NEWS RELEASE

Economical Insurance reports financial results for Fourth Quarter and Full Year 2017

HIGHLIGHTS

- Increased total gross written premiums by 3.8% over fourth quarter 2016 and 9.7% over full year 2016, driven by growth in personal lines
- Commercial lines gross written premiums declined by 9.8% over fourth quarter 2016 and 2.1% over full year 2016 as corrective actions continue to be implemented
- Reported a combined ratio of 118.0% for the quarter and 113.7% for the year
- Strategic investments impacted the combined ratio for the quarter by 8.3 percentage points and 7.4 percentage points for the year
- Generated a net loss of $28.0 million for the quarter and $92.7 million for the year

WATERLOO, ON, February 20, 2018 — Economical Insurance, 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, 2017.

"Our disappointing fourth quarter and full year operating performance is reflective of the trends we have experienced throughout the year. Gross written premiums exhibited strong overall growth driven by personal lines. However commercial lines premiums declined, particularly in the second half of the year, as our corrective underwriting and pricing actions began. Our profitability continues to be challenged, primarily with regard to personal auto and commercial fleet business," said Rowan Saunders, President and CEO. "In response to these challenges, we have implemented a range of corrective pricing, enhanced underwriting and broker management actions that will intensify during 2018 but take time to earn through our results. On a positive note, we have added executive talent with new leadership for personal lines, commercial lines, and Sonnet and will soon be rolling out our new policy administration system, primarily for personal lines, which we expect will improve efficiency and operating performance once fully implemented. We are also focusing on the efficiency and effectiveness of our claims operations and across the organization more generally."

Economical Insurance Consolidated Highlights ($ in millions, except as otherwise noted)

	Three months ended December 31			Year ended December 31		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Gross written premiums[1]	541.4	521.8	19.6	2,286.9	2,084.1	202.8
Net earned premiums	555.9	499.6	56.3	2,165.8	1,955.6	210.2
Claims ratio[1]	81.3%	76.6%	4.7 pts	76.6%	71.9%	4.7 pts
Expense ratio[1]	36.7%	37.8%	(1.1) pts	37.1%	37.2%	(0.1) pts
Combined ratio[1]	118.0%	114.4%	3.6 pts	113.7%	109.1%	4.6 pts
Underwriting loss[1]	(99.9)	(72.1)	(27.8)	(295.7)	(178.4)	(117.3)
Investment income	54.2	1.0	53.2	139.1	135.4	3.7
Net loss	(28.0)	(38.3)	10.3	(92.7)	(20.3)	(72.4)

	As at December 31		
	2017	**2016**	**Change**
Total equity	1,730.4	1,803.1	(72.7)
Minimum Capital Test[1]	242%	276%	(34) pts

[1]These items are non-GAAP measures which are defined below. Claims ratio, expense ratio, combined ratio, and underwriting loss exclude the impact of discounting.

Gross written premiums for the fourth quarter of 2017 grew by $19.6 million or 3.8% over the same quarter a year ago. Personal lines premiums grew by $38.9 million or 11.9%, driven by increased auto and property policy volumes in our broker channel, new business growth from our digital direct distribution channel, Sonnet, and the acquisition of Petline. Commercial lines premiums declined significantly by $19.3 million or 9.8%, as the implementation of our targeted pricing, enhanced underwriting and broker management actions continue. We expect continued downward pressure on the commercial lines premiums as our planned actions continue to be implemented over the upcoming year. Year-to-date, personal lines premiums grew by $219.1 million or 16.6% and commercial lines premiums declined by $16.3 million or 2.1% over the same period a year ago, driven by the same factors for the quarter above, with commercial lines decreases particularly evident in the second half of the year.

Underwriting activity for the fourth quarter of 2017 produced an underwriting loss of $99.9 million, resulting in a combined ratio of 118.0%, compared to an underwriting loss of $72.1 million and a combined ratio of 114.4% in the same quarter a year ago. Auto lines remain challenged, primarily in Ontario, Alberta, and British Columbia. The quarter was impacted by an overall increase in claims severity and frequency, and reserve strengthening to reflect these trends. We continue to make significant investments in Sonnet and the replacement of the policy administration system, primarily for our personal lines broker business, which impacted the combined ratio by 8.3 percentage points in the fourth quarter of 2017, compared to 8.2 percentage points in the same quarter a year ago. We expect that these strategic investments will continue to impact our underwriting results during the ongoing implementation and start-up phases, although they are expected to improve our long-term profitability.

Underwriting activity for the year produced a loss of $295.7 million, resulting in a combined ratio of 113.7%, compared to an underwriting loss of $178.4 million and a combined ratio of 109.1% in the prior year. Our underwriting results for the year, which include an impact on the combined ratio from our strategic investments of 7.4 percentage points in 2017 compared to 6.0 percentage points in 2016, were impacted by increased loss ratios including the impact of reserve strengthening.

