2016

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 (the "Meeting") of the Members of Economical Mutual Insurance Company ("Economical") will be held on May 3, 2016 at 3:00 p.m. (Eastern Time) at Bingemans — Marshall Hall, 425 Bingemans Centre Drive, Kitchener, Ontario, Canada, for the following purposes:

A. to receive the consolidated financial statements of Economical for the year ended December 31, 2015, together with the auditors' report on those statements, and the actuary's report on the policy liabilities in those statements;

B. to appoint the external auditors;

C. to elect directors; and

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

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

By order of the Board of Directors,

Karen Gavan

KAREN L. GAVAN
President and CEO
Waterloo, Ontario
April 1, 2016

Members of Economical, whether or not you attend the Meeting, are encouraged to complete, date and sign the enclosed **BLUE** proxy form, and return it by mail in the postage-paid envelope provided, or by hand at 100 University Avenue, 8th Floor, Toronto, Ontario, Canada M5J 2Y1, or fax it to Computershare Investor Services Inc. at 1-866-249-7775 (toll-free in North America) or 1-416-263-9524 (international). **BLUE** proxies may also be returned, by hand, to the head office of Economical at 111 Westmount Road South, Waterloo, Ontario, Canada N2J 4S4 Attention: corporate secretary. In order to be valid, your proxy must reach Computershare Investor Services Inc. or Economical, in the manner noted above, no later than 3:00 p.m. (Eastern Time) on April 23, 2016 or, if the Meeting is adjourned or postponed, no later than 10 days before any adjournment or postponement thereof.

You may also register your vote at www.webvotedirect.com or over the telephone toll-free at **1-866-301-0994** no later than 3:00 p.m. (Eastern Time) on April 23, 2016, or, if the Meeting is adjourned or postponed, no later than 10 days before the new date determined by adjournment or postponement of the Meeting.

For any questions you may have regarding the Management Proxy Circular or the **BLUE** proxy form, or if you require assistance with voting, please contact Computershare Investor Services Inc., by telephone at 1-800-564-6253, or by email at service@computershare.com.

TABLE OF CONTENTS

NOTICE OF ANNUAL MEETING OF MEMBERS OF ECONOMICAL MUTUAL INSURANCE COMPANY 1

MANAGEMENT PROXY CIRCULAR 3

- **GENERAL PROXY AND VOTING INFORMATION** 3
  - **Solicitation of proxies** 3
  - **Who is soliciting the proxy** 3
  - **Mutual policies** 3
  - **Who may vote** 3
  - **How to vote** 4
  - **Voting by proxy** 4
    - How to appoint a proxyholder 4
    - Voting instructions 4
    - How to revoke a proxy 4
- **BUSINESS OF THE MEETING** 5
  - **Item A – Financial statements** 5
  - **Item B – Appointment of auditors** 5
    - Appointment and remuneration 5
    - Pre-approval policies and procedures 5
    - External auditors' service fees 5
  - **Item C – Election of directors** 6
    - Overview 6
    - Nominees for election at the meeting 7
    - Incumbent directors whose terms continue beyond the meeting 9
    - Additional disclosure relating to directors 13
    - Directors' compensation 13
- **STATEMENT OF EXECUTIVE COMPENSATION** 15
  - **Letter from the Chair of the Human Resources and Compensation Committee** 15
  - **Compensation discussion and analysis** 17
    - Compensation philosophy 17
    - Compensation governance 17
    - Compensation design and decision-making process 18
  - **Retirement plans for the named executive officers** 26
  - **Summary compensation table** 28
  - **Termination and change of control benefits** 28
    - Employment agreements 28
    - Termination and change of control 28
    - Potential payments upon termination or change of control 30
- **OTHER INFORMATION** 31
  - **Corporate governance practices** 31
  - **Indebtedness of directors and executive officers** 31
  - **Additional information and contacting Economical Mutual Insurance Company** 31
  - **Approval of the Board of Directors** 31
- **APPENDIX "A" – STATEMENT OF CORPORATE GOVERNANCE PRACTICES** 32

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

This Circular contains forward-looking statements, as indicated by words such as "believe," "anticipate," "intend," "estimate," "expect," "may," "project," "will," "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 are under no obligation to update or alter any of our forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law.

GENERAL PROXY AND VOTING INFORMATION

SOLICITATION OF PROXIES

This Circular and the accompanying **BLUE** 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 3:00 p.m. (Eastern Time) on May 3, 2016, at Bingemans — Marshall Hall, 425 Bingemans Centre Drive, Kitchener, Ontario, Canada N2B 3X7, and at any adjournment or postponement thereof. Only the **BLUE** proxy form is used by Management to solicit proxies, and the Economical Board of Directors (the "Board") recommends that it is the only proxy form that you use.

WHO IS SOLICITING THE PROXY

Employees, officers, directors and agents of Economical will solicit proxies on behalf of Management. The solicitation of proxies will be done by mail, telephone, fax, email, 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 144 years ago. We are governed by the *Insurance Companies Act* (Canada) ("ICA") and are regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). "Mutual companies" do not have a share structure or shareholders. Instead, they have members who have insured certain property under a mutual insurance policy. Each holder of an Economical mutual policy has the right to vote at meetings of Members, but ceases to be a Member when his, her, or its mutual policy terminates. Each Member has only one vote regardless of how many mutual policies such Member holds. Economical also issues a large number of non-mutual insurance policies, which do not normally carry any voting rights.

WHO MAY VOTE

Each Member of record as of 3:00 p.m. (Eastern Time) on May 3, 2016 is entitled to cast one (1) vote on all matters validly proposed to come before the Meeting. As of the date of this Circular, Economical had 873 Members eligible to vote at the Meeting.

The bylaws 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 any meeting, either in person or by duly appointed proxy, only the person whose name first appears on the policy, or the duly appointed proxy of such first-named person, as the case may be, is entitled to vote.

HOW TO VOTE

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

VOTING BY PROXY

HOW TO APPOINT A PROXYHOLDER

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

VOTING INSTRUCTIONS

To vote by proxy, Members must complete, sign, and return the enclosed **BLUE** proxy form. In order to be valid, the **BLUE** proxy form must be registered with Computershare Investor Services Inc. ("Computershare") by mail or in person at 100 University Avenue, 8th Floor, Toronto, Ontario, Canada M5J 2Y1, or by fax at 1-866-249-7775 (toll-free in North America) or 1-416-263-9524 (international) no later than 3:00 p.m. (Eastern Time) on April 23, 2016, or, if the Meeting is adjourned or postponed, no later than 10 days before the new date determined by adjournment or postponement of the Meeting. **BLUE** proxies may also be deposited at the head office of Economical at 111 Westmount Road South, Waterloo, Ontario, Canada N2J 4S4 Attention: corporate secretary, if they are received by 3:00 p.m. (Eastern Time) on April 23, 2016. If you wish to return the proxy form by mail, you may use the postage-paid envelope included with this Circular.

You may also register your vote at www.webvotedirect.com or over the telephone toll-free at 1-866-301-0994 no later than 3:00 p.m. (Eastern Time) on April 23, 2016, or, if the Meeting is adjourned or postponed, no later than 10 days before the new date determined by adjournment or postponement of the Meeting.

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

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

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

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

HOW TO REVOKE A PROXY

Members may revoke a proxy:

- by delivering a written notice to that effect signed by them or their duly authorized representative(s) to Computershare, at 100 University Avenue, 8th Floor, Toronto, Ontario, Canada M5J 2Y1 or to the head office of Economical at 111 Westmount Road South, Waterloo, Ontario, Canada N2J 4S4 Attention: corporate secretary, in each case no later than 5:00 p.m. (Eastern Time) on May 2, 2016, or if the Meeting is postponed or adjourned, 24 hours before the postponed meeting or continuation of the Meeting after the adjournment;
- by delivering a written notice to that effect signed by them or their duly authorized representative(s) to an agent of Computershare at the Meeting or the chair of the Meeting, on the day of the Meeting or a continuation thereof after an adjournment, or if the Meeting is postponed, on the day of the postponed meeting; or
- in any other manner permitted by law.

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

BUSINESS OF THE MEETING

The Meeting is scheduled to be held on May 3, 2016 at 3:00 p.m. (Eastern Time) at Bingemans — Marshall Hall, 425 Bingemans Centre Drive, Kitchener, Ontario, Canada N2B 3X7.

The Meeting date may be postponed by resolution of the Board until a later date and time. If that happens, notice of the changed date and time will be delivered to all mutual policyholders and to others entitled by law to such notice. All proxies properly executed and delivered for the Meeting will continue to be valid for the postponed meeting, unless they are otherwise properly revoked. See "General proxy and voting information — Voting by proxy — How to revoke a proxy" above. The deposit date for proxies to be voted at the postponed meeting will be extended in the manner provided in the notice of the postponed meeting.

The Meeting is an annual meeting of Members. The purpose of this Meeting is to address the annual business of Economical and not to consider the Company's proposed demutualization. For information on our demutualization process, please visit our demutualization website (www.joininourfuture.com).

All of the matters to come to a vote at the Meeting, as described in the attached Notice of Meeting, can be approved by a simple majority (*i.e.*, more than 50%) of the votes cast by Members present in person or validly represented by proxy at the Meeting.

ITEM A — FINANCIAL STATEMENTS

A copy of the consolidated financial statements of Economical for the year ended December 31, 2015, together with the auditors' report thereon and the actuary's report on the policy liabilities in those statements are included with this package and will be placed before the Members at the Meeting. Our Annual Report is also available on our website. No vote is required at the Meeting in respect of our financial statements or the professional reports on those statements.

ITEM B — APPOINTMENT OF AUDITORS

APPOINTMENT AND REMUNERATION

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

PRE-APPROVAL POLICIES AND PROCEDURES

Our Audit Committee has adopted policies and procedures for the pre-approval of services performed for us and our subsidiaries by our external auditors, the objective of which is to support the independence of our external auditors. Those policies and procedures require the Audit Committee to pre-approve audit-related, tax and other non-audit services provided by our external auditors. The Audit Committee may not approve any service to be provided by the external auditors that is prohibited under the rules of the Canadian Public Accountability Board or the Independence Standards of the Chartered Professional Accountants of Canada. 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 scheduled meeting. None of the Audit Committee's responsibilities under the policy may be delegated to Management.

EXTERNAL AUDITORS' SERVICE FEES

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

EXTERNAL AUDITORS' FEES ($):

	2015	2014
Audit fees	**662,854**	660,840
Audit-related fees	**170,700**	110,000
Tax fees	**50,565**	113,183
All other fees	**274,417**	77,550
Total	**1,158,536**	961,573

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 restructurings, tax audits, appeals and contested tax matters. All other fees may include actuarial peer reviews and other non-accounting, non-tax-related matters.

ITEM C — ELECTION OF DIRECTORS

OVERVIEW

Our bylaws provide that the Board shall consist of a minimum of seven directors and a maximum of twenty-one directors. The number of directors from time to time shall be fixed by the Board prior to the annual 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 bylaws, 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 2019 or until their successors are elected or appointed. The remaining directors continue to serve for terms that expire beyond the Meeting.

