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economical



**MEETING NOTICE AND MANAGEMENT PROXY CIRCULAR**







# NOTICE OF ANNUAL MEETING OF MEMBERS OF ECONOMICAL MUTUAL INSURANCE COMPANY

Notice is hereby given that the Annual Meeting ("Meeting") of mutual policyholders ("Members") of Economical Mutual Insurance Company ("Economical") will be held on May 3, 2019 at 10:30 a.m. (Eastern Time) in the Ballroom of the Bingemans Conference Centre, 425 Bingemans Centre Drive, Kitchener, Ontario for the following purposes:

- A. to receive the consolidated financial statements of Economical for the year ended December 31, 2018, 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 and authorize the directors to fix their remuneration;
- 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 vote on each matter to be brought before the Meeting.

By order of the Board of Directors,

**ROWAN SAUNDERS**

President and CEO  
Waterloo, Ontario  
April 5, 2019

**The Meeting is an annual meeting of Members. The purpose of this Meeting is to address the annual business of Economical and not to consider our proposed demutualization. For information on our demutualization process, please visit our demutualization website ([joininourfuture.com](http://joininourfuture.com)).**

Members of Economical, whether or not they attend the Meeting, are encouraged to complete, date, and sign the enclosed proxy form, and return it by mail in the postage-paid envelope provided, or by hand at 100 University Avenue, 8th Floor, Toronto, Ontario, 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). Proxies may also be returned, by hand, to the head office of Economical at 111 Westmount Road South, Waterloo, Ontario, N2L 2L6, Attention: Corporate Secretary. In order to be valid, a Member's proxy must reach Computershare Investor Services Inc. or Economical, in a manner noted above, no later than 10:30 a.m. (Eastern Time) on April 23, 2019, or if the Meeting is adjourned or postponed, no later than 10 days before any adjournment or postponement thereof.

Members may also register their vote at [webvotedirect.com](http://webvotedirect.com) or over the telephone at 1-866-301-0994 (toll-free in North America) or 1-514-982-8712 (international) no later than 10:30 a.m. (Eastern Time) on April 23, 2019, 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. If a Member or their appointed proxyholder is attending the Meeting in person, a piece of government issued photo identification will be required to register.

For any questions regarding the Meeting or the Management Proxy Circular, Members should contact Laurel Hill Advisory Group by telephone at 1-877-304-0211, or by email at [assistance@laurelhill.com](mailto:assistance@laurelhill.com). For assistance with the proxy form or voting, please contact Computershare Investor Services Inc., by telephone at 1-800-564-6253, or by email at [service@computershare.com](mailto:service@computershare.com).



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# MANAGEMENT PROXY CIRCULAR

*References to “Economical” in this Management Proxy Circular (the “Circular”) are to Economical Mutual Insurance Company. References to the “Company,” “we,” “us” and “our” in this Circular are to Economical and, where the context requires, its direct and indirect subsidiaries. All dollar amounts in this Circular are in Canadian dollars. Certain totals, subtotals, and percentages may not reconcile due to rounding. 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 [economical.com](http://economical.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 may contain forward-looking statements, as indicated by words such as “believe,” “anticipate,” “intend,” “estimate,” “expect,” “may,” “project,” “will,” “would,” 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 do not undertake and have no intention to update or alter any of our forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.*

## GENERAL PROXY AND VOTING INFORMATION

### SOLICITATION OF PROXIES

This Circular and the accompanying proxy form are provided in connection with the solicitation of proxies by the management of Economical (“Management”) to be used at the Annual Meeting (“Meeting”) of mutual policyholders of Economical (“Members”) for the purposes indicated herein, to be held at 10:30 a.m. (Eastern Time) on May 3, 2019, in the Ballroom of the Bingemans Conference Centre, 425 Bingemans Centre Drive, Kitchener, Ontario, N2B 3X7, and at any adjournment or postponement thereof.

### WHO IS SOLICITING THE PROXIES

Employees, officers, directors, or agents of Economical will solicit proxies on behalf of Management, including Laurel Hill Advisory Group (“Laurel Hill”) who we have retained to assist us. The solicitation of proxies may 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 founded over 145 years ago. We are governed by the *Insurance Companies Act* (Canada) and regulated by the Office of the Superintendent of Financial Institutions Canada (“OSFI”). “Mutual companies” do not have common shares or common 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 annual 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 normally carry any voting rights.

### WHO MAY VOTE

Each Member of record as of 10:30 a.m. (Eastern Time) on May 3, 2019, is entitled to cast one vote on all matters validly proposed to come before the Meeting. As of the date of this Circular, Economical had 814 Members eligible to vote at the Meeting.

The by-laws of Economical 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 the 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.

If a Member or their appointed proxyholder is attending the Meeting in person, a piece of government issued photo identification will be required to register.

## HOW TO VOTE

Members may vote either in person at the Meeting, by using the enclosed proxy form, 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 and vote on a Member's behalf in accordance with the Member's instructions at the Meeting. The proxyholders designated in the enclosed 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; however, in order for the vote to count, the appointed proxyholder must be present in person at the Meeting.

#### Voting and appointment instructions

To vote by appointment of a proxyholder, Members must complete, sign, and return the enclosed proxy form. In order to be valid, the proxy form must be registered with Computershare Investor Services Inc. ("Computershare") by mail or in person at 100 University Avenue, 8th Floor, Toronto, Ontario, 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 April 23, 2019 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. Proxies may also be deposited at the head office of Economical at 111 Westmount Road South, Waterloo, Ontario, N2L 2L6, Attention: Corporate Secretary, if they are received by 10:30 a.m. (Eastern Time) on April 23, 2019. If you wish to return the proxy form by mail, you may use the postage-paid envelope included with this Circular.

Members may also register your vote at [webvotedirect.com](http://webvotedirect.com) or over the telephone at 1-866-301-0994 (toll-free in North America) or 1-514-982-8712 (international) no later than 10:30 a.m. (Eastern Time) on April 23, 2019 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 will be voted for or withheld from voting by the proxyholder designated in the enclosed 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, and authorizing the directors to fix their remuneration.

The enclosed proxy form confers on the proxyholder designated therein discretionary authority with respect to any proposed amendments or variations to the matters listed on the proxy form 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:

- in advance of the Meeting, 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, M5J 2Y1 or to the head office of Economical at 111 Westmount Road South, Waterloo, Ontario, N2L 2L6, Attention: Corporate Secretary, in each case no later than 5:00 p.m. (Eastern Time) on May 2, 2019, or if the Meeting is postponed or adjourned, no later than 5:00 p.m. (Eastern Time) on the last business day before the postponed meeting or continuation of the Meeting after the adjournment;
- on the day of the Meeting, by delivering a written notice to that effect signed by them or their duly authorized representative(s) to an agent of Computershare or to the Chair of the Meeting, before the Meeting commences (including a continuation thereof after an adjournment, or if the Meeting is postponed, before the postponed Meeting commences); 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.

## BUSINESS OF THE MEETING

The Meeting is scheduled to be held on May 3, 2019, at 10:30 a.m. (Eastern Time) in the Ballroom of the Bingemans Conference Centre, 425 Bingemans Centre Drive, Kitchener, Ontario, N2B 3X7.

The Meeting date may be postponed by resolution of the Economical Board of Directors (the “Board”) until a later date and time. If that happens, notice of the changed date and time will be delivered to all Members 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 “How to revoke a proxy” on page 3. 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. The purpose of this Meeting is to address the annual business of Economical and not to consider the Company’s proposed demutualization or any other matter. For information on our demutualization process, please visit our demutualization website ([joininourfuture.com](http://joininourfuture.com)).**

Under Item B – Appointment of Auditors, the appointment of the Company’s auditors and authorization for the Board to fix their remuneration 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. Under Item C – Election of Directors, the directors who receive the greatest number of votes will be elected.

### ITEM A – FINANCIAL STATEMENTS

A copy of the consolidated financial statements of Economical for the year ended December 31, 2018, together with the auditors’ report thereon and the actuary’s report on the policy liabilities in those statements will be sent to Members with this Circular and 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 external auditors, to hold office until the next annual meeting of Members, and to authorize the Board to fix the remuneration to be paid to them. Ernst & Young LLP have served as our external 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 certain enumerated audit-related, tax, and other non-audit services provided by our external auditors where the fees for a particular engagement would be expected to exceed a specified dollar amount or percentage of the audit fee for the year. The Audit Committee must also pre-approve any other individual non-audit services to be provided by our external auditors, but will not approve any service that is prohibited under applicable professional standards or law. The Chair of the Audit Committee may grant individual *ad hoc* approvals for non-audit services, provided that such approvals are reported to the full Audit Committee at its next regularly scheduled meeting. None of the Audit Committee’s responsibilities under these policies and procedures may be delegated to Management.

#### External auditors’ service fees

The following chart summarizes fees billed by our external auditors for services they have rendered to us in respect of the two most recent years.

External auditors’ service fees	2018 (\$)	2017 (\$)
Audit fees	868,687	875,970
Audit-related fees	146,300	148,510
Tax fees	1,184,609	896,060
All other fees	159,120	395,474
<b>Total</b>	<b>2,358,716</b>	<b>2,316,014</b>



Audit fees include fees for professional services for the audit of the financial statements of Economical 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 demutualization, restructurings, tax audits, appeals, and contested tax matters. All other fees may include other demutualization-related support, actuarial peer reviews, and other non-accounting, non-tax-related matters.

## **ITEM C – ELECTION OF DIRECTORS**

### **Overview**

Our by-laws provide that the Board shall consist of a minimum of seven directors and a maximum of 21 directors. The number of directors to be elected at an annual meeting shall be fixed by the Board prior to the annual meeting, and has been fixed at three for the Meeting. 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 by-laws, directors hold office for rotating three-year terms. Only three directors are up for election at the Meeting, each to serve for a three-year term ending at the close of the annual meeting of Members in 2022 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 nine directors: John Bowey, Elizabeth DelBianco, Daniel Fortin, Barbara Fraser, Dick Freeborough, Micheál Kelly, Susan Monteith, Rowan Saunders, and Michael Stramaglia.

Based on information provided by our directors as to their personal circumstances and the applicable legal tests, a majority of our Board members that served during 2018, and all of the director nominees presented for election at the Meeting, are independent directors. The Board has determined that only Rowan Saunders is not considered independent by virtue of his Management position. The three director nominees presented for election at the Meeting (Dick Freeborough, Micheál Kelly, and Michael Stramaglia), as well as all of the directors that are expected to remain after the Meeting other than Rowan Saunders (John Bowey, Elizabeth DelBianco, Daniel Fortin, Barbara Fraser, and Susan Monteith) have all been determined to be independent directors.

The Board currently has five standing committees: an Audit Committee, a Corporate Governance Committee, a Human Resources and Compensation Committee, an Investment Committee, and a Risk Review Committee. In 2010, the Board established a Special Committee to oversee our demutualization process and possible related transactions. In 2015, the Board established a Strategic Initiatives Committee to assist the Board in fulfilling its oversight responsibilities with respect to the implementation of certain significant strategic initiatives. The membership of each committee is indicated in the director profiles that follow.

Effective at the close of the Company's last annual meeting on May 7, 2018, Gerald Hooper retired from serving as a director. Mr. Hooper was appointed to the Board in 1999 and was Board Chair for 11 years until January 2016. During 2018 and prior to retiring, Mr. Hooper was Chair of the Investment Committee, and a member of the Audit Committee and Risk Review Committee. Prior to retiring, Mr. Hooper attended 100% of the Board (2/2), Audit Committee (3/3), Investment Committee (2/2), and Risk Review Committee (2/2) meetings held during the year.

Effective on September 4, 2018, Jay Forbes stepped down from serving as a director, after assuming a new role as chief executive officer of a publicly-traded financial services company. During 2018 and prior to stepping down, Mr. Forbes was a member of the Audit Committee (from April 1, 2018), the Human Resources and Compensation Committee, the Investment Committee (until April 1, 2018) and the Special Committee. During 2018, Mr. Forbes attended 100% of the Board (4/4), Audit Committee (5/5), Human Resources and Compensation Committee (3/3), Investment Committee (1/1), and Special Committee (4/4) meetings held while he was a director or member of the relevant committee, as applicable.

### **Board renewal**

Our Board has experienced significant renewal and increased diversity since 2010, driven by the complexity of our operations, the competitive dynamics of our industry, the broad range of operational and corporate initiatives we have undertaken, and our preparations to become a public company. New directors have been added with expertise in marketing, technology, operational transformation, law, risk management, accounting, capital markets, mergers and acquisitions, and corporate governance. Two-thirds of our current Board members have joined the Board since March 2013.

Most recently, in January 2016 Gerald Hooper stepped down as chair of the Board and announced that he would retire from the Board effective in 2018; upon his retirement in May 2018, Mr. Hooper had served on the Board for over 18 years, including as Board Chair for 11 years. David Wilson retired from the Board in August 2017 after five years of service; Mr. Wilson is a former chair of the Ontario Securities Commission with a 35-year career in Canada's securities industry. Jay Forbes joined the Board in September 2017, having been the chief executive of four companies in the technology and telecommunications

sector, including publicly-traded companies; Mr. Forbes stepped down from the Board in September 2018 upon assuming a new role as chief executive officer of a publicly-traded financial services company. Susan Monteith joined the Board in January 2018, with broad experience as a senior leader in the Canadian capital markets industry.

