

**ECHELON FINANCIAL HOLDINGS INC.**

**NOTICE OF  
ANNUAL GENERAL MEETING  
OF SHAREHOLDERS  
TO BE HELD ON  
MAY 9, 2017**

**AND**

**MANAGEMENT INFORMATION CIRCULAR**



# ECHELON FINANCIAL HOLDINGS INC.

## Notice of Annual General Meeting of Shareholders May 9, 2017

Notice is hereby given that the annual general meeting of the holders of common shares of Echelon Financial Holdings Inc. (the "Corporation") will be held at the St. Andrew's Club, 150 King Street West, 27<sup>th</sup> Floor, Toronto, Ontario, on May 9, 2017, at 9:00 a.m. (Toronto time) for the following purposes:

1. to receive the Corporation's Annual Report which contains the audited consolidated financial statements as at and for the financial year ended December 31, 2016, and the auditors' report thereon;
2. to elect directors;
3. to re-appoint auditors and to authorize the Board of Directors to fix their remuneration;
4. to transact such other business as may properly come before the meeting or any adjournment thereof.

The specific details of the foregoing matters to be put before the meeting are set forth in the Management Information Circular accompanying this Notice of Meeting.

Shareholders are invited to attend the meeting. *Registered shareholders* who are unable to attend the meeting in person are requested to complete, date and sign the enclosed form of proxy and send it in the enclosed envelope or otherwise to the Secretary of the Corporation c/o Computershare Investor Services Inc., 8<sup>th</sup> Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1, telephone number 1-800-564-6253, fax number 1-866-249-7775 or 416-263-9524 or to the Secretary of the Corporation at the Corporation's registered office, which is located at 2680 Matheson Blvd. East, Suite 300, Mississauga, Ontario, L4W 0A5, fax number 905-214-8028. *Non-registered shareholders* who receive these materials through their broker or other intermediary should complete and send the voting instruction form in accordance with the instructions provided by their broker or intermediary. To be effective, a proxy must be received by Computershare Investor Services Inc. or the Secretary of the Corporation not later than 9:00 a.m. (Toronto time) on May 5, 2017, or in the case of any adjournment of the meeting, not less than 48 hours, Saturdays, Sundays and holidays excepted, prior to the time of the adjournment.

DATED the 10th day of March, 2017.

By Order of the Board of Directors

(Signed) Alvin Sharma  
Secretary

# ECHELON FINANCIAL HOLDINGS INC.

## Management Information Circular for the Annual General Meeting of Shareholders May 9, 2017

### VOTING INFORMATION FOR PROXIES

#### *Solicitation of Proxies*

This Management Information Circular (the “Circular”) is furnished in connection with the solicitation, by or on behalf of the management of Echelon Financial Holdings Inc. (the “Corporation”), of proxies to be used at the Corporation’s annual general meeting of the holders of common shares (the “Common Shares”) to be held on Tuesday, May 9, 2017, (the “Meeting”) or at any adjournment thereof. It is expected that the solicitation will be primarily by mail, but proxies may also be solicited personally, by advertisement or by telephone, by directors, officers or employees of the Corporation without special compensation, or by the Corporation’s transfer agent, Computershare Investor Services Inc., at nominal cost. The cost of soliciting will be borne by the Corporation.

#### *Appointment of Proxyholder*

The person(s) designated by management of the Corporation in the enclosed form of proxy are directors or officers of the Corporation. **Each shareholder has the right to appoint as proxyholder a person or company (who need not be a shareholder of the Corporation) other than the person(s) or company(ies) designated by management of the Corporation in the enclosed form of proxy to attend and act on the shareholder’s behalf at the Meeting or at any adjournment thereof.** Such right may be exercised by inserting the name of the person or company in the blank space provided on the enclosed form of proxy or by completing another form of proxy.

In the case of *registered shareholders*, the completed, dated and signed form of proxy should be sent in the enclosed envelope or otherwise to the Secretary of the Corporation, c/o Computershare Investor Services Inc., 8<sup>th</sup> Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1, telephone number 1-800-564-6253, fax number 866-249-7775 or 416-263-9524, or to the Secretary of the Corporation at the Corporation’s registered office, which is located at 2680 Matheson Blvd. East, Suite 300, Mississauga, Ontario, L4W 0A5, fax number 905-214-8028. In the case of *non-registered shareholders* who receive these materials through their broker or other intermediary, the shareholder should complete and send the voting instruction form in accordance with the instructions provided by their broker or other intermediary. To be effective, a proxy must be received by Computershare Investor Services Inc. or the Secretary of the Corporation not later than 9:00 a.m. (Toronto time) on May 5, 2017, or in the case of any adjournment of the Meeting, not less than 48 hours, Saturdays, Sundays and holidays excepted, prior to the time of the adjournment.

#### **Revocation of Proxy**

A shareholder who has given a proxy may revoke it by depositing an instrument in writing signed by the shareholder or by the shareholder’s attorney, who is authorized in writing, at the registered office of the Corporation at any time up to and including the last business day preceding the day of the Meeting, or in the case of any adjournment of the Meeting, the last business day preceding the day of the adjournment, or with the Chair of the Meeting on the day of, and prior to the start of, the Meeting or any adjournment thereof. A shareholder may also revoke a proxy in any other manner permitted by law.

#### **Voting of Proxies**

On any ballot that may be called for, the Common Shares represented by a properly executed proxy given in favour of the person(s) designated by management of the Corporation in the enclosed form of proxy will be voted or withheld from voting in accordance with the instructions given on the ballot, and if the shareholder specifies a choice with respect to any matter to be acted upon, the Common Shares will be voted accordingly.

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments to matters identified in the accompanying Notice of Meeting and with respect to other matters which may properly come before the Meeting or any adjournment thereof. As of the date of this Circular, management of the Corporation is not aware of any such amendment or other matter to come before the Meeting. However, if any amendments to matters identified in the accompanying Notice of Meeting or any other matters which are not now known to management should properly come before the Meeting or any adjournment thereof, the Common Shares represented by properly executed proxies given in favour of the person(s) designated by management of the Corporation in the enclosed form of proxy will be voted on such matters pursuant to such discretionary authority.

## VOTING SHARES

### *Voting Shares*

As at March 10, 2017, the Corporation had 11,804,778 Common Shares outstanding, each carrying the right to one vote per share. Except as otherwise noted in this Circular, a simple majority of the votes cast at the Meeting, whether in person, by proxy or otherwise, will constitute approval of any matter submitted to a vote.

### *Record Date*

The Board of Directors has fixed March 27, 2017, as the record date for the purpose of determining holders of Common Shares entitled to receive notice of and to vote at the Meeting. Any holder of Common Shares of record at the close of business on the record date is entitled to vote the Common Shares registered in such shareholder's name at that date on each matter to be acted upon at the Meeting.

### *Principal Shareholders*

To the knowledge of the directors and executive officers of the Corporation, as at March 10, 2017, no person beneficially owned, or controls or directs, directly or indirectly, more than 10% of the voting rights attached to the outstanding Common Shares of the Corporation except as stated below.

<b>Name</b>	<b>Aggregate Number of Common Shares</b>	<b>Percentage of Outstanding Common Shares</b>
The Co-operators Group Limited and affiliates	2,027,912	17.2%
EdgePoint Investment Group Inc.	3,573,987	30.3%
Cambridge Global Asset Management	1,192,950	10.1%
Foyston, Gordon & Payne Inc.	1,175,986	10.0%

## GENERAL INFORMATION

### *Financial Statements and Auditor's Report*

A copy of the Corporation's 2016 Annual Report is being sent to shareholders who have requested it, and includes the consolidated financial statements of the Corporation for the year ended December 31, 2016, together with the auditor's report thereon, and Management's Discussion and Analysis of the financial position and results of operations. This Annual Report is also available in the Financial Reports section of the Corporation's web site [echeloninsurance.ca](http://echeloninsurance.ca) and on SEDAR ([www.sedar.com](http://www.sedar.com)). No vote will be taken at the Meeting in respect of the Corporation's 2016 Annual Report.

### *Currency and Timing of Information*

Unless indicated otherwise, all amounts are in Canadian dollars.

Unless otherwise indicated, the information contained in the Circular is given as of March 10, 2017.

## MATTERS TO BE ACTED UPON AT MEETING

### **1. Election of Directors**

The number of directors to be elected at the Meeting is nine (9). Under the by-laws of the Corporation, directors of the Corporation are elected annually. Each director will hold office until the next annual meeting or until the successor of such director is duly elected or appointed, unless such office is earlier vacated in accordance with the by-laws.

**In the absence of a contrary instruction, the person(s) designated by management of the Corporation in the enclosed form of proxy intend to VOTE FOR the election as directors of the proposed nominees whose names are set forth below, each of whom has been a director since the date indicated below opposite the proposed nominee's name.** Management does not contemplate that any of the proposed nominees will be unable to serve as a director, but if that should occur for any reason prior to the Meeting, the Common Shares represented by properly executed proxies given in favour of such nominee(s) may be voted by the person(s) designated by management of the Corporation in the enclosed form of proxy, in their discretion, in favour of another nominee.

In August 2015, on the recommendation of the Governance Committee, the Board adopted a Majority Voting policy. The policy requires that in an uncontested election of directors, if any director nominee has more votes withheld than voted in favour of that director nominee the nominee will immediately tender their resignation, effective on acceptance by the Board, to the Governance Committee. Within 60 days of receiving the tendered resignation the Governance Committee will consider the tendered resignation and make a recommendation to the Board on whether the resignation should be accepted. In considering the tendered resignation the Governance Committee will consider all relevant factors including (i) the reasons, if known, why shareholders “withheld” or were requested to “withhold” votes from the director; (ii) the director’s history of service and contribution to the Corporation; (iii) the nominee’s qualifications and skills; (iv) the current mix of director skills and attributes on the Board, and (v) legal requirements, policies or guidelines (regulatory, securities or corporate laws or stock exchange rules) for director numbers and qualifications. Within 90 days of receiving the tendered resignation the Board will decide whether to accept or reject the tendered resignation and will announce its decision and the reasons for the decision in a press release. If the Board accepts the resignation, the Governance Committee will make recommendations to the Board on whether the vacancy should be filled and, subject to legal restrictions, when and how the vacancy should be filled.

Four present board members, Peter Crawford, Ani Hotoyan-Joly, Angus Ross and Robert Purves, will retire from the board in 2017.

The following table sets forth information with respect to each person nominated for election as a director, including the number of Common Shares of the Corporation beneficially owned, or controlled or directed, directly or indirectly, by such person or the person’s associates or affiliates as at March 10, 2017. Also included below are Deferred Share Units (DSUs) held by each Director. Common Shares and DSUs count toward their achievement of the share ownership guidelines for Directors described on page 21. The information as to shares beneficially owned or controlled or directed, not being within the knowledge of the Corporation, has been furnished by the respective proposed nominees individually.

<b>Nominee Name and Place of Residence</b>	<b>Principal Occupation</b>	<b>Director Since</b>	<b>Common Shares</b>	<b>DSUs</b>
Daniel Courtemanche Ontario, Canada	Retired, former President & CEO, Glenstone Capital/GCAN Insurance Company (insurance)	–	Nil	Nil
James Falle Ontario, Canada	Retired, former Executive VP & CFO, Aviva Canada Inc. (insurance)	–	Nil	Nil
Serge Lavoie Quebec, Canada	President and Chief Executive Officer of Echelon Insurance	May 2016	61,944	Nil
Andrew Pastor <sup>(2) (3)</sup> Ontario, Canada	Portfolio Manager, EdgePoint Investment Group Inc., (investment)	May 2016	Nil	4,213
Sharon Ranson <sup>(1) (3)</sup> Ontario, Canada	President, The Ranson Group Inc. (consulting)	May 2016	Nil	4,213
Brian Reeve <sup>(2) (3)</sup> Ontario, Canada	Partner, Financial Services Group and the Corporate and Regulatory Insurance Group, Cassels Brock & Blackwell LLP (law firm)	December 2015	80,000	Nil
David Thomson Ontario, Canada	Retired, former Partner, KPMG (financial services audit practice)	–	5,000	Nil
Gary Quon Ontario, Canada	Retired, former Chief Corporate Development Officer, Northbridge Financial Corporation (insurance)	–	Nil	Nil
Murray Wallace <sup>(1)</sup> Ontario, Canada	Executive Chairman, Financial Horizons Group (insurance)	December 2015	35,000	6,436

- (1) Member of Audit and Risk Committee.
- (2) Member of Governance Committee.
- (3) Member of Investment Committee.

