



# 2018 Annual Information Form

ECHELON FINANCIAL HOLDINGS INC.

**March 6, 2019**

in respect of the financial year  
ended December 31, 2018

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Unless otherwise indicated, all information in this Annual Information Form (“AIF”) is presented as at and for the year ended December 31, 2018, and amounts are expressed in Canadian dollars. Unless otherwise indicated or the context otherwise requires, references to “EFH” refer to Echelon Financial Holdings Inc. and its subsidiaries, while references to the “Company” refer to Echelon Financial Holdings Inc. itself, both now and in its predecessor forms.

## Cautionary Information Regarding Forward-Looking Statements

Certain statements in this AIF may constitute “forward-looking” statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this AIF, such statements use such words as “may”, “will”, “expect”, “believe”, “plan” and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this AIF. Forward-looking statements involve significant risks, uncertainties and assumptions, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results, performance or achievements discussed in the forward-looking statements, including, but not limited to, the factors discussed under “Risk Factors”. Although the forward-looking statements contained in this AIF are based upon what management of the Company believes, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this AIF, and the Company undertakes no obligation to update or revise them to reflect new events or circumstances.

For additional information with respect to these and other risks or factors, reference should be made to the Company’s continuous disclosure materials and documents filed from time to time with Canadian securities regulatory authorities, available at [www.sedar.com](http://www.sedar.com).

### Agreement to sell Echelon Insurance

On November 9, 2018, the Company announced that it has entered into a definitive agreement to sell Echelon Insurance, its main operating subsidiary, and the unregulated warranty business held directly by EFH to CAA Club Group for \$175 million, payable in cash (“the Sale”). This agreement is subject to customary conditions including receipt of shareholder approval, required insurance regulatory and government approvals, Toronto Stock Exchange approval and Competition Act approval. The detailed terms and conditions of the definitive agreement, including the potential impact of the Sale are disclosed in greater detail in EFH’s recent SEDAR filings.

The commentary in this Annual Information Form was prepared to reflect the Company’s operations without regard to the Sale, and on the premise that Echelon Insurance continues to operate without any change.

## Corporate Structure

### The Company

Echelon Financial Holdings Inc., renamed in May 2015, was formed by Articles of Amalgamation dated January 11, 2005, under the laws of the Province of Ontario on the amalgamation of Canadian Insurance Marketing Inc. (“CIMI”) with its then wholly-owned subsidiary, EGI Financial Holdings Inc. CIMI was originally incorporated by Articles of Incorporation dated August 18, 1997, under the laws of the Province of Ontario.

The Company operates in the property and casualty (“P&C”) insurance industry in Canada. The Company, through its subsidiaries Echelon Insurance and The Insurance Company of Prince Edward Island (ICPEI), underwrites personal and commercial insurance products throughout Canada, with a focus on niche underserved markets.

The Company’s corporate head office and registered office is located at 2680 Matheson Blvd. E., Suite 300, Mississauga, Ontario L4W 0A5.

## Intercorporate Relationships

The following chart sets out the subsidiaries of the Company as at December 31, 2018, including the jurisdiction of incorporation of each subsidiary. All subsidiaries are wholly-owned, except for ICPEI.

### Echelon Financial Holdings



## General Development of the Business

### Three-Year History

EFH operates in the property and casualty (“P&C”) insurance industry in Canada. Founded in 1998 as an insurance and reinsurance broker and marketer, EFH has since evolved its business to focus on underwriting opportunities not served by many of the larger, standard insurers.

On March 7, 2017, the Company completed the sale of its European operations, QIC Holdings A/S, and Qudos Insurance A/S. With this divestiture, the Company focused its attention on the development and expansion of its Canadian operations, in particular, its Surety, Commercial Auto, including Long Haul Trucking, and Commercial Property lines offerings, which were introduced in 2016.

On November 9, 2018, the Company announced that it had entered into a definitive agreement to sell Echelon Insurance, the Company’s main operating subsidiary, and the unregulated warranty business held directly by EFH to CAA Club Group for \$175M, payable in cash. The transaction, which is subject to regulatory approval, is expected to close in the first half of 2019.