Board renewal continues to be a key focus for the Board and the Corporate Governance Committee.

Taking account of the most recent transitions in our Board's membership, our continued journey toward demutualization and competing as an independent, publicly-traded Canadian property and casualty insurer, and the results of the most recent annual Board, committee, and director evaluation process, the Corporate Governance Committee has recently initiated a process to identify up to two further individuals to recommend to the Board for nomination as independent directors. This process involves the assistance of an external search firm.

This process particularly targets identifying individuals with experience as executive leaders of sizeable Canadian property and casualty insurers, as well as individuals with track records as chief executive officer (or chief financial officer) of mid- or large-cap Canadian publicly-traded companies. Further, the process takes heed of the regional concentration of the current Board members in Ontario, and to the extent that their qualifications are otherwise appropriate, candidates with backgrounds in other Canadian regions, particularly Quebec, are sought. The outcome of the process is expected to be an even-stronger balance between directors with a history and knowledge of the Company and those with new, different, and complementary ideas and experiences that are appropriate for Economical and the transformation of our business which is currently underway.

The Board and the Corporate Governance Committee have also assessed the overall size of the Board. Having regard to the need to have a board that is large enough to include the requisite expertise and resources but small enough to allow effective decision-making, as well as the results of the most recent annual Board, committee, and director evaluation process and relevant information concerning prevailing Canadian corporate board sizes, the Board and the Corporate Governance Committee have determined that maintaining the present Board size of nine, with the potential addition of up to two additional members as a result of this process, is currently in the best interests of Economical.

Consistent with our board diversity policy, in this process the Corporate Governance Committee will consider 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; also, the Committee will observe our guideline concerning the maximum number of non-Economical boards our directors should serve on.

### **Nominees for election at the Meeting**

There are three nominees proposed by Economical for re-election as directors at the Meeting: Dick Freeborough, Micheál Kelly, and Michael Stramaglia.

Dick Freeborough and Micheál Kelly were both first appointed to fill the vacancy caused by a director that had stepped down, and were subsequently elected by Members at an annual meeting. In this manner, Dick Freeborough was appointed in February 2012 and elected at the Company's 2013 annual meeting, and Micheál Kelly was appointed in April 2015 and elected at the Company's 2016 annual meeting. Michael Stramaglia was nominated to fill a vacant director position, and elected by Members, at the Company's 2010 annual meeting. The respective terms of the foregoing directors expire at the end of the Meeting and they are all standing for re-election at the Meeting. 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 these nominees.

Each of the 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 the 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, her, or its proxy that votes are to be withheld from voting for the election of directors.

The biographies that follow set out the following information for each current director eligible to serve as such after the Meeting: 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; public board memberships held currently and in the past five years, if any; their age (as of the date of this Circular); their place of residence; and their attendance at Board and committee meetings held in 2018. All biographical information, not being within our knowledge, has been provided by the relevant director.



**DICK FREEBOROUGH**  
FCPA, FCA, ICD.D

Oakville, ON  
Age: 76  
Independent

Mr. Freeborough joined the Board in February 2012. If elected at the Meeting, his new term will expire at the close of the annual meeting of Members in 2022. He is a corporate director who brings 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.

Mr. Freeborough is a director for RGA Life Reinsurance Company of Canada and the Toronto Mendelssohn Choir.

Mr. Freeborough is a Fellow of the Chartered Professional Accountants of Ontario and holds the ICD.D designation.

Mr. Freeborough is currently Chair of the Audit Committee, and serves on the Corporate Governance Committee, Special Committee, and Risk Review Committee.

#### BOARD AND COMMITTEES

	2018 ATTENDANCE	JOINED
Board	7/7	2012
Audit Committee	7/7	2012
Special Committee	7/7	2012
Risk Review Committee	4/4	2014
Corporate Governance Committee	2/2*	2018

\*indicates part-year service

#### PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS

None



**MICHEÁL KELLY**  
AB, MA, PhD

Waterloo, ON  
Age: 70  
Independent

Dr. Kelly joined the Board in April 2015. If elected at the Meeting, his new term will expire at the close of the annual meeting of Members in 2022. He is Dean of the Lazaridis School of Business and Economics at Wilfrid Laurier University, and was previously Professor of Strategy and International Business and also Dean (from 2000 to 2010) of the Telfer School of Management at the University of Ottawa.

Dr. Kelly is a former Chairman of the Six Countries Programme, one of Europe's first innovation networks. He has also served on the Advisory Board of the Silicon Valley Roundtable. He is a past Chair of the Canadian Federation of Business School Deans, a past member of le conseil d'administration of ESC Reims Management School in France, and a past member of the Board of Governors of Beta Gamma Sigma, the international business school honour society.

He serves on the boards of Waterloo North Hydro, the Canadian Advanced Technology Alliance (CATA) and the Canada-Israel Industrial Research and Development Foundation, and is a member of the ADGA Strategic Advisory Council.

Dr. Kelly was educated at Assumption College, the University of Ottawa, and Carleton University. He is a recipient of both the Queen Elizabeth II Golden Jubilee and Diamond Jubilee medals.

Dr. Kelly is currently Chair of the Corporate Governance Committee, and serves on the Audit Committee and Strategic Initiatives Committee.

#### BOARD AND COMMITTEES

	2018 ATTENDANCE	JOINED
Board	7/7	2015
Corporate Governance Committee	3/3	2015
Strategic Initiatives Committee	4/4	2015
Audit Committee	6/7	2016

#### PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS

None



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

Toronto, ON  
Age: 59  
Independent

Mr. Stramaglia joined the Board in April 2010. If elected at the Meeting, his new term will expire at the close of the annual meeting of Members in 2022. He is a professional corporate director and is the President and founder of Matrisc Advisory Group Inc., a risk management consulting firm.

Mr. Stramaglia sits on the boards of Foresters Financial, Equitable Group Inc. and its related Canadian bank, where he is also Chair of the Risk & Capital Committee, and Munich Re Group’s Canadian subsidiaries, Munich Reinsurance Company of Canada and Temple Insurance. He also holds the position of Executive in Residence at the Global Risk Institute in Financial Services, and Program Director for the Schulich Executive Education Centre of Excellence in Governance, Risk Management and Control.

Mr. Stramaglia brings many years of experience in executive management positions, including Chief Risk Officer and Executive Vice-President of Investments at Sun Life Financial Inc., and Chief Investment Officer and Executive Vice-President of Reinsurance at Clarica Life Insurance Company, President and CEO of Zurich Life Insurance Company of Canada, and President and COO of Zurich Financial Services Ltd.’s consolidated Canadian life and P&C insurance operations.

Mr. Stramaglia is a qualified actuary and a Chartered Enterprise Risk Analyst. He holds an Honours Bachelor of Mathematics from the University of Waterloo and the ICD.D designation from the Institute of Corporate Directors.

Mr. Stramaglia is currently Chair of the Risk Review Committee, and serves on the Audit Committee and Investment Committee.

BOARD AND COMMITTEES	2018 ATTENDANCE	JOINED
Board	7/7	2010
Investment Committee	4/5	2010
Audit Committee	7/7	2011
Risk Review Committee	4/4	2012

**PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS**

Equitable Group Inc.	2014 to present
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### Incumbent directors whose terms continue beyond the Meeting

The following profiles set out the names of the six 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; public board memberships held currently and in the past five years, if any; their age (as of the date of this Circular); their place of residence; and their attendance at Board and committee meetings held in 2018. All biographical information, not being within our knowledge, has been furnished by the relevant director.

At the Company's last annual meeting held on May 7, 2018, each of the Company's three director nominees (Jay Forbes, Daniel Fortin and Susan Monteith) were elected as a director by show of hands, without a vote by ballot being conducted. Over 96% of proxies submitted were voted "FOR" the election of each nominee.



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

Conestogo, ON  
Age: 71  
Independent

Mr. Bowey joined the Board in May 2011. His current term will expire at the close of the annual meeting of Members in 2020. He was appointed Chair of the Board in January 2016 and previously held the position of Vice-Chair.

He is a retired partner of Deloitte LLP, where he held a number of leadership roles including Managing Partner of Deloitte in Southwestern Ontario and Chairman of the Board of Deloitte Canada. He was also a member of Deloitte's global Board of Directors.

He serves on a number of corporate and not-for-profit boards, including Wilfrid Laurier University, where he was formerly Chair of the Board of Governors, Brick Brewing Co. Limited, and Kognitiv Corporation where he is Chair of the Audit Committee, and he is a member of the Advisory Board for Fistow Holdings Inc. He is a past Chair 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 Chartered Professional Accountants of Ontario and holds the ICD.D designation.

Mr. Bowey is currently Chair of the Special Committee, and serves on the Human Resources and Compensation Committee, and Strategic Initiatives Committee. Mr. Bowey also served on the Corporate Governance Committee for part of 2018, and rejoined it effective February 21, 2019.

BOARD AND COMMITTEES	2018 ATTENDANCE	JOINED
Board	7/7	2011
Special Committee	7/7	2011
Corporate Governance Committee	3/3*	2016
Strategic Initiatives Committee	3/4	2016
Human Resources and Compensation Committee	0/0*	2018

\* indicates part-year service

### PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS

Brick Brewing Co. Limited	2010 to present
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**ELIZABETH DELBIANCO**  
BA, LL.B, MBA, ICD.D

Toronto, ON  
Age: 59  
Independent

Ms. DelBianco joined the Board in March 2013. Her current term will expire at the close of the annual meeting of Members in 2020. She is currently Chief Legal and Administrative Officer for Celestica Inc., a NYSE-listed and S&P/TSX Composite Index company, where she leads the legal, human resources, communications, compliance, and sustainability functions.

Ms. DelBianco is a member of the Dean's Advisory Committee for the Faculty of Law at Queen's University and a member of Canada's Most Powerful Women: Top 100™ Hall of Fame.

Ms. DelBianco holds 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 also holds the ICD.D designation and is called to the bar in Ontario and New York.

Ms. DelBianco is currently Chair of the Human Resources and Compensation Committee, and serves on the Corporate Governance Committee.

#### BOARD AND COMMITTEES

	2018 ATTENDANCE	JOINED
Board	7/7	2013
Corporate Governance Committee	3/3	2013
Human Resources and Compensation Committee	4/4	2013

#### PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS

None



**DANIEL FORTIN**  
B.Eng (Civil),  
Hon. D.Eng, ICD.D

Pickering, ON  
Age: 62  
Independent

Mr. Fortin joined the Board in October 2014. His current term will expire at the close of the annual meeting of Members in 2021.

Mr. Fortin is the former president of IBM Canada with more than 35 years of experience in the technology industry, and 15 years of leadership experience globally. He guided IBM in helping Canadian organizations transform their businesses to better compete in today's competitive markets. During his time at IBM, he also held a number of senior executive positions at the North American and global levels.

Mr. Fortin is a director at Foresters Financial, as well as Evok Innovations where he is Board Chair.

Throughout his career, Mr. Fortin has been active on a number of non-profit boards and associations, including The Conference Board of Canada, World Vision Canada, United Way Toronto, and Urban Promise. He currently serves as Vice Chair of Carleton University's Board of Governors. Mr. Fortin holds a Bachelor of Civil Engineering and an honorary doctorate from Carleton University in Ottawa. He also holds the ICD.D designation.

Mr. Fortin is currently Chair of the Strategic Initiatives Committee, and serves on the Human Resources and Compensation Committee, and Risk Review Committee.

#### BOARD AND COMMITTEES

	2018 ATTENDANCE	JOINED
Board	7/7	2014
Human Resources and Compensation Committee	4/4	2014
Risk Review Committee	4/4	2014
Strategic Initiatives Committee	4/4	2015

#### PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS

None





**BARBARA FRASER**  
**HBA**

Toronto, ON  
Age: 69  
Independent

Ms. Fraser joined the Board in December 2013. Her current term will expire at the close of the annual meeting of Members in 2020. She is a corporate director with extensive C-suite experience in marketing and general management at leading global companies in the financial services sector, including American Express and Citi, and in the consumer products industry with Procter & Gamble. Before retiring in 2006, Ms. Fraser was a member of the Global Management Team of American Express, based in New York, where she held several leadership positions, including Global President, Travelers Cheques & Prepaid Services; EVP, Products and CMO of American Express Financial Advisors (now Ameriprise); CEO of IDS Life Insurance and SVP, Global Brand Strategy – American Express.

She has most recently served on the boards of MD Life Insurance Company and Manitoba Telecom Services Inc. In addition, she is an Emeritus member of the Advisory Board of the Ivey Business School at Western University. She has also previously served on the boards of ten other companies, as both an inside and outside director.

Ms. Fraser is an HBA graduate from Ivey Business School and holds Series 7 & 24 designations from the National Association of Securities Dealers, U.S.A. Her achievements have been recognized with numerous awards, including the Ivey Distinguished Service Award and the Academy of Women Achievers of New York City.

Ms. Fraser is currently Chair of the Investment Committee, and serves on the Human Resources and Compensation Committee, and Strategic Initiatives Committee. In 2018, Ms. Fraser also served on the Corporate Governance Committee (as Chair).

