

Governance Committee Charter



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GOVERNANCE COMMITTEE OF THE BOARD OF DIRECTORS

CHARTER

I. MANDATE / PURPOSE

The Governance Committee (the “Committee”) of the Board of Directors (the “Board”) of the Echelon Financial Holdings Inc. and Echelon Insurance shall provide assistance to the Board in fulfilling its responsibility to the organization by:

- (a) Advising the Board on matters related to the Board and Corporate governance structure, processes and policies and is responsible for performing the duties set out in this Charter to enable the Board to fulfill its corporate governance oversight responsibilities.
- (b) The Committee shall act as the Conduct Review Committee of the organization as required under the Insurance Companies Act (Canada) (“the Act”) and will carry out its responsibilities with respect to Self-Dealing and any other matters involving conflicts of interests and the conduct of related parties to the organization.
- (c) Assisting the Board in enhancing its performance.
- (d) Assisting the Board in discharging, the responsibility of the Board relating to leadership, human resource planning and compensation, as set out in this Charter. As such, all members of the Committee shall have, or acquire within a reasonable period of time following their appointment, a broad understanding of issues related to human resources and compensation with particular emphasis on executive compensation.
- (e) The Governance Committee of the Board is responsible for identifying, screening and recommending candidates to the Board to become members of the Board, including the Board of Directors of any of the organization’s subsidiaries, considering advice and recommendations from others as it deems appropriate. For purposes of these nominating procedures, the Governance Committee is constituted as the “Nominating Committee” of the Board of Directors.

II. ACCOUNTABILITIES AND RESPONSIBILITIES

The Governance Committee shall have the accountabilities and responsibilities set out below as well as any other matters that are specifically delegated to the Committee by the Board. The Committee shall perform the duties required of a corporate governance committee, compensation committee, nominating committee and a conduct review committee (as described in the Insurance Companies Act (Canada)) The Committee will also have responsibility for the oversight of the requirements of the stock exchanges on which the securities of Echelon Financial Holdings Inc. are listed.

(1) **Oversight of Corporate Governance Matters**

- (a) *Governance Framework/Work Plan* – At least annually, the Committee shall review and, if advisable, approve and recommend for Board approval, policies and process forming the organization’s governance framework.
- (b) *Governance Activity* – At least annually, the Committee shall review the organization’s governance activities and approve changes it considers appropriate. As part of its review, the Governance Committee shall take into account regulatory requirements and best practices. At least annually, the Committee shall report to the Board on the state of the organization’s governance activities.

- (c) Disclosure Policy – At least annually, the Committee shall review the organization's processes for administering the organization's Disclosure Policy, as it relates to compensation.
- (d) Governance Disclosure – The Committee shall prepare, in conjunction with management, Corporate governance disclosure for the organization's annual reports and management proxy circulars. This corporate governance disclosure must be approved by the Committee prior to its dissemination.
- (e) Review of Oversight Positions – The Committee annually reviews the role descriptions of the Chief Financial Officer, Chief Actuary, Chief Compliance Officer and the Chief Audit Executive.

(2) Composition and Performance of the Board and its Committees

- (a) *Recommend for Nomination and/or Appointment of Directors* – The Committee shall consider and, if advisable, recommend for Board approval, candidates for nomination or appointment to the Board.
- (b) *Committee Appointments* – The Committee shall consider and recommend for Board approval, the appointment of directors to Board committees.
- (c) *Removal of Director from the Board.* The Committee may recommend for Board approval the removal of a director from the Board if he or she is no longer qualified to serve as a director under applicable law or for any other reason the Committee and the Board considers appropriate.
- (d) *Director Qualifications/Competencies* – The Committee shall establish and recommend for Board approval appropriate criteria for the selection of Board and Board committee members, including competencies and skills that the Board, as a whole, should possess. At least annually, the Committee shall review the organization's director qualification criteria and recommend for Board approval changes it considers appropriate.
- (e) *Director Education and Orientation* – The Committee shall have oversight over director education programs. At least annually, the Committee shall review this program and approve changes it considers appropriate. The Committee is responsible for providing Director Orientation to newly appointed directors.
- (f) *Chair of the Board* – At least annually, the Committee shall review and recommend for Board approval, the goals of the Chair of the Board as related to the overall goals of the Board.
- (g) *Director Compensation* – At least biennially, the Committee shall review and, if advisable, approve and recommend for Board approval director compensation, as comparable to director compensation of companies of comparable size, industry and complexity.
- (h) *Mandate Review* – At least biennially, the Committee shall review and, if advisable, approve and recommend for Board approval the mandates and roles of the Board, each Board committee, the Chief Executive Officer, the Chair of the Board and the Chair of each Board committee. This review shall include a review of the delegations of authority between the Board and its committees and shall be conducted in conjunction with the applicable Board committee or person, having regard to best practices, regulatory requirements and an assessment of significant risk areas for the organization within the mandate of the applicable person or committee, including, strategic, operational, financial and regulatory risks.

