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2012

MEETING NOTICE AND MANAGEMENT PROXY CIRCULAR

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notice of annual meeting of members of economical mutual insurance company

Notice is hereby given that the Annual Meeting (the "Meeting") of the Members of Economical Mutual Insurance Company ("Economical") will be held on June 15, 2012 at 10:30 a.m. at Bingemans Ballroom, 425 Bingemans Centre Drive, Kitchener, Ontario, Canada, for the following purposes:

A. to receive the consolidated financial statements of Economical for the year ended December 31, 2011 and the auditor's report on those statements;

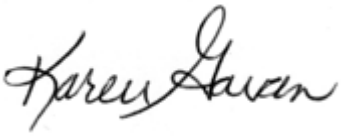
B. to appoint the external auditor;

C. to elect directors; and

D. to transact such other business as may properly be brought before the Meeting and any adjournments or postponements thereof.

Each Member is entitled to cast one (1) vote on each matter to be brought before the Meeting.

By order of the Board of Directors,



KAREN L. GAVAN
President and CEO
Waterloo, Ontario
May 2, 2012

Members of Economical, whether or not you attend the Meeting, you are encouraged to complete, date and sign the enclosed BLUE proxy form, and return it by mail in the postage-paid envelope provided, or by hand at 100 University Avenue, 9th Floor, Toronto, ON M5J 2Y1, or fax it to Computershare Investor Services Inc. at 1-866-249-7775 (toll free in North America), 416-263-9524 (International). BLUE proxies may also be returned, by hand, to the head office of Economical at 111 Westmount Road South, Waterloo, Ontario, Attention: Corporate Secretary. In order to be valid, your proxy must reach Computershare Investor Services Inc. or Economical, in the manner noted above, no later than 10:30 a.m. (Eastern Time) on June 5, 2012, or if the Meeting is adjourned or postponed, no later than 10 days before any adjournment or postponement thereof.

For any questions regarding the Management Proxy Circular, the BLUE proxy form, or the exercise of voting rights, please call us at 519-570-8500, ext. 48422 or email us at getthefacts@teig.com.

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management of proxy circular

References to "Economical", "we", "us" and "our" in this management proxy circular are to Economical Mutual Insurance Company. Unless otherwise indicated, all dollar amounts in this Circular are in Canadian dollars. The information contained in this Circular is given as of the date of this Circular, except where otherwise noted. Information posted on our website may be found at www.economicalinsurance.com. All references in this Circular to websites are inactive textual references provided for information only. Information contained in or otherwise accessible through the websites mentioned in this Circular does not form a part of this document.

This Circular contains forward-looking statements, as indicated by words such as "believe", "anticipate", "intend", "estimate", "expect", "project" and similar expressions. Those statements are based on our current expectations and are naturally subject to uncertainty and changes in circumstances that may cause actual results to differ materially from those expressed or implied by such forward-looking statements. Factors that may cause such differences include but are not limited to economic, business, technological, competitive, governmental, legislative and regulatory factors, including those affecting our proposed demutualization. We are under no obligation to update or alter any of our forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law.

general proxy and voting information

SOLICITATION OF PROXIES

This Management Proxy Circular (the "Circular") and the accompanying BLUE proxy form are provided in connection with the solicitation of proxies by management ("Management") of Economical to be used at the Annual Meeting (the "Meeting") of mutual policyholders ("Members") of Economical for the purposes indicated herein, to be held at 10:30 a.m. (Eastern Time) on June 15, 2012, at Bingemans Ballroom, 425 Bingemans Centre Drive, Kitchener, Ontario, Canada, and at any adjournment or postponement thereof. Only the BLUE proxy form is used by Management to solicit proxies, and your board of directors (the "Board") recommends that it is the only proxy form that you use.

WHO IS SOLICITING THE PROXY

Employees, officers, directors and agents of Economical will solicit proxies on behalf of Management. The solicitation of proxies will be done by mail, telephone, fax, email or in person. **The solicitation of proxies by this Circular is being made by or on behalf of our management and we will bear the total cost of the solicitation.**

MUTUAL POLICIES

Economical is a mutual property and casualty insurance company dating back over 140 years and is governed by the Insurance Companies Act (Canada) (the "Insurance Companies Act") and regulated by the Office of the Superintendent of Financial Institutions Canada. "Mutual companies" do not have a share structure or shareholders. Instead, they have members who insure certain property under a mutual insurance policy. Each holder of an Economical mutual policy has the right to vote at meetings of Members, but ceases to be a Member when his, her or its mutual policy terminates. Each Member has only one vote regardless of how many mutual policies such Member holds. Economical also issues a large number of non-mutual insurance policies, which do not carry any voting rights.

WHO MAY VOTE

Each Member of record of Economical at the close of business (5:00 p.m., (Eastern Time) on June 4, 2012, is entitled to cast one (1) vote on all matters validly proposed to come before the Meeting. At the time the Board announced its intention to demutualize on December 14, 2010, Economical had 943 mutual policies in force. Since that time, a total of 22 mutual policies have terminated or lapsed but may still be eligible to receive demutualization benefits depending on the regulatory framework that is enacted to govern the demutualization of companies like ours. See "Our Demutualization". As of the date of this Circular, Economical had 921 active mutual policies outstanding.

Economical's By-laws provide that if any policy is issued in the joint names of two or more persons, any one of them present at the Meeting or represented by duly appointed proxy may vote in the absence of the other or others, but if more than one of them is present at any meeting, either in person or by duly appointed proxy, only the person whose name first appears on the policy, or the duly appointed proxy of such first-named person, as the case may be, is entitled to vote.

HOW TO VOTE

Members may vote either in person at the Meeting or by using the BLUE proxy form in accordance with the instructions below.

VOTING BY PROXY

VOTING INSTRUCTIONS

All properly executed proxies are to be voted for or withheld from voting by the proxyholder designated in the enclosed BLUE proxy form as instructed by the Member. **If no other instructions are given in the proxy form, the voting rights attached to the mutual policy in question will be exercised by the designated proxyholder by voting as follows:**

Resolution 1. FOR the election of each of the proposed directors nominated in this Circular; and

Resolution 2. FOR the appointment of the external auditor nominated in this Circular.

The enclosed BLUE proxy form confers on the proxyholder designated therein discretionary authority with respect to any proposed amendments or variations to the matters set out therein and any other business which may properly come before the Meeting or any adjournment or postponement thereof. At the date of this Circular, Management is not aware of any amendment, variation or other matter which may properly come before the Meeting.

HOW TO APPOINT A PROXYHOLDER

The proxy form authorizes a proxyholder to represent you and to vote on your behalf at the Meeting. The proxyholders designated in the enclosed BLUE proxy form are directors and/or officers of Economical. **If a Member wishes to appoint a proxyholder other than one of the persons designated in the proxy form, such Member may do so by striking out the names appearing thereon and inserting the name of such person in the blank space provided.** If the Member is a legal entity, an estate or trust, the proxy form must be signed by a duly authorized representative and accompanied by a certified resolution confirming such authorization. A proxyholder does not have to be a Member of Economical.

To vote by proxy, Members must complete, sign and return the enclosed BLUE proxy form. In order to be valid, the BLUE proxy form must be registered with Computershare Investor Services Inc. ("Computershare") by mail or in person at 100 University Avenue, 9th Floor, Toronto, ON, M5J 2Y1, or by fax, at 1-866-249-7775 (toll free in North America), 416-263-9524 (International) no later than 10:30 a.m. (Eastern Time) on June 5, 2012, or, if the Meeting is adjourned or postponed, no later than 10 days before the new date determined by adjournment or postponement of the Meeting. BLUE proxies may also be deposited at the head office of Economical at 111 Westmount Road South, Waterloo, Ontario, Attention: Corporate Secretary, if they are received by 10:30 a.m. (Eastern Time) on June 5, 2012. You may also call us at 519-570-8500, ext. 48422 and we will arrange to have a courier pick up your completed BLUE proxy form. If you wish to return the proxy form by mail, you may use the postage-paid envelope included with this Circular.

HOW TO REVOKE A PROXY

Members may revoke a proxy:

- by delivering a written notice to that effect signed by them or their duly authorized representative(s) to Computershare, at 100 University Avenue, 9th Floor, North Tower, Toronto, Ontario, Canada, M5J 2Y1, no later than 5:00 p.m. (Eastern Time) on June 14, 2012, or if the Meeting is adjourned or postponed, 24 hours before the postponed meeting, or any continuation thereof after an adjournment;
- by delivering a written notice to that effect signed by them or their duly authorized representative(s) to an agent of Computershare or the Chair of the Meeting, on the day of the Meeting, or any postponement or any continuation thereof after an adjournment; or
- in any other manner permitted by law.

The notice must be signed by the Member or by an attorney duly authorized in writing to this effect; if the Member is a legal entity, the notice must be signed by an officer or attorney of such legal entity duly authorized in writing by a resolution, a certified copy of which must be attached to the notice.

our demutualization

This Circular has been prepared for our annual general meeting of Members and deals with normal business, namely receiving our financial statements, appointing auditors, and electing directors. As you know from the Member updates we've published throughout the year, we continue to make submissions to the Federal government as it develops regulations that will provide a framework for our proposed demutualization. We will not be in a position to present our demutualization proposal to our Members until those Regulations have been finalized and the proposal has been approved by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). However, we are committed to keeping you informed and have summarized the progress we have made towards demutualization in the section that follows below. We will continue to provide updates as additional progress is made, and will post those updates on our website. We will also deliver to you at the Meeting a presentation on our progress toward demutualization and any developments since the date of this Circular.

HISTORICAL CONTEXT

Canadian property and casualty ("P&C") insurance companies typically have one of two forms of corporate organization. One form is the traditional share corporation, which is sometimes referred to in the industry as "stock companies". The other form is a "mutual company", sometimes simply referred to as a "mutual". Stock companies have shareholders, whereas mutuals do not; stock companies' shares are generally transferable, whereas mutual policies are not.

In Ontario, mutuals mainly trace back to companies formed in the mid to late 1800s, often on a township-by-township basis in predominantly rural areas. Mutuals arose as a means of providing fire insurance protection in those communities, as associations of people with common interests came together to form a vehicle for providing property insurance not otherwise available to individual members of the group. As a mutual, Economical does not have shareholders like a stock company; instead, its Members elect its directors, appoint its auditors and approve fundamental company changes..

Economical was founded in what is now Kitchener, Ontario in 1871. Since then, Economical has provided insurance to millions of individuals and businesses, surviving difficult times (including recessions and depressions) and weathering changing regulatory and business environments. It has grown beyond its Waterloo county origins to become a national company – among the top ten largest P&C insurers in Canada - with over 2,500 employees.

Economical has been a financial success over the long term, accumulating significant value particularly within the last 10 to 15 years. Its mutual structure (which has seen most of its annual profit retained in the company) has promoted financial stability and Economical has, over the decades, provided quality insurance products at reasonable cost to millions of policyholders. It has been an important contributor to the Kitchener-Waterloo community, where it maintains its headquarters.

THE DECISION TO DEMUTUALIZE

Demutualization is a regulated process in which a mutual insurance company (such as Economical) converts from a company with mutual policyholders as its sole voting members to a corporation with share capital and shareholders, and distributes the proceeds of the conversion in the form of cash or transferable shares. It is a process that is defined and governed by legislation and the specific allocation of value among members is determined in accordance with regulations and a demutualization plan that must be approved by OSFI before it can be considered and voted upon by Members.

As part of its continuing stewardship of Economical, your Board has from time to time reviewed alternatives to the mutual structure that would protect Economical and enhance its business prospects in light of longer-term industry developments and trends. Recently, it has become evident that converting Economical to a company with a share capital structure would overcome certain limitations of the mutual company model and offer the following benefits:

- *Improves Stability.* Mutual companies do not generally have access to capital markets to issue capital instruments (such as shares) to repair damage done by a significant insurance loss event or adverse market events such as the recent global financial crisis. Instead, mutual companies must rely on retained profits from their underlying businesses, which slows down their recovery and prolongs the vulnerability created by the initial adverse event.
- *Supports Strategic Organic Growth.* Demutualization would facilitate the acquisition and maintenance of a competitive financial strength rating which we need to pursue our commercial insurance lines strategy. Increasingly, Canadian businesses are relying on ratings from rating agencies to assess an insurer's ability to pay insurance claims and to guide their insurance purchasing decisions. In order to receive comparable ratings, rating agencies generally require mutual companies to maintain higher levels of capital than stock companies (over and above regulatory capital requirements) because mutuals cannot access capital markets to replenish capital quickly after an extreme impairment event. Since our main competitors are stock companies, we are unable to grow in certain commercial lines of business because of the inefficient capital levels that would be required to support the ratings necessary to acquire these commercial lines of business.

- *Positions for Industry Consolidation.* The Canadian P&C industry continues to consolidate. Recent transactions underscore the trend of large companies becoming larger and more powerful, while mid-sized and smaller companies are at risk of becoming marginalized or confined to market niches. We cannot achieve our vision of being a leading national insurer through organic growth alone. In order to participate meaningfully in industry consolidation as an acquiror, we would need to be able to issue shares to raise acquisition funding or to deploy as acquisition currency.

The Board is also aware that a demutualization would enable Members to monetize their interests in Economical.

Given these considerations, your Board determined that it is appropriate and prudent to move forward with a plan to convert to a company with share capital by way of a demutualization.

On December 14, 2010, your Board announced its intention to demutualize Economical. Since then, we have continued to push forward with our demutualization plans, while at the same time focussing on strengthening the performance of our underlying business. At our last annual meeting on May 26, 2011, our Members overwhelmingly endorsed the Board's decision to demutualize through their continuing support of incumbent directors.

We have been pursuing demutualization on two alternative tracks:

- conversion, in which we would complete an initial public offering and list our shares for trading on a stock exchange. Under this structure, Members would receive shares in an amount that reflects the value of their respective interest in Economical, which Members can then either sell for cash, or retain as an investment; or
- sponsored demutualization or an asset transaction, in which we would complete a transaction with a strategically-aligned company or financial backer(s) that would invest in Economical to acquire a significant ownership position, or acquire substantially all of Economical's assets and liabilities. Under this structure, Members could receive shares in the purchaser/sponsor, cash, or a combination of both, in an amount that reflects the value of their respective interests in Economical.