<b>BOARD AND COMMITTEES</b>	<b>2018 ATTENDANCE</b>	<b>JOINED</b>
Board	7/7	2013
Corporate Governance Committee	1/1*	2015
Human Resources and Compensation Committee	4/4	2015
Strategic Initiatives Committee	4/4	2015
Investment Committee	4/4*	2018

\*indicates part-year service

**PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS**

Manitoba Telecom Services Inc.	2014 to March 2017
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**SUSAN MONTEITH**  
**LL.B, MSc (Bus), ICD.D**

Toronto, ON  
Age: 62  
Independent

Ms. Monteith joined the Board in January 2018. Her current term will expire at the close of the annual meeting of Members in 2021.

She is a senior executive with more than thirty years of experience in roles with leading Canadian financial institutions including CIBC World Markets and National Bank Financial, and has been a trusted advisor to many boards and senior executives of public and private companies over her career. Most recently at National Bank Financial she was EVP & Managing Director of Client Strategy and People Development, and a member of the Management Committee. She was a past member of Cabinet for the United Way of Toronto & York Region, where she co-chaired fundraising for the Women Gaining Ground initiative, and was a founding board member and part of the advisory council for Women in Capital Markets. She has also served on the board of the Toronto Rehab Hospital Foundation.

Ms. Monteith holds an LL.B from Osgoode Hall Law School at York University and an MSc in Business from London Business School. She also holds the ICD.D designation and was formerly a member of the bar in Ontario.

Ms. Monteith currently serves on the Investment Committee, Risk Review Committee, and Special Committee.

<b>BOARD AND COMMITTEES</b>	<b>2018 ATTENDANCE</b>	<b>JOINED</b>
Board	7/7	2018
Investment Committee	4/4*	2018
Risk Review Committee	3/3*	2018
Special Committee	6/6*	2018

#### **PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS**

None



**ROWAN SAUNDERS**  
**BA, FCIP, CRM**

Toronto, ON  
Age: 54  
Not Independent

Mr. Saunders is the President and CEO of Economical, effective November 1, 2016, and he joined the Board in November 2016. His current term will expire at the close of the annual meeting of Members in 2020.

His extensive background includes 30 years of international P&C industry experience, holding progressive positions in the areas of underwriting, marketing, sales and finance, and most recently twelve years as the President and CEO of Royal & Sun Alliance Insurance Company of Canada, a P&C insurer.

He is the past Chairman, a current member of the Board of Directors, and Chair of the Audit Committee of the Insurance Bureau of Canada, and a member of the boards of Equitable Group Inc. and its related Canadian bank. Mr. Saunders is a past member of the Financial Services Commission of Ontario's CEO Advisory Committee, the Board of Directors of the Institute for Catastrophic Loss Reduction, and the Board of Directors of Facility Association.

Mr. Saunders holds a BA from York University, as well as a Canadian Risk Management designation, and is a Fellow of the Insurance Institute of Canada.

He currently serves on the Investment Committee.

<b>BOARD AND COMMITTEES</b>	<b>2018 ATTENDANCE</b>	<b>JOINED</b>
Board	7/7	2016
Investment Committee	4/5	2016

#### **PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS**

Equitable Group Inc. 2013 to present



### 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.

### Directors' compensation

The Economical directors' compensation program is designed to compensate eligible directors for the work required to fulfill their roles. Directors who are also employees of Economical or any of our subsidiaries receive no remuneration for acting as a director of Economical or of any subsidiary.

Each of our directors serves on the Board and committees of Economical and our insurer subsidiaries (The Missisquoi Insurance Company, Perth Insurance Company, Waterloo Insurance Company, Sonnet Insurance Company, and Petline Insurance Company). Currently, the membership and chair designations for our insurer subsidiary boards and their committees (to the extent such committees exist) are identical to Economical. For example, if a director is Chair of the Economical Audit Committee, that director is also Chair of the Audit Committees for our insurer subsidiaries. Also, the committees in existence at our insurer subsidiaries are identical to those in existence at Economical, except for the Special Committee and the Strategic Initiatives Committee, which exist only at Economical.

In 2018, non-management directors of Economical received the retainers outlined in the table below for service on our boards and committees.

Non-management directors' compensation	Annual retainer <sup>1</sup> (\$)
Board Chair	250,000
Director <sup>2</sup>	125,000
Committee Chair (Audit, Human Resources and Compensation, Special) <sup>3</sup>	20,000
Committee Chair (Corporate Governance, Investment, Risk Review, Strategic Initiatives) <sup>3</sup>	15,000
Committee member <sup>4</sup>	4,000

<sup>1</sup> Aggregate compensation for board and committee director and chair retainers, as applicable, in respect of Economical and its insurer subsidiaries. Prior to September 2018, these amounts also compensated directors for their service on the board of Westmount Financial Inc., the Company's financial subsidiary; since September 2018, fees are no longer paid for service on that board.

<sup>2</sup> Paid to all non-management directors other than the Board Chair.

<sup>3</sup> Committee chair fees differ based on the varying workload of each committee.

<sup>4</sup> Paid to non-chair committee members only, for each committee they serve on.

We also reimburse our directors for expenses in accordance with our expense reimbursement policy. Our by-laws and each of our insurer subsidiaries' by-laws limit the amount of retainers that may be paid to each company's directors for serving on its board and committees. Each company's limit is currently \$800,000 annually.

The table below shows the amounts, before withholdings, provided to our non-management directors for their service for 2018 on the boards of Economical and its subsidiaries and their respective committees.

Directors' compensation	Board Member / Chair (\$)	Committee Member (\$)	Committee Chair (\$)	All other compensation (\$)	Total compensation <sup>1</sup> (\$)
John Bowey	250,000	8,000	20,000	-	278,000
Elizabeth DelBianco	125,000	4,000	20,000	-	149,000
Jay Forbes <sup>2</sup>	84,295	8,092	-	-	92,387
Daniel Fortin	125,000	8,000	15,000	-	148,000
Barbara Fraser	125,000	8,333	13,750	-	147,083
Dick Freeborough	125,000	11,000	20,000	-	156,000
Gerald Hooper <sup>3</sup>	52,083	3,333	6,250	3,389 <sup>4</sup>	65,055
Micheál Kelly	125,000	9,000	11,250	-	145,250
Susan Monteith	125,000	9,000	-	-	134,000
Michael Stramaglia	125,000	8,000	15,000	-	148,000
<b>Total</b>	<b>1,261,378</b>	<b>76,759</b>	<b>121,250</b>	<b>3,389</b>	<b>1,462,776</b>

<sup>1</sup> These amounts (excluding the amount indicated under all other compensation) are allocated between Economical and its subsidiaries and in aggregate do not, in the case of Economical and its insurer subsidiaries, exceed the \$800,000 annual limit for each company.

<sup>2</sup> Mr. Forbes stepped down from serving as a director effective September 4, 2018.

<sup>3</sup> Mr. Hooper retired from serving as a director effective May 7, 2018.

<sup>4</sup> The value of commemorative gifts given to Mr. Hooper recognizing his retirement from serving on the Board for over 18 years, including as Board Chair for 11 years. This amount includes a \$2,000 donation to a charitable organization.

The Corporate Governance Committee periodically reviews and makes recommendations to the Board regarding the adequacy and form of directors' compensation, with input as requested from the Human Resources and Compensation Committee. In 2018, the compensation for the Board Chair, committee chairs, and other Board members was assessed against a comparator group of publicly-traded organizations, selected based on revenue, profitability, and company size. Our overall objective is to target total directors' compensation at the median of the comparator group.

As a result of this review, the Board approved the following modifications to directors' compensation, with effect from January 1, 2019:

Non-management directors' compensation	Annual retainer <sup>1</sup> (\$)
Board Chair	300,000
Director <sup>2</sup>	140,000
Committee Chair (Audit, Human Resources and Compensation, Special) <sup>3</sup>	20,000
Committee Chair (Corporate Governance, Investment, Risk Review, Strategic Initiatives) <sup>3</sup>	15,000
Committee member <sup>4</sup>	10,000

<sup>1</sup> Aggregate compensation for board and committee director and chair retainers, as applicable, in respect of Economical and its insurer subsidiaries. The Board Chair does not receive retainer fees for serving as a committee chair or member during his or her tenure as Board Chair. The retainers may be supplemented with additional amounts to compensate for unanticipated workloads and extraordinary contributions, but only after specific consideration and approval by the Board.

<sup>2</sup> Paid to all non-management directors other than the Board Chair.

<sup>3</sup> Committee chair fees differ based on the varying workload of each committee.

<sup>4</sup> Paid to non-chair committee members only, for each committee they serve on.

## EXECUTIVE COMPENSATION

### MESSAGE TO OUR POLICYHOLDERS

On behalf of the Human Resources and Compensation Committee (the “HRCC”), I am pleased to share with you our approach to executive compensation for 2018.

#### Commitment to pay for performance

At Economical, we believe in aligning compensation with performance relative to our business plan and strategy. While overall target compensation opportunities are established at competitive levels to attract and retain the executive talent we need, the majority of the executives’ potential compensation is incentive-based and dependent on key measures of short- and long-term performance. The HRCC considers many factors in setting total compensation, including competitive market conditions, internal equity, scope of the role, current business challenges, short- and longer-term performance and strategic objectives.

The performance metrics in the incentive program consider the need to continue our focus on positioning the Company for the future, including after demutualization. By focusing our executive team on both current strategic imperatives and future value creation, we believe we are aligning our executive team’s interests with those of our policyholders and future investors.

#### 2018 performance and compensation

In 2018, we successfully deployed our new broker platform for personal lines and individually rated commercial auto, Vyne, which positively impacted our topline performance in the fourth quarter. Sonnet, our digital direct channel, also demonstrated its ability to drive growth with more than \$127 million in gross written premiums (“GWP”) in 2018. These investments are expected to provide efficient and scalable platforms to support future growth and long-term profitability.

Our 2018 underwriting results improved despite elevated catastrophe losses which impacted the combined operating ratio (“COR”) by 4.1 percentage points (compared to 2.7 percentage points in 2017). Excluding the impact of catastrophe losses, there was an underlying improvement of 3.3 percentage points in the COR. Our results in 2018 benefited from our underwriting actions and rate increases, as well as a return to favourable claims development. We have confidence in the changes we are implementing, which will take time to positively impact our financial performance.

Our 2018 performance shows that our COR remained at elevated levels, but we believe that our strategic initiatives have laid the foundation for our business to create growth and become profitable in the long-term.

Although we missed our target for COR in 2018, we significantly exceeded the target for our GWP growth. As a result, after taking into account our COR, GWP, and strategic initiatives performance, our 2018 corporate performance multiplier for the short-term incentive is 116.5% of target, while the performance factor for the 2016-2018 performance units under the medium-term incentive plan is 80.7% of target.

The Board is pleased with Mr. Saunders’ continued strong performance as CEO. His personal leadership, combined with a very strong senior leadership team, has resulted in improvements in our underlying business performance, positioning for the future with our innovative Sonnet and Vyne platforms, and advances in our demutualization process and public company readiness. Based on his strong performance, the Board awarded Mr. Saunders a short-term incentive at 126% of his target, in addition to his annual grant of medium-term incentive units. Mr. Saunders’ payouts under the medium-term incentive plan were below target, reflecting our recent below target financial results and the depreciation in our book value, in part due to the impact of unfavourable capital market developments on our investment portfolio.

#### Well positioned for the future

We have the right leadership bench strength in place to lead Economical to long-term profitability and through a future initial public offering. With their direction and commitment, we have the momentum required to become a public company and one of Canada’s top property and casualty insurers.

Sincerely,



**Elizabeth DelBianco**

Chair of the Human Resources and Compensation Committee

#### KEY PERFORMANCE MEASURES

- Very successful deployment of Vyne™
- Strong growth and scalability achieved through Sonnet
- Combined operating ratio:<sup>1</sup> 111.8%
- Gross written premiums:<sup>2</sup> \$2,456 (millions)

#### 2018 COMPENSATION HIGHLIGHTS

- Corporate performance multiplier for the short-term incentive plan is 116.5% of target
- Performance factor for 2016 – 2018 performance units under medium-term incentive plan is 80.7% of target

<sup>1</sup> Combined operating ratio (“COR”) represents claims and adjustment expenses (excluding the impact of discounting), commissions, operating expenses (net of other underwriting revenues), and premium taxes during a defined period expressed as a percentage of net earned premiums (as defined in Section 13 of the Management’s Discussion and Analysis included in our most recent Annual Report available online at economical.com) for the same period.

<sup>2</sup> Gross written premiums (“GWP”) represents the total premiums from the sale of insurance during a specified period.

## COMPENSATION DESIGN

### Compensation strategy

Our compensation strategy is to provide a compensation program that focuses executives on the successful execution of our business strategy. The program is guided by the following three principles:

1. Provide competitive total compensation to attract, retain, and motivate talented executives
2. Pay for performance that is consistent with our strategy, risk appetite, and Company values
3. Align executive and stakeholder interests by rewarding long-term value creation through strong performance

### Alignment to our business strategy

Our incentive programs include performance measures directly linked to our business strategy.