The current Board consists of John H. Bowey, Elizabeth L. DelBianco, Daniel J. Fortin, Barbara H. Fraser, Richard M. Freeborough, Karen L. Gavan, Gerald A. Hooper, Micheál J. Kelly, Michael P. Stramaglia, and W. David Wilson.

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 2015, and all of the director nominees presented for election at the Meeting, are independent directors. The Board has determined that only Karen Gavan is not considered to be independent by virtue of her management position. All three of the director nominees presented for election at the Meeting (Richard Freeborough, Micheál Kelly, and Michael Stramaglia), as well as the remaining directors (John Bowey, Elizabeth DelBianco, Daniel Fortin, Barbara Fraser, Gerald Hooper, and David Wilson) have all been determined to be independent directors.

The Board currently has five standing committees: an Audit Committee, a Human Resources and Compensation Committee, an Investment Committee, a Corporate Governance Committee and a Risk Review Committee. In addition, the Board of Economical established a Special Committee in 2010 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 significant strategic initiatives. In 2016, the Board established a CEO Search Committee to conduct a search process to identify candidates for recommendation to the Board for appointment to the president and CEO position. Membership of each committee is indicated in the director profiles that follow.

NOMINEES FOR ELECTION AT THE MEETING

Richard Freeborough and Michael Stramaglia were elected at the 2013 annual meeting, and Micheál Kelly was appointed in April 2015 to replace Charles M.W. Ormston until the expiry of his term in 2016. The respective terms of the foregoing directors expire at the end of the Meeting and they are all standing for re-election. The Management representatives named in the enclosed proxy form intend to vote for the election of each of the nominee directors and, unless otherwise directed, proxies will be voted in favour of the election of each of those nominees.

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

The following sets out the names of the three persons proposed by Economical for re-election as directors at the Meeting, as well as the following additional information: the year in which they first became a director of Economical; all positions, committees, and offices they hold with Economical; their principal occupation and professional background; public board memberships they currently hold, if any; their place of residence; and their attendance at regularly scheduled Board and committee meetings. All biographical information, not being within our knowledge, has been provided by the relevant director.

RICHARD (DICK) M. FREEBOROUGH, FCPA, FCA, ICD.D
Oakville, ON
Canada
Age: 73
Independent

Mr. Freeborough is a corporate director who 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 2019. He 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 currently Chair of the Board of Directors for the Independent Order of Foresters. He is also a director and Chair of the Audit Committee for RGA Life Reinsurance Company of Canada.

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

Mr. Freeborough is currently Chair of the Audit Committee, and also serves on the Special Committee and Risk Review Committee. In 2015, Mr. Freeborough was Chair of the Audit Committee, and served on the Special Committee, Risk Review Committee and Investment Committee.

BOARD AND COMMITTEES	2015 ATTENDANCE	JOINED
Board	9/9	2012
Audit Committee	5/5	2012
Special Committee	7/7	2012
Risk Review Committee	4/4	2014
Investment Committee	3/3*	2015

* indicates part-year service

CURRENT PUBLIC COMPANY BOARD MEMBERSHIPS

None

MICHEÁL J. KELLY, AB, MA, PhD
Waterloo, ON
Canada
Age: 67
Independent

Dr. Kelly was appointed to 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 2019. He is Dean of the Lazaridis School of Business and Economics at Wilfrid Laurier University. Prior to joining Laurier in July 2012, he was Professor of Strategy and International Business at the University of Ottawa's Telfer School of Management. He was also Dean of the Telfer School from 2000 to 2010.

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 President of the Canadian Federation of Business School Deans, a past member of le conseil d'administration of ESC Reims Management School in France and of the Board of Governors of Beta Gamma Sigma, the international business school honour society. He is presently on the boards of Waterloo North Hydro, CATA Alliance, and the Greater Kitchener Waterloo Chamber of Commerce.

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 currently serves on the Audit Committee, Corporate Governance Committee and Strategic Initiatives Committee. In 2015, Dr. Kelly served on the Corporate Governance Committee and Strategic Initiatives Committee.

BOARD AND COMMITTEES	2015 ATTENDANCE	JOINED
Board	8/8*	2015
Corporate Governance Committee	2/2*	2015
Strategic Initiatives Committee	4/4*	2015

* indicates part-year service

CURRENT PUBLIC COMPANY BOARD MEMBERSHIPS

None

MICHAEL P. STRAMAGLIA, FSA, FCIA, CERA, ICD.D
Toronto, ON
Canada
Age: 56
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 2019. He is a professional corporate director and is the President and founder of Matrisc Advisory Group Inc., a risk management consulting firm.

Mr. Stramaglia currently sits on the boards of the Independent Order of Foresters, Equitable Bank 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.

Mr. Stramaglia was Executive Vice-President for Sun Life Financial Inc., where he held various senior executive positions, including Chief Risk Officer and Executive Vice-President, Investments. He joined Sun Life Financial in 2002 following its acquisition of Clarica Life Insurance Company, where he held the position of Executive Vice-President, Reinsurance and Chief Investment Officer. He previously served as President and CEO of Zurich Life Insurance Company of Canada and President and COO of Zurich Financial Service'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 degree 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 Investment Committee and Audit Committee. In 2015, Mr. Stramaglia was Chair of the Risk Review Committee, and served on the Investment Committee and Audit Committee.

BOARD AND COMMITTEES	2015 ATTENDANCE	JOINED
Board	9/9	2010
Investment Committee	4/4	2010
Audit Committee	5/5	2011
Risk Review Committee	4/4	2012

CURRENT PUBLIC COMPANY BOARD MEMBERSHIPS

Equitable Group Inc.

INCUMBENT DIRECTORS WHOSE TERMS CONTINUE BEYOND THE MEETING

The following profiles set out the names of the seven 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 they currently hold, if any; their place of residence; and their attendance at regularly scheduled Board and Committee meetings. All biographical information, not being within our knowledge, has been furnished by the relevant director.

JOHN H. BOWEY, MBA, FCPA, FCA, ICD.D
Conestogo, ON
Canada
Age: 68
Independent

Mr. Bowey joined the Board in May 2011. His current term will expire at the close of the annual meeting of Members in 2017. He was appointed Vice-Chair in December, 2013, and is the newly appointed Chair of the Board, effective January 4, 2016.

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 the global Board of Deloitte.

He currently serves on a number of corporate and not-for-profit boards, including Wilfrid Laurier University and Brick Brewing Co. Limited. He is a past Chairman of the Princess Margaret Cancer Foundation.

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

Mr. Bowey currently serves on the Special Committee, Corporate Governance Committee, Strategic Initiatives Committee and CEO Search Committee. In 2015, Mr. Bowey was Chair of the Special Committee, and served on the Human Resources and Compensation Committee, Corporate Governance Committee and Risk Review Committee.

BOARD AND COMMITTEES	2015 ATTENDANCE	JOINED
Board	9/9	2011
Special Committee	7/7	2011
Human Resources and Compensation Committee	1/1*	2011
Corporate Governance Committee	1/1*	2014
Risk Review Committee	2/3*	2015

* indicates part-year service

CURRENT PUBLIC COMPANY BOARD MEMBERSHIPS

Brick Brewing Co. Limited

ELIZABETH L. DELBIANCO, BA, LL.B., MBA
Toronto, ON
Canada
Age: 56
Independent

Ms. DelBianco joined our Board in March 2013. Her current term will expire at the close of the annual meeting of Members in 2017. She is currently Chief Legal and Administrative Officer for Celestica Inc., where she leads Celestica's legal, communications, compliance, and sustainability functions, as well as its human resources organization.

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

Ms. DelBianco obtained a BA from the University of Toronto, an LL.B. from Queen's University and an MBA from the Ivey School of Business at Western University. She holds 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, Chair of the CEO Search Committee, and serves on the Corporate Governance Committee. In 2015, Ms. DelBianco was Chair of the Human Resources and Compensation Committee, and served on the Corporate Governance Committee.

BOARD AND COMMITTEES	2015 ATTENDANCE	JOINED
Board	9/9	2013
Corporate Governance Committee	3/3	2013
Human Resources and Compensation Committee	4/4	2013

CURRENT PUBLIC COMPANY BOARD MEMBERSHIPS

None

DANIEL J. FORTIN, BEng (Civil), Hon. D.Eng., ICD.D
Pickering, ON
Canada
Age: 59
Independent

Mr. Fortin joined our Board in October 2014. His current term will expire at the close of the annual meeting of Members in 2018.

Mr. Fortin is the past president of IBM Canada, where he led a team of 18,000 employees in helping Canadian organizations use technology to transform their businesses. During his 35 years at IBM, he also held a number of senior executive positions at the North American and global levels.

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, and United Way Toronto. He has a Bachelor of Civil Engineering degree and an honourary doctorate from Carleton University in Ottawa. He also holds an ICD.D designation.

Mr. Fortin is currently Chair of the Strategic Initiatives Committee, and serves on the Human Resources and Compensation Committee, Risk Review Committee and CEO Search Committee. In 2015, Mr. Fortin was Chair of the Strategic Initiatives Committee, and served on the Human Resources and Compensation Committee, and Risk Review Committee.

BOARD AND COMMITTEES	2015 ATTENDANCE	JOINED
Board	9/9	2014
Human Resources and Compensation Committee	4/4	2014
Risk Review Committee	4/4	2014
Strategic Initiatives Committee	6/6	2015

CURRENT PUBLIC COMPANY BOARD MEMBERSHIPS

None

BARBARA H. FRASER, HBA
Toronto, ON
Canada
Age: 66
Independent

Ms. Fraser joined our Board in December 2013. Her current term will expire at the close of the annual meeting of Members in 2017. She is a corporate director who brings extensive C-suite experience in marketing and corporate management at leading global companies in the financial services industry, including American Express and Citi, and in the consumer products industry, at Procter & Gamble. In these roles, Ms. Fraser has worked in Canada, the United States, and worldwide. She retired from American Express, based in New York, in 2006, where she held the positions of Global President, Travelers Cheques & Prepaid Services; EVP, Products; CEO of IDS Life Insurance; CMO of American Express Financial Advisors; and SVP, Global Brand Strategy of American Express.

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

Ms. Fraser is an HBA graduate from Ivey Business School at Western University 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 in 2011.

Ms. Fraser is currently Chair of the Corporate Governance Committee, and serves on the Human Resources and Compensation Committee, and Strategic Initiatives Committee. In 2015, Ms. Fraser was Chair of the Corporate Governance Committee, and served on the Audit Committee, Investment Committee, Human Resources and Compensation Committee, and Strategic Initiatives Committee.

BOARD AND COMMITTEES	2015 ATTENDANCE	JOINED
Board	8/9	2013
Audit Committee	5/5	2013
Investment Committee	1/1*	2013
Corporate Governance Committee	2/2*	2015
Human Resources and Compensation Committee	3/3*	2015
Strategic Initiatives Committee	6/6	2015

* indicates part-year service

CURRENT PUBLIC COMPANY BOARD MEMBERSHIPS

Manitoba Telecom Services Inc.

