economical®

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 24, 2014 at 10:30 a.m. (Eastern Time) 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, 2013, together with the auditors' report on those statements, and the actuary's report on the policy liabilities in those statements;

B. to appoint the external auditors;

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 8, 2014

Members of Economical, whether or not you attend the Meeting, 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, 8th Floor, Toronto, Ontario, Canada M5J 2Y1, or fax it to Computershare Investor Services Inc. at 1-866-249-7775 (toll-free in North America) or 1-416-263-9524 (international). **BLUE** proxies may also be returned, by hand, to the Head Office of Economical at 111 Westmount Road South, Waterloo, Ontario, Canada N2J 4S4 Attention: corporate secretary. You may also call Economical's proxy solicitation agent, Laurel Hill Advisory Group, at 1-855-701-9227 who will arrange to have your completed proxy **BLUE** form picked up by courier. 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 14, 2014 or, if the Meeting is adjourned or postponed, no later than 10 days before any adjournment or postponement thereof.

You may also register your vote at www.webvotedirect.com or over the telephone toll-free at **1-866-301-0994** no later than 10:30 a.m. (Eastern Time) on June 14, 2014, 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.

For any questions you may have regarding the Circular or the **BLUE** proxy form, or if you require assistance with voting, please contact Laurel Hill Advisory Group toll-free at **1-855-701-9227** or by email at **assistance@laurelhill.com**.

QUESTIONS MAY BE DIRECTED TO OUR PROXY SOLICITATION AGENT

North American toll-free: **1-855-701-9227**
Outside North America: **1-416-304-0211 (Collect)**
Email: **assistance@laurelhill.com**

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management proxy circular

References to "Economical" in this Management Proxy Circular are to Economical Mutual Insurance Company. References to the "company," "we," "us" and "our" in this Management Proxy Circular are to Economical and, where the context requires, its direct and indirect subsidiaries. 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," "may," "project," "will" 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 or events 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 the management ("Management") of Economical to be used at the Annual General 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 24, 2014, at Bingemans Ballroom, 425 Bingemans Centre Drive, Kitchener, Ontario, Canada N2B 3X7, and at any adjournment or postponement thereof. Only the **BLUE** proxy form is used by Management to solicit proxies, and Economical's 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. We have also retained Laurel Hill Advisory Group to assist us. The solicitation of proxies will be done by mail, telephone, fax, email, in person or through one or more combinations of those methods. **The solicitation of proxies by this Circular is being made by or on behalf of 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 142 years. We are governed by the *Insurance Companies Act* (Canada) ("ICA") and are regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). "Mutual companies" do not have a share structure or shareholders. Instead, they have members who have insured 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 as of 10:30 a.m. (Eastern Time) on June 24, 2014 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. There are now fewer policies eligible to vote at the Meeting due to cancellations, terminations and voting rules that eliminate duplication when multiple mutual policies are held by the same person, although certain of the policies that are not counted for purposes of the Meeting 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" below. As of the date of this Circular, Economical had 896 Members eligible to vote at the Meeting.

Economical's bylaws 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, by using the **BLUE** proxy form or by Internet or over the telephone in accordance with the instructions below.

VOTING BY PROXY

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 on the proxy form and inserting the name of such person in the blank space provided.** If the Member is a non-individual legal entity, an estate or trust, the proxy form must be signed by a duly authorized representative of the Member and be accompanied by a certified resolution or other instrument confirming such authorization. A proxyholder does not have to be a Member of Economical, however, in order for the vote to count, the appointed proxyholder must be present in person at the Meeting.

VOTING INSTRUCTIONS

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, 8th Floor, Toronto, Ontario, Canada M5J 2Y1, or by fax, at 1-866-249-7775 (toll-free in North America) or 1-416-263-9524 (international) no later than 10:30 a.m. (Eastern Time) on June 14, 2014, 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, Canada N2J 4S4 Attention: corporate secretary, if they are received by 10:30 a.m. (Eastern Time) on June 14, 2014. If you wish to return the proxy form by mail, you may use the postage-paid envelope included with this Circular or **call our proxy solicitation agent, Laurel Hill Advisory Group, at 1-855-701-9227 who will arrange to have your completed BLUE proxy form picked up by courier.**

You may also register your vote at www.webvotedirect.com or over the telephone toll-free at 1-866-301-0994 no later than 10:30 a.m. (Eastern Time) on June 14, 2014, 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.

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 giving the proxy. **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 auditors 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 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, 8th Floor, Toronto, Ontario, Canada M5J 2Y1 or to the Head Office of Economical at 111 Westmount Road South, Waterloo, Ontario, Canada N2J 4S4 Attention: corporate secretary, in each case no later than 5:00 p.m. (Eastern Time) on June 23, 2014, or if the Meeting is postponed or adjourned, 24 hours before the postponed meeting or continuation of the Meeting after the adjournment;
- by delivering a written notice to that effect signed by them or their duly authorized representative(s) to an agent of Computershare at the Meeting or the chair of the Meeting, on the day of the Meeting or a continuation thereof after an adjournment, or if the Meeting is postponed, on the day of the postponed meeting; 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 a duly authorized officer or attorney of such legal entity. That authorization must be evidenced in writing by a certified resolution attached to the notice.

our demutualization

As of the date of this Circular, the framework that will govern how we can proceed with demutualization has not been released, although we believe progress has been made. We have actively pursued discussions with the federal government as it develops the framework for demutualization, with a view to ensuring that the developed framework can work for Economical. This has been a long and complex process, but we are encouraged by the announcement in the 2014 Federal Budget renewing the government's commitment to create a framework for property and casualty ("P&C") demutualization, and the introduction of technical amendments to the ICA in the 2014 Federal Budget implementation bill. We are hopeful that we will see draft regulations this year.

In the meantime, we are committed to keeping our Members informed. We will continue to provide updates as we make additional progress, and will post those updates on our website. At the Meeting, we will provide you with a presentation on our progress toward demutualization, and update you on any developments that have occurred since the date of this Circular.

Below you will find an overview of the progress made in the development of the demutualization framework we need to move forward, the formal steps involved in the demutualization process, and the significant internal progress we have made to date while working toward demutualization.

PROGRESS IN THE DEVELOPMENT OF THE DEMUTUALIZATION FRAMEWORK

Demutualization in the Canadian insurance industry has been underway for decades. In the mid-1990s, the ICA was amended to allow federally-incorporated life insurance companies and P&C insurance companies to demutualize. Then, in the late 1990s, regulations were established that set out the process life insurance companies could use to demutualize. However, no regulations were developed at that time or since for P&C demutualizations, so federally-incorporated P&C insurers, such as Economical, remain unable to demutualize without legislative or regulatory changes.

The development of demutualization regulations is within the purview of the Department of Finance with whom we have been actively engaged in an attempt to establish a workable demutualization framework. Since the decision by Economical's Board of Directors to pursue demutualization in late 2010, a Special Committee of our Board, together with senior management and outside advisors, have had extensive ongoing discussions with government representatives about the development and implementation of a framework for demutualization. As we have noted in our past communications, this process has been much more difficult and has taken much longer than we originally anticipated.

The initial step in this process was to convince the Department of Finance that there was, in fact, a need for a P&C demutualization framework to be developed. During the first quarter of 2011, Economical had a number of meetings, discussions and exchanges with the Department that culminated in a commitment in the 2011 Federal Budget for an initiative to develop this framework. The legislation which implemented the 2011 Federal Budget also contained an amendment to the ICA which prohibits a mutual company from taking any action toward distribution of any of its property to its policyholders (other than ordinary course distributions) except pursuant to an approved demutualization. This amendment effectively prohibits any attempt at "indirect demutualization" outside of the yet-to-be-developed demutualization framework.

On June 30, 2011, the Department issued a paper entitled "Consultation on a Demutualization Framework for Federal Property and Casualty Insurance Companies" in which it requested comments from interested Canadians on a number of specific questions relevant to the demutualization of P&C insurers. In response, we made a lengthy submission in which we argued strongly for the passage of workable regulations, and for the recognition of the rights of our mutual policyholders in this process. The full text of our July 29, 2011 submission is available on our website.

