

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 8, 2017 at 10:30 a.m. (Eastern Time) at Bingemans — Bingemans Ballroom, 425 Bingemans Centre Drive, Kitchener, Ontario for the following purposes:

- A. to receive the consolidated financial statements of Economical for the year ended December 31, 2016, 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,

ROWAN SAUNDERS

President and CEO
Waterloo, Ontario
April 10, 2017

Members of Economical, whether or not you attend the Meeting, are encouraged to complete, date and sign the enclosed proxy form, and return it by mail in the postage-paid envelope provided, or by hand at 100 University Avenue, 8th Floor, Toronto, Ontario, M5J 2Y1, or fax it to Computershare Investor Services Inc. at 1-866-249-7775 (toll-free in North America) or 1-416-263-9524 (international). Proxies may also be returned, by hand, to the head office of Economical at 111 Westmount Road South, Waterloo, Ontario, N2L 2L6 Attention: Corporate Secretary. In order to be valid, your proxy must reach Computershare Investor Services Inc. or Economical, in the manner noted above, no later than 10:30 a.m. (Eastern Time) on April 28, 2017, 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 at 1-866-301-0994 (toll-free in North America) or 1-514-982-8712 (international) no later than 10:30 a.m. (Eastern Time) on April 28, 2017, or if the Meeting is adjourned or postponed, no later than 10 days before the new date determined by adjournment or postponement of the Meeting.

If you or your appointed proxyholder are attending the Meeting in person a piece of government issued photo identification will be required to register.

For any questions you may have regarding this Management Proxy Circular or the 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.

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MANAGEMENT PROXY CIRCULAR

References to “Economical” in this Management Proxy Circular (the “Circular”) are to Economical Mutual Insurance Company. References to the “Company,” “we,” “us” and “our” in this Circular are to Economical and, where the context requires, its direct and indirect subsidiaries. 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.economical.com. All references in this Circular to websites are inactive textual references provided for information only. Information contained in or otherwise accessible through the websites mentioned in this Circular does not form a part of this document.

This Circular 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 proxy form are provided in connection with the solicitation of proxies by the management of Economical (“Management”) to be used at the Annual Meeting (“Meeting”) of mutual policyholders of Economical (“Members”) for the purposes indicated herein, to be held at 10:30 a.m. (Eastern Time) on May 8, 2017 at Bingemans — Bingemans Ballroom, 425 Bingemans Centre Drive, Kitchener, Ontario, N2B 3X7, and at any adjournment or postponement thereof.

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 145 years ago. We are governed by the *Insurance Companies Act* (Canada) and regulated by the Office of the Superintendent of Financial Institutions Canada (“OSFI”). “Mutual companies” do not have common shares or common shareholders. Instead, they have members who have insured certain property under a mutual insurance policy. Each holder of an Economical mutual policy has the right to vote at meetings of Members, but ceases to be a Member when his, her, or its mutual policy terminates. Each Member has only one (1) vote regardless of how many mutual policies such Member holds. Economical also issues a large number of non-mutual insurance policies, which do not normally carry any voting rights.

Who May Vote

Each Member of record as of 10:30 a.m. (Eastern Time) on May 8, 2017 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 857 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.

If you or your appointed proxyholders are attending the Meeting in person a piece of government issued photo identification will be required to register.

How to Vote

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

Voting and appointment instructions

To vote by appointment of a proxyholder, Members must complete, sign and return the enclosed proxy form. In order to be valid, the proxy form must be registered with Computershare Investor Services Inc. ("Computershare") by mail or in person at 100 University Avenue, 8th Floor, Toronto, Ontario, M5J 2Y1, or by fax at 1-866-249-7775 (toll-free in North America) or 1-416-263-9524 (international) no later than 10:30 a.m. (Eastern Time) on April 28, 2017 or, if the Meeting is adjourned or postponed, no later than 10 days before the new date determined by adjournment or postponement of the Meeting. Proxies may also be deposited at the head office of Economical at 111 Westmount Road South, Waterloo, Ontario, N2L 2L6 Attention: Corporate Secretary, if they are received by 10:30 a.m. (Eastern Time) on April 28, 2017. 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 at 1-866-301-0994 (toll-free in North America) or 1-514-982-8712 (international) no later than 10:30 a.m. (Eastern Time) on April 28, 2017 or, if the Meeting is adjourned or postponed, no later than 10 days before the new date determined by adjournment or postponement of the Meeting.

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

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

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

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

How to revoke a proxy

Members may revoke a proxy:

- by delivering a written notice to that effect signed by them or their duly authorized representative(s) to Computershare, at 100 University Avenue, 8th Floor, Toronto, Ontario, M5J 2Y1 or to the head office of Economical at 111 Westmount Road South, Waterloo, Ontario, N2L 2L6 Attention: Corporate Secretary, in each case no later than 5:00 p.m. (Eastern Time) on May 5, 2017, or if the Meeting is postponed or adjourned, no later than 5:00 p.m. (Eastern Time) on the last business day before the postponed meeting or continuation of the Meeting after the adjournment;
- 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 to 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 8, 2017 at 10:30 a.m. (Eastern Time) at Bingemans — Bingemans Ballroom, 425 Bingemans Centre Drive, Kitchener, Ontario, N2B 3X7.

The Meeting date may be postponed by resolution of the Economical Board of Directors (the “Board”) until a later date and time. If that happens, notice of the changed date and time will be delivered to all 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 “How to revoke a proxy” on page 3. The deposit date for proxies to be voted at the postponed meeting will be extended in the manner provided in the notice of the postponed meeting.

The Meeting is an annual meeting of Members. The purpose of this Meeting is to address the annual business of Economical and not to consider the Company’s proposed demutualization. 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, 2016, together with the auditors’ report thereon and the actuary’s report on the policy liabilities in those statements were sent to Members with this Circular 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 external auditors, to hold office until the next annual meeting of Members, and to authorize the Board to fix the remuneration to be paid to them. Ernst & Young LLP have served as our external auditors for more than 10 years.

Pre-approval policies and procedures

Our Audit Committee has adopted policies and procedures for the pre-approval of services performed for us and our subsidiaries by our external auditors, the objective of which is to support the independence of our external auditors. Those policies and procedures require the Audit Committee to pre-approve 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 these policies and procedures may be delegated to Management.

External auditors' service fees

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

	2016 (\$)	2015 ¹ (\$)
Audit fees	692,513	693,854
Audit-related fees	215,700	170,700
Tax fees	255,110	50,565
All other fees	302,897	276,647
Total	1,466,220	1,191,766

¹ Note that following publication of the Company's management proxy circular for 2015, additional invoices for "Audit fee" and "All other fee" services performed in connection with the 2015 financial year were received (for \$31,000 and \$2,230, respectively), resulting in the revised total figure for 2015 disclosed above.

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 21 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 four 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 2020 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 Bowey, Elizabeth DelBianco, Daniel Fortin, Barbara Fraser, Dick Freeborough, Gerald Hooper, Micheál Kelly, Rowan Saunders, Michael Stramaglia and 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 that served during 2016, and three of the four director nominees presented for election at the Meeting, are independent directors. The Board has determined that only Rowan Saunders, who is presented for election, is not considered independent by virtue of his Management position. The other three director nominees presented for election at the Meeting (John Bowey, Elizabeth DelBianco and Barbara Fraser), as well as the remaining directors (Daniel Fortin, Dick Freeborough, Gerald Hooper, Micheál Kelly, Michael Stramaglia 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 2010, the Board established a Special Committee to oversee our demutualization process and possible related transactions. In 2015, the Board established a Strategic Initiatives Committee to assist the Board in fulfilling its oversight responsibilities with respect to the implementation of 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 Chief Executive Officer ("CEO") position, which was disbanded effective as of July 31, 2016, following the announcement that Mr. Saunders would replace Karen Gavan as President and CEO and as a director. The membership of each committee is indicated in the director profiles that follow.

As of October 31, 2016, Ms. Gavan stepped down from her position as Economical's President and CEO and from serving as a director, and she retired from the Company as of December 31, 2016. During 2016 and prior to stepping down, Ms. Gavan was a member of the Investment Committee, and prior to stepping down she attended 100% of the Board and Investment Committee meetings held during the year (5/5 for each).

Nominees for election at the Meeting

John Bowey, Elizabeth DeIBianco and Barbara Fraser were elected at the 2014 annual meeting, and Rowan Saunders was appointed in November 2016 to replace Karen Gavan as a director until the expiry of her three-year term in 2017. The respective terms of the foregoing directors expire at the end of the Meeting and they are all standing for re-election at the Meeting. The Management representatives named in the enclosed proxy form intend to vote for the election of each of the nominee directors and, unless otherwise directed, proxies will be voted in favour of the election of each of these nominees.

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

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



JOHN BOWEY,
MBA, FCPA,
FCA, ICD.D
 Conestogo, ON
 Age: 69
 Independent

Mr. Bowey joined the Board in May 2011. If elected at the Meeting, his new term will expire at the close of the annual meeting of Members in 2020. He was appointed Chair of the Board in January 2016 and previously held the position of Vice-Chair.

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

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

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

Mr. Bowey currently serves on the Special Committee, Corporate Governance Committee, and Strategic Initiatives Committee. In 2016, Mr. Bowey also served on the Risk Review Committee and the CEO Search Committee.

BOARD AND COMMITTEES	2016 ATTENDANCE	JOINED
Board	6/6	2011
Special Committee	6/6	2011
Risk Review Committee	1/1*	2015
Corporate Governance Committee	3/3*	2016
Strategic Initiatives Committee	3/3*	2016

* indicates part-year service

PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS

Brick Brewing Co. Limited 2010 to present



ELIZABETH DELBIANCO,
BA, LL.B, MBA, ICD.D
 Toronto, ON
 Age: 57
 Independent

Ms. DelBianco joined the Board in March 2013. If elected at the Meeting, her new term will expire at the close of the annual meeting of Members in 2020. She is currently Chief Legal and Administrative Officer for Celestica Inc., where she leads Celestica’s legal, communications, compliance, and sustainability functions.