Annual Incentive Plan	Medium-Term Incentive Plan	Performance measure	Why it matters
		Combined operating ratio	A foundational insurance indicator of how efficiently our core business has performed. Looks at claims and operating expenses as a percentage of our net earned premiums.
		Gross written premiums	Year-over-year growth in our core revenues (GWP) is a key indicator of our progress towards our profitable growth goals.
		Strategic initiatives	Economical has prioritized the following important corporate initiatives to support operational efficiencies and profitable growth: <ul style="list-style-type: none"> <li>• Optimizing Vyne and realizing benefits</li> <li>• Continuing to advance Sonnet</li> <li>• Improving our core business</li> <li>• Advancing demutualization and our plans to become a public company</li> </ul>
		Return on equity ("ROE") <sup>1</sup>	Reflects the efficient use of capital in generating core earnings.
		Book value	Focuses on long-term growth in the value of Economical. A strong book value supports our future growth initiatives.

<sup>1</sup> ROE represents net income or loss after tax for the 12 months ended at a specified date divided by the average retained earnings over the same 12-month period. It is a performance measure in respect of 2016 performance for outstanding performance units under our medium-term incentive plan, but since 2017 is no longer used. See page 25 for details.

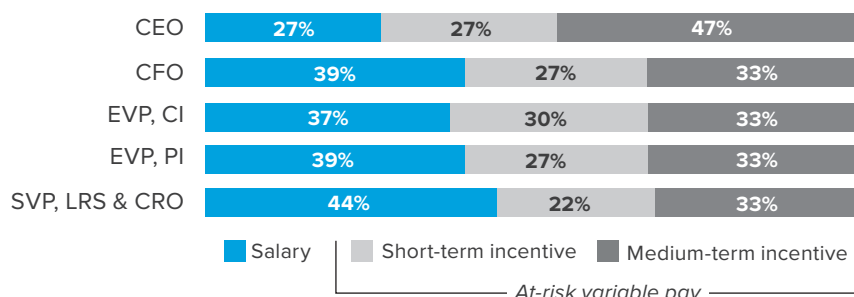
## AN OVERVIEW OF OUR COMPENSATION PROGRAM

Our compensation program has both an appropriate weighting of fixed and variable pay, and balances short- and medium-term performance criteria with overlapping performance periods.

Component and purpose	Description		
<b>Salary</b>  To compensate executives competitively for their role at Economical.	<ul style="list-style-type: none"><li>Fixed amount earned and paid during the year</li><li>Typically reviewed, but not necessarily adjusted, annually</li><li>Normally set around the market median</li><li>Levels determined based on individual performance, experience, competencies, accountabilities, and competitive market data</li></ul>		
<b>Short-term incentive</b>  To drive and reward the achievement of corporate, strategic, and individual priorities during the year.	<ul style="list-style-type: none"><li>Target value determined based on the role and expressed as a percentage of salary</li><li>Final award contingent on performance against pre-determined goals and paid in cash</li><li>80% corporate; 20% individual</li></ul>	<b>Target value (% of salary):</b>	
		President and Chief Executive Officer (“CEO”)	100%
		Executive Vice-President and Chief Financial Officer (“CFO”)	70%
		Executive Vice-President, Commercial Insurance (“EVP, CI”)	80%
		Executive Vice-President, Personal Insurance (“EVP, PI”)	70%
		Senior Vice-President, Legal, Risk, and Strategy, and Chief Risk Officer (“SVP, LRS & CRO”)	50%
		Maximum value is capped at 200% of target	
<b>Medium-term incentive</b>  To drive and reward the achievement of corporate and strategic priorities, and value creation over the medium-term.	<ul style="list-style-type: none"><li>Target value determined based on the role and expressed as a percentage of salary</li><li>Actual value earned over three years and paid in cash at the end of the period</li><li>Includes restricted units (40% weight) and performance units (60% weight)</li><li>Units are based on Economical’s book value</li><li>Performance unit vesting and final value are contingent on performance against pre-determined goals</li></ul>	<b>Target value (% of salary):<sup>1</sup></b>	
		CEO	175%
		CFO	85%
		EVP, CI	90%
		EVP, PI	85%
		SVP, LRS & CRO	75%
		Maximum value is capped at 200% of target	
<b>Benefits</b>  To provide executives with market-typical benefits.	<ul style="list-style-type: none"><li>Includes pension (see page 28), group life and health insurance, and annual cash allowance (in lieu of perquisites)</li></ul>		

### Pay mix<sup>2</sup>

A significant portion of every executive's compensation is variable and linked to our corporate goals and objectives.



<sup>1</sup> Effective for 2019 and subsequent medium-term incentive awards granted to the CEO, CFO, EVP, CI, and SVP, LRS & CRO, the target values as a percentage of salary are 200%, 100%, 110%, and 90%, respectively.

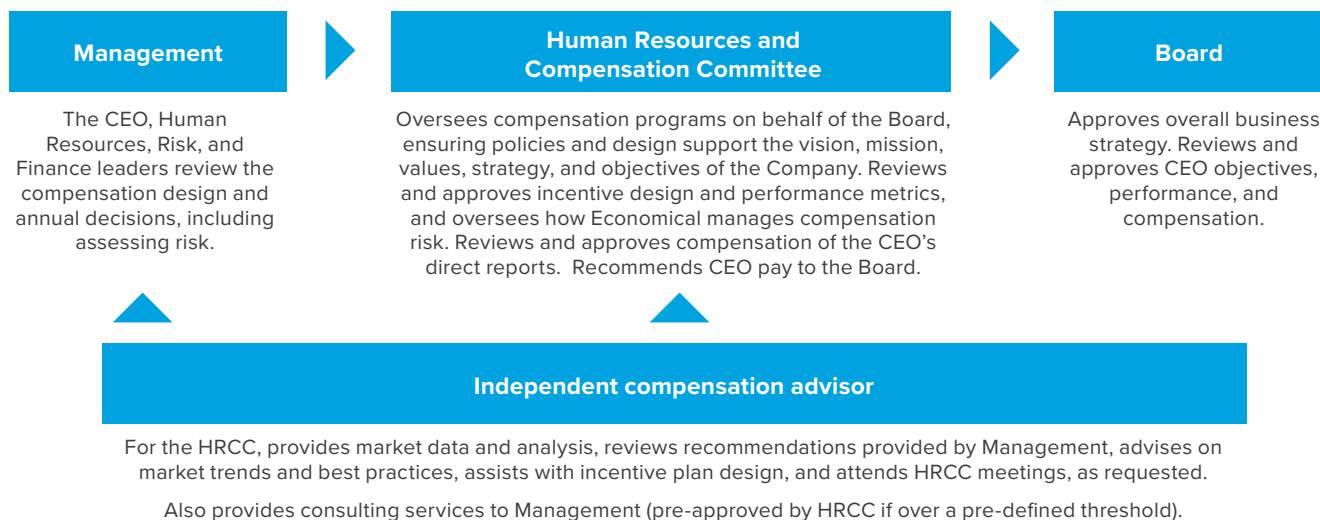
<sup>2</sup> Percentages represent short- and medium-term incentives if paid out at target value.

## COMPENSATION GOVERNANCE

The HRCC is made up of four independent directors, all of whom are seasoned professionals knowledgeable in executive compensation through their business experience in one or more senior executive roles and/or working with other boards. None of the directors is an active chief executive officer of a publicly-traded organization and none of them is or has been an officer or employee of Economical or any of its subsidiaries.

For more information about the HRCC refer to Appendix “A” — Statement of Corporate Governance Practices under “Human Resources and Compensation Committee” on page 39.

### Compensation oversight



### Independent advice

Since 2013 the HRCC has retained Willis Towers Watson (“WTW”) as an outside advisor to provide independent guidance and advice on compensation decisions.

The HRCC regularly meets with WTW, without Management present, to maintain direct channels of communication and assess independence and objectivity of advice. While WTW's information and advice inform the decision-making process, the HRCC relies on its own judgment to make final decisions.

The table below shows the fees paid to WTW and its affiliates for services in the last two years. If Management wants to work with WTW, the HRCC must pre-approve any consulting services above a pre-determined threshold. In 2018, the HRCC also pre-approved up to \$1.5 million for actuarial-related work for each of 2018 and 2019, in support of significant strategic projects and public company readiness initiatives.

Fees paid to Willis Towers Watson	2018 (\$)	2017 (\$)
Executive compensation-related fees	192,677	348,313
All other fees <sup>1</sup>	888,706	88,395
<b>Total</b>	<b>1,081,383</b>	<b>436,708</b>

<sup>1</sup> 2018 includes fees for public company readiness support for our actuarial function, professional services in respect of the launch of our new broker policy administration system, Vyne, and actuarial support for Sonnet, our digital direct distribution channel. 2017 includes fees for public company readiness support for our actuarial function and professional services in respect of the launch of Vyne.

The HRCC reviews WTW's independence on a regular basis and has confirmed WTW's independence. In its review, the HRCC considered WTW's processes, protocols and incentive structure, and the consultants' business and personal relationships with Economical.

## Managing compensation risk

Our compensation program is designed with the understanding that we are in the business of taking risk to achieve an appropriate return. The HRCC regularly monitors and evaluates our compensation policies to ensure they align with good governance practices. The HRCC believes that our compensation policies, plans, and practices do not encourage inappropriate or excessive risk-taking, and that there are no compensation-related risks or practices that are reasonably likely to have a material adverse effect on the Company.

Our goal is to reward executives for sustainable, profitable growth that falls within our risk appetite. The risk management features of our compensation program are aligned with the Financial Stability Board's Principles for Sound Compensation Practices and with OSFI guidelines. Management and the HRCC will continue to help ensure our compensation program aligns with governance best practices, including via the implementation of anti-hedging and share ownership policies once we are a publicly-traded company.

### WHERE TO LEARN MORE

You can learn more about risk management at Economical in the Risk Management section of the Management's Discussion and Analysis included in our Annual Report.

## What we do



### Consider the balance between fixed and variable pay, short- and longer-term time horizons

Our compensation program has an appropriate weighting of fixed and variable pay, and balances short- and medium-term performance criteria with overlapping performance periods. The weighting for the medium-term incentive increases by role, responsibility, and the ability to affect our longer-term strategy, risk, and results.



### Test our compensation program design

Any significant changes considered in the structure of our incentive plans, including the performance targets and ranges, are tested against various performance scenarios. The CEO, CFO, and SVP, LRS & CRO review the results before Management presents the findings to the HRCC along with the proposed changes.



### Cap variable pay

The short-term incentive payout is capped at 200% of target. The medium-term incentive payout is capped at 200% of the grant value.



### Pay for performance

Annual and medium-term incentive awards are linked to performance on our corporate goals, strategic objectives and individual goals. Our medium-term incentive plan has a three-year performance period, allowing enough time for the Company's value to reflect the impact of decisions made at the time of the award, and focusing executives on carrying out our strategy, sustaining performance, and growing value over the longer term.



### Compensate senior executives based on overall Company and individual performance

Compensation for our most senior leaders (the CEO and his direct reports), and all executives in control functions (risk management, actuarial, legal, and finance), is based solely on Company and individual performance and does not include specific performance metrics for business segments.



### Compensation Recoupment Policy

The Board has a policy that allows us to recover incentive compensation paid to senior executives when their misconduct<sup>1</sup> causes a material restatement or correction of financial statements that results in overcompensation, based on the restated or corrected results.





### Discretion



The Board and HRCC can use their discretion to adjust the mathematically determined awards up or down to address the impact of unforeseen or extraordinary events, including reducing them to zero if performance is not in line with expectations for performance, risk management, or conduct. For 2018, no such discretion was applied.

<sup>1</sup> "Misconduct" means (i) fraud, (ii) wilful breach of the material provisions of the Company's Code of Business Conduct, (iii) wilful failure to perform the senior executive's most important duties and responsibilities, (iv) certain types of criminal convictions, (v) failure to report or intervene when the senior executive knows, or should have known, that another employee was engaged in serious misconduct, or (vi) any other circumstances that would allow for termination with cause.

Managing compensation risk (continued)

What we don't do	
	Single measure plans
	Single trigger voluntary change of control termination provisions
	Grant or extend loans to employees
	Pay incentives if unwarranted by financial, strategic, and individual performance

Compensation design and decision-making

The Board, the HRCC, and senior Management are all involved in compensation decision-making. All decisions about compensation design and executive pay are made with reference to our strategy, our risk appetite, and our principle of pay for performance.