## Description of the Business

### General

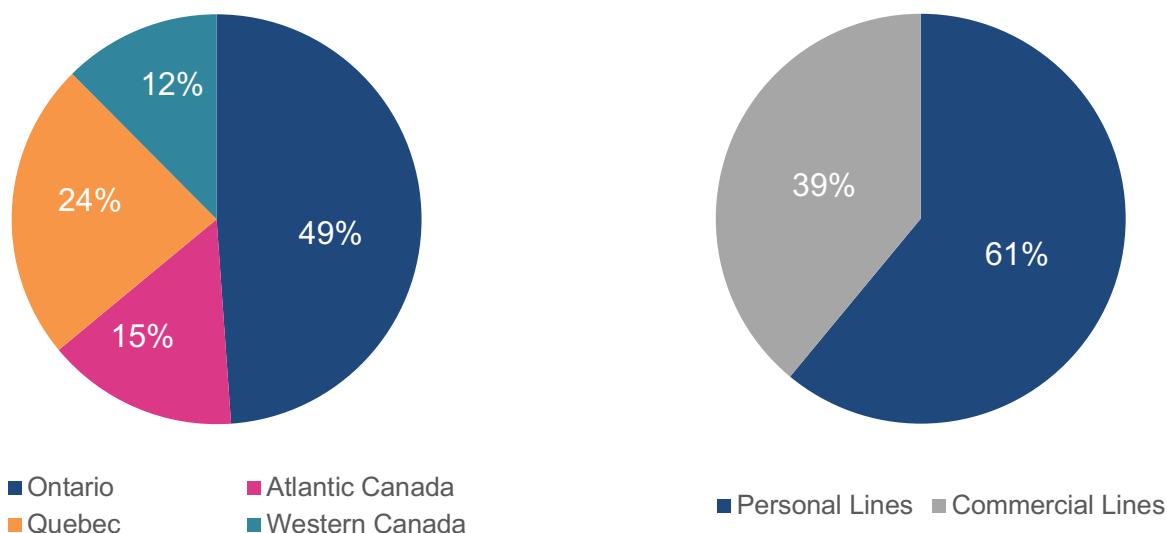
EFH provides Personal and Commercial Insurance across Canada through Echelon Insurance and ICPEI. Both standard and specialty products are available to businesses and individuals.

EFH is committed to offering a consistent line of products across Canada and to provide an alternative market to the brokers from the larger insurers. By offering a complete and diverse lineup of products and an ability to transact efficiently with its brokers through modern systems and outstanding service, EFH is positioned to become a more meaningful partner and gain a greater share of its brokers’ businesses.

The business of EFH and its subsidiaries, including critical accounting estimates and assumptions, is described in more detail in the Company's annual Management's Discussion & Analysis for the financial year ended December 31, 2018, which is incorporated by reference in this AIF.

### Lines of Business

The breakdown of net written premiums during 2018 by region and business line is illustrated below:



### PERSONAL LINES

EFH offers standard and specialty private passenger vehicle coverage in Quebec through Echelon Insurance and in the Maritime provinces through ICPEI. Non-standard and specialty private passenger vehicle coverage across the rest of Canada is offered through Echelon Insurance.

In addition to automobile products, which form the bulk of EFH's Personal Lines business, personal property coverage is offered in select provinces.

#### PERSONAL AUTOMOBILE

Non-standard automobile insurance is the largest single component of EFH's business, with approximately \$236M in direct premiums written over the 12 months ended December 31, 2018. Offered through Echelon Insurance, the non-standard automobile product targets drivers of private passenger and single commercial vehicles who are unable to obtain coverage from standard insurers.

The Company provides coverage for specialty automobiles and recreational vehicles through both Echelon Insurance and ICPEI. Coverage is available for motorcycles, antique and classic cars, trailers, motorhomes, snowmobiles and all-terrain vehicles. Standard personal and commercial automobile insurance is offered across the Maritimes through ICPEI only.

Moving forward, the Company intends to increase focus on profitable automobile products, evaluating whether these could be successfully expanded into new regional markets within Canada.

#### PERSONAL PROPERTY

The Company offers homeowners, condo and tenant packages through ICPEI in the Maritimes and through Echelon Insurance in Quebec and British Columbia.

## COMMERCIAL LINES

The Company writes Commercial Property, Liability and Automobile coverage for small to mid-sized businesses under the Echelon Insurance and ICPEI brands.

In addition to standard commercial policies, Echelon Insurance also excels in niche business lines, including Surety, Commercial Automobile, and Specialty Programs. Since 2016, the Company has grown its Commercial Lines Management and underwriting teams to include seasoned experts with proven track-records and deep networks in their respective markets. Commercial Lines represents \$150M, and 39% of the Company's business.

With a now-profitable portfolio and an experienced and connected management team, steps are underway to expand the Company's commercial product offering into Ontario, Quebec and Alberta. Echelon Insurance will target underserved and specialty brokers, offering flexible, risk-underwritten coverage.

### COMMERCIAL PROPERTY & CASUALTY

EFH offers Commercial Property coverage in the Maritimes, Quebec and British Columbia, differentiating from competitors by applying risk vs. class underwriting. Simple, low-touch packages target small to mid-sized businesses like contractors and professional service providers. Coverages can be customized to meet the more unique needs of larger businesses.

### COMMERCIAL AUTOMOBILE

The Company offers Commercial Automobile coverage through Echelon Insurance in Alberta, Ontario and Quebec, and through ICPEI in the Maritimes. Coverage is available for single vehicles, cargo trailers, fleets, and owner operators. Packaged policies are also offered to fleets and owner operators, and can be customized to include Commercial Automobile, Motor Truck Cargo Liability, Commercial General Liability, and Garage coverages, as well as special endorsements.

### SPECIALTY PROGRAMS

EFH partners with MGAs across Canada to underwrite a range of specialty and warranty programs including new home and home system warranties.

### SURETY

In 2016, Echelon Insurance introduced a Surety division to meet growing demand for mid-market surety bonds. Echelon Insurance focuses on distributing contract and commercial bonds through the broker channel. Unlike an insurance product, a surety bond is a guarantee issued to minimize the risk of a contractor's financial failure and inability to complete a construction project.