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

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

Ms. DelBianco is currently Chair of the Human Resources and Compensation Committee and serves on the Corporate Governance Committee. In 2016, Ms. DelBianco was Chair of the CEO Search Committee.

BOARD AND COMMITTEES	2016 ATTENDANCE	JOINED
Board	6/6	2013
Corporate Governance Committee	4/4	2013
Human Resources and Compensation Committee	4/4	2013

PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS

None



**BARBARA
FRASER,
HBA**
Toronto, ON
Age: 67
Independent

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

She currently serves on the board of MD Life Insurance Company and served on the board of Manitoba Telecom Services Inc. until it was acquired in March 2017. In addition, she is an Emeritus member of the Advisory Board of the Ivey Business School at Western University. She has previously served on the boards of ten other companies, as both an inside and outside director.

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

Ms. Fraser is currently Chair of the Corporate Governance Committee, and serves on the Human Resources and Compensation Committee, and Strategic Initiatives Committee. In 2016, Ms. Fraser also served on the Audit Committee.

BOARD AND COMMITTEES	2016 ATTENDANCE	JOINED
Board	6/6	2013
Audit Committee	1/1*	2013
Corporate Governance Committee	4/4	2015
Human Resources and Compensation Committee	4/4	2015
Strategic Initiatives Committee	3/3	2015

* indicates part-year service

PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS

Manitoba Telecom Services Inc. 2014 to March 2017



**ROWAN
SAUNDERS,
BA, FCIP, CRM**
Toronto, ON
Age: 52
Not Independent

Mr. Saunders is the President and CEO of Economical, effective November 1, 2016, and was appointed to the Board in November 2016. If elected at the Meeting, his new term will expire at the close of the annual meeting of Members in 2020.

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

He is the past Chairman, a current member of the Board of Directors, and Chair of the Audit Committee of the Insurance Bureau of Canada, and a member of the boards of Equitable Bank and Equitable Group Inc. Mr. Saunders also serves as a member of the Financial Services Commission of Ontario's ("FSCO") CEO Advisory Committee and is a past member of the Board of Directors of the Institute for Catastrophic Loss Reduction and the Board of Directors of Facility Association.

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

He currently serves on the Investment Committee.

BOARD AND COMMITTEES	2016 ATTENDANCE	JOINED
Board	1/1*	2016

* indicates part-year service

PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS

Equitable Group Inc. 2013 to present

Incumbent directors whose terms continue beyond the Meeting

The following profiles set out the names of the six directors whose terms continue beyond the Meeting, as well as the following information: the year in which they first became a director of Economical; all positions, committees and offices they hold with Economical; their principal occupation and professional background; public board memberships held currently and in the past five years, if any; their age (as of the date of this Circular); their place of residence; and their attendance at regularly scheduled Board and committee meetings. All biographical information, not being within our knowledge, has been furnished by the relevant director.



**DICK
FREEBOROUGH,**
FCPA, FCA, ICD.D
Oakville, ON
Age: 74
Independent

Mr. Freeborough joined the Board in February 2012. His current term will expire at the close of the annual meeting of Members in 2019. He is a corporate director who brings considerable insurance industry experience, financial expertise, and more than a decade of board leadership. He retired from KPMG LLP in 2004, after 39 years of financial services practice, during which time he was the KPMG Canadian Practice Lead for insurance business. He served on the board of KPMG Canada for six years, including three as Deputy Chair.

Mr. Freeborough is currently Chair of the Board of Directors for the Independent Order of Foresters. He is also a director 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 2016, Mr. Freeborough also served on the Investment Committee and CEO Search Committee.

BOARD AND COMMITTEES	2016 ATTENDANCE	JOINED
Board	6/6	2012
Audit Committee	4/4	2012
Special Committee	6/6	2012
Risk Review Committee	4/4	2014
Investment Committee	2/2*	2015

* indicates part-year service

PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS

None



**MICHEÁL
KELLY,**
AB, MA, PhD
Waterloo, ON
Age: 68
Independent

Dr. Kelly was appointed to the Board in April 2015. His current 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, and was previously Professor of Strategy and International Business and also Dean (2000 to 2010) of the Telfer School of Management at the University of Ottawa.

Dr. Kelly is a former Chairman of the Six Countries Programme, one of Europe's first innovation networks. He has also served on the Advisory Board of the Silicon Valley Roundtable. He is a past 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 a past member of the Board of Governors of Beta Gamma Sigma, the international business school honour society. He presently serves on the boards of Waterloo North Hydro and CATA Alliance.

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.

BOARD AND COMMITTEES	2016 ATTENDANCE	JOINED
Board	6/6	2015
Corporate Governance Committee	4/4	2015
Strategic Initiatives Committee	3/3	2015
Audit Committee	3/3*	2016

* indicates part-year service

PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS

None



MICHAEL STRAMAGLIA,
FSA, FCIA, CERA, ICD.D
 Toronto, ON
 Age: 57
 Independent

Mr. Stramaglia joined the Board in April 2010. His current 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, Equitable Group Inc. 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 brings many years of experience in executive management positions, including Chief Risk Officer and Executive Vice-President of Investments at Sun Life Financial Inc., and Chief Investment Officer and Executive Vice-President of Reinsurance at Clarica Life Insurance Company, President and CEO of Zurich Life Insurance Company of Canada, and President and COO of Zurich Financial Services Ltd.'s consolidated Canadian life and P&C insurance operations.

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

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

BOARD AND COMMITTEES	2016 ATTENDANCE	JOINED
Board	6/6	2010
Investment Committee	5/5	2010
Audit Committee	4/4	2011
Risk Review Committee	4/4	2012

PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS

Equitable Group Inc. 2014 to present



DANIEL FORTIN,
B.Eng (Civil),
Hon. D.Eng, ICD.D
 Pickering, ON
 Age: 60
 Independent

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

Mr. Fortin is the former president of IBM Canada with more than 35 years of experience in the technology industry, and 15 years of leadership experience globally. He guided IBM in helping Canadian organizations transform their businesses to better compete in today's competitive global market. During his time 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 is currently active with the Carleton University Board of Governors and is Board Chair of Evok Innovations. Mr. Fortin holds a Bachelor of Civil Engineering and an honorary 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, and Risk Review Committee.

BOARD AND COMMITTEES	2016 ATTENDANCE	JOINED
Board	6/6	2014
Human Resources and Compensation Committee	4/4	2014
Risk Review Committee	4/4	2014
Strategic Initiatives Committee	3/3	2015

PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS

None



GERALD HOOPER,
FCPA, FCA
 Waterloo, ON
 Age: 73
 Independent

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

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 2016, Mr. Hooper also served on the Corporate Governance Committee, and Human Resources and Compensation Committee.

BOARD AND COMMITTEES	2016 ATTENDANCE	JOINED
Board	6/6	1999
Audit Committee	4/4	1999
Corporate Governance Committee	1/1*	2005
Human Resources and Compensation Committee	1/1*	2005
Investment Committee	3/3*	2016
Risk Review Committee	3/3*	2016

*indicates part-year service

PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS

Wescast Industries Inc. 2006 to 2013



DAVID WILSON,
B.COMM, MBA
 Toronto, ON
 Age: 72
 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 is Vice-Chair of the Board of Trustees for the Centre for Addiction and Mental Health and is Chair of the Board for the Greater Toronto Airports Authority. He is a member of the Board of Directors of Cidel Bank of Canada and a member of the Ewing Morris advisory board.

He holds a Bachelor of Commerce from the University of Toronto and an MBA from the Schulich School of Business at York University.

Mr. Wilson is currently Chair of the Special Committee, and serves on the Human Resources and Compensation Committee, and Investment Committee. In 2016, Mr. Wilson also served on the Strategic Initiatives Committee.

BOARD AND COMMITTEES	2016 ATTENDANCE	JOINED
Board	6/6	2012
Investment Committee	5/5	2012
Special Committee	6/6	2012
Human Resources and Compensation Committee	4/4	2015

PUBLIC COMPANY BOARD MEMBERSHIPS DURING THE LAST FIVE YEARS

Greater Toronto Airports Authority 2011 to present

Summary of director core competencies

The following chart summarizes the core competencies currently represented on our Board, as self-assessed by each director. This high-level summary is not intended to be an exhaustive list of each director's skills or contributions to the Board.

	Experience in other industries						Functional experience														
	Life Insurance	Banking	Asset Management	Professional Services	Technology/Communications	Manufacturing	C-Level Experience	Accounting/Audit	Actuarial	Corporate Finance	Corporate Development/M&A	Investments	Pensions & Benefits	Information Technology	Governance	Sales/Marketing	Legal	Operations	Human Resources	Risk Management	Regulatory
Gerald Hooper			✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓			✓	✓	✓	✓
John Bowey				✓	✓	✓	✓	✓		✓					✓				✓	✓	
Elizabeth DelBianco				✓	✓	✓	✓			✓	✓				✓		✓		✓		✓
Daniel Fortin					✓		✓					✓	✓	✓	✓	✓		✓			
Barbara Fraser	✓	✓	✓			✓	✓			✓	✓	✓				✓		✓			✓
Dick Freeborough	✓	✓	✓	✓			✓	✓		✓	✓				✓				✓	✓	✓
Micheál Kelly				✓	✓		✓			✓						✓		✓			
Rowan Saunders			✓				✓			✓	✓			✓	✓	✓		✓	✓	✓	✓
Michael Stramaglia	✓	✓	✓	✓			✓	✓	✓	✓	✓	✓			✓			✓		✓	✓
David Wilson		✓					✓			✓	✓	✓			✓					✓	✓

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.

The following current director holds a mutual policy with Economical: Mr. Hooper.

Directors' compensation

Each of our directors serves on the boards and committees of Economical, and our insurance 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, and had a CEO Search Committee during 2016.

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.

In 2016, non-management directors of Economical received the retainers and meeting fees outlined in the table below in relation to service on our boards and standing committees.