Review plan design and establish target pay levels and mix	Set performance objectives	Ongoing review of market and trends	Evaluate performance	Finalize compensation
<ul style="list-style-type: none"><li>• The HRCC approves design features of the executive compensation programs</li><li>• The HRCC approves target compensation for each senior executive at the beginning of each year, considering desired pay mix</li><li>• For the CEO, the HRCC recommends and the Board approves the compensation targets and pay mix</li></ul>	<ul style="list-style-type: none"><li>• Based on the Board-approved business plan, Management proposes financial and strategic goals for the annual and medium-term incentives</li><li>• The HRCC reviews and approves the corporate objectives, targets and performance ranges</li><li>• The HRCC recommends and the Board approves the CEO's objectives and individual performance targets</li></ul>	<ul style="list-style-type: none"><li>• The HRCC reviews:<ul style="list-style-type: none"><li>- The composition of the benchmarking reference groups</li><li>- Competitive positioning of target compensation</li><li>- Ongoing trends</li><li>- Ongoing performance relative to the established targets and ranges</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Management discusses business performance results with the HRCC</li><li>• The HRCC reviews performance relative to the metrics and approves the performance factors</li><li>• The CEO reviews the performance of the senior executives against the corporate and individual objectives set at the beginning of the year</li><li>• The Board reviews the CEO's performance relative to the individual and corporate objectives</li></ul>	<ul style="list-style-type: none"><li>• The Board reviews and approves the CEO's compensation</li><li>• The HRCC reviews and approves the compensation of the other senior executives, taking into account the CEO's recommendations</li><li>• Discretion may be applied to change the calculated awards when necessary to address the impact of unforeseen or extraordinary events</li></ul>



## Establishing our compensation benchmarks

The competitive market for executive talent is drawn from businesses within financial services, the insurance industry, and broader general industry. There are very few companies in Canada that are similar to Economical in size and industry focus or that have a similar organizational structure (moving from a mutual to a publicly-traded company). Therefore it is challenging to determine one specific comparator group for purposes of benchmarking senior executive compensation given our structure, size, and scope. As such, in 2018, in anticipation of our plan to become a publicly-traded company, the HRCC considered two reference groups when reviewing compensation levels and design: 1) high performing publicly-traded organizations, across industries; and 2) insurance organizations of a similar size to Economical.

Reference organization criteria	How we use the reference data
<p><b>High performing publicly-traded organizations</b></p> <ul style="list-style-type: none"> <li>General industry organizations, excluding oil and gas</li> <li>Comparable size based on revenue and market capitalization</li> <li>Profitability</li> <li>3-year earnings and revenue growth</li> <li>1-year and 3-year total shareholder return</li> </ul> <p><b>Insurers</b></p> <ul style="list-style-type: none"> <li>Comparable in size based on GWP and assets (from 1/3 to 3 times the size of Economical)</li> <li>All organization structures (mutual, subsidiary, and publicly-traded)</li> </ul>	<ul style="list-style-type: none"> <li>As an input into setting base salary, annual incentive, and long-term incentive target levels</li> <li>To assess the competitiveness of total direct compensation awarded to senior executives</li> <li>To understand annual and long-term incentive designs in the market</li> </ul>

### *High performing publicly-traded organizations*

CI Financial Corp.	Hydro One Limited	National Bank of Canada
Cineplex Inc.	IGM Financial Inc.	New Flyer Industries Inc.
Dollarama Inc.	Industrial Alliance Insurance and Financial Services Inc.	Parkland Fuel Corporation
E-L Financial Corporation Limited	Intact Financial Corporation	WestJet Airlines Ltd.
Gildan Activewear Inc.	Just Energy Group Inc.	

### *Insurers*

AIG Insurance Company of Canada	Co-operators Group Limited	RGA Canada
Allstate Insurance Company of Canada	Gore Mutual Insurance Company	RSA Canada
Aviva Canada	Intact Financial Corporation	Wawanesa Mutual Insurance Company

**2018 NAMED EXECUTIVES****ROWAN SAUNDERS**

President and Chief  
Executive Officer

**2018 accomplishments**

- Our financial results reflect strong revenue growth driven from our strategic investments in Sonnet and Vyne, as well as continued rate increases to improve profitability. Although our COR missed plan, the miss was primarily due to unusually severe weather, above our 2018 planned assumptions
- We made significant advances in our strategic plan with solid progress on Vyne, Sonnet, core business improvement and demutualization
- Vyne's build and deployment have been a success, particularly considering its scope and complexity, with outstanding broker adoption generating revenues post-launch significantly higher than expected
- Corrective actions on the core business portfolio have been bold, with repricing of the entire portfolio, reconstruction of the commercial portfolio and addressing costs and productivity, resulting in all key targets being met or exceeded
- Maintained high broker engagement during a period of transformation and turnaround actions
- Continued strengthening of our talent in leadership, technical and operational roles. Shifted the culture to a higher performing mindset with much greater accountability, intensity and execution

**PHILIP MATHER**

Executive Vice-President  
and Chief Financial Officer

**2018 accomplishments**

- Active participation in the demutualization program, working with advisors on valuation and making continued progress on IPO planning and public company readiness initiatives
- Proactive focus on reducing expenses, resulting in expense results being lower than planned
- Substantial progress made in the establishment and advancement of a robust capital management program, with proactive actions taken to monitor, manage and mitigate capital impacts on the organization
- Oversight and development of advanced analytics capabilities across the organization, with substantial value creation for key strategic focus areas

**FABIAN RICHENBERGER**

Executive Vice-President,  
Commercial Insurance

**2018 accomplishments**

- Implemented a clear strategy, new organizational structure and robust operating framework
- Significant improvements in business mix, shifting out of unprofitable segments and into profitable target segments
- De-risked the portfolio, by reducing volatile and historically unprofitable segments
- Overall COR missed plan; however, largely due to weather and prior year reserve strengthening
- Underlying improvement in portfolio quality is evident and loss ratio improvements in key segments are in line with expectations
- Rate achievement exceeded target level
- Enhanced capabilities with successful key leadership hires



**PAUL MACDONALD**  
Executive Vice-President,  
Personal Insurance<sup>1</sup>

#### **2018 accomplishments**

- 2018 financials exceeded both GWP and COR targets
- Rate achievement exceeded plan
- Advanced our pricing sophistication
- Supported the successful Vyne implementation with enhanced pricing and underwriting activities and development of required processes and support to sustain Vyne post-deployment
- Accelerated Sonnet underwriting and pricing improvements, and helped implement rate and rule changes
- Built additional capability in modelling and governance
- Provided interim leadership for the Claims group, in addition to his personal insurance role. Implemented several fundamental changes and capability builds



**INNES DEY**  
Senior Vice-President,  
Legal, Risk, and Strategy;  
Chief Risk Officer

#### **2018 accomplishments**

- Significant demutualization milestones achieved, including completion of conversion proposal and policyholder information circular, and favourable regulatory review
- Enterprise risk management function enhanced and matured, with significant contributions to managing risk profile associated with Vyne transformation
- Partnered with key business leaders to enhance corporate strategy in key focus areas, including Quebec
- Enterprise-wide public company readiness program on schedule, with more than 150 initiatives completed or in-progress

<sup>1</sup> Effective from March 2018 to November 2018, Mr. MacDonald also led Economical's claims function on an interim basis.

## 2018 COMPENSATION DECISIONS AND OUTCOMES

This section sets out details of the decisions made in respect of 2018 compensation, in accordance with the structure and governance framework set out earlier in this Circular. Decisions effective after 2018 are also described, where relevant.

### Salary

Salaries are reviewed annually and adjusted where necessary and appropriate based on competitive market data and individual performance, experience, competencies, and accountabilities. In 2018, following a market review and taking such factors into account, a salary increase of \$20,000 was granted to Mr. Dey.

Named executive salaries <sup>1</sup>	2017 (\$)	2018 (\$)	% increase
Rowan Saunders	800,000	800,000	N/A
Philip Mather	435,000	435,000	N/A
Fabian Richenberger	450,000	450,000	N/A
Paul MacDonald <sup>2</sup>	N/A	375,000	N/A
Innes Dey	355,000	375,000	5.6

<sup>1</sup> For 2019, based on a market review, salary increases of \$50,000 and \$25,000 were granted to Mr. Saunders and Mr. MacDonald, respectively.

<sup>2</sup> Mr. MacDonald joined Economical effective January 2018.

### Short-term incentives

Short-term incentive plan ("STIP") awards are considered annually based on a combination of corporate and individual performance. The table below shows the short-term incentive awarded to each named executive in respect of 2018 performance and how it was calculated.

2018 short-term incentives	Salary (\$)	X	Short-term incentive target	X	Corporate performance multiplier (80%)	+	Individual performance multiplier (20%)	=	Total <sup>1</sup> (\$)
Rowan Saunders	800,000		100%		116.5%		150%		1,011,840
Philip Mather	435,000		70%		116.5%		130%		372,952
Fabian Richenberger	450,000		80%		116.5%		140%		448,128
Paul MacDonald	375,000		70%		116.5%		130%		321,510
Innes Dey <sup>2</sup>	372,260		50%		116.5%		125%		226,111

<sup>1</sup> Capped at 200% of target.

<sup>2</sup> Salary reflects Mr. Dey's salary increase part-way through 2018.

#### Corporate performance multiplier

Corporate performance has the largest weighting in determining short-term incentive awards for each executive, including metrics to ensure alignment with our areas of strategic focus. Each year performance measures are identified, and threshold, target, and maximum performance goals are set based on our strategic plan. Given the potential competitive harm of the information, we do not disclose the specific performance goals for any of the corporate measures.

Although we missed our target for COR in 2018, we significantly exceeded the target for our GWP growth, and through our strategic initiatives laid the foundation for our business to create growth and become profitable in the long-term. As a result, after taking into account our COR, GWP, and strategic initiatives performance, our 2018 calculated corporate performance multiplier was 116.5%. There was no discretion applied to adjust the calculated result.

Performance measure	How it is calculated for short-term incentive purposes	Outcome (0x-2x)
<b>Change in GWP</b> (20% weight)	$\frac{[\text{Ending 2018 GWP} - \text{2017 GWP}]}{\text{2017 GWP}}$ GWP represents the total premiums from the sale of insurance during a specified period.	
<b>+ COR</b> (40% weight)	$\frac{\text{Claims and adjustment expenses (not including discounting), commissions, operating expenses (net of other underwriting revenues), and premium taxes during the year}}{\text{Net earned premiums}^1}$	
<b>+ Strategic initiatives</b> (20% weight)	Each strategic initiative is assessed against a number of HRCC-approved qualitative and quantitative measures to determine progress against our goals, plans, and budget, as applicable.	
<b>= Corporate performance multiplier</b>		<b>116.5%</b>

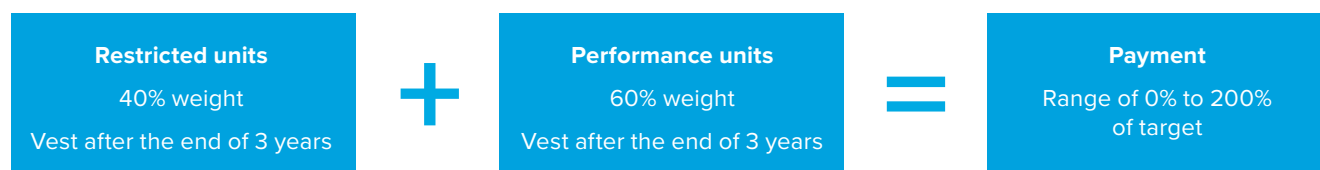
<sup>1</sup> Net earned premiums is defined in the Definitions section of the Management's Discussion and Analysis included in our most recent Annual Report available online at economical.com.

### Individual performance

We assess individual performance using a formal performance management system that links each individual's performance to our strategic business plan. Employees, including the named executives, are measured against objectives approved at the beginning of the year that fall under our key focus areas: grow profitably and operate effectively.

### Medium-term incentives

Medium-term incentive plan ("MTIP") awards include restricted units ("RUs") and performance units ("PUs"). Awards are granted annually and pay out at the end of a three-year period. RUs and PUs appreciate and depreciate with Economical's book value.



### 2018 – 2020 awards

In 2018, the named executives received a grant of 40% RUs and 60% PUs, consistent with previous years. The 2018 PU award will measure performance from 2018 to 2020, with the final award determined and paid in early 2021. The performance metrics for the 2018 award are outlined below. These metrics also apply to the relevant year of the remaining performance period for existing in-flight awards.

As Economical prepares for demutualization, it is essential our executives deliver on key strategic initiatives while achieving strong annual financial performance. Therefore, the PU performance measures were adjusted starting in 2017 to emphasize the Company's focus and to align executive pay with results against these measures.

	2018	2019	2020
Measure	COR (33%), GWP (17%), Strategic initiatives (50%)	COR (33%), GWP (17%), Strategic initiatives (50%)	COR (33%), GWP (17%), Strategic initiatives (50%)
Weighting	1/3	1/3	1/3

In 2018, Mr. Saunders and Mr. Richenberger received additional grants of \$800,000 and \$450,000 in RUs, respectively, for the 2018-2020 performance period, to recognize their outstanding individual performance and leadership, with 1/3 of the units to vest following the end of each year during that performance period. In addition, Mr. MacDonald received a grant of 2018-2020 RUs in the amount of \$375,000 as a sign-on award to replace forfeited equity at his previous employer. 1/3 of these RUs will vest following the end of each year during the performance period.

### Awards paid for 2018

The performance factor for the performance units awarded in 2016 was 80.7%. The vesting of awards was contingent on both ROE compared to the ROE of our peers (for 2016 performance), and our performance against pre-established targets for COR, GWP, and strategic initiatives (for 2017 and 2018 performance).

	2016	2017	2018	
Measure	Relative ROE	COR (33%), GWP (17%), Strategic initiatives (50%)	COR (33%), GWP (17%), Strategic initiatives (50%)	<b>Total performance factor</b>
Weighting	1/3	1/3	1/3	
				<b>80.7%</b>

The final payout reflects the depreciation in our book value from the beginning of 2016 to the end of 2018. The table below shows the payout value of the medium-term incentives that was based on our performance during January 1, 2016 to December 31, 2018, and other medium-term incentive awards that were paid out in cash in March 2019.

