

**FAIRFAX FINANCIAL HOLDINGS LIMITED**

**CORPORATE GOVERNANCE GUIDELINES (INCLUDING THE  
MANDATE OF THE BOARD OF DIRECTORS)**

**Approved by the Board of Directors on February 17, 2005, except  
Revisions to Paragraph 5 were Approved by the Board of  
Directors on November 2, 2017**

**FAIRFAX FINANCIAL HOLDINGS LIMITED**  
**CORPORATE GOVERNANCE GUIDELINES (INCLUDING THE**  
**MANDATE OF THE BOARD OF DIRECTORS)**

**1. Statement of Purpose**

The Board of Directors of Fairfax Financial Holdings Limited has adopted the following guidelines to create a framework that ensures the effective governance of Fairfax. The Board intends this framework to be flexible and, subject to any applicable law, the Board may modify this framework based on its experience under it.

The Board is responsible for the stewardship of Fairfax and for supervising the management of the business and affairs of Fairfax. Accordingly, the Board acts as the ultimate decision-making body of Fairfax, except with respect to those matters that must be approved by the shareholders. The Board has the power to delegate its authority and duties to committees or individual members and to senior management as it determines appropriate, subject to any applicable law. The Board explicitly delegates to senior management responsibility for the day to day operations of Fairfax, including for all matters not specifically assigned to the Board or to any committee of the Board. Where a committee of the Board or senior management is responsible for making recommendations to the Board, the Board will carefully consider those recommendations.

**2. Board Mandate**

The directors' primary responsibility is to act in good faith and to exercise their business judgment in what they reasonably believe to be the best interests of Fairfax. In fulfilling its responsibilities, the Board is, among other matters, responsible for the following:

- Appointing the CEO and other corporate officers;
- On an ongoing basis, satisfying itself as to the integrity of the CEO and other executive officers and that the CEO and the other executive officers create a culture of integrity throughout Fairfax;
- Monitoring and evaluating the performance of the CEO and the other executive officers against the approved Guiding Principles and corporate objectives;
- Succession planning;
- Approving, on an annual basis, Fairfax's Guiding Principles and corporate objectives;
- Satisfying itself that Fairfax is pursuing a sound strategic direction in accordance with the approved Guiding Principles and corporate objectives;
- Reviewing operating and financial performance results relative to established corporate objectives;

- Approving an annual fiscal plan;
- Ensuring that it understands the principal risks of Fairfax's business, and that appropriate systems to manage these risks are implemented;
- Ensuring that the materials and information provided by Fairfax to the Board and its committees are sufficient in their scope and content and in their timing to allow the Board and its committees to satisfy their duties and obligations;
- Reviewing and approving Fairfax's annual and interim financial statements and related management's discussion and analysis, annual information form, annual report and management proxy circular;
- Approving material acquisitions and divestitures;
- Confirming the integrity of Fairfax's internal control and management information systems;
- Approving any securities issuances and repurchases by Fairfax;
- Declaring dividends;
- Approving the nomination of directors;
- Approving the charters of the Board committees and approving the appointment of directors to Board committees and the appointment of the Chairs of those committees; and
- Adopting a communications policy for Fairfax (including ensuring the timeliness and integrity of communications to shareholders and establishing suitable mechanisms to receive shareholder views).

### **3. Qualification of Directors**

Fairfax seeks as directors committed individuals who have a high degree of integrity, sound practical commercial judgment, an interest in the long term best interests of Fairfax and its shareholders and an interest in, and respect for, the unique characteristics of Fairfax. With this goal in mind, each year the Board will determine (i) what competencies and skills the Board as a whole should possess (taking into account the particular business of Fairfax) and (ii) what competencies and skills each existing director possesses. The Board will make those determinations at a time suitable for the Governance and Nominating Committee to reflect them in its recommendations for nominees to the Board. The Board will also ensure that its composition complies with any applicable residency requirements.

### **4. Independence of Directors**

The Board believes that the majority of its members should be independent and that, unless otherwise determined by the Board, each of its members other than the CEO should be independent. On an annual basis, the Board will determine which of its directors is independent based on the rules of applicable stock exchanges and securities regulatory authorities and will publish its determinations in

the management proxy circular for Fairfax's annual meeting of shareholders. Directors have an on-going obligation to inform the Board of any material changes in their circumstances or relationships that may affect the Board's determination as to their independence and, depending on the nature of the change, a director may be asked to resign as a result.

## **5. Board Size**

The Board is of the view that a small board size provides the most effective governance mechanism for Fairfax. The Board will periodically review whether its current size is appropriate. The size of the Board will, in any case, be within the minimum and maximum number provided for in the articles of Fairfax.

## **6. Committees**

The Board will have an Audit Committee, a Governance and Nominating Committee and a Compensation Committee, the charters of each of which will be as established by the Board from time to time. The Board may, from time to time, establish and maintain additional or different committees as it deems necessary or appropriate.

## **7. Access to Information and Advisors**

In carrying out its duties, the Board, each of its Committees and each of its members will have full access to all of the books, records, facilities and personnel of Fairfax and its subsidiaries.