	Economical (\$)	Insurance subsidiaries ¹ (\$)	Westmount Financial Inc. (\$)
Annual retainers			
Director	39,000	26,000	10,000
Board Chair	90,000	60,000	—
Committee Chair (Audit, Risk Review)	9,000	6,000	—
Committee Chair (Human Resources and Compensation)	7,500	5,000	—
Committee Chair (Corporate Governance, Investment)	6,000	4,000	—
Meeting fees			
Regular	900	600	—
Conference call ²	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 For conference call meetings occurring in between the regularly scheduled board meetings, directors were paid at 50% of the normal meeting fee.

In addition to our standing committees, we have a Special Committee on demutualization, a Strategic Initiatives Committee, and during part of 2016 a CEO Search Committee. In 2016, 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 received 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 a full day meeting). The CEO Search Committee was formed in early 2016 and disbanded by the Board effective as of July 31, 2016, following the announcement that Mr. Saunders would replace Ms. Gavan as President and CEO. The Chair of the CEO Search Committee was paid a quarterly cash retainer of \$5,000 effective January 1, 2016, with the third quarter's payment pro-rated to include the month of July 2016 only. The Chair and all other members received a one-time fee of \$7,500 for regular meetings, and one of the members, Mr. Bowey, received a supplementary fee of \$1,500 for additional meeting responsibilities in July 2016.

We also reimburse our directors for expenses in accordance with our executive expense reimbursement policy. Our bylaws and each of our insurance 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.

In addition to the attendance for each director listed in the director biographies on pages 7 – 11, subsequent to becoming Board Chair in 2016, Mr. Bowey attended certain meetings of committees that he was not a member of, for the purpose of enhancing his awareness of committee matters after becoming Board Chair. He received meeting fees for attending those meetings equal to the meeting fees paid to other independent directors in attendance who were at the time members of the committees in question.

The table below shows the amounts, before withholdings, provided to our non-management directors in respect of their service for 2016 on the boards of Economical and its subsidiaries and their respective committees.

	Economical		Economical subsidiaries		All other compensation (\$)	Total compensation (\$)
	Retainers ¹ (\$)	Attendance fees ² (\$)	Retainers ³ (\$)	Attendance fees ² (\$)		
John Bowey	129,000	36,900	96,000	18,600	—	280,500
Elizabeth DelBianco	53,500	20,700	45,667	13,800	—	133,667
Daniel Fortin	48,000	17,400	42,000	11,600	—	119,000
Barbara Fraser	45,000	20,700	40,000	13,800	—	119,500
Richard Freeborough	48,000	31,500	42,000	15,000	—	136,500
Gerald Hooper	43,500	19,800	39,000	13,200	3,000 ⁴	118,500
Micheál Kelly	39,000	16,500	36,000	11,000	—	102,500
Michael Stramaglia	48,000	20,700	42,000	13,800	—	124,500
David Wilson	80,500	26,100	37,000	11,400	—	155,000
Total	534,500	210,300	419,667	122,200	3,000	1,289,667

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 Includes all board and committee director and chair cash retainers, including the \$10,000 annual director retainer in respect of Westmount Financial Inc.

⁴ The value of a gift given to Mr. Hooper recognizing his retirement from serving as Board Chair for eleven years.

Every two years, the Human Resources and Compensation Committee reviews our directors' compensation practices and recommends to the Corporate Governance Committee any appropriate changes to the structure or magnitude of directors' compensation. The compensation for the Board Chair, committee chairs, and other Board members is compared to appropriate benchmarks, considering factors such as the number of Board and committee meetings each year. Our overall objective is to target total directors' compensation at the median of the comparator group.

In 2016, the Human Resources and Compensation Committee recommended to the Corporate Governance Committee, and in turn the Corporate Governance Committee recommended to the Board, modifications to directors' compensation. These changes were approved by the Board and are designed to:

- align total directors' compensation more closely with the median of the comparator group
- simplify administration
- recognize the on-going commitment of directors
- eliminate meeting fees.

The new fee structure, effective January 1, 2017, is outlined in the table below.

	Annual retainer ¹ (\$)
Board Chair	250,000
Director ²	125,000
Committee chair (Audit; Human Resources and Compensation, Special) ³	20,000
Committee chair (Risk Review, Corporate Governance, Investment, Strategic Initiatives) ³	15,000
Committee member ⁴	4,000

¹ Aggregate compensation for board and committee director and chair retainers, as applicable, in respect of Economical, its insurance subsidiaries and Westmount Financial Inc.

² Paid to all directors other than the Board Chair.

³ Committee chair fees differ based on the varying workload of each committee.

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

We may also pay directors additional amounts from time to time to compensate for extraordinary unanticipated workloads and contributions, but only after specific consideration and approval by the Board.

EXECUTIVE COMPENSATION

Message to Our Policyholders

2016 was a challenging year for Economical.

Although the Company made significant progress on building and diversifying its business, Economical missed its financial targets. This was impacted by deterioration in personal and commercial auto, and it was also related in part to the significant investments this year in the development and launch of Sonnet Insurance Company and in the Company's infrastructure. 2016 was also a record year for insured losses in Canada (\$4.9 billion), and Economical faced nine catastrophes, including the wildfires in Fort McMurray — the costliest natural disaster in Canadian history.

The table below summarizes our financial results.¹

	2016 (\$)	2015 \$
Gross written premiums ²	2,084.1	2,008.4
Combined ratio ³	109.1%	97.4%
Net operating income (or loss) ⁴	(80.763)	N/A

¹ In millions of dollars, except as otherwise noted.

² Gross written premiums represents the total premiums from the sale of insurance during a specified period.

³ Combined ratio represents the claims and adjustment expenses (excluding the impact of discounting), commissions, operating expenses (net of other underwriting revenues) and premium taxes during a defined period expressed as a percentage of net earned premiums (as defined in Section 14 of the Management's Discussion and Analysis included in our most recent Annual Report available online at www.economical.com) for the same period.

⁴ Net operating income (or loss) represents the net income (or loss) before income taxes and excludes recognized gains and losses on our non-matched investment portfolio and demutualization costs, as calculated from our consolidated financial statements. This is a measure we adopted in 2016 for purposes of determining certain elements of compensation (see "Corporate performance multiplier" on page 27 for details).

Despite these results, the Company made significant progress on its strategy in 2016, launching Sonnet (its new direct digital brand for personal insurance), acquiring Canada's largest pet insurance company, taking a leadership position in innovation, analytics and customer service, and being named Canada's P&C insurer of the year. Economical also made significant progress in 2016 and early in 2017 in its journey to becoming a public company.

The Board appointed Rowan Saunders to the position of President and CEO in November. Rowan is an accomplished senior executive from the P&C industry with a track record of successfully delivering profitable growth. Economical is at a critical point in its 145-year history. We are confident in Rowan's ability to lead the Company on its path to becoming a public company and to achieving its long-term strategy.

2016 compensation

The Company's 2016 performance resulted in a significant reduction in short-term incentive awards for all of the named executives. Corporate financial performance accounts for 80% of an executive's short-term incentive award and the Board, on the recommendation of the Human Resources and Compensation Committee, and in consultation with the President and CEO, set the corporate performance multiplier at zero. This reduced every eligible executive's total direct compensation for the year. You will find more about our 2016 compensation decisions for the named executives starting on page 26.

Investing in our future

Economical's vision is to be one of Canada's top property and casualty insurers, recognized for our business innovation and how well we take care of our customers. Executive compensation must foster a strong, motivated team, be aligned with Economical's corporate strategy and goals, and reward for strong performance while managing risk.

While the Company's performance management approach and variable compensation have long been integrated with strategy and corporate goal setting, the Board and the Committee spent considerable time this year looking at how compensation can be designed to better support each stage of the Company's evolution. While we haven't yet finalized the changes we plan to make for 2017, we will be adjusting the metrics in the incentive plans, to focus executives on the areas that will help us grow strategically over the coming years, including linking payouts to the achievement of specific strategic initiatives.

A strong team

Rowan's first accomplishments as President and CEO were to establish relationships with key stakeholders and enhance our business plan for the next three years to sharpen our focus on achieving our vision.

2016 also demonstrated the strength of Economical's people: when faced with Fort McMurray's devastating wildfires, the response was immediate, humane and effective. The team's excellent performance not only earned Economical a 96% customer satisfaction rating, it also demonstrated the Company's commitment to being the insurance partner Canadians choose to protect what they value most.

Sincerely,



Elizabeth DelBianco
Human Resources and Compensation Committee Chair

Compensation Strategy

Our vision is to be one of Canada's top property and casualty insurers, recognized for our business innovation and how well we take care of our customers.

We're at an important point in our history – we're in the middle of a complex demutualization process to convert from a mutual company to a public share company.

We've also built on our competitive position in the market by embarking on multi-channel distribution to reach new customers.

A balanced approach to executive compensation

Our approach to executive compensation includes three key principles designed to balance risk and reward. It also ties incentive awards directly to performance: if company or individual performance is poor, incentive compensation goes down. If company or individual performance is strong, incentive compensation is higher.

Three design principles

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

Linking compensation to our strategy

Executive compensation must foster a strong, motivated team, be aligned with Economical's corporate strategy and goals, and reward for strong performance while managing risk.

To achieve our vision, we focus on four core strategic thrusts:

1. Serving customers according to their needs and preferences
2. Achieving scale and diversification inorganically
3. Creating industry-leading speed and agility
4. Empowering a culture that delivers on our brand

Our performance management approach and variable compensation have been integrated with our strategy and corporate goal setting for a number of years. In 2016 we refined our performance management process so that an individual's goals are more clearly aligned with the Company's mission and success. All employees, including the named executives, are measured against pre-determined objectives linked directly to the two main aspects of our strategy: grow profitably and operate effectively.

Investing in our future

Looking to our future, it's important for our compensation strategy to:

- foster a strong and motivated team
- align with our corporate strategy and goals
- reward our people for strong performance while managing risk

Compensation Governance

Our Board has overall responsibility for executive compensation. It oversees our compensation strategy and programs, and how we manage compensation risk.

