actions taken to improve profitability in this business including the implementation of the company's new Ontario auto product, ongoing proactive broker management, continued vigilance to expose fraudulent claims activity, as well as the Ontario government's auto insurance reforms. Personal property business produced an underwriting loss of \$11.1 million compared to an underwriting profit of \$7.3 million for the same quarter a year ago. This result was heavily affected by \$11.6 million of weather-related losses incurred in the quarter stemming from the Alberta storms, the tornado in Goderich and Hurricane Irene. Overall, the combined ratio for the personal lines business improved to 93.2% during the quarter.

Commercial auto recorded a third quarter underwriting loss of \$4.5 million compared to an underwriting loss of \$1.8 million a year ago. For the year to date commercial auto remains profitable with an underwriting profit of \$0.9 million, compared to an underwriting loss of \$7.4 million in 2010. The commercial property business recorded an underwriting loss of \$20.1 million, compared to an underwriting loss of \$1.0 million for the same quarter a year ago. As with the personal property business, this result was heavily affected by \$17.3 million in weather-related losses stemming from the Alberta storms, the tornado in Goderich and Hurricane Irene. Overall, the combined ratio for the commercial lines business was 116.1% during the quarter, including 14.8 percentage points related to weather-related catastrophic events.

As of September 30, 2011, Economical's year-to-date combined ratio was 99.8%, representing an improvement of 4.6 percentage points over the prior year. Weather-related catastrophic losses are \$57.5 million compared to \$14.2 million in 2010, amounting to a 4.8 percentage point increase in the year-to-date combined ratio. Discounting further negatively affected the combined ratio by 3.8 percentage points, or \$45.5 million, due to lower investment yields. Unrealized gains of \$50.4 million, generated by the matched bond portfolio, more than offset the negative affect of discounting on claims liabilities, illustrating the effectiveness of Economical's claims and investments matching processes.

Investment income decreased \$10.9 million from the third quarter of 2010, driven primarily by recognized impairment losses during the quarter of \$23.2 million as a result of the recent deterioration in capital markets. Total investment income for the first nine months decreased by a similar amount with year-to-date impairment losses of \$26.3 million. Overall investment quality remains strong with over 84% of total investments held in Canadian government and high quality corporate bonds, with the balance primarily held in common and preferred shares.

Economical's capital position continues to strengthen and total mutual policyholders' equity has increased by \$57.8 million during 2011. Economical's minimum capital test ratio remains very strong at 251.5% as of September 30, 2011.

About The Economical Insurance Group

Founded in 1871, The Economical Insurance Group[®] is one of Canada's leading property and casualty insurers, with \$4.6 billion in assets and mutual policyholders' equity of approximately \$1.3 billion. Canadian owned and operated, Economical provides a wide range of insurance products throughout North America. Member Companies include Economical Mutual Insurance Company[®] (including Western General[®] Farm Division), Waterloo Insurance Company[®], Perth Insurance Company[®], The Missisquoi Insurance Company[®], Federation Insurance Company of Canada[™], 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 company's mutual policyholders.

Forward Looking Statements

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

Definitions

Combined Ratio	Claims and adjustment expenses (excluding the impact of discounting), commission expenses, operating expenses and premium taxes during a defined period, expressed as a percentage of net premiums earned for the same period.
Discounting	To reflect the time value of money, claims liabilities are discounted using the market yield rate of the investments used to support those liabilities (matched investments). Provisions for adverse deviation are also included when determining the discounted value.
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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