Awards paid for 2018	Year of grant	Initial award value (\$)	Number of performance units awarded X		Unit value at Dec. 31, 2018 <sup>1</sup> (\$)	=	Final payout <sup>2</sup> (\$)	Final payout as a percentage of initial award
			Number of restricted units awarded	+ performance factor (see above)				
Rowan Saunders <sup>3, 4</sup>	2017	3,000,000	66,556	106,523	15.67	=	2,712,146	90.4%
	2018	266,680	15,415	N/A	15.67	=	241,553	90.6%
Philip Mather	2016	318,750	7,167	8,676	15.67	=	248,259	77.9%
Fabian Richenberger <sup>4</sup>	2018	150,008	8,671	N/A	15.67	=	135,875	90.6%
Paul MacDonald <sup>4</sup>	2018	125,010	7,226	N/A	15.67	=	113,231	90.6%
Innes Dey	2016	255,000	5,734	6,941	15.67	=	198,610	77.9%

<sup>1</sup> Calculated as total equity of \$1,567,310,000 divided by 100,000,000.

<sup>2</sup> Final payout capped at 200% of the initial award value.

<sup>3</sup> In 2017, Mr. Saunders received an MTIP award with a performance period of January 1, 2017 to December 31, 2018, which replaced the MTIP award that he received upon taking up his position with Economical. The final value of the award was determined in accordance with the terms of the Company's MTIP, provided that the payout would not be less than \$2,500,000.

<sup>4</sup> Messrs. Saunders, Richenberger and MacDonald did not receive a medium-term incentive grant in 2016, because they joined Economical in late 2016, mid- 2017, and January 2018, respectively.

### Total direct compensation

In aggregate, total target compensation for 2018 is as shown below. Actual 2018 compensation is provided in the summary compensation table on the next page, which includes the impact of performance and one-time awards.

	Salary (\$)	Annual incentive (\$)	Medium-term incentive grants (\$)	Total (\$)	Amount at risk (At target)
Rowan Saunders	800,000	800,000	1,400,000	3,000,000	73%
Philip Mather	435,000	304,500	369,750	1,109,250	61%
Fabian Richenberger	450,000	360,000	405,000	1,215,000	63%
Paul MacDonald	375,000	262,500	318,750	956,250	61%
Innes Dey	375,000	187,500	281,250	843,750	56%

### CEO's award program

Economical requires significant focus to enhance its core business for profitability and growth, leverage its innovative investments for the future, and strengthen its position as a top property and casualty insurer in Canada. Achieving Economical's ambitious goals will require continued focus and commitment from its senior leaders. In early 2019, the Board approved a special program intended to help assure continuity of management, strategy, and execution of our business priorities through this critical period of Economical's history. Under this program, one-time deferred cash awards will recognize and reward a small number of key individuals, including the named executives. Awards for participants range up to \$1,250,000, and payments of the awards are subject to certain conditions. One-third of a participant's award will ordinarily be paid (subject to certain conditions) in mid-2020 and the remainder in late 2022.

### Benefits and perquisites

All executives participate in a group benefits plan that provides health, dental, and out-of-country benefits coverage on a cost-sharing basis. In addition, executives receive an annual cash allowance in lieu of a perquisite program.

## 2018 COMPENSATION DETAILS

### Summary compensation table

Name and principal position	Year	Salary <sup>1</sup> (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation (\$)		Pension value <sup>4</sup> (\$)	All other compensation <sup>5</sup> (\$)	Total compensation (\$)
					Annual incentive plans <sup>2</sup> (\$)	Long-term incentive plans <sup>3</sup> (\$)			
<b>Rowan Saunders</b> President and CEO	2018	800,000	n/a	n/a	1,011,840	2,953,699	716,700	48,000	5,530,239
	2017	800,000	n/a	n/a	800,000	0	269,800	48,000	1,917,800
	2016	163,077	n/a	n/a	0	0	43,100	1,000,000	1,206,177
<b>Philip Mather</b> EVP and Chief Financial Officer	2018	435,000	n/a	n/a	372,952	248,259	72,397	599,750	1,728,357
	2017	431,731	n/a	n/a	194,538	289,005	55,025	26,000	996,299
	2016	425,000	n/a	n/a	46,750	300,841	73,198	89,674	935,463
<b>Fabian Richenberger</b> EVP, Commercial Insurance	2018	450,000	n/a	n/a	448,128	135,875	89,100	26,000	1,149,103
	2017	302,885	n/a	n/a	432,000	0	32,538	17,500	784,923
	2016	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Paul MacDonald</b> EVP, Personal Insurance	2018	375,000	n/a	n/a	321,510	113,231	40,385	326,000	1,176,126
	2017	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2016	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Innes Dey</b> SVP, Legal, Risk, and Strategy; Chief Risk Officer	2018	372,260	n/a	n/a	226,111	198,610	58,931	485,000	1,340,912
	2017	350,096	n/a	n/a	140,213	173,403	43,545	26,000	733,257
	2016	340,000	n/a	n/a	28,560	180,505	54,191	76,924	680,180

<sup>1</sup> For 2018, the salary amount for Mr. Dey reflects a salary increase part-way through the year. See "Salary" on page 24 for details.

<sup>2</sup> Cash bonus earned for each year under the STIP. Typically paid out in March of the following year. See "Short-term incentives" on page 24 for details.

<sup>3</sup> Cash payout under the MTIP. Awards are typically granted as of January 1 of each year and allocated to restricted and performance units. Payouts are typically made in March or April of the year following the end of a three-year performance period. Mr. Saunders received his first payouts under this program in 2018. See "Medium-term incentives" on page 25 for details.

<sup>4</sup> The compensatory value of our registered pension plans and supplementary plan. See "Retirement Benefits" on page 28 for details.

<sup>5</sup> For 2018, the amounts in this column represent an annual cash allowance paid to the named executives in lieu of a perquisite program. The value of perquisites is excluded from the amounts shown, because for each named executive the aggregate value of any perquisites was less than \$50,000 or 10% of the salary of the named executive.

For Messrs. Mather and Dey, the 2018 amounts also include the last installment of a one-time bonus granted to retain key senior executives after we transitioned to a new President and CEO in late 2016. The first 10% of the bonus was paid in October 2016, with the remaining 90%, or \$573,750 and \$459,000, paid to Messrs. Mather and Dey, respectively, in November 2018.

For Mr. MacDonald, the 2018 amount also includes a one-time payment of \$300,000 to replace a similar form of compensation that he forfeited as a result of ceasing employment with his former employer and accepting his position with Economical.

## INCENTIVE PLAN AWARDS

Economical is a mutual company, so we do not offer equity compensation or have any share-based or option-based awards outstanding.

The table below shows the medium-term incentive awards that were outstanding on December 31, 2018, but excludes the 2016-2018 and 2017-2018 medium-term incentive awards that were paid out in March 2019. The medium-term incentive is awarded as restricted and performance units that vest and are paid out in cash. Units are notional and based on our book value, to capture appreciation and depreciation in the value of Economical.

In addition to our regular annual medium-term incentive awards, the table below also shows the special restricted unit awards that some named executives received, with a performance period of 2018-2020, and vesting in equal 1/3 increments following the end of each year in the performance period. These amounts exclude the amounts that vested for 2018 and were paid out in March 2019.

We calculate the current payout value of outstanding units by multiplying the number of units that will vest (assuming performance at target for performance units) by our book value on December 31, 2018, divided by 100,000,000.

Medium-term incentive awards outstanding	Year of grant	Performance period	Restricted units		Performance units		Total current payout value (\$)
			Number outstanding	Current payout value (\$)	Number outstanding	Current payout value (\$)	
Rowan Saunders	2018	2018-2020	32,370	507,238	48,555	760,857	1,268,095
	2018	2018-2020	30,829	483,090	N/A	N/A	483,090
	2017	2017-2019	31,059	486,695	46,589	730,050	1,216,745
Philip Mather	2018	2018-2020	8,549	133,963	12,824	200,952	334,915
	2017	2017-2019	7,072	110,818	10,607	166,212	277,030
Fabian Richenberger	2018	2018-2020	9,364	146,734	14,046	220,101	366,835
	2018	2018-2020	17,341	271,733	N/A	N/A	271,733
	2017	2017-2019	8,985	140,795	13,478	211,200	351,995
Paul MacDonald	2018	2018-2020	7,370	115,488	11,055	173,232	288,720
	2018	2018-2020	14,451	226,447	N/A	N/A	226,447
Innes Dey	2018	2018-2020	6,503	101,902	9,754	152,845	254,747
	2017	2017-2019	5,657	88,645	8,486	132,976	221,621

## RETIREMENT BENEFITS

Our retirement benefits include registered pension plans and a supplementary pension plan:

- Rowan Saunders participates in the defined benefit pension plan and the supplementary pension plan
- Philip Mather, Fabian Richenberger, Paul MacDonald, and Innes Dey participate in the defined contribution pension plan and the supplementary pension plan

### Defined benefit pension plan

We closed the defined benefit pension plan to new entrants in 2003. However, Mr. Saunders was added to the plan in November 2016 as part of the terms of his employment.

The defined benefit pension plan pays a monthly pension when the executive retires, according to the following terms. Normal retirement age is 65, but employees can retire earlier (from age 55) as long as they have worked full-time for at least two years.



<b>How the pension amount is calculated</b>	Years of credited service x 2% of the average salary and short-term incentive (up to target) for the best five years of service (adjusted if the participant has less than five years of active service).
<b>Payments depend on retirement age</b>	Retirement at age 62 or higher – full pension. Retirement between 55 and 62 – pension benefit is reduced by 0.5% for each month following the date of retirement until age 62.
<b>When payments begin</b>	Payments begin on the first day of the month after the participant's retirement date and continue to be paid every month until he or she dies.
<b>What happens when the participant dies</b>	If the participant is single at retirement and dies before receiving 120 monthly payments, the participant's beneficiary will receive: <ul style="list-style-type: none"> <li>• monthly payments until a total of 120 payments have been made, or</li> <li>• the value of the remaining payments in a lump sum.</li> </ul> <p>If the participant has a spouse at retirement, the monthly payments will be reduced to 60% and paid to the spouse until he or she dies. If the spouse has predeceased the participant, pension benefits end and monthly payments stop.</p>

#### *Supplementary pension plan*

The *Income Tax Act* (Canada) limits the benefits that can be paid by defined benefit pension plans. We use the supplementary pension plan to top up the pension benefits earned under the defined benefit pension plan. Monthly payments begin and are made at the same time payments are made under the defined benefit pension plan.

We prefund all or some of the payments through a *retirement compensation arrangement* (as defined in the *Income Tax Act* (Canada)). We can cancel the supplementary pension plan and close the retirement compensation arrangement at any time.

#### *Defined benefit obligation*

The table below shows:

- years of credited service at the end of 2018 for Mr. Saunders,
- the estimated annual benefit payable under the defined benefit pension plan and the supplementary pension plan, and
- a reconciliation of the defined benefit obligation from December 31, 2017 to December 31, 2018, calculated using the same assumptions and methods used in our 2018 financial statements.

Defined benefit obligation	Annual benefits payable			Defined benefit obligation at start of 2018	Compensatory change <sup>2</sup>	Non-compensatory change <sup>3</sup>	Defined benefit obligation at end of 2018
	Number of years of credited service	At year end (\$)	At age 65 <sup>1</sup> (\$)				
Rowan Saunders	2.167	68,484	412,093	336,500	716,700	(4,300)	1,048,900

<sup>1</sup> The information shown in this column was determined based on the final average earnings of the participant as at December 31, 2018 and years of credited service projected up to age 65 (assuming full-time employment).

<sup>2</sup> Includes employer service cost (total service cost net of employee contributions), plus differences between actual and estimated earnings and any other changes that had a retroactive impact. Effective in 2018, for purposes of calculating the pension amount under the supplementary pension plan, the average earnings of a participant with less than five years of service are adjusted to exclude non-active years with no payments.

<sup>3</sup> Includes all items that are not compensatory, such as an interest cost on the liability and service cost, an impact of CPP enhancement on annual benefits, employee contributions and an increase in the discount rate (from 3.40% to 3.60%).

### Defined contribution pension plan

The amount in each executive's defined contribution pension plan depends on how long they've been working at the Company, the amount of their pensionable earnings, and the investment returns generated by the plan's assets. Executives have access to this benefit when they retire.

<b>How the employer contribution is calculated</b>	<p>We contribute 8% of each year's pensionable earnings to the executive's defined contribution plan.</p> <p>Pensionable earnings are defined as each year's salary + short-term incentive (the actual bonus earned, or the target for the year — whichever is lower).</p> <p>Executives can also make voluntary contributions to an employee savings plan. We match these contributions dollar for dollar, contributing up to a maximum of 3.5% of salary to the executive's defined contribution plan.</p>
<b>The value of the benefit</b>	At retirement, the accumulated value of the executive's defined contribution plan may either be transferred to a locked-in retirement vehicle or used to purchase a life annuity.
<b>What happens when the participant dies</b>	<p>If the participant is single at retirement, his or her beneficiary will receive the total amount in the defined contribution plan, including interest, in a lump sum.</p> <p>If the participant has a spouse at retirement, the spouse will receive the total amount in the defined contribution plan, including investment returns, in a lump sum or as a transfer to his or her registered retirement savings plan ("RRSP").</p>

#### Supplementary pension plan

The defined contribution pension plan is governed by pension legislation that limits annual contributions. We automatically credit any contributions we make that exceed this limit to the supplementary pension plan. All credits to the supplementary pension plan are made to an unfunded *notional account*, and are tracked and recorded.

