THE KINGS Mutual Insurance Company

BOARD OF DIRECTORS

QUALIFICATIONS AND ROLES AND RESPONSIBILITIES

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Introduction

This guideline provides information about the qualifications, desired capabilities and competencies, responsibilities, and roles of directors of The Kings Mutual Insurance Company (the “Company”).

The qualifications, capabilities and competencies defined herein should be considered before nominating a candidate for election to the Company board or when deciding who to elect from the candidates nominated. A nominee should consider the qualifications, capabilities, competencies and responsibilities of a director before accepting the nomination. Directors should reference this guideline to ensure they understand their responsibilities and role as a director of the Company.

In this document, “Board” refers to either the entire Board of Directors or a committee of the Board that has been delegated a particular element of Board oversight.

Qualifications

Eligibility

Directors are nominated and elected to the Board of Directors by policyholders in accordance with the Insurance Companies Act (Canada) and Company by-laws. Under Bylaw 5:00 no person shall be eligible to be a director or shall act as a director unless they, or a company they control, is a policyholder of the Company and insured therein for the time that they hold office for an amount not less than Twenty-Five Thousand Dollars ($25,000.00). A person must also be eighteen or more years of age and not an undischarged bankrupt. If a director becomes bankrupt, he or she also ceases to be a director.

Election and Term of Office

The Board presently has positions for a minimum of seven and a maximum of ten directors. It is the sense of the Board that this size provides appropriate flexibility for the Board to plan for director turnover, rotation through committee and chair responsibilities, and the introduction of new directors while maintaining sufficient experienced members to maximize Board effectiveness.

Company by-laws provide procedures for the nomination of candidates for director and the election of directors. All but one of the directors are elected from candidates nominated by policyholders. A director is elected for a three-year term.

The final director shall not be elected but shall be that person appointed from time to time by the other members of the board of directors to serve as the president and chief executive officer of the Company and that person shall hold the director's position for only so long as he or she holds the position of president and chief executive officer of the Company.

Assessment

Company policy requires an assessment of a person's suitability and integrity to perform properly the duties of a director before that person may be appointed a director. The Assessment Policy is based on sound business principles outlined in the Office of the Superintendent of Financial Institutions Canada Guideline E-17. The assessment includes obtaining information such as the following:

- Evidence that the candidate possesses the required skills, qualifications and experience to properly perform the duties of a director;
- Search of criminal records and records of securities-related sanctions or disciplinary actions by a professional regulatory body;
- Attestation from the candidate that he or she has not been held liable in a civil proceeding in connection with financial or business misconduct, fraud or mismanagement of an entity; and
- Attestation from the candidate that he or she has no conflicts of interest that could create a material risk that he or she will be unable to discharge the duties of a director with integrity and in the best interests of the Company.

Candidates will be asked to submit their curriculum vitae to the Company Chair. Other information and attestations will be obtained by an independent third party only with the candidate's written consent. All information obtained by the independent third party is held in confidence and only released to the Chair if there is an adverse finding and the candidate provides written consent for such release.

A candidate who does not consent to the assessment procedures or who is found unsuitable for the position of director will be asked to withdraw his or her name.

Characteristics

Characteristics expected of all directors include independence, integrity, high personal and professional ethics, capacity to communicate openly and work effectively with fellow directors and management, and the ability and willingness to commit sufficient time to the Board.

Qualified directors will possess:	• Enthusiasm, flexibility, and leadership;
	• A commitment to strengthening and furthering the interests of the mutual insurance system;
	• Ability to work effectively as a team member pursuing common goals;
	• Credentials, accomplishment and recognition in their chosen field;
	• High regard in the community and a reputation for meeting the highest ethical and moral standards;
	• No conflicts of interest or personal agenda;
	• Past board experience including actively contributing during board meetings and serving on board committees;
	• Sound business judgement in their professional life;
	• Knowledge of business issues and financial matters; and
	• Effective leadership skills.

Time Commitment

A director is expected to attend all Board meetings (minimum six times per year), committee meetings, the annual general meeting, annual Agents & Broker Meeting and convention attendance (as requested). The Company's By-laws state "No person shall be eligible for election or re-election as a director after having attained their 75th birthday."

A director should ensure he or she has sufficient time beyond other business and personal commitments for these Board responsibilities. Directors living a distance from the Company office must also allow time to travel to and from meetings.