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

On May 1, 2012, our president and CEO, Karen Gavan, appeared before the House of Commons Standing Committee on Finance to present Economical's perspective on demutualization regulations. Other parties with differing views also made presentations before this Committee. Ms. Gavan's letter to the Standing Committee was published on May 1, 2012, and is available on our website.

During the summer of 2012, we became concerned that the Department of Finance was gravitating toward a framework which would have made demutualization unworkable in practice, and made very strong representations to that effect to the Department. We believe that our supplemental submissions contributed to a period of further examination and analysis by the Department of the merits of our proposal.

In our November 26, 2012 Demutualization Progress Report, we noted that, over time, we had come to believe that, in the framework it was preparing, the Department of Finance was not likely to accept the position that mutual policyholders should be the exclusive recipients of demutualization benefits. We stated our belief that it was likely that the demutualization regulations would include some level of sharing of demutualization benefits with non-mutual policyholders, although we did not know what the scope of such inclusion might be.

Since then, we have made additional submissions in support of the development of a workable demutualization framework, consistent

with the best interests of Economical. On April 26, 2013, the then-Minister of Finance confirmed to us in writing that the Department of Finance continued to be actively engaged with Economical and other industry participants, with the benefit of professional and competent advice, as it continued the difficult task of developing an orderly and transparent demutualization process in which all policyholders are treated fairly and equitably.

On February 11, 2014, in the 2014 Federal Budget, the government renewed its commitment to establishing a framework to govern P&C insurance company demutualization and confirmed its intention to introduce legislative and regulatory changes that are needed to support demutualization. On March 28, the Minister of Finance tabled Bill C-31 to implement the 2014 Federal Budget. The bill included technical amendments to the ICA that are required to broaden the Governor in Council's authority to make regulations under the ICA. These powers will support the eventual implementation of the demutualization regulations.

The proposed amendments to the ICA indicate that the courts may play a formal role in the P&C demutualization framework, which is different from the process that governed the life insurance company demutualizations. However, the nature and scope of the court's role in the demutualization process will not be known until draft regulations are released, which is the next step after Bill C-31 is enacted. The Department of Finance's draft regulations are expected to be subject to a public consultation period before coming into force. At that point, Economical's Board of Directors will be in a position to decide whether demutualization within the final regulatory framework would be in the best interests of the company.

Economical has been an active participant in the framework development process from the outset and we welcome the proposed legislative amendments as a sign of real progress. 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 and will depend on the steps we are required to follow under its regulatory framework. The Department has responsibility for developing the demutualization framework and we cannot proceed with our demutualization without it. Your Board and senior management team remain fully committed to the development of an effective and implementable framework that will allow demutualization to take place.

THE DEMUTUALIZATION PROCESS

Demutualization is a regulated process in which a mutual insurance company converts from a company with mutual policyholders as its sole voting members, to a stock company with share capital and voting shareholders. A demutualization generally does not involve the distribution of a company's surplus. The financial benefits of demutualization generally derive from an ownership transition transaction accompanying the demutualization process. In the process of converting, the demutualizing company distributes to eligible policyholders demutualization benefits in the form of cash, transferable shares or a combination of cash and shares. It is a process that is defined and governed by federal legislation, so the first step in the process is the development and implementation of enabling laws.

Although there has been a significant amount of consultation to date, we expect that regulations will be published in draft form for public comment before being finalized. Although draft regulations are not yet available, we expect that the framework that the Department is developing will include, among other things, rules governing:

- the determination of who will be eligible to receive demutualization benefits, including the scope of inclusion of non-mutual policyholders, the record date as of which eligibility is to be determined, and the minimum term, if any, a policy must have been in force prior to such record date in order to be considered eligible;
- voting rights and procedures in relation to the approval of the proposed demutualization;
- the methodology for valuing the demutualizing company;
- the minimum content in the demutualization proposal;
- the content of supporting materials required to accompany the demutualization proposal — examples could include actuarial opinions, valuation opinions, policyholder disclosure documents, financial statements, technical details for any corporate reorganizations, and information equivalent to that found in a prospectus that would be used to support a public offering of securities;
- the ownership of the demutualized stock company; and
- the role of the court in the process, including the circumstances under which court approval is necessary and the court's powers and procedures.

As we have previously indicated, we do not believe it would be safe to assume any particular date, including the date we announced our intention to pursue demutualization (December 14, 2010), as the record date for eligibility for demutualization benefits.

The specific allocation of value among eligible policyholders will be determined in accordance with the demutualization framework and a formal plan for demutualization. Approval by OSFI of this demutualization plan is required before it can be submitted to policyholders for their approval.

The Board's ultimate choice of demutualization transaction (private acquisition or initial public offering) will depend on a range of factors, including the rules in the demutualization framework being developed by the Department of Finance, the general economic environment, market conditions when we are ready to complete our demutualization, and other matters relevant to the company and our various stakeholders.

Although the details of the demutualization framework have yet to be finalized and formalized, we are confident that our mutual policyholders will have an opportunity, as part of that process, to approve our demutualization.

SIGNIFICANT INTERNAL PROGRESS TOWARD DEMUTUALIZATION

In addition to our ongoing efforts to support the development of a demutualization framework, we have completed as much preparatory work as we can prior to knowing the substance of the framework. We have already enhanced our financial reporting, disclosure practices and internal control environment to public company standards, and we continue to focus on improving our operating platform to make the company stronger, more competitive and more valuable.

From a business perspective, Economical has excellent financial strength and continues to achieve strong financial results. 2013 was the worst weather-related catastrophe year in our 142-year history, and the worst on record for the P&C insurance industry in Canada. Yet, despite the devastation caused by record catastrophes, Economical emerged from 2013 with breakeven underwriting results and net income of $87.7 million. Other notable highlights include the following, which are explained in more detail in the accompanying Annual Report:

- Economical increased total mutual policyholders' equity by $108.9 million during 2013 to its highest levels ever — $1,573.1 million.
- Gross written premiums increased to $1,919.2 million, up by $99.5 million or 5.5% from a year earlier.
- Economical absorbed all-time high weather-related catastrophe pre-tax costs of $103.4 million for the year, net of reinsurance.
- The combined ratio, a key measure of operating effectiveness, was 100.1% for the year, compared with 96.4% for the prior year; however, excluding weather-related losses, the combined ratio would have been 94.3% for the year.
- While Economical began to realize benefits in 2013 from its business transformation program that started in 2012, those benefits were offset by the costs of this program in 2013. Restructuring expenses were $37.7 million for the year, $14.3 million of which is included in underwriting results. This significant investment represents a 0.8 percentage point increase in the combined ratio.
- We are continuing our long and proud history of building healthy and vibrant communities by giving back and making a difference in cities and towns where we, our broker partners, and our policyholders work and live. We gave over $1 million in charitable donations and sponsorships in 2013 to deserving organizations, including the United Way, Canadian Red Cross, Junior Achievement, Canadian Cancer Society and many others. Our employees are also active volunteers in their communities.

Economical continues to make significant progress in executing its business transformation program, designed to improve productivity, profitability and competitiveness across the company for the long term. As part of our ongoing business transformation program, we have overhauled internal processes in our information technology, underwriting and procurement functions, and recruited talented and experienced new employees. We are continuing to derive benefits from the application of predictive analytics to monitor and manage the quality of our book of business and assist in our pricing models. This has enabled us to achieve better risk selection, more accurate pricing and more effective claims management. We have also strengthened our senior management team with experienced executives, both operationally and in critical corporate functions, and have continued to renew our Board of Directors and refresh our governance practices. Together, these changes position us to execute effectively on any demutualization mandate and position us well to deliver sustainable value over the long term.