The Human Resources and Compensation Committee (the “Committee”) assists the Board by overseeing our human resources practices and policies, executive compensation design and compensation awards. It makes sure our compensation policies and program design support the Company’s mission, strategy and objectives, and mitigate risk.

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

You can read more about the Committee in Appendix “A” — Statement of Corporate Governance Practices under “Human Resources and Compensation Committee” starting on page 40.

Independent advice

The Committee retains an outside advisor for independent guidance and advice on compensation decisions. It has worked with Willis Towers Watson (“Towers”) since November 2013.

The advisor:

- provides market data and analysis
- reviews data, analysis and compensation recommendations prepared by Management
- advises the Committee on market trends and best practices in compensation
- assists with incentive plan design
- attends Committee meetings, as requested.

The Committee regularly meets with the advisor, without senior executives present. While the advisor’s information and advice helps to inform decisions, the Committee ultimately relies on its own judgment when making decisions.

The table below shows the fees paid to Towers and its affiliates for services in the last two fiscal years. If Management wants to work with Towers, the Committee must pre-approve any consulting services above a pre-determined threshold.

	Fees paid in 2016 (\$)	Fees paid in 2015 (\$)
Executive compensation-related fees	245,231	184,056
All other fees	327,480 ¹	–
Total	572,711	184,056

¹ Includes fees for an Investments function operational review conducted by Towers and software training for Economical staff.

Managing compensation risk

Our enterprise risk management framework is rooted in the understanding that we are in the business of taking risk for an appropriate return. We developed our risk appetite to define the amount of risk we are willing to take across all risks while supporting and advancing Economical's vision and mission. Our risk appetite helps us effectively balance risk and reward.

Our approach to risk management includes:

- aligning our strategy with our risk appetite
- assessing and managing risks within our risk appetite
- mitigating risk using preventive and detective controls or by transferring risk to third parties
- seeking appropriate returns for the risks retained.

We apply risk management practices to the executive compensation program in two ways:

- making sure compensation for our senior executives is competitive, so we can attract, develop and retain key executives, which is critical to the successful implementation of our strategy and our long-term performance
- designing our executive compensation program to encourage executives to generate long-term value without taking undue risk – from the structure of the program and the decision-making process to setting compensation and performance targets.

Our goal is to reward executives for sustainable, profitable growth within our risk appetite. We've included the following checks and balances in our compensation programs to discourage employees and executives from taking on undue risk to increase their compensation.

Committee oversight of compensation risk

The Committee regularly monitors and evaluates our compensation policies to make sure they manage risk and align with good governance practices. The Committee confirms that our compensation policies, plans and practices 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.

Where to read more

You can read more about risk management at Economical in our Annual Report on page 34 or on our website (www.economical.com).

We use an appropriate mix of components

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

We test plan design

The Chief Financial Officer ("CFO") and Chief Risk Officer ("CRO") assess plan design, performance metrics and targets taking into consideration our risk tolerance within the context of our risk appetite. When changes to incentive plans are being considered, we carry out scenario testing. The results are reviewed by the CEO, CFO and CRO, and are presented to the Committee along with the proposed changes.

We pay for performance

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

We cap variable pay

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

The Committee can adjust pay when necessary

The Committee can choose to use its discretion to adjust the mathematically determined awards up or down to address the impact of unforeseen or extraordinary events, including reducing it to zero if performance is significantly below expectations.

Senior executives are compensated based on company and individual performance — not business segment performance

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

We can claw back incentive pay

The Board has a policy that allows us to recover incentive compensation paid to senior executives when, under certain circumstances, a material restatement or correction of financial statements resulted in overcompensation, based on the restated or corrected results.

Compensation design and decision-making

The Board, the Committee and Management are all involved in compensation decision-making. All decisions about compensation design and executive pay are made within the context of the link to our strategy, our risk appetite and our principle of pay for performance.

Beginning of the year▶ End of the year▶

1 Establish target compensation	2 Set performance objectives	3 Evaluate performance and finalize total compensation
<p>The Committee approves target compensation for each executive at the beginning of each year.</p> <p>Targets are set for each component — salary, short-term and medium-term incentive awards — ensuring an appropriate combination of fixed and variable, and short and longer term pay, for each role.</p> <p>The Committee recommends and the Board approves the CEO's compensation targets and pay mix.</p> <p>The Committee periodically asks its compensation advisor to recommend the most appropriate companies to use as a benchmark, and usually sets the target at the median of this group. See page 21 for details about the peer group used for this year's targets.</p>	<p>Management proposes an annual business plan for the coming year to the Board, typically in December. The Board approves the final business plan.</p> <p>The CEO uses the plan to:</p> <ul style="list-style-type: none"> propose corporate performance metrics and targets for the short- and medium-term incentive plans create his individual performance goals and targets for the short-term incentive plan <p>The Committee recommends and the Board approves the CEO's objectives and performance targets.</p> <p>The CEO determines:</p> <ul style="list-style-type: none"> initiatives for each business unit and level of performance who will take the lead on each, and how that will be built into the senior executive's individual objectives <p>The CEO recommends and the Committee approves each named executive's pay mix, objectives and targets.</p>	<p>Performance</p> <p>The Board meets to review the CEO's performance, considering:</p> <ul style="list-style-type: none"> individual performance against the goals and targets approved for the short-term incentive plan corporate performance against the metrics and targets approved for the variable compensation plans <p>The CEO reviews the performance of the senior executives against the corporate and individual objectives set at the beginning of the year.</p> <p>Compensation</p> <p>The Board and the Committee make final decisions for each executive as follows, using discretion to change the calculated awards when necessary to address the impact of unforeseen or extraordinary events:</p> <ul style="list-style-type: none"> the Board approves the CEO's compensation the Committee approves the compensation of the named executives, taking into account the CEO's recommendations.
Managing risk		
<ul style="list-style-type: none"> Compensation set with a view to attracting and retaining key employees Plan design assessed against our risk appetite Scenario testing for significant plan changes Mix of components depends on each executive's ability to affect our objectives An appropriate balance of fixed and variable pay, and short- and medium-term performance 	<ul style="list-style-type: none"> Performance targets stress tested Plan design, performance metrics and targets go through comprehensive risk assessment 	<ul style="list-style-type: none"> Ongoing risk review of anticipated levels of compensation The Committee can use discretion to adjust awards up or down regardless of mathematical calculation Incentive awards capped Awards can be clawed back or forfeited The Committee can use discretion to adjust final awards up or down to address the impact of unforeseen or extraordinary events

Peer groups

There are very few companies in Canada that are similar to us in size and industry focus, or have a similar organizational structure. In 2015, the Committee asked its compensation advisor to analyze the mix of companies to use as peers, and develop a list of three peer groups to benchmark compensation for different roles in the Company (see below).

The Committee uses the data from these peer groups in two ways:

- to assess our program design (components and weightings)
- to help set target compensation for each role

Peer group 1: Financial services firms	Peer group 2: Insurance companies	Peer group 3: Companies of similar size
<p>Purpose: for the roles of CEO¹ and CFO</p> <p>Includes: eight Canadian public financial services firms that are similar to Economical in scale:</p> <ul style="list-style-type: none"> • Canadian Western Bank • Equitable Bank • Genworth MI Canada Inc. • Home Capital Group Inc. • Industrial Alliance Insurance and Financial Services • IGM Financial • Intact Financial Corporation • Laurentian Bank of Canada 	<p>Purpose: for roles specific to the insurance industry</p> <p>Includes: 11 Canadian insurance companies (property and casualty, and other) that are similar to Economical in scope and complexity:</p> <ul style="list-style-type: none"> • 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 • Zurich North America Canada 	<p>Purpose: for roles not specific to the insurance industry</p> <p>Includes: Canadian public and private companies across all industries with revenues between \$1 billion and \$3 billion that participated in Willis Towers Watson's General Industry Executive Compensation Survey – Canada</p>

¹ For determining compensation in connection with the appointment of our new President and CEO, the Committee used a combination of all companies from peer group 1 and the following companies from peer group 3: Air Canada, Allied Properties, Corus Entertainment Inc., Manitoba Telecom Services Inc., New Flyer Industries Inc., Norbord Inc., Shawcor Ltd., TMX Group Limited and Westjet Airlines Ltd.

Executive Compensation Package

Our executive compensation package includes a combination of fixed and variable pay, and a benefits package that is also competitive with the market. This approach helps us attract and retain the best available talent for positions of substantial responsibility, and rewards them for achieving our goals. Incentive compensation is paid out in cash over a period of one to three years, to link pay with our performance over time.

	Why we use it	Form and timeframe	Amount								
Salary	To compensate executives for their role at Economical.	Fixed amount earned and paid during the year.	Normally set at the median of the market. Salaries are based on individual performance, experience, competencies, accountabilities and competitive market data.								
Short-term incentive	To align annual performance with our strategy.	Earned during the year and paid in cash early in the following year depending on performance.	<p>Target award depends on the role, and is calculated as a percentage of salary:</p> <table border="1"> <thead> <tr> <th colspan="2">Short-term incentive target (as % of salary)</th> </tr> </thead> <tbody> <tr> <td>President and CEO</td> <td>100%</td> </tr> <tr> <td>CFO and COO</td> <td>50%</td> </tr> <tr> <td>Other named executives</td> <td>40%</td> </tr> </tbody> </table>	Short-term incentive target (as % of salary)		President and CEO	100%	CFO and COO	50%	Other named executives	40%
Short-term incentive target (as % of salary)											
President and CEO	100%										
CFO and COO	50%										
Other named executives	40%										
Medium-term incentive	To reward the creation of stakeholder value over the medium term.	<p>Awarded early in the year as:</p> <ul style="list-style-type: none"> restricted units (normally 40%) performance units (normally 60%) <p>Paid in cash after the end of three years depending on performance.</p>	<p>Target award depends on the role, and is calculated as a percentage of salary:</p> <table border="1"> <thead> <tr> <th colspan="2">Medium-term incentive target (as % of salary)</th> </tr> </thead> <tbody> <tr> <td>President and CEO</td> <td>175%</td> </tr> <tr> <td>CFO, Chief Strategy Officer ("CSO") and COO</td> <td>75%</td> </tr> <tr> <td>Other named executives</td> <td>60%</td> </tr> </tbody> </table>	Medium-term incentive target (as % of salary)		President and CEO	175%	CFO, Chief Strategy Officer ("CSO") and COO	75%	Other named executives	60%
Medium-term incentive target (as % of salary)											
President and CEO	175%										
CFO, Chief Strategy Officer ("CSO") and COO	75%										
Other named executives	60%										
Benefits	To attract and retain top talent.	Annual benefits package is provided.	<p>Depends on market practice, but normally includes:</p> <ul style="list-style-type: none"> pension (see page 31) group life and health insurance annual cash allowance (paid instead of perquisites) 								

Payout

The amount the executive actually receives depends on performance against pre-determined goals:

- 80% corporate
- 20% individual

See page 27 for the performance measures for the 2016 short-term incentive.