KAREN L. GAVAN, FCPA, FCA, ICD.D
Toronto, ON
Canada
Age: 54
Not Independent

Ms. Gavan was appointed to the Board in March 2008. Her current term will expire at the close of the annual meeting of Members in 2017. Ms. Gavan is the president and CEO of Economical. She has over 34 years of financial services industry experience and almost 20 years of corporate governance experience. She was formerly the Chief Operating Officer and Chief Financial Officer of Transamerica Life Canada. Prior to that she held senior management positions with Imperial Life Assurance Company and Canada Life Assurance Company.

Ms. Gavan also serves on the boards of Mackenzie Financial Corporation and Swiss Re America Holding Corporation. She has previously served on the boards of a number of corporations, primarily in the financial services industry, and on the boards of a number of charitable organizations.

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

Ms. Gavan currently serves on the Investment Committee. In 2015, Ms. Gavan also served on the Investment Committee.

BOARD AND COMMITTEES	2015 ATTENDANCE	JOINED
Board	9/9	2008
Investment Committee	4/4	2011

CURRENT PUBLIC COMPANY BOARD MEMBERSHIPS

None

GERALD A. HOOPER, FCPA, FCA
Waterloo, ON
Canada
Age: 72
Independent

Mr. Hooper was appointed to the Board in 1999. His current term will expire at the close of the annual meeting of Members in 2018. He was Chair of the Board for 11 years until January 2016.

Mr. Hooper was at Schneider Foods for 19 years where he served as Executive Vice-President and Chief Financial Officer as well as a member of the Board of Directors of Schneider Corporation. Following the acquisition of Schneider Foods in 2003, Mr. Hooper was Executive Vice-President of Maple Leaf Foods until his retirement in 2005. From 1975 to 1986 he was a Partner at what is now KPMG.

Mr. Hooper has served on a number of corporate and not-for-profit boards, and has attended programs in effective board leadership at the Directors College of McMaster University's DeGroote School of Business. His past public company directorships have included ATS Automation Tooling Systems Inc., Schneider Corporation, Brick Brewing Co. Limited, and Wescast Industries.

Mr. Hooper is a Fellow of the Institute of Chartered Professional Accountants of Ontario.

Mr. Hooper is currently Chair of the Investment Committee, and serves on the Audit Committee and Risk Review Committee. In 2015, Mr. Hooper served on the Audit Committee, Corporate Governance Committee, and Human Resources and Compensation Committee.

BOARD AND COMMITTEES	2015 ATTENDANCE	JOINED
Board	9/9	1999
Audit Committee	5/5	1999
Corporate Governance Committee	3/3	2005
Human Resources and Compensation Committee	4/4	2005

CURRENT PUBLIC COMPANY BOARD MEMBERSHIPS

None

W. DAVID WILSON, B.COMM., MBA
Toronto, ON
Canada
Age: 71
Independent

Mr. Wilson joined the Board in February 2012. His current term will expire at the close of the annual meeting of Members in 2018. He is a corporate director and previously served as Chair of the Ontario Securities Commission from 2005 to 2010, following a 35-year career in Canada's securities industry.

During his career, he has been actively involved in securities regulatory matters in Ontario and across Canada. Prior to his appointment as OSC Chair, Mr. Wilson was Vice-Chair of Scotiabank, and Chair and CEO of Scotia Capital. He was responsible for overseeing Scotiabank's global wholesale banking activities, which included global trading, investment banking and corporate banking. At Scotiabank, Mr. Wilson served as a senior member of the advisory group assisting Manulife with its demutualization process.

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

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

Mr. Wilson is currently Chair of the Special Committee, and serves on the Human Resources and Compensation Committee, and Investment Committee. In 2015, Mr. Wilson was Chair of the Investment Committee, and served on the Special Committee, Risk Review Committee, Strategic Initiatives Committee, and Human Resources and Compensation Committee.

BOARD AND COMMITTEES	2015 ATTENDANCE	JOINED
Board	9/9	2012
Investment Committee	4/4	2012
Risk Review Committee	0/1*	2012
Special Committee	7/7	2012
Strategic Initiatives Committee	6/6	2015
Human Resources and Compensation Committee	3/3*	2015

* indicates part-year service

CURRENT PUBLIC COMPANY BOARD MEMBERSHIPS

Greater Toronto Airports Authority

ADDITIONAL DISCLOSURE RELATING TO DIRECTORS

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

Each of the following current directors holds a mutual policy with Economical: Ms. Gavan and Mr. Hooper.

DIRECTORS' COMPENSATION

Each of our directors serves on the boards and committees of each of our insurance company subsidiaries and our financial subsidiary, Westmount Financial Inc. Currently, the membership and chair designations for these subsidiary boards and their standing committees (to the extent such committees exist) are identical to Economical, with the exception that only Economical has a Special Committee and Strategic Initiatives Committee.

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

Effective April 1, 2015, non-management directors of Economical received the retainers and meeting fees outlined in the table below in relation to service on our standing committees:

	Economical ($)	Insurance subsidiaries[1] ($)	Westmount Financial Inc. ($)
Annual retainers			
Director[2]	39,000	26,000	10,000
Board Chair[3]	90,000	60,000	-
Committee Chair (Audit; Risk Review)	9,000	6,000	-
Committee Chair (Human Resources and Compensation)[4]	7,500	5,000	-
Committee Chair (other standing committees)	6,000	4,000	-
Meeting fees			
Regular	900	600	-
Conference call[5]	450	300	-
Full day	1,500	1,000	-

1 Amounts shown reflect the total retainers and meeting fees received from all of our insurance subsidiaries together.
2 Prior to April 1, 2015, the annual retainer for each director was $27,000 (Economical), $18,000 (insurance subsidiaries) and $10,000 (Westmount Financial Inc.).
3 Prior to April 1, 2015, the annual retainer for the Board chair was $84,000 (Economical) and $56,000 (insurance subsidiaries).
4 Prior to April 1, 2015 the annual retainer for the chair of the Human Resources and Compensation Committee was $6,000 (Economical) and $4,000 (insurance subsidiaries).
5 For conference call meetings occurring in between the regularly scheduled board meetings, directors are paid at 50% of the normal meeting fee.

In addition to our standing board committees, we have a Special Committee on demutualization, a Strategic Initiatives Committee, and a CEO Search Committee. In 2015, we paid the chair of our Special Committee a quarterly cash retainer of $10,000 and the chair of our Strategic Initiatives Committee a quarterly cash retainer of $3,750. Each member of our Special Committee and our Strategic Initiatives Committee receives an attendance fee of $1,500 per committee meeting attended ($750 for conference call meetings occurring in between regularly scheduled board meetings and $2,500 for an all-day meeting). The CEO Search Committee was formed in 2016 and the chair will be paid a quarterly cash retainer of $5,000 effective January 1, 2016, while other members will receive attendance fees to be determined by the committee chair from time-to-time based on the workload of the committee.

We may also pay directors additional amounts in special circumstances to reflect workloads that significantly exceed what is required for meeting preparation and participation in the normal course. We also reimburse our directors for transportation, lodging, meals, and business expenses in accordance with the expense reimbursement policy applicable to our executives. Our bylaws and each of our insurance company subsidiaries' bylaws limit the amount of retainers and meeting fees that may be paid to its directors for serving on its board and committees. Each company's limit is currently $800,000 annually.

The table below shows the amounts, before withholdings, provided to our current and former non-management directors for service on the boards of Economical and its subsidiaries and their respective committees in 2015:

	Economical		Economical subsidiaries			
Name	Retainers[1] ($)	Attendance fees[2] ($)	Retainers[1] ($)	Attendance fees[2] ($)	All other compensation ($)	Total compensation ($)
John Bowey	82,000	31,000	28,000	11,000	-	152,000
Elizabeth DelBianco	43,625	18,000	29,083	12,000	-	102,708
Daniel Fortin	45,000	24,300	30,000	16,200	-	115,500
Barbara Fraser	40,500	27,000	27,000	18,000	-	112,500
Richard Freeborough	45,000	34,500	30,000	15,000	-	124,500
Gerald Hooper	124,500	32,400	83,000	15,600	-	255,500
Dr. Micheál Kelly	29,250	15,300	19,500	10,200	-	74,250
Charles Ormston[3]	2,750	-	1,833	-	-	4,583
Michael Stramaglia	45,000	23,400	30,000	15,600	-	114,000
David Wilson	42,000	36,300	28,000	16,200	-	122,500
Total	**499,625**	**242,200**	**306,416**	**129,800**	**-**	**1,178,041**

1 Includes all board and committee director and chair cash retainers.
2 Attendance fees for all board and committee meetings, including meetings and working sessions held in addition to regularly scheduled board and committee meetings.
3 Retired effective January 2015.

Every two years, the Human Resources and Compensation Committee reviews our directors' compensation practices and makes recommendations to the Corporate Governance Committee regarding the adequacy and form of directors' compensation. The retainers, meeting fees, and annual compensation for the chair of the Board, committee chairs, and other Board members are compared to appropriate benchmarks which take into account the number of Board and committee meetings each year. Our overall objective is to target total directors' compensation at the median of the companies we benchmark against.

STATEMENT OF EXECUTIVE COMPENSATION

LETTER FROM THE CHAIR OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

One of the key accountabilities of the Human Resources and Compensation Committee (the "HRCC") is to develop and apply compensation programs that align with the Company's business strategy, operate effectively within the Company's risk appetite, and provide an appropriate level of pay for performance.

The Compensation Discussion and Analysis that follows my letter provides an explanation of the Company's approach to senior executive compensation, a review of how performance and compensation are aligned, and the compensation decisions made in respect of 2015.

2015 PERFORMANCE

The HRCC is pleased with the record performance of Economical in 2015. The Company exceeded three of its performance objectives and fell below on one for the year. The Company's 2015 performance and resulting incentive payouts exceeded 2014 levels. Key achievements are noted in the table below:

Key Objectives	Objective Weighting	Target	Actual	Actual Against Target	2014 Results
Adjusted return on equity (one year)	15%	5.2%	8.7%	150.0%[1]	28.7%
Gross written premiums percentage change	10%	3.2%	2.3%	76.2%	84.1%
Combined operating ratio	40%	99.6%	97.4%	122.2%	41.5%
Expense ratio[2]	15%	Budget	N/A	150.0%[1]	N/A
Weighted average, corporate	-	-	-	101.5%	50.0%
Individual	-	-	-	20.0%	20.0%
Total	**-**	**-**	**-**	**121.5%**	**70.0%**

[1] For each objective, 150% represents the maximum of the target bonus based upon pre-established threshold and maximum performance levels. For more information see "Compensation discussion and analysis — Compensation design and decision-making process — 2015 performance and executive compensation — STIP payouts" below.

[2] The Company's expense structure is competitively sensitive and integral to its product rating and pricing. For that reason, the Company does not publicly disclose its expenses, except at the company or business segment level. Accordingly, the Company has determined that disclosure of expense management targets or outcomes would provide a level of insight into its pricing that would seriously prejudice the Company's ability to effectively compete in the marketplace. Expense management targets are generally set as stretch objectives, taking into account the Company's business plan and the overall business environment.

2015 COMPENSATION

Based on business performance, the short-term incentive plan ("STIP") payout was above target and higher than last year. The Board and HRCC approved the STIP pool funding as calculated, which resulted in the corporate component of STIP awards being above target for all senior executives.