Equally, a successful demutualization is critical to building long-term strategic value for Economical. It will allow us to overcome limitations that are inherent in the mutual company structure, principally by:

- Improving financial stability and flexibility: Mutual companies do not have access to capital markets when they need it, for example, to recover from catastrophe-related insurance claims or extreme market events. Instead they must rely on their retained earnings, which can be substantially reduced, thereby slowing down their recovery and prolonging the vulnerability created by the initial adverse event.
- Positioning Economical for industry consolidation: The largest companies in the P&C industry are stock companies and they are getting larger by using capital markets to invest in or acquire other companies. Mid-sized and smaller companies face the risk of being marginalized, reduced to serving less-profitable sectors of the industry or being absorbed completely. We cannot achieve our vision of being a leading national P&C insurer through organic growth alone. In order to participate meaningfully in industry consolidation, we would need to be able to issue shares to raise acquisition funding or to deploy as acquisition currency.

Although demutualization is a complex process, we have already made substantial progress and are confident that your Board can successfully complete what we have started. We will continue to provide our mutual policyholders with updates as further progress is made, via mail and postings to our website.

business of the meeting

The Meeting is scheduled to be held on June 24, 2014 at 10:30 a.m. (Eastern Time) at Bingemans Ballroom, 425 Bingemans Centre Drive, Kitchener, Ontario, Canada N2B 3X7.

The Meeting date may be postponed by resolution of the Board 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. See "Voting by proxy — How to revoke a proxy" above. 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, 2013, together with the auditors' 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 website. No vote is required at the Meeting in respect of our 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 Audit Committee at its next scheduled meeting. None of the Audit Committee's responsibilities under the policy may be delegated to Management.

EXTERNAL AUDITORS' 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 AUDITORS' FEES ($):

	2013	2012
Audit fees	**677,600**	658,400
Audit-related fees	**110,000**	108,000
Tax fees	**76,571**	504,437
All other fees	**32,500**	2,500
Total	**896,671**	1,273,337

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, interpretation of financial accounting and reporting standards, and other attest services not required by statute or regulation. Tax fees are for assistance with tax compliance, tax planning, the preparation of corporate tax returns and tax advice related to restructurings, tax audits, appeals and contested tax matters. All other fees may include actuarial peer reviews and other non-accounting, non tax-related matters.

ITEM C – ELECTION OF DIRECTORS

OVERVIEW

Our bylaws 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 general meeting. During 2013, we increased the number of directors from nine to ten. Economical has also designated a number of retired directors as honorary directors in recognition of their past contributions to Economical, although these directors do not hold any formal powers or participate in Board proceedings.

Under our bylaws, directors hold office for rotating three-year terms. Only four directors are up for election at the Meeting, each to serve for a three-year term ending at the close of the annual general meeting of Members in 2017 or until their successors are elected or appointed. The remaining directors continue to serve for terms that expire beyond the Meeting.

The current Board consists of John H. Bowey, Elizabeth L. DelBianco, Barbara H. Fraser, Richard M. Freeborough, Karen L. Gavan, Gerald A. Hooper, Charles M. W. Ormston, Michael P. Stramaglia and W. David Wilson. A. Scott Carson was a director until his retirement from the Board in January 2014. Our Corporate Governance Committee is overseeing an active process to identify a suitable replacement for Dr. Carson.

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 2013, and all but one of the director nominees presented for election at the Meeting, are independent directors. The Board has determined that only Karen L. Gavan is not considered to be independent by virtue of her management position. Three of the four director nominees presented for election at the Meeting (John H. Bowey, Elizabeth L. DelBianco and Barbara H. Fraser), as well as the remaining directors (Richard M. Freeborough, Gerald A. Hooper, Charles M.W. Ormston, Michael P. Stramaglia and W. David Wilson) 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 a Risk Review Committee. The boards of our insurance company subsidiaries have the same composition and standing committee structure as Economical. In addition, the Board of Economical established a Special Committee in 2010 to oversee our demutualization process and possible related transactions. This committee only exists at the parent company level. Membership of each committee is indicated in the director profiles that follow.

NOMINEES FOR ELECTION AT THE MEETING

Elizabeth L. DelBianco was appointed to replace David A. MacIntosh until the expiry of his term in 2014. Barbara H. Fraser was appointed by the Board as a new director in December 2013, following the expansion of the Board from nine to ten directors. John H. Bowey and Karen L. Gavan were elected at the 2011 annual meeting. The respective terms of the foregoing directors expire at the end of the Meeting and they are all standing for re-election. The Management representatives named in the enclosed proxy form intend to vote for the election of each of the nominee directors and, unless otherwise directed, proxies will be voted in favour of the election of each of those nominees.

Each of Economical's director nominees has established their eligibility and willingness to serve as a director if elected, and Economical does not expect that any nominee 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 authorized 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 four persons proposed by Economical for re-election as directors at the Meeting, as well as the following additional information: the year in which they first became a director of Economical; 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.

ELIZABETH L. DELBIANCO, BA, LL.B., MBA

Toronto, ON
Canada
Age: 55
Independent

Ms. DelBianco joined our Board in March, 2013. She is currently Chief Legal and Administrative Officer for Celestica Inc. where she leads Celestica's legal, corporate governance, communications, compliance and sustainability functions, as well as its human resources organization.

Ms. DelBianco sits on the national board of directors of the Information Technology Association of Canada, as well as the Dean's Advisory Committee at Queen's University Law School and she is a member of Canada's Most Powerful Women: Top 100™ Hall of Fame.

Ms. DelBianco obtained a BA from the University of Toronto, an LL.B. from Queen's University and an MBA from the Ivey School of Business at Western University. She holds an ICD.D designation and is called to the bar in Ontario and New York.

Ms. DelBianco currently serves on our Human Resources and Compensation Committee, and was appointed Chair of our Corporate Governance Committee as of April 1, 2014.

BOARD AND COMMITTEES	2013 ATTENDANCE	JOINED
Board	8/8*	2013
Corporate Governance Committee	6/6*	2013
Human Resources and Compensation Committee	3/3*	2013

*Indicates part-year service

BARBARA H. FRASER, HBA

Wilton, CT
United States
Age: 64
Independent

Ms. Fraser joined our board in December 2013. She is a corporate director who brings extensive senior executive experience in marketing and corporate management at leading global companies in the financial services industry, including American Express and Citi, and in the consumer products industry, at Procter & Gamble. In these roles, Ms. Fraser has worked across Canada, the United States and elsewhere worldwide. She retired from American Express in 2006, where she held the positions of Global President, Travelers Cheques & Prepaid Services; EVP, Products; CEO of IDS Life Insurance; CMO of American Express Financial Advisors; and SVP, Global Brand Strategy of American Express.

Ms. Fraser currently serves on the boards of MD Life Insurance and Gerber Life Insurance Company, a subsidiary of Nestlé. In addition, she is an Emeritus member of the Advisory Board of the Ivey Business School. She has previously served on the boards of nine other companies, as both an inside and outside director.

Ms. Fraser is an HBA graduate from Ivey Business School at Western University. She currently serves on our Audit Committee and Investment Committee, effective December 1, 2013.

BOARD AND COMMITTEES	2013 ATTENDANCE	JOINED
Board	1/1*	2013
Audit Committee	0/0*	2013
Investment Committee	0/0*	2013

*Indicates part-year service

JOHN H. BOWEY, MBA, FCPA, FCA, ICD.D

Conestogo, ON
Canada
Age: 66
Independent

Mr. Bowey is a retired partner of Deloitte LLP and now serves as an independent corporate director. Over his career with Deloitte, he held a number of leadership roles, having served as a member of the Board of Directors and Chair of the Governance Committee. He was elected by the Deloitte partnership as Chairman in 2006, a position he held 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.

Mr. Bowey currently serves on a number of corporate and not-for-profit boards, including Brick Brewing Co. Limited, Demeure Operating Company Ltd., Finstra Holdings Inc., Simpson Seeds Inc. and Wilfrid Laurier University. He is a past Chairman of the Princess Margaret Cancer Foundation.

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

Mr. Bowey was elected as Vice-Chair of the Economical Board in December, 2013, and has served as the Chair of our Special Committee, a position he has held since July 2011. During 2013, he also served on our Human Resources and Compensation Committee and our Audit Committee. Effective April 1, 2014, Mr. Bowey joined our Corporate Governance Committee and ceased to be a member of our Audit Committee.