- (i) *Performance Assessment* – At least annually, the Committee shall conduct an assessment of the performance of the Board, the Board directors, each Board committee and the Chair of the Board against criteria the Corporate Governance Committee considers appropriate. The Committee shall report its findings to the Board and, based on those findings, recommend any action plans that the Committee considers appropriate. The engagement of an external party to complete an external assessment of the board will be every 5 years and will be reviewed as part of the board performance assessment process.
- (j) *Director Independence* – The Committee shall establish and recommend for Board approval criteria for determining director independence. At least annually, the Committee shall evaluate each director against the independence criteria approved by the Board and shall make a recommendation to the Board, based on these criteria, on the independence of each director. At least annually, the Committee shall review the director independence criteria and recommend for Board approval changes it considers appropriate.
- (k) *Director Tenure* – At least annually, the Committee shall review and, if advisable, approve and recommend for Board approval, criteria for the tenure of directors.
- (l) *Majority Voting Policy* – The Board has approved a Majority Voting policy. The Committee is responsible for oversight and implementation of Majority Voting policy. At least annually, the Committee shall review and if advisable, recommend for Board approval any amendments to the Majority Voting policy.

(3) Chair of the Board Succession

At least annually, the Committee shall review a succession and emergency preparedness planning process for the Chair of the Board and recommend the process for Board approval. The Committee may recommend for Board approval the removal of the Chair of the Board for any reason the Committee considers appropriate. Upon the vacancy of the Chair of the Board, the Committee may make a replacement recommendation to the Board based on the succession planning process.

(4) Nominating Committee Procedures

Director Recruitment

The Chairman of the Board, the Nominating Committee, or other Board members, identifies the need to add new members to the Board or to the Board of a subsidiary. The Nominating Committee of the Board 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 Chair invites the candidates selected in Phase 2 to a telephone interview and after completing these interviews recommends the ones that meet the required criteria for a formal interview with the Chair of the Board, the Chair of the Nominating Committee and one other

member of this Committee. 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: The Nominating Committee Chair convenes the Committee for a decision making meeting, reviewing in aggregate the Candidates' assessments using a weighted decision framework. The Committee then makes a decision and recommends 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 OSFI guideline E17 (i.e., background check).

Phase 6: The Board reviews the recommendations for nomination by 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.

(5) Conflicts of Interest and Conduct Review

(a) Self Dealing and Conflicts of Interest – the Committee shall:

- (i) Require management to establish procedures for complying with Part XI (Self Dealings) of the Insurance Companies Act (Canada) and review these procedures and their compliance effectiveness;
- (ii) Review the practices of the organization to verify that procedures are in place to identify any transactions with related parties of the organization that may have a material effect on the stability or solvency of the organization;
- (iii) Confirm that management has established criteria that measure whether the value of a transaction entered into with a related party of the organization is nominal or immaterial to the organization;
- (iv) Monitor the procedures established by the Board to resolve conflicts of interest, including techniques or the identification of potential conflict situations and for restricting the use of confidential information, as required by the Insurance Companies Act (Canada); and
- (v) Monitor the procedures established by the Board to provide disclosure of information to clients of the organization that is required to be disclosed by the Insurance Companies Act (Canada) and for dealing with complaints, and to satisfy itself that the procedures are being adhered to.

(b) Compliance with the organization's Codes of Conduct for Employees and Contractors and the organization's Code of Ethics for Directors – the Committee shall:

- (i) At least annually, review and, if advisable, approve and recommend for Board approval the organization's Codes of Conduct for Employees and Contractors and the organization's Code of Ethics for directors;
- (ii) Review and, if advisable, approve the organization's processes for administering the Codes of Conduct for Employees and Contractors and the Code of Ethics for Directors.
- (iii) Review and, if advisable, approve policies and procedures with respect to officers' and directors' expenses and perquisites and consider the results of any review of these areas by the internal auditors or the external auditors.

(6) Compensation, Performance and Incentive Plans:

- (a) *Compensation and Performance of the Chief Executive Officer – the Committee shall:*
- (i) Set performance objectives for the Chief Executive Officer (the “CEO”), which encourage the organization’s long-term financial success and regularly measure the CEO’s performance against these objectives.
 - (ii) Recommending to the Board the compensation plan of the CEO.
 - (iii) To undertake succession planning for the position of CEO (and other senior roles as applicable), and to make recommendations concerning such plan to the Board of Directors.
- (b) *Compensation and Performance of the Senior Officers, reporting to the CEO and any other officer whose compensation may be disclosed in the organization’s annual report on executive compensation, and any other Officer at the discretion of the Committee – the Committee shall:*
- (i) Ensure that the Chief Executive Officer has a process in place for the performance assessment, including as to business ethics and conduct, of those Senior Officers reporting to the CEO and any other Officer whose compensation may be disclosed in the organization’s annual report on executive compensation, and any other Officer at the discretion of the Committee;
 - (ii) At least annually - review and approve the total compensation of (i) those Senior officers of the organization, reporting to the CEO, and any other senior officer whose compensation may be disclosed in the organization’s annual report on executive compensation, and any other officer at the discretion of the Committee.
 - (iii) Ensure that a succession planning process is in place for all critical leadership positions in the organization, and to review the CEO’s succession plans for such officers at least annually.
 - (iv) At least annually, review the overall framework of the annual corporate compensation plans.
 - (i) Based on recommendations from the CEO, recommend to the Board for approval, the appointment and or termination of compensation plans of Officers of the organization.
 - (ii) Recommend, set and monitor share ownership guidelines for officers of the organization.
 - (iii) Review and recommend to the Board, the approval of awards, on an aggregate basis, under all incentive or compensation plans for Senior Officers of the organization

(7) Regulatory Reports and Returns

The Committee shall provide or review, as applicable, all reports and returns required of the Committee under applicable law.