All nominees have held their present principal occupations as set out above during the past five years except for:

On May 5, 2016 Serge Lavoie was appointed President and CEO of the Corporation. Mr. Lavoie is also President and Chief Executive Officer of Echelon Insurance, which position he has held since December 1, 2015. Between May 2014 and November 13, 2015 Mr. Lavoie was a director of the Corporation. Mr. Lavoie served as President, GDI Integrated Facility Services Inc. from 2012 to November 2015. Between 2006 and 2012 Mr. Lavoie was the President and Chief Executive Officer of Jevco Insurance Company.

Dan Courtemanche retired as President and Chief Executive Officer of GCAN Insurance Company in 2011. He would be an Independent Director as defined in National Instrument 58-101 – *Disclosure of Corporate Governance Practices*.

James Falle, FCPA, FCA, retired as Executive Vice President and Chief Financial Officer of Aviva Canada Inc. in 2016. He is director and chair of the Audit Committee of KEWA Financial Inc., a member of the Audit Committee of the Canadian Real Estate Association and a member of the Independent Review Committee for BMO Mutual Funds. He is former a board director of Victoria Reinsurance Company and Transamerica Life Insurance Company of Canada. He obtained his ICD.D designation in 2015. He would be an Independent Director as defined in National Instrument 58-101 – *Disclosure of Corporate Governance Practices*.

Gary Quon retired as Chief Corporate Development Officer of Northbridge Financial Corporation in 2013. He is a former board director of the Facility Association and Progressive Casualty Insurance Company of Canada. He would be an Independent Director as defined in National Instrument 58-101 – *Disclosure of Corporate Governance Practices*.

David Thomson, CA, FCPA FCA retired from KPMG's Financial Services Audit Practice in January 2017. He is a former member of the OSFI Insurance Auditors Advisory Committee. He obtained his ICD.D designation in 2016. He would be an Independent Director as defined in National Instrument 58-101 – *Disclosure of Corporate Governance Practices*.

*(Note: Five year employment history is not included for incumbent directors for whom there has been no change since the last circular.)*

No director nominee is, or has been within the proceeding 10 years, a director, chief executive officer or chief financial officer of any company that,

- a) Was the subject of an order that was issued while the nominee was acting in the capacity as director, chief executive officer or chief financial officer;
- b) Was subject to an order that was issued after the nominee ceased to be a director, chief executive officer or chief financial officer;
- c) While the nominee was acting in that capacity or within in a year of that person 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;

No director nominee has within the preceding 10 years become 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 their assets.

No director nominee has been subject to any penalties or sanctions imposed by a court relating securities legislation or by a securities regulatory authority or by court or other regulatory body that would likely be considered important to a reasonable security holder deciding whether to vote for the nominee.

The foregoing information has been furnished by the respective nominees.

### **Arrangements for Election of Directors**

Pursuant to an agreement dated December 2, 2015, between Aegis Financial Corporation, Boeckh Investments Inc., Broadview Capital Management Inc., Lee Matheson and Murray Wallace, then holding in aggregate approximately 8% of the Corporation's shares, (the "Shareholder Group") and the Corporation, the Corporation agreed (i) to take any and all steps necessary and advisable to nominate a slate of 8 or 9 directors that included Brian Reeve and Murray Wallace (the "Nominees"), with a term expiring at the end of the annual meeting of Shareholders to be held in 2018, and (ii) to recommend to the Shareholders that such Shareholders vote in favour of the election of these Nominees and to solicit proxies from Shareholders in respect thereof; and (iii) to the extent permissible and subject to compliance with applicable law, cause all proxies received by the Corporation to be voted in a manner to give effect to the above. The Shareholder Group agreed to vote (or cause to be voted) all of the Common Shares they beneficially own or exercise control and direction over as of the record date for this Meeting in favour of the persons nominated to the Board in accordance with clause (i) above.

## 2. Re-appointment of Independent Auditors

PricewaterhouseCoopers LLP are the current auditors of the Corporation. At the Meeting, the holders of Common Shares will be requested to re-appoint PricewaterhouseCoopers LLP as auditors of the Corporation to hold office until the next annual meeting of shareholders or until a successor is appointed, and to authorize the Board of Directors to fix the auditors' remuneration.

<b>Auditor Fees (\$)</b>	<b>2016</b>	<b>2015</b>
Audit fees	796,000	831,000
Audit-related fees	–	–
Tax fees	70,000	35,000
All other fees	29,000	23,000

In the absence of a contrary instruction, the person(s) designated by management of the Corporation in the enclosed form of proxy intend to **VOTE FOR** the re-appointment of PricewaterhouseCoopers LLP as auditors of the Corporation to hold office until the next annual meeting of shareholders or until a successor is appointed and the authorization of the Board of Directors to fix the remuneration of the auditors.

## EXECUTIVE COMPENSATION

### **COMPENSATION DISCUSSION AND ANALYSIS**

This discussion addresses the Corporation's compensation philosophy, objectives and policies applicable to the employees of the Corporation and the executive officers named in the Summary Compensation table below, otherwise referred to as the Corporation's "Named Executive Officers" or "NEOs". To the extent that the Corporation may modify these objectives and policies in the future to reflect changing circumstances, the information contained in this discussion may change accordingly.

#### ***Compensation Philosophy and Strategy***

The overall objective of the Corporation's compensation program is to align the compensation decisions with the Corporation's strategies, business plan and financial objectives.

The Corporation's goal is to motivate its employees and executives to focus on the success of the Corporation by establishing a strong link between performance and compensation. At the same time, it makes sure that compensation is in line with market practices, so the Corporation can attract executive talent when it needs to, and focus on retaining highly-qualified and experienced executives who have a proven track record of performance. In addition, variable compensation rewards are linked directly to the results of the Corporation. Performance targets and measures are set each year and represent an improvement in the Corporation's operations. The Corporation's compensation philosophy is reflected in the following principles:

- The Corporation's compensation programs link executive compensation with the achievement of specific strategic business objectives and the Corporation's performance goals.
- The Corporation's compensation programs align the financial and risk management interests and motivations of the Corporation's management team and employees with the annual financial performance of the Corporation.
- The Corporation's compensation programs are an appropriate portion of total compensation, further aligning the interests of its executives and shareholders.
- The Corporation's compensation programs foster pay for performance in order to deliver long-term results for our shareholders and compensate its executives competitively.

The compensation process is intended to be fair and simple so that all employees understand the goals and the outcomes of the process.

#### ***Compensation Governance***

The Corporation's compensation governance structure consists of Management and Board committees responsible for the Corporation's compensation management policies and programs. The Corporation's compensation governance structure is reviewed regularly against industry best practices and regulatory standards.

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

#### *Governance Committee*

The Governance Committee assists the Board in carrying out its responsibilities, which include making recommendations on compensation matters. The Governance Committee's compensation responsibilities include:

- Reviewing the Corporation's compensation policies and programs, particularly against business objectives and strategies, operations and risks to which the Corporation is exposed.
- Reviewing the design and payouts of compensation programs to ensure alignment with pay for performance and sound risk management principles.
- Making recommendations to the Board regarding incentive and equity-based compensation programs; and reviewing and recommending, for Board approval, the design of compensation programs for the CEO and executive group.
- Reviewing and recommending to the Board the actual amount of annual variable short-term incentive and mid- and long-term incentives to be awarded to the CEO based on individual, business and overall Corporation performance.

#### ***Compensation Aligned with Risk Management Principles***

The Corporation's executive compensation programs are founded on principles that support the management of risk, ensuring management's plans and activities are prudent and focused on generating shareholder value within an effective risk control environment.

The Corporation's compensation design and review process incorporates the following risk management practices:

- Each year an annual business plan is developed and approved by the Board based on the Corporation's risk appetite and is used as a basis for setting performance targets.
- Caps on bonus payouts are incorporated in the compensation plan.

The NEOs and Directors are not permitted to purchase financial instruments, including, for greater certainty, prepaid variable forward contracts, equity swaps, collars, or units of exchange funds, which are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the NEO or Director.

#### ***Compensation Structure and Decision-Making Process***

The design of the Corporation's executive compensation programs and practices is based on its Compensation Framework. This framework includes processes for establishing target compensation levels, determining the pay mix and proportion of pay-at-risk, setting performance objectives, evaluating performance and determining total compensation, and ensuring compensation design and payouts appropriately reflect prudent risk.

The Corporation's compensation process starts at the beginning of every year, when it assesses and confirms its philosophy, program guidelines and structure. The target date each year for the completion of the Corporation's performance and compensation process is March 1<sup>st</sup>. The process includes the individual performance reviews for each NEO, noting that the Corporation also incorporates a 360 feedback component as part of the performance review process.

#### *Compensation Review Structure*

The Corporation reviews its overall compensation philosophy and structure for NEOs and recommends any changes up through the Governance Committee to the Board of Directors for approval.

#### *Confirm Peer Group*

The Corporation reviews and confirms the peer group of companies it uses to: (i) compare its compensation structure and levels, and (ii) assess its performance when making compensation decisions.

#### *Assess Risk and Confirm Approach*

The Corporation reviews the overall incentive plan design and the selected performance measures to: (i) consider potential payouts under different scenarios, (ii) ensure a balanced approach to risk, and (iii) make sure its decision-



making process, incentive plans and compensation governance do not give executives incentive to take excessive risks or make inappropriate decisions.

### ***Target Compensation***

Compensation for the NEOs and other corporate executive officers is evaluated and set annually by the Governance Committee based on the program design of corporations that are part of its compensation comparator group to ensure the Corporation's compensation programs remain market competitive. The Corporation obtains market information from a number of external consulting firms, including Korn Ferry, Willis Towers Watson, Hay Group, Mercer, Morneau Shepell and Hewitt.

An individual executive's compensation is established after considering the following factors:

- Median compensation for similar roles and role levels in the market.
- The Corporation's performance against financial measures, including book value per share, underwriting profit and gross written premiums.
- The Corporation's performance relative to goals approved by the Governance Committee.
- Individual performance versus personal goals and contributions to the Corporation's performance.
- Business climate, economic conditions, and other factors.

After an analysis of these factors, the Governance Committee develops compensation recommendations for the CEO to be considered by the Board of Directors. The CEO develops compensation recommendations for the other NEOs and corporate executives and presents them to the Governance Committee. The Governance Committee then sets NEO and corporate executive compensation after considering the recommendations of the CEO, as well as other relevant market and industry data.

### ***The Compensation Comparator Group***

The Corporation has generally benchmarked executive compensation target levels with reference to the median of comparable executive roles at the corporations forming part of its compensation comparator group. To evaluate the current executive compensation versus the competitive market, the Corporation reviews, for reference purposes, the compensation of executives in comparable positions at corporations that are either in a similar line of business or are otherwise comparable for purposes of recruiting and retaining individuals with the requisite skills and capabilities. Individual targets may be established above or below the median of this compensation comparator group based on an executive's knowledge, experience and performance track record. Other considerations in establishing the target compensation levels include determining which corporations are to be included in the comparator group. Our process when developing the comparator group examines several criteria, including the (1) industry filter: competitors for market share; (2) size filter: revenue size, operational scope, market capitalization, and profitability, and (3) qualitative filter: competitors for talent and companies with similar business strategy, operations and financial profile. Also relevant is the selection of corporations from which is obtained high-quality, reliable and consistent compensation data.