In carrying out its duties, the Board and each committee (in respect of that committee's duties) may, at any time and in its sole authority and discretion, retain an outside advisor at Fairfax's expense and determine the advisor's fees and other retention terms. Those advisors may include counsel, auditors, and other professionals, as appropriate. Individual directors may retain an outside advisor with the approval of the Governance and Nominating Committee.

## **8. Special Circumstances of Fairfax**

V. Prem Watsa founded Fairfax in its present form in 1985. Since founding Fairfax, Mr. Watsa has been the CEO, the Chairman and, by virtue of his control of the multiple voting shares of Fairfax, the controlling shareholder of Fairfax. This situation has been publicly disclosed continuously since then and the directors believe that it is well understood and accepted by shareholders. This situation is not expected to change in the foreseeable future.

The Board believes that the interests of Mr. Watsa are aligned with the interests of Fairfax's other shareholders and that the possibility of a conflict of interest involving Mr. Watsa has been minimized for the following reasons:

- Mr. Watsa currently has no business interests or material investments outside of his shareholdings in Fairfax, with the result that his net worth is substantially made up of his investment in Fairfax. Therefore, Mr. Watsa leads Fairfax as an owner.

- Mr. Watsa has historically ensured, and continues to ensure, that he does not take advantage of his position. For instance:
- Mr. Watsa has voluntarily confined his remuneration to a fixed annual salary of Cdn\$600,000 with no bonus or other profit participation and no participation in any equity plans (other than the employee payroll share purchase plan) or other equity incentives. Mr. Watsa also renounced a right he had to payments as a principal of Hamblin Watsa when Hamblin Watsa was purchased by Fairfax.
- Mr. Watsa has never engaged in and does not intend to engage in any transaction with Fairfax in which he or anyone related to him has a personal interest.

In order to ensure its independent functioning, the Board will appoint one of its independent directors to be the Lead Director for Fairfax with the responsibilities set out below.

## **9. Board Meetings**

### *Agenda*

The Lead Director, in consultation with the Chairman, is responsible for establishing the agenda for each Board meeting. Each director may suggest items for inclusion on the agenda and may raise at any Board meeting subjects that are not on the meeting agenda. A consideration of the risks associated with Fairfax's business will be an agenda item for every meeting (other than meetings called for a specific limited purpose).

### *Frequency of Meetings*

The Board will meet as often as the Board considers appropriate to fulfill its duties, but in any event at least once per quarter.

### *Responsibilities of Directors with Respect to Meetings*

Directors are expected to regularly attend Board meetings and committee meetings (as applicable) and to review in advance all materials for Board meetings and committee meetings (as applicable).

### *Secretary*

The Corporate Secretary of Fairfax will, subject to any contrary instruction of the Board or any committee of the Board, as applicable, act as secretary of each meeting of the Board and its committees and have primary responsibility for ensuring the adequacy and timeliness of Board and committee materials.

### *Minutes*

The Corporate Secretary of Fairfax (or any other person appointed as secretary, to the extent of that appointment) will keep regular minutes of Board and committee proceedings. The Corporate Secretary (or any other person appointed as secretary, to the extent of that appointment) will circulate on a timely basis Board minutes to all directors and committee minutes to all committee members, the Chairman and the Lead Director (and to other directors, by request).

### *Attendance at Meetings*

The Board (or any committee) may invite, at its discretion, non-directors to attend a meeting. Any member of management will attend a meeting if invited by the directors. The Lead Director may attend any committee meeting.

### *Meetings of Independent Directors*

The agenda for each Board meeting (and each committee meeting to which members of management have been invited) will afford an opportunity for the independent directors to meet separately.

### *Residency*

Applicable residency requirements will be complied with in respect of any Board or committee meeting.

## **10. Orientation and Continuing Education of Directors**

Each new director will receive a comprehensive orientation from the Chairman, including an overview of the role of the Board, the Board committees and each individual director, the nature and operation of Fairfax's business and the contribution and time commitment the new director is expected to make. The orientation will include access to senior management of Fairfax and the facilities of Fairfax. The Lead Director will also meet with each new director to orient that director on the independent operation and functioning of the Board. The Board will consider from time to time appropriate continuing education for the directors, which may include presentations from management, site visits and presentations from industry experts. Each director is also expected to maintain the necessary level of expertise to perform his or her responsibilities as a director.

## **11. Share Ownership Requirements**

Each Board member is expected to hold for the long term significant equity in Fairfax. The Board will confirm each year that each Board member owns equity equal in value to at least five times the amount of his or her annual retainer. Board members that do not meet this minimum must apply their annual retainers to purchase subordinate voting shares (or similar equity like ownership) of Fairfax until it is satisfied.

