



The Economical Insurance Group Reports Continued Strong Financial Performance For Second Quarter 2011

- **Increased second quarter net income to \$23.2 million**
- **Improved underwriting results by \$26.5 million, despite \$26.2 million in losses from weather-related catastrophes**
- **Improved combined ratio by 6.4 percentage points to 99.6%**
- **Stabilized policy volumes and premiums during the quarter**
- **Increased total mutual policyholders' equity by \$59.5 million since 2010 year end**

WATERLOO, ON, September 9, 2011 – The Economical Insurance Group (“Economical” or “The Group”), one of Canada’s leading property and casualty insurance companies, today announced continued significant financial improvements in its consolidated financial results for the three months and six months ended June 30, 2011.

Building on the positive momentum generated during the first quarter, The Group reported consolidated net income of \$23.2 million for the second quarter of 2011 compared to a net loss of \$3.6 million in the same quarter a year ago. The Group posted a second consecutive quarter of underwriting profits with a combined ratio of 99.6%.

“Economical delivered a strong performance this quarter, maintaining the momentum achieved in 2010 and in the first three months of 2011,” said President and CEO Karen Gavan. “With our policy volume now stabilized and improved underwriting performance reflecting strategic actions taken in previous quarters, Economical is well positioned to achieve sustained, profitable growth moving forward. Our underwriting results are particularly satisfying considering the significant weather-related catastrophes that affected the industry during the quarter.”

The Group’s total mutual policyholders’ equity was \$1,270.0 million at June 30th, a 4.9% increase in the first six months of 2011.

“As well as making operating gains we continued to make progress on our planned demutualization at an accelerated pace, including the submission of The Group’s response to the Department of Finance on the demutualization regulation consultations early in the third quarter,” Gavan said.

The Economical Insurance Group Consolidated Highlights*

(\$ in millions, except as otherwise noted)

	Q2 2011	Q2 2010	Variance	YTD 2011	YTD 2010	Variance
Gross written premiums	498.4	496.1	2.3	859.0	871.8	(12.8)
Claims ratio	65.0%	72.7%	(7.7)%	64.5%	72.7%	(8.2)%
Combined ratio	99.6%	106.0%	(6.4)%	98.8%	104.7%	(5.9)%
Underwriting income (loss)	1.5	(25.0)	26.5	9.9	(40.4)	50.3
Investment income	55.8	49.1	6.7	72.1	73.4	(1.3)
Net income	23.2	(3.6)	26.8	52.1	12.4	39.7
	June 30, 2011	Dec 31 2010				
Total mutual policyholders’ equity	1,270.0	1,210.5	59.5			

*Note: All amounts reflect the The Group’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 increased slightly in the second quarter from the same quarter a year ago and policy volumes remained consistent with the first quarter of 2011. The stabilization of premiums and policy volumes during the second quarter demonstrates that the underwriting actions taken in the past to reduce exposure to unprofitable business have concluded, and that The Group is now well positioned for future growth. For the six months ended June 30, 2011, total gross written premiums declined modestly by 1.5%.

Underwriting results continued to improve significantly in the second quarter. Second quarter underwriting income was \$1.5 million compared to a loss of \$25.0 million in the same quarter a year ago. This resulted in a combined ratio improvement of 6.4 percentage points, reflecting a substantial 7.7 percentage point decrease in the claims ratio.

The Group was affected by weather-related catastrophic losses during the second quarter of \$26.2 million, compared to \$5.2 million during the same quarter in 2010. These catastrophic losses, which primarily related to the Ontario windstorms in April and the Slave Lake wildfires, amounted to a 5.3 percentage point increase in the second quarter combined ratio.

Economical’s personal auto business generated an underwriting profit of \$15.3 million for the second quarter compared to an underwriting loss of \$24.1 million a year ago.

These improved results continue to reflect the actions taken by The Group to reduce exposure to unprofitable business and the positive impact of the Ontario government's auto reforms. The Group's personal property business produced an underwriting loss of \$11.4 million compared to an underwriting profit of \$2.6 million a year ago. This result was heavily affected by weather-related losses incurred in the quarter. Overall the combined ratio for the personal lines business improved to 98.5% during the quarter.

Commercial auto generated a second quarter underwriting profit of \$3.1 million compared to an underwriting loss of \$6.6 million a year ago. The improved results reflect a decline in the overall severity of losses in 2011. The commercial property business recorded an underwriting loss of \$5.5 million, compared to an underwriting profit of \$3.1 million a year ago. As with the personal property business, this result was heavily affected by the high weather related losses incurred. On an overall basis, the combined ratio for the commercial lines business was 101.6% during the quarter.

Through June 30th The Group's year-to-date combined ratio is 98.8%, an improvement of 5.9 percentage points over the prior year. On a year to date basis, discounting further negatively impacts the combined ratio by 0.5 percentage points, or \$4.4 million, due to lower investment yields. Unrealized gains generated by the matched bond portfolio of \$12.9 million, more than offset the negative effect of discounting on claims liabilities.

Investment income increased \$6.7 million from the second quarter of 2010, driven primarily by unrealized gains on the bond portfolio. Total investment income for the first six months was relatively unchanged. Overall investment quality remains strong with over 83% of total investments held in high quality government and corporate bonds.

Economical's capital position continues to strengthen and total mutual policyholders' equity has increased by \$59.5 million during 2011. The Group's minimum capital test ratio remains very strong at 258.0% as of June 30, 2011.

About The Economical Insurance Group

Founded in 1871, The Economical Insurance Group® (TEIG®) is one of Canada's leading property and casualty insurers, with \$4.5 billion in assets and mutual 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 (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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