The ultimate choice between these alternatives depends on the content of the demutualization regulations, the economic environment and market conditions once we are ready to complete our demutualization. In each case, the specific allocation of value among Members would be determined in accordance with regulations and a demutualization plan that is approved by OSFI.

DEVELOPMENT OF DEMUTUALIZATION REGULATIONS

In the mid-1990's the Insurance Companies Act was amended to allow federally-incorporated life insurance companies and P&C companies to demutualize. Subsequently, in the late 1990s, regulations were established that set out the process by which life insurance companies could demutualize. However, no regulations have ever been implemented that provide a framework for demutualizing federally-incorporated mutual P&C insurers such as Economical, and federally-incorporated P&C insurers remain unable to demutualize without such regulations.

The development of demutualization regulations is within the purview of the Department of Finance with whom we have been actively working to establish a fair and effective demutualization framework. Since the Board's decision to demutualize in late 2010, a Special Committee of our Board and senior management have had extensive ongoing discussions with government representatives with respect to the development and passage of these regulations, although the process has taken much longer than we originally anticipated.

The first step in this process was to convince the Department of Finance that P&C demutualization regulations should be developed at all. During the first quarter of 2011, Economical had a number of meetings, discussions and exchanges with the Department of Finance, Financial Sector Policy Branch, that culminated in a commitment in the March 2011 Federal Budget that an initiative would be brought forward to develop these regulations.

Following further discussions, the Department of Finance released a consultation paper on June 30, 2011 entitled "Consultation On A Demutualization Framework For Federal Property And Casualty Insurance Companies" in which it requested comments on a number of specific questions relevant to the demutualization of P&C insurers. In response, we made a lengthy submission on July 29, 2011 in which we argued strongly for the passage of regulations which will permit effective demutualization of P&C insurers, and for the recognition of the rights of our Members in this process. Specifically, the principal conclusions of our submission were that:

- the policy objectives and demutualization process for the demutualization of federally regulated P&C mutual insurance companies should be essentially the same as those reflected in the regulations used for the demutualization of federally-regulated mutual life insurance companies; regulations which have proven to be robust and effective;

- mutual policyholders of federally-regulated mutual P&C insurance companies enjoy at least as strong ownership rights as participating policyholders of federally-regulated mutual life insurance companies and, accordingly, have exclusive rights to demutualization benefits, as did the participating policyholders of the demutualized federal mutual life companies;
- holders of mutual (i.e. voting) policies are the only policyholders of a federal mutual P&C insurance company who should be entitled to vote on a demutualization and to receive demutualization benefits;
- permitting federal mutual P&C insurance companies to demutualize would affect so few companies and such a small percentage of the overall Canadian P&C industry that we do not believe there would be any material adverse impact; and
- Economical needs to demutualize in order to compete more effectively over the long term with the large publicly-held P&C companies that operate in Canada.

The full text of our July 29, 2011 submission is available on our website.

In subsequent discussions with the Financial Sector Policy Branch of the Department of Finance, we have learned that almost 100 other submissions were made in response to Finance's consultation request. Among these are submissions which offered different views from ours as to whether to permit demutualizations and whether to recognize the rights and entitlements of mutual policyholders as legitimate owners of mutual P&C insurers. A summary of the submissions to Finance has been published on the Department of Finance's website.

The alternatives that were suggested by a number of the other commentators were, in our view, seriously flawed from the point of view of the law, good public policy, and the best interests of Economical. As a result, we actively engaged in discussions with the Department of Finance during September and October of 2011 and submitted supplemental commentary to respond to the issues raised by the Department of Finance and other commentators. This commentary made the strongest case possible for the development of workable demutualization regulations and the recognition of the legitimate rights and entitlements of the mutual policyholders through the demutualization process.

Our Special Committee, senior management and advisors continued to meet with the Department of Finance, local members of Parliament and the Minister of Finance during November and December of 2011 to continue to pursue what we believe to be fair and equitable treatment for our Members, and the passage of regulations that would give us the ability to complete our demutualization. On May 1, 2012, we appeared before the House of Commons Finance Committee to discuss our demutualization, the steps we have taken to date, and the regulatory framework for demutualization. A copy of our submission to the Committee is available on our website.

We continue to do all we can to move our demutualization forward but, ultimately, the timing of our demutualization is in the hands of the Federal government. The Department of Finance has responsibility for developing demutualization regulations and we cannot proceed without those regulations.

We intend to continue to do everything we can to develop a final and detailed proposal for Members to consider and vote on at a special meeting of Members once the demutualization regulations are developed and passed into law and our demutualization proposal is approved by OSFI. We intend to hold such a special meeting within six months of the passage of the final demutualization regulations.

SIGNIFICANT INTERNAL PROGRESS TOWARD DEMUTUALIZATION

In addition to our ongoing advocacy in support of demutualization regulations, we continue to implement much of the preparatory work that will be required to complete a demutualization transaction once the regulatory process is complete:

- Our Chief Actuary has been working with actuarial consultants and financial advisors on the process of determining the allocation of demutualization benefits and developing specific methods to distribute such benefits. We have also initiated consultation with OSFI as it will need to approve the benefits allocation in our demutualization plan before it is voted on by Members.
- Our internal auditors have completed a review to confirm the data integrity of our Member database and a further external audit of policyholder data is underway.
- Our internal finance group and external tax advisors continue to work on ascertaining the most beneficial tax treatment for Economical and its Members in the demutualization process.
- We continue to develop and enhance our financial reporting, disclosure practices and control environment to public company standards.

- We continue to work with our financial advisors and underwriters, monitoring and analyzing market conditions for a potential initial public offering. At the same time, we and our financial advisors have been actively engaged with potential strategic investors, providing them with current information to help them evaluate the potential for a transaction through a sponsored demutualization.

In addition, we have continued to prepare our business for demutualization, added valuable experience to our Board and strengthened our operations:

- In early 2011, we completed a management reorganization designed to meet the needs of the demutualization process and, more importantly, our future requirements when the process is completed. Over the past year, we built upon that realigned structure by announcing the appointment of several senior executives who have either been given new responsibilities or who are bringing significant expertise and experience to Economical from other companies.
- In early 2012, we announced the appointment of two new distinguished directors – W. David Wilson and Richard (Dick) Freeborough – who add further depth, strength and relevant experience to the Board. Their biographies are presented later in this Circular.
- Economical continues to operate effectively, despite what was generally recognized as a very challenging year for the global insurance industry.
  - Our growing strength is shown by the company's latest annual financial and operating results, which we released on February 23, 2012 and are explained in detail in the accompanying Annual Report. Those results are gratifying and demonstrate the continuing improvement across Economical. For 2011, the company reported net income of $91.0 million, an increase of almost 12% over the previous year, despite having to absorb catastrophic weather-related losses of $61.9 million and investment impairment charges of $36.3 million that resulted from poor financial markets. Economical improved underwriting results by $80.9 million during the year, from a 2010 loss of $48.5 million to a gain of $32.4 million in 2011.
  - The company's combined ratio, a key industry measure of the profitability of insurance in force, improved as well, to 98.1% in 2011 from 102.9% in 2010. Particularly encouraging was that the fourth quarter showed a significant increase in gross written premiums to $433.5 million, compared with $414.0 million a year earlier, which demonstrates a successful transition following our past corrective underwriting actions and strategic repositioning. Over the course of 2011, Economical increased its total mutual policyholders' equity by $97.4 million, or 8.1%, to $1.3 billion at December 31.

Although demutualization is a complex process, we have already made substantial progress and are confident that your current Board can create a successful outcome for Economical and its Members.

business of the meeting

It is intended that the Meeting will be held on June 15, 2012 at 10:30 a.m. at Bingemans Ballroom, 425 Bingemans Centre Drive, Kitchener, Ontario.

The Meeting date may be postponed by resolution of the Board of Directors until a later date and time. In such event, notice of the changed date and time will be delivered to all Mutual Policyholders and to others entitled by law to such notice. All proxies properly executed and delivered for the Meeting will continue to be valid for the postponed meeting, unless they are otherwise properly revoked, and the deposit date for proxies to be voted at the postponed meeting will be extended in the manner provided in the notice of the postponed meeting.

The Meeting is an annual meeting of Members and will address the annual business of Economical. All of the matters to come to a vote at the Meeting, as described in the attached Notice of Meeting, can be approved by a simple majority (i.e. more than 50%) of the votes cast by Members present in person or validly represented by proxy at the Meeting.

ITEM A – FINANCIAL STATEMENTS

A copy of the consolidated financial statements of Economical for the year ended December 31, 2011 together with the auditor's report thereon and the actuary's report on the policy liabilities in those statements are included with this package and will be placed before the Members at the Meeting. Our Annual Report is also available on our web site. No vote is required at the Meeting in respect of Economical's 2011 financial statements or the professional reports on those statements.

ITEM B – APPOINTMENT OF AUDITORS

APPOINTMENT AND REMUNERATION

The management representatives named in the enclosed proxy form intend to vote in favour of the re-appointment of Ernst & Young LLP as our auditors, to hold office until the next annual meeting of Members, and to authorize the directors to fix the remuneration to be paid to them. Ernst & Young LLP have served as our auditors for more than 10 years.

PRE-APPROVAL POLICIES AND PROCEDURES

Our Audit Committee has adopted policies and procedures for the pre-approval of services performed for us and our subsidiaries by our external auditors, the objective of which is to support the independence of our external auditors. Those policies and procedures require the Audit Committee to pre-approve audit services provided by any registered public accounting firm, and audit-related, tax and other non-audit services provided by our external auditors. The Audit Committee may not approve any service to be provided by the external auditors that is prohibited under the rules of the Canadian Public Accountability Board or the Independence Standards of the Canadian Institute of Chartered Accountants. The Chair of the Audit Committee may grant ad hoc approvals for non-audit services, provided that such approvals are reported to the full Committee at its next scheduled meeting. None of the Audit Committee's responsibilities under the policy may be delegated to management.

EXTERNAL AUDITOR SERVICE FEES

The following chart summarizes fees paid to our external auditors for services they have rendered to us in the two most recently completed financial years.

EXTERNAL AUDITOR FEES ($)

	2011	2010
Audit Fees	**791,450**	866,300
Audit-Related Fees	**-**	-
Tax Fees	**529,365**	168,897
All Other Fees	**25,300**	50,000
Total	**1,346,115**	1,085,197

Audit Fees include fees for professional services for the audit of Economical's financial statements and those of its subsidiaries or other services that are normally provided by external auditors in connection with statutory and regulatory filings or engagements, including subsidiary and pension fund audits. Audit-Related Fees are for assurance and related services, including quarterly reviews, internal control reviews, accounting consultations in connection with acquisitions and divestitures, and interpretation of financial accounting and reporting standards, including IFRS and other attest services not required by statute or regulation. Tax Fees are for assistance with tax compliance, tax planning, assistance with the preparation of corporate tax returns and tax advice related to restructurings, tax audits, appeals and contested tax matters. Other Fees may include actuarial peer reviews, and other non-accounting, non tax-related matters.

ITEM C – ELECTION OF DIRECTORS

OVERVIEW

Our By-laws provide that the Board shall consist of a minimum of seven directors and a maximum of 21 directors. The number of directors from time to time shall be fixed by the Board prior to the annual meeting. Until such time as a number of directors constituting the Board is changed by resolution of the directors, the Board consists of nine directors. Economical has designated a number of retired directors as honorary directors in recognition of their past contributions to Economical, although these directors do not participate in Board proceedings.

The current Board consists of John H. Bowey, A. Scott Carson, Richard M. Freeborough, Karen L. Gavan, Gerald A. Hooper, David A. MacIntosh, Charles M. W. Ormston, Michael P. Stramaglia and W. David Wilson. Mary N. Bales was a director until her resignation in November 2011. David Wilson has been appointed to replace her until the expiry of her term at this year's Meeting. Katherine A. Mabe was the President and CEO and a director until stepping down from both positions effective June 23, 2011. Richard Freeborough has been appointed to replace her until the expiry of her term in 2013.

Under our By-laws, directors hold office for rotating three-year terms. Only three of nine directors are up for election at the Meeting, to serve for a three-year term ending at the close of the annual general meeting of Members in 2015 or until their successors are elected or appointed. The remaining six directors continue to serve for terms that expire beyond the Meeting.

Based on information provided by our directors as to their personal circumstances and the applicable legal tests, a majority of our Board members serving during 2011 and all of the director nominees presented for election at the Meeting are independent directors. The Board has determined that, of our nine directors, Karen Gavan is not considered to be independent by virtue of her management position. The three director nominees presented for election at our 2012 general meeting (Gerald Hooper, A. Scott Carson and David Wilson), as well as the remaining five directors (John Bowey, Richard Freeborough, David MacIntosh, Charles Ormston and Michael Stramaglia) have all been determined to be independent directors.

The Board currently has five standing committees: an Audit Committee, a Human Resources and Compensation Committee, an Investment Committee, a Corporate Governance Committee and, starting in 2012, a Risk Review Committee. In addition, the Board established a Special Committee in 2010 to oversee our demutualization process and possible related transactions. Membership of each committee is outlined in the profiles that follow.

NOMINEES FOR ELECTION AT THE MEETING

The three-year terms for Dr. Carson and Messrs. Hooper and Wilson expire at the end of the Meeting and they are standing for re-election. The Management representatives named in the enclosed proxy form intend to vote for the election of the nominee directors listed below. Unless otherwise directed, proxies will be voted in favour of the election of Economical's director nominees.

Each of Economical's director nominees has established his eligibility and willingness to serve as a director if elected, and Economical does not expect that any of these nominees will be unable to serve as a director. However, if for any reason any of Economical's proposed director nominees do not stand for election or are unable to serve as directors, Economical reserves the right to nominate substitute, or additional, nominees. Proxies will be voted for such other nominees in the discretion of such proxyholders, unless the Member has specified in his or her proxy that his or her votes are to be withheld from voting for the election of directors.