The Company completed its transition to the medium-term incentive plan ("MTIP") and the first MTIP awards (for the 2013-2015 performance period) were redeemed. Based on the Company's performance over that period, the redemption of both the Restricted Units ("RUs") and Performance Units ("PUs") resulted in a payment at a total value of 126.5% of the original grant value. The number of PUs granted was adjusted to reflect Economical's return on equity performance compared to industry peers.

The HRCC believes that the design of the MTIP reflects Economical's overall compensation philosophy by providing competitive, market-comparable incentives for Economical's executives with an effective balance of pay for performance and retention-based awards. It aligns executive performance with long-term value creation through linkages with book value and return on equity. Its design reflects best practices of public companies and can be modified easily to reflect new circumstances following successful completion of our planned demutualization. For example, PU payouts are designed with an overriding rule (a "payout floor") to ensure that minimum levels of absolute performance are achieved. The payout floor provides that PUs can only be paid out if a positive return on equity has been generated for the particular performance period; otherwise, no PU payout will be made even if relative performance exceeds threshold levels.

CEO PERFORMANCE

The Board also reviewed Ms. Gavan's performance for 2015 based on several key individual objectives and assessed her individual performance as above expectations. Consistent with this assessment, the Board determined that the individual component of Ms. Gavan's STIP award would be above the target. Full details of Ms. Gavan's compensation are provided on pages 24 to 30. The Board is satisfied that Ms. Gavan's compensation for 2015 reflects the performance of Economical and that the Company has a strong pay for performance alignment.

The HRCC is satisfied with the results of this year's compensation decisions and are confident that the 2015 compensation awards, and the measures they were based on, are an appropriate reflection of the year's achievements.

CHANGES TO THE COMPANY'S EXECUTIVE LEADERSHIP TEAM IN 2016

On February 19, 2016, the Board announced that Ms. Gavan will retire at the end of her contract on December 31, 2016, after over five years serving as president and CEO of the Company and over eight years as a director. During this time, she successfully led Economical through a period of transformational change. Under Ms. Gavan's leadership, the Company established a bold vision and strategy, grew significantly, transformed its operating platform, and positioned itself as a strong competitor.

The Board has formed a CEO Search Committee that is conducting a search process to identify and recommend for appointment Ms. Gavan's successor. Ms. Gavan will continue to lead the Company during this phase, with the support of the Board and leadership team.

Sincerely,

Elizabeth DelBianco

ELIZABETH L. DELBIANCO
Human Resources and Compensation Committee Chair

COMPENSATION DISCUSSION AND ANALYSIS

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

COMPENSATION PHILOSOPHY

Economical recognizes that highly qualified talent is critical to our continued success. Our executive compensation programs are designed to attract and retain the talent needed in a highly competitive marketplace, motivate executives to achieve strategic objectives within acceptable risk tolerances, drive superior financial performance, and generate long term sustainable value. We have established an executive compensation philosophy that aligns executive pay with our Company goals, and takes into account our business and people strategy, culture, stakeholder expectations, and market practices.

Our approach to executive compensation follows five key principles:

1. Attract, retain, and motivate talented executives in a competitive marketplace.
2. Ensure total compensation earned is aligned with strategic and operational objectives achieved.
3. Encourage effective risk management consistent with our strategic risk appetite and Company values.
4. Pay for performance is a significant component of compensation.
5. Build long-term stakeholder value with pay for achieving absolute and relative performance expectations.

To create a clear link between pay and performance, the target total compensation package for our executives is positioned on average near the median of the market for achieving expected levels of performance. However, actual total compensation earned can be above the market median when goals and objectives are exceeded and below the market median when goals and objectives are not fully achieved.

COMPENSATION GOVERNANCE

Our compensation governance framework consists of a management team and the HRCC, who are responsible for the design, administration, and oversight of our compensation management policies and programs. Our compensation governance structure is reviewed regularly against the practices of other Canadian financial institutions, including property and casualty insurers, and applicable regulatory guidance. In addition, our executive compensation philosophy is reviewed annually by the HRCC.

Board of Directors

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

Human Resources and Compensation Committee

The HRCC assists the Board in carrying out its responsibilities with respect to compensation matters. The HRCC works to ensure that incentive compensation awards are aligned with performance and consistent with our compensation philosophy, with an appropriate balance between risk and reward.

John Bowey, Gerald Hooper, Elizabeth DelBianco, and Daniel Fortin served on the HRCC up until March 31, 2015, and Charles Ormston also served on the HRCC until his retirement (effective January 2015). Effective April 1, 2015, John Bowey stepped down from the HRCC, while Barbara Fraser and David Wilson joined the HRCC. Effective April 1, 2016, Mr. Hooper stepped down from the HRCC. The current members of the HRCC are Elizabeth DelBianco (chair), Daniel Fortin, Barbara Fraser, and David Wilson, each of whom served on the committee since 2013, 2014, 2015, and 2015 respectively.

Each committee member is an independent director and none is an active chief executive officer with any publicly-traded entity. None of the members of the HRCC is an officer, employee or former officer or employee of Economical or any of its subsidiaries. All HRCC members are knowledgeable in the area of executive compensation through their experience as a former chief executive officer, a current senior executive with oversight of human resources functions, or a director or senior leader of comparable organizations. The Board believes the HRCC collectively has the knowledge, experience, and background required to fulfill its mandate. For additional information concerning Mses. DelBianco and Fraser, and Messrs. Fortin and Wilson, see "Business of the meeting — Item C — Election of directors" and the "Statement of corporate governance practices" attached as Appendix "A" to this Circular.

The HRCC's overall mandate is to oversee the human resources practices and policies of Economical that support the Company's mission, overall strategy, and objectives. Its specific responsibilities include:

- making recommendations to the Board for the appointment, terms of employment, and annual compensation of our president and CEO;
- reviewing our overall compensation philosophy and policies, together with the design of, and awards under, our major compensation programs to promote alignment with our compensation philosophy;
- reviewing retention, development, and succession plans for senior executives;
- making recommendations to the Board regarding significant changes to our pension plans, including any supplemental plan(s);
- after obtaining the recommendation of our president and CEO, approving the compensation paid to our senior executives, including awards of performance-based incentives; and

- periodically reviewing and making recommendations to our Corporate Governance Committee regarding the adequacy and form of directors' compensation.

The Board meets in camera to discuss the base salary, annual incentives, and other compensation paid to our president and CEO. For additional information concerning the HRCC's mandate, see the "Statement of corporate governance practices" attached as Appendix "A" to this Circular.

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

Independent advice

The HRCC retained an outside advisor to provide independent guidance and advice in relation to compensation program design for our executive officers. The advisor's role generally includes:

- reviewing data, analysis, and compensation recommendations prepared by management;
- advising the HRCC on market trends and best practices;
- critically assessing the design of incentive programs; and
- attending HRCC meetings, as required.

The HRCC regularly meets in camera with the independent advisor without senior executives present, as this is fundamental to its effectiveness in overseeing compensation.

The HRCC retained Towers Watson Canada Inc. (now operating as Willis Towers Watson) ("Towers") as its independent advisor in November 2013. The HRCC must pre-approve any services for management provided by Towers that exceed $10,000 in fees. Advice and data provided by the consultant are important to informing decisions, but ultimately the committee relies on its own independent judgment in determining compensation arrangements for the executives.

The table below shows the pre-tax fees paid for services provided by Towers and its affiliates over the last two years:

Services performed	Fees paid in 2015 ($)	Fees paid in 2014 ($)
Director and executive compensation-related fees	**184,056**	236,165
All other fees	**-**	-
Total fees	**184,056**	236,165

COMPENSATION DESIGN AND DECISION-MAKING PROCESS

Compensation management framework

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

Establishing target compensation

Market comparisons

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

We compete for talent primarily with other Canadian property and casualty insurers and, for certain corporate roles, with Canadian financial institutions generally. Each year, we review the pay levels and program design of companies that are part of our compensation peer groups to ensure that our programs remain market competitive. There are limited directly comparable organizations within Canada that have a similar industry focus or strategy, and are of a similar size or have an organizational structure similar to our mutual structure.

Therefore, to benchmark our executive compensation, consideration was given to the following three sets of data:

1) Proxy peer group sample of public financial services companies;
2) Survey of similarly sized insurance companies; and
3) Survey of similarly sized Canadian general industry companies.

(1) Public financial services companies

This peer group consists of public financial services-related companies with a relatively wide range of revenue and assets, but includes financial services organizations that are similar to Economical in size. We use this peer group as the primary data source to benchmark for the president and CEO and CFO positions only. For this group, data was collected from the most recently published proxy reports at the time of the review (January 2015). This peer group consists of: Canadian Western Bank, Equitable Bank, Genworth MI Canada Inc., Home Capital Group Inc., Industrial Alliance Insurance and Financial Services, IGM Financial, Intact Financial Corp., and Laurentian Bank of Canada.

Below is a chart summarizing the market capitalization, assets, net income, revenues, and employees of the group:

Percentile	Assets ($ millions)	Revenue ($ millions)	Employees (#)	Net income ($ millions)	Market cap ($ millions)
75th percentile	35,454	6,796	4,369	680	9,387
50th percentile	20,746	820	1,371	345	3,413
25th percentile	14,651	584	108	163	1,743
Economical	5,345	2,008	2,115	176	N/A

(2) Similarly sized insurance companies

This peer group consists of property and casualty and other insurance companies that are similar in size to Economical. We use this peer group as the primary data source to benchmark for roles specific to the insurance industry. For this group, data was collected from the Towers Watson General Industry Executive Compensation Survey. This peer group consists of: Allstate Insurance Company of Canada, Aviva Canada Inc., Chartis Insurance Company of Canada, Chubb Insurance Company of Canada, Genworth MI Canada Inc., Gore Mutual Insurance Company, Intact Financial Corporation, Northbridge Financial Corporation, Royal & Sun Alliance Insurance Company of Canada, Wawanesa Insurance, and Zurich North America Canada.

Below is a chart summarizing the assets, revenues, and employees of the group:

Percentile	Assets ($ millions)	Revenue ($ millions)	Employees (#)
75th percentile	7,006	2,045	2,619
50th percentile	4,676	997	699
25th percentile	3,078	589	315
Economical	5,345	2,008	2,115

(3) Similarly sized Canadian general industry companies

This peer group consists of public and private companies (excludes subsidiaries, not for profit companies, government agencies, mutual companies, and joint ventures) across all industries in Canada with revenues between $1 billion and $3 billion that participated in Towers Watson's General Industry Executive Survey — Canada. We use this peer group as the primary data source to benchmark for roles that are not specific to the insurance industry.

Below is a chart summarizing the assets, revenues, and employees of the group:

Percentile	Assets ($ millions)	Revenue ($ millions)	Employees (#)
75th percentile	5,393	1,992	6,455
50th percentile	2,584	1,633	4,650
25th percentile	1,182	1,337	2,618
Economical	5,345	2,008	2,115

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

Average compensation mix

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

Setting performance objectives and evaluating performance

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

Led by the Board chair, the Board evaluates the performance of the president and CEO relative to established objectives. The president and CEO does not participate in these discussions. The Board considers the following factors in assessing the performance and determining the appropriate level of compensation for the president and CEO:

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

Through this process, the HRCC ensures incentive compensation awards are performance-based and consistent with our compensation philosophy, including ensuring an appropriate balance between risk and reward.