The comparator group is reviewed, evaluated and updated annually to ensure the corporations in the group remain relevant. This group of approximately 10 companies is referred to as the comparator group. The composition of the comparator group is reviewed and discussed with the Governance Committee and with external compensation consultants, as required.

The comparator group is currently comprised of the following companies:

Economical Mutual Insurance Company	Home Capital Group Inc.
Intact Financial Corporation	Aviva
ACE Limited	The Allstate Corporation
Element Financial Corporation	Gore Mutual Insurance Company
Genworth Financial, Inc.	

In cases where the Corporation is not able to use the comparator group as a reference for compensation for some of the NEOs, it uses data from alternative, widely-used survey sources for financial services corporations.

### Setting Performance Objectives

At the beginning of the fiscal year, the Governance Committee establishes performance objectives for the CEO based on the strategic, financial, and operational objectives of the Corporation. The CEO establishes objectives for each member of the executive group, based on the same categories, and which reflect each member's specific roles and responsibilities.

### Summary Compensation

The following table sets out information concerning the compensation earned from the Corporation and any of the Corporation's subsidiaries during the three most recently completed financial years, by the Corporation's Chief Executive Officer, Chief Financial Officer and the Corporation's other three most highly-compensated executive officers.

Name and Principal Position	Year	Salary	Share-Based Awards	Option-Based Awards	Non-Equity Incentive Plan Compensation	All Other Compensation	Total Compensation
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Serge Lavoie <sup>(1)</sup> President & Chief Executive Officer	2016	340,819	232,925	–	19,150	30,374	623,268
Steve Dobronyi <sup>(2)</sup> President & Chief Executive Officer	2016	359,000	139,755	–	153,600	30,696	683,051
	2015	358,171	164,068	–	152,673	30,380	705,292
	2014	361,604	39,054	–	156,508	30,279	587,445
Alvin Sharma Chief Financial Officer	2016	262,077	66,550	–	94,026	26,101	448,754
	2015	249,692	149,331	–	125,871	24,984	549,877
	2014	249,423	65,091	–	112,355	24,929	451,798
Michelle Dodokin <sup>(3)</sup> Senior VP, Strategy, Marketing & Operations	2016	247,495	46,585	–	168,186	25,113	487,379
	2015	216,923	179,694	–	70,000	86,303	552,920
Michel Trudeau <sup>(4)</sup> Chief Executive Officer, Qudos Insurance A/S	2016	442,999	66,550	–	84,026	68,132	661,707
	2015	249,692	149,331	–	125,871	24,984	549,877
	2014	249,423	253,853	–	72,216	24,424	599,916
*Brian Clausen <sup>(5)</sup> Chief Executive Officer, Qudos Insurance A/S	2016	475,149	–	–	–	–	475,149
	2015	503,049	–	–	–	1,873	504,922
	2014	439,800	–	–	–	37,600	477,400

(1) Serge Lavoie was appointed President & CEO on May 5, 2016.

(2) Steve Dobronyi resigned from his role as CEO on May 5, 2016.

(3) Michelle Dodokin stepped down from her role as Senior VP, Strategy, Marketing & Operations on September 6, 2016.

(4) Michel Trudeau resigned from his role as Chief Actuary of the Corporation and was appointed CEO of Qudos Insurance A/S on April 18, 2016. Mr. Trudeau's compensation as CEO of Qudos Insurance is in DKK and for the purposes of the table has been converted to C\$ at the exchange rate of 1DKK = \$0.197.

(5) Brian Clausen was relieved of his duties as CEO of Qudos Insurance A/S on April 18, 2016. Mr. Clausen's compensation was paid in DKK and for the purposes of the table has been converted to C\$ at the exchange rate of 1DKK = \$0.197.

The table above reflects the Corporation's 2016 obligations to Mr. Dobronyi, Ms. Dodokin and Mr. Clausen pursuant to their employment agreements.

The value for shared-based awards represents the market value of PSUs and RSUs granted in 2016 based on the volume-weighted, average trading price of the Corporation's common shares on the TSX during the immediately preceding 5 trading days of the grant date.

The option values shown are the grant date fair values of the stock options issued, and are determined using the Black-Scholes option pricing methodology with the following assumptions: (i) risk-free rate of 1.25%; (ii) life expectancy of 2-5 years; and (iii) estimated volatility of 2.5%. The Corporation considers this methodology appropriate in valuing option grants, and it is a typical market approach to valuing options.

The fair values used are the same as those for financial statements purposes.

## **COMPONENTS OF EXECUTIVE COMPENSATION**

The executive compensation program applies to all of the Corporation's executives. The program is designed to assist the Corporation in attracting and retaining the best available personnel for positions of substantial responsibility and align their interests with those of the Corporation's shareholders. Each year the Corporation reviews its compensation program to ensure alignment with the compensation philosophy. The Governance Committee also reviews the compensation philosophy on an annual basis. The following components are part of the executive compensation package:

### **Base Salary**

The base salaries of the Corporation's NEOs, including the CEO and corporate executives, are broadly based on salaries for comparable positions in the market. The Corporation's goal is to provide fixed compensation based on the external market as well as internal equity with respect to the role, scope, responsibilities and accountabilities within the Corporation, and the experience and performance of the individual in the role. Base salaries are reviewed annually, and increases are generally granted when an executive assumes greater responsibilities, deepens knowledge and expertise, or when there is a change in the compensation levels of comparable roles in the comparator group. For each of the NEOs and corporate executives, base salaries are consistent with the terms of their respective employment agreements.

### **2016 Short-Term Incentive Plan (STIP)**

*Annual Bonus Plan:* The purpose of this plan is to link compensation to a combination of individual contributions and Corporate performance that enhances shareholder and customer value, rewards employees who help the Corporation achieve its business goals, and attract and retain the talented employees necessary for the Corporation's success.

Administration of the Bonus Plan: All Canadian-based permanent employees, including NEOs and other executives, participate in the Annual Bonus Plan. The Bonus Plan formula for all employees is indicated below:

$$\text{Target Bonus} \times \text{Individual Multiplier} \times (50\% \text{ Underwriting Score} + 25\% \text{ Growth Score} + 25\% \text{ Company Score})$$

The Target Bonus will be paid for achieving budgeted amounts, as approved by the Board of Directors in advance of each year, subject to each employee's personal performance and contribution to the Corporation. Actual bonuses paid will be a minimum of 0% and a maximum of 200% of the Target Bonus. The Underwriting Score, Growth in Personal Lines Premiums and the Company Score, as measured by Net Operating Income Per Share, is gauged against the annual plan. All employees within the Canadian Division will receive the same score. The target bonus opportunity is communicated to each participant, based on the internal value of the position as well as alignment to the relevant market. This target incentive opportunity is expressed as a percentage of the participant's salary, and reflects the bonus practice of other corporations for comparable positions.

### **Long-Term Incentives**

In 2013, the Board of Directors approved changes to the compensation plan for executives and senior management, to better align the Corporation's compensation programs with the long-term strategies and interests of the Corporation and its shareholders. Starting January 1, 2014, the Corporation used its existing Executive Share Unit Plan to allow grants of Restricted Share Units (RSUs) and Performance Share Units (PSUs) to senior managers and executives of the Corporation

In February 2017 at the request of the Corporation's Management and the Governance Committee, an independent consultant, Willis Towers Watson was retained to conduct a review of the Corporation's incentive component of the compensation plan. As of the date of the Circular the review has not been received by the Corporation. It is expected that as a result of the review changes to the incentive plan will be proposed. In the interim the Corporation has suspended its annual grants of RSUs and PSUs to senior management.

## Equity Compensation Plan Information

The following table sets out aggregate information as at December 31, 2016, concerning securities authorized for issuance under equity compensation plans.

Plan Category	Number of Securities to be Issued upon Exercise of Options, Warrants and Rights	Weighted – Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in (a))
	(a)	(b)	(c)
Equity Compensation Plans Approved by Security Holders	327,038	10.41	847,736
Equity Compensation Plans Not Approved by Security Holders	–	–	–
<b>Total</b>	<b>327,038</b>	<b>10.41</b>	<b>847,736</b>

The material features of the Corporation's Stock Option Plan and Executive Share Unit Plan, each of which has been approved by shareholders, are as follows:

### Stock Option Plan

No further stock option grants have been issued after January 1, 2014. The Stock Option Plan will remain open for the vesting of options previously granted. The total number of Common Shares issuable under the Stock Option Plan was capped at 1,180,478 representing 10% of the Corporation's number of outstanding Common Shares, less grants outstanding under the Corporation's Share Unit Plan as at the date of the Circular. The total number of Common Shares issued to date under the Stock Option Plan is 996,350 Common Shares (being approximately 8.4% of the current issued and outstanding Common Shares). The total number of Common Shares issuable in connection with outstanding, unexercised option grants under the Stock Option Plan as at March 10, 2017, is 191,150. Of the 191,150 outstanding unexercised options, 114,625 Common Shares are fully vested, with 76,525 remaining unvested.

The Corporation used the grant of stock options ("Options"), under its Stock Option Plan, as a performance incentive for senior employees, including the Chief Executive Officer, to provide the opportunity for overall compensation of senior management to be above industry-average levels and to increase the mutuality of interests between management and shareholders. The Stock Option Plan was used to provide long-term rewards linked directly to the market value of the Common Shares of the Corporation. The Corporation's Board of Directors is of the view that the Stock Option Plan is in the best interests of the Corporation and permitting continued vesting will assist the Corporation to motivate and retain executives and management employees.

Under the Stock Option Plan, Options to purchase Common Shares were granted to eligible participants (collectively, "Optionees") designated under the Stock Option Plan. Although eligible by its terms, Directors did not participate in the Corporation's Stock Option Plan. Optionees to whom Options were granted, the number of Options to be granted and the exercise price of each Option were determined in accordance with the Stock Option Plan. The exercise price per Common Share under each option is determined on the basis of the volume-weighted, average trading price of the shares traded on the TSX, or such other stock exchange on which the majority of the trading volume and value of the Common Shares occurs, for the five trading days immediately preceding the relevant effective date of grant. In the event that the Common Shares are not then listed or quoted on a stock exchange, the exercise price will be as otherwise determined in accordance with the Stock Option Plan.

The aggregate number of shares of the Corporation which may be issued and sold under the Stock Option Plan will not exceed 10% of the total of issued and outstanding shares from time to time (on a non-diluted basis), and shares reserved for issuance under employee stock option plans, options for services and employee stock purchase plans.

The maximum number of Common Shares reserved for issuance to any one person upon the exercise of Options is limited to 5% of the total number of Common Shares outstanding at the date of grant. Under the Stock Option Plan and any other security-based compensation arrangement of the Corporation: (i) the number of common shares issuable to insiders, at any time, shall not exceed 10% of the issued and outstanding common shares; and (ii) the number of common shares issued to insiders, within a one-year period, shall not exceed 10% of the issued and outstanding common shares.

The maximum number of Options that may be vested for exercise in any particular year shall be (i) 20% of the Common Shares granted under the Options, or (ii) such greater percentage of the Common Shares granted under the Options, so long as the cumulative vesting rate per year is not greater than the rate of 20% in any particular year. Each Option will be exercisable over such period as determined at the time of issue. Each Option, unless terminated

pursuant to the Stock Option Plan, will expire on a date to be determined in accordance with the Stock Option Plan at the time the Option is granted, which date may not exceed eight years from the date of the grant of the Option. Any Option is personal to the Optionee and is non-assignable.

Options expire and terminate upon the Optionee ceasing to be a Director, Officer or a part-time or full-time employee of the Corporation or of any subsidiary, provided that if such cessation is other than for cause, the Optionee may exercise vested Options until the earlier of their expiry date or 90 days after such cessation.