Managing risk

Capped at 200% of target.

Not awarded if consolidated net operating income is less than \$1, or individual performance is rated “unsatisfactory”.

Can be clawed back or forfeited under certain circumstances.

The amount the executive actually receives depends on how many units vest and the unit value at the end of the three-year performance period:

- all of the restricted units typically vest at the end of the performance period
- performance units vest depending on our performance compared to our peers (see page 28 for details)
- performance units that do not vest are cancelled.

Managing risk

Capped at 200% of grant value.

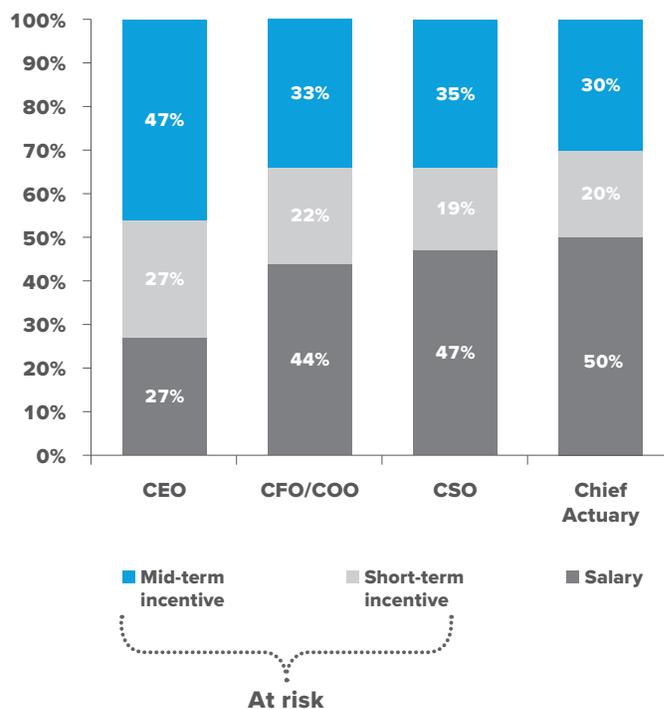
Performance units do not vest if our three-year average annual return on equity is zero or below zero, regardless of our performance compared to our peers.

Can be clawed back or forfeited.

Pay mix

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

A significant portion of every executive’s compensation is variable and linked to our corporate goals and objectives. The amount allocated to the medium-term incentive is designed so a meaningful portion of each executive’s pay is earned over a three-year period, allowing enough time to make sure compensation reflects the impact of decisions made at the time of the award. This also encourages retention and focuses our executives on achieving our strategy, sustaining performance and growing value over the longer term.



Managing risk

The mix of fixed and variable, and short- and medium-term pay depends on the executive’s level, and their ability to affect our risk profile and our short- and medium-term business performance.

2016 Named Executives



ROWAN SAUNDERS

President and Chief Executive Officer
(as of November 1, 2016)

2016 Accomplishments

- Established relationships with key stakeholders — employees, brokers, the Board
 - Enhanced the business plans for the next three years to sharpen our focus on achieving our vision
-



PHILIP MATHER

Senior Vice-President and
Chief Financial Officer

2016 Accomplishments

- Continued to lead our initial public offering and public company readiness activities across the Company, including the development of mergers and acquisitions, and investor relations strategies
 - Led the acquisition of Petline Insurance Company
 - Oversaw the deployment of our broker financing activities
 - Oversaw the accelerated implementation of our investment portfolio optimization initiative
 - Provided financial leadership and oversight in support of the development and launch of Sonnet Insurance Company and the planning of our personal lines policy administration system replacement
-



TOM REIKMAN

Senior Vice-President and
Chief Operating Officer

2016 Accomplishments

- Implemented new commercial property and casualty pricing model
 - Reported record levels of written premiums
 - Exceeded planned growth while keeping operating expenses slightly below budget
 - Achieved customer claims satisfaction score of 93%, customer net promoter score of 72% and broker score of 92%, based on internal satisfaction survey process results
-



INNES DEY

Senior Vice-President and
Chief Strategy Officer

2016 Accomplishments

- Provided leadership to reach several important demutualization milestones:
 - proactively engaged with OSFI
 - initiation of the court supervision process
 - appointment of counsel for eligible policyholders
 - prepared for the appointment of policyholder committee members
 - Integrated key management processes across the Company
 - Enhanced our ability to integrate acquired companies, focusing on our acquisition of Petline Insurance Company in January 2017
-



LINDA GOSS

Senior Vice-President and
Chief Actuary

2016 Accomplishments

- Led crucial work on demutualization, including identifying 630,000 customers who are eligible to participate in demutualization
- Supported the launch of Sonnet Insurance Company
- Oversaw the winding down of Federation Insurance Company of Canada
- In the interim role of Chief Underwriting Officer for the last four months of the year, guided the development of our personal lines policy administration system replacement and built business plans for 2017-2019
- Oversaw the development of our first economic capital model of insurance risk



KAREN GAVAN

Former President and
Chief Executive Officer

2016 Accomplishments

- Oversaw the successful launch of Sonnet Insurance Company
- Provided strategic oversight for the assessment and successful negotiation to acquire Petline Insurance Company
- Provided an effective transition to the new President and CEO

2016 Compensation Decisions

Total direct compensation

	Base salary (\$)	Annual incentive (\$)	Medium-term incentive payouts (\$)	Total (\$)	Amount at risk (At target)
Rowan Saunders	163,077	0	0	163,077	N/A ¹
Philip Mather	425,000	46,750	300,841	772,591	55%
Tom Reikman	330,000	33,000	234,272	597,272	55%
Innes Dey	340,000	28,560	180,505	549,065	54%
Linda Goss	300,000	24,000	175,247	499,247	50%
Karen Gavan	670,000	1,139,000 ²	848,003	2,657,003	70%

¹ Mr. Saunders joined the Company as of November 1, 2016 and therefore was not awarded any annual or medium-term incentives that paid out in 2016.

² Includes a one-time transition award paid to Ms. Gavan in connection with her retirement (see footnote 3 to the summary compensation table on page 29).

Salary

Salaries are reviewed every year and adjusted — if necessary — based on individual performance, experience, competencies, accountabilities and competitive market data.

Salaries for the named executives were not changed in 2016.

Short-term incentive

The table below shows the short-term incentive awarded to each named executive for 2016, and how it was calculated.

	Short-term incentive target				Corporate performance multiplier (80%)	+	Individual performance multiplier (20%)	=	2016 short-term incentive award (\$) Capped at 200% of target
	Base Salary (\$)	x		x					
Philip Mather	425,000	x	50%	x	0%		110%	=	46,750
Tom Reikman	330,000	x	50%	x	0%		100%	=	33,000
Innes Dey	340,000	x	40%	x	0%		105%	=	28,560
Linda Goss	300,000	x	40%	x	0%		100%	=	24,000
Karen Gavan	670,000	x	100%	x	0%		100%	=	134,000

Corporate performance multiplier

Corporate performance has the largest weighting in determining short-term incentive awards for each executive.

The graphic below shows the performance measures we used in 2016. We choose performance measures, and set threshold, target and maximum performance goals every year based on our strategic plan. We do not disclose the specific targets for any of the individual metrics for competitive reasons.

This year, we replaced the expense target with net operating income, because net operating income incorporates expense management and is a better indicator of our overall performance. Performance goals this year took into consideration the significant investments we planned, including the cost of demutualization.

Although the Company made significant progress on building and diversifying its business, Economical missed its financial targets. This was related to several factors: 1) deterioration in the profitability of a number of lines of business; 2) lower than expected performance in our commercial book; 3) 2016 was a record year for insured losses in Canada; and 4) the significant investments this year in the development and launch of Sonnet Insurance Company and in the Company's infrastructure.

Based on 2016 performance, the calculated corporate performance multiplier was zero. There was no discretion applied to adjust the calculated result.



Link to strategy	Grow profitably	Operate effectively	Grow profitably
Why it's important	<p>Economical is focused on growth over the next three to five years. An important component of that growth is revenue.</p> <p>Year-over-year growth in our core revenues (gross written premiums) is a key indicator of our progress towards our strategic growth goals.</p>	<p>The combined ratio is a key indicator of how efficiently our core business has performed in the current year, looking at the claims, adjustment and operating expenses as a percentage of our net earned premiums.</p>	<p>Net operating income incorporates expense management and is a key measure of our corporate performance and profitability overall.</p>
How we calculate it	<p>The increase or decrease in gross written premiums at the end of this year compared to the end of the last year, divided by total gross written premiums for the previous year. Gross written premiums represents the total premiums from the sale of insurance during a specified period.</p>	<p>Claims and adjustment expenses (not including discounting), commissions, operating expenses (net of other underwriting revenues) and premium taxes during the year, divided by net earned premiums¹ and expressed as a percentage.</p>	<p>Reported net income (or loss) before income taxes for the year, less demutualization costs and the impact of any recognized gains or losses from our non-matched investment portfolio.</p>

¹ Net earned premiums is defined in Section 14 of the Management's Discussion and Analysis included in our most recent Annual Report available online at www.economical.com.