BOARD AND COMMITTEES	2013 ATTENDANCE	JOINED
Board	9/9	2011
Audit Committee	4/4	2011
Human Resources and Compensation Committee	5/5	2011
Special Committee	5/5	2011

KAREN L. GAVAN, FCPA, FCA, ICD.D

Toronto, ON
Canada
Age: 52
Not Independent

Ms. Gavan is the president and CEO of Economical and a member of the Board of Directors. She has over 30 years of financial services industry experience and over 15 years of corporate governance experience. She was formerly the Chief Operating Officer and Chief Financial Officer of Transamerica Life Canada. Prior to that she held senior management positions with Imperial Life Assurance Company and Canada Life Assurance Company.

Ms. Gavan also serves on the board of Mackenzie Financial Corporation and has previously served on the boards of a number of corporations, primarily in the financial services industry, and on the boards of a number of charitable organizations, including the Children's Aid Foundation.

Ms. Gavan is a Fellow of the Institute of Chartered Accountants of Ontario and holds an ICD.D designation.

Ms. Gavan was appointed to the Board in 2008 and was Chair of the Special Committee and Audit Committee until her appointment as president and CEO in June 2011. She served on our Risk Review Committee until April 1, 2013 and currently serves on our Investment Committee.

BOARD AND COMMITTEES	2013 ATTENDANCE	JOINED
Board	9/9	2008
Investment Committee	4/4	2011
Risk Review Committee	2/2*	2012

*Indicates part-year service

INCUMBENT DIRECTORS WHOSE TERMS CONTINUE BEYOND THE MEETING

The following profiles set out the names of the five directors whose terms continue beyond the Meeting, as well as the following information: the year in which they first became a director of Economical; 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.

RICHARD (DICK) M. FREEBOROUGH, FCPA, FCA, ICD.D

Oakville, ON
Canada
Age: 71
Independent

Mr. Freeborough 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 Canada for six years including three as Deputy Chair.

He is currently Chair of the Board of Governors at the University of Guelph as well as the Board of Directors of the Independent Order of Foresters. He is also a director and Chair of the Audit Committee for 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.

During 2013, Mr. Freeborough served as Chair of our Corporate Governance Committee and as a member of our Audit Committee and our Special Committee. During 2014, Mr. Freeborough joined our Risk Review Committee, ceased serving on our Corporate Governance Committee and became Chair of our Audit Committee.

BOARD AND COMMITTEES	2013 ATTENDANCE	JOINED
Board	9/9	2012
Audit Committee	4/4	2012
Corporate Governance Committee	7/7	2012
Special Committee	5/5	2012

GERALD A. HOOPER, FCPA, FCA

Waterloo, ON
Canada
Age: 71
Independent

Mr. Hooper is Chair of the Board of Economical. Mr. Hooper was at Schneider Foods for 19 years where he served as Executive Vice-President and Chief Financial Officer as well as a member of the Board of Directors of Schneider Corporation. 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 public company directorships have included ATS Automation Tooling Systems Inc., Schneider Corporation, Brick Brewing Co. Limited and Wescast Industries.

Mr. Hooper is a Fellow of the Institute of Chartered Accountants of Ontario. He has been the Chair of our Board since March 2005, and currently serves on the committees noted in the chart below.

BOARD AND COMMITTEES	2013 ATTENDANCE	JOINED
Board	9/9	2000
Audit Committee	4/4	2000
Corporate Governance Committee	7/7	2005
Human Resources and Compensation Committee	5/5	2005
Special Committee	5/5	2012

CHARLES M.W. ORMSTON, MBA

Waterloo, ON
Canada
Age: 62
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. In 2012, he was awarded The Queen Elizabeth II Diamond Jubilee Medal for his contributions to his community.

Mr. Ormston holds a BA from Western University 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, and currently serves on our Corporate Governance Committee and Special Committee.

BOARD AND COMMITTEES	2013 ATTENDANCE	JOINED
Board	9/9	1995
Corporate Governance Committee	7/7	1995
Human Resources and Compensation Committee	5/5	1995
Special Committee	5/5	2010

MICHAEL P. STRAMAGLIA, FSA, FCIA, CERA, ICD.D

Toronto, ON
Canada
Age: 54
Independent

Mr. Stramaglia is a professional corporate director and independent management consultant. He currently serves as the Executive in Residence at the Global Risk Institute. Until October 2012, he was Executive Vice-President for Sun Life Financial Inc., where he 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 he held the position of Executive Vice-President, Reinsurance and Chief Investment Officer. He previously served as President and CEO of Zurich Life Insurance Company of Canada and President and COO of Zurich Financial Services Ltd.'s consolidated Canadian P&C and life insurance operations. He currently sits on the board of Foresters and 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 earned an Honours Bachelor of Mathematics degree from the University of Waterloo and holds the ICD.D designation from the Institute of Corporate Directors.

Mr. Stramaglia currently serves on our Audit Committee and Investment Committee, and Chairs our Risk Review Committee, a position he has held since the committee was formed in 2012.

BOARD AND COMMITTEES	2013 ATTENDANCE	JOINED
Board	9/9	2010
Investment Committee	4/4	2010
Audit Committee	4/4	2011
Risk Review Committee	5/5	2012

W. DAVID WILSON, B. COMM., MBA

Toronto, ON
Canada
Age: 69
Independent

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 serves on the boards for the Centre for Addiction and Mental Health and the Greater Toronto Airport Authority. He is a member of the City of Toronto's Independent Investment Advisory Committee.

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

Mr. Wilson currently serves on our Risk Review Committee and Special Committee, and is Chair of our Investment Committee, since April 1, 2013.

BOARD AND COMMITTEES	2013 ATTENDANCE	JOINED
Board	9/9	2012
Investment Committee	4/4	2012
Risk Review Committee	5/5	2012
Special Committee	5/5	2012

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 with Economical: Ms. Gavan and Messrs. Hooper and Ormston.

DIRECTORS' COMPENSATION

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

Each of our directors serves on the boards and committees of each of our insurance company subsidiaries and our subsidiary, Westmount Financial Inc. Currently, the membership and chair designations for our subsidiary boards and their standing committees are identical to Economical. Only Economical has a Special Committee.

During 2013, as part of our ongoing review of corporate governance, the Board realigned our practice of allocating director fees to more accurately reflect the contribution our directors make in overseeing the governance and risk management activities of our OSFI-regulated insurance company subsidiaries and Westmount Financial Inc.

Under this methodology, in 2013 non-Management directors of Economical received the retainers and meeting fees outlined in the table below:

	Economical ($)	Insurance subsidiaries (aggregate) ($)	Westmount Financial Inc. ($)
Annual retainers			
Director	21,000	14,000	10,000
Board Chair	84,000	56,000	-
Committee Chair (Audit; Risk)	9,000	6,000	-
Committee Chair (other standing committees)	4,500	3,000	-
Meeting fees			
Regular	900	600	-
Conference call	450	300	-
Full day	1,500	1,000	-

In addition to our standing board committees, we have a Special Committee on demutualization. We pay the chair of our Special Committee a quarterly cash retainer of $5,000. Each member of our Special Committees receives an attendance fee of $1,500 per committee meeting attended ($750 if attendance is by phone and $2,500 for an all-day 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. We also reimburse our directors for transportation, lodging, meals and business expenses in accordance with the expense reimbursement policy applicable to our executives. Our and each of our insurance company subsidiaries' bylaws limit the amount of retainers and meeting fees that may be paid to its directors for serving on its Board and committees. Each company's limit is currently $800,000 annually.

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, which website does not form part of this Circular. 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 as part of an analysis which takes into account the number of Board and committee meetings each year.

The following table shows the amounts, before withholdings, provided to our current and former non-Management directors for service on the boards of Economical and its subsidiaries and their respective committees in 2013. Amounts shown have been prorated to reflect the effective date of changes to fee allocation described above.