## ***Distribution***

EFH's products are distributed exclusively through insurance brokers. With a growing number of insurers selling directly to consumers, EFH's commitment to the broker channel differentiates Echelon Insurance and ICPEI from competitors and forms a foundation for mutually beneficial relationships. On this commitment, the Company has built and maintained an effective network of distribution partners by:

### **OFFERING DIVERSE PRODUCTS THAT SATISFY UNMET NEEDS**

The bulk of EFH's products were designed to respond to the unmet needs of our distribution partners. Echelon Insurance has excelled in the non-standard auto market by delivering expertly underwritten coverage for hard to insure drivers. ICPEI's nuanced understanding of Maritime families and businesses has shaped the products and coverages that meet the unique needs of Atlantic Canadians. Echelon Insurance continues to identify new areas where brokers are unsatisfied with existing products and service, and, is responding by launching new products lines like Surety and Commercial Automobile.

### **INVESTING IN TALENT AND LEVERAGING RELATIONSHIPS**

EFH's management and underwriting teams have the skillsets to understand and effectively underwrite risks. Echelon Insurance and ICPEI benefit from this seasoned expertise, but also from employee reputations and long-standing relationships in their industries. With the addition of LHT and Surety teams in 2016, EFH gained a number of new broker relationships.

### **IMPROVING TECHNOLOGY AND CONNECTIVITY**

EFH is committed to investing in technology to connect more seamlessly with its brokers. In 2014, The Company acquired a new policy management system that has been developed and modified to suit EFH's commitment to brokers. The new platform, called *Passport*, will be instrumental in streamlining how brokers write business with Echelon Insurance. *Passport* is being rolled out across Canada, and the Company is working towards consolidating its legacy systems into this sole policy management system to simplify broker system interactions.

The type and number of distributors that EFH partners with varies by business line. Property and Automobile products are marketed through a broad network of insurance brokers across Canada. These distributors have both the expertise to underwrite good risks, and the volume of premium to support good loss ratios in these business lines.

EFH compensates brokers based on a fixed percentage of premiums written and distributes contingent commission to brokers that meet premium volume and loss ratio targets.

## ***Reinsurance***

EFH has reinsurance agreements with several unaffiliated reinsurers, all of whom have a financial strength credit rating of "A-" or better by A.M. Best or the equivalent. EFH purchases reinsurance to reduce its exposure to the insurance risks that it assumes in writing business.

The majority of EFH's reinsurance recoverables are from licensed Canadian and international reinsurers for which it gets capital relief under the Canadian capital regulations. For reinsurance recoverables with non-licensed reinsurers, EFH maintains security against those recoverables in the form of cash and letters of credit.

EFH believes that there is currently adequate reinsurance capacity in those classes of business which it underwrites and EFH is not aware of any developments that might cause a serious shortage of capacity in the future.



## ***Pricing and Underwriting***

EFH prices its products taking into account numerous factors, including claims frequency and severity trends, product line expense ratios, special risk factors, the capital required to support the product line, and the investment income earned on that capital. EFH's pricing process is designed to ensure an appropriate return on capital and long-term rate stability, avoiding wide fluctuations in rate unless necessary. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

However, pricing for automobile insurance must be approved by each provincial government regulator. In certain provinces, rate changes must also be approved by the regulator. It is possible that, in spite of EFH's best efforts, regulator decisions may impede automobile rate increases or other actions that EFH may wish to take. Also, during periods of intense competition for any product line to gain market share, EFH's competitors may price their products below the rates EFH considers acceptable. Although EFH may adjust its pricing up or down to maintain EFH's competitive position, EFH strives to ensure its pricing will produce an appropriate return on invested capital. There is no assurance that EFH will not lose market share during periods of intense pricing competition.

## ***Claims Management***

In order to manage the quality of claims adjusting with established standards on performance and service, Echelon Insurance's Claims Department has audit processes and management reporting in place. These audit and reporting processes are designed to monitor outsourced and insourced adjusting. Outsourced adjusters are committed to claim handling and reporting standards.

On a monthly basis, the Claims Committee convenes to review open claims files with the purpose of providing direction and instruction for future claim handling, action plans, strategy and reserve management. In addition, a monthly report addressing claims counts, closure rates and reserves as well as operational issues in the claims department is prepared and provided to executive management.

## **CLAIMS ADJUSTING MODEL**

The Claims Department is currently operating an Outsourced/Insourced hybrid operating model for all lines of claims in all regions. The Claims Department outsources all of its claims to independent external loss adjusters and utilizes internal claims staff to provide oversight relative to the handling of claims by these external loss adjusters. This model also applies to specialty program claims adjusted by Managing General Agents/Third Party Adjusters (TPAs) with no underlying claims settlement authority.

## ***Investment Management***

EFH's investment objectives are to earn a total return on its invested assets that exceed the benchmark returns, maximize the return to regulatory capital and to maintain adequate liquidity for its subsidiary's insurance operations.

The most important methods employed by EFH to reduce the level of risk while achieving the objectives on its investment portfolio are:

- Diversification through investment in various asset classes that are not perfectly correlated and through diversification of investment managers
- The use of Modern Portfolio Theory through the construction of Mean Variance efficient frontiers in determining the appropriate asset allocation
- An investment committee that is comprised of experienced investment professionals
- The use of experienced investment managers with a strong history in insurance investing to manage the investment portfolio
- Close monitoring of asset /liability matching as a means of managing liquidity risk

Diversification is achieved through principles that ensure each asset class has limited exposure by region, industry, issuer and type of underlying security. Target ranges are set for each asset class and are monitored by the Investment Committee to ensure that EFH's investment managers comply with these guidelines.

