

February 25, 2011

TOWARDS A NEW ERA FOR ECONOMICAL :
DEMUTUALIZATION PROGRESS REPORT III

As part of our continuing commitment to keep you informed about the progress of demutualization at Economical, we are providing you with another update on recent developments.

Perhaps the most important development was the Company's announcement of significant improvement in its financial results for the year ended December 31, 2010. Enhanced performance and growing financial strength give additional support to the demutualization process, which we believe will benefit the Company and all its stakeholders. The highlights of the annual results were:

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

The year-over-year improvement can be seen here:

(\$ 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
Total policyholders' equity	1,258.0	1,170.7

In announcing these results for The Economical Insurance Group, our President Chief Executive Officer, Kathy Mabe, said:

"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. 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 news release containing additional information about Economical's financial results for 2010 is available at the Company's website www.economicalinsurance.com or by request by calling 1-800-265-9996 ext 42552.

Other developments since the last Progress Report include:

- One of the two routes being developed by the Special Committee that has been given oversight for the demutualization process is a sponsored demutualization – a transaction with a strategically aligned company. Our internal team and financial and legal advisors have completed the development of confidential financial information packages and accompanying non-disclosure agreements. A number of qualified third parties have been contacted by our financial advisor, Blair Franklin, and have entered into non-disclosure agreements with Economical.
- To prepare for the alternative route of an initial public offering in which Economical would become a public, shareholder-owned, corporation, our internal financial team and external accounting firm continue to work to bring Economical's financial reporting and disclosure in line with public company best practices.
- Other activities continue on schedule, including regular meetings with the Department of Finance and the Office of the Superintendent of Financial Institutions, our regulator. In addition, our Chief Actuary, along with financial advisors and actuarial consultants, continues to work on determining the allocation of benefits for mutual policyholders arising from demutualization.
- The Ontario Superior Court of Justice has set a hearing date for our application for a ruling on the legality of the dissident challenge to replace the Board of Directors led by VC & Co. Advisory Limited. That hearing will begin March 22, 2011.

As we pursue demutualization, our objective remains to act consistently in the best interests of Economical and our mutual policyholders as well as our brokers, employees, customers, and communities. Our commitment is to keep you fully informed about our progress, which continues on schedule. We will continue to issue these Progress Reports, but encourage you to contact us at any time if you have questions.

Yours sincerely,

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Contact us:

We invite you to provide us with your e-mail address if you have not already done so. You can email us at getthefacts@teig.com. Email communications will be sent to you from Get The Facts. This will allow us to communicate with you more quickly and effectively. We look forward to hearing from you.