The following sets out the names of the three persons proposed by Economical for re-election as directors at the Meeting; the year in which they first became a director of the Company; all positions, committees and offices they hold with Economical; their principal occupation and professional background; and their place of residence. All biographical information, not being within our knowledge, has been furnished by our directors.

A. SCOTT CARSON, Ph.D.
Kingston, ON
Canada
Age: 62
Independent

Dr. Carson is a Professor of Strategy and Director of a research institute, The Monieson Centre, at the Queen's School of Business, Queen's University. Prior to that, he was Dean at both the School of Business & Economics at Wilfrid Laurier University and the Sobey School of Business at Saint Mary's University, Halifax, Nova Scotia. As well, he was Chair of the Canadian Federation of Business School Deans. While on leave from Wilfrid Laurier, he was Chief Executive Officer of the Ontario Government's Privatization Secretariat. He was also Vice President and Head of Corporate Finance for CIBC. Dr. Carson is a past Chair of the Greater Kitchener Waterloo Chamber of Commerce, and he has been on a number of corporate and not-for-profit boards. Dr. Carson is a graduate of Mount Allison and Dalhousie universities, and holds a Ph.D. from the University of London. He is a frequent author and speaker on business ethics, corporate social responsibility, corporate governance and business strategy.

Dr. Carson is Chair of our Corporate Governance Committee, a position he has held since March, 2005

BOARD AND COMMITTEES	2011 ATTENDANCE	JOINED
Board	10/11	2000
Audit Committee	5/5	2000
Corporate Governance Committee	8/8	2000

GERALD A. HOOPER, FCA
Waterloo, ON
Canada
Age: 69
Independent

Mr. Hooper is Chairman of the Board of Economical and is a Director of Wescast Industries Inc. He is a Fellow of the Institute of Chartered Accountants of Ontario. Mr. Hooper was at Schneider Foods for 19 years where he last served as Executive Vice President and Chief Financial Officer as well as a member of the Board. Following the acquisition of Schneider Foods in 2003, Mr. Hooper was Executive Vice President of Maple Leaf Foods until his retirement in 2005. From 1975 to 1986 he was a Partner at what is now KPMG. Mr. Hooper has served on a number of corporate and not-for-profit boards, and has attended programs in effective board leadership at the Directors College of McMaster University's DeGroote School of Business. His past directorships have included ATS Automation Tooling Systems Inc., Schneider Corporation, Brick Brewing Co. Limited and Wescast Industries (2006-present).

Mr. Hooper is Chair of our Board, a position he has held since March, 2005.

BOARD AND COMMITTEES	2011 ATTENDANCE	JOINED
Board	11/11	2000
Audit Committee	5/5	2000
Corporate Governance Committee	7/8	2005
Human Resources and Compensation Committee	3/3	2005
Investment Committee	4/4	2005
Special Committee (by invitation)	14/15	-

W. DAVID WILSON, B. Comm., MBA
Toronto, ON
Canada
Age: 67
Independent

Mr. Wilson joined our Board in February, 2012. Mr. Wilson is currently a corporate director and previously served as Chair of the Ontario Securities Commission from 2005 to 2010, following an extensive 35-year career in Canada's securities industry. During his career, he has been actively involved in securities regulatory matters in Ontario and across Canada. Prior to his appointment as OSC Chair, Mr. Wilson was Vice Chair of Scotiabank and Chair and CEO of Scotia Capital. He was responsible for overseeing Scotiabank's global wholesale banking activities, which included global trading, investment banking and corporate banking. At Scotiabank, Mr. Wilson served as a senior member of the advisory group assisting Manulife with its demutualization process.

Mr. Wilson holds a B.Comm. from University of Toronto and an MBA from York University.

INCUMBENT DIRECTORS WHOSE TERMS CONTINUE BEYOND THE MEETING

The following sets out the names of the six directors whose terms continue beyond the meeting, as well as: the year in which they first became a director of the Company; all positions, committees and offices they hold with Economical; their principal occupation and professional background; and their place of residence. All biographical information, not being within our knowledge, has been furnished by the relevant director.

JOHN H. BOWEY, FCA, ICD.D
Conestogo, ON
Canada
Age: 64
Independent

Mr. Bowey is a corporate director and retired partner of Deloitte LLP. He joined Deloitte in 1973 and became a partner in 1983. He served in a number of leadership roles over his career with Deloitte and was elected to the Deloitte Board of Directors in 2002, was appointed Chairman of the Board Governance Committee of Deloitte in 2004 and was elected by the partnership as Chairman of Deloitte in 2006 and served in that capacity until his retirement in May of 2010. In addition to his Canadian responsibilities, Mr. Bowey was a member of the global Board of Deloitte and the global governance Committee and Audit Committee. He was also recognized as a Fellow of the Institute of Chartered Accountants of Ontario for his professional and community achievements.

Mr. Bowey serves on a number of corporate and not-for profit boards including, Princess Margaret Hospital Foundation, Brick Brewing Co. Limited, Southbridge Corporation, Simpson Seeds Inc. and Wilfrid Laurier University.

Mr. Bowey obtained a BA in Economics from Colby College in Waterville, Maine in 1971 and his MBA from the Ivey School of Business at the University of Western Ontario in 1973. He is also a fellow of the Institute of Chartered Accountants of Ontario and holds an ICD.D designation.

Mr. Bowey is Chair of our Special Committee, a position he has held since July, 2011.

BOARD AND COMMITTEES	2011 ATTENDANCE	JOINED
Board	7/7*	2011
Audit Committee	3/3*	2011
Human Resources and Compensation Committee	2/2*	2011
Special Committee	4/4*	2011
Corporate Governance Committee	1/1 *	2011

* Indicates part-year service.

RICHARD (DICK) M. FREEBOROUGH, FCA, ICD.D
Oakville, ON
Canada
Age: 69
Independent

Mr. Freeborough joined our Board in February, 2012. He is a corporate director who brings to Economical considerable insurance industry experience, financial expertise, and more than a decade of board leadership. He retired from KPMG LLP in 2004, after 39 years of financial services practice, during which time he was the KPMG Canadian Practice Lead for insurance business. He served on the board of KPMG for six years including three as Deputy Chair. He currently chairs the Board of Governors at the University of Guelph as well as the Board of Directors of the Independent Order of Foresters, and is a director and Chair of the Audit Committee for ResMor Trust Company and RGA Life Reinsurance Company of Canada.

Mr. Freeborough is a fellow of the Institute of Chartered Accountants of Ontario and holds an ICD.D designation.

KAREN L. GAVAN, FCA, ICD.D
Toronto, ON
Canada
Age: 50
Not Independent

Ms. Gavan is the President and CEO of Economical and a director on the Board. She has thirty years of financial services industry experience and fifteen years of corporate governance experience. Ms. Gavan also sits on the boards of Mackenzie Financial Corporation and The Independent Order of Foresters. She served for many years on the Board of the Children's Aid Foundation. Ms. Gavan was formerly the Chief Operating Officer and Chief Financial Officer of Transamerica Life and AEGON Fund Management Inc. Prior to that she held senior management positions with Canada Life and Imperial Life Assurance Company. Ms. Gavan also held a senior financial position with Canada Life Assurance Company during the time period in which it demutualized.

She is a Fellow of the Institute of Chartered Accountants of Ontario and holds the ICD.D designation from the Institute of Corporate Directors.

Ms. Gavan served as Chair of our Audit Committee and our Special Committee for part of 2011. She became our President and Chief Executive Officer in June 2011, at which time she resigned from the Audit Committee and Special Committee and joined our Investment Committee.

BOARD AND COMMITTEES	2011 ATTENDANCE	JOINED
Board	11/11	2008
Audit Committee	2/2*	2008
Investment Committee	2/2*	2011
Special Committee	12/12*	2010

* Indicates part-year service.

DAVID A. MACINTOSH, M.A.
Waterloo, ON
Canada
Age: 71
Independent

Mr. MacIntosh is a retired executive and corporate director. He was employed by Mutual Life of Canada for 36 years in a number of senior positions, and at the time of his retirement in 1999 he was Executive Vice President, Investments with responsibility for overall investment operations. He served as a Director of various Mutual Life subsidiary companies, including The Mutual Group (US), The Mutual Trust Company, and Mu-Cana Investment Counseling Ltd. He retired as a Director of MCAN Mortgage Corporation in November 2011, and was previously a Director of several other publicly-traded Canadian financial services companies including Newcourt Credit Group Inc. and Perigee Inc. Mr. MacIntosh has also been involved in a number of local community organizations, including as President of Kitchener-Waterloo Federated Appeal, Governor and Chair of Grand River Hospital Foundation, and Director and Chair of the Investment Committee of The Kitchener and Waterloo Community Foundation.

Mr. MacIntosh currently serves as Chair of our Investment Committee, a position he has held since July, 2011.

BOARD AND COMMITTEES	2011 ATTENDANCE	JOINED
Board	11/11	2002
Investment Committee	4/4	2002
Special Committee	14/15	2010

CHARLES M. W. ORMSTON, MBA
Waterloo, ON
Canada
Age:60
Independent

Mr. Ormston is President of CMW Ormston Holdings Inc., a privately held asset management company. He spent 20 years in the service industry with Inter-City Welding Supplies Co. Ltd. and Inter-City Medigas Inc. He was President of the National Welding Supply Association, Canadian zone. Mr. Ormston has served on several private-company and not-for-profit boards. He was President of The Kitchener and Waterloo Community Foundation, and a director of the Walter Bean Grand River Community Trails Foundation and the Grand River Conservation Foundation, among others.

He holds a BA from the University of Western Ontario and an MBA from McMaster University.

Mr. Ormston serves as Chair of our Human Resources and Compensation Committee, a position he has held since March, 2006.

BOARD AND COMMITTEES	2011 ATTENDANCE	JOINED
Board	11/11	1995
Corporate Governance Committee	8/8	1995
Human Resources and Compensation Committee	3/3	1995
Special Committee	14/15	2010

MICHAEL P. STRAMAGLIA FSA, FCIA, CERA
Toronto, ON
Canada
Age:52
Independent

Mr. Stramaglia is currently Executive Vice-President for Sun Life Financial Inc., where he has held various executive management positions including Chief Risk Officer and Executive Vice-President, Investments. He joined Sun Life Financial in 2002 following its acquisition of Clarica Life Insurance Company, where Mr. Stramaglia held the position of Executive Vice-President, Reinsurance and Chief Investment Officer. He previously served as President & CEO of Zurich Life Insurance Company of Canada and President & COO of Zurich Financial Services Ltd.'s consolidated Canadian P&C and life insurance operations. He has served on the boards of various financial services companies, including Zurich Life Insurance Company of Canada, Sun Life Financial Trust and Perigee Inc.

Mr. Stramaglia is a qualified actuary and a Chartered Enterprise Risk Analyst. He holds an Honours Bachelor of Mathematics degree from the University of Waterloo, where he serves on the Advisory Board for the Masters in Actuarial Science program.

Mr. Stramaglia currently serves as Chair of our Audit Committee, a position he has held since July, 2011, and Chairs our Risk Review Committee, a position he has held since the committee was formed, effective in 2012.

BOARD AND COMMITTEES	2011 ATTENDANCE	JOINED
Board	11/11	2010
Investment Committee	4/4	2010
Audit Committee	4/4*	2011

* Indicates past-year servce

ADDITIONAL DISCLOSURE RELATING TO DIRECTORS

To the knowledge of Economical, no proposed director of Economical is or has been, within the last 10 years, (a) subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, that was issued while acting in the capacity of director, chief executive officer or chief financial officer of any company; or (b) subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, that was issued after he/she ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while he/she was acting in that capacity. Moreover, to the knowledge of Economical, no proposed director is or has been, within the last 10 years, (a) bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his/her assets; or (b) a director or executive officer of any company that, while he/she was acting in that capacity, or within a year of his/her ceasing to act in that capacity, became bankrupt, made a proposal under any legislation

relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Each of the following current directors holds a mutual policy: Dr. Carson, Ms. Gavan and Messrs. MacIntosh, Hooper and Ormston.

DIRECTORS' COMPENSATION

Directors who are also employees or officers of Economical or any of our affiliates receive no remuneration for acting as a director of Economical or of any subsidiary.

Non-management directors receive an annual cash retainer of $30,000, plus $1,500 per board meeting attended ($750 if attendance is by phone and $2,500 for an all day meeting). We pay additional annual cash retainers to our Board Chair ($125,000), our Audit Committee Chair ($13,500) and each Chair of our other standing committees ($6,250). Given the special nature of the work done by our Special Committee, we pay the Chair of our Special Committee a quarterly cash retainer of $5,000. Each member of our standing and special board committees receives an attendance fee of $1,500 ($750 if attendance by phone and $2,500 for an all day meeting per Committee meeting). We may also pay directors additional amounts in special circumstances to reflect workloads that significantly exceed what is required for meeting preparation and participation in the normal course. Our By-laws limit the aggregate amount of retainers and meeting fees that we pay to our directors for serving on the boards and committees of Economical to $800,000 annually. We also reimburse our directors for transportation, lodging, meals and business expenses in accordance with the expense reimbursement policy applicable to our executives.

In addition, our directors serve on the Board of our subsidiary, Westmount Financial Inc., and, in the case of non-management directors, receive from such company an annual cash retainer of $10,000 plus $1,500 per board meeting attended for such services. Such compensation does not count toward the $800,000 limit described above and is not included in the summary table below. The aggregate meeting fees and retainers for Westmount Financial Inc. were $95,083 for 2011.

Annually, the Human Resources and Compensation Committee reviews our directors' compensation practices against the Canadian Spencer Stuart Board Index, a leading survey on director compensation, and makes recommendations to the Corporate Governance Committee regarding the adequacy and form of directors' compensation. The Spencer Stuart Board Index is usually available for the previous year early in the following year from www.spencerstuart.com. The retainers, meeting fees, and annual compensation for the Chair of the Board, Committee Chairs, and other board members are compared to the benchmarks in the survey data. This analysis takes into account the number of board and committee meetings each year.