To address the significant performance challenges, a number of actions have been implemented in the second half of 2017 including enhanced broker management, targeted rate increases, exiting unprofitable books of business and certain product offerings, and increased underwriting discipline. These actions, which will take time to be reflected in our results, have impacted our commercial policy volumes and gross written premiums during the past two quarters. This trend is expected to continue as further actions are implemented. We added executive talent with new leadership for Sonnet and commercial lines and most recently, personal lines. Under this new leadership, further measures will be implemented in 2018 across our book of business including pricing segmentation, targeted rate increases and a heightened focus on underwriting quality and discipline. In addition we plan to roll out our new policy administration system in 2018 for personal lines which we expect will improve operating efficiency, pricing, underwriting and ease of doing business with our broker partners.

Line of Business Combined Ratios

In 2017, the underwriting activity of Sonnet and our investment in a new personal lines policy administration system have been included in the line of business performance, resulting in increased combined ratios. The collective impact of these strategic investments on the 2017 combined ratios has been noted in the tables below to depict the adjusted combined ratios excluding these investments for comparative purposes.

Personal insurance

Three months ended December 31

Combined Ratio	2017	2017 Impact of Strategic Investments	2017 Adjusted[2]	2016[1]	Change
Personal auto	136.3%	13.8 pts	122.5%	121.3%	1.2 pts
Personal property	87.1%	7.1 pts	80.0%	83.7%	(3.7) pts
Total personal lines	121.0%	12.1 pts	108.9%	110.3%	(1.4) pts

Combined Ratio	2017	2017 Impact of Strategic Investments	2017 Adjusted[2]	2016[1]	Change
	Year ended December 31				
Personal auto	121.5%	13.0 pts	108.5%	103.9%	4.6 pts
Personal property	99.4%	6.7 pts	92.7%	98.8%	(6.1) pts
Total personal lines	114.6%	11.1 pts	103.5%	102.4%	1.1 pts

[1] In 2016, the personal lines of business results excluded certain expenses associated with the development and launch of Sonnet as it was in the pre-launch phase for the majority of the year.
[2] This item is a non-GAAP measure which is defined below.

The adjusted **personal auto** combined ratio for the fourth quarter increased compared to the same quarter a year ago. This line of business continues to be challenged, primarily in Ontario and Alberta related to increasing bodily injury claim costs, and British Columbia related to excess auto liability claims. Targeted rate increases and a number of underwriting actions have been implemented with further targeted rate increases planned in 2018. The adjusted **personal property** combined ratio for the fourth quarter improved compared to the same quarter a year ago, due primarily to lower levels of weather-related catastrophe losses which decreased the combined ratio by 4.7 percentage points. The current quarter was primarily impacted by Alberta and British Columbia wind and wildfire losses, and an Ontario and Quebec wind and rainstorm, whereas the same quarter a year ago was impacted by the Windsor flood and Hurricane Matthew in the Atlantic region. Overall, on an adjusted basis, personal lines produced an underwriting loss of $31.9 million compared to an underwriting loss of $32.9 million in the same quarter a year ago.

For the year, on an adjusted basis, personal lines produced an underwriting loss of $48.8 million compared to an underwriting loss of $29.7 million in 2016. **Personal auto** was impacted by reserve strengthening, driven by the deterioration in Ontario and Alberta bodily injury, and British Columbia excess auto liability. **Personal property** improved due primarily to a decrease in catastrophe losses, which lowered the combined ratio by 5.1 percentage points, as 2016 was heavily impacted by the Fort McMurray wildfire.

Commercial insurance

	Three months ended December 31			Year ended December 31		
Combined Ratio	2017	2016	Change	2017	2016	Change
Commercial auto	125.1%	112.9%	12.2 pts	123.1%	101.7%	21.4 pts
Commercial property and liability	103.4%	91.9%	11.5 pts	104.6%	107.2%	(2.6) pts
Total commercial lines	111.9%	99.9%	12.0 pts	111.8%	105.1%	6.7 pts

The **commercial auto** combined ratio for the fourth quarter was primarily impacted by deterioration in bodily injury losses for Ontario fleet exposure and increased claims severity and frequency as well as strengthening reserves to reflect these trends. The **commercial property and liability** combined ratio for the fourth quarter was impacted by adverse claims development and increased claims severity and frequency. Overall, commercial lines produced an underwriting loss of $21.5 million compared to an underwriting profit of $0.1 million in the same quarter a year ago. To address the performance of the commercial lines of business, targeted rate increases, and enhanced underwriting and broker management actions have already been implemented, with further actions planned for 2018.

Year-to-date, commercial lines produced an underwriting loss of $86.8 million compared to $36.4 million in 2016. **Commercial auto** was impacted in the year by increased claims severity and frequency as well as reserve strengthening. **Commercial property and liability** improved due mainly to a decrease in large losses, partially offset by an increase in frequency of claims.