If, before the expiry of the Option, the employment of the Optionee with the Corporation or any subsidiary shall terminate by reason of death of the Optionee, such Option may be exercised by the legal representative(s) of the estate of the Optionee at any time during the first 180 days following the death of the Optionee. If at any time when an Option granted under the Stock Option Plan remains unexercised with respect to any optioned shares, (i) a general offer to purchase all of the issued Common Shares of the Corporation is made by a third party; or (ii) the Corporation proposes to sell all or substantially all of its assets or to merge or amalgamate with another company (except a subsidiary of the Corporation) under any circumstances that may involve or require the liquidation of the Corporation, a distribution of its assets among its shareholders, or the termination of the corporate existence, the Corporation shall use its best efforts to give an Optionee 21 days' notice of the effective date of such offer or proposal or otherwise as soon as practicable and (A) the Option may be exercised, as to all or any of the optioned shares in respect of which such Option has not previously been exercised, by an Optionee at any time up to and including a date 30 days following the date of the completion of such sale or prior to the close of business on the expiry date, whichever is earlier; and (B) the Corporation may require the acceleration of the time for the exercise of the Option and the time for the fulfilment of any conditions or restrictions on such exercise.

The Board of Directors may amend or discontinue the Stock Option Plan at any time upon receipt of applicable requisite regulatory and shareholder approval including without limitation, the approval of the TSX, provided, however, no such amendment may increase the maximum number of Common Shares that may be optioned under the Stock Option Plan, change the manner of determining the minimum exercise price or, without the consent of the Optionee, alter or impair any of the terms of any Option previously granted to an Optionee under the Stock Option Plan. Any amendments to the terms of an Option shall also require regulatory approval, including without limitation, the approval of the TSX.

The Stock Option Plan provides that shareholder approval will be required for amendments to: increase the number of shares issuable pursuant to the Stock Option Plan; reduce the subscription price of an outstanding option of an insider; extend the term of any option granted under this Stock Option Plan to an insider beyond the termination date of the option; allow for a maximum term of an option to be greater than 10 years; expand the transferability of options; add to the categories of participants who may be designated for participation in the Stock Option Plan; allow for an option exercise period to commence earlier than the first anniversary of the date of grant, other than in the case of death, disability or a change in control; increase or delete the percentage limits relating to shares issuable or issued to insiders; increase or delete the percentage limit on shares reserved for issuance to any one person; amend the Stock Option Plan to provide for other types of compensation through equity issuance; and any amendment to the amendment provisions of the Stock Option Plan. Subject to the foregoing, the Board of Directors may amend any term or condition of the Stock Option Plan or any option granted other than the items specified as requiring shareholder approval.

### ***Executive Share Unit Plan***

The Corporation has established an Executive Share Unit Plan ("ESUP"), effective November 6, 2009, amended on May 5, 2011, November 23, 2011, November 7, 2013, and May 5, 2016, under which the Board of Directors may from time to time determine (i) those eligible employees (a "participant") who shall receive a grant of Restricted Share Units ("RSUs") and/or Performance Share Units ("PSUs") (RSUs and PSUs are collectively referred to as "Share Units"), (ii) the number of such Share Units and (iii) the grant date(s) applicable to such Share Units.

The ESUP is intended to provide senior management employees of the Corporation and its subsidiaries with an additional incentive to further the growth and development of the Corporation and encourage them to remain with the Corporation.

The Governance Committee of the Board of Directors administers the ESUP and recommends to the Board of Directors the individual employees to whom grants of RSUs or PSUs should be made, as well as the amounts and terms of such grants. Directors who are not also employees are not eligible for grants under the ESUP. The selection of participants will be based on the participant's current and potential contribution to the Corporation and the terms of the grants may include performance targets or the achievement of certain collective performance-related criteria, such as the financial performance of the Corporation. Annually, the Board of Directors authorizes a limited number of RSUs to be granted to eligible employees solely at the discretion of the CEO. In 2016 the CEO was granted 7,000 discretionary RSUs. The terms of any particular grant need not be identical to any other grant, and the Board of Directors may amend, suspend or terminate the terms of any grant, or the terms of the ESUP itself (subject to certain restrictions), without shareholder approval.

Each Share Unit granted under the ESUP will entitle the participant, upon satisfying all applicable vesting criteria, to receive one common share or, at the discretion of the Corporation, a cash payment equal to the market value of such share, calculated in accordance with TSX rules, on the date of payment. The grant of a Share Unit will not entitle the participant to exercise any voting rights, receive any dividends or exercise any other right which attaches to ownership of common shares.

Each grant and the participation of a participant in the ESUP shall be evidenced by a grant agreement between the Corporation and the participant. Each grant agreement shall set forth, at a minimum, the type and grant date of the grant evidenced thereby, the number of RSUs or PSUs subject to such grant, the applicable vesting conditions, the applicable vesting period(s) and performance periods (in the case of PSUs) and the treatment of the grant upon termination. The Board of Directors may determine such other terms and conditions with respect to a grant as are consistent with or required by the terms of the ESUP including (A) the conditions, if any, upon which vesting of any Share Unit will be waived or accelerated; (B) the circumstances upon which a Share Unit may be forfeited, cancelled or expire; (C) the consequences of an employment termination with respect to a Share Unit; (D) the manner of exercise or settlement of vested Share Units, including whether vested Share Units will be settled in cash, shares or a combination of cash and shares; (E) whether the terms upon which any Shares delivered upon exercise or settlement of a Share Unit must continue to be held by a participant for any specified period; and (F) terms or conditions pertaining to confidentiality of information relating to the Corporation's operations or businesses which must be complied with by a participant, including conditions of the grant or vesting of Share Units. Subject to terms of any Grant Agreement, RSUs vest in the tenth year following the year in which they were granted.

Share Units will become vested at such times, in such instalments and subject to such terms and conditions as may be determined by the Board of Directors and set forth in the applicable grant agreement. The conditions to vesting of RSUs will be based on the participant's continued employment or continued engagement, without regard to the satisfaction of any performance criteria and, in the event that the grant agreement applicable to a grant of RSUs does not specify the time(s) at which such RSUs shall become vested, such RSUs will vest on the third anniversary of the grant date, subject to plan rules.

The conditions to vesting of PSUs will be based on the satisfaction of performance criteria, either alone or in addition to any other vesting conditions, as may be determined by the Board of Directors and may be graduated such that different percentages (which may be greater or less than 100%) of the PSUs in a grant will become vested depending upon the extent to which one or more such conditions are satisfied.

The aggregate number of common shares which may be issued by the Corporation under the ESUP is currently limited to 600,000. All Share Units that do not become vested or that otherwise expire, terminate or are cancelled without being settled, will be available for any subsequent Share Units under the ESUP.

As of March 10, 2017, 209,474 Common Shares (being approximately 1.8% of the issued and outstanding Common Shares) have been issued under the ESUP. During 2016 Share Units were granted in respect of 64,500 Common Shares (being approximately 0.5% of the issued and outstanding Common Shares) 20,034 Common Shares remain available for issuance pursuant to future grants under the ESUP (being approximately 0.2% of the issued and outstanding Common Shares).

No Share Units will be granted to any participant if the total number of Shares issuable to such participant under the ESUP, together with any Shares issued to such participant under any other security-based compensation arrangement of the Corporation would exceed 5% of the issued and outstanding common shares. Under the ESUP and any other security-based compensation arrangement of the Corporation: (i) the number of common shares issuable at any time pursuant to RSUs granted to insiders shall not exceed 10% of the issued and outstanding common shares; and (ii) the number of common shares issued to insiders, within a one-year period, shall not exceed 10% of the issued and outstanding common shares.

Unless otherwise determined by the Board of Directors, in the event a participant's employment is terminated by the Corporation or an affiliate, other than for cause, prior to the end of a vesting period relating to a grant, and such participant does not have a written contract of employment setting out a notice period during which he or she is deemed to be employed in accordance with plan rules, no Share Units relating to such grant that have not vested and been settled prior to the date of the participant's termination without cause will vest.

Unless otherwise determined by the Board of Directors, in the event a participant dies, experiences a disability termination date or ceases to be employed by reason of retirement prior to the end of the vesting period relating to a grant, a number of Share Units determined by a formula will become vested Share Units.

In the event of a change in control prior to the end of the vesting period relating to a grant, all Share Units relating to such grant will become vested Share Units effective as of the date of such change in control. In the case of PSUs, the relevant performance criteria will be deemed to have been satisfied to the extent required to produce vesting of 100% of the PSUs at the date of the change in control.

The Share Unit Plan may be amended or at any time by the Board of Directors in whole or in part; provided that, in accordance with TSX rules, specific security holder approval is required for: (i) a reduction in the purchase price under the ESUP benefiting an insider of the Corporation; (ii) an extension of the term under the ESUP benefiting an insider of the Corporation; (iii) any amendment to remove or to exceed the insider participation limit (iv) an increase to the maximum number of securities issuable, either as a fixed number or a fixed percentage of the Corporation's outstanding capital represented by such securities; and (v) amendments to an amending provision within the ESUP.

No amendment of the ESUP or the terms of any outstanding Share Unit granted will adversely affect the rights accrued to such participants with respect to Share Units granted prior to the date of the amendment, without the consent of the participants affected by the amendment, unless required for purposes of complying with applicable law (including TSX rules).

### Outstanding Option-Based and Share-Based Awards

The following table sets out, for each NEO, information concerning all option-based and share-based awards outstanding as of December 31, 2016. (This includes awards granted before the most recently completed financial year.)

Name	Option-based Awards				Share-based Awards	
	Number of securities underlying unexercised options	Option exercise price	Option expiration date	Value of unexercised in-the-money options	Number of shares or units of shares that have not vested	Market or pay out value of share-based awards that have not vested
	(#)	(\$)		(\$)	(#)	(\$)
Serge Lavoie	–	–	–	–	17,500	194,250
Steve Dobronyi	14,625	7.19	3/31/2017	57,184	–	–
	14,625	8.89	3/31/2020	32,321	–	–
Alvin Sharma	45,000	8.89	3/31/2020	99,450	13,334	148,019
Michelle Dodokin	–	–	–	–	11,167	123,954
Michel Trudeau	–	–	–	–	18,168	–
Brian Clausen	–	–	–	–	–	–

### Value Vested or Earned During the Year

The following table sets out, for each NEO, information concerning the value of incentive plan awards – option-based and share-based awards as well as non-equity incentive plan compensation – vested or earned during the financial year ended December 31, 2016.

Name	Option-based awards	Share-based awards	Non-equity incentive plan compensation
	Value vested during the year	Value vested during the year	Value earned during the year
	(\$)	(\$)	(\$)
Serge Lavoie	–	–	19,150
Steve Dobronyi	68,153	195,540	153,600
Alvin Sharma	29,790	64,954	94,026
Michelle Dodokin	–	51,017	168,186
Michel Trudeau	–	129,281	84,026
Brian Clausen	–	–	–

In 2016 Mr. Lavoie was granted 8,000 PSUs based upon a Performance Criteria tied to the 2016 underwriting performance of Echelon Insurance. The Performance Criteria was not satisfied and the PSUs did not vest and were cancelled.

Mr. Dobronyi's and Ms. Dodokin's previously granted RSUs will continue to vest in accordance with the terms of their written employment agreements and the ESUP.

### **Pension Plan Benefits**

The Corporation does not currently provide a pension plan for its executive group.

### **Other Executive Benefits, Including Perquisites**

#### *Group Benefit Plans*

NEOs are eligible to participate in employee benefit programs and plans that are generally available to all full-time and part-time employees (subject to fulfilling certain eligibility requirements). These include benefits such as active employee extended health and dental plans (including medical, vision care, group life insurance, accidental death and personal loss insurance and employee assistance benefits), as well as other programs such as the Corporation's employee stock purchase plan and group retirement savings plan. In designing these benefits, the Corporation seeks to provide an overall level and mix of benefits that is competitive with those offered by corporations in its comparator group.