The following table shows the amounts before withholdings, earned by or paid to our non-management directors in 2011 for service on the Economical Board and its committees. The retainers, fees and other compensation earned by Ms. Gavan for service on our Board and its committees prior to her appointment as our President and CEO is reflected in the Summary Compensation Table presented in the Statement of Executive Compensation that follows.

Name	Board and Special Retainers ($)	Attendance Fees ($)	All Other Compensation ($)[2]	Total Compensation ($)
Mary N. Bales [1]	22,250	35,750	-	58,000
A. Scott Carson	29,750	30,000	-	59,750
Gerald A. Hooper	147,250	69,500	15,000	231,750
David A. MacIntosh	26,000	39,500	-	65,500
Charles M. W. Ormston	29,750	46,750	-	76,500
John H. Bowey	21,835	34,250	-	56,085
Michael P. Stramaglia	33,500	24,250	-	57,750
Terry Reidel [1]	18,750	7,750	5,000	31,500
Total	329,085	287,750	20,000	636,835

(1) Ms. Bales retired from the Board during the fourth quarter of 2011. Mr. Reidel retired from the Board during the second quarter of 2011.

(2) Represents compensation for additional workloads associated with our demutualization.

statement of executive compensation

COMPENSATION DISCUSSION AND ANALYSIS

The following discussion highlights our executive compensation philosophy, reviews our executive compensation program in detail and describes the compensation we've paid to our named executive officers ("NEOs"), a group of our senior executives that has been determined in accordance with Canadian securities legislation.

COMPENSATION PHILOSOPHY

Our compensation programs aim to contribute to long-term sustainable growth by providing us with the means to attract and retain talented executives and staff, and to motivate them to deliver superior performance in executing our strategy. These programs are aligned with our strategy and are linked to performance goals that motivate executives to deliver results prudently and within our risk appetite.

We compensate and motivate our executives through a combination of base salary, short term performance-based incentive awards and a medium-term value creation plan tied to growth in the value of the Company, as well as pension, benefits and other perquisites. Our approach to compensation overall and executive compensation in particular, is based on three key guiding principles:

1. COMPENSATION ENABLES US TO ATTRACT AND RETAIN TALENT

Talented and motivated executives are key to building a sustainable future. We offer compensation that is competitive in the markets where we operate and compete for talent. Our programs reward executives for consistent and sustainable performance and their potential for future contribution. Our pension programs also encourage executives to build long-term careers with us.

2. WE PAY FOR PERFORMANCE THAT ALIGNS WITH OUR STRATEGY

Executive performance is assessed annually against key financial, strategic and operational measures that are aligned with our strategic goals and objectives. To create a clear relationship between pay and performance, our executives have an opportunity to earn higher compensation for outstanding performance, and conversely, less compensation when the Company and/or individual results fall short of objectives.

We are currently engaged in a major strategic repositioning as our Board has made the decision to demutualize, either through an initial public offering or through a sponsored demutualization with a strategic or financial partner. This fundamental transformation is critical to our long-term strategy, and forms a significant component of our executives' performance objectives for 2012.

3. COMPENSATION ALIGNS WITH SOUND RISK MANAGEMENT

Our risk management culture is reflected in our approach to compensation. Compensation principles and practices align with our enterprise-wide risk management framework to ensure there is an appropriate balance between risk and reward, and that compensation awards are affordable within board-approved budgetary parameters. Performance is assessed on a number of measures, and a portion of pay at-risk (i.e., performance-based pay) is measured over a 3-year period in order to align compensation with the risk time horizon of our operations and motivate executives to generate longer-term value.

COMPENSATION GOVERNANCE

Our compensation governance framework consists of a management team and a board committee responsible for the design, administration and oversight of our compensation management policies and programs. Our compensation governance structure is reviewed regularly against the practices of other Canadian financial institutions and applicable regulatory guidance.

Board of Directors

The Board is ultimately responsible for oversight and decision-making with respect to our compensation principles, policies and programs, including the management of compensation-related risk.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee (the "HRC Committee") assists the Board in carrying out its responsibilities with respect to compensation matters. The HRC Committee works to ensure that incentive compensation awards are performance-based and consistent with our compensation principles, with an appropriate balance between risk and reward.

Charles Ormston (Chair) and Gerald Hooper have served as members of the HRC Committee since 1995 and 2005, respectively. John Bowey was appointed to the HRC Committee in June 2011, following our last annual general meeting to replace a retiring director. Each committee member is an independent director and none is an active chief executive officer with any publicly-traded entity. None of the members of the HRC Committee is an officer, employee or former officer or employee of the Company or any of its subsidiaries and none is eligible to participate in our executive compensation program. All of the HRC Committee members are experienced in the area of executive compensation through their experience either as former chief executive officers, directors or senior leaders of comparably sized organizations. The Board believes the HRC Committee collectively has the knowledge, experience and background required to fulfill its mandate. For additional information concerning Messrs. Ormston, Hooper and Bowey, see "Business of the Meeting — Election of Directors" and the Statement of Corporate Governance Principles attached as Appendix A to this Circular.

The HRC Committee's overall mandate is to supervise the human resources practices and policies of Economical that support the Economical's mission, overall strategy, and objectives. Its specific responsibilities include: making recommendations to the Board for the appointment and terms of employment of our President and CEO;

- reviewing our compensation policies and the design of and awards under our major compensation programs to promote alignment with our compensation philosophy;
- making recommendations to the Board regarding the design of our major incentive compensation plans, employee benefits and pension programs; and
- reviewing retention, development and succession plans for senior management;
- reviewing and recommending, for Board approval, the design of compensation programs for our President and CEO and the Company's senior executives;
- after obtaining the recommendation of our President and CEO, approving the compensation paid to our senior executives, including awards of performance-based incentives; and
- in consultation with our Corporate Governance Committee, periodically reviewing and making recommendations to the Board regarding the adequacy and form of directors' compensation.

Our Board meets in camera to discuss the base salary, annual incentives and other compensation paid to our President and CEO. For additional information concerning the Committee's mandate, see the Statement of Corporate Governance Principles attached as Appendix A to this Circular.

The HRC Committee receives assessments and recommendations from management when reviewing and considering compensation for executives. The HRC Committee works with management and its compensation team to review employment and compensation practices in the Canadian market in order to ensure that the Company's employees and management are competitively compensated. The HRC Committee may also consult directly with independent experts to fulfill its mandate.

Independent Advice

The HRC Committee retained Mercer (Canada) Limited ("Mercer"), a wholly-owned subsidiary of Marsh & McLennan Companies, Inc., beginning in 2010 to assist the HRC Committee in providing guidance and advice in relation to compensation program design for the Company's executive officers. Mercer's role generally includes:

- reviewing data, analysis and compensation recommendations prepared by management;
- advising the HRC Committee on market trends and program design;
- attending HRC Committee meetings as required.

The HRC Committee regularly meets in-camera with the independent consultant without management present, as this is fundamental to the HRC Committee's effectiveness in overseeing compensation.

Mercer also provides other services to the Company, such as market information and compensation surveys which are used by Canadian financial institutions to benchmark executive and non-executive compensation. The HRC Committee assessed the independence of Mercer in connection with those services and proposed fees and was satisfied that, given the nature and value of the other services provided by Mercer, that this did not impair its ability to act as an independent resource for the HRC Committee.

The table below shows the pre-tax fees paid to Mercer and its affiliates over the last two years.

Services Performed	Fees Paid in 2010	Fees Paid in 2011
Executive Compensation-Related Fees	$20,944	$26,501
All Other Fees[1]	$18,036	$12,430
Total Fees	$38,980	$38,931
Percentage of all fees paid in 2011	54%	68%

(1) Other fees in 2011 include those paid to Marsh Canada Inc. for crisis management consulting.

Compensation Design and Decision-Making Process

Compensation Management Framework

Our executive compensation programs and practices are based on our compensation management framework, which includes processes for establishing target compensation levels, determining the pay mix and proportion of performance-based pay, setting performance objectives, evaluating performance and determining total compensation.

Establishing Target Compensation

Market Comparisons

Under the framework, a total direct compensation target is determined for each executive at or near the start of the year or upon hire. Individual total direct compensation consists of an individual executive's base salary plus variable compensation, which includes a short-term cash incentive target and a medium-term cash incentive target. For all executives, targets are reviewed annually, as well as at the time of any material change in role.

We compete for talent primarily with other Canadian property and casualty insurers and, for certain corporate roles, with Canadian financial institutions generally. Each year, we review the pay levels and program design of companies that are part of our compensation peer groups to ensure that our programs remain market competitive. The primary source of comparative data is an annual survey conducted by Towers Watson, which provides aggregated benchmarks and industry trends for base salary, annual bonus, long-term incentive and total direct compensation, as well as executive perquisites.

Our goal is to set total direct compensation targeted between the median and seventy-fifth percentile of our peer groups, on average. Targets for an individual executive are positioned within that range to reflect the experience, potential, performance, or other factors specific to the executive or role. Base salary is currently targeted at the peer group median and variable pay is currently targeted at the seventy-fifth percentile. The compensation of individual executives may be positioned above or below the pay philosophy taking into consideration changes in financial, economic and competitive conditions.

Our primary market comparisons are made relative to the industry peer group of Canadian property and casualty insurance companies that participate in the Towers Watson Executive and Senior Management Survey, Property and Casualty Module:

- Allstate Insurance Company of Canada
- Aviva Canada Inc.
- Chubb Insurance Company of Canada
- The Co-operators Group Limited
- The Dominion of Canada General Insurance Company
- Gore Mutual Insurance Company
- Insurance Corporation of British Columbia
- Intact Financial Corporation
- Northbridge Personal Insurance Corporation
- Desjardins General Insurance Group Inc.
- Royal & Sun Alliance Insurance Company of Canada
- Wawanesa Insurance
- Zurich North America Canada

These organizations are direct industry comparators that are relevant because they share the insurance specific talent from which we draw. The size, operational scope, business complexity and geographic reach of these companies is representative of the Canadian P&C industry generally.

In addition, the HRC Committee considers the broader financial services market in Canada for roles that are not specific to the property and casualty insurance industry, including the President and CEO, Chief Financial Officer, Chief Actuary, and Senior Vice-President, Operations. We considered data from two sources: the Towers Watson 2011 Survey of Compensation Practices for Executives and Management, and the Mercer Executive, Management and Professional Compensation Survey 2011.

The Towers Watson survey categorizes results based on annual sales. We compare our roles to those in companies with annual sales of $1 billion to $2 billion. This category includes 42 companies from a broad range of industries and sectors. In addition to 37 other participating companies from a number of industry sectors, the following property and casualty companies were included (in addition to ourselves): Chartis Insurance Company of Canada, The Dominion of Canada General Insurance Company, Royal & SunAlliance Canada, and Zurich Canada.

The Mercer survey categorizes results based on industry sector, location, gross revenue/sales, assets, premiums, and operating budget. We compare our roles to the Insurance sector in which a total of 31 companies participated in this sector. Of these, 12 are property and casualty insurance companies (in addition to ourselves), including:

- Allstate Insurance Company of Canada
- Aviva Canada Inc.
- AXA Canada Group
- Chubb Insurance Company of Canada
- The Co-operators Group Limited
- The Dominion of Canada General Insurance Company
- Gore Mutual Insurance Company
- Insurance Corporation of British Columbia
- Intact Financial Corporation
- Royal & Sun Alliance Insurance Company of Canada
- State Farm Canada
- Zurich North America Canada

Other insurance institutions that participate in this sector include:

- Independent Order of Foresters
- The Great-West Life Assurance Company
- Manulife Financial
- Standard Life Financial Inc.
- Sun Life Financial

Average Compensation Mix

The average compensation mix varies according to the level of the executive but is structured so that a significant proportion is variable, so as to ensure linkage with the goals and objectives of the Company. If the individual's or the Company's performance is poor, performance-based compensation will decrease and conversely, if the individual's or the Company's performance is strong, performance-based compensation will increase. The medium-term incentive target is established to ensure a meaningful portion of total direct compensation is valued over a three year period to align compensation with the risk time horizon applicable to our operations. This practice also encourages retention and focuses our executives on executing business strategies, sustaining performance and growing value over the longer term. The actual mix varies depending upon the ability of the executive to influence short and longer term business results, the level of the executive and competitive market practices.

Setting Performance Objectives and Evaluating Performance

At the beginning of the year, shortly after completing our annual strategic and business planning cycle, the Board establishes performance objectives for the President and CEO which reflect the Company's strategic objectives and operational initiatives. The President and CEO establishes objectives for each senior executive, which are based on the same strategic objectives and operational initiatives and reflect each member's specific roles and responsibilities.

Led by the Board Chair, the Board evaluates the performance of the President and CEO relative to established objectives. The President and CEO does not participate in these discussions.

The Board considers the following factors in assessing the performance and determining the appropriate level of compensation for the President and CEO,

- the Company's financial performance, and its progress relative to its strategic and operational objectives;
- market competitiveness of compensation relative to similar roles within our compensation comparator group, giving appropriate consideration to the Company's relative size and business complexity; and
- her potential for future contribution to creating long-term value.

Through this process, the HRC Committee ensures incentive compensation awards are performance-based and consistent with the Company's compensation principles, including ensuring an appropriate balance between risk and reward.

The President and CEO reviews the performance evaluations of members of the executive team with the HRC Committee and provides compensation recommendations. The HRC Committee considers these recommendations, reviews market compensation information, receives advice from its consultant and exercises its independent judgment to determine if any adjustments are required.

Ensuring Compensation Aligns with Risk Management Principles

Our executive compensation plans are grounded in principles that support the management of risk, ensuring management's activities are focused on generating long-term value within an effective risk control environment.