Capabilities and Competencies

Corporate governance refers to oversight mechanisms, including the processes, structures and information used for directing and overseeing the management of a company. It encompasses the means by which members of the Board of Directors and senior management are held accountable for their actions and for the establishment and implementation of oversight functions and processes.

Appropriate organizational structures, policies and controls help promote, but do not ensure, good corporate governance. Effective corporate governance is mainly the result of dedicated directors and senior managers performing faithfully their duty of care to the company. What makes structure and policies work in practice is knowledgeable and competent individuals with a clear understanding of their role and strong commitment to and initiative in carrying it out.

The hallmarks of effective corporate governance by the Board and its members include:

Judgement	• Decisions that strike a reasonable balance between business objectives and risk management and control functions.
	• Applying common sense, measured reasoning, knowledge and experience to come to a conclusion.
	• Can identify and diminish "group think" tendencies and recognizes decision making biases in board discussions.
Initiative	• Proactive exercise of responsibilities by members while respecting the responsibility of the Chief Executive Officer and senior management to manage the company.
	• Readiness to both advise and challenge management.
	• An adequate commitment of time by members for board responsibilities.
	• Involvement in the determination and review of the company's business objectives and strategies.

Responsiveness	• Responsiveness to issues or deficiencies identified by management, the independent oversight functions and regulators.
	• Involvement in management's response to regulatory recommendations and requirements.
	• Responsiveness to issues identified in board evaluations of itself or management.
Operational excellence	• Processes and ways of operating that permit discussion and advance consideration of important matters and transactions based on appropriate and timely information and analysis.
	• Periodic review of the adequacy and frequency of information the board needs to fulfill its responsibilities.
Knowledge	• Understanding the company's environment and strategy. Understanding the roles of the executive team in achieving strategic goals.
	• Understanding own responsibilities, accountabilities, and liabilities as a director and board member. Is knowledgeable of best practices principles associated with board structure and board processes.
	• Reading and interpreting financial reports.

Responsibilities

The Board is responsible for supervising the management of the business. The Board selects the Chief Executive Officer ("CEO") and works with senior management as collaborators in advancing the interests of the Company. In doing so, the Board must delegate authority and recognize that, once authority is delegated, management must be free to manage. However, the Board cannot be too accepting of management's views. It has the responsibility to test and question management assertions, to monitor progress, to evaluate management's performance and, where warranted, to take corrective action.

The board is explicitly responsible for five core functions:	• Choosing the CEO and ensuring the senior management team is sound, focused and capable of successfully managing the company;
	• Setting the broad parameters within which the management team operates. Examples include adopting a strategic planning process and approving a strategic direction; defining a framework to monitor the management of business opportunities and risks; and in defined circumstances, approving major company decisions.
	• Coaching the CEO and the management team. The metaphor of a coach is chosen deliberately to underscore that the directors are not players. They should provide direction and advice, but they do not do management's job.
	• Monitoring and assessing the performance of the CEO, setting the CEO's compensation and taking remedial action where warranted, including replacing the CEO if necessary;
	• Providing assurance to stakeholders about the integrity of the company's reported financial performance.

Boards must have the capacity, independent of management, to fulfill these responsibilities and to engage in a constructive and mature relationship with management. This requires a clear understanding of what they should do and what they should not do and a culture that provides opportunity for both directors and management to feel comfortable when management positions are challenged.

Oversight

Effective Board performance means the Board actively embracing its responsibilities and bringing its collective skills and experiences to bear in providing independent, objective and thoughtful oversight and guidance to the company.

The oversight responsibilities of Boards include:	• Reviewing and approving organizational structure; • Reviewing and approving organizational and procedural controls and satisfying themselves that these controls are operating effectively; • Ensuring that the CEO and other members of senior management are qualified, competent and compensated in a manner that is consistent with appropriate prudential incentives; • Taking an active role in the choice, review, and approval of broad strategies, business objectives, and plans; • Reviewing and approving policies for major initiatives and activities; • Monitoring of performance against business objectives, strategies and plans; • Obtaining reasonable assurance on a regular basis that the institution is operating within an appropriate control framework; and • Undertaking succession planning for the position of CEO and ensuring management has an adequate succession plan for other critical management positions.

Risk Management

Risk is anything that impacts the achievement of business objectives. Risk Management is an enterprise-wide, strategic process for identifying and managing potential risk events within a risk appetite to provide reasonable assurance of achieving objectives.