(8) Assessment of Regulatory Compliance

The Committee shall review management’s assessment of compliance with laws and regulations, as they pertain to responsibilities under this mandate, report any material findings to the Board and recommend changes it considers appropriate.

(9) Delegated Authority

The Board has delegated to the Committee primary responsibility for certain Board activities, policies and oversight functions. In that respect, the Committee has authority to review, amend and approve the policies and items listed in the attached Appendix "A" (the "Delegated Authority"). Any action taken by the Committee under the Delegated Authority is deemed to have been approved by the Board. The Committee may, if it deems necessary, recommend that the Board review and approve any of the item for which it has Delegated Authority. On a quarterly basis the Committee will advise the Board what actions were taken under the Delegated Authority.

III. MEMBERSHIP AND ORGANIZATION

(1) Composition

The Committee is a standing committee of the Board consisting of a minimum of three members, all of whom are independent Directors. The Committee shall be composed entirely of directors who are independent and who satisfy all other applicable legal, regulatory and stock exchange requirements necessary for an assignment to any such committee. At the invitation of the Committee, members of the organization's management and others may attend Committee meetings as the Committee considers necessary or desirable.

(2) Appointment

The Committee is comprised of the Chairperson of the Committee along with a minimum of two other members (Directors) elected by the non-management Directors on the Board. Each member of the Committee shall be appointed by the Board on an annual basis and shall serve at the pleasure of the Board, or until the earlier of: (a) the close of the next annual meeting of shareholders of the organization, at which the member's term of office expires; (b) the resignation, disqualification or removal of the member from the Committee or from the Board. The Board may fill a vacancy in the membership of the Committee at any time.

(3) Chair

At the time of the annual appointment of the members of the Committee, the Board shall appoint a Chair of the Committee. The Chair shall: preside over all Committee meetings; coordinate the Committee's compliance with this mandate/terms of reference; work with management to develop the Committee's meeting agendas and annual workplan; and provide reports on the work of the Committee to the Board. The Chair of the Committee may vote on any matter requiring a vote and shall provide a second vote in the case of a tie vote.

(4) Independence

Each member of the Committee shall meet the independence standards established by the Board and any additional standards required of a member of a conduct review committee under the Insurance Companies Act (Canada).

(5) Authority

The Committee shall have unrestricted access to management and employees of the Organization.

(6) Delegation

The Committee may designate a sub-committee to review any matter within this mandate as the Committee deems appropriate.

(7) **Meetings**

The Committee will meet at least four times per year and, as required, to carry out its mandate/terms of reference, and will meet at the request of the Board or management to review any proposed matters as required. The Chairman of the Committee may call a meeting of the Committee at any time.

Notice of a meeting of the Committee shall be given to each member of the Committee. Notice of each meeting of the Committee shall be given to the Chairman of the Board (if not a member of the Committee) and to the Chief Executive Officer, who shall be entitled to attend at the meeting. The Committee will however have the right to meet alone without the presence of officers and employees of the organization. The Committee may, from time to time, invite such persons as it may see fit to attend its meeting and to take part in discussion and consideration of the affairs of the Committee.

(8) **Secretary and Minutes**

The Corporate Secretary, his or her designate or any other person the Committee requests, shall act as secretary of Committee meetings. Minutes of Committee meetings shall be recorded and maintained by the Corporate Secretary and subsequently presented to the Committee for approval.

(9) **Reporting**

The Chair shall report to the Board on material matters arising at Committee meetings and, where applicable, shall present the Committee's recommendations to the Board for its approval. After each meeting of the Committee where conduct review matters are discussed, the Chair shall report to the Board on the Conduct Review matters considered by the Committee.

(10) **Annual Work Plan and Schedule**

The Committee adopts a work plan and annual schedule of activities at its first meeting following its election each year.

REFERENCE DOCUMENTS AND ATTACHMENTS

- OSFI Corporate Governance Guidelines
- Related Party Transactions Regulations
- Annual Work Plan
- Appendix A – Delegated Authority



APPENDIX "A"

DELEGATED AUTHORITY

The Board has delegated to the Governance Committee the authority to annually review, amend as necessary and approve the following:

- Director Role Description
- CFO, CCO CAE and CAO role descriptions
- Share Ownership Guidelines for Directors and Senior Management
- Majority Voting Policy
- Compliance Department Mandate, Annual Workplan and Budget
- Annual Short Term Incentive Plan Wording
- Annual Proxy Forms
- Responsible Person Assessment Policy
- Board Orientation Process
- Senior Management Succession Plans
- Insider Trading Policy