The following is a summary of the risk considerations that are reflected in the design of our executive compensation plans, as well as in the HRC Committee's determination of incentive pools and individual award decisions:

- Compensation plans have a consistent structure for all of our head office and regional executives. Our Investments function has a distinct short term incentive plan based on the performance of the investment portfolio against the Investment Policy Statements for the Company and the Statements of Investment Policies and Procedures for the pension plan. The investment incentive plan is subject to the same cap as the other short term incentive plans.
- The compensation for the President and CEO and her direct reports, including all executives in control functions (risk management, legal and finance), is based exclusively on enterprise performance and individual performance, and excludes specific business segment-level metrics.
- The mix of annual and medium-term incentives is based on the executive's position and his or her ability to impact the Company's risk profile, with the percentage awarded as medium-term incentive increasing with role responsibility and risk impact. The compensation mix is structured with a significant proportion being variable and linked to goals and objectives of the Company.
- All cash incentive awards are performance-based, which means that a significant portion of executive compensation depends on performance (both corporate and individual). Performance is assessed in a balanced manner, based on financial goals, strategic and operational objectives, as well as overall leadership capabilities. If the individual's or the Company's performance is poor, performance-based compensation will decrease and conversely, if the individual's or the Company's performance is strong, performance-based compensation will increase.
- A portion of performance-based pay consists of medium-term incentive awards valued over a 3-year period, thereby ensuring sufficient time for the Company's value to reflect the impact of risks that were taken at the time the award was made. This practice also focuses our executives on executing business strategies, sustaining performance and growing value over the longer term.
- We use scenario testing for changes to our incentive plans before implementing changes, as well as to monitor the anticipated level of bonus payments for a given year. The results of scenario testing are reviewed by senior management and presented to the HRC Committee at the time the relevant approval is requested.

- Performance-based incentive payout pools are largely based on earnings. We must achieve a minimum level of profitability before payouts are made from our short-term and medium-term incentive programs, and the overall value of those payouts is capped at the beginning of the year.
- All incentive awards are cash-based. The absence of equity compensation instruments precludes the use of hedging and other strategies to undermine the risk-alignment effects embedded in our executive compensation arrangements.
- No employee or executive has the ability to assume significant risk on behalf of the Company in a manner that would distort the outcomes determined under our compensation programs. Excessive risk-taking behaviour is controlled by the performance management system, which assesses performance against job descriptions, annual business plans, and predetermined corporate and individual objectives. In terms of financial metrics, the impact of premium growth measures is balanced by profitability measures, particularly those applicable to the medium-term incentive plan, which are measured over a 3-year performance period.

Effective risk management is a critical component of our culture and business strategy. To reflect the importance of risk management, we continue to work at enhancing our compensation programs to ensure that risk is considered throughout the process – from the design of our programs to the determination of year-end pools to the assessment of individual awards – with the aim of rewarding sustainable profitable growth within our risk appetite.

We are continuously working to improve how we factor risk management into compensation decisions. Adjusting compensation for risk is challenging, since there is no generally accepted approach and no simple formula to determine the right outcome. As a result, our approach is to use discretion and to apply judgment to modifying mathematically determined awards. These would be considered extraordinary circumstances that would include such conditions as:

- strategic changes initiated by the Company which materially alter the expected results;
- market changes which necessitate an immediate response that deviates from the business initiatives originally planned for; and
- extraordinary events having a material impact on measured results.

No incentive awards are paid in any year where the Company on a consolidated basis does not have a net income, except for the component relating to the achievement of individual performance objectives in the STIP.

Components of Executive Compensation

The executive compensation package is designed to assist the Company in attracting, retaining and motivating the best available talent for positions of substantial responsibility. The following table outlines the components that are part of the executive compensation package:

Compensation Element	Type	Performance	Payouts based on	Primary Objective
Base Salary	Cash	Annual	Based on market comparators, individual performance and internal equity. Reflects level of responsibility, skills and experience.	Retention
Short Term Incentive Plan	Cash	Annual	Targets based on market comparators. Actual award based on combination of Company and individual performance.	Rewards achievement of Company results as well as individual performance.
Value Creation Plan	Cash	3 Years	Growth in theoretical Company value above an after tax risk-free rate of return, allocated among participants.	Rewards medium term achievement of Company's objectives.
Pension and benefits	Group life and health insurance program, pension plan and other perquisites	Ongoing	Based on market comparators.	Retention

Base Salary

Base salary compensates executives for the roles they perform for the company. Base salaries and salary ranges are benchmarked against comparable roles in peer companies and internally against similar roles. Base salaries are reviewed annually and adjusted based upon individual performance, competencies, accountabilities and competitive market data. The HRC Committee reviews and recommends for approval by the Board the actual base salary increases for the President and CEO. The HRC Committee reviews and approves, based upon the recommendations made by the President and CEO, salary increases of all other executives.

Short Term Incentive Plan

The Short Term Incentive Plan (STIP) rewards executives for reaching short term goals and objectives. It encourages the attainment of superior results based on the achievement of pre-approved annual corporate and individual performance objectives. The target awards vary as a percentage of base salary and are evaluated annually to ensure ongoing market competitiveness.

Corporate objectives, which carry an 80% weight, have up to four key components; return on equity, combined operating ratio, growth in gross written premium and operating expenses. For each component, threshold and maximum performance levels are also set, allowing a sliding scale to be used from zero at a minimum to 150% of target at a maximum level. Individual objectives carry a 20% weight. The President and CEO's STIP target is 100% of base salary while the other NEOs have a STIP target of 40% of base salary.

For executives who participate in our Value Creation Plan ("VCP"), the aggregate of cash awards under the Company's STIP and VCP cannot exceed 7% of earnings before income taxes (EBIT) for the year. STIP awards are reduced on a pro rata basis among participants until the aggregate incentive payouts fall below the cap.

No incentive bonus under the STIP Plans is paid in any year when the Company on a consolidated basis does not have a net income, except for the component relating to the achievement of individual performance objectives.

Value Creation Plan

The Value Creation Plan (VCP) is a cash-based plan under which executives are rewarded for medium-term value creation, as measured by the growth in value of the company over a three-year performance period. Participants in the VCP are eligible for a share in the growth in value in excess of the after tax risk free investment rate of return ("RFIRR").

At the start of each performance period, the HRC Committee establishes the size of a pool of funds, the value of the Company, and the RFIRR for the performance period. At the end of the performance period, the HRC Committee compares the closing value of the Company to determine the increase over the period in excess of the RFIRR to determine the amount available for allocation among the participants.

The allocation among participants is based upon their base salary, a target allocation and is subject to vesting and allocation based upon the period in which the participant was eligible to participate. The actual incentive bonus paid to a participant will depend on the number of participants who qualify for payment in the year the incentive is paid. It is therefore not possible to meaningfully estimate the percentage of an NEO's total compensation represented by VCP awards.

The maximum amount paid out under the VCP will be reduced in any year where the aggregate of the STIP and VCP awards exceed a pre-determined percentage of EBIT for the year. In years where the pro forma incentive plan payouts exceed a pre-determined percentage of EBIT, awards are reduced on a pro rata basis among participants until the aggregate incentive plan payouts fall below the cap. For the 2011 performance year, the performance threshold was set at 7% of EBIT.

No incentive awards under the VCP Plan are paid in any year where the Company on a consolidated basis does not have a net income.

The opening and closing Company values are specifically developed performance measures that are used only for internal compensation purposes and are not publicly disclosed. Disclosure of the RFIRR for a particular performance period would allow those values to be inferred or derived. Given the demutualization process we are currently pursuing, we have determined that disclosure of the opening and closing Company values and the related RFIRR target could potentially influence ongoing valuation assessments of the Company and would therefore seriously prejudice the Company's interests. The performance thresholds created by the RFIRR have been reasonably difficult to meet. Prior to the 2011 performance year, we have not had a VCP award payout since the plan's inception. In two of the three previous performance years that the plan did not pay out, we did not meet the required hurdle rates of return.

Equity Compensation Plans

Consistent with the Company's mutual company structure, we do not currently maintain any equity compensation plans and do not have any share-based or option-based awards outstanding.

Pension, Benefits and Perquisites

The NEOs participate in our registered pension plans and qualify for supplemental retirement annuities under our supplemental pension plans. In 2003, we closed our defined benefit pension plan (DBPP) to new entrants, except for Ms. Mabe and Ms. Gavan who have been added as part of the terms of their employment. Our other NEOs participate in our defined contribution pension plan (DCPP). See "Retirement Plans for the Named Executive Officers" for more information.

Executives participate in an enhanced flexible benefits program which includes healthcare coverage, life and accident insurance and disability coverage. These enhancements include additional flex dollars, enhanced orthodontic coverage, life insurance and long-term disability coverage. Our benefits program is comparable to the programs provided by our compensation peer group.

Our executives can also participate in our savings plan which is available to our employees generally. The Company provides a dollar-for-dollar matching contribution up to a maximum of 3.5% of base salary.

Our executives also receive perquisites as part of their executive compensation program. Perquisite values vary by level of executive, and are comparable to those provided by our compensation peer group.

2011 Performance and Executive Compensation

Overview

This section discusses the performance evaluations and compensation awards of our NEOs, including how the HRC Committee arrived at its recommendations for the compensation of our former and current Presidents and CEOs, our Chief Financial Officer and our three other most highly compensated officers. In 2011, our NEOs were:

- Katherine Mabe, former President and CEO. Ms. Mabe was ineligible for STIP and VCP payouts upon her resignation effective June 23, 2011, and was not given any special payment or award upon departure. The compensation paid to her is presented in the Summary Compensation Table.
- Karen Gavan, President and CEO
- Philip Mather, Senior Vice-President and Chief Financial Officer
- Jorge Arruda, Senior Vice-President, Strategic Business Units and Delivery Management
- Linda Goss, Senior Vice-President and Chief Actuary
- David Crozier, Senior Vice-President, Operations

Summary of 2011 Performance

Under Ms. Gavan's leadership, Economical significantly improved its financial performance in 2011, marking a return to profitable growth. While the Canadian economy grew at an estimated 2.8% in 2011, our net income grew 6.5% from 2010. We earned $91.0 million on revenues of $1.7 billion in 2011, despite weak investment markets and notably severe Canadian weather-related losses, and improved our combined ratio – a key industry measure of operating profitability – by 4.8 points from the previous year to 98.1%. Our improved operating performance translated into a $97.4 million increase in policyholders' equity for 2011, which reflects our focus on continued strengthening of our business fundamentals and the disciplined pursuit of our corporate strategy. For more information about our 2011 financial performance, please refer to the financial statements and management's discussion and analysis for the year ended December 31, 2011, which are available on our website.

STIP Payouts

All members of the Company's senior management team, including NEOs, participate in the STIP. For 2011, STIP targets for our NEOs were weighted as follows.

Name	Target STIP (as % of base salary)	Performance Weighting	
		Corporate Objectives	Individual Objectives
President and CEO[1]	100%	80%	20%
Other NEOs[2]	40%	80%	20%

(1) Ms. Gavan's participation in the STIP is prorated for 2011 to her commencement date of employment (June 21, 2011). She was formally appointed as President and CEO effective June 23, 2011.

(2) Mr. Mather's participation in the STIP is effective January 1, 2011. Mr. Crozier's STIP target for 2011 has been prorated to reflect his promotion from Vice-President effective January 24, 2011.

For each objective under the STIP, the bonus paid may vary between 25% at threshold and 150% at maximum of the target bonus based upon pre-established minimum and maximum performance levels.

The following table summarizes the Company's financial performance objectives and actual performance for 2011:

Performance Measure	Predetermined Objectives			Actual Performance Level
	Threshold Performance Level	Target Performance Level	Maximum Performance Level	
Return on Adjusted Capital [1] – Three Year	3.1%	5.1%	7.1%	5.60%
Return on Adjusted Capital – One Year	7.3%	9.3%	11.3%	10.70%
Increase in Premiums Written[2]	0.5%	2.5%	4.5%	0.07%
Combined Operating Ratio[3]	102.6%	100.6%	98.6%	98.10%
Expense Management		Varies by role[4]		

(1) Return on Adjusted Capital is calculated as the adjusted net income after tax for the 12 month (or 36 months in the case of the three year return) over adjusted capital. Adjusted net income after tax is calculated by decreasing net income after tax by the amount of after-tax investment income applicable to the excess of actual capital over adjusted capital and amortizing realized and unrealized gains over a period of 60 months.

(2) Increase in Premiums Written means the increase in total premiums from the sale of insurance during a specified period compared to the corresponding period in the prior year.

(3) Combined Operating Ratio means the combined ratio of the Company on a consolidated basis determined as follows: The combination of net claims incurred excluding discounting, general expenses, commissions and premium taxes divided by net premiums earned.

(4) Expense management targets are expressed and measured in dollar terms, and vary for each NEO depending on their respective functional areas of responsibility. As our expense structure is competitively sensitive and integral to our product rating and pricing, we do not publicly disclose our expenses, except at the Company or business segment level. Accordingly, we have determined that disclosure of expense management targets or outcomes would provide a level of insight into our pricing that would seriously prejudice the Company's ability to effectively compete in the marketplace. Only two NEOs met their expense management targets in 2011. Expense management targets are generally set as stretch objectives, taking into account our business plan and the overall business environment.

In addition, the HRC Committee considered individual performance against pre-determined objectives aligned with the Company's strategic goals and operational initiatives when assessing individual performance for the year. For the NEOs, these objectives included the following:

Karen Gavan, President and CEO

Ms. Gavan delivered strong leadership during 2011, after assuming the role of President and CEO mid-way through the year. Ms. Gavan, led the development of a five year strategic plan, including plans to significantly reduce our expense ratio over the next 3 years, refine and refocus our broker distribution strategy, and exit non-core operations. Ms. Gavan continued to be actively engaged in the demutualization advocacy and planning process, and in building the capabilities that we will need after demutualization. As part of that process, Ms. Gavan undertook a comprehensive review of executive management, leading to a reorganization of existing talent and the recruitment of new executives to fill vacant positions and expand our capabilities. Under Ms. Gavan's leadership, we improved our operating performance against pre-determined objectives by:

- achieving a corporate combined ratio of 98.1 (undiscounted basis), significantly better than the target of 100.6%;
- improving personal auto results to achieve a combined ratio of 88.7%, significantly better than the target of 101.3%;
- growing in-force policies outside of Ontario by 6.4%; and
- managing operating expenses in line with the business plan.