	Economical		Economical subsidiaries			
Name	Retainers[1] ($)	Attendance fees[2] ($)	Retainers[1] ($)	Attendance fees[2] ($)	All other compensation ($)	Total compensation ($)
John H. Bowey	49,400	41,370	15,600	3,880	-	110,250
A. Scott Carson	31,275	25,020	15,600	4,480	-	76,375
Elizabeth L. DelBianco	23,567	23,840	13,933	4,660	-	66,000
Barbara H. Fraser	1,750	1,500	2,000	1,000	-	6,250
Richard M. Freeborough	33,825	36,840	16,800	4,660	-	92,125
Gerald A. Hooper	147,000	43,740	38,000	5,260	-	234,000
David A. MacIntosh	10,625	4,000	2,500	-	-	17,125
Charles M.W. Ormston	35,700	37,200	16,800	4,300	-	94,000
Michael P. Stramaglia	54,600	30,060	20,400	5,440	-	110,500
W. David Wilson	33,825	31,770	16,800	4,480	-	86,875
Total	**421,567**	**275,340**	**158,433**	**38,160**	**-**	**893,500**

[1] Includes all Board and Committee director and chair cash retainers.

[2] Attendance fees for all Board and Committee meetings, including meetings held in addition to regularly scheduled Board and Committee meetings.

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 our long-term sustainable growth by providing us with the means to attract and retain talented executives and staff, and motivate them to deliver superior levels of performance in executing our strategy. These programs are aligned with our company strategy and are linked to performance goals that reward executives for delivering 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 employee 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 engaged 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 link 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.

   Our company is currently engaged in two major initiatives: a strategic repositioning relating to our intention to pursue demutualization, and a program to transform our underwriting and system development processes to improve the efficiency and effectiveness of our operations. These two initiatives are critical to our long-term strategy, and formed a significant component of our executives' performance objectives for 2013.
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 performance-based pay is measured over a three-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 aligned with performance and consistent with our compensation principles, with an appropriate balance between risk and reward.

Charles Ormston (chair), Gerald Hooper, John Bowey and Elizabeth DelBianco have served as members of the HRC Committee since 1995, 2005, 2011 and 2013, respectively. 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 Economical 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 a former chief executive officer, a current senior executive with oversight of human resources functions, and/or a director or senior leader of comparable 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, and Ms. DelBianco, see "Business of the meeting — Item C — Election of directors" and the "Statement of corporate governance practices" 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 Economical's mission, overall strategy and objectives. Its specific responsibilities include:

- making recommendations to the Board for the appointment, terms of employment and annual compensation of our president and CEO;
- reviewing our overall compensation philosophy and policies, together with the design of and awards under our major compensation programs to promote alignment with our compensation philosophy;
- reviewing retention, development and succession plans for senior management;
- making recommendations to the Board regarding significant changes to our pension plans, including any supplemental plan(s);
- after obtaining the recommendation of our president and CEO, approving the compensation paid to our senior executives, including awards of performance-based incentives; and
- periodically reviewing and making recommendations to our Corporate Governance Committee 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 practices" 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 our 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 retains independent outside advisors to provide guidance and advice in relation to compensation program design for our executive officers. In each case, the advisors' role generally includes:

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

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

From 2010 until November 2013, the HRC Committee retained Mercer (Canada) Limited ("Mercer"), a wholly-owned subsidiary of Marsh & McLennan Companies, Inc. as independent advisor. As of November 2013, Towers Watson Canada Inc. ("Towers") was retained in that same capacity.

Mercer provides other services to us, such as market information and compensation surveys which are used by Canadian companies to benchmark executive and non-executive compensation. Towers also provides other services to us, such as market information and compensation surveys which are used by Canadian companies to benchmark executive and non-executive compensation, and certain software and training for our actuarial department.

Given the nature, value and the fees of the other services that Mercer (while it was retained) and Towers provided, the HRC Committee does not believe that the provision of these services would impair either Mercer's (while it was retained) or Towers' 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 2013	Fees paid in 2012
Executive compensation-related fees	**$27,583**	$40,963
All other fees	**-**	-
Total fees	**$27,583**	$40,963
Compensation fees as % of all fees paid in year	**100%**	100%

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

Services performed	Fees paid in 2013	Fees paid in 2012
Executive compensation-related fees	**$5,311**	$6,893
All other fees[1]	**$267,516**	$72,845
Total fees	**$272,827**	$79,738
Compensation fees as % of all fees paid in year	**1.9%**	8.6%

[1] All other fees include software and training for our actuarial department.

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 our compensation management 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, 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.

Our goal is to set total direct compensation targeted between the median and seventy-fifth percentile of the peer group, on average. Targets for an individual executive are positioned in relation to 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 a particular pay target taking into consideration changes in financial, economic and competitive conditions.

We use a combination of the following three executive compensation surveys (and starting in 2014, a survey of public company proxy circulars) for market comparison purposes:

- Towers Watson 2012 Executive and Senior Management Survey, Property and Casualty Module ("Towers P&C Survey");
- Towers Watson 2012 Survey of Compensation Practices for Executives and Management ("Towers General Industry Survey"); and
- Mercer 2012 Executive, Management and Professional Compensation Survey ("Mercer Survey").

Our primary source of comparative data is the Towers P&C Survey, the participants of which are in the Canadian property and casualty insurance industry. The Towers P&C Survey is an annual survey conducted by Towers and provides aggregated benchmarks and industry trends for base salary, annual bonus, long-term incentive and total direct compensation, as well as executive perquisites. The participants in the Towers P&C Survey are:

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

These organizations are direct industry comparators that are relevant because they compete for the insurance-specific talent pool from which we draw. Furthermore, the combined size, operational scope, business complexity and geographic reach of these companies are representative of the Canadian P&C industry generally, but vary from company to company.

Below is a chart illustrating the approximate gross written premiums and total assets reported by the 13 companies participating in the Towers P&C Survey.

Gross written premiums	
Less than $500 million	7%
$500 million to $1 billion	14%
$1 billion to $1.5 billion	22%
$1.5 billion to $2 billion	14%
Greater than $2 billion	43%

Total assets	
Less than $2 billion	0%
$2 billion to $4 billion	33%
Greater than $4 billion	67%

For certain executive roles that are not specific to the property and casualty insurance industry, including our following three NEOs: president and CEO, chief financial officer, and chief human resources officer, the HRC Committee broadens the peer group to include other companies in the Canadian financial services industry by considering data from the Towers General Industry Survey and the Mercer Survey. Because not every participant in the two surveys had comparable roles to each of our executives, each position reviewed was matched to the most relevant comparison for Economical based on revenue and industry, and subject to the availability and sufficiency of data in the surveys.

In general, we selected peer companies from the two surveys based on annual sales, which were reported in both surveys although each survey reported under different range categories. We compared against those companies in the Towers General Industry Survey with approximate annual sales of $1 billion to $2 billion, resulting in a peer group of 42 companies from a broad range of industries and sectors. In the Mercer Survey, we compared against those companies with annual sales of $1 billion to $5 billion from a broad range of industries and sectors. The Mercer Survey also categorized participants by industry, and we were able to compare our executive compensation to similar roles at the 39 insurance industry participants in the Mercer Survey.

Beginning in 2014, as an additional source of data to assist in the benchmarking process, our executive compensation will also be compared against that of comparable Canadian public companies that report their executive compensation in proxy circulars filed with securities regulators and that are similar in industry and size relative to us.

The HRC Committee uses the data described above as descriptive reference points to inform decisions around executive compensation. In conjunction with benchmarking data, the HRC Committee undergoes a thorough process of review and deliberation, including seeking advice from its independent compensation advisor, to provide a balanced approach to setting compensation targets and aligning executive and stakeholder interests in accordance with Economical's compensation philosophy.

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, as well as its financial performance. 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 aligned 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 our 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 independent consultant and exercises its independent judgment to determine if any adjustments are required.

Components of executive compensation

The executive compensation package is designed to assist us 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
Medium term value creation plan	Cash	Three years	Growth in theoretical company value above an after-tax estimated cost of capital, allocated among participants	Rewards contribution to growth in company value over a medium term period
Pension, benefits and perquisites	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, experience, 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 for all of the other executives.