Assessing individual performance

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

Performance highlights can be found on pages 24 – 25.

Medium-term incentive

The table below shows how we calculated the payout value of the medium-term incentives that were awarded as of January 1, 2014. These are expected to be paid out in cash in April 2017 based on our performance during the performance period of January 1, 2014 to December 31, 2016.

	2014 Award (\$)	Number of restricted units awarded	Number of performance units awarded × performance factor (see below)	Unit value at December 31, 2016 (\$) Total equity of \$1,834,000,000 / 100,000,000	Final payout (\$) Capped at 200% of the grant value	Final payout as a percentage of 2014 award
Philip Mather	309,000	7,858	8,828	18.03	300,841	97%
Tom Reikman	240,625	6,119	6,875	18.03	234,272	97%
Innes Dey	185,400	4,715	5,297	18.03	180,505	97%
Linda Goss	180,000	4,577	5,143	18.03	175,247	97%
Karen Gavan	871,000	22,149	24,884	18.03	848,003	97%

All of the restricted units vested.

The calculated performance factor for the performance units was 74.9%, based on our three-year return on equity ("ROE") compared to the ROE of our peers.

We use ROE for three reasons:

- it's a key driver of valuations of property and casualty insurance companies
- relative ROE measures our performance against a group of companies that are similar in scale and overall mix of business
- relative ROE is used by many of our peers, and comparable information is readily available.

The final payout was calculated using our unit value at December 31, 2016. We are a mutual company, so we do not use share price to determine the number of units awarded or the value of units that vest. Instead, we use a unit value calculated by dividing our book value (total equity from the consolidated balance sheet) by 100,000,000 to provide a reasonable book value per unit. The greater the increase in our total equity over the three-year period, the greater the unit price, directly linking the amount of the payout to the change in our book value.

2016 Compensation Details

Summary compensation table

Name and principal position	Year	Salary (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation (\$)			All other compensation ⁶ (\$)	Total compensation (\$)
					Annual incentive plans ² (\$)	Long-term incentive plans ⁴ (\$)	Pension value ⁵ (\$)		
Rowan Saunders President and CEO (as of November 1, 2016)	2016	163,077 ¹	n/a	n/a	0	0	43,100	1,000,000 ⁷	1,206,177
Philip Mather SVP and Chief Financial Officer	2016	425,000	n/a	n/a	46,750	300,841	73,198	89,674 ⁸	935,463
	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
Tom Reikman SVP and Chief Operating Officer	2016	330,000	n/a	n/a	33,000	234,272	54,450	58,924 ⁸	710,646
	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
Innes Dey SVP and Chief Strategy Officer	2016	340,000	n/a	n/a	28,560	180,505	54,191	76,924 ⁸	680,180
	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
Linda Goss SVP and Chief Actuary	2016	300,000	n/a	n/a	24,000	175,247	33,600	70,924 ⁸	603,771
	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
Karen Gavan Former President and CEO (until October 31, 2016)	2016	670,000	n/a	n/a	1,139,000 ³	848,003	384,100	47,944 ⁹	3,089,047
	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

¹ Mr. Saunders' 2016 salary represents the pro-rated amount for the partial year period commencing with his appointment as President and CEO on November 1, 2016 and ending on December 31, 2016.

² Cash bonus earned for each year under our short-term incentive plan. Typically paid out in March of the following year.

³ Ms. Gavan received a special transition bonus of \$1,005,000 in November 2016, after successfully completing her transition objectives.

⁴ Cash payout under our medium-term incentive plan. Awards are granted as of January 1 of each year and allocated to restricted and performance units. Payouts are typically made in April of the year following the end of a three-year performance period (see page 28 for details).

⁵ The compensatory value of our registered pension plans and supplementary plan (see pages 31 – 33 for details).

⁶ For 2016, other than the annual cash allowance described in footnotes 8 and 9, all other compensation does not include perquisites for any named executive because these amounts individually totalled less than \$50,000 or 10% of the salary of each named executive.

⁷ Mr. Saunders received a one-time signing bonus in connection with his appointment as President and CEO.

⁸ These amounts include the first installment of a one-time bonus granted to retain key senior executives as we transitioned to a new President and CEO. The first 10% of the bonus was paid in October 2016, shortly after the signing of new employment agreements between each senior executive and the Company, and the amounts paid were \$63,750, \$33,000, \$51,000 and \$45,000 to Messrs. Mather, Reikman and Dey, and Ms. Goss, respectively. The remaining 90% will be paid on November 1, 2018 (two years after the appointment of the new President and CEO), as long as the executive is still employed by the Company.

These amounts also include an annual cash allowance paid to the named executives in lieu of a perquisite program, in the amount of \$25,924 each to Messrs. Mather, Reikman and Dey, and Ms. Goss.

⁹ This amount represents an annual cash allowance paid to Ms. Gavan in lieu of a perquisite program.

Incentive Plan Awards

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

The table below shows the medium-term incentive awards that were outstanding on January 1, 2017. The medium-term incentive is awarded as restricted and performance units that vest and are paid out in cash.

We calculate the value of outstanding units by multiplying the number of units that will vest (assuming performance at threshold for performance units) by our book value on December 31, 2016, divided by 100,000,000.

Name	Date of award	Performance period	Medium-term incentive			
			Restricted units		Performance units	
			Number outstanding	Market value (\$)	Number outstanding	Market value (\$)
Rowan Saunders¹	November 2016	2016-2018	56,212	1,013,502	84,318	760,127
Philip Mather	January 2016	2016-2018	7,167	129,221	10,750	96,911
	January 2015	2015-2017	7,353	132,575	11,029	99,426
Tom Reikman	January 2016	2016-2018	5,565	100,337	8,347	75,248
	January 2015	2015-2017	5,889	106,179	8,834	79,639
Innes Dey	January 2016	2016-2018	5,734	103,384	8,600	77,529
	January 2015	2015-2017	4,412	79,548	6,617	59,652
Linda Goss	January 2016	2016-2018	4,047	72,967	6,071	54,730
	January 2015	2015-2017	4,283	77,222	6,425	57,921
Karen Gavan	January 2016	2016-2018	6,528	117,700	9,792	88,275
	January 2015	2015-2017	13,817	249,121	20,726	186,845

¹ Represents the replacement of a similar form of compensation that Mr. Saunders forfeited as a result of ceasing employment with his former employer and accepting a position with Economical.

Value earned for 2016

The table below shows:

- the short-term incentive earned for 2016 and paid out in March 2017 (see page 26 for details)
- the medium-term incentive paid out on vesting of restricted units and adjusted performance units that were awarded in January 2014. The performance period for these units ended in December 2016 and they are expected to be paid out in cash in April 2017 (see page 28 for details).

	Short-term incentive (\$)	Medium-term incentive		Non-equity incentive plan compensation value earned during the year (\$)
		Restricted units (\$)	Performance units (\$)	
Rowan Saunders	0	0	0	0
Philip Mather	46,750	141,672	159,169	347,591
Tom Reikman	33,000	110,323	123,948	267,272
Innes Dey	28,560	85,003	95,501	209,065
Linda Goss	24,000	82,528	92,720	199,247
Karen Gavan	134,000	399,342	448,661	1,987,003 ¹

¹ Includes a one-time transition award paid to Ms. Gavan in connection with her retirement (see footnote 3 to the summary compensation table on page 29).

Retirement Benefits

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

- Rowan Saunders participates in the defined benefit pension plan (“defined benefit plan”) and the supplementary pension plan (“supplementary plan”)
- Philip Mather, Tom Reikman, Innes Dey and Linda Goss participate in the defined contribution pension plan (“defined contribution plan”) and the supplementary plan
- Karen Gavan participated in the defined benefit plan and supplementary plan until December 31, 2016, and starting January 1, 2017 participates in the enhanced executive retirement benefits program

Defined benefit pension plan

We closed the defined benefit plan to new entrants in 2003. Mr. Saunders was added to the plan in November 2016 as part of the terms of his employment, and Ms. Gavan participated in the plan until December 31, 2016.

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

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

Supplementary plan

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

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

Defined benefit obligation

The table below shows:

- years of credited service at the end of 2016 for each named executive
- the estimated annual benefit payable under the defined benefit plan and the supplementary plan
- a reconciliation of the defined benefit obligation from December 31, 2015 to December 31, 2016, calculated using the same assumptions and methods used in our 2016 financial statements.

	Number of years of credited service	Annual benefits payable		Defined benefit obligation at start of 2016 (\$)	+ Compensatory change ² (\$)	+ Non-compensatory change ³ (\$)	Defined benefit obligation at end of 2016 (\$)
		At year end (\$)	At age 65 ¹ (\$)				
Rowan Saunders	0.167	3,200	251,000	—	43,100	7,300	50,400
Karen Gavan	5.528	133,800	133,800	1,526,100	384,100	(142,500)	1,767,700

¹ The information shown in this column was determined based on the final average earnings of the participant as at December 31, 2016 and years of credited service projected up to age 65 (assuming full-time employment) for Mr. Saunders. Ms. Gavan participated in the plan until December 31, 2016.

² Includes service cost (less employee contributions), plus differences between actual and estimated earnings and any other changes that had a retroactive impact.

³ Includes all items that are not compensatory, such as change in discount rate (decrease from 3.9% to 3.8%) and the impact of Ms. Gavan's change of employment status.

Defined contribution pension plan

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

How we calculate the employer contribution	<p>We contribute 8% of each year's pensionable earnings to the executive's defined contribution plan.</p> <p>Pensionable earnings are defined as each year's salary + short-term incentive (the actual bonus earned, or the target for the year — whichever is lower).</p> <p>Executives can also make voluntary contributions to an employee savings plan. We match these contributions dollar for dollar, contributing up to a maximum of 3.5% of salary to the executive's defined contribution plan.</p>
The amount of the benefit depends on age at retirement	<p>Retirement at age 62 or higher — the executive receives the total amount in the defined contribution plan, including interest.</p> <p>Retirement between 55 and 62 — the executive receives the amount in the defined contribution plan, including interest.</p> <p>In both scenarios, this amount must be transferred to a locked-in account, as specified by the plan.</p>
What happens when the participant dies	<p>If the participant is single at retirement, his or her beneficiary will receive the total amount in the defined contribution plan, including interest, in a lump sum.</p> <p>If the participant has a spouse at retirement, the spouse will receive the total amount in the defined contribution plan, including interest, in a lump sum or as a transfer to his or her registered retirement savings plan ("RRSP").</p>

Supplementary plan

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

The balance in the notional account earns an investment return and accumulates tax-free (similar to a RRSP). When the executive leaves the Company, retires or dies, the full value of his or her notional account is paid out and is fully taxable at that time.