Board oversight responsibilities for effective risk management include:	• Having a general understanding of the types of risks faced by the company and the techniques used to measure and manage these risks;
	• Reviewing and approving the overall risk philosophy and risk tolerance of the company. A board should be aware of material changes to business strategies or risk tolerance and limits within which individuals are authorized to act;
	• Reviewing and approving significant policies or changes in policies for accepting, monitoring, managing and reporting on the significant risks to which the company is exposed;
	• Requiring management to have a process for determining the company's desired level of capital and ensuring capital management strategies are in place;
	• Requiring from management timely and accurate reporting on significant risks faced by the company, the procedures and controls in place to manage these risks, and the overall effectiveness of risk management processes. The Board should be aware of and satisfied with the manner in which material exceptions to policies and controls within the institution are identified and monitored, the nature of reporting to the Board, and the consequences within the institution, when exceptions are identified;
	• Assure itself that the risk management activities of the company have sufficient independence, status and visibility and are subject to periodic reviews; and
	• Include in its reviews of changes in strategies or new business initiatives, a review of requisite and related changes in risk management and controls.

Internal Controls

Internal controls encompass the policies, processes, culture, tasks and other aspects of the company that support the achievement of the company's objectives. Internal controls facilitate the efficiency of operations, contribute to effective risk management, assist compliance with applicable laws and regulations, and strengthen capacity to respond appropriately to business opportunities.

Senior management is responsible for the development and implementation of an adequate and sound system of internal controls. The Board of Directors is ultimately responsible for ensuring that such a system is established and maintained. As part of this responsibility, the Board should regularly review the system of internal controls at a high level to determine that it is working as expected and that it remains appropriate.

Useful inputs into these reviews include:	• Management reports on the operations and financial condition of the institution, the performance of risk management and other control systems during the period under review and any significant non-compliance with controls, the company's code of conduct or with laws and regulations;
	• Internal and independent audit opinions on the adequacy of controls for the company as a whole and for individual business activities and recommendations for improvement;
	• The Dynamic Capital Adequacy Test ("DCAT") along with reports of the appointed actuary on the value of policy liabilities on the current and prospective position of the company and on matters that might have a material adverse impact on its financial condition;
	• The audit report on the audited financial statements and all other reports of the independent auditor;
	• Views solicited by the Board of the company's auditors and legal counsel; and
	• Views and observations of the company's regulators.

Board and Regulators

As a supervisor, the company's regulator conducts annual examinations and monitors the company's performance to assess safety and soundness, quality of control and governance processes, and regulatory compliance. The regulator's reports and findings can provide useful input to the Board's own oversight of the institution. Open communication between the Board and the regulator helps promote the mutual trust and confidence essential to the reliance-based system of supervision that the regulator follows.

A Board that carries out its responsibilities effectively will:	• Understand the regulatory environment within which the company operates; • Be informed of the results of regulatory examinations; • Require appropriate follow-up on recommendations and any deficiencies identified by the regulators including following up with senior management to determine if weaknesses found are indicators that similar problems may exist elsewhere in the organization; • Consider regulatory findings in its on-going evaluation of senior management, recognizing that primary responsibility for identifying weaknesses rests with the board and senior management; and • Be open to sharing with regulators information pertaining to the regulator's oversight of the company.

Board and Senior Management

The Board's primary interface with management is through the CEO. The Board also has important relationships with other critical management positions.

The CEO and senior officers are responsible for managing the company on a day-to-day basis within the authority delegated to them by the Board and in compliance with applicable laws and regulations. In this regard, their skills, competence, integrity and experience are critical factors in the safety and soundness of the company.

Senior management promotes the effectiveness of the Board of Directors by providing the Board with sound advice on organizational structure, objectives, strategies, plans and major policies of the company. It sets out and analyzes options for the Board, makes and supports recommendations, and provides relevant data and context to enable the Board to reach informed decisions. It facilitates the Board's oversight role by providing relevant, accurate and timely information to the Board, enabling the Board to oversee the management and operations of the company, assess policies, and determine whether the company is operating in an appropriate control environment. Senior management also facilitates effective oversight through fostering candid and robust Board discussions.

It is also senior management's responsibility to ensure the independent oversight functions, such as audit, the appointed actuary, and compliance and risk management, have the resources and support to do their work and capacity to offer objective opinions and advice to the Board and to senior management.

Roles

Board Chairperson

The Board Chair is responsible for the management, development, and effective functioning of the board and provides leadership in every aspect of its work. The Chair acts in an advisory capacity to the CEO and to other officers in matters concerning the interests of the organization and the board and relationships between management and the board.