Philip Mather, Senior Vice President and Chief Financial Officer

Mr. Mather led the transformation of our Finance function during 2011, both in terms of reputation and delivery, and assumed primary responsibility for the Company's relationship with OSFI. He continues to provide leadership for our multi-year expense management and productivity program, and the strengthening of our financial controls infrastructure, having introduced a number of financial controls and governance improvements as part of his leadership over our public company readiness initiative. In addition to driving enhancements to our financial reporting and leading our conversion to International Financial Reporting Standards, Mr. Mather also provided critical support to our demutualization project during 2011.

Jorge Arruda, Senior Vice President, Strategic Business Units and Delivery Management

Mr. Arruda led our Strategic Business Units to exceed our overall underwriting profitability targets during 2011. In addition, Mr. Arruda provided critical leadership to the refinement and refocusing of our corporate strategy, as well as new models for our Personal Insurance and Commercial Insurance businesses. In addition to leading the operational components of our demutualization project, Mr. Arruda provided executive support to critical cross-functional operational initiatives, including the definition and introduction of a new corporate analytics framework, the introduction of predictive analytics to measure new business quality, and our public company readiness initiative.

Linda Goss, Senior Vice President and Chief Actuary

During 2011, Ms. Goss led the development of our corporate analytics framework and specific predictive analytics to measure new business quality. In addition, she successfully completed key rating development initiatives and provided actuarial support for the implementation of our ENERGIE underwriting platform. In addition, Ms. Goss provided actuarial and executive support to critical cross-functional operational initiatives, including strengthening our financial reporting and planning tools and capabilities, our demutualization project, our multi-year expense management and productivity program, and our public company readiness initiative.

David Crozier, Senior Vice President, Operations

Mr. Crozier led the regions, operations and select divisions to exceed our overall underwriting profitability targets during 2011. In addition, Mr. Crozier successfully led improvements in the governance and performance of our strategic broker investments, the development of a comprehensive distribution strategy and targeted reductions in our claims handling costs. He also provided executive support to critical cross-functional operational initiatives, including the implementation of flow-through processing and the introduction of predictive analytics to measure new business quality.

The following table presents the STIP payout for each NEO based on 2011 results. Amounts shown will be paid in the second quarter of 2012:

Name	2011 STIP Target	2011 STIP Financial Results (amount out of 80%)	2011 STIP Individual Results (amount out of 20%)	2011 STIP Total Results (amount out of 100%)	2011 Total STIP
Karen Gavan[1]	100%	90.40%	26.00%	116.40%	$408,571
Philip Mather[2]	40%	94.08%	25.00%	119.08%	$190,533
Jorge Arruda	40%	79.08%	25.00%	104.08%	$128,303
Linda Goss	40%	90.98%	22.00%	112.98%	$127,535
David Crozier[3]	39.4%	79.08%	25.00%	104.08%	$123,026

(1) Ms. Gavan's participation in the STIP is prorated for 2011 based on commencement date of employment (June 21, 2011). She was formally appointed as President and CEO effective June 23, 2011.

(2) Mr. Mather's participation in the STIP is effective January 1, 2011.

(3) Mr. Crozier's STIP target is prorated due to his promotion from Vice-President effective January 24, 2011.

VCP Payouts

Our NEOs participate in the VCP, together with all other executives. See "– Components of Executive Compensation – Value Creation Plan."

For the performance period ending December 31, 2011 we exceeded our growth in value targets and had a total sharing pool of $1,410,000. NEOs participated in that pool as follows:

Name	% of Sharing Pool	2011 Total VCP Payout
Karen Gavan[1]	9.83%[2]	$277,292
Philip Mather[3]	4.99%	$70,390
Jorge Arruda	11.54%	$162,693
Linda Goss	10.57%	$148,979
David Crozier	9.33%	$131,500

(1) Ms. Gavan's eligibility to participate in the VCP commenced with the 2011 performance year. Her initial target incentive under the VCP is 40%.

(2) Ms. Gavan is eligible for a doubling of her VCP payout in any year that an incentive payment is made under the VCP, however this additional amount does not count toward the aggregate cap we place on incentive payouts and or the aggregate incentive sharing pool.

(3) Mr. Mather's eligibility to participate in the VCP commenced with the beginning of the 2011 performance year.

RETIREMENT PLANS FOR THE NAMED EXECUTIVE OFFICERS

The NEOs participate in our registered pension plans and qualify for supplemental retirement annuities under our supplemental pension plans. In 2003 we closed the defined benefit pension plans to new entrants, except for Ms. Mabe and Ms. Gavan who have been added thereto as part of the terms of their employment.

Defined Benefit Plans

Katherine Mabe (former President and CEO) participated and Karen Gavan (President and CEO) participates in our DBPP, which provides an annuity on the basis of 2% of the average salary and STIP (up to target) for the best 5 years, multiplied by the number of credited years of service. If a member remains employed until age 55 and retires prior to age 62, the reduction will be equal to 0.5% for each month that retirement precedes age 62. If a member retires between age 62 and 65, there will be no reduction.

If single at retirement, pension will continue to be paid each month for as long as alive. If the member dies before receiving 120 monthly payments, the pension will continue to be paid to the beneficiary until 120 pension payments have been made in total, or the value of the remaining payments will be paid in a lump sum.

If with a spouse at retirement, pension will begin on the first day of the month following retirement date and will continue to be paid each month for as long as alive. When the member dies, the pension will reduce to 60% and will be paid to the spouse for the spouse's lifetime. If the spouse does not survive the member, the pension will stop.

Ms. Mabe and Ms. Gavan are also members of a Defined Benefit Supplemental Pension Plan (DBSPP). The DBSPP provides supplementary pension income in order to compensate for the maximum pension limitations applicable to the pension benefits payable under the DBPP, as prescribed under the Income Tax Act (Canada). The Company has established a "retirement compensation arrangement" as defined in the Income Tax Act (Canada) to provide for the prefunding of all or a portion of the benefits described herein. Such fund and trust may be collapsed or revoked at any time by the Company as it determines in its absolute discretion.

Defined Contribution Pension Plans

Messrs. Mather, Arruda and Crozier and Ms. Goss participate in our defined contribution pension plans. Economical makes a basic contribution of 4.5% of the NEOs base salary to the DCPP, and additional matching contributions of up to a maximum of 3.5% of base salary when they elect to make optional payroll contributions to the Savings Plan. There is no company match on employee lump sum contributions to the Savings Plan.

All contributions from Economical are directed to the DCPP. This plan is governed by pension legislation and an employee cannot withdraw cash from the DCPP until he or she retires.

Economical also provides a "Notional Account" to offer tax-sheltered opportunities for executive pension benefits that exceed defined contribution pension limits for maximum annual contributions. To maximize the tax-effectiveness of this pension plan, any excess Company contributions are automatically credited to a Notional Account. New credits to the Notional Account are tracked and recorded, and the balance earns an investment return. Similar to an RRSP, the balance in a Notional Account accumulates tax-free. When the executive leaves the Company, retires or dies, the full value of his or her Notional Account is paid out and is fully taxable at that time. The DCPP for executives includes the company core contribution (4.5% of base pay) as well as the executive supplementary contributions (increased from 3.0% to 3.5% of base pay effective January 24, 2011). The contributions are allocated first to the DCPP up to applicable pension contribution limits and then to the Notional Account as to any remaining amount.

The following tables provide information on pension plans as at 2011 in which the NEOs participate.

DEFINED BENEFIT PENSION PLAN TABLE

Name	Number of Years Credited Service (#)	Annual Benefits Payable		Accrued Obligation at Start of Year ($) (2)	Compensatory Change ($) (3)	Non-Compensatory Change ($) (4)	Closing Present Value of DB Obligation ($) (5)
		At Year End ($)	At Age 65 ($) (1)				
K. Mabe	0.596	7,000	7,000	13,200	52,700	29,100	95,000
K. Gavan	0.528	6,700	194,500	-	69,600	16,700	86,300

(1) The information shown in this column was determined based on the final average earnings of each participant as at December 31, 2011 and years of credited service projected up to age 65 (assuming full-time employment). Ms. Mabe's annual benefits have not been projected to age 65 since she has resigned from the organization.

(2) The information shown in this column was determined by using the same assumptions and methods used for 2011 financial statement reporting purposes.

(3) Includes service cost, net of employee contributions, if any, plus differences between actual and estimated earnings, and any additional changes that have a retroactive impact.

(4) Includes all items that are not compensatory, such as changes in actuarial assumptions and change in discount rate (drop from 5.5% to 5.0%).

(5) The information shown in this column was determined by using the same assumptions and methods used for 2011 financial statement reporting purposes.

DEFINED CONTRIBUTION PENSION PLAN TABLE

Name	Accumulated Value at Start of Year ($) (1)	Compensatory Change ($) (2)	Accumulated Value at Year End ($) (3)
Philip Mather	-	8,308	8,356
Jorge Arruda	280,314	33,083	308,357
Linda Goss	211,305	29,304	234,632
David Crozier	110,834	41,511	155,728

(1) Includes the value of the DCPP plus the value of the Notional Account at January 1, 2011.

(2) Includes the employer contributions to the DCPP and Notional Account made during 2011.

(3) Includes the value of the DCPP plus the value of the Notional Account at December 31, 2011.

SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary ($)	Share-based awards ($)	Option-based awards ($)	Non-equity incentive plan compensation ($)		Pension Value [3] ($)	All Other Compensation[4] ($)	Total Compensation ($)
					Annual incentive plans [1] ($)	Long-term incentive plans [2] ($)			
Katherine Mabe, Former President and CEO	2011	300,000	--	--	--	--	52,700	518,940	871,640
	2010	69,231	--	--	--	--	11,900	13,208	94,339
Karen Gavan, President and CEO[5]	2011	423,500	--	--	408,571	277,292	69,600	337,927	1,516,890
	2010	87,875	--	--	--	--	--	3,218	91,093
	2009	53,500	--	--	--	--	--	2,055	55,555
Philip Mather, SVP and CFO[6]	2011	224,068	--	--	190,533	70,390	8,308	55,084	548,383
Jorge Arruda, SVP, SBUs and DM	2011	306,795	--	--	128,303	162,693	33,083	35,513	666,387
	2010	295,015	--	--	108,179	0	23,755	38,753	465,702
	2009	272,000	--	--	21,720	0	21,910	38,723	354,353
Linda Goss, SVP and Chief Actuary	2011	280,935	--	--	127,535	148,979	29,304	37,113	623,865
	2010	272,752	--	--	86,678	0	21,892	35,257	416,579
	2009	266,000	--	--	19,136	0	21,746	30,893	337,775
David Crozier, SVP Operations	2011	295,139	--	--	123,026	131,500	41,511	82,633	673,810
	2010	233,496	--	--	67,412	0	26,655	33,190	360,753
	2009	239,287	--	--	20,331	0	24,452	32,426	316,496

(1) Annual incentive plans are comprised of the STIP. The amounts disclosed are the annual bonuses earned in each respective year which are paid out in the second quarter of the following year.

(2) Long term incentive plans are comprised of the Value Creation Plan. The amounts disclosed are the medium term bonuses earned pursuant to the VCP in each respective year which are paid out in the second quarter of the following year.

(3) The pension value disclosed for each NEO is the compensatory value of registered and non-registered defined benefit or defined contribution plans. The compensatory value includes the service cost, net of employee contributions, if any, plus differences between actual and estimated earnings, and any additional changes that have a retroactive impact.

(4) The amounts shown for "All Other Compensation" in 2011 include the following benefits which exceed 25% of the total value of perquisites reported for the relevant NEO: signing bonuses paid to Ms. Mabe ($500,000), Ms. Gavan ($250,000) and Mr. Mather ($50,000); supplementary benefits for Mr. Arruda ($16,800) and Ms. Goss ($16,800); vehicle leases paid on behalf of Mr. Arruda ($15,327) and Ms. Goss ($11,512); and club initiation fees for Mr. Crozier ($47,099).

(5) 2011 salary data for Ms. Gavan includes $88,500 of director fees (including applicable Board and committee retainers and meeting fees) earned prior to her appointment as President and CEO. Amounts shown for 2010 and 2009 consist entirely of compensation earned by Ms. Gavan in her capacity as a director.

(6) 2011 salary data for Mr. Mather includes proportional compensation paid to him by his former employer while on secondment to us as interim Chief Financial Officer until September 30, 2011. His annualized Economical salary was $400,000 for 2011.

TERMINATION AND CHANGE OF CONTROL BENEFITS

Employment Agreements

We have employment arrangements with each of our named executive officers under which they receive a base salary and are eligible to receive incentive compensation in the form of cash bonuses, and awards under our VCP. Each is eligible to participate in our employee savings plan and receives pension savings and other benefits. Except as set out below, none has any agreement specifying entitlements on termination of employment or change of control of Economical.

Termination

We have an agreement with Ms. Gavan which provides for the terms of her employment to December 31, 2016. The agreement provides for the following payments and benefits following her termination by us, other than for the expiry of her term, cause, death or disability in relation to the period that begins on the date of the notice of termination and ends on the earlier of December 31, 2016 and the date that is eighteen (18) months from the notice date (the "severance period"):

- a lump sum payment equal to her then current base salary and target short-term incentive compensation, less appropriate deductions, for the severance period;
- continuation of benefit coverage and pension contributions for the severance period, subject to the terms and conditions of the applicable plan/policy and to the extent permitted by the relevant carrier(s);
- with respect to the STIP, Ms. Gavan will be deemed actively employed until the required eligibility date for any plan year that falls within the severance period, but the amount payable will be prorated to the number of months of severance payment attributable to that plan year; and
- the Company will pay to Ms. Gavan any amounts due to Ms. Gavan and remaining unpaid for any three (3) year performance period under the VCP (including the enhanced payout described above – See "2011 Performance and Executive Compensation – VCP Payouts) which ended in the financial year immediately preceding the year in which termination notice is given. For the year in which termination notice is given, Ms. Gavan will be considered to have been employed up to the end of the year, for the purposes of determining such enhanced VCP payouts only, so that she is eligible to receive payment (including the enhanced payout described above) for the 3-year performance period ending December 31st of that year, payable in accordance with such plan in the following year. The amount payable will be prorated up to the date termination notice was given to Ms. Gavan. Ms. Gavan is not entitled to any payment in respect of the VCP for any performance period ending in the year following the year in which she was given termination notice or any performance periods ending thereafter.