Investment income

	Three months ended December 31			Year ended December 31		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Interest income	15.2	15.5	(0.3)	59.4	61.1	(1.7)
Dividend income	10.2	9.8	0.4	38.5	39.2	(0.7)
Total interest and dividend income	25.4	25.3	0.1	97.9	100.3	(2.4)
Total recognized gains (losses) on investments	28.8	(24.3)	53.1	41.2	35.1	6.1
Total investment income	54.2	1.0	53.2	139.1	135.4	3.7

Total interest and dividend income was stable during the fourth quarter of 2017 compared to the same quarter a year ago. Recognized losses shifted to gains due to increased realized gains on domestic and foreign common equities and a small recognized gain on bonds. The same quarter a year ago was impacted by an increase in bond yields which produced recognized losses.

Investment income for the year increased slightly over 2016. Recognized gains increased as higher realized gains on domestic and foreign common equities were only partially offset by higher recognized losses on bonds driven by increased bond yields in 2017.

Net loss reduced by $10.3 million over the same quarter a year ago, as higher investment income more than offset increased underwriting losses. For the year, the net loss increased by $72.4 million due primarily to higher underwriting losses across both personal and commercial lines.

Economical's capital position remains well in excess of both minimum internal capital and external regulatory requirements as of December 31, 2017, with total equity of approximately $1.7 billion, and a Minimum Capital Test ratio of 242.1%.

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 may constitute forward-looking statements. The words “may”, “will”, “would”, “should”, “could”, “expects”, “plans”, “intends”, “trends”, “indications”, “anticipates”, “believes”, “estimates”, “predicts”, “likely”, “looking to”, “potential” or negative or other variations of these words or other similar or comparable words or phrases, are typically 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 appropriately price its products to produce an acceptable return; its ability to accurately assess the risks associated with the insurance policies that it writes; its ability to pay claims in accordance with our insurance policies; Economical’s ability to obtain reinsurance coverage to alleviate risk; litigation and regulatory actions; management’s ability to accurately predict future claims frequency or severity, including the frequency and severity of weather-related events; the occurrence of unpredictable catastrophic events; unfavourable capital market developments or other factors which may affect our investments; Economical’s ability to successfully manage credit risk from its counterparties; foreign currency fluctuations; Economical’s ability to meet payment obligations as they become due; Economical’s dependence on key employees; Economical’s ability to manage the appropriate collection and storage of information; Economical’s reliance on information technology and telecommunications systems; changes in government regulations, supervisory expectations or requirements, including risk-based capital guidelines; Economical’s ability to respond to events impacting its ability to conduct business as normal; Economical’s ability to implement its strategy or operate its business as management currently expects; general economic, financial, and political conditions, particularly those in Canada; the competitive market environment; Economical’s reliance on independent brokers to sell its products; success and timing of the demutualization process; the outcome of a demutualization transaction; and periodic negative publicity regarding the insurance industry or Economical.

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, and other factors and risks could impact our actual results, performance and achievements; however, these factors should be considered carefully, and readers should not place undue reliance on the forward-looking statements we make. We do not undertake 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

Catastrophe loss	Generally, an event causing greater than 100 claims and gross losses in excess of $2 million.
Claims development	The difference between prior year end estimates of ultimate undiscounted claim costs and the current estimates for the same block of claims. A favourable development represents a reduction in the estimated ultimate claim costs during the period for that block of claims.
Discounting	To reflect the time value of money, the expected future payments of claim liabilities are discounted back to present value using the market yield rate of investments used to support those liabilities. Provisions for adverse deviation are also included when determining the discounted value.
Frequency	A measure of how often a claim is reported as a function of policies in force.
Large loss	A single claim with a gross loss in excess of $1 million.
Severity	A measure of the average dollar amount paid per claim.
Total equity	Retained earnings plus accumulated other comprehensive income.

Also 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.

Gross written premiums	The total premiums from the sale of insurance during a specified period.
Claims ratio	Claims and adjustment expenses (excluding the impact of discounting) during a defined period expressed as a percentage of net earned premiums for the same period.
Core accident year claims ratio	Claims ratio excluding catastrophe losses and claims development.
Expense ratio	Underwriting expenses, including commissions, operating expenses (net of other underwriting revenues), and premium taxes during a defined period, expressed as a percentage of net earned premiums for the same period.

Combined ratio	Claims and adjustment expenses (excluding the impact of discounting), commissions, operating expenses (net of other underwriting revenues), and premium taxes during a defined period expressed as a percentage of net earned premiums for the same period.
Adjusted combined ratio	Combined ratio excluding the financial impact of our investment in a new personal lines policy administration system and the results of the underwriting activity of Sonnet.
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.
Underwriting loss	Net earned premiums for a defined period less the sum of claims and adjustment expenses (excluding the impact of discounting), net commissions, operating expenses (net of other underwriting revenues), and premium taxes during the same period.

About Economical Insurance

Founded in 1871, Economical Insurance is one of Canada's leading property and casualty insurers, with more than $2.2 billion in annualized premium volume and over $5.6 billion in assets as at December 31, 2017. Based in Waterloo, this Canadian-owned and operated company services the insurance needs of more than one million customers across the country.

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