The balance in the notional account earns an investment return and accumulates tax-free (similar to a RRSP). 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.

#### Defined contribution obligation

The table below shows:

- the value of each executive's defined contribution pension plan and notional account as of January 1, 2018,
- contributions we made to their defined contribution pension plan and notional account in 2018 (the compensatory change), and
- the accumulated value of our contributions plus the value of the notional account (with investment returns) at December 31, 2018.

	Accumulated value at start of year (\$)	Compensatory change (\$)	Accumulated value at year end (\$)
Philip Mather	466,313	72,397	544,771
Fabian Richenberger	33,538	89,100	123,346
Paul MacDonald	0	40,385	40,441
Innes Dey	325,115	58,931	387,292

## **TERMINATION AND CHANGE OF CONTROL BENEFITS**

We have change of control agreements with each named executive that entitle them to payments if there is a change of control of the Company. These are designed to keep members of senior Management in place if we're involved in a major transaction.

We also have employment agreements with each of the named executives that stipulate their severance entitlements in certain other circumstances.

### **How we define change of control**

Change of control is defined in the change of control agreements.

#### *Payouts are double-trigger*

Our change of control provisions are "double-trigger," which means they only take effect when there is a change of control and termination of employment, either by us without cause or by the executive for *good reason* (as defined in the relevant agreements), within 18 months after a change of control.

The table on the following page summarizes the terms for the payments we will make to the named executives when employment is terminated or there is a change in control of the Company (based on our compensation and pension plans in effect as of December 31, 2018). These terms are either specified in each executive's employment agreement or defined by the terms of the compensation or pension plans. If a term isn't specified, it is determined by common law.

### **Confidentiality and restrictive covenants**

#### *Confidentiality*

Our employment agreements with the named executives include confidentiality obligations that apply during the course of employment and afterwards. Named executives may not, without authorization, disclose any confidential information (unless required by law and prior written notice is provided to the Company), and they must return all confidential information when they leave the Company.

#### *Non-competition*

During the course of employment and for 9-12 months afterwards, named executives cannot without our consent be employed by, carry on business with, or (other than minimal holdings of publicly-traded shares) hold a financial interest in another property and/or casualty insurer in Canada or be responsible for business activities that are competitive with the Company's business activities.

#### *Non-solicitation*

During the course of employment and for one year afterwards, named executives cannot, without our consent, solicit any of the Company's customers, suppliers, or business partners for any purpose that would compete with the Company or reduce the Company's business. During the same period, named executives also cannot, without our consent, knowingly solicit for hire any Company employees.

## Summary of termination and change of control provisions

	Retirement	Voluntary resignation <sup>1</sup>	Death
<b>Severance</b>	<ul style="list-style-type: none"> <li>• None</li> </ul>	<ul style="list-style-type: none"> <li>• Any salary that was scheduled to be paid in the two-month<sup>2</sup> resignation notice period</li> <li>• Vacation pay</li> </ul>	<ul style="list-style-type: none"> <li>• Outstanding salary</li> <li>• Vacation pay</li> <li>• Statutory termination notice and severance pay entitlements (if they apply)</li> <li>• Payments owing under the terms of the individual's STIP or MTIP plan (if any)</li> </ul>
<b>Short-term incentive</b>	<ul style="list-style-type: none"> <li>• Pro-rated</li> </ul>	<ul style="list-style-type: none"> <li>• Any award that was scheduled to be paid during the two-month<sup>2</sup> resignation notice period</li> </ul>	<ul style="list-style-type: none"> <li>• Pro-rated</li> </ul>
<b>Medium-term incentive</b>	<ul style="list-style-type: none"> <li>• Vests after the end of the performance period</li> <li>• The number of units that vest is pro-rated to the date of retirement</li> <li>• Payout is based on performance (as determined by the HRCC)</li> </ul>	<ul style="list-style-type: none"> <li>• Any award that was scheduled to be paid during the two-month<sup>2</sup> resignation notice period</li> </ul>	<ul style="list-style-type: none"> <li>• Vesting is accelerated to the date of death</li> <li>• The number of units that vest is pro-rated to the date of death</li> </ul>
<b>Pension</b>	<ul style="list-style-type: none"> <li>• Accrued pension</li> </ul>	<ul style="list-style-type: none"> <li>• Continued participation in the Company's pension plan during the two-month<sup>2</sup> resignation notice period</li> <li>• Funds accumulated in the individual's supplementary pension account</li> </ul>	<p><b>Rowan Saunders:</b></p> <ul style="list-style-type: none"> <li>• Accrued pension paid in monthly payments or as a lump sum (see page 29 for details)</li> </ul> <p><b>All other named executives:</b></p> <ul style="list-style-type: none"> <li>• Accrued pension paid as a lump sum (see page 30 for details)</li> <li>• Any funds accumulated in the individual's supplementary pension account</li> </ul>
<b>All other compensation</b>	<ul style="list-style-type: none"> <li>• None</li> </ul>	<ul style="list-style-type: none"> <li>• Perquisites<sup>3</sup> that were scheduled to be paid in the two-month<sup>2</sup> resignation notice period</li> <li>• Continuation of any Company-subsidized benefits plans for the two-month<sup>2</sup> notice period</li> </ul>	<ul style="list-style-type: none"> <li>• Outstanding perquisite payments<sup>3</sup></li> <li>• Coverage under Company-subsidized benefits plans ends on the date of termination or as specified by the terms of the benefits plan (whichever is earlier)</li> </ul>

<sup>1</sup> In the event Mr. Saunders or Mr. MacDonald voluntarily resign within three years after their first day at Economical, they must repay the Company the after-tax amount of the signing bonus they received shortly after first joining (\$1,000,000 and \$300,000, respectively) and the after tax amount of any payments made to them under certain MTIP grants (for Mr. Saunders, the 2017-2018 MTIP grant awarded in 2017, and for Mr. MacDonald the 2018-2020 special restricted unit grant awarded in 2018; see "Medium-term incentives" on page 25 for details).

<sup>2</sup> Mr. Saunders' resignation notice period is three months.

<sup>3</sup> An annual cash allowance is paid to named executives in advance (typically January) in lieu of perquisite payments for the entire year. If a named executive's employment terminates, the Company may, depending on the timing and circumstances, require that the named executive repay a pro-rata portion of the annual cash allowance to the Company.

Disability	Termination for just cause	Termination without cause <sup>4</sup>	Termination without cause after change of control <sup>5</sup>
<ul style="list-style-type: none"> <li>• Outstanding salary</li> <li>• Vacation pay</li> <li>• Statutory termination notice and severance pay entitlements (if they apply)</li> <li>• Payments owing under the terms of the individual's STIP or MTIP plan (if any)</li> </ul>	<ul style="list-style-type: none"> <li>• Outstanding salary</li> <li>• Vacation pay</li> </ul>	<ul style="list-style-type: none"> <li>• Outstanding salary</li> <li>• Vacation pay</li> <li>• A severance payment equal to an amount that represents between 12 to 24 months of the named executive's monthly salary plus pro-rated, monthly STIP entitlement valued at target</li> </ul>	<ul style="list-style-type: none"> <li>• Outstanding salary</li> <li>• Vacation pay</li> <li>• 18-24 months of salary (highest salary at any time during the 36 months before the termination)</li> <li>• 18-24 months of short-term incentive valued at target</li> </ul>
<ul style="list-style-type: none"> <li>• Pro-rated</li> </ul>	<ul style="list-style-type: none"> <li>• Forfeited</li> </ul>	<ul style="list-style-type: none"> <li>• Any unpaid award that was earned for the most recently-completed fiscal year</li> <li>• The award for the year of termination calculated at target but pro-rated for the period of employment prior to termination</li> </ul>	<ul style="list-style-type: none"> <li>• Target award, pro-rated for number of complete months in the fiscal year of the termination up to the termination date</li> </ul>
<ul style="list-style-type: none"> <li>• Vesting is accelerated to the date of disability</li> <li>• The number of units that vest is pro-rated to the date of disability</li> </ul>	<ul style="list-style-type: none"> <li>• Forfeited</li> </ul>	<ul style="list-style-type: none"> <li>• Payment in respect of any units that have vested but are not yet paid out</li> <li>• All other units forfeited</li> </ul>	<ul style="list-style-type: none"> <li>• Units vest immediately, as though all performance conditions have been met (unless the HRCC determines otherwise)</li> </ul>
<ul style="list-style-type: none"> <li>• Accrued pension</li> <li>• Any funds accumulated in the individual's supplementary pension account</li> </ul>	<ul style="list-style-type: none"> <li>• Any funds accumulated in the individual's supplementary pension account</li> </ul>	<ul style="list-style-type: none"> <li>• Any funds accumulated in the individual's supplementary pension account</li> <li>• A lump sum payment equal to 15% of the severance payment amount in lieu of future contributions to the named executive's pension and benefit plans</li> </ul>	<ul style="list-style-type: none"> <li>• Any unvested Company contributions to pension vest immediately, but otherwise contributions to pension and long-term disability benefits end</li> <li>• Any funds accumulated in the individual's supplementary pension account</li> <li>• A lump sum payment equal to 15% of the severance payment amount in lieu of future contributions to the named executive's pension and benefits plans</li> </ul>
<ul style="list-style-type: none"> <li>• Outstanding perquisite payments<sup>3</sup></li> <li>• Coverage under Company-subsidized benefits plans ends on the date of termination or as specified by the terms of the benefits plan (whichever is earlier)</li> </ul>	<ul style="list-style-type: none"> <li>• Outstanding perquisite payments<sup>3</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Continued participation in all benefit plans, perquisites<sup>3</sup> and pension plan for the statutory notice period</li> <li>• \$10,000 of professional outplacement services</li> </ul>	<p><b>Rowan Saunders:</b></p> <ul style="list-style-type: none"> <li>• If the termination occurs within five years of his first day at Economical, \$1,000,000 per full year (pro-rated for partial years) remaining in such five-year period</li> <li>• Continued participation in all benefit plans and pension plan for the statutory notice period</li> <li>• \$10,000 of professional outplacement services</li> </ul> <p><b>All other named executives:</b></p> <ul style="list-style-type: none"> <li>• Regular benefits for up to 12 months or until the executive retires or is employed full-time and eligible to participate in a group insurance plan similar to ours or a lump sum equal to our total cost (without discount or present valuation) of regular benefits for 12 months</li> <li>• \$10,000 of professional outplacement services</li> </ul>

<sup>4</sup> These termination benefits would also be payable to Mr. Dey if he is compelled to resign in accordance with his professional obligations under the Law Society of Ontario's *Rules of Professional Conduct*.

<sup>5</sup> Includes a named executive terminating his own employment for *good reason* (as defined in the relevant agreements). In the event of a termination without cause after a change of control, the named executives have the choice of receiving their entitlement under *Termination without cause* or *Termination without cause after change of control* (whichever is higher).

**Estimated payments on termination or change of control**

The table below shows the estimated incremental payments or benefits that would have been paid to each named executive if their employment had terminated on December 31, 2018 (retirement, with cause/resignation, without cause and without cause after change of control). Amounts are before deducting any withholdings.

		Retirement (\$)	Termination with cause/ resignation (\$)	Termination without cause (\$)	Termination without cause after change of control (\$)
<b>Rowan Saunders</b>	Severance	–	–	3,200,000	3,200,000
	Short-term incentive	1,011,840	–	1,011,840	1,011,840
	Medium-term incentive	4,187,551	–	2,953,687	5,921,613
	All other compensation	–	–	490,000	3,323,333
	<b>Total</b>	<b>5,199,391</b>	<b>–</b>	<b>7,655,527</b>	<b>13,456,786</b>
<b>Philip Mather</b>	Severance	–	–	1,355,750	1,355,750
	Short-term incentive	372,952	–	372,952	372,952
	Medium-term incentive	544,582	–	248,259	860,199
	All other compensation	–	–	213,363	213,263
	<b>Total</b>	<b>917,534</b>	<b>–</b>	<b>2,190,324</b>	<b>2,802,264</b>
<b>Fabian Richenberger</b>	Severance	–	–	877,500	1,215,000
	Short-term incentive	448,128	–	448,128	448,128
	Medium-term incentive	492,809	–	135,869	1,126,437
	All other compensation	–	–	141,625	192,250
	<b>Total</b>	<b>940,937</b>	<b>–</b>	<b>1,603,122</b>	<b>2,981,815</b>
<b>Paul MacDonald</b>	Severance	–	–	796,875	956,250
	Short-term incentive	321,510	–	321,510	321,510
	Medium-term incentive	209,465	–	113,226	628,396
	All other compensation	–	–	129,531	153,438
	<b>Total</b>	<b>530,975</b>	<b>–</b>	<b>1,361,142</b>	<b>2,059,594</b>
<b>Innes Dey</b>	Severance	–	–	656,250	843,750
	Short-term incentive	226,111	–	226,111	226,111
	Medium-term incentive	431,275	–	198,610	674,983
	All other compensation	–	–	108,438	136,563
	<b>Total</b>	<b>657,386</b>	<b>–</b>	<b>1,189,409</b>	<b>1,881,407</b>

## 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" of 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

**For any questions you may have regarding the Meeting or this Circular, please contact Laurel Hill by telephone at 1-877-304-0211, or by email at [assistance@laurelhill.com](mailto:assistance@laurelhill.com).**

Further information relating to Economical may be obtained from our website. Financial information is provided in our consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2018, and these documents are also accessible through our website.