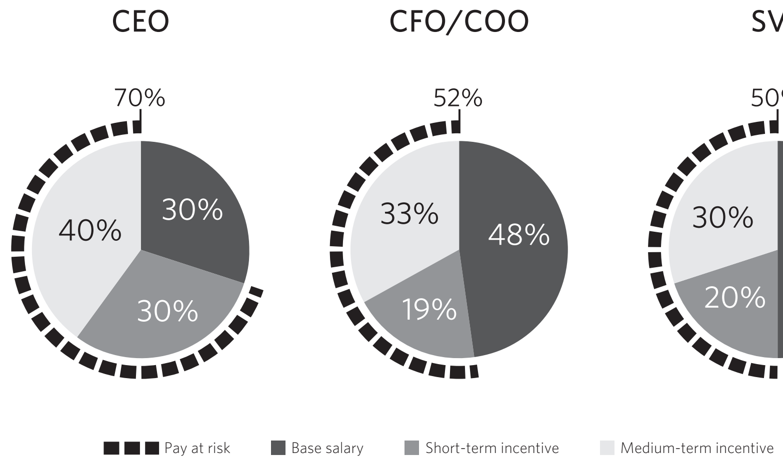
The president and CEO reviews the performance evaluations of the senior executives with the HRCC and provides compensation recommendations based on the compensation element framework explained below. In 2015, the HRCC also considered market compensation information and received advice from its independent consultant to support the HRCC's independent judgment of the recommendations.

Components of executive compensation

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

Compensation element	Type	Horizon	Performance	Objective
Base salary	Cash	Annual	Based on market comparators, individual performance, and internal equity — reflects level of responsibility, skills, and experience	Attraction and retention
Short-term incentive plan	Cash	Annual	Targets are set annually, in advance, based on financial, operating, and individual performance against pre-determined criteria	Rewards achievement of annual Company and individual results
Medium-term incentive plan	Cash	Three years	Reflects growth in book value and performance of Company's return on equity relative to peer group	Rewards contribution to stakeholder value creation through growth in book value and Company's relative return on equity performance over a medium-term period
Pension, benefits, and perquisites	Group life and health insurance program, pension plan, and perquisites	Ongoing	Based on market comparators	Retention

Economical uses each of these compensation components to provide executives with a balance between the various time horizons for performance. The proportion in each component is based on the executive's ability to impact risk and longer-term performance of the organization. More senior officers have a greater proportion allocated to variable compensation, and higher levels of medium-term compensation to reflect their ability to affect longer term results. The charts below show the typical mix of compensation elements at target by role or level.



Base salary

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

Short-term incentive plan (STIP)

The STIP rewards the achievement of Company results and individual performance during the year. It encourages the attainment of superior results based on the achievement of pre-approved annual corporate and individual performance objectives. The target awards vary as a percentage of base salary and are evaluated annually to ensure ongoing market competitiveness.

Corporate objectives, which carry an 80% weight, have up to four key components; return on equity (15%), combined operating ratio (40%), growth in gross written premium (10%), and operating expenses (15%). For each component, threshold and maximum performance levels are also set, allowing a sliding scale to be used from 0% at a minimum to 150% of target at a maximum level. Individual objectives carry a 20% weight. The president and CEO's STIP target is 100% of base salary, the CFO and COO STIP targets are 50% of base salary, while the other NEOs have a STIP target of 40% of base salary.

No incentive bonus will be paid if the Company does not generate at least one dollar of net income on a consolidated basis for the applicable fiscal year.

Medium-term incentive plan (MTIP)

The former value creation plan ("VCP") was cash-based and terminated in 2014. The final payment under the VCP was made in March 2015. The MTIP replaced the VCP and was designed to further align the interests of our executive officers and our stakeholders. Under the MTIP, participants, including our NEOs, are awarded two types of notional units that track the Company's book value similar to a public company's share price: RUs and PUs. Both RUs and PUs vest after specified time periods (not to exceed three years after the year in which they are granted) and are settled in cash. The value of the payout equals the number of notional units (PUs / RUs) originally granted times the Company's book value divided by 100,000,000 (or share price if shares of the Company are listed on a stock exchange) as of the end of the particular performance period. The difference between a PU and RU is that the number of PUs that vest after the end of a particular performance period are adjusted in accordance with the following scale, depending on the extent to which performance conditions set at the time of grant are met during the relevant performance period:

Performance achieved	Unit multiplier
Below threshold	0
Threshold	0.5
Target	1.0
Maximum	1.5

At the time of grant, the HRCC determines eligible participants, grant values, and RU/PU mix, as well as potential changes to performance conditions, payout limits, and/or computation/calibration methodologies. Currently, all outstanding MTIP grants are weighted 60% as to PUs and 40% as to RUs.

Unvested MTIP awards are prorated and accelerated in the event of death or disability, but expire without payment in the event of resignation or termination of employment (with or without cause). Upon retirement, units vest and performance adjustments are made at the end of the applicable vesting period, with overall grant value prorated to the date of retirement.

Each MTIP award is subject to a three year performance period that typically is effective from January 1 of the year in which the award was made and continues for the entire first, second and third year, ending on December 31 of the third year. The vesting date for granted RUs and PUs is the date following completion of the performance period on which the HRCC determines that all applicable vesting conditions have been satisfied. The number of PUs granted in relation to each performance period is also subject to adjustment by a multiplier corresponding to the figures in the table above, which is determined based on the extent to which the Company's average annual return on equity for the three years in the performance period exceeds or fails to exceed the aggregate average annual return on equity for the top 20 property and casualty insurance companies in Canada (excluding Economical and a sub-set of non-comparable entities) during the same period. PUs will only vest if the Company's average annual return on equity for the three years is positive. In 2015, MTIP grants were awarded to executives effective January 1, 2015, with a performance period ending on December 31, 2017. For this performance period, the MTIP grants set the maximum for the total amount paid under a NEO's RU and PU to be no greater than 2.0 times their MTIP target award levels.

The MTIP provides that upon a change of control where: the successor company does not assume the MTIP or provide for a similar plan, or the participant's employment is terminated by the Company without cause or by the participant for Good Reason (as defined in "Termination and change of control benefits — Termination and change of control — Mr. Mather, Mr. Reikman, and Ms. Goss") within the following 18 months, then, in the absence of a different determination by the HRCC, all RUs and PUs will immediately vest and be paid with all performance conditions deemed met.

The table below sets out certain information regarding MTIP awards granted to our NEOs that were outstanding at December 31, 2015:

Name	Number of RUs awarded that have not vested (#)	Number of PUs awarded that have not vested (#)	Market or payout value of PUs and RUs that have not vested ($)[(1)]	Market or payout value of vested PUs and RUs not paid out or distributed ($)[(2)]
Karen Gavan	42,875	64,312	1,334,791	1,069,324
Philip Mather	15,211	22,815	473,537	379,642
Tom Reikman	12,008	18,012	373,846	200,103
Innes Dey	9,127	13,689	284,122	216,396
Linda Goss	8,860	13,291	275,847	214,269

1 Assuming performance conditions for PUs satisfied at "Threshold" and valued as at December 31, 2015.

2 Assuming vesting occurred as of December 31, 2015, although in fact vesting occurs on the date following completion of the performance period on which the HRCC determines that all applicable vesting conditions have been satisfied.

Equity compensation plans

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

Pension, benefits and perquisites

The NEOs participate in our registered pension plans and qualify for supplemental retirement annuities under our supplemental pension plans. In 2003, we closed our defined benefit pension plan ("DBPP") to new entrants, except for Ms. Gavan who was added as part of the terms of her employment. Our other NEOs participate in our defined contribution pension plan ("DCPP"). See "Retirement plans for the named executive officers" for more information.

Our executives can also participate in our pension and savings plan which is available to our employees generally. We provide a dollar-for-dollar matching contribution up to a maximum of 3.5% of base salary, which is directed into the executives' DCPP.

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

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

Ensuring compensation aligns with risk management principles

Our executive compensation plans are based on principles that support the management of risk and ensure executives' activities are focused on generating long-term value within an effective risk control environment.

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

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

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

Summary of key risk mitigating factors in compensation plans

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

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

- Active HRCC involvement in performance measure selection and target setting, and stress testing of compensation programs.
- A pay mix that balances short and medium-term performance criteria with overlapping performance periods, and an appropriate weighting between fixed and variable pay. The mix of annual and medium-term incentives is based on the executive's position and his or her ability to impact the Company's risk profile, with the percentage awarded as medium-term incentive increasing with role responsibility and risk impact. A significant proportion of compensation is variable and linked to corporate goals and objectives.
- Consistently structured compensation plans for all head office and regional executives. Our investment management function has a distinct STIP based on the performance of the investment portfolio against established benchmarks. No incentive bonus under this STIP is paid in any year when the Company on a consolidated basis does not have a net income.
- Performance-based incentive payout pools are largely based on earnings. We must achieve a minimum level of profitability before payouts are made from our short and medium-term incentive programs.
- Performance unit payouts (as part of the MTIP) are subject to an overriding rule to ensure that minimum levels of absolute performance are achieved. It provides that payout will only occur if a positive return on equity has been generated for the particular performance period; if not, then no performance unit payout will be made even if relative performance exceeds threshold levels.
- The aggregate cash value of a participant's vested RUs and vested PUs (as part of the MTIP) cannot exceed 200% of the value of those units at the time they were granted.
- The compensation for the president and CEO and his or her direct reports, including all executives in control functions (risk management, legal and finance), is based exclusively on enterprise performance and individual performance, and excludes specific business segment-level metrics.
- All incentive awards are performance-based. Performance is assessed in a balanced manner, based on financial goals, strategic and operational objectives, and overall leadership capabilities. If the individual's or the Company's performance is poor, performance-based compensation will decrease and conversely, if the individual's or the Company's performance is strong, performance-based compensation will increase.
- A portion of performance-based pay consists of medium-term incentive awards valued over a three-year period, allowing sufficient time for the Company's value to reflect the impact of risks that were taken at the time the award was made. This practice also focuses our executives on executing business strategies, sustaining performance and growing value over the longer term.

- We use scenario testing for changes to our incentive plans before implementing changes, as well as to monitor the anticipated level of bonus payments for a given year. The results of scenario testing are reviewed by the CEO, CFO, CHRO, and other executive stakeholders as required and presented to the HRCC at the time the relevant approval is requested.
- All incentive awards are cash-based. This makes the use of hedging and other equity strategies to undermine the risk-alignment effect of our executive compensation arrangements ineffective.
- No employee or executive has the ability to assume significant risk on behalf of the Company in a manner that would distort the outcomes determined under our compensation programs. Excessive risk-taking behaviour is controlled by a wide range of checks and balances, including our performance management system, which assesses performance against job descriptions, annual business plans, and predetermined corporate and individual objectives. The impact of premium growth measures is balanced by profitability measures, particularly those applicable to the medium-term incentive plan, which are measured over a three-year performance period.