EFH conducts an efficient frontier analysis that seeks to optimize asset allocation decisions from a risk and return perspective. In addition, EFH ensures that the asset allocation is optimum from a use of regulatory capital perspective.

EFH outsources all trading decisions on individual securities to a number of reputable and professional investment managers. The Investment Committee regularly monitors the performance of each manager and measures their performance against appropriate market index benchmarks.

### ***Innovation***

The Company is committed to investing in technology that supports efficiency, greater connectivity with our brokers, and the effective use of data to enhance pricing and risk segmentation. We continue to evaluate, enhance, and streamline the technology that we use across all aspects of our business. The Company has developed proprietary software which serves as a platform for a seamless connection with brokers across Canada. EFH is also investing in the development and implementation of data warehouse technology to permit more efficient pricing of products.

### ***Insurance Regulatory Matters***

While Echelon Insurance is federally regulated by Office of the Superintendent of Financial Institutions (OSFI), under the *Insurance Companies Act* (Canada), the marketing of insurance is regulated on a provincial and territorial basis in Canada. ICPEI is provincially regulated in Prince Edward Island. EFH's affairs are regulated in many respects including the assets in which it may invest, the levels of capital and surplus, the standards of solvency that it must maintain, and the amount of dividends that it may declare and pay. Under such legislation, insurance administrators are given broad powers of administration and enforcement over insurers. Compliance with the capital standards of OSFI will generally satisfy the regulatory capital requirements of all Canadian jurisdictions.

The regulation of insurance policies, in particular auto insurance policies, varies significantly between different provinces. In all provinces and territories except for Quebec, Manitoba, Saskatchewan and British Columbia, auto insurance is provided by private insurers. Manitoba, Saskatchewan and British Columbia require that basic auto insurance coverage be issued through their provincial government-owned insurer. In these provinces, the government and private insurers compete for optional and excess coverage. In Quebec, the government insurer administers bodily injury claims, while first and third-party property damage claims are covered by private insurers. Each province has its own recovery scheme with regards to losses and damages sustained in automobile accidents.

### ***Competitive Conditions***

The P&C insurance business is highly competitive with pricing being a primary means of competition. Other elements of competition include availability and quality of products, quality and speed of service, financial strength, distribution systems and technical expertise.

EFH competes with many other insurance companies. Certain of these competitors are larger and have greater financial resources than EFH. In addition, certain competitors have from time to time decreased their prices in an attempt to gain market share. While ensuring that EFH's prices are competitive, EFH's growth in 2017 arises from the new business lines and the focus on the development and strengthening of broker relationships.

As competitors introduce new products and as new competitors enter the market, EFH may encounter additional and more intense competition. There can be no assurance that EFH will continue to increase revenues or be profitable. To a large degree, future revenues of EFH are dependent upon its ability to continue to develop and market its products and to enhance the capabilities of its products to meet changes in customer needs.

### ***Intangible Properties***

At December 31, 2018, EFH held intangible assets valued at \$9.6M. These assets include Software licenses for systems, including our *Passport System*, and Goodwill.

EFH distributes insurance products through the broker channel under the Echelon Insurance, Echelon Assurance and The Insurance Company of Prince Edward Island (ICPEI) brands. Echelon Insurance owns the trademark rights to Echelon and Échelon, and diligently protects against their unlawful use.

## Cycles and Seasonality

Historically, the results of companies in the P&C insurance industry have been subject to significant fluctuations and uncertainties. The profitability of P&C insurers can be affected significantly by many factors, including regulatory regimes, developing trends in tort and class action litigation, adoption of consumer initiatives regarding rates or claims handling procedures, and privacy and consumer protection laws that prevent insurers from assessing risk, or factors that have a high correlation with risks considered, such as credit scoring.

The financial performance of the P&C insurance industry has historically tended to fluctuate in cyclical patterns of “soft” markets characterized generally by increased competition, resulting in lower premium rates and underwriting standards, followed by “hard” markets characterized generally by lessening competition, stricter underwriting standards and increasing premium rates. EFH’s profitability tends to follow this cyclical market pattern with profitability generally increasing in hard markets and decreasing in soft markets. These fluctuations in demand and competition could produce underwriting results that would have a negative impact on EFH’s results of operations and financial condition.

## Employees

As at December 31, 2018, EFH had 255 full-time employees. None of EFH’s employees are subject to a collective bargaining agreement.

## Risk Factors

The risks inherent in EFH’s operations are described in the Company’s Management’s Discussion and Analysis for the year ended December 31, 2018, under the heading “*Risk Factors*” which is hereby incorporated by reference in this AIF and is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Dividends and Distributions

### Dividends and Distributions

#### Normal Course Issuer Bid

On October 8, 2015, the Company received approval from the TSX to commence a Normal Course Issuer Bid (NCIB) to repurchase and cancel up to 619,265 common shares, representing 10% of the public float issued and outstanding common shares at that time. The NCIB was in force until October 7, 2016. Up until that date, the Company purchased and cancelled 115,700 common shares under the NCIB at an average cost of \$13.65 per share for a total cost of \$1.6 million.