Defined contribution obligation

The table below shows:

- the value of each executive's defined contribution plan and notional account as of January 1, 2016
- contributions we made to their defined contribution plan and notional account in 2016 (the compensatory change)
- the accumulated value of our contributions plus the value of the notional account (with interest) at December 31, 2016

	Accumulated value at start of year (\$)	Compensatory change (\$)	Accumulated value at year end (\$)
Philip Mather	295,730	73,198	384,966
Tom Reikman	73,713	54,450	134,898
Innes Dey	200,213	54,191	265,399
Linda Goss	497,255	33,600	558,980

Enhanced executive retirement benefits program

Ms. Gavan's regular employee benefits ended on December 31, 2016, and as of January 1, 2017 she started receiving enhanced benefits coverage as a retiree under a closed program approved by the Board. Economical's estimated total aggregate lifetime cost for this coverage is \$206,000.

Termination and Change of Control

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

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

How we define change of control

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

Payouts are double-trigger

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

Double trigger for Innes Dey can also mean his termination within 18 months of the appointment of a new CEO, whether or not there is a change of control.

The table on the following page shows the payments we'll make to the named executives when employment is terminated or there is a change in control of the Company. These terms are either specified in each executive's employment agreement, or defined by the terms of the variable compensation plans or pension plans. If a term isn't specified, it is determined by common law.

Confidentiality and restrictive covenants

Confidentiality

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

Non-competition

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

Non-solicitation

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

Summary of termination and change of control provisions

	Retirement	Voluntary resignation ¹	Death
Severance	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> Any salary that was scheduled to be paid in the two month² resignation notice period Vacation pay 	<ul style="list-style-type: none"> Outstanding salary Vacation pay Statutory termination notice and severance pay entitlements (if they apply) Payments owing under the terms of the individual's STIP or MTIP plan (if any)
Short-term incentive	<ul style="list-style-type: none"> Forfeited 	<ul style="list-style-type: none"> Any award that was scheduled to be paid during the two month² resignation notice period 	<ul style="list-style-type: none"> Pro-rated
Medium-term incentive	<ul style="list-style-type: none"> Vests at the end of the performance period The number of units that vest is prorated to the date of retirement Payout is based on performance (as determined by the Committee) 	<ul style="list-style-type: none"> Any award that was scheduled to be paid during the two month² resignation notice period 	<ul style="list-style-type: none"> Vesting is accelerated to the date of death The number of units that vest is prorated to the date of death
Pension	<ul style="list-style-type: none"> Accrued pension 	<ul style="list-style-type: none"> Continued participation in the Company's pension plan during the two month² resignation notice period Funds accumulated in the individual's supplementary pension account 	<p>Rowan Saunders:</p> <ul style="list-style-type: none"> Accrued pension paid in monthly payments or as a lump sum (see page 31 for details) <p>All other named executives:</p> <ul style="list-style-type: none"> Accrued pension paid as a lump sum (see page 32 for details) Any funds accumulated in the individual's supplementary pension account
All other compensation	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> Perquisites and any retention bonus (if applicable) that was scheduled to be paid in the two month² resignation notice period Continuation of any Company-subsidized benefits plans for the two month² notice period 	<ul style="list-style-type: none"> Outstanding perquisite payments Coverage under Company-subsidized benefits plans ends on the date of termination or as specified by the terms of the benefits plan (whichever is earlier) Any unpaid retention bonus (if applicable)

¹ In the event Mr. Saunders voluntarily resigns within three years after his first day at Economical, he must repay the Company the after tax amount of his signing bonus of \$1,000,000 and the after tax amount of any payments made to him under the MTIP grant awarded in November 2016 (see "Incentive plan awards" on page 30 for details).

² Mr. Saunders' resignation notice period is three months.

	Disability	Termination for just cause	Termination without cause ³	Termination without cause after change of control ⁴
	<ul style="list-style-type: none"> Outstanding salary Vacation pay Statutory termination notice and severance pay entitlements (if they apply) Payments owing under the terms of the individual's STIP or MTIP plan (if any) 	<ul style="list-style-type: none"> Outstanding salary Vacation pay 	<ul style="list-style-type: none"> Outstanding salary Vacation pay A severance payment equal to an amount that represents between 12 to 24 months of the named executive's monthly salary plus pro-rated, monthly STIP entitlement valued at target 	<ul style="list-style-type: none"> Outstanding salary Vacation pay 18-24 months of salary (highest salary at any time during the 36 months before the termination) 18-24 months of short-term incentive valued at target
	<ul style="list-style-type: none"> Pro-rated 	<ul style="list-style-type: none"> Forfeited 	<ul style="list-style-type: none"> Any unpaid award that was earned for the most recently completed fiscal year The award for the year of termination calculated at target but pro-rated for the number of completed months of employment prior to termination 	<ul style="list-style-type: none"> Target award, prorated for number of complete months in the fiscal year of the termination up to the termination date
	<ul style="list-style-type: none"> Vesting is accelerated to the date of disability The number of units that vest is prorated to the date of disability 	<ul style="list-style-type: none"> Forfeited 	<p>Rowan Saunders:</p> <ul style="list-style-type: none"> Units granted in 2016 vest immediately and are settled according to the terms of the plan <p>All other named executives:</p> <ul style="list-style-type: none"> Payment in respect of any units that have vested but are not yet paid out All other units forfeited 	<ul style="list-style-type: none"> Units vest immediately, as though all performance conditions have been met (unless the Committee determines otherwise) <p>Innes Dey (following a change of CEO only):⁵</p> <ul style="list-style-type: none"> Similar to retirement, units vest at end of the performance period The number of units that vest is prorated to the date of termination Payment is based on performance (as determined by the Committee)
	<ul style="list-style-type: none"> Accrued pension Any funds accumulated in the individual's supplementary pension account 	<ul style="list-style-type: none"> Any funds accumulated in the individual's supplementary pension account 	<ul style="list-style-type: none"> Any funds accumulated in the individual's supplementary pension account A lump sum payment equal to 15% of the severance payment amount in lieu of future contributions to the named executive's pension and benefit plans 	<ul style="list-style-type: none"> Any unvested Company contributions to pension vest immediately, but otherwise contributions to pension and long-term disability benefits end Any funds accumulated in the individual's supplementary pension account A lump sum payment equal to 15% of the severance payment amount in lieu of future contributions to the named executive's pension and benefits plans
	<ul style="list-style-type: none"> Outstanding perquisite payments Coverage under Company-subsidized benefits plans ends on the date of termination or as specified by the terms of the benefits plan (whichever is earlier) Any unpaid retention bonus (if applicable) 	<ul style="list-style-type: none"> Outstanding perquisite payments 	<ul style="list-style-type: none"> Continued participation in all benefit plans, perquisites and pension plan for the statutory notice period Any unpaid retention bonus (if applicable) \$10,000 of professional outplacement services 	<p>Rowan Saunders:</p> <ul style="list-style-type: none"> If the termination occurs within five years of his first day at Economical, \$1,000,000 per full year (pro-rated for partial years) remaining in such five year period Continued participation in all benefit plans and pension plan for the statutory notice period \$10,000 of professional outplacement services <p>All other named executives:</p> <ul style="list-style-type: none"> Regular employee benefits for up to 12 months or until the executive retires or is employed full-time and eligible to participate in a group insurance plan similar to ours or a lump sum equal to our total cost (without discount or present valuation) of regular employee benefits for 12 months \$10,000 of professional outplacement services Any unpaid retention bonus (if applicable)

³ These termination benefits would also be payable to Mr. Dey if he is compelled to resign in accordance with his professional obligations under the Law Society of Upper Canada's *Rules of Professional Conduct*.

⁴ Includes a named executive terminating his or her own employment for *good reason* (as defined in the relevant agreements), and for Mr. Dey only, also includes a termination without cause or compelled resignation (as described in footnote 3) after the appointment of a new CEO. In the event of a termination without cause after a change of control, the named executive has the choice of receiving his or her entitlement under *Termination without cause* or *Termination without cause after change of control* (whichever is higher). If Mr. Dey chooses to receive his entitlement under *Termination without cause*, he forfeits the \$10,000 benefit for professional outplacement services.

⁵ In the event of a termination without cause following a change of CEO, Mr. Dey has the choice of receiving his entitlement pursuant to the terms applicable to *Termination without cause after change of control* only, or pursuant to the terms applicable to *Termination without cause following a change of CEO*, with such terms being substantially similar except as noted with respect to the differing treatment of his medium-term incentive entitlement.

Estimated payments on termination or change of control

The table below shows the estimated incremental payments or benefits that would have been paid to each named executive if they had been terminated on December 31, 2016 (retirement, with cause/resignation, without cause, and without cause after change of control). Amounts are before deducting any withholding taxes.