In addition to carrying out specific assignments at the request of the CEO or the board, the Chair has the following specific responsibilities:

Management of the Board and corporate governance	In consultation with the CEO plans and organizes the activities of the Board including: • the agenda for, frequency of, preparation for, and the conduct of, Board meetings; • the quality, quantity, and timeliness of the information that goes to the Board; • the formation of Committees and the integration of their activities with the work of the Board; • the evaluation of the Board's effectiveness and implementation of improvements; • the development of the Board including director evaluation and compensation; and • the ongoing formal and informal communication with and among directors.
Stakeholder relations	• Chairs annual and other meetings with policyholders. • Facilitates the Board's efforts to create and maintain practices that respond to feedback from policyholders. • In consultation with management, responds to policyholder's concerns regarding governance and other issues relating to the Board.
Management relations	• Has unrestricted access to management, subject to the governance standards on "Director Access". • Provides advice to the CEO on major issues. • Facilitates effective communication between directors and management both inside and outside of meetings of the Board. • Works with the CEO to ensure management strategies, plans and performance are appropriately represented to the Board. • Participates in overseeing succession plans for key management roles and in establishing the performance goals and assessment of the CEO in meeting specified objectives.

Board Past Chairperson

The Past Chairperson is responsible to provide continuity to the Board of Directors and to assist in the transition of a new Board Chairperson. The immediate Past Chairperson provides guidance and a historical perspective of board and director responsibilities.

The Past Chairperson may assist the Chairperson in fulfilling his/her duties as requested by the Chair or outlined in the Corporate Governance Framework.

Board Vice-Chairperson

The Board Vice-Chairperson is responsible for assisting the Chairperson with the management, development, and effective functioning of the board while providing leadership in every aspect of his/her work. The individual must be prepared to accept all Chairperson responsibilities' should the Chairperson become unwilling or unable to fulfil their respective role and/or responsibilities.

The Vice-Chairperson also acts in an advisory capacity to the Board in matters concerning the interests of the organization and the board and relationships between management and the board.

Board Second Vice-Chairperson

The Board Second Vice-Chairperson is responsible for assisting the Vice-Chairperson with his/her responsibilities as outlined in the Corporate Governance Framework or as requested by the Chairperson. The individual must be prepared to accept all Vice-Chairperson responsibilities' should the Vice-Chairperson become unwilling or unable to fulfil their respective role and/or responsibilities.

The Second Vice-Chairperson also acts in an advisory capacity to the Board in matters concerning the interests of the organization and the board and relationships between management and the board.

Committee Chair

The fundamental responsibility of the chair of any committee of the Board is to be responsible for the management and effective performance of the committee and provide leadership to the committee in fulfilling its mandate and any other matters delegated to it by the Board.

The Chair of any committee of the Board will:	• Chair committee meetings and ensure that the committee is properly organized and functions effectively.
	• Work with the Board Chair and the CEO to establish the frequency of committee meetings and the agendas for meetings.
	• As appropriate and in consultation with the committee, retain, oversee and terminate independent advisers to assist the committee or its members in fulfillment of their responsibilities.
	• Report to the Board with respect to the activities of the committee and any recommendations deemed desirable by the committee.
	• Lead the committee in annually reviewing and assessing the adequacy of its mandate and evaluating its effectiveness in fulfilling its mandate.

Director

The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its stakeholders in governing and guiding the Company to achieve its mandate. In discharging that obligation, directors owe the Company and its stakeholders the duties of loyalty and due care.

Directors are expected to attend and contribute to all Board meetings and meetings of committees on which they serve and to spend time needed and meet as frequently as necessary to discharge their responsibilities properly. Information and data that is important to the Board's understanding of the business to be conducted at a Board or Committee meeting should generally be distributed in writing for review by the directors before the meeting. Directors are expected to read, question, and understand the written materials and financial statements distributed. Directors are also expected to participate openly in the Board self-review program and the director peer evaluation program, the evaluation of the CEO, and monitoring the CEO's evaluation of senior management.

Directors are expected to adhere at all times to the Company's Code of Business Conduct and Ethics and the Company's Conflict of Interest guidelines.

Directors must ensure any issues or questions coming before the Board are considered in light of the balanced interests of the Company and all stakeholders.

The Board believes that management speaks for the Company. Individual directors may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company. It is expected that directors would do this with the knowledge of management and, absent unusual circumstances or as contemplated by the committee charters, only at the request of management.