#### Common Share Dividends

The payment of a common share dividend is at the discretion of the Board of Directors and depends on, among other things, EFH’s financial condition, results of operations, regulatory capital requirements, and other factors that the Board of Directors deems relevant.

In May 2016, the Company suspended declaring quarterly dividends to its common shareholders, to assist in building a stronger capital base to support future growth in Canada.

<u>Announcement date</u>	<u>Payment date</u>	<u>Dividend amount</u>
May 6, 2015	July 2, 2015	\$0.11
August 6, 2015	October 1, 2015	\$0.11
November 5, 2015	January 4, 2016	\$0.12
February 17, 2016	April 1, 2016	\$0.12

## ***Distribution***

Shortly after closing of the sale of Echelon Insurance, it is the intention of the Company to make a special distribution to shareholders. The Company intends to distribute approximately \$110 million in paid up capital and dividend. Details for the intended distribution can be found in the Management Information Circular filed for the Shareholders meeting held on January 23, 2019 and filed on SEDAR.

## **Description of Capital Structure**

### **General Description of Capital Structure**

The Company is authorized to issue an unlimited number of Common Shares of which 11,925,906 were issued and outstanding as of December 31, 2018. All outstanding Common Shares are fully paid and non-assessable.

The holders of the Common Shares are entitled to:

- (a) one vote per Common Share on all matters to be voted on at all meetings of shareholders of the Company, except meetings at which only holders of a specified class of shares are entitled to vote;
- (b) receive, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Company, any dividends declared by the Company; and
- (c) receive, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Company, the remaining property of the Company upon the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary.

The Company has no debt and there are no pre-emptive, redemption, purchase or conversion rights attaching to the Common Shares.

## **Ratings**

The Company paid fees to A.M. Best to obtain financial strength ratings. The following financial strength ratings were assigned to Echelon Financial Holdings Inc. and its subsidiaries. On November 12<sup>th</sup>, A.M. Best announced that these ratings were under review due to developing implications.

### **Echelon Financial Holdings Inc.**

Long-Term Issuer Credit Rating	BB+
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### **Echelon Insurance**

Financial Strength Rating	B++
Long-Term Issuer Credit Rating	BBB+

## Market for Securities

The Company's Common Shares are listed and posted for trading on the Toronto Stock Exchange (the "TSX") under the trading symbol "EFH".

The following chart provides information on the high and low sale prices and volume for the Common Shares of the Company on the TSX for the periods indicated.

<b><u>Month</u></b>	<b><u>High</u></b>	<b><u>Low</u></b>	<b><u>Volume</u></b>
January 2018	12.84	11.64	90,396
February 2018	13.01	12.25	154,464
March 2018	12.85	12.15	163,890
April 2018	12.24	11.89	100,573
May 2018	12.50	11.76	186,225
June 2018	12.30	11.80	115,871
July 2018	11.89	11.40	50,760
August 2018	13.97	11.66	68,118
September 2018	13.03	12.14	22,094
October 2018	12.58	10.92	35,602
November 2018	14.32	11.03	350,755
December 2018	14.18	13.95	120,575

In 2018, 2,000 Common Shares were issued on the exercise of options granted pursuant to the Company's Stock Option Plan and 32,830 Shares were issued due to the vesting of Restricted Share Units.

## Directors and Officers

The names and Provinces of residence of the directors and executive officers of the Company, positions held by them with the Company and their principal occupations for the past five years are as set forth below. Each of the directors will serve until the next annual meeting of shareholders.

Name and Place of Residence	Current Office <sup>(*)</sup>	Principal Occupation	Director Since
Murray Wallace Ontario, Canada	Director	Corporate Director	December 2015
James Falle <sup>(2)(3)</sup> Ontario, Canada	Director	Corporate Director	May 2017
Serge Lavoie <sup>(4)</sup> Quebec, Canada	Director	President & Chief Executive Officer of the Company	May 2014*
Lee Matheson <sup>(2)</sup> Ontario, Canada	Director	Partner, Ewing Morris & Co	January 2018
Andrew Pastor <sup>(1)(2)</sup> Ontario, Canada	Director	Portfolio Manager, EdgePoint Investment Group Inc.	May 2016
Gary Quon <sup>(1)(3)</sup> Ontario, Canada	Director	Corporate Director	May 2017
Sharon Ranson <sup>(1)(3)</sup> Ontario, Canada	Director	President, The Ranson Group Inc.	May 2016
Brian Reeve <sup>(1)(2)</sup> Ontario, Canada	Director	Partner and Chair of the Corporate and Regulatory Insurance Group of Cassels Brock & Blackwell LLP	December 2015
David Thomson <sup>(2)(3)</sup> Ontario, Canada	Director	Corporate Director	May 2017
Ken Coulson Ontario, Canada	Officer	Vice President & General Counsel	

\* Office is with the company unless otherwise indicated

(1) Member of the Governance Committee

(2) Member of the Investment Committee

(3) Member of the Risk and Audit Committee

During the past five years each of the foregoing directors and executive officers has been engaged in the principal occupation shown opposite his or her name, except as follows:

