NEWS RELEASE

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Economical Insurance reports financial results for Third Quarter 2013

- **Increased gross written premiums by 6.1% in the quarter**
- **Absorbed weather-related catastrophe losses of $53.0 million, net of reinsurance, resulting in an underwriting loss* of $16.6 million in the quarter**
- **Recorded a combined ratio* of 103.7% for the quarter, reflecting 12.3 percentage points for weather-related catastrophe losses**
- **Generated net income of $13.8 million for the quarter**
- **Increased total mutual policyholders' equity by $52.0 million since December 31, 2012**

WATERLOO, ON, November 6, 2013 — Economical Insurance, one of Canada's leading property and casualty insurance companies, today announced consolidated financial results for the three and nine months ended September 30, 2013.

Economical reported consolidated net income of $13.8 million for the third quarter of 2013, down $14.7 million from the same quarter of the prior year. The third quarter results incorporate $40.6 million of weather-related catastrophe costs net of reinsurance and tax, primarily in Ontario, and particularly the Greater Toronto Area ("GTA"). This compares to $12.0 million of weather-related catastrophe costs net of reinsurance and tax for the third quarter results in 2012.

Economical recorded a combined ratio of 103.7% for the third quarter, a 4.6 percentage point deterioration from the same quarter a year ago. When considering that weather-related catastrophe losses adversely impacted the combined ratio by 12.3 percentage points (4.0 percentage points in the prior year), the company generated an underlying improvement of 3.7 percentage points in underwriting performance in the period. This improvement reflects the strong underlying quality of the company's insurance business.

Year-to-date net income for 2013 was $56.5 million compared to $108.3 million for the same period in 2012, with a combined ratio of 99.8% compared to 96.5% in 2012. Excluding the impact of weather-related catastrophe losses, the year-to-date combined ratio was 92.8% versus 95.2% for 2012.

"Our third quarter results serve as another reminder of the increasing impact of climate change and that weather-related events are becoming more extreme and prevalent," said Karen Gavan, president and CEO. "After promptly responding to the Calgary floods, we rapidly deployed claims staff to respond to catastrophic weather-related losses in the Greater Toronto Area, to serve our policyholders when they needed us most. Our third quarter and year-to-date results demonstrate the resilience of our insurance operations in the face of such devastating natural catastrophes, as well as the strong underlying performance of our insurance book of business."

Economical Insurance Consolidated Highlights*

($ in millions, except as otherwise noted)

	Q3 2013	Q3 2012	Change	YTD 2013	YTD 2012	Change
Gross written premiums	490.5	462.5	28.0	1,430.6	1,357.3	73.3
Claims ratio	71.1%	64.9%	6.2%	66.7%	61.5%	5.2%
Combined ratio	103.7%	99.1%	4.6%	99.8%	96.5%	3.3%
Underwriting income (loss)	(16.6)	4.0	(20.6)	2.4	43.2	(40.8)
Investment income	30.9	35.3	(4.4)	64.6	97.7	(33.1)
Net income	13.8	28.5	(14.7)	56.5	108.3	(51.8)
				September 30, 2013	December 31, 2012	Change
Total mutual policyholders' equity				1,516.2	1,464.2	52.0

*Note: Claims ratio, combined ratio and underwriting income exclude the impact of discounting and are non-GAAP measures as defined below.

Gross written premiums for the third quarter grew by $28.0 million, or 6.1%, over the same quarter a year ago. This is the eighth consecutive quarter of top line growth for Economical and continues to build on the significant growth achieved throughout 2012.

Economical increased gross written premiums by $73.0 million, or 5.4%, in 2013 year-to-date from the same period in 2012. In the automobile lines, growth has been driven by an increase in policy volumes combined with a shift in the mix of business toward regions and lines with higher average premiums. Personal property premiums have declined marginally as rate increases have not fully offset a small decline in volume. Commercial property and liability premiums have grown due to the combined impact of modest rate and volume increases.

Underwriting results for the third quarter produced a $16.6 million loss while absorbing $53.0 million of weather-related catastrophe losses net of reinsurance, $30.0 million of which relates to the July storm in the GTA. The combined ratio for the third quarter was 103.7% compared to 99.1% in the same quarter a year ago. Excluding the impact of weather-related catastrophe losses, the combined ratio was 91.4%, a 3.7 percentage point improvement from the third quarter of 2012. The third quarter expense ratio improved by 1.5 percentage points compared to the same quarter in 2012, as growth in earned premiums more than offset marginal increases in expenses.

The combined ratio for the nine months ended September 30, 2013 was 99.8%, a 3.3 percentage point deterioration from the prior year period. Weather-related catastrophe losses contributed 7.0 percentage points to the 2013 year-to-date combined ratio, compared to 1.3 percentage points in 2012.

Economical's personal auto business produced a third quarter combined ratio of 91.3%, a 1.2 percentage point improvement from the third quarter of 2012. On a year-to-date basis, personal auto generated a combined ratio of 90.8% for 2013, a 1.5 percentage point deterioration from the prior year period driven by an increase in the frequency of losses.

Personal property produced a combined ratio of 124.4% in the third quarter of 2013 compared to 105.8% in the third quarter a year ago. Weather-related catastrophe losses contributed 37.2 percentage points to the third quarter combined ratio, compared to 6.7 percentage points in 2012. Excluding the impact of these losses, the combined ratio improved by 11.9 percentage points. On a year-to-date basis, personal property produced a combined ratio of 103.5% compared to 95.2% in the prior year period. Excluding the impact of weather-related catastrophe losses, the combined ratio for personal property was 88.2% year-to-date compared to 93.0% for the prior year period.