Short term incentive plan

The short term incentive plan ("STIP") rewards the achievement of company results and individual performance during the year. 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 (10%), combined operating ratio (45%), growth in gross written premium (10%) and operating expenses (15%). 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.

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

Medium term 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 estimated cost of capital ("ECC").

At the start of each performance period, the HRC Committee establishes the size of a pool of funds (determined as a percentage of the future value to be created), the opening value of the company, and the ECC 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 ECC to determine the amount available for allocation among the participants.

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 ECC 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 ECC 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 ECC have been reasonably difficult to meet. Prior to the plan period ending 2011, we had not had a VCP award payout since the plan's inception in 2008.

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 in advance the percentage of an NEO's total compensation represented by VCP awards.

No incentive awards under the VCP are paid in any year where the company on a consolidated basis does not have net income. In addition, the maximum amount that may be paid out under our VCP will be reduced where the aggregate awards determined under the STIP and the VCP would exceed a cap, which is calculated as the average of the earnings before taxes, adjusted by excluding certain non-recurring charges ("EBIT") for the three most recently completed fiscal years multiplied by a pre-determined percentage. If the pro forma aggregate incentive plan payouts exceed that cap, awards under the VCP would be reduced on a pro rata basis among participants to an aggregate level that meets the cap.

For the 2011 to 2013 performance period, the percentage used to calculate the aggregate cap was set at 8% of the average EBIT over the three-year plan period.

Equity compensation plans
Consistent with Economical'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. Gavan who was added as part of the terms of her 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 pension and savings plan which is available to our employees generally. We provide a dollar-for-dollar matching contribution up to a maximum of 3.5% of base salary.

As part of their executive compensation program, our executives also receive other perquisites. In 2013, we introduced a program to replace some of our perquisites (including vehicle leases and operating expenses) with an allowance. Our perquisite values vary by level of executive and are comparable to those provided by our compensation peer group.

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

As part of the broader enterprise risk management process, the HRC Committee regularly monitors and evaluates compensation plans and policies to ensure they are aligned with good governance practice, including consideration of the implications of risk.

The Committee mandate requires that risk management principles be incorporated in compensation plans and policies that also support the compensation philosophy and business strategy.

Based on these monitoring and review efforts, the HRC Committee has determined that the compensation plans, practices and polices do not encourage inappropriate or excessive risk taking and there are no risks or practices that are reasonably likely to have a material adverse effect on the company.

Summary of key risk mitigating factors in compensation plans

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

The following describes 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:

- Active HRC Committee involvement in performance measure selection and target setting, and stress testing of compensation programs.
- A pay mix that balances short and longer-term performance criteria with overlapping performance periods, and an appropriate weighting between fixed and variable pay. 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. A significant proportion of compensation is variable and linked to corporate goals and objectives.
- Consistently structured compensation plans for all Head Office and regional executives. Our investment management function has a distinct short term incentive plan based on the performance of the investment portfolio against established benchmarks. No incentive bonus under this short term incentive plan is paid in any year when the company on a consolidated basis does not have a net income.
- 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.
- The maximum amount that may be paid out under the VCP will be reduced where the aggregate awards determined under the STIP and the VCP would exceed, for the 2011 to 2013 performance period, 8% of the average EBIT over the three-year plan period.
- 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.
- All incentive awards are performance-based. Performance is assessed in a balanced manner, based on financial goals, strategic and operational objectives, and 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 three-year period, allowing 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.
- All incentive awards are cash-based. This makes the use of hedging and other equity strategies to undermine the risk-alignment effect of our executive compensation arrangements ineffective.
- 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 a wide range of checks and balances, including our performance management system, which assesses performance against job descriptions, annual business plans, and predetermined corporate and individual objectives. 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 three-year performance period.

We are continuously improving 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 in extraordinary circumstances including:

- 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.

Incentive awards are only paid in years when the company has, on a consolidated basis, a net income, except for the component relating to the achievement of individual performance objectives in the STIP.

2013 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 president and CEO, our chief financial officer and our three other most highly compensated officers. In 2013, our NEOs were:

- Karen Gavan, president and CEO
- Philip Mather, senior vice-president and chief financial officer
- Jorge Arruda, senior vice-president, sales, distribution and underwriting operations
- Linda Goss, senior vice-president and chief actuary
- Dean Bulloch, senior vice-president and chief human resources officer

Summary of 2013 performance

Under Ms. Gavan's leadership, in 2013 Economical emerged from the worst catastrophe year in our 142-year history with a net income of $87.7 million. Gross written premiums continued to increase in 2013 by $99.5 million, or 5.5%, to $1.9 billion. We ended the year with a combined ratio of 100.1%, of which 5.8 percentage points are attributed to weather-related catastrophe losses. Our capital position is at the highest level in our history at $1,573.1 million, representing an increase of $108.9 million, or 7.4% in 2013. For more information about our 2013 financial performance, please refer to the financial statements and management's discussion and analysis for the year ended December 31, 2013, which are available on our website.

STIP payouts

All members of our senior management team, including NEOs, participate in the STIP. For 2013, 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	100%	80%	20%
Other NEOs	40%	80%	20%

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 2013.

Performance measure	Predetermined objectives			Actual performance level
	Threshold performance level	Target performance level	Maximum performance level	
Return on equity – one year [1]	4.5%	6.5%	8.5%	8.4%
Gross written premiums change [2]	1.1%	3.1%	5.1%	5.5%
Combined operating ratio [3]	100.3%	98.3%	96.3%	100.1%
Expense target [4]	Budget +2%	Budget	Budget -5%	N/A

[1] Return on equity is calculated as the comprehensive income for the 12-month fiscal period divided by the average policyholder equity over the same 12-month period. Costs related to demutualization are excluded. The effects of any unrealized gains or losses on the available for sale "non-matched" bond portfolio are excluded.

[2] Gross written premiums change is the increase or decrease in total premiums from the sale of insurance during a specified period, calculated from the consolidated financial statements.

[3] Combined operating ratio 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. This is the undiscounted combined operating ratio as publicly reported.

[4] Expense target is a percentage of the Board-approved operating expense budget, as determined in advance by the president and CEO. The expense 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 our ability to effectively compete in the marketplace. 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 our strategic goals and operational initiatives when assessing individual performance for the year. For the NEOs, these objectives included the factors outlined below:

Karen Gavan, president and CEO
Ms. Gavan delivered strong leadership in 2013 guiding the company through the worst catastrophe year in our history. She led the implementation of our business transformation program implementing significant run rate benefits to improve the company's overall cost structure and productivity. Our information technology transformation was completed in 2013 and our underwriting transformation is ahead of schedule. Ms. Gavan continued to provide ongoing leadership, advice and execution support for demutualization preparations. She also continued to strengthen our executive management team, and in 2013 recruited a chief operating officer and a chief risk officer for the company. Under her leadership, we achieved our inaugural A.M. Best rating of "A- (Excellent)" and were recognized by World Finance magazine as Canada's best general insurer for 2013.

Philip Mather, senior vice-president and chief financial officer
Mr. Mather provided oversight and leadership to the public company readiness initiative as the organization pursues demutualization. He also provided critical support to our demutualization project during 2013. Mr. Mather provided support to the business transformation program, including sponsorship of the other expense reduction workstream. Mr. Mather's management of our relationship with A.M. Best helped us achieve our inaugural "A- (Excellent)" financial strength rating. He also ensured continued strong relationships with OSFI. Mr. Mather assessed and established a strategy for improving the processes, capabilities and talent in our procurement, reinsurance and Economical Financial functions.

Jorge Arruda, senior vice-president, sales, distribution and underwriting operations
Mr. Arruda provided leadership, direction and oversight to our business transformation program, and ensured achievement of key milestones and deliverables. He co-led the execution of an integrated business planning process which aligned with our company's strategic priorities. Mr. Arruda was responsible for ensuring that our business operations achieved planned financial and strategic objectives in 2013.