*Murray Wallace, FCPA, FCA retired as Executive Chairman of Financial Horizons Group in August 2017.*

*James Falle, FCPA, FCA retired as Executive Vice President and Chief Financial Officer of Aviva Canada Inc. in 2016.*

*Serge Lavoie has served as President & Chief Financial Officer of Echelon Insurance since December 1, 2015. Between May 2014 and November 13, 2015, Mr. Lavoie was a director of the Corporation. From 2012 to November 2015, Mr. Lavoie served as President, GDI Integrated Facility Services Inc.*

*David Thomson, FCPA FCA retired from KPMG's Financial Services Audit Practice in January 2017.*

As of December 31, 2018, the directors and executive officers of the Company as a group, beneficially owned, directly or indirectly, or exercised control or direction over 210,846 Common Shares, representing approximately 1.8% of the outstanding Common Shares.

## Committees of the Board of Directors

The Board of Directors of the Company (the “Board”) has established three Board committees: the Audit and Risk Committee, the Governance Committee and the Investment Committee. The information below sets out the current members of each of the Company’s Board committees.

### ***Governance Committee***

The Governance Committee consists of four members, all of whom are independent Directors, currently comprised of Sharon Ranson (Chair), Andrew Pastor, Gary Quon, and Brian Reeve.

### ***Investment Committee***

The Investment Committee consists of five members, all of whom are independent Directors, currently comprised of Andrew Pastor (Chair), James Falle, Brian Reeve, Lee Matheson and Dave Thomson.

### ***Audit and Risk Committee***

The Audit and Risk Committee has been structured to comply with the requirements of National Instrument 52-110 Audit Committees (“NI 52-110”) of the Canadian Securities Administrators.

## COMPOSITION OF AUDIT AND RISK COMMITTEE

The Audit and Risk Committee is composed of the following members: James Falle (Chair), Gary Quon, Sharon Ranson, and David Thomson.

The Board has determined that each of the Audit and Risk Committee members is unrelated, independent and financially literate within the meaning of NI 52-110.

A copy of the Audit and Risk Committee Charter is appended hereto as Appendix “A”.

The education and experience of each Audit and Risk Committee member that is relevant to such members’ responsibilities as a member of the Audit and Risk Committee are set out below:

### JAMES FALLE

*James Falle has been a Director of Echelon Financial Holdings since May 2017, and is Chair of the Audit and Risk Committee and a member of the Investment Committee.*

*James formerly served as Executive Vice President and Chief Financial Officer at Aviva Canada. Before joining Aviva, he held similar roles at AEGON, Zurich Financial Services, and other financial institutions, where he built over 25 years of Board, Corporate Governance and Risk Management experience in his role as CFO.*

*James currently serves as Chair of the Audit & Risk Committee for KEWA Financial Inc., a member of the Independent Review Committee for BMO Mutual Funds, and a member of the Audit Committee for the Canadian Real Estate Association.*

*James is a Fellow of the Chartered Professional Accountants Association of Ontario, and holds his ICD.D designation.*

## GARY QUON

*Gary Quon has been a director of Echelon Financial Holdings since May 2017, and is a member of the Governance and Audit and Risk Committees.*

*Gary has spent over 30 years in the P&C insurance industry, most recently serving as Chief Corporate Development Officer for Northbridge Financial Corporation. During his career, he has built expertise in multiple insurance-related disciplines, including finance, underwriting, actuarial, claims, and IT.*

*In the past, Gary has served as a board member for the Canadian Auto Insurance Industry's Facility Association, as well as Progressive Casualty Insurance Company of Canada.*

## SHARON RANSON

*Sharon Ranson has been a director of both Echelon Financial Holdings Inc. and Echelon Insurance since May 2016, and is Chair of the Governance Committee, and a member of the Audit & Risk Committee. Previously, she was a member of the Investment Committee.*

*Sharon has over 30 years' experience in financial services, both in management and as a board member. She is currently President of The Ranson Group Inc., a company offering Executive Coaching and Consulting services.*

*In addition to Echelon, her current corporate boards include Sprott Inc. (TSX—SII), Spark Power (TSX-SPG), Borrowell Inc. and the Toronto Investment Board.*

*Sharon is an FCPA, FCA, and holds the ICD.D designation. She graduated from Queen's University with a Bachelor of Commerce and holds a Masters of Business Administration from York University.*

## DAVID THOMSON

*David Thomson has been a Director of Echelon Insurance since May 2017, and is a member of the Investment and Audit and Risk Committees.*

*David spent the last 25 years of his career as partner in KPMG's Financial Services Practice. During this time, he built specialized experience in the insurance sector, focusing on property and casualty insurance, life insurance, reinsurance and insurance brokerage industries.*

*David has sat on several non-profit boards, and currently serves on the boards of a private Canadian life insurance company, and a small private community-focused property and casualty company.*

*He holds an ICD.D designation, and was recently recognized as a Fellow of CPA Ontario for bringing distinction to the profession through his career.*

## PRE-APPROVAL POLICY

The Audit and Risk Committee shall pre-approve all services provided to EFH by the external auditor other than professional services performed by the external auditor for the audit and review of the Company's financial statements or services normally provided by the external auditor in connection with statutory and regulatory filings or engagements.