#### *Perquisites*

Certain perquisites are made available to NEOs and corporate executives. These include car allowance payments and a perquisite allowance. These types of perquisites are common among executives in the same industry. In addition, providing them as perquisites (as opposed to increasing base salary in an amount designed to compensate for the loss of these perquisites) avoids the increase that would otherwise occur in certain other benefit costs that are based on the level of an executive's base salary.

### **Executives and Senior Management Share Ownership Requirements**

The Corporation believes it is important for the executives and senior management to have a stake in the Corporation to align their interests with those of the shareholders.

In 2014, the Corporation established minimum levels of share ownership that are in direct proportion to the executive's or senior management's position as shown below. Executives or senior management employed at January 1, 2014, are required to own the shares within three years. Those promoted or newly employed by the Corporation are required to meet the ownership criteria within 3 years from the date of promotion or employment as applicable. One third of the ownership target must be met each year. Once the target level is achieved, they must maintain that level of ownership for the duration of their tenure with the Corporation. In determining the number of shares owned, shares underlying any unexercised options or unvested RSUs will not be included.

<b>Position</b>	<b>Ownership target (Number of Shares)</b>
Chief Executive Officer	20,000
Corporate Executives	10,000
Vice Presidents	5,000
Senior Management	3,000

### **Termination and Change of Control Provisions**

A NEO may receive certain payments or benefits at, following, or in connection with a Change of Control of the Corporation, a change in the NEO's responsibilities, or a NEO's termination, including resignation, severance, retirement or constructive termination.

"Change of Control" refers to the occurrence of a transaction or series of transactions as a result of which: (i) at least 50% in fair-market value of all the assets of the Corporation are sold; or (ii) there is direct or indirect acquisition by a person or group of persons (excluding the Employee or any person associated with the Employee) acting jointly or in concert of voting securities of the Corporation (as defined in the *Securities Act*, as amended) that when taken together with any voting securities owned directly or indirectly by such person or group of persons at the time of the acquisition, constitute 51% or more of the outstanding voting securities of the Corporation, but does not include any



transaction that may occur between the Corporation, any affiliate or subsidiary of the Corporation or, as applicable, any person associated with the Corporation or any affiliate or subsidiary of the Corporation, which, but for such relationship, the transaction would otherwise constitute a Change of Control hereunder.

The payment and provisions differ among the NEOs all of whom have written employment agreements with the Corporation. There are differences among the agreements regarding the magnitude of the payments to be provided in the event of certain terminations that reflect, among other things, the degree to which these issues were critical to the particular executive.

***Serge Lavoie, President & Chief Executive Officer***

In the event that Mr. Lavoie's employment with the Corporation is terminated without cause his employment agreement with the Corporation provides for certain payments and benefits for a period of time (the "Notice Period"). If termination without cause occurs before January 1, 2019 the Notice Period would be 12 months and if termination occurs on or after January 1, 2019, the Notice Period would be 24 months. On termination for cause Mr. Lavoie would be entitled to base salary for the Notice Period, full target incentive compensation during the Notice Period, immediate vesting of any granted but unvested PSUs and continuation of benefit coverage for the Notice Period.

In the event of a Change of Control, Mr. Lavoie would have a 10-day window to trigger, at his sole discretion, the change of control provisions contained in his employment agreement. If Mr. Lavoie does not trigger the change of control provisions but his employment is terminated within six months following a Change of Control, the change of control provisions of his employment agreement will be triggered. The change of control provisions in Mr. Lavoie's employment agreement provide that on a Change of Control he would be entitled to twenty-four months base salary (from the date of Change of Control); a lump sum payment equal to the short term incentive compensation at the then current rate; immediate vesting of all granted but unvested Share Units and 24 months of benefit coverage, less appropriate deductions. In addition, the Company will immediately grant 100,000 RSUs less the total combined number of RSUs and PSUs previously granted between 2016 and the date of the Change of Control. Such grant would vest immediately. See "Components of Executive Compensation – Stock Option Plan" and "Components of Executive Compensation – Executive Share Unit Plan".

These entitlements post-termination or Change Of Control are subject to Mr. Lavoie's continued duty of confidentiality, and his agreement not to solicit for a period of one year after any such termination any customer or any employee of the Corporation for the benefit or on behalf of any competing business nor attempt to direct any such customer or employee away from the Corporation.

If such rights upon termination had been triggered as of December 31, 2016, the last business day of the Corporation's most recently completed financial year, the incremental payments are estimated to be \$2,208,000.

***Alvin Sharma, Chief Financial Officer***

Mr. Sharma's employment agreement with the Corporation provides for certain payments and benefits following his termination by the Corporation, other than for cause, death or disability. Upon such termination, he would be entitled to one year of base salary, full target short-term incentive compensation at the then current rate, with continuation of benefit coverage, less appropriate deductions.

In the event of a Change of Control, and if Mr. Sharma's employment is terminated within six months following the date of the Change of Control, Mr. Sharma would be entitled to eighteen months base salary, from the date of Change of Control. In addition Mr. Sharma would be entitled to full target short-term incentive compensation at the then current rate, with continuation of benefit coverage, less appropriate deductions.

These entitlements post-termination are subject to Mr. Sharma's continued duty of confidentiality, and his agreement not to solicit for a period of one year after any such termination any customer or any employee of the Corporation for the benefit or on behalf of any competing business nor attempt to direct any such customer or employee away from the Corporation.

In addition to the post-termination entitlements provided for in Mr. Sharma's employment agreement, in the event of a Change of Control (as such concept is defined in the ESUP and the Stock Option Plan, respectively), all Share Units (together with any dividend equivalent Share Units in connection therewith) and all Options held by Mr. Sharma will vest as of the date of the Change of Control. See "Components of Executive Compensation – Stock Option Plan" and "Components of Executive Compensation – Executive Share Unit Plan".

If such rights upon termination had been triggered as of December 31, 2016, the last business day of the Corporation's most recently completed financial year, the incremental payments are estimated to be \$875,219.

### **Michel Trudeau, Chief Executive Officer, Qudos Insurance A/S**

Mr. Trudeau's employment agreement with the Corporation ended with Mr. Trudeau's appointment as CEO of Qudos Insurance A/S.

As of April 18, 2016 Mr. Trudeau entered into an employment agreement with Qudos Insurance A/S which is governed by Danish law and provides for certain payments and benefits following his termination by Qudos, other than for cause, death or disability. Upon such termination, he would be entitled to 18 months of base salary, a lump sum payment equivalent to 20% of 18 months' base salary, with 18 months of continued benefit coverage, less appropriate deductions.

Mr. Trudeau's employment agreement with Qudos provides that in the event of a Change of Control at Qudos, and if Mr. Trudeau's employment is terminated as of the date of such Change of Control, Mr. Trudeau would be entitled to twelve months base salary, a lump sum payment equivalent to 20% of the 12 months' base salary, full target short-term incentive compensation and 12 months continued benefit coverage, less appropriate deductions.

These entitlements post-termination are subject to Mr. Trudeau's continued duty of confidentiality, and his agreement not to solicit for a period of one year after any such termination any customer or any employee of Qudos for the benefit or on behalf of any competing business nor attempt to direct any such customer or employee away from the Corporation.

In addition to the terms of provided for in Mr. Trudeau's employment agreement with Qudos, the Corporation agreed that in the event of a Change of Control of Qudos, all RSUs held by Mr. Trudeau would vest as of the date of the Change of Control.

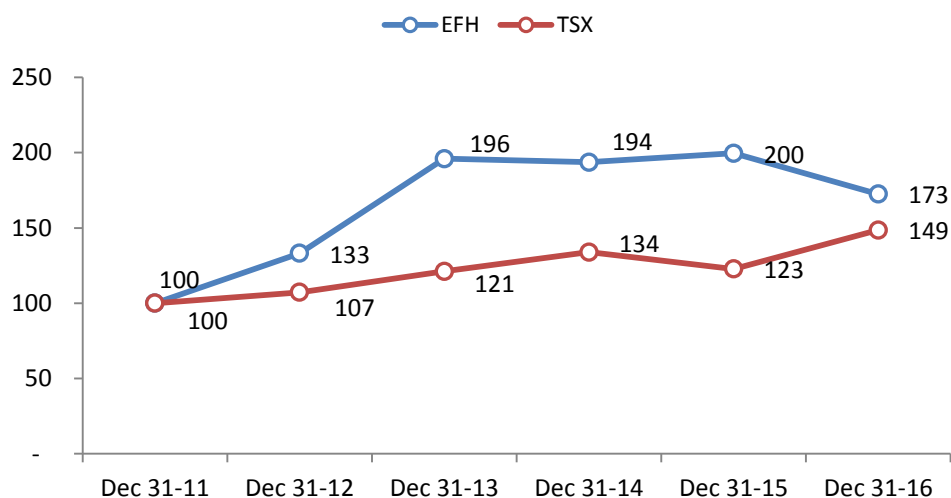
On March 7, 2017, the Corporation sold 100% of its interest in Qudos, triggering the Change of Control provisions. As of the date of the Change of Control, Mr. Trudeau held 8,335 RSUs which vested, having a value of \$101,520.

### **Other Employment Agreements**

The Corporation has employment agreements with all the other corporate executives which will automatically continue from year to year. Each of these employment agreements may provide for the payment of salary, certain benefits coverage and the payment of short term incentive compensation in the event of termination without cause or a Change of Control.

## **PERFORMANCE GRAPH**

The following graph compares the percentage change in the Corporation's cumulative total shareholder return on its Common Shares with the cumulative total return of the S&P/TSX Composite Index (the "S&P/TSX Index") during the five most recently completed financial years. The graph illustrates the cumulative return on a \$100 investment in Common Shares made on December 31, 2011, as compared with the cumulative return on a \$100 investment in the S&P/TSX Index made on December 31, 2011. The Common Share performance as set out in the graph does not necessarily indicate future price performance.



	<u>31 Dec 2011</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>	<u>31 Dec 2014</u>	<u>31 Dec 2015</u>	<u>31 Dec 2016</u>
Common Shares	\$100	\$133	\$196	\$194	\$200	\$173
S&P/TSX Index	\$100	\$107	\$121	\$134	\$123	\$149

The trend of the Corporation's performance-based compensation reflects the Corporation's share price in part, through the changing values of the share-based and option-based components of the awards. This and other performance-based compensation is intended to align the objectives of employees with the objectives of the Corporation and the long-term interests of shareholders. Short-term incentives are linked both to individual performance and to the achievement of the Corporation's financial and strategic results, while long-term incentives are linked to the Corporation's performance and financial results relative to the Canadian P&C insurance industry.

All permanent employees, including NEOs, executives and senior management, participate in the annual, cash-based Short-Term Incentive Plan. Awards are earned on the achievement of the Corporation's strategic financial objectives and the personal performance of individual participants. Growth and profitability for the incentive payment are based on the Corporation's performance relative to the P&C Insurance industry.

## **DIRECTOR COMPENSATION**

### **Director Compensation Policy**

Directors are compensated for their services as Directors through Board and Chair retainers. Directors who are also officers of the Corporation or its subsidiaries receive no remuneration as Directors. The Governance Committee is responsible for reviewing Director compensation and updating Director compensation as appropriate, to recognize the workload and responsibility of Board and Committee members and to remain competitive with director compensation trends in Canada. The Governance Committee reviews director compensation on a biennial schedule.

Although eligible by its terms, Directors do not participate in the Corporation's Stock Option Plan. Directors who are not employees are not eligible for grants under the Corporation's Executive Share Unit Plan.

We believe it is important for the Directors to have a stake in the Corporation to align their interests with those of the shareholders. As a result, the Directors are required to own a minimum of 10,000 shares and/or DSUs within 5 years of being elected to the board. As CEO, Mr. Lavoie has separate share ownership requirements, described on Page 16. All Directors are on target to achieve their minimum share ownership within the allotted time period.

