



# Governance Policy

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# 1. Introduction

The Autorité des marchés financiers (“AMF”) wishes to ensure that financial institutions adopt sound governance practices, particularly through accountability for boards of directors and senior management.

The core principles and guidance published by the Basel Committee on Banking Supervision<sup>1</sup> and the International Association of Insurance Supervisors<sup>2</sup> clearly explain the need for financial institutions to implement sound governance practices.

The AMF adheres to the principles and guidance published by international bodies that foster sound and prudent management practices. Pursuant to the authority<sup>3</sup> conferred upon it under various sector-based statutes, the AMF explicitly informs financial institutions of its expectations regarding governance.

## 2. Governance

Governance describes the administrative organization of an institution for the purpose of achieving its objectives and managing its risks. It involves, notably, outlining the roles and responsibilities assigned to members of the board of directors and senior management.

Governance also involves implementing monitoring and accountability structures that help organize the management of the firm.

### 2.1 Governance Policy

The AMF expects financial institutions to develop and implement governance programs based on their nature, size, complexity, and risk profile.

The governance policy of Addenda Capital (“Addenda” or the “firm”) enables Addenda to co-ordinate initiatives intended to improve its governance. This policy defines the firm’s governance philosophy and values. It therefore considers its activities, nature and complexity of operations, resources, organizational structure and ownership, and risk appetite.

The policy takes into consideration the specific characteristics of Addenda itself and as a member of the Co-operators Group (the “Group”). It establishes and formalizes the strategies, policies and procedures to define and organize the various mechanisms necessary to achieve sound governance.

The policy includes the following:

- integrated risk management;
- internal controls; and
- independent oversight of activities.

Subject to Addenda’s By-Laws and Unanimous Shareholders’ Agreement, it also defines roles and responsibilities, such as:

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<sup>1</sup> Basel Committee on Banking Supervision, Bank for International Settlements, Core Principles for Effective Banking Supervision and Core Principles Methodology, October 2006.

Basel Committee on Banking Supervision, Bank for International Settlements, Enhancing corporate governance for banking organizations, February 2006.

<sup>2</sup> International Association of Insurance Supervisors, Insurance Core Principles and Methodology, October 2003. International Association of Insurance Supervisors, Insurance Core Principles on Corporate Governance, January 2004.

<sup>3</sup> An Act respecting insurance, R.S.Q., c. A-32, ss. 325.0.1 and 325.0.2.

An Act respecting financial services cooperatives, R.S.Q., c. C-67.3, s. 565.

An Act respecting trust companies and savings companies, R.S.Q., c. S-29.01, s. 314.1.

- the composition of the Board of directors (the “Board”) and its committees, if applicable;
- a clear definition of the roles and responsibilities of the Executive Committee, the Board and its committees, if applicable;
- the independence criteria used for key functions;
- the components of accountability systems;
- the criteria used for board self-assessment programs;
- conflict of interest and ethics policies.

## **2.2 Roles and Responsibilities of the Board and the Executive Committee**

The AMF expects the members of the board of directors and the senior management to be qualified and have the necessary experience and competencies to assume their roles and responsibilities adequately.

The Board is composed of representatives of its shareholders including two or three independent members out of a total of eight or nine members, as per the By-Laws and Unanimous Shareholders’ Agreement. The Chair’s mandate and the regular self-assessment questionnaires are the procedures used to foster open discussion and unbiased decisions. The Board regularly reviews its mandate, that of the Chair and establishes the form and frequency of the assessment.

### **2.2.1 Roles and Responsibilities of the Board**

The Board supervises tasks carried out by the Executive Committee. It must ensure that effective governance mechanisms are implemented. The Board also takes into consideration the relevant reports resulting from the application of these mechanisms.

The Board is composed of members whose qualifications and competencies meet the requirements of their mandate. The Board’s mandate is provided in writing and notably covers the roles and responsibilities assigned to Board members. Members of the Board also conduct a regular assessment of the work carried out by the Board and its committees.

The roles and responsibilities of the Board are to:

- review Addenda’s performance in terms of its objectives, strategies and programs;
- review and approve the organizational structure and controls;
- ensure that members of the Executive Committee are qualified, competent and compensated in a manner that is consistent with appropriate prudential incentives;
- review and approve policies developed for major initiatives and significant activities<sup>4</sup>;
- obtain reasonable assurance on a regular basis that Addenda maintains control over its environment;
- actively participate in the choice, review and assessment of strategies, objectives and business plans;
- undertake succession planning for senior management positions.

### **2.2.2 Roles and Responsibilities of Senior Management**

The senior management through its Executive Committee plays a key role in the governance structure. The Executive Committee is the architect of the systems and processes essential for sound governance. It ensures that the various mechanisms adequately fulfill its mandates.

The main roles and responsibilities of the Executive Committee are to:

- plan, conduct and control the firm’s activities;
- develop operational objectives, strategies, plans, organizational structure and controls;
- develop policies for approval by the Board;
- develop and promote sound internal governance practices;
- monitor the achievement of operational objectives, strategies and plans approved by the Board;

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<sup>4</sup> An activity is considered significant where it contributes to the achievement of Addenda’s objectives and strategies.

- ensure the implementation of a “culture of governance” and the adoption of an organizational behaviour based on ethics and professional conduct;
- ensure the effectiveness of the organizational structure and controls and inform the Board accordingly on a regular basis.