## EXTERNAL AUDITOR SERVICE FEES

During the two most recently completed financial years, the Company incurred the following fees to PricewaterhouseCoopers LLP, the Company's external auditor, for audit, audit-related and non-audit services:

<u>External Auditor Fees (\$)</u>	<u>2018</u>	<u>2017</u>
Audit fees	775,000	749,000
Audit-related fees	-	-
Tax fees	28,000	28,000
All other fees	256,000	351,000

Audit fees relate to professional services rendered by the auditors for the audit of our annual consolidated financial statements, the statements of subsidiary financial statements and services related to statutory and regulatory filings.

Tax fees relate to tax compliance, tax advice and tax planning.

All other fees relate to products and services other than audit and tax as described above.

## Legal Proceedings and Regulatory Actions

In the normal course of carrying on our business, EFH becomes the subject of insurance claims and is involved in various legal proceedings.

On August 4, 2016, Echelon entered into a definitive stock purchase agreement to sell its European insurance subsidiary to New Nordic Odin Denmark Limited (NNDL), subject to regulatory approval. On February 28, 2017, regulatory approval was received from the Danish Financial Supervisory Authority, which completed the necessary approvals required for the sale. The Company completed the sale on March 7, 2017, and retained no residual insurance risk or other financial risk, other than credit risk associated with the loan receivable from the sale. The loan was repaid on June 29, 2018.

On October 29, 2018, the Company filed a Statement of Defence in response to a claim filed with the Danish Institute of Arbitration by New Nordic Advisors Limited (NNAL). The claim by NNAL relates to the sale of the Company's European Operations to NNDL. The Company denies all allegations made against it by NNAL and believes there is no merit to NNAL's claim for €45.8 million in damages.

## Interest of Management and Others in Material Transactions

The Company has entered into a transaction with Co-operators (Co-operators Group Limited and Co-operators General Insurance Company). These transactions are carried out in the normal course of operations and are measured at cost which approximates fair value. Co-operators, which is a significant shareholder of the Company, distributes EFH products through its agents.

There is a Management Services agreement between The Company and Echelon Insurance, whereby Echelon Insurance provides services to The Company. These transactions are carried out in the normal course of operations and are measured at cost which approximates fair value.

There is a Management Services agreement between The Company and ICPEI, whereby The Company provides services to ICPEI. These transactions are carried out in the normal course of operations and are measured at cost which approximates fair value.

ICPEI, in which EFH 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”). Some directors and officers of ICPEI are also shareholders of AAA and 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.

## Transfer Agent and Registrar

The Company’s registrar and transfer agent is Computershare Investor Services Inc., Toronto, Ontario.

## Material Contracts

On November 8, 2018, the Company entered into a definitive agreement to sell Echelon Insurance, the Company’s main operating subsidiary that is incorporated under the *Insurance Companies Act*, and the unregulated warranty business held directly by EFH to CAA for \$175M, payable in cash. Details related to this agreement are outlined in the Share Purchase Agreement on SEDAR at [www.sedar.com](http://www.sedar.com).

## Interests of Experts

The financial statements for the financial year ended December 31, 2018, have been audited by PricewaterhouseCoopers LLP (“PwC”), EFH’s auditors. PwC is independent within the meaning of the relevant rules of professional conduct prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation.

Nicholas Beaudoin, a partner with Willis Towers Watson, is the Appointed Actuary for Echelon Insurance. He has provided opinions on the value of policy liabilities for the Company, Echelon Insurance as at December 31, 2018. Mr. Beaudoin owns no EFH securities.

## **Additional Information**

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and securities authorized for issuance under equity compensation plans, where applicable, is contained in the Company's management proxy circular for its most recent annual meeting of shareholders involving the election of directors. Additional financial information is also provided in the Company's comparative consolidated financial statements for the financial year ended December 31, 2018, and management's discussion and analysis of such financial results. A copy of such documents and additional information relating to the Company is contained on SEDAR at [www.sedar.com](http://www.sedar.com), the Internet site maintained by the Canadian Securities Administrators

## Appendices

### Appendix “A” - Echelon Insurance Audit and Risk Committee Charter

#### *Purpose*

The Audit and Risk Committee (the “Committee”) is a standing committee of the Board of Directors (the “Board”), and shall provide assistance to the Board in fulfilling its responsibility to the Organization<sup>1</sup> by serving as an independent monitor of the Organization's financial reporting processes, risk management activities, systems of internal control and financial compliance. In addition, the Committee shall monitor the independence and performance of the external auditor and the internal audit function. The Committee shall facilitate communication among the Organization's external auditor, the Board, and senior and financial management. The Committee shall perform this function by carrying out the activities described in this Charter.

The Committee serves as the Audit and Risk Committee for both Echelon Financial Holdings Inc. and Echelon Insurance. Reference to “Organization” refers to both Echelon Financial Holdings Inc. and Echelon Insurance.

The Committee shall act as the Audit and Risk Committee of the Organization as required under the Insurance Companies Act (Canada), the Business Corporations Act (Ontario) and the Securities Act (Ontario) (the “Acts”).

All members of the Committee shall have, or acquire within a reasonable period of time following their appointment, a broad understanding of the operating and financial affairs and related activities of the Organization.