To obtain a copy of these documents together with our Annual Report at no cost (subject to availability), please contact Laurel Hill by telephone at 1-877-304-0211, or by email at [assistance@laurelhill.com](mailto:assistance@laurelhill.com).

### APPROVAL OF THE BOARD OF DIRECTORS

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



ROWAN SAUNDERS

President and CEO  
Waterloo, Ontario  
April 5, 2019

## APPENDIX “A” – STATEMENT OF CORPORATE GOVERNANCE PRACTICES

At Economical Mutual Insurance Company (“Economical” or the “Company”), we believe that sound and effective corporate governance is fundamental to enhancing our Board of Directors’ (the “Board”) ability to guide the management of Economical (“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 [economical.com](http://economical.com). In addition, any information located on the website is available in print to any of our mutual policyholders upon request to our Corporate Secretary at the address set out on page i of our 2019 Management Proxy Circular (the “Circular”). Our website and any information located on it do not form part of this Appendix “A.” Information as to membership on Board committees is current as of the date of the 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 grounded in our belief that trust and integrity are the foundation of our business. A copy of our Code of Conduct is available on our website.

Economical is committed to the highest level of legal and ethical standards in business conduct. Each person covered by our Code of Conduct is required to act responsibly, ethically and professionally. 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 upon beginning work. Every year, each director, officer, and employee is required to provide written confirmation that he or she has read, and will comply with, the Code of Conduct. 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 and website that are maintained by an independent third party. Employees can use any of those channels to anonymously and confidentially report any accounting or auditing concern, 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 report an incident in good faith or participate 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. 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 questionable accounting or auditing matters, internal controls with respect to financial reporting and disclosure controls and procedures, and for ensuring all such issues are resolved in a satisfactory manner.

#### Conflicts of interest

Through onboarding and 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 Board Chair.

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 or agreement 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 or agreement.

The Board may grant a specific, limited waiver under our Code of Conduct if it determines 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 2018 were independent directors. The Board has determined that, of the nine active directors listed in the Circular, only Rowan Saunders is not considered to be independent by virtue of his position as Economical's President and CEO. The three director nominees presented for election at the annual meeting of members of Economical scheduled for May 3, 2019 (the "Meeting") (Dick Freeborough, Micheál Kelly, and Michael Stramaglia), as well as the other directors who will continue to serve after the Meeting (John Bowey, Elizabeth DelBianco, Daniel Fortin, Barbara Fraser, and Susan Monteith), have all been determined to be independent directors.

Certain directors serve on the boards of other public companies in Canada. Information regarding those directorships appears in each director's biography on pages 7-12 of the Circular. The Board has adopted a guideline in respect of the maximum number of non-Economical boards our directors should serve on, including limits on two or more Economical directors serving on an external board together.

### **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 the best interests of Economical. 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 senior 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 and certain regulatory filings;
- 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 the activities of Economical, 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 the business and affairs of Economical, 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 Corporate Governance Committee, a Human Resources and Compensation Committee, an Investment Committee, and a Risk Review Committee. In addition, the Board strikes special purpose committees from time to time.

Each committee has a written mandate, which it is required to reassess at least once every three years. 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 the Company’s expense in connection with fulfilling their duties and responsibilities. A copy of each standing committee’s mandate is available on our website.

### Audit Committee

Our Audit Committee currently has three members: Dick Freeborough (Chair), Micheál Kelly, and Michael Stramaglia. If elected at the Meeting, we intend to re-appoint Messrs. Freeborough, Kelly, and Stramaglia to the Audit Committee to maintain its current composition. Each 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 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”), certain regulatory filings, 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 questionable accounting or auditing matters, internal controls with respect to financial reporting and disclosure controls and procedures, and the confidential, anonymous submission by our employees of concerns regarding any of the foregoing; and
- reviewing and approving our hiring policies regarding past and present partners and employees of our external auditors.

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 when appropriate.

Each current and proposed member of the Audit Committee is “financially literate” within the meaning of Canadian securities laws and has the ability to perform his responsibilities as an Audit Committee member. 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, Kelly and Mr. Stramaglia, please see their director biographies on pages 7-8 of the Circular.

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 page 4 of the Circular under the heading “Pre-approval policies and procedures”.

### Corporate Governance Committee

The current members of the Corporate Governance Committee are Micheál Kelly (Chair), John Bowey, Elizabeth DelBianco, and Dick Freeborough. Each member of the committee is an independent director. If elected at the Meeting, we intend to re-appoint Messrs. Freeborough and Kelly to the Corporate Governance Committee to maintain its current composition. The Board has adopted a written 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 "Directors' compensation" and "Statement of Corporate Governance Practices" sections of our Management Proxy Circular; and
- with input as requested from time to time from the Human Resources and Compensation Committee, periodically reviewing and making recommendations to the Board regarding the adequacy and form of directors' compensation.

#### **Human Resources and Compensation Committee**

The current members of the Human Resources and Compensation Committee are Elizabeth DelBianco (Chair), John Bowey, Daniel Fortin, and Barbara Fraser. Each member of the committee is an independent director. The Board has adopted a written 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 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 Board approval, as appropriate;
- approving the "Executive Compensation" section of our annual Management Proxy Circular; and
- providing, at the Corporate Governance Committee's request, market insights, recommendations or other information regarding the adequacy and form of directors' compensation.

#### **Investment Committee**

The current members of the Investment Committee are Barbara Fraser (Chair), Susan Monteith, Rowan Saunders, and Michael Stramaglia, each of whom is an independent director other than Rowan Saunders, our President and CEO. If elected at the Meeting, we intend to re-appoint Mr. Stramaglia to the Investment Committee to maintain its current composition. The Board has adopted a written mandate which outlines the responsibilities of the Investment Committee with respect to, among other things:

- the investment, management, and performance of the Company's investable 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 Company's investment policy statement;
- 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.

#### **Risk Review Committee**

The current members of the Risk Review Committee are Michael Stramaglia (Chair), Daniel Fortin, Dick Freeborough, and Susan Monteith, each of whom is an independent director. If elected at the Meeting, we intend to re-appoint Messrs. Freeborough and Stramaglia to the Risk Review Committee to maintain its current composition. The Board has adopted a written 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 risks facing the Company and the development of strategies to manage and mitigate those risks;
- the review of Management's assessment of compliance with approved risk management policies and 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;
- the review of the Company's own risk solvency assessment;
- the effectiveness of the Company's enterprise-wide regulatory compliance management program and framework; and
- the review and monitoring of the Company's capital management plan to support 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 the 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 presented.

The Chair of any committee may, at any time but with appropriate notice, call a meeting of the Board to consider any matter of concern to it. In addition, meetings of the Audit Committee or the Risk Review Committee may be called at any time at the request of the external auditors, the Appointed Actuary, the Chief Risk Officer or the Chief Financial Officer.

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 agenda includes one or more *in camera* opportunities during which independent directors may meet by themselves and any independent director may request additional time for this purpose.

Board meetings are typically held in Waterloo, the longstanding location of the Company’s headquarters, or Toronto, the capital of Ontario (the province where the majority of our business is written). Periodically, Board meetings are held at other locations where the Company has significant activities. In September 2018, the Board met in Montreal, Quebec, which gave our directors an opportunity to meet with local management and review regional business strategies.

## POSITION DESCRIPTIONS

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

The Board Chair 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 current Board Chair is John Bowey, an independent director. 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.

Committee chairs 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 the business of the Company, and 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 day-to-day business affairs, leading our strategic planning and budgeting processes, supervising senior Management, and implementing systems to ensure the integrity of our internal controls, management information systems, and financial reporting.

## COMPENSATION

The Board sets the level of compensation for directors, based on the recommendations of the Corporate Governance Committee, which on request receives input from the Human Resources and Compensation Committee. Directors who are also employees of Economical or of any of our subsidiaries 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 page 13 of the Circular.

The Human Resources and Compensation Committee, composed entirely of independent directors, is responsible for making recommendations to the Board regarding the employment terms of the 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” on page 39 for more information about that committee. Details of executive compensation and our compensation consulting arrangements are disclosed on pages 15-34 of the Circular.

## **NOMINATION OF DIRECTORS**

### **Director nominations**

The responsibilities of the Corporate Governance Committee, which is composed entirely of independent directors, include serving as our nominating committee for new directors. It recommends nominees for election at our annual meeting to the Board and also 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, which are factors we consider during our annual assessment of board effectiveness. The intended initial term for our Board Chair is five years, with eligibility for further 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 an external search firm.

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 fulfill his or her duties effectively; and, where required, financial literacy. Candidates are also screened for conflicts of interest and material relationships that could impact his or her independence. In addition, the composition of the Board must meet residency and affiliation requirements specified by applicable laws and regulations. A skills matrix may be prepared to support searches, 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.

The Corporate Governance Committee's process for identifying and evaluating director nominees generally involves the following (with or without the assistance of an external search firm): compiling names of potentially eligible candidates; evaluating 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 by-laws, directors hold office for rotating three-year terms. Ordinarily approximately 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.

### **Board diversity and renewal**

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. We currently have three women directors appointed to the Board, resulting in the Board's current composition of 33% women. If the director nominees are re-elected at the Meeting, the Board's composition is anticipated to remain the same.

The Board has adopted a written board diversity policy relating to multiple dimensions of diversity, over and above the identification and nomination of women directors. The objective of the policy is to promote better corporate governance by enabling the Board to deliberate with broader perspectives and deeper insight. 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, taking 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 assesses the effectiveness of the board diversity policy by considering the extent to which its objectives have been met and making such recommendations to the Board as it deems necessary or appropriate, and the committee believes that the objectives of the policy are currently being met. In adopting the board diversity policy, the Corporate Governance Committee and the Board considered the utility of diversity targets (such as a target regarding women on the Board) and determined not to do so, on the basis 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 also considered the appropriateness of establishing fixed term limits or a mandatory retirement age for directors and determined not to do so, on the basis that it would not be appropriate to establish such limits. Imposing an arbitrary term limit or retirement age 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, average director tenure of approximately five years, and regular evaluation process (see “Board and Director Evaluation” below), the Corporate Governance Committee and Board believe that term limits or a mandatory retirement age are not necessary to achieve the objective of bringing fresh ideas and viewpoints to the Board. See also “Director nominations” on page 41.

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

## MANAGEMENT DIVERSITY

Our Human Resources and Compensation 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. In September 2016, we launched our first Diversity and Inclusion Think Tank where participants worked together to lay the foundation for Economical’s diversity and inclusion strategy. In 2017, we established our Diversity and Inclusion Advisory Committee, which has a mandate to make recommendations and provide key information and materials to the executive leadership team, to plan, monitor, and strengthen our diversity and inclusion programs, and to oversee diversity and inclusion subcommittees. We also have three employee resource groups in place to focus on specific areas of diversity among Economical employees, in particular women in leadership, the immigrant community, and the lesbian, gay, bisexual, transgender, and questioning (LGBTQ) community.

We have a strategic commitment to developing a gender-diverse talent pool and consider the level of representation of women in executive officer positions when making executive officer appointments, by considering factors such as gender along with business experience, functional expertise, personal skills, and integrity. As at December 31, 2018, women represented 63% of our overall workforce, including 29% of our executives (10 individuals) and 48% of our other Management roles. Given the broad range of diversity dimensions and our active promotion of a culture of inclusion and collaboration, we have not established diversity targets concerning executive positions.

## 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 is provided access to up-to-date information on our corporate and organizational structure, recent public disclosure documents and financial information, our corporate documents (including our letters patent and by-laws), Board and committee mandates, key corporate policies, including our Code of Conduct, and details regarding directors’ and officers’ indemnification and insurance coverage. Each new director attends orientation presentations by our senior Management. As well, new directors have regular and ready access to fellow directors and to senior Management.

Presentations are made regularly to the Board and committees to educate and keep them informed of industry trends and 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 and contribution of the Board as a whole, of 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. Evaluation results are reported to the Corporate Governance Committee, each committee and the full Board after the assessment is complete.

Every year, the Board Chair and the Chair of the Corporate Governance Committee together interview each director to obtain their feedback and to discuss any aspect of the Company’s corporate governance that the director may wish to discuss. The Chair of the Corporate Governance Committee also meets with each director to discuss their evaluation of the performance of the Board Chair. The Chair of the Corporate Governance Committee evaluates the performance of the Board Chair in that role based on feedback and evaluation results and meets privately with the Board Chair to share the results of that evaluation. All self-assessments and interviews are strictly confidential to encourage full and frank commentary from our directors.

**QUESTIONS MAY BE DIRECTED TO OUR PROXY SOLICITATION AGENT**



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