Linda Goss, senior vice-president and chief actuary
For most of 2013, Ms. Goss led the application of predictive analytics and continued to drive resulting benefits, which has enabled us to monitor and manage the quality of our book of business, achieving better risk selection, more accurate pricing and more profitable book of business. Ms. Goss delivered actuarial modeling for product and pricing changes and reducing the company's exposure to earthquake risk in British Columbia. She assisted in our business transformation program by providing actuarial support in pricing, analytics, reporting and monitoring. Ms. Goss also provided actuarial support for public company readiness and our demutualization initiative.

Dean Bulloch, senior vice-president and chief human resources officer
Mr. Bulloch continued to lead the people and change management dimensions of our business transformation program, and planned and executed related workforce transition strategies. As part of our business transformation program, in 2013, Mr. Bulloch conducted a comprehensive assessment of space usage at our offices. He also continued to lead and execute our corporate responsibility program, including implementing scholarships and bursaries programs in support of talent management.

The following table presents the STIP payout for each NEO based on 2013 results. Amounts shown were paid in the first quarter of 2014:

Name	2013 STIP target	2013 STIP financial results (amount out of 80%)	2013 STIP individual results (amount out of 20%)	2013 STIP total results (amount out of 100%)	2013 total STIP ($)
Karen Gavan	100%	66.9%	25.0%	91.9%	612,659
Philip Mather	40%	67.0%	20.0%	87.0%	142,678
Jorge Arruda	40%	57.5%	20.0%	77.5%	98,907
Linda Goss	40%	67.0%	20.0%	87.0%	103,857
Dean Bulloch	40%	54.0%	25.0%	79.0%	93,401

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, 2013, we significantly exceeded value creation hurdles and had a total sharing pool of $6.6 million. NEOs participated in that pool as follows:

Name	% of sharing pool	2013 total VCP payout ($)
Karen Gavan[1]	19.65%	1,304,273
Philip Mather	9.97%	661,675
Jorge Arruda	7.74%	513,922
Linda Goss	7.26%	481,802
Dean Bulloch	7.19%	476,984

[1] 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.

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. Gavan who was added thereto as part of the terms of her employment.

Defined benefit pension plans (DBPP)
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 five 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 the member is single at retirement, the pension will continue to be paid each month for as long as the member is 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 the member is with a spouse at retirement, the 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 the member is 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. Gavan is also a member 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). We have 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 (DCPP)
Messrs. Mather, Arruda and Bulloch and Ms. Goss participate in our defined contribution pension plans. The DCPP for executives includes the company's core contribution of 4.5% of pensionable earnings as well as executive supplementary contributions of 3.5% of pensionable earnings.

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. The contributions are allocated to the DCPP up to applicable defined contribution pension limits for maximum annual contributions and any excess company contributions are automatically credited to a "Notional Account." The Notional Account maximizes the tax-effectiveness of this pension plan. 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 following tables provide information on pension plans as at 2013 in which the NEOs participate:

Defined benefit pension plan table:

Name	Number of years credited service (#)	Annual benefits payable at year end ($)	Annual benefits payable at age 65 ($)[1]	Accrued obligation at start of year ($)[2]	Compensatory change ($)[3]	Non compensatory change ($)[4]	Closing present value of DB obligation ($)[5]
Karen Gavan	2.528	50,500	306,900	369,300	207,300	64,100	640,700

[1] The information shown in this column was determined based on the final average earnings of the participant as at December 31, 2013 and years of credited service projected up to age 65 (assuming full-time employment).

[2] The information shown in this column was determined by using the same assumptions and methods used for 2013 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 (i.e., removal of indexation) that have a retroactive impact.

[4] Includes all items that are not compensatory, such as changes in actuarial assumptions and discount rate (increased from 4.5% to 4.8%) and change in mortality table (from UP-94 generational to 85% UP-94 generational).

[5] The information shown in this column was determined by using the same assumptions and methods used for 2013 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	72,020	64,409	148,824
Jorge Arruda	367,406	36,556	432,364
Linda Goss	289,826	34,081	364,228
Dean Bulloch	292,200	33,773	382,703

[1] Includes the value of the DCPP plus the value of the Notional Account at January 1, 2013.

[2] Includes the employer contributions to the DCPP and Notional Account made during 2013.

[3] Includes the value of the DCPP plus the value of the Notional Account at December 31, 2013.

SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary ($)	Share base awards ($)	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]			
Karen Gavan, president and CEO[5]	2013	691,923	N/A	N/A	612,659	1,304,273	207,300	87,343	2,903,498
	2012	650,000	N/A	N/A	883,350	770,608	224,400	75,879	2,604,237
	2011	423,500	N/A	N/A	408,571	277,292	69,600	331,990	1,511,611
Philip Mather, SVP and chief financial officer[6]	2013	425,538	N/A	N/A	142,678	661,675	64,409	35,276	1,329,576
	2012	400,000	N/A	N/A	215,200	391,231	61,403	77,916	1,145,750
	2011	224,068	N/A	N/A	190,533	70,390	8,308	52,288	545,586
Jorge Arruda, SVP, sales, distribution and underwriting operations	2013	331,219	N/A	N/A	98,907	513,922	36,556	34,585	1,015,189
	2012	313,392	N/A	N/A	165,029	461,175	34,933	33,109	1,007,638
	2011	306,795	N/A	N/A	128,303	162,693	33,083	31,328	662,202
Linda Goss, SVP and chief actuary	2013	309,743	N/A	N/A	103,857	481,802	34,081	28,665	958,148
	2012	289,363	N/A	N/A	135,159	426,440	32,179	19,340	902,481
	2011	280,935	N/A	N/A	127,535	148,979	29,304	22,565	609,318
Dean Bulloch SVP and chief human resources officer	2013	306,781	N/A	N/A	93,401	476,984	33,773	39,288	950,227
	2012	287,166	N/A	N/A	131,826	386,013	31,801	29,374	866,180
	2011	264,748	N/A	N/A	130,185	122,759	26,507	63,271	607,470

[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 first quarter of the following year.

[2] Long-term incentive plans are comprised of the VCP. The amounts disclosed are the medium-term bonuses earned pursuant to the VCP in each respective year which are paid out in the first quarter of the following year. Amounts shown for 2012 have been restated to reflect recoupment of non-material overpayments arising from calculation error, and are less than previously disclosed.

[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 2013 include the following benefits which exceed 25% of the total value of perquisites reported for the relevant NEO: limousine service ($28,435) for Ms. Gavan; vehicle leases paid on behalf of Mr. Mather ($16,092), Mr. Arruda ($12,030) and Ms. Goss ($9,231); vehicle allowance paid on behalf of Mr. Bulloch ($10,412); executive perquisite allowances paid on behalf of Mr. Mather ($10,000), Mr. Arruda ($13,675), Ms. Goss ($12,144) and Mr. Bulloch ($10,000); and vehicle operating expenses paid on behalf of Mr. Bulloch ($10,155).

[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. Ms. Gavan was formally appointed as president and CEO effective June 23, 2011. Her annualized salary for 2011 was $650,000.

[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 from January 10, 2011 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 NEOs 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 to be 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 "2013 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, we have entered in to change of control agreements with Ms. Gavan, 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 (defined to include the STIP but exclude the VCP);
- 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
- the executive's current year's STIP based on target, prorated 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, 2013 and prior to applicable withholdings and deductions:

Event	K. Gavan	P. Mather	J. Arruda	L. Goss	D. Bulloch
Termination with cause/resignation ($)					
	-	-	-	-	-
Termination without cause ($)					
Severance	2,010,000				
VCP	-	[1]	[1]	[1]	[1]
Annual pension benefit payment	380,100				
All other compensation	8,414				
Termination without cause after change of control ($)					
Severance	2,010,000	865,200	672,000	630,000	623,700
VCP	-	-	-	-	-
Annual pension benefit payment	380,100	129,780	100,800	94,500	93,555
All other compensation[2]	8,414	19,755	17,325	17,086	17,065

[1] We do not have employment agreements with Ms. Goss or Messrs. Mather, Arruda or Bulloch 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 any of 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 website. Financial information is provided in Economical's comparative financial statements and management's discussion and analysis for the year ended December 31, 2013 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 Laurel Hill Advisory Group toll-free at **1-855-701-9227** or by email at **assistance@laurelhill.com**.