#### *Accountabilities and Responsibilities*

#### **FINANCIAL STATEMENTS, FINANCIAL REVIEW AND DISCLOSURE**

The Committee shall ensure that the Organization adopts appropriate policies and procedures for the accuracy and integrity of its financial statements and returns and the timely reporting and disclosure of financial information to shareholders and regulators, including, but not restricted to, annual and quarterly financial statements, external auditor's opinions and reports, Appointed Actuary's reports, Management's Discussion and Analysis, annual and quarterly earnings press releases. The Committee shall make recommendations to the Board for its approval of such statements and documentation. The Chief Financial Officer, Appointed Actuary, external auditor, among others, shall be the principal resources available to the Committee.

#### **RISK MANAGEMENT**

The Committee shall ensure that the Organization adopts appropriate policies and procedures to identify, assess and prioritize enterprise risk management issues, appetite and tolerance. This includes, but is not restricted to, the review and acceptance of regular and timely reports on the Organization's coordinated resources to minimize, monitor and control the probability and/or impact of events or to maximize the realization of opportunities. The Committee shall review annually and recommend to the Board a Risk Appetite Framework. The Chief Financial Officer, among others, shall be the principal resource available to the Committee on risk management.

#### **EXTERNAL AUDIT**

The Committee shall be responsible for assessing the skills, resources and independence of the external auditor, including the audit firm's internal policies and practices for quality control, and shall be satisfied with the content of the auditor's plan, including the fee estimate and engagement letter prior to it being signed. This will include determining if any change is required to the auditor's proposed materiality level and scope and the involvement of the Organization's internal audit resources. The Committee shall also consider areas of significant auditor judgement, key areas of risk for material misstatement of financial statements, significant or unusual transactions and enquire about internal control deficiencies and any disagreements with management. The auditor shall report on any non-audit services rendered to the Organization and

related fees. The Committee with management shall assess the overall results of the annual audit using predetermined criteria and recommend the appointment or reappointment of the auditor.

## **INTERNAL CONTROLS**

The Committee shall be responsible for ensuring the Organization adopts appropriate systems of internal control over the preparation of its financial statements and reporting requirements. The Committee shall review annually and recommend to the Board an Internal Control Framework. In addition, the Committee shall review and evaluate regular management reports on the effectiveness of internal controls and procedures including CEO and CFO certification requirements. Material control deficiencies shall be reported to the Committee until remedied. The Chief Financial Officer and Chief Internal Auditor, among others, shall be the principal resources to the Committee on internal controls.

## **INTERNAL AUDIT**

The Committee shall be responsible for assessing the skills, resources and effectiveness of the internal audit function including approval of its annual plan of activities and examinations, review and acceptance of regular reports on its findings and remedial recommendations and follow through to ensure implementation. The Chief Internal Auditor reports functionally to the Chairman of the Committee and administratively to the Chief Financial Officer.

## **OTHER**

The Committee shall review its Charter annually and recommend any changes to the Board for approval.

The Committee shall approve an Annual Work Plan for its activities.

The Committee shall review and approve the annual budgets and work plans of the Finance, Actuarial and Internal Audit Departments.

On a regular basis, the Committee shall meet privately with each of the Chief Financial Officer, Appointed Actuary, the External Auditor and the Chief Internal Auditor.

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 "B" (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 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.

## **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 non-management directors. The Committee shall be composed entirely of directors who are independent, as defined by section 1.4 of NI 52-110, 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 comprises of the Chairperson of the Committee along with a minimum of two other members 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 Charter; work with management to develop the Committee's meeting agendas and annual work plan; 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 an audit and risk committee under the Acts.
5. *Authority* – The Committee shall have unrestricted access to management and employees of the Organization. The Committee shall have the authority to retain and terminate external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities and to set and pay the compensation for these advisors without consulting or obtaining the approval of the Board or any officer of Organization. The Organization shall provide appropriate funding, as determined by the Committee, for the services of these advisors.
6. *Delegation* – The Committee may designate a sub-committee to review any matter within this Charter as the Committee deems appropriate.
7. *Meetings* – The Committee will meet at least four times per year and as required to carry out its Charter responsibilities, 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. A majority of the members shall constitute a quorum to transact business at the meeting.

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 who shall be entitled to attend 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.
10. *Annual Work Plan and Schedule* – The Committee shall adopt a work plan and annual schedule of activities at its first meeting following its election each year.

## **Reference Documents**

Board of Directors Charter  
Annual Work Plan

## **Appendix “B” - Delegated Authority**

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

*Committee Work Plan*

*Dividend Policies*

*Own Risk and Solvency Assessment (ORSA) Work Plan*

*Business Continuity and Disaster Recovery Programs*

*Cyber Security Controls*

*Earthquake Exposure Risk Management Policy*

*External Auditor’s year-end Audit Plan including a Statement of Independence and fee estimate*

*Payment of non-audit fees of External Auditor*

*Assessment of the overall performance of the External Auditor*

*CFO, Chief Actuary and Chief of Internal Audit role descriptions*

*Mandate, Budget and Objectives of the Finance Department*

*Mandate, Budget and Objectives of the Actuarial Department*

*Mandate, Budget and Objectives of the Internal Audit Department*

*Three Year Internal Risk Assessment and Review Schedule*

*Annual Internal Audit Plan*