

Internal Audit Policy of Covéa Finance

1. Context

The regulatory requirements on the regular control mechanism and particularly the General Regulation of the *Autorité des marchés financiers* (AMF - French Financial markets authority), Articles 313-62, 313-63 and 313-67, require Covéa Finance, as a management company approved by the AMF, to put in place a regular control function separate from and independent of its other functions.

Covéa Finance has the legal form of a *Société par Actions Simplifiée* (SAS - simplified joint stock company) with a collegial management and a supervisory committee. It is 100% owned by the Covéa insurance group subject to the regulatory requirements of the insurance sector controlled by the *Autorité de Contrôle Prudentiel et de Résolution* (ACPR - French Prudential Control and Resolution Authority).

Covéa Finance has decided since 2016 to create a team dedicated to regular control in order to secure the entire mechanism and maintain a certain degree of autonomy in the missions and works entrusted to this department. The works were previously carried out by external service providers or with the help of the contribution of members of the team in charge of permanent control.

This policy sets down the framework for internal audit work as well as its operating, from the preparation of its missions to the monitoring of its recommendations.

2. General Principles

In accordance with the French Decree of 9 March 2006, the company's internal control mechanism incorporates a so-called "internal audit" regular control function.

Internal audit is a component of the control mechanism of Covéa Finance. It intervenes on a 3rd level of risk management, designed to examine the effectiveness of the compliance and internal control mechanism. The first two lines of control constitute permanent control. The 1st level is controlled at operational level by the employees and the 2nd level control by the managers or by internal control.

The control mechanism, represented in the shape of a pyramid, reveals that each line of control covers a wider scope with a more in-depth degree of details than the higher level. The feedback assured by the different links of control allows for having an exhaustive and measured view of the risks inherent in the company.



The internal audit of Covéa Finance builds its missions in accordance with 3 areas of concern:

- responding to the needs and concerns of the governance of the company particularly of the Chairwoman,
- ensuring that the operations audited comply with the expectations of the regulator,
- evaluating the entire L1 and L2 permanent control mechanism.

3. Scope and organisation of internal audit

The internal audit function is placed under the authority of the Chairwoman and acts under the responsibility of a managing director. He has the duty to intervene on all the areas and business sectors of the company.

Internal audit contributes to the improvement of the organisation's risk management. Regular evaluation of the operations gives an assurance of the compliance and of the management of the operations carried out by the employees and the recommendations arising from this remedy the shortcomings detected.

The function is implemented by the dedicated team but may make use, to assist it (technical expertise required, additional resources, need for a market view, etc.), of external service providers which remain under its responsibility and its steering.

A multi-annual audit plan is prepared by internal audit, shared by the Management Committee and validated by the Chairwoman. Its preparation is based on the covering of the main operations of Covéa Finance by incorporating the orientations and priorities of the Governance and particularly of the Chairwoman. The internal audit plan is defined over a cycle of five years and is revised each year in order to be adjusted in terms of the work to be carried out and/or the emergence of new risks.

4. Preparation of the internal audit plan

The construction of the audit plan relies on:

- the analysis of the main levels of risk of Covéa Finance,
- the taking into account of changes affecting the processes, operations or legal scope of the company, the examination of the works of the UCITS Auditors, principals or of the management company,
- the orientations and potential requests of members of the Management Committee of Covéa Finance and of the supervisory committee
- the remarks on the summaries of the works of internal audit and of the Risk Committee (coordinated by Risk Control),
- the examination of the controls or investigations carried out by the supervisory authorities of Covéa Finance,
- the examination of the Covéa Group Audit and Internal Control works,
- the expertise of the internal control or internal audit teams.

5. Conduct of the internal audit missions

The missions carried out are a result of the audit plan which has been presented to the Management Committee and validated by the Chairwoman. This plan must however leave the necessary latitude to incorporate, during the year, the missions decided by the General Management of Covéa Finance or requested by the AMF.

The conduct of an audit mission is organised around the following five phases:

- After scoping the field of the mission by the head of internal audit, the engagement letter is sent by email to the head of the audited area. The objective is to respond to the needs and to the concerns of the Chairwoman by incorporating the regulatory expectations in them. It specifies in particular the scope and the objectives of the intervention, the main points examined, the start-up period and the resources (internal or external) responsible for this Audit.
- A preparatory phase allows for collecting information on the audited area, familiarisation with the scope and for planning the stages of the mission.
- The analysis phase relies on the holding of interviews and examining the information collected. The auditors prepare a diagnostic from the strengths and weaknesses they have identified in the audited area.
- A test phase, carried out partly on computer data, is then implemented to support the findings made.
During the mission, the auditors inform, as need be, those audited of their findings so as to find explanations to the potential malfunctions revealed, and seek acceptance of the diagnostic and recommendations made.
- Internal audit prepares a provisional audit report which presents the works carried out. The findings are accompanied by recommendations on the audited area. This

report is presented to the managers concerned, so as to allow them to formulate their observations or enact their agreement on the audit's recommendations. In case of disagreement, they have to substantiate their position.

The final audit report is then sent to the members of the Management Committee of Covéa Finance. It will then be enhanced with potential corrective actions decided upon and their implementation time.

Within the framework of pre-defined missions, the internal auditor has free and unrestricted access to documents, files, tools and also to the employees and managers of Covéa Finance.

Once the report has been validated, it is then circulated to the managers concerned and to the permanent internal control teams. It is kept available for the members of the supervisory committee and of group internal audit.

6. Monitoring of the recommendations and of the internal audit activity

After the report has been circulated, internal audit monitors the recommendations designed for the Management Committee at contractual quarterly implementation dates.

Internal audit ensures the effective implementation of the recommendations through interviews, the collection of documents and through tests. The recommendations remain open until internal audit considers that their implementation provides reasonable assurance.

The conclusions on the progress of the implementation of the recommendations are written up in a quarterly summary sent to the managers of the audited area and to the members of the Management Committee of Covéa Finance.

Internal audit reports quarterly on the works carried out via an activity report which makes it possible to inform the Management Committee of the state of progress of the audit plan and of the state of monitoring of the audit recommendations. This is then followed by the implementation of the recommendations issued after audits have been carried out by external entities (AMF, Group Internal Audit, etc.) during which the internal auditor intervenes as a coordinator and in a supervisory role.