

THE ECONOMICAL INSURANCE GROUP REPORTS SIGNIFICANTLY IMPROVED FINANCIAL RESULTS FOR 2010

- **Net income increased by 167% to \$64.4 million**
- **Underwriting results improved by \$88.2 million**
- **Total policyholders' equity increased by 7.5% to record of \$1.258 billion**

WATERLOO, ON, February 28, 2011 – The Economical Insurance Group (“Economical” or “The Group”), one of Canada’s largest property and casualty insurance companies, today announced significant improvement in its consolidated financial results for the year ended December 31, 2010. Net income for the year increased by 167% to \$64.4 million, primarily due to substantially improved underwriting results. The Group reduced its combined ratio for the year to 103.3% from 107.9% in 2009, and achieved a major 7.5 point improvement in its claims ratio.

The Group’s year-end total policyholders’ equity was \$1,258 million, a 7.5% increase from 2009.

“Economical’s improved 2010 results reflect the successful implementation of strategic initiatives focused on profitability rather than revenue. The Group increased net income by \$40.3 million, with a \$104 million reduction in gross written premiums. Underwriting results improved by \$88.2 million in 2010, due to Economical’s initiatives, which included better broker management and underwriting discipline, achieving rate increases, and targeting our most profitable business segments. While the performance of the Ontario automobile insurance business continues to be unsatisfactory, all other business segments across the country are demonstrating positive trends,” said Katherine Mabe, President and Chief Executive Officer of The Economical Insurance Group. “With one of the strongest capital positions in our history, and building on the successful strategic actions taken in 2010, The Economical Insurance Group is well positioned for a period of sustained profitable growth.”

The Economical Insurance Group Consolidated Highlights

(\$ in millions, except as otherwise noted)

	2010	2009
Gross written premiums	1,722.0	1,826.3
Claims ratio	69.7%	77.2%
Combined ratio	103.3%	107.9%
Underwriting loss	55.7	143.9
Investment income	147.7	165.7
Net income	64.4	24.1
Policyholders' equity	1,258.0	1,170.7

Gross written premiums declined 5.7% to \$1,722.0 million, reflecting reduced volumes due to the implementation of The Group's profitability initiatives and the high levels of competition in the industry. However, rate increases achieved across most lines of business and a planned increase in the proportion of The Group's business from more profitable commercial lines, resulted in an increase in average premiums per policy written of 4.2%.

Overall, the mix of business between personal lines and commercial lines shifted slightly in 2010, with commercial lines representing 38% of The Group's total gross written premiums in 2010 compared with 36% in 2009. In addition, the percentage of business represented by personal automobile insurance has declined from 45% of The Group's revenue to 42%, directly as a result of The Group's strategy to reduce overall exposure to unprofitable personal auto business, particularly in Ontario and the greater Toronto area.

Underwriting results improved significantly from the prior year with a 61.3% reduction in underwriting losses. The Group recorded a combined ratio of 103.3% in 2010, which reflects a 7.5 point decrease in the claims ratio.

In 2010, The Group stabilized the overall combined ratio for its personal automobile business. It expects continued improvement in this segment in 2011, particularly as the recent Ontario auto reforms take hold. Excluding the Ontario region, the personal automobile combined ratio was a healthy 92.6%. The Group's personal property business returned to profitability in 2010, posting a combined ratio of 94.3% compared with 112.2% in 2009.

Commercial lines performed well during the year, generating higher levels of gross written premiums while maintaining a stable combined ratio of 100.5%. The Group believes that this segment is well positioned for success in 2011 given the strong and consistent track record of profits generated from this business.

Investment income decreased 10.9% during the year as a result of reduced dividend income, due to lower levels of preferred share investments, combined with lower interest income, due to the continued historically low interest rate environment, and reduced levels of realized gains. The level of overall investment income generated remains strong at \$147.7 million for the year.

The Group continues to maintain a high quality and well diversified investment portfolio in the face of very challenging capital market conditions. Recognized investment gains were \$33.3 million during the year and investment write downs represented less than 1.0% of total invested assets.

Economical's capital position continues to strengthen with a minimum capital test ratio of 234% at December 31, 2010. This is one of the strongest capital positions in The Group's 140-year history and is a full 34% above the level reported during the financial crisis in 2008.

“The Board of Directors is gratified by the success of The Group’s strategic initiatives in 2010 and its strong position at year-end. This strength, combined with the energetic and experienced leadership of our new Chief Executive Officer, Katherine Mabe, gives us well-founded confidence for the future,” said Gerald Hooper, Chairman of The Economical Insurance Group. “We appreciate the significant efforts of our employees and the continued support of our brokers, customers, and mutual policyholders.”

Media Contact:

Katherine Kipper
Vice President, Marketing and Communications
The Economical Insurance Group
519.570.8500 ext. 48589
Katherine.kipper@teig.com

About The Economical Insurance Group

Founded in 1871, The Economical Insurance Group® (TEIG®) is one of Canada’s leading property and casualty insurers, with over \$4.6 billion in assets and policyholders’ equity of approximately \$1.3 billion. Canadian-owned and operated, TEIG provides a wide range of insurance products throughout North America. TEIG 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 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.