We are continuously improving how we factor risk management into compensation decisions. Adjusting compensation for risk is challenging, since there is no generally accepted approach and no simple formula to determine the right outcome. As a result, our approach is to use discretion and to apply judgment to modifying mathematically determined awards in extraordinary circumstances including:

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

Up until December 31, 2015, STIP awards were only paid in years when the Company had, on a consolidated basis, a net income, except for the component relating to the achievement of individual performance objectives in the STIP. Effective January 1, 2016, STIP awards will only be paid in a given year if the Company has, on a consolidated basis, a net operating income.

Executive incentive compensation recoupment policy

The Board has adopted an executive incentive compensation recoupment policy to enhance our alignment with sound compensation governance practices and to assist Economical to manage its compensation-related risk. The policy applies to our senior executives, including all of the NEOs, and survives the cessation of the executive's employment. Under the policy, the Board is authorized to recoup incentive compensation paid to our senior executives in the event the Company is required to prepare a material restatement of its financial statements or correct a material error in its financial statements, and the executive received an overcompensation amount as a result of the restatement or correction. The Company may recover incentive compensation for up to three years after the material restatement or correction. For these purposes, a material restatement or correction is one resulting from material non-compliance with any applicable financial reporting requirements, other than due to a change in accounting policy.

2015 performance and executive compensation

Overview

This section discusses the performance evaluations and compensation awards of our NEOs, including how the HRCC arrived at its recommendations for the compensation of our president and CEO, our chief financial officer, and our three other most highly compensated officers. In 2015, our NEOs were:

- Karen Gavan, president and CEO
- Philip Mather, senior vice-president and chief financial officer
- Tom Reikman, senior vice-president and chief operating officer
- Innes Dey, senior vice-president and chief strategy officer
- Linda Goss, senior vice-president and chief actuary

Summary of 2015 performance

STIP payouts

All members of our senior executive team, including NEOs, participate in the STIP. For 2015, STIP targets for our NEOs were weighted as follows:

		Performance weighting	
	Target STIP (as % of base salary)	Corporate objectives	Individual objectives
President and CEO	100%	80%	20%
CFO and COO	50%	80%	20%
Other NEOs	40%	80%	20%

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

The following table summarizes the Company's financial performance objectives and actual performance for 2015.

Corporate objectives	Objective STIP weighting	Threshold	Target	Maximum	Actual	Bonus payout achievement
Adjusted return on equity — one year[1]	15%	3.2%	5.2%	7.2%	8.7%	150.0%
Gross written premium percentage change[2]	10%	0.2%	3.2%	6.2%	2.3%	76.2%
Combined operating ratio[3]	40%	104.6%	99.6%	94.6%	97.4%	122.2%
Expense ratio[4]	15%	Budget + 0.2%	Budget	Budget – 0.6%	N/A	150.0%

1 Adjusted return on equity is calculated using reported net income for the 12-month fiscal period, adding back demutualization costs and removing the impact of any recognized gains or losses from the available for sale non-matched portfolio (all tax-affected) divided by the average retained earnings for the 12-month fiscal period.

2 Gross written premium percentage change is the increase or decrease in total premiums from the sale of insurance during a specified period, divided by the prior period gross written premium amount. This is calculated from the consolidated financial statements.

3 Combined operating ratio on a consolidated basis is determined as follows: The combination of net claims incurred excluding discounting, general expenses, commissions and premium taxes divided by net premiums earned.

4 Expense ratio is a percentage of the Board-approved operating expense budget, divided by the approved net earned premiums budget. As our expense structure is competitively sensitive and integral to our product rating and pricing, we do not publicly disclose our expenses, except at the company or business segment level. Accordingly, we have determined that disclosure of expense management targets or outcomes would provide a level of insight into our pricing that would seriously prejudice our ability to effectively compete in the marketplace. Expense management targets are generally set as stretch objectives, taking into account our business plan and the overall business environment.

In addition, the HRCC considered individual performance against pre-determined objectives aligned with our strategic goals and operational initiatives when assessing individual performance for the year. For the NEOs, these objectives included the factors outlined below:

Karen Gavan, president and CEO

Ms. Gavan had another successful year in 2015. Development of the Company's multi-channel distribution strategy proceeded ahead of schedule and on budget, which was a significant achievement given the initiative's size and scale. Ms. Gavan provided critical support to our management team when the final demutualization regulations arrived, allowing the Company to move seamlessly through the first phases of the demutualization process and positioning it appropriately for the phases that follow. Significant improvement in commercial property profitability and the realization of the savings anticipated from the Business Transformation Program contributed to the Company's strong annual results. Ms. Gavan has set a bold strategic direction for the Company and is maintaining a balance between managing risk and executing against the strategy.

Philip Mather, senior vice-president and chief financial officer

Mr. Mather leads the Company's finance, corporate development, investments, procurement, corporate services and reinsurance teams. In addition to these functional responsibilities he provided critical support to a range of strategic initiatives, including the demutualization project and the investments the Company is making in its infrastructure and distribution platforms. He continues to lead efforts to enhance our public company readiness and remains accountable for the management of a number of key external stakeholder relationships (including regulatory and rating agency). During the year Mr. Mather also provided interim coverage for the Chief Risk Officer role and the management of the enterprise risk management function.

Tom Reikman, senior vice-president and chief operating officer

Mr. Reikman leads our national broker sales and distribution, claims, and underwriting operations. In 2015, he led optimization initiatives within the national and regional underwriting centres, resulting in significant efficiency and service gains. He worked with his teams to focus on operating efficiency and cost management, and ensured that key broker management initiatives were fully implemented and monitored. Mr. Reikman supported the execution of key operational initiatives, including significant improvement in commercial lines profitability and growth in key target markets.

Innes Dey, senior vice-president and chief strategy officer

Mr. Dey leads our corporate strategy office, our corporate legal team, and the planning and execution of major strategic initiatives, including the Company's demutualization effort. During 2015, Mr. Dey's leadership had a direct impact on the achievement of significant milestones in the demutualization process, including the promulgation of draft and final demutualization regulations, proactive regulatory engagement with OSFI, and the positive approval by mutual policyholders at the first special meeting required by the demutualization process. During the year, Mr. Dey also led the integration of key management processes across the organization to ensure effective strategy execution, and successfully completed the negotiation of major agreements supporting our policy administration systems replacement initiative. He also played a key leadership role in a number of management reorganizations and in managing significant internal change relating to the establishment of our new direct-to-consumer business.

Linda Goss, senior vice-president and chief actuary

Ms. Goss leads our corporate actuarial team. During the year, Ms. Goss continued to lead the crucial work on eligibility and allocation for demutualization. Ms. Goss' actuarial expertise and extensive knowledge of the P&C insurance industry, and Economical's business in particular, contributed significantly to the achievement of key milestones in the demutualization process, including the realization of draft and final demutualization regulations, an OSFI interpretive ruling regarding eligibility and OSFI's instruction guide for demutualization. In addition, Ms. Goss successfully led her team to be prepared operationally for our new multi-channel distribution strategy as well as participating in a due diligence team to assess a potential acquisition.

The following table presents the STIP payout for each NEO based on 2015 results. Amounts shown were paid in the first quarter of 2016:

Name	STIP target	STIP financial results (amount out of 80%)	STIP individual results (amount out of 20%)	STIP total results (amount out of 100%)	2015 total STIP ($)
Karen Gavan	100%	102%	22%	124%	**828,120**
Philip Mather	50%	102%	24%	126%	**265,644**
Tom Reikman	50%	102%	22%	124%	**203,940**
Innes Dey	40%	102%	24%	126%	**165,013**
Linda Goss	40%	102%	21%	123%	**147,300**

RETIREMENT PLANS FOR THE NAMED EXECUTIVE OFFICERS

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

Defined benefit pension plans (DBPP)

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

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

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

Ms. Gavan is also a member of a defined benefit supplemental pension plan ("DBSPP"). The DBSPP provides supplementary pension income in order to compensate for the maximum pension limitations applicable to the pension benefits payable under the DBPP, as prescribed under the *Income Tax Act (Canada)*. We have established a "retirement compensation arrangement" as defined in the *Income Tax Act (Canada)* to provide for the prefunding of all or a portion of the benefits described herein.

Such fund and trust may be collapsed or revoked at any time by the Company as it determines in its absolute discretion.

Defined contribution pension plans (DCPP)

Messrs. Mather, Reikman, and Dey, and Ms. Goss participate in our DCPP. The DCPP for executives includes the Company's core contribution of 8.0% of pensionable earnings. Pensionable earnings is defined as base salary, plus any STIP award calculated as the lesser of (a) actual incentive bonus earned in such year, and (b) the target incentive bonus in respect of such year for the participant. We also provide a dollar-for-dollar matching contribution (matching the executive's personal contribution to his or her general pension and savings plan) up to a maximum of 3.5% of base salary, which is directed into the executive's DCPP.

All contributions from Economical are directed to the DCPP. This plan is governed by pension legislation and an employee cannot withdraw cash from the DCPP until he or she retires. The contributions are allocated to the DCPP up to applicable defined contribution pension limits for maximum annual contributions and any excess Company contributions are automatically credited to a "Notional Account." The Notional Account maximizes the tax-effectiveness of this pension plan. New credits to the Notional Account are tracked and recorded, and the balance earns an investment return. Similar to an RRSP, the balance in a Notional Account accumulates tax-free. When the executive leaves the Company, retires, or dies, the full value of his or her Notional Account is paid out and is fully taxable at that time.

The following tables provide information on pension plans as at 2015 in which the NEOs participate:

DBPP table:

Name	Number of years credited service (#)	Annual benefits payable at year end ($)	Annual benefits payable at age 65 ($)[1]	Opening present value of DB obligation ($)[2]	Compensatory change ($)[3]	Non-compensatory change ($)[4]	Closing present value of DB obligation ($)[5]
Karen Gavan	4.528	97,100	329,200	1,146,900	250,300	128,900	1,526,100

1 The information shown in this column was determined based on the final average earnings of the participant as at December 14, 2015 and years of credited service projected up to age 65 (assuming full-time employment).
2 The information shown in this column was determined by using the same assumptions and methods used for 2015 financial statement reporting purposes.
3 Includes service cost, net of employee contributions; plus differences between actual and estimated earnings, and any additional changes that have a retroactive impact.
4 Includes all items that are not compensatory, such as change in discount rate (decrease from 4.0% to 3.9%).
5 The information shown in this column was determined by using the same assumptions and methods used for 2015 financial statement reporting purposes.

DCPP table:

Name	Accumulated value at start of year ($)[1]	Compensatory change ($)[2]	Accumulated value at year end ($)[3]
Philip Mather	222,443	62,480	295,730
Tom Reikman	25,978	45,660	73,713
Linda Goss	439,351	30,240	497,255
Innes Dey	145,200	48,139	200,213

1 Includes the value of the DCPP plus the value of the Notional Account at January 1, 2015.
2 Includes the employer contributions to the DCPP and Notional Account made during 2015.
3 Includes the accumulated value of the DCPP employer contributions plus the value of the Notional Account (with interest) at December 31, 2015.

SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary ($)	Share-based awards ($)	Option-based awards ($)	Non-equity incentive plan compensation ($) Annual incentive plans(1) ($)	Long term incentive plans(2) ($)	Pension value(3) ($)	All other compensation(4) ($)	Total compensation ($)
Karen Gavan, President and CEO	2015	670,000	N/A	N/A	828,120	1,069,324	250,300	67,378	2,885,122
	2014	670,000	N/A	N/A	448,900	1,044,741	212,700	76,434	2,452,775
	2013	691,923	N/A	N/A	612,659	1,304,273	207,300	87,343	2,903,498
Philip Mather, SVP and CFO	2015	423,000	N/A	N/A	265,644	379,642	62,480	34,079	1,164,845
	2014	412,000	N/A	N/A	120,304	370,637	61,490	34,716	999,147
	2013	425,538	N/A	N/A	142,678	661,675	64,409	35,276	1,329,576
Tom Reikman, SVP and COO	2015	330,000	N/A	N/A	203,940	200,103	45,660	31,665	811,368
	2014	312,822	N/A	N/A	85,088	90,710	25,385	545,312	1,059,317
	2013	-	N/A	N/A	-	-	-	-	-
Innes Dey, SVP and CSO	2015	328,365	N/A	N/A	165,013	216,396	48,139	36,140	794,053
	2014	309,000	N/A	N/A	90,228	222,382	46,179	37,159	704,948
	2013	316,269	N/A	N/A	109,186	344,622	47,330	130,160	947,567
Linda Goss, SVP and Chief Actuary	2015	300,000	N/A	N/A	147,300	214,269	30,240	31,481	723,290
	2014	300,000	N/A	N/A	78,000	215,905	32,309	29,957	656,171
	2013	309,743	N/A	N/A	103,857	481,802	34,081	28,665	958,148

1 Annual incentive plans are comprised of the STIP. The amounts disclosed for 2013, 2014 and 2015 are the annual bonuses earned in each respective year. Such amounts were paid out in the first quarter of the following year.

2 Long term incentive plans are comprised of the VCP (2013, 2014) and MTIP (for the 2013-2015 performance period, which ended on December 31, 2015). The amounts disclosed for 2013, 2014, and 2015 are the long-term bonuses earned pursuant to such long term incentive plans in each respective year.

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

4 The amounts shown for "All other compensation" in 2015 include the following benefits which exceed 25% of the total value of perquisites reported for the relevant NEO: executive perquisite allowances paid on behalf of Mses. Gavan and Goss, and Messrs. Mather, Reikman and Dey. "All other compensation" could include items such as: the value of perquisites and post-retirement benefits such as life and health insurance, as well as other bonuses and special awards.

TERMINATION AND CHANGE OF CONTROL BENEFITS

EMPLOYMENT AGREEMENTS

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

TERMINATION AND CHANGE OF CONTROL

In order to ensure that key executives stay in place for the benefit of the Company in the event we are involved in a major ownership transaction, we have entered into change of control agreements with each of our NEOs and certain other executives. In addition, Ms. Gavan and Mr. Dey have individual employment agreements that stipulate their severance entitlements in certain other circumstances. Our MTIP also has provisions dealing with change of control events that apply to all outstanding grants under that plan. See "Compensation design and decision-making process — Components of executive compensation — Medium-term incentive plan" above.

Ms. Gavan

We have an agreement with Ms. Gavan which provides for the terms of her employment to December 31, 2016. Ms. Gavan has announced her intention to retire at the expiry of her term on such date.

The termination and resignation clauses in Ms. Gavan's employment agreement will not be triggered as a result of her intended retirement. However, the agreement provides for the following payments and benefits if we terminate Ms. Gavan before her intended retirement on December 31, 2016, other than for cause, death, or disability (the "severance period"):

- a lump sum payment equal to her then current base salary and target short-term incentive compensation, less appropriate deductions, for the severance period;

- continuation of benefit coverage and pension contributions for the severance period, subject to the terms and conditions of the applicable plan/policy and to the extent permitted by the relevant carrier(s); and
- with respect to the STIP, Ms. Gavan will be deemed to be actively employed until the required eligibility date for any plan year that falls within the severance period, but the amount payable will be prorated to the number of months of severance payment attributable to that plan year.

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

- Hostile Transfer of Control — If Ms. Gavan provides notice to the Company of her resignation within three (3) months following a Hostile Transfer of Control, she will receive the same compensation and benefits as she would if she were terminated by the Company other than for cause, death, or disability. If, within 24 months following a Hostile Transfer of Control, there is a significant change in Ms. Gavan's status, position, or responsibilities, or a reduction in her salary or a material change detrimentally affecting her remuneration, she may, within a specified notice period, elect to terminate her employment, in which case she will receive the same compensation and benefits as she would if she were terminated by the Company other than for cause, death, or disability.
- Friendly Transfer of Control — If, within 18 months following a Friendly Transfer of Control, there is a significant change in Ms. Gavan's status, position, or responsibilities, or a reduction in her salary or a material change detrimentally affecting her remuneration, she may, within a specified notice period, elect to terminate her employment, in which case she will receive the same compensation and benefits as she would if she were terminated by the Company other than for cause, death, or disability.

Ms. Gavan has agreed that, if her employment ceases for any reason other than permanent incapacity or pursuant to a Hostile Transfer of Control, then she will not, for a 12-month period, directly or indirectly become involved with a direct competitor of ours in Canada, intentionally act in a manner that is detrimental to us, solicit any of our employees, or solicit any customer or client with whom she had direct or personal contact during the two years prior to her departure. Ms. Gavan has no duty to mitigate any amounts paid under her employment agreement with us and we have no right of set-off against her.

Mr. Mather, Mr. Reikman, and Ms. Goss

The Company has also entered into change of control agreements with each of Mr. Mather, Mr. Reikman and Ms. Goss, which provide for the following payments and benefits following a hostile or friendly change of control (as those terms are defined in the relevant agreements) of the Company.

Each is subject to double trigger provisions which require payments only if there is both a change of control and a termination of employment, either by the Company without cause or by the executive for Good Reason, within a specified protection period following a change of control. "Good Reason" can generally be described to include any of the following events occurring without the NEO's express written consent:

i. Adverse change in duties inconsistent with the executive's position, titles, duties, responsibilities, and status.
ii. Reduction in the executive's annual salary, change in the basis upon which such salary is determined, or failure to increase salary consistently with prevailing practice.
iii. Adverse change in participation in any benefit, bonus, life insurance, disability plan, pension plan or retirement plan.
iv. Adverse relocation of the executive's principal office of employment.
v. Breach of a material provision of the agreement, or failure of any successor or assign of the Company to assume the agreement.

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

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

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

Upon a change of control, the NEO's entitlement under the MTIP would be determined in accordance with the terms of the MTIP (see "Compensation design and decision-making process — Components of executive compensation — Medium-term incentive plan" for more information).

Mr. Dey

We have an agreement with Mr. Dey which provides for the terms of his employment. The agreement provides that if Mr. Dey's employment is terminated by us for any reason other than for cause, death, or disability, or he is compelled to resign in accordance with applicable law society rules of professional conduct, we are required to pay him the following: an amount equal to nine months' base salary and STIP at target incentive; 15% of such combined amount in lieu of Company contributions in respect of the pension plan and long-term disability coverage, each of which cease on the termination date; and his current year's STIP based on target, prorated for the number of complete months in the fiscal year in which the termination occurs up to the termination date. With respect to other benefits, Mr. Dey may elect to maintain his regular employee benefits for 9 months or such earlier date he retires or is employed by another employer on a regular full-time basis and is eligible to participate in a group insurance plan with the new employer that is similar to ours. As an alternative, Mr. Dey may elect to have us pay him a lump sum amount equal to the aggregate cost to us (without discount or present valuation) of regular employee benefits for 9 months. In addition, the agreement provides for up to $10,000 of professional outplacement services.

Mr. Dey also has agreements which provide for the following payments and benefits in the event of a double trigger requiring both (i) a change of control, or appointment of a successor CEO to Ms. Gavan (including as a result of her planned retirement) and (ii) a termination of employment, either by the Company without cause or by the executive for Good Reason (as defined above). Upon or within 18 months of the relevant event, Mr. Dey would be entitled to receive an amount equal to the sum of:

- 18 months of his base salary (measured as the highest salary in effect at any time during the 36 months before the termination) plus target incentive under any incentive plan that he participates in at the termination date (defined to include the STIP but exclude the MTIP or any successor long-term incentive plan);
- 15% of the amount specified in the preceding paragraph in lieu of Company contributions in respect of the pension plan and long-term disability coverage, each of which cease on the termination date; and
- his current year's STIP based on target, prorated for the number of complete months in the fiscal year in which the termination occurs up to the termination date.

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

Upon a change of control, Mr. Dey's entitlement under the MTIP would be determined in accordance with the terms of the MTIP (see "Compensation design and decision-making process — Components of executive compensation — Medium-term incentive plan" above for more information). However, if Mr. Dey is terminated upon or within 18 months of the appointment of a successor CEO to Ms. Gavan (including as a result of her planned retirement):

- the number of outstanding RUs and PUs he holds would be prorated to reflect the period since the beginning of the performance period to the date of termination;
- the vesting of such units would not be accelerated, but would continue in accordance with their natural vesting schedule as if he remained employed by the Company for such period; and
- the net number of outstanding PUs would be subject to further adjustment as of the natural vesting date for such grant(s) in accordance with the performance conditions originally attached to such grant(s).

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL

The table below shows the estimated incremental payments or benefits that would accrue to each NEO upon termination of his or her employment following termination with cause, resignation, termination without cause and termination following change of control, in each case assuming employment ceased on December 31, 2015 and prior to applicable withholdings and deductions:

Event	K. Gavan	P. Mather	T. Reikman	I. Dey	L. Goss
Termination with cause/resignation ($)					
	-	-	-	-	-
Termination without cause ($)					
Severance	2,010,000	-[1]	-[1]	231,750	-[1]
MTIP	1,990,784	-	-	-	-
Annual pension benefit payment	505,600	-	-	-	-
All other compensation	9,040	-	-	-	-
Termination without cause after change of control ($)					
Severance	2,010,000	956,250	742,500	714,000	630,000
MTIP	2,933,658	1,041,030	726,214	613,682[3]	599,817
Annual pension benefit payment	505,600	143,438	111,375	107,100	94,500
All other compensation[2]	9,040	21,122	18,448	18,759	18,525

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

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

3 In accordance with Mr. Dey's employment agreement described above under "— Termination and change of control — Mr. Dey", if he was terminated without cause following the appointment of a successor CEO to Ms. Gavan on December 31, 2015, his estimated MTIP payment would have been $289,660, which assumes performance conditions for PUs were satisfied at the "Threshold" level and valued at December 31, 2015, prior to applicable withholdings and taxes.

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 MUTUAL INSURANCE COMPANY

Further information relating to Economical may be obtained from our website. Financial information is provided in our comparative financial statements and management's discussion and analysis for the year ended December 31, 2015, and these documents are also accessible through our website.