During the financial year ended December 31, 2016, Directors of the Corporation who were not officers or employees of the Corporation received compensation totalling \$822,500. Directors were entitled to be paid annual retainers as follows:

Director Retainer	\$75,000
Board Chair Retainer	\$45,000
Audit and Risk Committee Chair Retainer	\$20,000
Governance Committee Chair Retainer	\$20,000
Investment Committee Chair Retainer	\$10,000
Qudos Director Retainer	\$ 5,000
ICPEI Director Retainer	\$ 5,000

**Director Compensation Earned (January 1, 2016 – December 31, 2016)**

Name	Fees Paid	Share-Based Awards	Option-Based Awards	Non-Equity Incentive Plan Compensation	Pension Value	All Other Compensation	Total
	\$	\$	\$	\$	\$	\$	\$
Peter Crawford <sup>(6)</sup>	47,500	47,500	–	–	–	30,000	125,000
Ani Hotoyan-Joly <sup>(1)</sup>	47,500	47,500	–	–	–	5,000	100,000
Serge Lavoie	–	–	–	–	–	–	–
Doug McIntyre <sup>(2)</sup>	12,500	–	–	–	–	–	12,500
Andrew Pastor	–	50,000	–	–	–	–	50,000
Carol Poulsen <sup>(3)</sup>	25,000	–	–	–	–	–	25,000
Robert Purves <sup>(4)</sup>	60,000	60,000	–	–	–	5,000	125,000
Sharon Ranson	–	50,000	–	–	–	–	50,000
Brian Reeve <sup>(5) (6)</sup>	75,000	–	–	–	–	30,000	105,000
Angus Ross <sup>(6)</sup>	42,500	42,500	–	–	–	30,000	115,000
Murray Wallace <sup>(6)</sup>	–	75,000	–	–	–	40,000	115,000

**Notes:**

- (1) Fees paid in her capacity as a Director of The Insurance Company of Prince Edward Island, a subsidiary of the Corporation, are reflected in “All Other Compensation”.
- (2) Resigned as Director on February 8, 2016.
- (3) Director’s fees to which Carol Poulsen was entitled were paid, at her direction, to The Co-operators Group Limited.
- (4) Fees paid in his capacity as a Director for Qudos Insurance A/S, an indirect subsidiary of the Corporation, are reflected in “All Other Compensation”.
- (5) Director’s fees to which Brian Reeve was entitled were paid, at his direction, to Cassels Brock LLP.
- (6) Fees paid in their capacity as members of the Special Committee are reflected in “All Other Compensation”.

Fair values used are the same as those for financial statements purposes.

In 2016, Special Committee Directors’ Fees were earned in addition to the usual retainer fees described above.

**Directors’ Deferred Share Unit Plan**

Pursuant to a Deferred Share Unit Incentive Plan (the “DSU Plan”), an eligible director, who is not otherwise an employee of the Corporation or any affiliate and is not employed by a corporation that holds at least 100,000 Shares of the Corporation, receives half or all (at their election) of their annual retainer and meeting fees in the form of deferred share units (DSUs), each of which is equivalent in value to one Common Share of the Corporation. An eligible director who is employed by a corporation that holds at least 100,000 Shares of the Corporation may elect to receive their annual retainer and meeting fees in cash or either half or all in the form of DSUs, each of which is equivalent in value to one Common Share of the Corporation. The number of DSUs is established by dividing the amount of retainers not paid in cash by the weighted average trading price of the Common Shares for the last five trading days preceding the determination. Whenever cash dividends are paid on the Common Shares, the director’s account under the DSU plan is credited with additional DSUs corresponding to the dividend paid on the Common Shares.

On November 7, 2013, the Board of Directors made changes to the Director Deferred Share Unit Plan to introduce a provisions to make Deferred Share Units (DSUs) earned by directors redeemable for cash in the event of the completion of a general offer by a third party to purchase all of the issued shares of the Corporation, or the sale of all or substantially all of the Corporation’s assets and undertaking, or a merger, amalgamation or being absorbed by or into any other company (other than its subsidiary) under any circumstances which involve or may involve or require the liquidation of the Corporation, a distribution of its assets among its shareholders, or the termination of the corporate existence.

## **Indebtedness of Directors and Executive Officers**

None of the Directors or senior officers of the Corporation were indebted to the Corporation during the financial year ended December 31, 2016.

## **Directors' and Officers' Liability Insurance**

The Corporation maintains liability insurance for its Directors and Officers acting in their respective capacities in an aggregate amount of \$20,000,000, subject to a \$100,000 deductible for Corporation Indemnification Coverage. The premium paid by the Corporation during fiscal 2016 for this coverage was \$74,850.

## **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Since the beginning of the most recently completed fiscal year, no informed person of the Corporation, nominee for election as a director, or associate or affiliate of any informed person or nominee, has, or has had, any material interest, direct or indirect, in any transaction or proposed transaction which has materially affected or would materially affect the Corporation or any of its subsidiaries or affiliates, other than those described below.

The Corporation has entered into transactions with two related parties, Co-operators General Insurance Company and Purves Redmond Limited ("Purves Redmond"). These transactions are carried out in the normal course of operation and are measured at cost which approximates fair value. The transactions involving Co-operators General Insurance Company, which is an insider of the Corporation, consist principally of the agent channel of distribution. Purves Redmond is involved in arranging insurance coverage for the subsidiaries of the Corporation. Robert Purves, a shareholder and director of the Corporation, is also a shareholder and Chairman of Purves Redmond.

The Insurance Company of Prince Edward Island ("ICPEI"), in which the Corporation has a 75% ownership, has entered into transactions with three related parties – Charlie Cooke Insurance Agency Ltd. ("CCIA"), Atlantic Adjusting & Appraisals Ltd. ("AAA") and Maritime Finance and Acceptance Corporation ("MFAC"). These transactions are carried out in the normal course of operations and are measured at cost which approximates fair value. CCIA distributes ICPEI insurance products through its brokerage operations. CCIA has minority shareholders who are related parties of the minority shareholders of ICPEI. AAA and MFAC provide insurance operational services to ICPEI. The shareholders of AAA and MFAC are also directors and managers of ICPEI.

## **STATEMENT OF CORPORATE GOVERNANCE PRACTICES**

The Canadian Securities Administrators have established National Instrument 58-101 – *Disclosure of Corporate Governance Practices* (the "National Instrument") and National Policy 58-201 – *Corporate Governance Guidelines* (the "National Policy"). The National Policy sets out a series of guidelines for effective corporate governance (the "Guidelines"). The Guidelines address matters such as the constitution and independence of corporate boards, the functions to be performed by boards and their committees and the effectiveness and education of Board members. The National Instrument requires the disclosure by each public corporation of its approach to corporate governance with reference to the Guidelines as it is recognized that the unique characteristics of individual corporations will result in varying degrees of compliance.

Set out below is a description of the Corporation's approach to corporate governance in relation to the Guidelines and, where applicable, National Instrument 52-110 – *Audit Committees* ("NI 52-110").

### **The Board of Directors**

The National Instrument defines an "independent director" as a director who has no direct or indirect material relationship with the Corporation. A "material relationship" is, in turn, defined as a relationship which could, in the view of the Board of Directors, be reasonably expected to interfere with such member's independent judgment. In determining whether a particular director is an "independent director" or a "non-independent director", the Board of Directors considers the factual circumstances of each director in the context of the Guidelines.

The Board of Directors is currently comprised of 9 members, a majority of whom are "independent directors" within the meaning of the National Instrument. The 8 independent Directors are Peter Crawford, Ani Hotoyan-Joly, Andrew Pastor, Robert Purves, Sharon Ranson, Brian Reeve, Angus Ross and Murray Wallace. The one current director who is not considered to be independent by virtue of his material relationship with the Corporation is Serge Lavoie, Chief Executive Officer of the Corporation.

In accordance with the Guidelines that provide that the Chair of the Board should be independent and the Corporation's policy that the Chair of the Board shall at all times be an individual who is not otherwise an officer or employee of the Corporation or any of its affiliates, the Chair of the Board, Robert Purves, is an independent director.

The Chair is responsible for acting as the communication link between the directors and the management of the Corporation, and managing the affairs of the Board of Directors.

The independent directors on the Board of Directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. Since January 1, 2016, six such meetings were held.

The information presented below reflects the Board of Directors and Board Committee meetings held since January 1, 2016, up to March 10, 2017, and attendance of the directors during such time.

#### Summary of Board of Directors and Committee Meetings Held

Meeting	Number of meetings held
Board of Directors	15
(a) Audit and Risk Committee	5
(b) Governance Committee	9
(c) Investment Committee	5

#### Summary of Attendance of Directors

Director	Total Board meetings attended	Total Committee meetings attended
Peter Crawford	15 of 15	14 of 14
Steve Dobronyi <sup>(1)</sup>	7 of 7	N/A
Ani Hotoyan-Joly	15 of 15	14 of 14
Serge Lavoie	8 of 8	N/A
Douglas E. McIntyre <sup>(2)</sup>	1 of 1	N/A
Andrew Pastor	8 of 8	7 of 7
Carol Poulsen <sup>(3)</sup>	3 of 6	5 of 7
Robert Purves	15 of 15	N/A
Sharon Ranson	8 of 8	6 of 6
Brian Reeve	15 of 15	7 of 7
Angus Ross	14 of 15	17 of 17
Murray Wallace	15 of 15	6 of 6

(1) Resigned as Director on May 5, 2016

(2) Resigned as Director on February 8, 2016

(3) Resigned as Director on May 5, 2016

Currently, the Directors of the Corporation listed below serve on the boards of directors of other public companies shown beside their name

Director	Public Company
Sharon Ranson	Sprott Inc.

#### Board of Directors Mandate

The Board of Directors is responsible for the overall stewardship of the Corporation. The Board of Directors discharges this responsibility directly and through delegation of specific responsibilities to committees of the Board of Directors, the Chair, and officers of the Corporation, all as more particularly described in the Board of Directors Mandate adopted by the Board of Directors.

As set out in the Board of Directors Mandate, the Board of Directors has established three committees to assist with its responsibilities: Audit and Risk Committee, Governance Committee, and Investment Committee. Each of these has a Charter defining its responsibilities.

The Board of Directors Mandate is attached as Schedule "A" to this Circular.

## **Board Tenure Policy**

Directors are elected annually. Directors commit to serving a minimum of 3 years. Each year, the Corporation nominates Directors for re-election and each year, under OSC rules and as related to NI 58 -101 Disclosure of Governance Practices, Directors are elected by the shareholders. Near the end of the 3-year term, a Director will be provided with an assessment and performance review as related to their performance and contributions to the Board over the 3-year term. The assessment and performance review will be conducted by the Board Chair and Governance Committee Chair. Directors may be nominated for a second 3-year term, dependent on previous performance on the Board and the required skill sets of the Board at the time of renewal. Directors can serve up to 3 consecutive terms for a total of 9 years, with the exception that, in special circumstances, and on the recommendation of the Governance Committee, the Board of Directors may annually extend a Director's tenure by one additional year. However, in no case shall a Director serve more than 12 years.

## **Director Interlock**

The Board of Directors does not set a formal limit on the number of interlocking board memberships. The Governance Committee reviews director interlock as part of its annual evaluation of director independence. As of the date hereof, there are no public company board interlocks among the directors.

## **Special Strategic Review Committee**

A Special Strategic Review Committee of the Board comprising of four of the Company's independent directors was formed in December, 2015. The Chair of the Committee is Murray Wallace. The other members of the Committee are Brian Reeve, Peter Crawford and Angus Ross. The Committee is responsible for assessing, examining and providing advice to the Board with respect to strategic and financial opportunities facing the Company, including its International operations.