Ms. Gavan has no duty to mitigate any amounts paid under her employment agreement with us and we have no right of set-off against her.

Ms. Gavan has agreed that, if her employment ceases for any reason other than permanent incapacity or pursuant to a Hostile Transfer of Control (as discussed below), then she will not, for a 12 month period, directly or indirectly become involved with a direct competitor of ours in Canada, intentionally act in a manner that is detrimental to us, solicit any of our employees, or solicit any customer or client that she had direct or personal contact during the two years prior to her departure.

Change of Control

Except for Ms. Gavan, we do not have individual employment agreements with our NEOs. However, in order to ensure that key members of management stay in place for the benefit of the Company in the event we are involved in a major ownership transaction, Ms. Gavan's employment agreement with us provides for certain compensation and benefits upon a change of control of the Company. We have also entered into change of control agreements with each of the other NEOs and with certain other executives.

Ms. Gavan

Ms. Gavan's employment agreement provides for the following payments and benefits following a Hostile Transfer of Control or a Friendly Transfer of Control of the Company (as those terms are defined in the agreement):

- Hostile Transfer of Control. If Ms. Gavan provides notice to the Company of her resignation within three (3) months following a Hostile Transfer of Control, she will receive the same compensation and benefits as she would if she were terminated by the Company other than for cause, death or disability. If, within 24 months following a Hostile Transfer of Control, there

is a significant change in Ms. Gavan's status, position or responsibilities or a reduction in her salary or a material change detrimentally affecting her remuneration, she may, within a specified notice period, elect to terminate her employment, in which case she will receive the same compensation and benefits as she would if she were terminated by the Company other than for cause, death or disability.

- Friendly Transfer of Control. If, within 18 months following a Friendly Transfer of Control, there is a significant change in Ms. Gavan's status, position or responsibilities or a reduction in her salary or a material change detrimentally affecting her remuneration, she may, within a specified notice period, elect to terminate her employment, in which case she will receive the same compensation and benefits as she would if she were terminated by the Company other than for cause, death or disability.

Other NEOs

The Company has also entered into change of control agreements with the other NEOs which provide for the following payments and benefits following a hostile or friendly change of control (as those terms are defined in the relevant agreements) of the Company. Each is subject to double trigger provisions which require payments only if there is both a change of control and a termination of employment, either by the Company without cause or by the executive for Good Reason, within a specified protection period following a change of control. For these purposes, "Good Reason" can generally be described to include any of the following events occurring without the executive's express written consent:

i. adverse change in duties inconsistent with the executive's position, titles, duties, responsibilities and status;

ii. adverse change in the executive's annual salary, the basis upon which such salary is determined, or prevailing practice of increasing such salary;

iii. adverse change in participation in any benefit, bonus, life insurance, disability plan, pension plan or retirement plan;

iv. adverse relocation of the executive's principal office of employment; or

v. breach of a material provision of the agreement or failure of any successor or assign of the Company to assume the agreement.

In the event of a triggering termination upon or within 18 months after a change of control, an NEO would be entitled to receive an amount equal to the sum of:

- 18 months of his or her base salary (measured as the highest salary in effect at any time during the 36 months before the termination) plus target incentive under any incentive plan that he or she participates in at the termination date;
- 15% of the amount specified in the preceding paragraph in lieu of company contributions in respect of the pension plan and long term disability coverage, each of which cease on the termination date; and
- a pro-rata share of the executive's current year's STIP based on target, pro-rated for the number of complete months in the fiscal year in which the termination occurs up to the termination date.

With respect to other benefits, the executive may elect to maintain his or her regular employee benefits for 12 months or such earlier date he or she retires or is employed by another employer on a regular full time basis and is eligible to participate in a group insurance plan with the new employer that is similar to ours. As an alternative, the executive may elect to have us pay him or her a lump sum amount equal to the aggregate cost to us (without discount or present valuation) of regular employee benefits for 12 months. In addition, the agreements provide for up to $10,000 of professional outplacement services for each NEO.

Potential Payments upon Termination or Change of Control

The table below shows the estimated incremental payments or benefits that would accrue to each NEO upon termination of his or her employment following termination with cause, resignation, termination without cause and termination following change of control, in each case assuming employment ceased on December 31, 2011 and prior to applicable withholdings and deductions.

Event	K. Gavan	P. Mather	J. Arruda	L. Goss	D. Crozier
Termination with cause/resignation					
	Nil	Nil	Nil	Nil	Nil
Termination without cause					
Severance	1,950,000				
VCP	0	(1)	(1)	(1)	(1)
Annual pension benefit payment	245,000				
All other compensation	25,200				
Termination without cause after change of control					
Severance	1,950,000	840,000	647,170	592,618	630,000
VCP	0	0	0	0	0
Annual pension benefit payment	245,000	126,000	97,075	88,893	94,500
All other compensation (2)	25,200	26,800	26,800	26,800	26,800

(1) We do not have employment agreements with Ms. Goss or Messrs. Mather, Arruda or Crozier that stipulate their severance entitlements, except upon a change of control. In the absence of such an agreement, severance is determined with reference to common law.

(2) Consists of regular health benefits and, for NEOs other than Ms. Gavan, the maximum allowable budget for outplacement services.

other information

CORPORATE GOVERNANCE PRACTICES

Our practices are consistent with the corporate governance guidelines of the Canadian securities administrators and rules relating to audit committees. Our Statement of Corporate Governance Practices is set out in Appendix A to this Circular and is available on our website.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

To our knowledge, (i) there was no indebtedness to or guaranteed or supported by Economical or its subsidiaries incurred by executive officers, directors, employees or former executive officers, directors and employees of Economical or its subsidiaries, and (ii) none of the director nominees listed in this Circular or current or former directors or executive officers of Economical or their respective associates had any indebtedness to, or guaranteed by, Economical or any of its subsidiaries, in each case as at the date of this Circular and excluding routine indebtedness, as such term is defined under Canadian securities laws.

ADDITIONAL INFORMATION AND CONTACTING ECONOMICAL MUTUAL INSURANCE COMPANY

Further information relating to Economical may be obtained from our web site. Financial information is provided in Economical's comparative financial statements and management's discussion and analysis for the year ended December 31, 2011 and these documents are also accessible through Economical's website.

To obtain a copy of these documents together with Economical's annual report, when available, at no cost, please contact Economical at 519-570-8500, ext. 48422.

APPROVAL OF THE BOARD OF DIRECTORS

The Board has approved the contents and the sending of this Circular to the Members of Economical.

KAREN L. GAVAN

President and CEO

Waterloo, Ontario
May 2, 2012

appendix "a" - statement of corporate governance practices

At Economical, we believe that sound and effective corporate governance is fundamental to enhancing the Board's ability to guide management in its efforts to generate long-term value. We uphold standards of corporate governance that reflect applicable legal and regulatory requirements and a thoughtful approach to emerging practices. Although we are not a public company in Canada, our corporate governance practices are voluntarily described below in accordance with National Instrument 58-101 — Disclosure of Corporate Governance Practices, which has been adopted by certain Canadian securities regulators.

Throughout this Statement, references to documents and information available on our website can be found at www.economicalinsurance.com. In addition, any information located on the website is also available in print to any member upon request to our Corporate Secretary at the address set out on page 1 of our 2012 management proxy circular.

ETHICAL BUSINESS CONDUCT

CODE OF CONDUCT

We have adopted a Code of Business Conduct (our "Code of Conduct") that governs the behavior of our directors, officers and employees and those of our subsidiaries, and describes expected business conduct as it relates to each of our core values: Integrity, Customer Focus, Achievement, Collaboration, and Learning. A copy of our Code of Conduct is available on our website.

Under our Code of Conduct, each covered person is required to act at all times responsibly, ethically, professionally and with integrity. Our Code of Conduct sets out procedures for monitoring compliance and describes other steps taken to encourage and promote a culture of ethical business conduct. Covered persons are required to avoid actual and potential conflicts of interest and are subject to obligations regarding, among other things, the protection and proper use of corporate assets and opportunities, confidentiality of corporate information, and compliance with applicable laws.

Covered persons are required to acknowledge their obligations under our Code of Conduct annually and to report known or reasonably suspected violations in accordance with our ethics reporting program. Every new employee is required to review the Code of Conduct before beginning work. Every year, each director, officer and employee is required to provide written confirmation that he or she has re-read the guidelines and has complied with them during that year. To enhance understanding throughout our organization of the values and principles outlined in our Code of Conduct, an online learning program was implemented during 2012.

As part of its commitment to support ethical decision-making, the Board ensures that effective mechanisms are in place for employees to raise ethical concerns. Our ethics reporting program provides for a toll-free hotline, a website and a postal box all maintained by an independent third party. Employees can use any of those channels to anonymously and confidentially report any accounting and auditing concerns, suspected fraudulent activity or breach of our Code of Conduct. If employees prefer, they can refer concerns to their leader or departmental manager. Our ethics reporting program has processes in place to protect employees who in good faith raise bona fide concerns or assist in an investigation of a report.

Compliance with our Code of Conduct is monitored by management. Significant concerns regarding questionable accounting, controls or auditing matters are automatically communicated to the Chair of the Audit Committee. All other significant concerns are automatically communicated to the Chair of the Board. Bona fide breaches of the Code of Conduct are dealt with promptly after an investigation has been undertaken. If, after an investigation, it has been determined that a breach of the Code of Conduct has occurred, a decision will be made as to the appropriate corrective and/or disciplinary action that will be taken.

The Board monitors compliance with the Code of Conduct primarily through our Corporate Governance Committee, which receives regular reports from management on the attestation process and compliance status, including notices of any material deviation from the Code of Conduct and any corrective action taken.

In addition, the Audit Committee is responsible for monitoring compliance with the Code of Conduct in relation to concerns or complaints relating to accounting, internal accounting controls or auditing matters, and for ensuring all such issues are resolved in a satisfactory manner.

CONFLICTS OF INTEREST

Through annual directors' questionnaires, directors are asked to identify relevant outside business dealings and other companies or entities with which they have relationships. These responses assist the Board and management in identifying actual or potential conflict of interest situations in advance. If a director's business or personal relationships present a material personal interest in a business matter or relationship that conflicts, or appears to conflict, with the interests of Economical or its subsidiaries, the issue will be referred to the Chair of the Board. Appropriate steps will then be taken to determine whether an actual or apparent conflict exists and to determine whether it is necessary for the director to be excused from discussions relating to the issue.

All material related party transactions, including those in which a director or executive officer has a material interest, require the approval of our Corporate Governance Committee which may subsequently refer the matter to the full Board for its consideration. In each case, a director who has a material interest in a transaction would be required to declare his or her interest, refrain from voting and, if necessary, decline to participate in any directors' meeting or part of a directors' meeting dealing with the transaction.

The Board may grant a specific, limited waiver under our Code of Conduct if it determines, based on information that it deems credible and persuasive, that the waiver is appropriate under the circumstances. Each situation will be considered separately on its merits and a decision in one case has no bearing on any other. In most circumstances it is unlikely that a waiver will be granted.

BOARD OF DIRECTORS

Independence

The Board determines whether each director of Economical is an independent director, as defined under Canadian securities laws, by analyzing their conduct and their relationships with Economical, its affiliates and others.

A director will be considered to be independent if he or she has no direct or indirect material relationship with us, being a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of the director's independent judgment. Canadian securities laws specify circumstances in which directors will be deemed not to be independent, including additional criteria that apply to audit committee members.

Based on information provided by our directors as to their personal circumstances and the applicable legal tests, a majority of our Board members serving during 2011 and all of the director nominees presented for election in our 2012 management proxy circular are independent directors. The Board has determined that, of the nine directors listed in our 2012 management proxy circular, Karen Gavan is not considered to be independent by virtue of her Economical management position. The three director nominees presented for election at our 2012 general meeting (Gerald Hooper, A. Scott Carson and David Wilson), as well as the remaining five directors (John Bowey, Richard Freeborough, David MacIntosh, Charles Ormston and Michael Stramaglia) have all been determined to be independent directors.

Certain of our directors serve on the boards of other public companies in Canada and other jurisdictions. Information regarding those directorships appears in each director's biography set out in our 2012 management proxy circular under the heading "Business of the Meeting — Item C - Election of Directors".

Board Mandate

The Board is ultimately responsible for supervising the management of the business and affairs of Economical and, in doing so, is required to act in our best interests. The Board has adopted a written mandate to confirm and formalize the Board's ongoing duty and responsibility for the stewardship of Economical. A copy of the Board's mandate is available on our website.

The Board discharges its responsibilities either directly or through its committees. Specific responsibilities set out in the Board's mandate include:

- Appointing and Supervising Management – including final approval of all officer appointments, their compensation and the oversight of succession planning;
- Strategic Planning – including oversight over our business, financial and strategic plans and annual operating budget;
- Monitoring Financial Performance – including the review of our ongoing financial performance and results of operations and review and approval of our public financial disclosure;

- Risk Management – including the identification of principal business risks and the implementation of appropriate systems to effectively monitor and manage such risks;
- Establishing Policies and Procedures – including the approval and monitoring of policies and procedures related to corporate governance, internal controls and ethical business practices;
- Communication and Reporting – including the oversight of the timely and accurate disclosure of financial reports and other material corporate developments; and
- Other Responsibilities – including those related to position descriptions, orientation and continuing education, nomination of directors and Board evaluations.

The Board has delegated certain responsibilities to its committees and requires each to perform certain advisory functions and make recommendations to the Board in accordance with written mandates.

