

Economical Mutual Insurance Company Announces Intention to Demutualize

WATERLOO, ON –December 14, 2010 The Economical Mutual Insurance Company, one of Canada's largest property and casualty insurance providers, today announced that its Board of Directors intends to pursue a process to convert the Company from its existing mutual ownership structure.

This would make Economical the first property and casualty insurance company in Canada to demutualize. The conversion is targeted to be completed in 2011, subject to approval by mutual policyholders and the Minister of Finance.

"The Board of Directors has determined that demutualization is in the best interests of the Company and all its stakeholders, including our mutual policyholders," said Gerald Hooper, Chairman of the Board of Economical Mutual. "As our stakeholders know, the decision to pursue demutualization follows a review by a Special Committee of independent directors. It was formed to examine strategic alternatives about a potential transaction several months ago. The Board has agreed with the recommendation of the Special Committee that demutualization holds the greatest potential benefits for the Company."

The mutual insurance company structure, which Economical has had since its founding in 1871, has distinct advantages, including stability and the ability to maintain a long-term perspective, but it also restricts the company's access to additional capital to continue to fund growth in a highly competitive and consolidating industry. Demutualization will help remove this restriction.

The Special Committee engaged independent financial advisors and legal counsel as part of its strategic review and will continue consultations with OSFI and will enter into consultation with the Department of Finance to identify the most effective route to demutualization. It has identified several alternatives and is currently focusing on two:

- conversion, through an initial public offering, from a mutual company to a public corporation with shares traded on a stock exchange;
- a sponsored demutualization which would involve a transaction with another strategically-aligned company that would invest in Economical to acquire a significant ownership position, perhaps as much as 100%.

"This dual-track approach allows us to focus on maximizing long-term value for mutual policyholders, while considering the interests of our other policyholders, brokers, employees and community," said Karen Gavan, Chair of the Special Committee. "We intend to expedite this process but to some extent the timing will be dependent on the regulatory approval process. New regulation and new legislation may be required and that can be expected to take several months. "

She added: "In the end, we expect there will be significant direct financial benefits for mutual policyholders but, at this point, no one can predict the timing or the size of the benefit they may get."

Katherine Mabe, President and Chief Executive Officer said: “The Board of Economical Mutual is setting the Company in a new corporate direction. While that is under way, the executive team and all our people will remain focused on ensuring we provide the highest quality service to our valued clients and brokers.”

A final recommendation on demutualization and a schedule for completion is expected to be presented to mutual policyholders at the next annual meeting which is scheduled for May 26, 2011. Meanwhile, the Board will provide updates on progress to its stakeholders. In the interest of fairness to existing mutual policyholders, the Board has previously instituted a moratorium on the issuing of new mutual insurance policies.

The Board of Directors believes its decision to demutualize means recent efforts by VC & Co. to persuade mutual policyholders to sign irrevocable six-year agreements to pay substantial fees are redundant, serve no constructive purpose, and are not in the best interests of mutual policyholders.

Blair Franklin Capital Partners Inc. is the financial advisor and Miller Thomson LLP is legal counsel to the Special Committee of the Board of Economical Mutual.

About The Economical Insurance Group

Founded in 1871, The Economical Insurance Group[®] (TEIG[®]) is one of Canada's leading property and casualty insurers, with \$4.6 billion in assets and a surplus exceeding \$1.1 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.

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