Economical Insurance reports financial results for Fourth Quarter and Full Year 2012

- Grew gross written premiums by 6.7% in the quarter and 5.6% for the year compared to 2011
- Generated underwriting income* of $15.8 million for the quarter and improved annual underwriting income by $28.3 million compared to 2011
- Maintained a strong combined ratio* of 96.3% for the quarter, resulting in an improved annual combined ratio of 1.7 percentage points over 2011
- Increased net income by $5.7 million in the quarter and $61.7 million for the year compared to 2011
- Increased total mutual policyholders’ equity by $164.1 million during the year

WATERLOO, ON, February 20, 2013 – Economical Insurance ("Economical"), one of Canada’s leading property and casualty insurance companies, today announced consolidated financial results for the three months and full year ended December 31, 2012.

Economical reported consolidated net income of $43.2 million for the fourth quarter of 2012 compared to $37.5 million a year ago, an increase of $5.7 million. Full year net income for 2012 increased significantly by $61.7 million, to $152.7 million. For the fourth quarter, Economical posted a combined ratio of 96.3%, 3.8 percentage points higher than the same quarter a year ago. The full year combined ratio for 2012 is 96.4% compared to 98.1% in 2011.

"Our efforts to strategically reposition our business are reflected in our strong performance for 2012," said Karen Gavan, president and CEO. “Year over year our net income is up 68%, driven by a near doubling of our underwriting income, aided by moderate levels of profitable growth in gross written premiums. The significant improvement in our combined ratio reflects our focus on underwriting discipline and productivity improvements.”
Commenting on Economical’s business transformation program Gavan said, “To sustain this profitability and competitiveness going forward, we will continue to focus on our execution against our strategy to grow profitably and improve our productivity levels and service delivery to our broker partners and customers. In support of this program, we anticipate making significant investments in 2013 and 2014 which we expect will unlock sustainable benefits in the longer term.”

“At the same time, we are continuing to work toward putting ourselves on a level playing field with our competitors through demutualization. With the access to capital that demutualization will bring, we will be able to participate in industry consolidation and achieve scale - which is key to being a market leader in our industry,” Gavan said. “Although the process of developing the regulations required for demutualization to move forward has taken much longer than anyone had originally expected, the Department of Finance has assured us that it is committed to developing them.”

Economical’s total mutual policyholders’ equity increased significantly during 2012, by $164.1 million or 12.6%, to stand at $1,464.2 million as of December 31, 2012.

**Economical Insurance Consolidated Highlights**

<table>
<thead>
<tr>
<th></th>
<th>Q4 2012</th>
<th>Q4 2011</th>
<th>Variance</th>
<th>2012</th>
<th>2011</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross written premiums</td>
<td>462.4</td>
<td>433.5</td>
<td>28.9</td>
<td>1,819.7</td>
<td>1,723.2</td>
<td>96.5</td>
</tr>
<tr>
<td>Claims ratio</td>
<td>62.2%</td>
<td>57.5%</td>
<td>4.7%</td>
<td>61.7%</td>
<td>63.6%</td>
<td>(1.9)%</td>
</tr>
<tr>
<td>Combined ratio</td>
<td>96.3%</td>
<td>92.5%</td>
<td>3.8%</td>
<td>96.4%</td>
<td>98.1%</td>
<td>(1.7)%</td>
</tr>
<tr>
<td>Underwriting income</td>
<td>15.8</td>
<td>30.2</td>
<td>(14.4)</td>
<td>60.7</td>
<td>32.4</td>
<td>28.3</td>
</tr>
<tr>
<td>Investment income</td>
<td>29.2</td>
<td>24.1</td>
<td>5.1</td>
<td>126.9</td>
<td>148.0</td>
<td>(21.1)</td>
</tr>
<tr>
<td>Net income</td>
<td>43.2</td>
<td>37.5</td>
<td>5.7</td>
<td>152.7</td>
<td>91.0</td>
<td>61.7</td>
</tr>
</tbody>
</table>

Total mutual policyholders’ equity 1,464.2 1,300.1 164.1

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

**Gross written premiums** for the fourth quarter showed growth of $28.9 million, or 6.7%, over the same quarter a year ago. Economical continues to grow in both personal and commercial lines. For the full year, gross written premiums have grown 5.6% over 2011. This growth has been driven by both volume and rate increases for personal and commercial property and represents the fifth consecutive quarter of growth for the company.