## **12. The Chairman**

The Chairman is accountable to the Board for the fulfillment of the responsibilities of the office of Chairman as outlined in the by-laws of Fairfax. The responsibilities of the Chairman also include:

- The proper operation and functioning of the Board;
- Providing overall leadership to the Board;
- Acting as the primary spokesperson for Fairfax;

- Effectively chairing Board meetings, including encouraging full participation and discussion by each of the directors, facilitating consensus, and ensuring that clarity regarding decisions is reached and duly recorded; and
- Cooperating with the lead director to ensure the independent operation and functioning of the Board.

### **13. The Lead Director**

Each year, the Board will appoint one of its independent members to be the Lead Director. The responsibilities of the Lead Director include the following:

- Assuming primary responsibility for the independent operation and functioning of the Board, while maintaining a close working relationship with the Chairman;
- Ensuring that the boundaries between the Board and management are clearly understood and respected;
- Establishing, in consultation with the Chairman, the agenda for Board meetings;
- Ensuring that appropriate briefing materials are delivered to the Board in a timely fashion;
- Acting as spokesperson for the independent directors collectively in communications with the Chairman;
- Presiding over meetings of the independent directors; and
- Acting as Chair of meetings of the Board in the absence of the Chairman.

### **14. The Chief Executive Officer**

The CEO is accountable to the Board for implementing and achieving the Guiding Principles and corporate objectives approved by the Board. The CEO will have the authority to manage and supervise the day to day business of Fairfax, including making any decisions not specifically assigned to the Board or to any committee of the Board, subject to any applicable law. The responsibilities of the CEO include:

- Preparing an annual fiscal plan for approval by the Board;
- Ensuring that the Board is aware of relevant business trends, material internal or external changes, and any changes in the assumptions upon which any Board decision or approval has previously been made; and
- Reporting to the Board in a timely manner any actual or anticipated non-compliance with any Board approved policy or decision.

## **15. Communications with Shareholders and Others**

The Board will ensure that there is timely communication of material corporate information to shareholders.

Shareholders and others, including other securityholders, may contact the Board with any questions or concerns, including complaints with respect to accounting, internal accounting controls, or auditing matters, by contacting the Corporate Secretary of Fairfax at:

95 Wellington Street West, Suite 800  
Toronto, Ontario, Canada M5J 2N7  
[corporatesecretary@fairfax.ca](mailto:corporatesecretary@fairfax.ca)

All correspondence received by the Corporate Secretary will be promptly acknowledged and reviewed by the Corporate Secretary, who will determine whether the correspondence should be forwarded immediately to the Board or any member of the Board or whether the correspondence should be presented to the Board at its next regular meeting. The Corporate Secretary will consult with the Lead Director if there is a question concerning the need for immediate review by the Board or by any member of the Board.

Alternatively, if management is felt not to be the appropriate recipient of a communication, questions or concerns may be submitted directly to the Lead Director at the following confidential email address: [leaddirector@fairfax.ca](mailto:leaddirector@fairfax.ca)

## **16. Prohibition on Loans**

Fairfax will not extend or maintain credit, arrange for the extension of credit, or renew an extension of credit, in the form of a personal loan to or for any director or executive officer, excluding existing share purchase loans as permitted by applicable law.

## **17. Terms of Directors' Service; Annual Evaluation**

All directors are elected at the annual meeting of shareholders of Fairfax for a term of one year. The Board will conduct an annual evaluation of itself, its committees and its members.

## **18. Service on other Boards and Audit Committees**

The Board believes that its members should be permitted to serve on the boards of other public companies so long as these commitments do not materially interfere with and are not incompatible with their ability to fulfill their duties as a member of the Board. Directors must advise the Chair of the Governance and Nominating Committee in advance of accepting an invitation to serve on the board of another public company and, as a general rule, directors are not allowed to join a board of another public company on which two or more other directors of Fairfax serve (other than subsidiaries of Fairfax).

Members of the Audit Committee may not serve on the audit committees of more than two other public companies (other than subsidiaries of Fairfax) without the prior approval of the Board, including a determination by the Board that service would not impair the ability of the director to effectively serve on the Audit Committee.

**19. Code of Conduct**

The Board has adopted a Code of Business Conduct and Ethics. The Board expects all directors, officers and employees of Fairfax and its subsidiaries to conduct themselves in accordance with the highest ethical standards, and to adhere to the Code. Any waiver of the Code for directors or executive officers may only be made by the Board or one of its committees and will be promptly disclosed by Fairfax, as required by applicable law, including the requirements of any applicable stock exchanges.

**20. Expenses**

Fairfax will pay all of the expenses reasonably incurred by the Board, its committees and its members in the course of carrying out their duties.

**21. Indemnification and Insurance**

In accordance with the by-laws of Fairfax, present and former directors and officers of Fairfax are indemnified by Fairfax to the extent permitted by Fairfax's governing statute. Due consideration is also given to whether appropriate insurance arrangements are in place for directors and officers of Fairfax.

**22. Public Disclosure of Governance Documentation**

Fairfax will disclose on its website the current version of these guidelines, the Code of Business Conduct and Ethics, its Whistleblower Policy and the charters for each of its committees and will disclose the availability of these documents in its annual shareholder materials.