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 8, 2014

appendix "a" - statement of corporate governance practices

At Economical, we believe that sound and effective corporate governance is fundamental to enhancing the Board of Directors' (the "Board") ability to guide our 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 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 available in print to any of our mutual policyholders ("Members") upon request to our corporate secretary at the address set out on page 1 of our 2014 Management Proxy Circular. Our website and any information located on our website do not form part of this appendix "a." Information as to membership on our Board committees is current as of the date of that proxy circular.

ETHICAL BUSINESS CONDUCT

CODE OF CONDUCT

We have adopted a Code of Business Conduct (our "Code of Conduct") that governs the behaviour 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. We also have a mandatory online learning program to enhance understanding throughout our organization of the values and principles outlined in our Code of Conduct.

As part of its commitment to support ethical decision-making, our 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 genuine concerns or assist in the investigation of a report.

Compliance with our Code of Conduct is monitored by management and reported to Board committees. 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 annually determines whether each director of Economical is an independent director, as defined under Canadian securities laws, by analyzing his or her conduct and 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 2013, and all but one of the director nominees presented for election at the Meeting, are independent directors. The Board has determined that, of the nine directors listed in our 2014 Management Proxy Circular, Karen Gavan is not considered to be independent by virtue of her Economical management position. The other three director nominees presented for election at our 2014 annual general meeting (John H. Bowey, Elizabeth L. DelBianco and Barbara H. Fraser), as well as the remaining directors (Richard M. Freeborough, Gerald Hooper, Charles M.W. Ormston, Michael P. Stramaglia and W. David Wilson) 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 2014 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 those 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, a Risk Review Committee. Each committee has a written mandate, which it is required to reassess at least once every three years and the results of those assessments are reported to the full Board. In carrying out its duties, each committee may retain and terminate any outside advisor without Board approval at our expense at any time and has the authority to determine its 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 four members: Richard Freeborough (chair), Michael Stramaglia, Gerald Hooper, and as of December 1, 2013, Barbara Fraser. If elected at the meeting, we intend to re-appoint Ms. Fraser to the Audit Committee to maintain its current composition. 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, annual management's discussion and analysis (MD&A) and related public disclosure prior to their release to the public;
- recommending to the Board the external auditors to be appointed for the purpose of preparing or issuing an auditors' 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 their 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 or her responsibilities as an Audit Committee member. The Audit Committee members 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. Freeborough, Stramaglia, Hooper and Ms. Fraser, please see our 2014 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 2014 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, Gerald Hooper and Elizabeth DelBianco. Each member of the committee is an independent director. If elected at our 2014 annual general meeting, we intend to re-appoint Mr. Bowey and Ms. DelBianco 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 "Statement of 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 Wilson (chair), Karen Gavan and Michael Stramaglia, and as of December 1, 2013, Barbara Fraser, each of whom is an independent director other than Karen Gavan, our president and CEO. If elected at our 2014 annual general meeting, we intend to re-appoint Ms. Gavan and Ms. Fraser 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 (Canada);
- 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; and
- the selection of, and work performed by, investment managers for the company and its pension plans.

CORPORATE GOVERNANCE COMMITTEE

The members of the Corporate Governance Committee are Elizabeth DelBianco (chair), Gerald Hooper, Charles Ormston and John Bowey. Each member of the committee is an independent director. If elected at our 2014 annual general meeting, we intend to re-appoint Ms. DelBianco and Mr. Bowey to the Corporate Governance Committee to maintain its current composition. The Board has adopted a formal mandate which outlines the responsibilities of the Corporate Governance Committee with respect to, among other things:

- developing and maintaining a healthy and effective corporate governance framework and culture;
- reviewing the overall size, composition, independence and effectiveness 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;
- 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 members of the Risk Review Committee are Michael Stramaglia (chair), Richard Freeborough, and David Wilson, each of whom is an independent director. 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 to ensure continued solvency based upon both regulatory requirements and its own assessment of the company's risk profile.

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, Board vice-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.

The vice-chair of the Board is responsible for providing supplemental leadership to enhance Board effectiveness and to perform the responsibilities of the Board chair when the Board chair cannot be available.

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 and input from 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 2014 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 16 through 29 of our 2014 Management Proxy Circular.

NOMINATION OF DIRECTORS

DIRECTOR NOMINATIONS

The Corporate Governance Committee's responsibilities include serving as our nominating committee for new directors. It recommends to the Board the 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 or specific term limits 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. The intended initial term for our Board Chair is five years, with eligibility for successive three year terms, subject to review in advance of renewal.

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.

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 residency and affiliation requirements specified by applicable laws and regulations.

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.

DIRECTOR ELECTIONS

Under our bylaws, directors hold office for rotating three-year terms. One third of our directors stand for election at each annual meeting, to serve for three-year terms or until their successors are elected or appointed. The Board has reviewed this practice and intends to establish bylaws (by way of amendment or new adoption) which would provide for annual elections for all directors following completion of a demutualization transaction. The Board is also aware of recent developments regarding director election practices for Canadian public companies, including recently implemented and proposed TSX rules, and intends to review its practices in light of those requirements in conjunction with any potential future initial public offering.

BOARD DIVERSITY

The Board believes that a board made up of strong directors with the right skill sets, who also represent diverse personal experiences and backgrounds, promotes better corporate governance. The last two directors appointed to the Board were women, resulting in the Board's current composition of 33% women – the highest in our history.

As part of its ongoing review of corporate governance practices, the Board adopted a formal board diversity policy in 2013. Under the policy, when identifying candidates to recommend for election to the Board, the Corporate Governance Committee will give consideration to diversity factors such as gender, age and ethnicity, along with business experience, functional expertise, personal skills and integrity, and take into account the level of diversity currently on the Board. In addition, the Corporate Governance Committee may engage a qualified independent external advisor to conduct a search for candidates that meet our diversity factors. Every year, the Corporate Governance Committee will assess the effectiveness of the board diversity policy. In adopting the board diversity policy, the Corporate Governance Committee and Board of Directors considered the utility of diversity targets and determined that it would not be desirable to quantify specific targets given the broad mix of diversity factors to be considered and the relatively small size of our Board.

The Corporate Governance Committee and Board of Directors also considered the appropriateness of establishing fixed term limits for directors and determined that it would not be appropriate to establish such limits. Imposing an arbitrary term limit would unnecessarily expose the company to losing the contribution of directors who have valuable business experience and insight into the company's operations, and who could continue to make significant contributions to the Board and the company. Given the Board's current composition, relatively small size and recent renewal, the Corporate Governance Committee and Board of Directors believes that term limits would not be necessary to achieve the objective of bringing fresh ideas and viewpoints to the Board.

Instead, our Corporate Governance Committee relies on its annual assessment of Board effectiveness to determine if changes to Board composition are appropriate.

MANAGEMENT DIVERSITY

Our Human Resources and Composition Committee oversees the diversity programs we have in place for employees at all levels of the company, including our executives.

We believe that diversity is a key driver in contributing to our success, and we actively promote a culture of inclusion and collaboration. We measure diversity through a questionnaire to monitor employee opinions on our progress against a broad range of diversity dimensions, including race, gender, sexual orientation and identification, ethnicity, and religion. The diversity questionnaire was first given in 2011, and is expected to be given again in 2014.

With respect to gender diversity, women represented 66% of our overall workforce as at December 31, 2013, including 32% of our executives, 49% of our other management roles, and 60% of our other supervisory roles.

We have a strategic commitment to developing leadership in women. Since 2008, our Women's Leadership Network has grown to over 80 senior female leaders within the company including our president and CEO and five female executive members. That commitment has contributed to a 30% increase in the promotion of women into senior leadership roles over the past six years.

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. We provide our directors with an annual budget of $3,000 each to fund participation in external education and development 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.

…good to know®