## **Diversity Policy**

The Board has approved a diversity policy which recognizes the importance and value of diversity. The diversity policy provides that the Corporation will recruit and retain the most qualified persons to serve on the Board and within the Corporation based upon the needs of the Corporation and the Board. The Nominating Committee, which is responsible for the director nominee selection process, is responsible for implementing the diversity policy. In identifying the highest quality director nominees, the Committee reviews present and future needs of the Corporation, focusing on the merits of an individual and ensuring a balance of expertise, skills, personal attributes and backgrounds on the Board and within executive officer positions.

The Corporation does not have a written policy specifically relating to the identification and nomination of women directors. The Nominating Committee in its implementation of the diversity policy considers the level of representation of women on the board by ensuring that appropriate women candidates are included in the slate of candidates for the Board's consideration.

The Corporation has not adopted targets for the level of representation of women on the Board or in executive officer positions, because the Corporation believes that it should not focus on a specific identified group. Diversity is important to the Corporation's Board and management, as it is only through access to the most diverse pool of talent will the most talented individuals be recruited and retained to serve on its Board and within the Corporation. In considering new Board nominees and executive officer appointments, diversity is one of the key criteria considered by the Corporation. The Corporation and the Board of Directors continually reviews and measures its composition, including the representation of women, having regard to the present and future needs of the Corporation and the Board's structure, including the balance of expertise, and skills, personal attributes and backgrounds brought by individual executives and directors and their length of service, where continuity and diverse experience can add significantly to the strength of the Corporation and to the Board.

The diversity policy commits the Corporation to actively recruiting and advancing women into Board and executive management positions. As of March 10, 2017, 22% (2 of 9) directors of the Corporation and 27% (4 of 15) of the executive officers of the Corporation and its major subsidiaries are women. Of the directors nominated by management for election at this Meeting, 11% (1 of 9) are women.

## **Position Descriptions**

The Board of Directors has developed written position descriptions for the CEO, the Directors of the Board, the Chair of the Board and for the Chairs of each Board committee.

## **Orientation and Continuing Education**

The Governance Committee's duties include ensuring that new members of the Corporation's Board of Directors receive appropriate director orientation to familiarize such directors with, among other things, the Corporation's business, strategic plans, significant financial, accounting and risk management issues, compliance programs, principal officers, and independent auditors. The Corporation encourages each director to participate in continuing educational programs in order to maintain the necessary level of expertise to perform his or her responsibilities as a director.

## **Ethical Business Conduct**

Under the guidance of the Audit and Risk Committee, the Board of Directors has adopted a written Code of Ethics (the "Code") for the Corporation's directors, officers and employees that sets out the Board's expectations for the conduct of such persons in their dealings on behalf of the Corporation. The Code is available through SEDAR at [www.sedar.com](http://www.sedar.com).

The Audit and Risk Committee has approved confidential reporting procedures in order to encourage employees, Directors and Officers to raise concerns regarding matters addressed by the Code, on a confidential basis free from discrimination, retaliation or harassment. Employees who violate the Code may face disciplinary actions, including dismissal.

The Corporation's managers and Chief Compliance Officer (CCO) together are responsible for communicating the Code to officers and employees. The CCO monitors overall compliance with the Code, provided that all issues and concerns specifically related to accounting, internal financial controls and/or auditing will be reviewed and forwarded to the Audit and Risk Committee.

In addition, in order to ensure independent judgment in considering potential transactions in which a Director, Officer or Insider has a material interest, the Governance Committee's duties include: reviewing any issues related to business ethics or potential conflict of interest between the Corporation and any parties related to Directors or Officers of the Corporation, and advise the Board of Directors on the appropriate course of action; reviewing and providing recommendations to the Board on any related party transactions that may have a material effect on the Corporation; and monitoring the procedures to resolve conflicts of interest established by the Board on the recommendation of the Governance Committee.

In addition to the Code, the Corporation has adopted a Disclosure Policy to ensure that communications to the public are timely, factual, accurate and broadly disseminated in accordance with applicable securities laws.

## **Audit and Risk Committee**

Currently, the Audit and Risk Committee is comprised of five Directors of the Corporation. The members of the Audit and Risk Committee are: Peter Crawford (Chair), Ani Hotoyan-Joly, Sharon Ranson, Angus Ross and Murray Wallace, all of whom are independent and financially literate for the purposes of NI 52-110, and four of which have accounting or related financial management experience. Further disclosure relating to the Audit and Risk Committee and its members, as required by NI 52-110 can be found on pages 15 and 16 and in Appendix "A" of the Corporation's Annual Information Form dated March 10, 2017, which is available on [www.sedar.com](http://www.sedar.com).

## **Governance Committee**

The current members of the Governance Committee are Ani Hotoyan-Joly (Chair), Peter Crawford, Andrew Pastor and Brian Reeve. None of the members of the Governance Committee are officers or employees or former officers or employees of the Corporation. All are independent directors. None of the Governance Committee members are eligible to participate in the Corporation's executive compensation programs.

The Governance Committee is responsible for, among other things, reviewing and recommending the form and adequacy of compensation arrangements for executives, officers and directors, having regard to associated risks and responsibilities. The Governance Committee's breadth of executive compensation knowledge was developed from their different combined experiences, as entrepreneurs, business owners and senior executives in large corporations.

The Committee provides oversight and leadership of corporate governance, on such matters as Board composition, Board performance evaluation, Board education and orientation, Board and management succession planning and regulatory compliance. In its role as the Corporations' Conduct Review Committee the Committee quarterly reviews existing and ongoing related party transactions, considers any potential conflicts of interest, provides oversight to the Chief Compliance Officer and reviews related policies. In order to ensure transparency, the Committee also reviews and provides assurances to the Board on Code of Ethics procedures, whistle-blower arrangements and material contracts.



The Governance Committee Chair and Board Chair conduct an annual performance review of the Chief Executive Officer based on the performance of the business, achievement of the Corporation's financial and strategic objectives, development of management and other criteria determined by the Governance Committee. The Chief Executive Officer's annual objectives are established and assessed. These objectives include the general mandate to manage the Corporation and to maximize shareholder value.

Along with the Board Chair, members of Governance Committee also function as a Nominating Committee. For the purposes of the 2017 Annual General Meeting, the Nominating Committee was Brian Reeve (Chair), Andrew Pastor and Rob Purves. The Nominating Committee, with input from board members, identified, screened and recommended candidates for Board membership. Nominees for director were selected on the basis of, among other things, experience, knowledge, skills, expertise, integrity, ability to make independent analytical inquiries, diversity, understanding of the Corporation's business environment and willingness to devote adequate time and effort to Board responsibilities.

Further information regarding the activities and recommendations of the Governance Committee is provided in the "Executive Compensation" section of this Circular.

#### **Activities of the Governance Committee in 2016:**

In 2016, the Governance Committee, in accordance with its Mandate, accomplished the following:

##### *Compensation*

- Reviewed the market positioning of the Corporation and conducted annual merit and market review of senior management compensation, including that of the CEO;
- Reviewed and approved the remuneration for senior management;
- Reviewed and approved Short-Term Incentive Plans for Senior Management and employees and Long-Term Incentive Plans including plans for Senior Management; and
- Reviewed and approved the CEO's Short-Term Incentive Plans, Long-Term Incentive Plans and total compensation.

##### *Assessments and Succession Planning*

- Developed a succession plan for the Chief Executive Officer and reviewed the succession plans with respect to other members of Senior Management, including the heads of the oversight functions;
- Met with the CEO to discuss the CEO's performance review for 2016 and determine objectives for 2017; and
- Reviewed and considered succession plans for the Board of Directors and the Board Committees.

##### *Strategies and Mandate of the Committee*

- Reviewed and approved the Mandate, including the Work Plan of the Committee.

##### *Board Performance*

- Conducted a Board self-assessment; and
- Reviewed and updated the Board Capability Matrix in order to identify board strengths to assist the Nominating Committee.

##### *Governance and Board Operations*

- Reviewed committee charters and work plans;
- Reviewed and updated Board mandates;
- Reviewed Board Tenure Policy and Board independence criteria;
- Reviewed and updated the Corporation's Disclosure Policy and Board Tenure Policy; and
- Approved a new Insider Trading Policy and Responsible Persons Assessment Policy.

## **Board Assessments**

The Governance Committee is responsible for assessing the effectiveness of the Board, and the committees of the Board. The Board has a formal annual process for the performance evaluation of the Board, its Committees, individual directors and the Chair of the Board through a self-assessment process. The results of the self-assessment are reviewed by the entire Board. External Board performance assessments are conducted every five years and in 2015, the Governance Committee sponsored an external Board assessment through the governance advisory services of The Anderson Governance Group. The members of the Board reviewed the effectiveness of the Board and its Committees, contributions as a director, preparation for and performance at meetings and overall corporate governance matters.

The Nominating Committee utilizes the results of the assessment process and the Board Capability Matrix in determining the characteristics and critical skills required of prospective candidates to the Board and making recommendations to the Board with respect to assignments of Board members to various committees. Further information regarding the assessment process of the Board is described in the Board of Directors Mandate attached as Schedule "A".

## **Investment Committee**

The Investment Committee is currently comprised of Angus Ross (Chair), Andrew Pastor, Sharon Ranson and Brian Reeve, who are independent for the purposes of NI 52-110. The Investment Committee is responsible for, among other things, reviewing and recommending to the Board formal investment guidelines including objectives and investment constraints, for all portfolios of investment assets within the Corporation.

## **ADDITIONAL INFORMATION**

Additional information relating to the Corporation is contained at the Corporation's website, [www.eqi.ca](http://www.eqi.ca) and at [www.sedar.com](http://www.sedar.com), the Internet site maintained by the Canadian securities regulators.

Financial information for the Corporation's most recently completed financial year, being December 31, 2016, is provided in the Corporation's comparative financial statements for the year ended December 31, 2016, and management's discussion and analysis of such financial results.

Upon request to the Corporation, at 2680 Matheson Blvd. East, Suite 300, Mississauga, Ontario L4W 0A5, fax number 905-214-8028, the Corporation will send to the person or company making such request (without charge to a shareholder) a copy of the Corporation's financial statements for the year ended December 31, 2016, and any interim financial statements of the Corporation issued after December 31, 2016, together with management's discussion and analysis of such financial results.

## **SHAREHOLDER PROPOSALS**

Persons entitled to vote at the next annual meeting of the Corporation who wish to submit a proposal for consideration at the meeting must submit their proposal to the Corporation before March 10, 2018.

\* \* \* \* \*

## **DIRECTORS' APPROVAL**

The contents and the sending of this Circular have been approved by the Board of Directors of the Corporation.

Dated as of March 10, 2017.

**Echelon Financial Holdings Inc.**

**Board of Directors Mandate**

**1 INTRODUCTION**

- 1.1 The Board of Directors (the "Board") of Echelon Financial Holdings Inc. (the "Company") is responsible for the stewardship of the Company. In discharging its fiduciary duties the Board and its members promote and act in the best interests of the Company. The Board will consider various stakeholder interests in determining whether they are acting in the best interests of the Company including the interests of shareholders, employees, suppliers, creditors, regulators, consumers and regulators.
- 1.2 The Board is responsible for the overall management and direction of the Company, oversees the conduct of the Company's business, and supervises management, which is responsible for the day-to-day operation of the Company. The Board is responsible for monitoring the affairs of the Company consistently with its duty of care and fiduciary duty.

**2 MANDATE**

The Board is responsible for:

- 2.1.1 to the extent feasible, satisfying itself as to the integrity of the chief executive officer (the "CEO") and other senior officers and ensuring that management creates a culture of integrity throughout the Company;
- 2.1.2 adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the business;
- 2.1.3 identifying the principal risks of the Company's business, and ensuring the implementation of appropriate systems to manage these risks;
- 2.1.4 succession planning;
- 2.1.5 establishing and promoting a culture of diversity within the Company;
- 2.1.6 reviewing and monitoring the Company's internal control and management information systems; and
- 2.1.7 developing the Company's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the Company.