### **2.3 Integrated Risk Management**

The AMF expects financial institutions to establish an integrated risk management mechanism that is supported by reliable governance involving the board of directors and senior management. This will enable material risks to be identified and operational plans to be developed according to the risk appetite and risk tolerance levels determined by the institution.

Effective and integrated management of risks is a crucial component of sound governance. An appropriate risk management process allows for identifying, assessing, quantifying, controlling, mitigating and closely monitoring major risks.

To do so, Addenda has put in place a solid internal governance system, effective strategic management as well as a proactive and integrated method of assessing the risks to which it is exposed, which are already present within the Group.

Risk management procedures allow to:

- identify existing and new risks;
- set risk appetite and risk tolerance levels and supervise the firm’s position with respect to approved variables;
- monitor compliance with legislative, regulatory and normative requirements;
- put in place reliable internal controls.

### **2.4 Internal Control**

The AMF expects financial institutions to implement internal control mechanisms that meet targeted objectives and support the achievement of those objectives.

Internal control is a set of mechanisms designed to give Addenda’s decision-making bodies reasonable assurance that its objectives will be met, in particular with respect to the efficiency and effectiveness of operations, the reliability of generated and published reports, and compliance with policies or practices in place and applicable codes of ethics.

The Executive Committee makes sure clear communications are transmitted and that the pertinent information is identified, gathered and communicated in a form and timeframe that enables the individuals concerned to adequately assume their responsibilities.

As part of the review of internal control, the Board bases its assessment on the following:

- reports from the Executive Committee on the operations and financial condition of Addenda, risk management system or other control systems, any significant departure from controls and non-compliance with codes of ethics, laws, regulations or standards;
- internal audit opinions of the Group, when applicable, and external audit opinions on the adequacy of Addenda’s controls, as well as any recommendations to improve deficiencies;
- the audit report on the audited financial statements and all other reports of the external auditor, including any communications with the Executive Committee;
- opinions solicited by the Board from legal counsel, when applicable;
- recommendations, observations or opinions of the firm’s regulator, when applicable.

In addition, it is the Board’s responsibility to ensure that the Executive Committee takes prompt action to correct any material control problems identified in connection with the assessment and ensure that they are adequately monitored.

## 2.5 Independent Oversight of Activities

The AMF expects financial institutions to ensure effective, ongoing and independent oversight of activities. Such oversight should support the board of directors in validating the effective functioning of control mechanisms and the reliability of the institution's reporting and results.

The Board delegates responsibility to the Executive Committee for ensuring that the various mechanisms adequately fulfill their mandates.

To ensure that these functions are able to provide it with the necessary support, the Board:

- takes an active interest in the selection of candidates for independent oversight positions;
- ensures that the persons responsible for the various functions are independent from the operations they oversee and are free of influences that may affect their ability to perform their responsibilities objectively;
- ensures that the persons performing these functions have the necessary authority and resources and the support of the Executive Committee;
- understands key findings of the reports produced by independent oversight functions and ensures follow up on any concerns raised.

## 2.6 Audit of Activities

The AMF expects the financial institution's audit committee to be satisfied that the institution's audit plan is risk-based and covers all relevant activities over a measurable cycle, and that the work of the internal and external auditors is coordinated.

Under the provisions of the Part 1A of the Companies Act, subsequently replaced by the Business Corporations Act (Québec) Addenda is not required to have an audit committee. In addition, considering its size and the fact that it is part of a financial group, Addenda has outsourced the functions of internal audit to the Group's internal audit service.

The Board is nonetheless responsible for overseeing the performance of the audit function as a whole.

As regards external audits, the Board is responsible for the following:

- scope of the audit plan;
- skills and resources of the external auditor;
- recommendations concerning the appointment of the external auditor;
- periodic review of the external auditor's effectiveness;
- independence of the auditor as well as of the auditor's internal quality control practices and policy;
- compliance with accounting practices and the assurance that they are conservative and appropriate;
- ensuring receipt of all material correspondence between the external auditor and the Executive Committee regarding audit findings, in accordance with current Canadian generally accepted accounting principles;
- quality of the financial statements, including a fair presentation of Addenda's financial position.

## 2.7 Disclosure

The AMF expects financial institutions to disclose the main aspects of their governance programs in consideration of the nature of their activities.

Full disclosure is provided to Shareholders through the Board, quarterly reports and timely releases; clients and consultants have access to information through request for proposals (RFP) and due diligence processes.

## 2.8 Assessment of Governance Effectiveness

The AMF expects financial institutions to introduce a governance program tailored to their nature, size, complexity of their activities and risk profile and to ensure the effectiveness of this program.

### 2.8.1 Role of Financial Institutions

Governance practices are evolving rapidly. The AMF expects the decision-making bodies of financial institutions to be aware of governance best practices and tailor them to their needs. As such, Addenda's governance program is regularly updated.

### 2.8.2 Role of the AMF

In seeking to promote sound and prudent management of financial institutions, the AMF may review observance of the sound and prudent principles contained in its Governance Guideline and the effectiveness of the governance programs set up by the firm.

## 3. Amendments and Reviews

<b>Date of Modification</b>	<b>Amendments/Reviews</b>
April 2011	Creation
June 2019	Review
October 2021	Review