Management is expected to provide effective leadership in all aspects of Economical's activities, to maintain our corporate culture and motivate employees, and to communicate effectively with employees, brokers, policyholders and other industry participants. The Board also requires from management timely information concerning Economical's business and affairs, including financial and operating information and information concerning industry developments as they occur, all with a view to enabling the Board to discharge its stewardship obligations effectively.

Committees

The Board currently has five standing committees: an Audit Committee, a Human Resources and Compensation Committee, an Investment Committee, a Corporate Governance Committee and, starting in 2012, a Risk Review Committee. Starting in 2011, we dissolved our Pension Committee and re-allocated its responsibilities between the Human Resources and Compensation Committee and the Investment Committee.

Each committee has a written mandate, which it is required to reassess annually and the results of those assessments are reported to the full Board. In carrying out its duties, each committee may retain any outside advisor without Board approval at our expense at any time and has the authority to determine their advisors' fees and other retention terms. Individual directors may, in consultation with the Chair of the Corporate Governance Committee, also engage outside advisors, as required, at our expense in connection with fulfilling their duties and responsibilities.

Audit Committee

Our Audit Committee currently has five members: Michael Stramaglia (Chair), John Bowey, Scott Carson, Richard Freeborough and Gerald Hooper. If elected at the meeting, we intend to re-appoint Mr. Hooper to the Audit Committee, such that the Committee will be constituted with four directors as follows: Michael Stramaglia (Chair), John Bowey, Richard Freeborough and Gerald Hooper. Each current and proposed committee member is an independent director who meets the additional independence criteria that apply to audit committees under Canadian securities laws. The Audit Committee has direct communication channels with our internal finance department and meets directly with our external auditors, internal auditors and Appointed Actuary on a regular basis. The Audit Committee mandate outlines the Audit Committee's responsibility for, among other things:

- overseeing the integrity of our financial statements, financial reporting process and control environment;
- reviewing our annual and interim financial statements, MD&A and related public disclosure prior to their release to the public;
- recommending to the Board the external auditor to be appointed for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for us;
- approving annual internal and external audit plans and overseeing the Board's relationship with internal and external auditors including their independence, performance and compensation;
- pre-approving permitted non-audit services provided to us by our external auditors and its affiliates;
- establishing policies and procedures for the receipt, retention and treatment of complaints regarding accounting or auditing matters, internal controls and disclosure controls and procedures, and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters, internal controls and disclosure controls and procedures; and
- reviewing and approving our hiring policies regarding past and present partners and employees of our external auditors.

The text of the Audit Committee's mandate is available on our website. Our internal and external auditors provide us with ongoing assurance of their independence, report directly to the Audit Committee, attend each quarterly meeting of the committee and meet with its members without the presence of management where appropriate.

Each current and proposed member of the Audit Committee is "financially literate" within the meaning of Canadian securities laws and has the ability to perform his responsibilities as an Audit Committee member. They bring significant skill and experience to their committee responsibilities, including a mix of academic, professional and board-level experience in accounting, business and finance from both within and outside the financial services industry. For additional information concerning Messrs. Stramaglia, Bowey, Freeborough and Hooper and Dr. Carson, please see our 2012 management proxy circular under the heading "Business of the Meeting — Item C - Election of Directors".

The Audit Committee has adopted policies and procedures for the pre-approval of services performed for us by our external auditors, the objective of which is to support the independence of our external auditors. See our 2012 management proxy circular under the heading, "Business of the Meeting — Item B - Appointment of Auditors — Pre-Approval Policies and Procedures".

Human Resources and Compensation Committee

The members of the Human Resources and Compensation Committee are Charles Ormston (Chair), John Bowey and Gerald Hooper, each of whom is an independent director. If elected at our 2012 annual meeting, we intend to re-appoint Mr. Hooper to maintain the current composition of the Human Resources and Compensation Committee. The Board has adopted a formal mandate which outlines the responsibilities of the Human Resources and Compensation Committee with respect to, among other things:

- recommending to the Board the compensation paid to our President and CEO and, after obtaining the recommendation of the President and CEO, approving the compensation paid to other members of our senior management;
- reviewing retention, development and succession plans for senior management;
- approving the adoption of, or amendments to, incentive compensation plans and grants or awards under such plans, subject to shareholder or Board approval, as appropriate;
- approving the "Report on Executive Compensation" section of our annual proxy circular; and
- periodically reviewing and making recommendations to the Corporate Governance Committee regarding the adequacy and form of directors' compensation.

Investment Committee

The members of the Investment Committee are David MacIntosh (Chair), Karen Gavan, Michael Stramaglia and David Wilson, each of whom is an independent director other than Karen Gavan, our President and CEO. If elected at our 2012 annual meeting, we intend to re-appoint Mr. Wilson to maintain the current composition of the Investment Committee. The Board has adopted a formal mandate which outlines the responsibilities of the Investment Committee with respect to, among other things:

- the investment, management and performance of the Company's assets in compliance with applicable law, including the Insurance Companies Act;
- the investment risk management policies and procedures of the Company relating to its investable assets, as embodied in the investment policy statements for our non-matched and matched investment portfolios;
- the investment, management and performance of assets held by the Company's defined benefit pension plan in accordance with the Statement of Investment Policies and Procedures for the Company's defined benefit pension plan(s); and
- the selection of, and work performed by, investment managers for the Company and its pension plan(s).

Corporate Governance Committee

The members of the Corporate Governance Committee are A. Scott Carson (Chair), Richard Freeborough, Gerald Hooper, and Charles Ormston, each of whom is an independent director. If elected at our 2012 annual meeting, we intend to re-appoint Dr. Carson and Mr. Hooper to maintain the current composition of the Corporate Governance Committee. The Board has adopted a formal mandate which outlines the responsibilities of the Corporate Governance Committee with respect to, among other things:

- reviewing the overall size, composition and independence of the Board;
- recommending to the Board candidates for Board membership;

- recommending to the Board candidates qualified for appointment or reappointment to Board committees;
- supervising the annual Board, committee and director evaluation process;
- overseeing director orientation and continuing education;
- working with the Chair of the Board, our President and CEO and other members of management to foster a healthy corporate governance culture;
- acting as our Conduct Review Committee, and fulfilling the Board's statutory obligations with respect to related party transaction oversight;
- approving the "Statement of Corporate Governance Practices" section of our annual proxy circular; and
- in consultation with the Human Resources and Compensation Committee, periodically reviewing and making recommendations to the Board regarding the adequacy and form of directors' compensation.

Risk Review Committee

The Risk Review Committee was established starting in 2012. Its members are Michael Stramaglia (Chair), David MacIntosh, Karen Gavan and David Wilson, each of whom is an independent director other than Karen Gavan, our President and CEO. If elected at our 2012 annual meeting, we intend to re-appoint Mr. Wilson and to appoint Dr. Carson to the Risk Review Committee, such that the Committee will be constituted as follows: Michael Stramaglia (Chair), Scott Carson, Karen Gavan and David Wilson. The Board has adopted a formal mandate which outlines the responsibilities of the Risk Review Committee with respect to, among other things, assisting the Board in fulfilling its oversight responsibilities with respect to the management of the enterprise risk management framework with a view to promoting the achievement of agreed upon risk-adjusted returns and allocating capital accordingly. Specific responsibilities include overseeing:

- the initial identification of major areas of risk facing the company and the development of strategies to manage and mitigate those risks;
- the review of compliance with approved risk management policies;
- policies, practices and controls related to the Company's capital structure;
- the review of the annual report on the Company's financial condition and periodic stress testing; and
- the review and monitoring of the Company's capital management plan.

The Risk Review Committee and the Audit Committee share responsibility for reviewing and monitoring the Company's capital management planning and execution.

Board and Committee Meetings

The Board meets regularly to review our business operations and financial results. In addition to meeting in relation to annual and quarterly financial results, the Board meets to approve non-financial disclosure documents (such as our management proxy circular) and during the fourth quarter as part of our business and strategic planning process. Special meetings are called as necessary, the frequency and nature of which depend on the circumstances and the particular opportunities or risks that we face.

Board and Committee meetings include management reports to review and discuss specific aspects of our operations. We do not hold regularly scheduled meetings attended only by our independent directors, however each Board and Committee meeting includes one or more in camera sessions during which directors meet without management present and any director may request additional time for this purpose. Any independent director may call for a meeting of our independent directors at any time.

POSITION DESCRIPTIONS

We have written position descriptions for our Board Chair, Committee Chairs, individual directors and President and CEO. In accordance with its mandate, the Corporate Governance Committee meets periodically to review each of those position descriptions and recommends changes to the Board where necessary.

The Chair of the Board is responsible for the management, development and effective performance of the Board, and for providing leadership to the Board in carrying out its duties. The Chair's specific responsibilities include:

- guiding the conduct of the Board;
- acting as a liaison between the Board and management; and
- ensuring that appropriate procedures are in place to allow the Board and its committees to function effectively, efficiently and independently of management.

Chairs of Board committees are responsible for, among other things, scheduling, setting agendas for and presiding over committee meetings and acting as a liaison between the committee and the Board.

Directors are generally expected to possess appropriate knowledge of our business, regulatory and industry issues, to effectively contribute to the Board and its committees and to apply independent judgment on matters brought before them.

The President and CEO is responsible for, among other things, overseeing our day-to-day business affairs, leading our strategic planning and budgeting processes, supervising senior management, and implementing systems to ensure the integrity of our internal controls, management information systems and financial reporting.

COMPENSATION

The Board sets the level of compensation for directors, based on the recommendations of the Corporate Governance Committee which consults with the Human Resources and Compensation Committee. Directors who are also employees of Economical or of any of our affiliates do not receive any additional compensation for acting as a director of Economical or of any of our subsidiaries.

From time to time, the Corporate Governance Committee reviews the amount and form of compensation paid to directors, taking into account the workload, responsibilities and risks involved in being an effective director. The committee's review may be conducted with the assistance of outside consultants. For additional information regarding the compensation of directors, see our 2012 management proxy circular under the heading "Business of the Meeting – Item C - Election of Directors – Directors' Compensation".

The Human Resources and Compensation Committee, composed entirely of independent directors, is responsible for making recommendations to the Board regarding the employment terms of our President and CEO and for reviewing and approving the recommendations of the President and CEO regarding the compensation of our other executive officers. The Human Resources and Compensation Committee is also responsible for reviewing and making recommendations to the Board regarding awards under our short and medium-term incentive plans. The Human Resources and Compensation Committee meets in camera to discuss the base salary, annual incentives and other compensation awarded to our President and CEO. See "— Human Resources and Compensation Committee." Details of executive compensation and our compensation consulting arrangements are disclosed on pages 18 through 34 of our 2012 management proxy circular.

NOMINATION OF DIRECTORS

The Corporate Governance Committee's responsibilities include serving as our nominating committee. It recommends to the Board a list of nominees for election at our annual meeting and, identifies and recommends to the Board new candidates for Board membership as the need arises. We do not have a formal retirement policy for our directors, but expect that they will serve only so long as they are able to dedicate the time, energy and resources necessary to make a meaningful contribution to the Board.

Candidates for nomination as director come to the attention of the Corporate Governance Committee from time to time through incumbent directors, management or third parties and may be considered at meetings of the committee at any point during the year. If the committee believes at any time that the Board requires additional candidates for nomination, it may poll directors and management for suggestions or conduct research to identify possible qualified candidates either directly or through a third party search firm.

Candidates are evaluated against the Board's objective of attracting directors who represent diverse personal experiences and backgrounds. A skills matrix is prepared to support each search to reflect the prevailing context at the time of the search, taking into account the current and anticipated needs of the Board and its committees in light of the opportunities and risks facing the Company, its strategy and its succession planning needs. At a minimum, each candidate will have demonstrated: the highest personal and professional integrity; significant achievement in his or her field; experience and expertise relevant to our business; a reputation for sound and mature business judgment; the commitment to devote the necessary time and effort in order to fulfil his or her duties effectively; and, where required, financial literacy. Candidates are also screened for conflicts of interest and material relationships that could impact their independence. In addition, the composition of the Board must meet statutory residence and affiliation requirements.

The Corporate Governance Committee's process for identifying and evaluating director nominees generally involves (with or without the assistance of a retained search firm) compiling names of potentially eligible candidates, vetting those candidates against the factors described above and a relevant skills matrix, conducting background and reference checks, conducting interviews with candidates and/or others, meeting to consider and approve final candidates and, as appropriate, preparing and presenting to the Board the committee's recommendations.

ORIENTATION AND CONTINUING EDUCATION

The Corporate Governance Committee has established an orientation program for new directors, which includes information on the role of the Board, its committees and individual directors, as well as relevant company and industry information. Each new director receives a binder with up-to-date information on our corporate and organizational structure, recent public filings and financial information, our constating documents, copies of Board and committee mandates and key corporate policies, including our Code of Conduct, as well as details regarding directors and officers indemnification and insurance coverage. Each new director attends an orientation session covering our values and strategy, as well as presentations by our senior management. As well, new directors have regular and ready access to fellow directors and to our senior management.

Presentations are made regularly to the Board and committees to educate and keep them informed of changes within Economical and in legal, regulatory and industry requirements and standards. The Corporate Governance Committee reviews information on available external education opportunities and ensures directors are aware of relevant opportunities.

BOARD AND DIRECTOR EVALUATION

The Corporate Governance Committee is responsible for annually assessing the effectiveness of the Board as a whole, each Board committee and of individual directors. A formal assessment process is conducted every other year, which involves the circulation of self-assessment questionnaires to the full Board (in the case of Board and director evaluations) and to each committee member (for the relevant committee evaluation). The results of the assessment questionnaires are compiled and forwarded to the Chair of the Corporate Governance Committee. In alternate years, the Chair of the Board interviews each director to obtain their feedback.

In each case, the Chair of the Board meets with individual directors to discuss evaluation results at a director's request or as may be required in order to address specific issues. The Chair of the Board meets with the Chair of the Corporate Governance Committee on the same basis. Evaluation results are reported to the Corporate Governance Committee and to the full Board after the assessment is complete. All self-assessments and interviews are strictly confidential to encourage full and frank commentary from our directors.

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