**Underwriting results** for the fourth quarter remained profitable although declined $14.4 million over the same quarter in 2011. The fourth quarter of 2011 produced very strong levels of underwriting income, driven by significantly higher than usual levels of favourable development in connection with Ontario personal auto. Favourable prior year reserve development during 2012 has returned to more historic levels.
The combined ratio for the 2012 full year was 96.4%, a 1.7 percentage point improvement over the prior year. The result is due to strong personal lines results reflective of the improved quality of the underlying book of business, a decline in weather-related catastrophic losses and favourable Ontario personal auto results. The relatively benign weather conditions experienced throughout 2012 resulted in a $40.0 million reduction in catastrophic weather-related losses year on year across all lines of business.

Economical’s personal auto business produced a fourth quarter combined ratio of 94.9%. Ontario personal auto continued to contribute to this improved performance due to the continued impact of the company’s underwriting and risk selection, strong claims management processes and, to a lesser extent, the favourable impact of regulatory reforms. Personal property recorded an exceptionally strong combined ratio of 76.9% in the fourth quarter of 2012, an 8.4 percentage point improvement over the prior year. Personal property results continued to benefit from relatively benign weather conditions in the fourth quarter. Overall the personal lines business produced a very strong combined ratio of 90.5% for the full year, a 2.6 percentage point improvement over 2011.

Commercial auto recorded a fourth quarter combined ratio of 103.6% compared to 99.8% in the same quarter of 2011. An increase in severity of losses year-over-year continues to impact the results in this line of business. The commercial property and liability business recorded a combined ratio of 110.2%, 5.3 percentage points higher than the same quarter in 2011. The decline was a result of an increase in the severity of large commercial property losses during the fourth quarter of 2012 compared to 2011. Overall the commercial lines business posted a disappointing combined ratio of 105.8% for the full year 2012, a marginal 0.2 percentage point improvement over the prior year.

Market yields rose during the fourth quarter positively impacting the discounted combined ratio by 1.1 percentage points, or $4.8 million. The effect of discounting on claims liabilities was offset by recognized investment losses of $3.7 million on the matched bond portfolio during the quarter. For the full year 2012 discounting positively affected the discounted combined ratio by 0.6 percentage points or $9.3 million. This impact was offset by recognized investment losses of $3.8 million on the matched bond portfolio during the year.

**Investment income** increased $5.1 million over the fourth quarter of 2011 due primarily to higher recognized gains on the non-matched investment portfolio driven by a lower level of impairments in the fourth quarter of 2012. Total investment income for the year has declined $21.1 million compared to 2011 largely as a result of unrealized losses on the matched portfolio and a decline in interest income. Market yields rose marginally during 2012, compared to the large decline experienced a year ago. This has resulted in $3.8 million of recognized losses on the matched portfolio in 2012, compared to recognized gains of $63.5 million in 2011. Offsetting the small recognized losses in 2012 are higher realized gains on Economical’s non-matched portfolio of $34.8 million, compared to gains of $11.4 million for 2011. The company expects the current low interest rate environment to persist into 2013, which will continue to restrict interest income. Overall investment quality remains strong with over 76% of total investments held in high quality government and corporate bonds, with the balance primarily held in common and preferred shares.
Included in the fourth quarter results are expenses of $13.0 million related to Economical’s business transformation program. This is offset by one-time net savings of $16.5 million in connection with reduced obligations arising from changes to eligibility of current employees to the company’s other post-employment benefits plan.

**Economical’s capital position** continues to strengthen and total mutual policyholders’ equity has increased significantly by 12.6% or $164.1 million during 2012. Economical’s minimum capital test ratio remains very strong at 295% as of December 31, 2012.

**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 more than $1.8 billion in premiums and more than $4.8 billion in assets. 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.

For further information, contact:
Doug Maybee
Economical Insurance
(T) 519.570.8249
(C) 519.404.0989
doug.maybee@economical.com