**3 COMPOSITION AND BOARD ORGANIZATION**

- 3.1 Directors will be elected annually by the shareholders.
- 3.2 A majority of directors comprising the Board must qualify as independent directors, as defined in section 1.4 of National Instrument 52 110 — Audit Committees ("NI 52 110").
- 3.3 The Board will annually make recommendations to the shareholders on the size and composition of the Board.
- 3.4 The Board will elect one of its members to be the Chair of the Board. The Chair of the Board will be an independent director.
- 3.5 Certain of the Board's responsibilities may be delegated to committees. The responsibilities of those committees will be as set forth in their charters.
- 3.6 Board members shall have access to the Company's management and, as appropriate, to the Company's outside advisors. Board members shall coordinate access through the Chief Executive Officer. Board

members will use judgment to assure that this access is not distracting to the business operations of the Company.

## **4 DUTIES AND RESPONSIBILITIES**

### **4.1 Managing the Affairs of the Board**

The Board operates by delegating certain of its authorities, including spending authorizations, to management, and by reserving certain powers to itself. The legal obligations of the Board are described under Section 6. Subject to these legal obligations and to the Articles of Incorporation and bylaws of the Company, the Board retains the responsibility for managing its own affairs, including:

- 4.1.1 annually reviewing the skills and experience represented on the Board in light of the Company's strategic direction and approving a Board composition plan recommended by the Governance Committee;
- 4.1.2 establishing policies for board membership tenure;
- 4.1.3 determining the composition, and appointing members, of Board committees and adopting committee charters;
- 4.1.4 determining and implementing an appropriate process for assessing the effectiveness of the Board, the Board Chair, committees and individual directors in fulfilling their responsibilities;
- 4.1.5 determining the Board meeting schedule and attendance requirements of Board members;
- 4.1.6 assessing the adequacy and form of director compensation;
- 4.1.7 assuming responsibility for the Company's governance practices;
- 4.1.8 establishing new director orientation and ongoing director education processes;
- 4.1.9 ensuring that the independent directors meet regularly without executive directors or management present;
- 4.1.10 setting the mandate and work plan of the Board; and
- 4.1.11 appointing the secretary to the Board.

### **4.2 Human Resources**

The Board has the responsibility to:

- 4.2.1 appoint the CEO, settle the CEO's responsibilities and authority, set the CEO's compensation, and plan CEO succession;
- 4.2.2 provide advice and counsel to the CEO in the execution of the CEO's duties;
- 4.2.3 annually approve corporate goals and objectives that the CEO is responsible for meeting;
- 4.2.4 monitor and, at least annually, review the CEO's performance against agreed upon annual objectives;
- 4.2.5 approve the CEO's acceptance of significant public service commitments or outside directorships;
- 4.2.6 consult with the CEO, as needed, on decisions relating to senior management, including:
  - (a) senior management structure including such duties and responsibilities to be assigned to officers of the Company;
  - (b) the appointment and discharge of the officers of the Company who report to the CEO;

- (c) compensation plans for senior management including salary, incentive, benefit, and pension plans; and
  - (d) employment contracts, termination, and other special arrangements with executive officers, or other employee groups;
- 4.2.7 approve certain matters relating to employees generally, including:
- (a) the Company's broad compensation strategy and philosophy;
  - (b) new benefit programs or material changes to existing programs; and
- 4.2.8 ensure succession planning programs are in place, including programs to train and develop management.

### **4.3 Strategy and Plans**

The Board has the responsibility to:

- 4.3.1 adopt and periodically review a strategic planning process for the Company;
- 4.3.2 participate with management in the development of, and annually approve, a strategic plan for the Company that takes into consideration, among other things, the risks and opportunities of the business;
- 4.3.3 approve annual capital and operating budgets that support the Company's ability to meet its strategic objectives;
- 4.3.4 direct management to develop, implement, and maintain a reporting system that accurately measures the Company's performance against its business plans; and
- 4.3.5 approve material divestitures and acquisitions.

### **4.4 Financial and Corporate Issues**

The Board has the responsibility to:

- 4.4.1 take reasonable steps to ensure the implementation and integrity of the Company's internal control and management information systems;
- 4.4.2 review and approve release by management of any materials reporting on the Company's financial performance or providing guidance on future results to its shareholders and ensure the disclosure accurately and fairly reflects the state of affairs of the Company, and is in accordance with generally accepted accounting principles, including interim results, press releases, and interim financial statements, any guidance provided by the Company on future results, Company information circulars, annual information forms, annual reports, offering memoranda and prospectuses;
- 4.4.3 declare dividends;
- 4.4.4 approve financings, issue and repurchase of shares, issue of debt securities, listing of shares and other securities, issue of commercial paper, and related prospectuses and recommend changes in authorized share capital to shareholders for their approval;
- 4.4.5 approve the incurring of any material debt by the Company outside the ordinary course of business;
- 4.4.6 based upon recommendations of the Governance Committee, annually nominate directors for Board membership;
- 4.4.7 approve the commencement or settlement of litigation that may have a material impact on the Company; and
- 4.4.8 recommend the appointment of external auditors and approve auditors' work plans and fees.

#### **4.5 Business and Risk Management**

The Board has the responsibility to:

- 4.5.1 ensure management identifies the principal risks of the Company's business and implements appropriate systems to manage these risks; and
- 4.5.2 evaluate and assess information provided by management and others about the effectiveness of risk management systems.

#### **4.6 Policies and Procedures**

The Board has the responsibility to:

- 4.6.1 approve and monitor, through management, compliance with all significant policies and procedures that govern the Company's operations;
- 4.6.2 approve and act as the guardian of the Company's corporate values, including:
  - (a) approve and monitor compliance with a Code of Ethics for the Company and ensure it complies with applicable legal or regulatory requirements;
  - (b) require management to implement procedures to monitor compliance with the Code of Ethics and to report to the Board through the Audit and Risk Committee; and
  - (c) disclose any waivers granted from provisions of the Code of Ethics in a manner that meets or exceeds regulatory requirements;
- 4.6.3 direct management to ensure the Company operates at all times within applicable laws and regulations and to the highest ethical and moral standards; and
- 4.6.4 regularly review and revise, as needed, Board policies and required Company governance and risk management documentation.

#### **4.7 Compliance Reporting and Corporate Communications**

The Board has the responsibility to:

- 4.7.1 ensure the Company implements effective policies and processes for communication with shareholders, other stakeholders, and regulatory agencies;
- 4.7.2 approve and periodically review the Company's communications policy, including the Disclosure Policy;
- 4.7.3 ensure the Board implements measures to receive feedback from shareholders;
- 4.7.4 approve interaction with shareholders on all items requiring shareholder response or approval;
- 4.7.5 ensure the Company's financial results are reported fairly, in accordance with generally accepted accounting principles, and are adequately reported to shareholders, other stakeholders, and regulators on a timely and regular basis;
- 4.7.6 ensure the CEO and chief financial officer certify the Company's annual and interim financial statements, annual and interim MD&A and Annual Information Form, and that the content of the certification meets all legal and regulatory requirements;
- 4.7.7 ensure timely reporting of any other developments that have a significant and material effect on the Company; and
- 4.7.8 report annually to the shareholders on the Board's stewardship for the preceding year.

## **5 COMMITTEES**

5.1 To assist it in exercising its responsibilities, the Board has established three standing committees of the Board:

- 5.1.1 Audit and Risk Committee,
- 5.1.2 Governance Committee, and
- 5.1.3 Investment Committee.

The Audit and Risk Committee and the Governance Committee shall each be composed entirely of “independent” directors (as such term is defined in NI 52-110).

The Board may establish other committees, from time to time.

- 5.2 The Company may also establish a Disclosure Committee which will not be a committee of the Board and whose membership may include non-directors.
- 5.3 Every committee shall have a written charter. At a minimum, each charter shall clearly establish the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members and subcommittees), and manner of reporting to the Board. Each charter shall be reviewed by the Board on at least an annual basis.
- 5.4 The Board is responsible for appointing directors to each committee, in accordance with the written charter for each committee.

## **6 GENERAL LEGAL OBLIGATIONS**

6.1 The Board is responsible for:

- 6.1.1 directing management to ensure legal requirements have been met, and documents and records have been properly prepared, approved and maintained;
- 6.1.2 recommending changes in the Articles of Incorporation and bylaws, matters requiring shareholder approval, and setting agendas for shareholder meetings; and
- 6.1.3 supervising the management of the business and affairs of the Company.

6.2 The Ontario Business Corporations Act identifies the following as legal requirements for each member of the Board (in addition to any statute or rule of law or equity relating to duties or liabilities of directors):

- 6.2.1 to act honestly and in good faith with a view to the best interests of the Company;
- 6.2.2 to exercise the care, diligence, and skill that a reasonably prudent individual would exercise in comparable circumstances; and
- 6.2.3 to act in accordance with the Ontario Business Corporations Act and any regulations thereto, and the Articles of Incorporation and bylaws of the Company.

## DIRECTOR RECRUITMENT, SELECTION AND NOMINATION PROCESS

### Overview

The Nominating Committee of the Board of Directors of the Company, is responsible for identifying, screening and recommending candidates to the Board to become members of the Company's Board of Directors, considering advice and recommendations from others as it deems appropriate and will review and approve management recommended changes to subsidiary Boards prior to the appointment of Board candidates. The Governance Committee appointed the members of the "Nominating Committee".

In addition the Nominating Committee of the Company's Board of Directors is responsible for implementing the Board and Company policy on diversity within the scope of its mandate, when recruiting directors to the Board. In considering new Board appointments, diversity is one of the key criteria considered by the Nominations Committee. The Board continually reviews its composition having regard to the present and future needs of the Company and the Board's structure, including the balance of expertise, and skills, personal attributes and backgrounds brought by individual directors and their length of service, where continuity and experience can add significantly to the strength of the Board. Diversity is important to us as we believe that only through access to the most diverse pool of talent will we recruit and retain the most talented individuals to serve on our Board.

All nominating responsibilities and procedures will be in accordance with local regulatory requirements, and will take into consideration, advice and recommendations from others as it deems appropriate.

Potential candidates are identified by the Nominating Committee through a variety of means, including the use of search firms, recommendations of Board members, recommendations of executive officers and shareholder recommendations.

### Director Recruitment

The Chairman of the Board, the Nominating Committee, or other Board members, identify the need to add new members to the Board or to the Board of a subsidiary. The Nominating Committee reviews the Board Capability and Board Dynamics Matrix framework which identifies the appropriate specific criteria required for new and current directors to ensure a fit with both the current and future strategic needs of the business and the characteristics that contribute to a healthy and dynamic board culture.

### Director Selection

*Phase 1:* The Nominating Committee Chair initiates a search working with staff support and seeking input from the members of the Board and senior management and hiring a search firm, if necessary. Board candidates can be found through various sources, including the Registrar at the Institute of Corporate Directors.

*Phase 2:* The Nominating Committee meets and reviews the resumes of potential candidates and makes a selection of those candidates who have the skills and the experiences that the Board is seeking to fill in.

*Phase 3:* The Nominating Committee invites the candidates selected in Phase 2 to an interview and after completing these interviews recommends the candidates that meet the required criteria. A structured interview guide is used for consistency purposes. Candidates may be invited to meet the CEO for an informal discussion in regards to the business and relationship between the Board and Management.

*Phase 4:* After reviewing in aggregate the Candidates' assessments, the Nominating Committee makes a recommendation on the nomination of the chosen candidate(s) to the Board at the next Board meeting.

*Phase 5:* Once the candidates confirm they wish to have their names put forward for nomination, the candidates are screened for potential conflicts of interest and adherence to the Responsible Person Assessment Policy and OSFI guideline E17.

*Phase 6:* The Board reviews the recommendations of the Nominating Committee and formally nominates a candidate(s) for election to the Board, having confirmed the candidate's willingness to stand for election. The Board Chair, on behalf the Board, invites the candidate(s) to have their name stand for nomination and consent to resign if majority voting threshold for election is not met.