To obtain a copy of these documents together with the Economical Annual Report at no cost, when available, please contact us at 519-570-8500, ext. 42319 or email AGM.Materials@economical.com.

APPROVAL OF THE BOARD OF DIRECTORS

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

KAREN GAVAN
President and CEO

Waterloo, Ontario
April 1, 2016

APPENDIX "A" — STATEMENT OF CORPORATE GOVERNANCE PRACTICES

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

Throughout this Statement, references to documents and information available on our website can be found at www.economicalinsurance.com. In addition, any information located on the website is available in print to any of our mutual policyholders upon request to our corporate secretary at the address set out on page 1 of our 2016 Management Proxy Circular (the "Circular"). Our website and any information located on our website 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 a website that are maintained by an independent third party. Employees can use any of those channels to anonymously and confidentially report any accounting and auditing concerns, suspected fraudulent activity or breach of our Code of Conduct. If employees prefer, they can refer concerns to their leader or departmental manager. Our ethics reporting program has processes in place to protect employees who 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 accounting, internal accounting controls or auditing matters, and for ensuring all such issues are resolved in a satisfactory manner.

CONFLICTS OF INTEREST

Through annual directors' questionnaires, directors are asked to identify relevant outside business dealings and other companies or entities with which they have relationships. These responses assist the Board and management in identifying actual or potential conflict of interest situations in advance. If a director's business or personal relationships present a material personal interest in a business matter or relationship that conflicts, or appears to conflict, with the interests of Economical or its subsidiaries, the issue will be referred to the chair of the Board.

Appropriate steps will then be taken to determine whether an actual or apparent conflict exists and to determine whether it is necessary for the director to be excused from discussions relating to the issue.

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

The Board may grant a specific, limited waiver under our Code of Conduct if it determines 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 2015 were independent directors. The Board has determined that, of the ten directors listed in the Circular, only Karen Gavan is not considered to be independent by virtue of her Economical management position. All three director nominees presented for election at the Meeting (Richard M. Freeborough, Micheál J. Kelly, and Michael P. Stramaglia), as well as the other remaining directors (John H. Bowey (Board chair), Elizabeth L. DelBianco, Daniel J. Fortin, Barbara H. Fraser, Gerald A. Hooper, and W. David Wilson) 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 set out in the Circular under the heading "Business of the meeting — Item C — Election of directors."

BOARD MANDATE

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

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

- appointing and supervising management — including final approval of all officer appointments, their compensation, and the oversight of succession planning;
- strategic planning — including oversight over our business, financial and strategic plans, and annual operating budget;
- monitoring financial performance — including the review of our ongoing financial performance and results of operations, and review and approval of our public financial disclosure;
- risk management — including the identification of principal business risks and the implementation of appropriate systems to effectively monitor and manage those risks;
- establishing policies and procedures — including the approval and monitoring of policies and procedures related to corporate governance, internal controls, and ethical business practices;
- communication and reporting — including the oversight of the timely and accurate disclosure of financial reports and other material corporate developments; and
- other responsibilities — including those related to position descriptions, orientation and continuing education, nomination of directors and Board evaluations.

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

Management is expected to provide effective leadership in all aspects of 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 Human Resources and Compensation Committee, an Investment Committee, a Corporate Governance 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 and the results of those assessments are reported to the full Board. In carrying out its duties, each committee may retain and terminate any outside advisor without Board approval at our expense at any time and has the authority to determine its advisors' fees and other retention terms. Individual directors may, in consultation with the chair of the Corporate Governance Committee, also engage outside advisors, as required, at our expense in connection with fulfilling their duties and responsibilities.

AUDIT COMMITTEE

Our Audit Committee currently has four members: Richard Freeborough (chair), Micheál Kelly, Gerald Hooper, 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 current and proposed committee member is an independent director who meets the additional independence criteria that apply to audit committees under Canadian securities laws. The Audit Committee has direct communication channels with our finance department and meets directly with our external auditors, internal auditors, and appointed actuary on a regular basis. The Audit Committee mandate outlines the Audit Committee's responsibility for, among other things:

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

The text of the Audit Committee's mandate is available on our website. Our internal and external auditors provide us with ongoing assurance of their independence, report directly to the Audit Committee, attend each quarterly meeting of the committee, and meet with its members without the presence of management 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 or her responsibilities as an Audit Committee member. The Audit Committee members bring significant skill and experience to their committee responsibilities, including a mix of academic, professional, and board-level experience in accounting, business, and finance, from both within and outside the financial services industry. For additional information concerning Messrs. Freeborough, Kelly, Hooper and Stramaglia, please see the Circular under the heading "Business of the meeting — Item C — Election of directors."

The Audit Committee has adopted policies and procedures for the pre-approval of services performed for us by our external auditors, the objective of which is to support the independence of our external auditors. See the Circular under the heading "Business of the meeting — Item B — Appointment of auditors — Pre-approval policies and procedures."

HUMAN RESOURCES AND COMPENSATION COMMITTEE

The current members of the Human Resources and Compensation Committee are Elizabeth DelBianco (chair), Daniel Fortin, David Wilson, 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 our senior management;
- reviewing retention, development, and succession plans for senior management;
- approving the adoption of, or amendments to, incentive compensation plans and grants or awards under such plans, subject to shareholder or Board approval, as appropriate;
- approving the "Statement of executive compensation" section of our annual proxy circular; and
- periodically reviewing and making recommendations to the Corporate Governance Committee regarding the adequacy and form of directors' compensation.

INVESTMENT COMMITTEE

The current members of the Investment Committee are Gerald Hooper (chair), Karen Gavan, Michael Stramaglia, and David Wilson, each of whom is an independent director other than Karen Gavan, our president and CEO. If elected at 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.

CORPORATE GOVERNANCE COMMITTEE

The current members of the Corporate Governance Committee are Barbara Fraser (chair), Elizabeth DelBianco, Micheál Kelly and John Bowey. If elected at the Meeting, we intend to re-appoint Dr. Kelly to the Corporate Governance Committee to maintain its current composition. Each member of the committee is an independent director. 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 "Statement of corporate governance practices" section of our annual proxy circular; and
- in consultation with the Human Resources and Compensation Committee, periodically reviewing and making recommendations to the Board regarding the adequacy and form of directors' compensation.

RISK REVIEW COMMITTEE

The current members of the Risk Review Committee are Michael Stramaglia (chair), Richard Freeborough, Daniel Fortin, and Gerald Hooper, 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 areas of risk facing the Company and the development of strategies to manage and mitigate those risks;
- the review of compliance with approved risk management policies;
- policies, practices and controls related to the Company's capital structure;
- the review of the annual report on the Company's financial condition and periodic stress testing;
- the periodic enhancement 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 that we face.

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.

POSITION DESCRIPTIONS

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

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

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

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

Directors are generally expected to possess appropriate knowledge of our business, 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 our day-to-day business affairs, leading our strategic planning and budgeting processes, supervising senior management, and implementing systems to ensure the integrity of our internal controls, management information systems, and financial reporting.

COMPENSATION

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

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

The Human Resources and Compensation Committee, composed entirely of independent directors, is responsible for making recommendations to the Board regarding the employment terms of our president and CEO, and for reviewing and approving the recommendations of the president and CEO regarding the compensation of our other executive officers. The Human Resources and Compensation Committee is also responsible for reviewing and making recommendations to the Board regarding awards under our short and medium-term incentive plans. The Human Resources and Compensation Committee meets in camera to discuss the base salary, annual incentives, and other compensation awarded to our president and CEO. See "Board of Directors — Committees — Human Resources and Compensation Committee." Details of executive compensation and our compensation consulting arrangements are disclosed on pages 15 through 30 of the Circular.

NOMINATION OF DIRECTORS

DIRECTOR NOMINATIONS

The Corporate Governance Committee's responsibilities 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. 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 a third-party search firm.

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

The Corporate Governance Committee's process for identifying and evaluating director nominees generally involves the following (with or without the assistance of a retained 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 bylaws, directors hold office for rotating three-year terms. Ordinarily one-third of our directors stand for election at each annual meeting, to serve for three-year terms or until their successors are elected or appointed. The Board has reviewed this practice and intends to establish bylaws (by way of amendment or new adoption) which would provide for annual elections for all directors following completion of a demutualization transaction. The Board is also aware of recent developments regarding director election practices for Canadian public companies, including recently implemented and proposed Toronto Stock Exchange rules, and intends to review its practices in light of those requirements in conjunction with any potential future initial public offering conducted following completion of a demutualization transaction.

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 30% women.

The Board has adopted a written board diversity policy. 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, and take into account the level of diversity currently on the Board. In addition, the Corporate Governance Committee may engage a qualified independent external advisor to conduct a search for candidates that meet our diversity factors. Every year, the Corporate Governance Committee 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 Board considered the utility of diversity targets 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 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 would unnecessarily expose the Company to losing the contribution of directors who have valuable business experience and insight into the Company's operations, and who could continue to make significant contributions to the Board and the Company. Given the Board's current composition, relatively small size and recent renewal (with seven new directors, or 70% of the Board's current composition, having been first appointed in the past five years), the Corporate Governance Committee and Board believe that term limits are not necessary to achieve the objective of bringing fresh ideas and viewpoints to the Board. See also "— Director nominations".

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. We have measured diversity through a questionnaire to monitor employee opinions on our progress against a broad range of diversity dimensions, including race, gender, sexual orientation and identification, ethnicity, and religion. The diversity questionnaire was last given in 2011.

We have a strategic commitment to developing a gender-diverse talent pool — women represented 64% of our overall workforce as at December 31, 2015, including 37% of our executives, 51% of our other management roles, and 61% of our other supervisory roles. Since 2008 our Women's Leadership Network has grown to over 75 senior female leaders within the Company, including our president and CEO and nine female executives. While we have not established diversity targets concerning executive positions (given the broad range of diversity dimensions and our active promotion of a culture of inclusion and collaboration), that strategic commitment has contributed to a continued increase in the promotion of women into senior leadership roles over the past eight years.

ORIENTATION AND CONTINUING EDUCATION

The Corporate Governance Committee has established an orientation program for new directors, which includes information on the role of the Board, its committees and individual directors, as well as relevant company and industry information. Each new director receives 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 bylaws), copies of Board and committee mandates and key corporate policies, including our Code of Conduct, as well as details regarding directors' and officers' indemnification and insurance coverage. Each new director attends an orientation session covering our values and strategy, as well as presentations by our senior management. As well, new directors have regular and ready access to fellow directors and to our senior management.

Presentations are made regularly to the Board and committees to educate and keep them informed of changes within Economical and in legal, regulatory and industry requirements and standards. The Corporate Governance Committee reviews information on available external education opportunities and ensures directors are aware of relevant opportunities. We provide our directors with an annual budget of $3,000 each to fund participation in external education and development opportunities.

BOARD AND DIRECTOR EVALUATION

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

Every year, the chair of the Board interviews each director to obtain their feedback. In years where the formal assessment process is conducted, the chair of the Board and individual directors will discuss the evaluation results at a director's request or as may be required in order to address specific issues. The chair of the Board meets with the chair of the Corporate Governance Committee on the same basis. All self-assessments and interviews are strictly confidential to encourage full and frank commentary from our directors.

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