Overall the personal lines business produced a combined ratio of 101.3% during the third quarter of 2013 compared to 96.8% for the prior year quarter, and 94.8% for the first nine months of 2013 compared to 91.3% for the first nine months of 2012. The deterioration in results in the period reflects the substantial impact of the 2013 catastrophe losses compared to 2012.

Commercial auto produced a very strong third quarter combined ratio of 82.6%, compared to 94.1% in the same quarter of 2012, primarily due to a large decrease in the severity of claims. On a year-to-date basis, the combined ratio for commercial auto was 82.6% compared to 102.8% for the prior year period.

The commercial property and liability business recorded a combined ratio of 120.4% in the third quarter of 2013 compared to 106.9% in the prior year quarter. The commercial property and liability results were heavily impacted by the weather-related catastrophe losses. Excluding the impact of these losses, the combined ratio was 102.2% compared to 103.3% in the same quarter of 2012. On a year-to-date basis, the commercial property and liability business produced a combined ratio of 120.9% compared to 106.1% for the prior year period. Excluding the impact of weather-related catastrophe losses, the year-to-date combined ratio was 106.6% compared to 104.8% for the prior year period.

Overall the commercial lines business posted a combined ratio of 107.5% during the third quarter of 2013, compared to 102.5% for the prior year quarter. On a year-to-date basis, the combined ratio of 107.9% represents a 2.9 percentage point deterioration year over year.

In 2013, Economical began to realize benefits from actions commenced in 2012 related to the business transformation program, which helped to offset the program-related costs incurred in operating expenses. On a year-to-date basis the total costs of the program, including restructuring expenses, are $22.7 million, $10.2 million of which is included in underwriting results. The third quarter results alone include $5.7 million in costs related to the program in total, $2.8 million of which are included in underwriting results. This investment represents a 0.6 percentage point increase to the third quarter combined ratio and 0.8 percentage points on a year-to-date basis.

Market yields were flat during the third quarter of 2013, resulting in a minimal impact to the discounted combined ratio during the quarter. On a year-to-date basis market yields have increased, favourably impacting the discounted combined ratio by 1.4 percentage points, or $18.4 million. The effect of the year-to-date discounting recovery on claim liabilities was offset by recognized investment losses of $15.1 million on the matched bond portfolio over the same time period.

Investment income of $30.9 million was generated in the third quarter of 2013, a $4.4 million decline from the same quarter a year ago. This was primarily the result of lower realized gains on the non-matched bond portfolio due to reduced trading activity in the quarter.

On a year-to-date basis, overall investment income fell by $33.1 million due largely to the year-to-date recognized losses of $15.1 million on the matched bond portfolio, discussed above. Interest income declined by $4.7 million year over year and realized gains on the remainder of the investment portfolio fell by $12.2 million.

Overall investment quality remains very strong with 74% of total investments held in high-quality government and corporate bonds, with the balance primarily held in common and preferred shares.

Economical's capital position remains strong. Total mutual policyholders' equity exceeded $1.5 billion at September 30, 2013, representing an increase of $52.0 million, or 3.6%, in 2013. Economical's minimum capital test ratio remains very strong at 290% as of September 30, 2013.

Forward looking statements

Certain of the statements in this press release regarding our current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements, or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other similar or comparable words or phrases, are intended to identify forward-looking statements.

Forward-looking statements are based on estimates and assumptions made by management based on management's experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes are appropriate in the circumstances. Many factors could cause Economical's actual results, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors: Economical's ability to implement its strategy or operate its business as management currently expects; its ability to accurately assess the risks associated with the insurance policies that it writes; unfavourable capital market developments or other factors which may affect Economical's investments and funding obligations under its pension plans; the cyclical nature of the P&C industry; management's ability to accurately predict future claims frequency or severity; government regulations; litigation and regulatory actions; periodic negative publicity regarding the insurance industry; intense competition; Economical's reliance on information technology and telecommunications systems; Economical's dependence on key employees; and general economic, financial and political conditions.

All of the forward-looking statements included in this press release are qualified by these cautionary statements. These factors are not intended to represent a complete list of the factors that could impact Economical, however, these factors should be considered carefully, and readers should not place undue reliance on forward-looking statements we make. We are under no obligation and have no intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Definitions
Included in this press release are a number of measures which do not have any standardized meaning prescribed by generally accepted accounting principles ("GAAP"). These non-GAAP measures may not be comparable to any similar measures presented by other companies.

Claims ratio	*Claims and adjustment expenses (excluding the impact of discounting) during a defined period expressed as a percentage of net premiums earned for the same period.*
Combined ratio	*Claims and adjustment expenses (excluding the impact of discounting), commissions, operating expenses and premium taxes during a defined period expressed as a percentage of net premiums earned for the same period.*
Underwriting income	*Net premiums earned for a defined period less the sum of claims and adjustment expenses (excluding the impact of discounting), commissions, operating expenses and premium taxes during the same period.*
Discounting	*To reflect the time value of money, claim 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.*
Matched portfolio	*A subset of the company's bond portfolio that is backing claim liabilities is matched in quantum and duration to those claim liabilities. The aim of this matching is to reduce the accounting mismatch in net income that would otherwise be generated by the fluctuations in the fair value of the claim liabilities due to changes in interest rates.*

About Economical Insurance
Founded in 1871, Economical Insurance is one of Canada's leading property and casualty insurers, with $1.9 billion in annual premium volume and $5.0 billion in assets as at September 30, 2013. In 2010, Economical announced its decision to become the first federally-regulated mutual property and casualty insurance company to demutualize. Economical Insurance conducts business under the following brands: Economical Insurance, Economical, Western General, Economical Select, Perth Insurance, Family Insurance Solutions, Federation Insurance and Economical Financial.

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