		Retirement (\$)	Termination with cause/resignation (\$)	Termination without cause (\$)	Termination without cause after change of control (\$)
Rowan Saunders	Severance	–	–	3,200,000	3,200,000
	Short-term incentive	–	–	–	–
	Medium-term incentive	–	–	2,500,000	2,500,000
	Annual pension benefit	–	–	–	–
	All other compensation ¹	–	–	490,000	5,456,667
	Total	–	–	6,190,000	11,156,667
Philip Mather	Severance	–	–	1,062,500	1,062,500
	Short-term incentive	46,750	–	46,750	46,750
	Medium-term incentive	328,634	–	–	654,476
	Annual pension benefit	–	–	–	–
	All other compensation ¹	–	–	743,125	743,125
	Total	375,384	–	1,852,375	2,506,851
Tom Reikman	Severance	–	–	495,000	742,500
	Short-term incentive	33,000	–	33,000	33,000
	Medium-term incentive	260,588	–	–	516,301
	Annual pension benefit	–	–	–	–
	All other compensation ¹	–	–	381,250	418,375
	Total	293,588	–	909,250	1,710,176
Innes Dey	Severance	–	–	476,000	714,000
	Short-term incentive	28,560	–	28,560	28,560
	Medium-term incentive	218,717	–	–	457,296
	Annual pension	–	–	–	–
	All other compensation ¹	–	–	540,400	576,100
	Total	247,277	–	1,044,960	1,775,956
Linda Goss	Severance	–	–	630,000	630,000
	Short-term incentive	24,000	–	24,000	24,000
	Medium-term incentive	189,519	–	–	375,492
	Annual pension	–	–	–	–
	All other compensation ¹	–	–	509,500	509,500
	Total	213,519	–	1,163,500	1,538,992

¹ Includes the maximum allowable for outplacement services and regular health benefits.

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

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, 2016, and these documents are also accessible through our website.

To obtain a copy of these documents together with our Annual Report at no cost (subject to availability), please contact 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.



ROWAN SAUNDERS
President and CEO
Waterloo, Ontario
April 10, 2017

APPENDIX "A" – STATEMENT OF CORPORATE GOVERNANCE PRACTICES

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

Throughout this statement, references to documents and information available on our website can be found at www.economical.com. In addition, any information located on the website is available in print to any of our mutual policyholders upon request to our Corporate Secretary at the address set out on page i of our 2017 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 website that are maintained by an independent third party. Employees can use any of those channels to anonymously and confidentially report any accounting or auditing concern, suspected fraudulent activity or breach of our Code of Conduct. If employees prefer, they can refer concerns to their leader or departmental manager. Our ethics reporting program has processes in place to protect employees who report an incident in good faith or participate in the investigation of a report.

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

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

In addition, the Audit Committee is responsible for monitoring compliance with the Code of Conduct in relation to concerns or complaints relating to 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 Board Chair.

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

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

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

Board of Directors

Independence

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

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

Based on information provided by our directors as to their personal circumstances and the applicable legal tests, a majority of our Board members serving during 2016 were independent directors. The Board has determined that, of the ten active directors listed in the Circular, only Rowan Saunders (and Karen Gavan, prior to her retirement) is not considered to be independent by virtue of his position as Economical's President and CEO. The other three director nominees presented for election at the Annual Meeting of mutual policyholders of Economical scheduled for May 8, 2017 (the "Meeting") (John Bowey (Board Chair), Elizabeth DelBianco, and Barbara Fraser), as well as the other remaining directors (Daniel Fortin, Gerald Hooper, David Wilson, Dick Freeborough, Micheál Kelly, and Michael Stramaglia), have all been determined to be independent directors.

Certain directors serve on the boards of other public companies in Canada. Information regarding those directorships appears in each director's biography on pages 7 – 11 of the Circular.

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. 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. A copy of each standing committee's mandate is available on our website.

Audit Committee

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

- overseeing the integrity of our financial statements, financial reporting process, and control environment;
- reviewing our annual and interim financial statements, annual management's discussion and analysis ("MD&A"), 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.

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 their director biographies on pages 7 – 11 of the Circular.

The Audit Committee has adopted policies and procedures for the pre-approval of services performed for us by our external auditors, the objective of which is to support the independence of our external auditors. See page 4 of the Circular under the heading "Pre-approval policies and procedures".

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. If elected at the Meeting, we intend to re-appoint Ms. DelBianco and Fraser to the Human Resources and Compensation 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 Human Resources and Compensation Committee with respect to, among other things:

- recommending to the Board the compensation paid to our President and CEO and, after obtaining the recommendation of the President and CEO, approving the compensation paid to other members of senior Management;
- reviewing retention, development, and succession plans for senior Management;
- approving the adoption of, or amendments to, incentive compensation plans and grants or awards under such plans, subject to shareholder or Board approval, as appropriate;
- approving the “Statement of executive compensation” section of our Management 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), Rowan Saunders, Michael Stramaglia and David Wilson, each of whom is an independent director other than Rowan Saunders, our President and CEO. If elected at the Meeting, we intend to re-appoint Mr. Saunders 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 Ms. Fraser, Ms. DelBianco, and Mr. Bowey 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 Management 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), Dick Freeborough, Daniel Fortin and Gerald Hooper, each of whom is an independent director. 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 Management’s assessment of compliance with approved risk management policies and policies, practices and controls related to the Company’s capital structure;
- the review of the annual report on the Company’s financial condition and periodic stress testing;
- the review of the Company’s own risk solvency assessment;

- the effectiveness of the Company's enterprise-wide regulatory compliance management program and framework; and
- the review and monitoring of the Company's capital management plan to support continued solvency based upon both regulatory requirements and its own assessment of the Company's risk profile.

Board and Committee Meetings

The Board meets regularly to review our business operations and financial results. In addition to meeting in relation to annual and quarterly financial results, the Board meets to approve non-financial disclosure documents (such as the Circular) and during the fourth quarter as part of our business and strategic planning process. Special meetings are called as necessary, the frequency and nature of which depend on the circumstances and the particular opportunities or risks 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 Board Chair is responsible for the management, development and effective performance of the Board, and for providing leadership to the Board in carrying out its duties. The current Board Chair is John Bowey, an independent director. The Chair's specific responsibilities include:

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

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

Directors are generally expected to possess appropriate knowledge of 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 page 13 of the Circular.

The Human Resources and Compensation Committee, composed entirely of independent directors, is responsible for making recommendations to the Board regarding the employment terms of our President and CEO, and for reviewing and approving the recommendations of the President and CEO regarding the compensation of our other executive officers. The Human Resources and Compensation Committee is also responsible for reviewing and making recommendations to the Board regarding awards under our short- and medium-term incentive plans. The Human Resources and Compensation Committee meets *in camera* to discuss the base salary, annual incentives, and other compensation awarded to our President and CEO.

See “Human Resources and Compensation Committee” on page 40 for more information about that committee. Details of executive compensation and our compensation consulting arrangements are disclosed on pages 15 — 36 of the Circular.

Nomination of Directors

Director nominations

The responsibilities of the Corporate Governance Committee, which is composed entirely of independent directors, include serving as our nominating committee for new directors. It recommends nominees for election at our annual meeting to the Board and also new candidates for Board membership as the need arises. We do not have a formal retirement policy or specific term limits for our directors, but expect that they will serve only so long as they are able to dedicate the time, energy and resources necessary to make a meaningful contribution to the Board, which are factors we consider during our annual assessment of board effectiveness. The intended initial term for our Board Chair is five years, with eligibility for further three year terms, subject to review in advance of renewal.

Candidates for nomination as director come to the attention of the Corporate Governance Committee from time to time through incumbent directors, Management, or third parties and may be considered at meetings of the committee at any point during the year. If the committee believes at any time that the Board requires additional candidates for nomination, it may poll directors and Management for suggestions or conduct research to identify possible qualified candidates either directly or through 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 fulfill his or her duties effectively; and, where required, financial literacy. Candidates are also screened for conflicts of interest and material relationships that could impact his or her independence. In addition, the composition of the Board must meet residency and affiliation requirements specified by applicable laws and regulations.

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.

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 two women directors appointed to the Board, resulting in the Board’s current composition of 20% women.

The Board has adopted a written board diversity policy relating to multiple dimensions of diversity, over and above the identification and nomination of women directors. The objective of the policy is to promote better corporate governance by enabling the Board to deliberate with broader perspectives and deeper insight. Under the policy, when identifying candidates to recommend for election to the Board, the Corporate Governance Committee will give consideration to diversity factors such as gender, age and ethnicity, along with business experience, functional expertise, personal skills, and integrity, taking into account the level of diversity currently on the Board. In addition, the Corporate Governance Committee may engage a qualified independent external advisor to conduct a search for candidates that meet our diversity factors. Every year, the Corporate Governance Committee assesses the effectiveness of the Board diversity policy by considering the extent to which its objectives have been met and making such recommendations to the Board as it deems necessary or appropriate, and the committee believes that the objectives of the policy are currently being met. In adopting the board diversity policy, the Corporate Governance Committee and the Board considered the utility of diversity targets (such as a target regarding women on the Board) and determined not to do so, on the basis that it would not be desirable to quantify specific targets given the broad mix of diversity factors to be considered and the relatively small size of our Board.

The Corporate Governance Committee and Board also considered the appropriateness of establishing fixed term limits 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 three new directors, or 30% of the Board's current composition, having been first appointed in the past three 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" on page 43.

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

Management Diversity

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

We believe that diversity is a key driver in contributing to our success, and we actively promote a culture of inclusion and collaboration. In September 2016, we launched our first Diversity and Inclusion Think Tank where participants worked together to lay the foundation for Economical's diversity and inclusion strategy. The strategy is expected to be deployed in 2017.

We have a strategic commitment to developing a gender-diverse talent pool and consider the level of representation of women in executive officer positions when making executive officer appointments, by considering factors such as gender along with business experience, functional expertise, personal skills and integrity. As at December 31, 2016, women represented 64% of our overall workforce, including 39% of our executives, 48% of our other Management roles, and 62% of our other supervisory roles. Given the broad range of diversity dimensions and our active promotion of a culture of inclusion and collaboration, we have not established diversity targets concerning executive positions.

Orientation and Continuing Education

The Corporate Governance Committee has established an orientation program for new directors, which includes information on the role of the Board, its committees and individual directors, as well as relevant company and industry information. Each new director 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 senior Management.

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

Board and Director Evaluation

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

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

CELEBRATING

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YEARS



HEAD OFFICE

111 Westmount Road South
P.O. Box 2000, Waterloo, ON N2J 4S4
T 519 570 8500 F 519 570 8389

economical.com