

Director's Terms of Reference

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1.1 INTRODUCTION

The Board of Directors ("**the Board**") has developed these Director's Terms of Reference to clarify a Director's duties and set out how the Board expects a Director to discharge his/her duties and responsibilities. These Terms of Reference will be used in assessing a Director's performance. The duties and responsibilities of the Board as a whole are set out in the Board Mandate.

1.2 STANDARD OF CARE

Directors are responsible for supervising the management of the affairs and business of Central 1. In discharging his/her responsibilities, a Director is required to:

- a) act honestly and in good faith with a view to the best interests of Central 1; and
- b) exercise the care, diligence and skill that a reasonably prudent individual would exercise in comparable circumstances.

The requirement for a Director to "act honestly and in good faith" is a fiduciary obligation, which requires that a Director not be motivated by his/her own personal interests and not act with an improper purpose or in any manner that is not in the interests of Central 1.

Acting in the "best interests of Central 1" involves a consideration of the long term best interests of Central 1, while also giving consideration to the interests of various stakeholders of Central 1 on an equal basis amongst each stakeholder. The best interests of Central 1 may very often, but do not necessarily always, align with the interests of its members or other stakeholders. Central 1 may take an action that benefits one or more stakeholders at the expense of the interests of other stakeholders, but only if the Board has determined that doing so would be in the best interests of Central 1.

The duty to exercise "care, diligence, and skill" requires that a Director act prudently and on a reasonably informed basis. To do so, the Director must consider the reasonable alternatives available in the circumstances. A director's decision should be reasonable and defensible at the time it is made.

1.3 COMPLIANCE

A Director is required to:

- a) meet at all times the requirements for a Director as set out in the *Financial Institutions Act* ("**FIA**"), the *Credit Union Incorporation Act* ("**CUIA**"), and Central 1's *Constitution and Rules* ("**Rules**");
- b) comply with the Director's Terms of Reference, Director Compensation and Expense Policy, Director Orientation, Training and Education Policy, and Director Conflict of Interest Policy;
- c) protect and safeguard the property and assets of Central 1 and its members. This includes:
 - i. tangible assets;
 - ii. information of members, employees and Central 1. Such information includes but is not limited to the content of Board and committee deliberations; any director's position on matters decided by the Board or committee or documents referred to by the Board or committee in its decision-making; and
 - iii. directors may only disclose confidential information when its use or disclosure is authorized by the Board, required by a court of law or a regulatory body or it subsequently becomes public knowledge through no misconduct by the director. Directors continue to be bound by this obligation even when no longer serving on the Board. All information relating to Central 1, its members, its employees, and to other businesses or individuals that directors receive or have access to in the course of their work is to be treated as confidential, unless otherwise authorized by the Chair of the Board or the CEO. Such information shall not be used for any purpose other than that for which it was obtained.
- d) comply with Central 1's Code of Conduct ("**the Code**") and annually sign a statement that he/she has read and understands the Code and will comply with the Code;
- e) disclose any real, perceived or potential conflicts of interests in accordance with the Director Conflict of Interest Policy, and ensure that they are appropriately reviewed and resolved by the Board through its Conduct Review and Corporate Governance Committee;

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- f) disclose his/her interest in a proposed contract or transaction with Central 1 and abstain from voting on the proposed contract or transaction;
- g) refrain from using his/her position to make a personal profit, gain any advantage or confer a benefit to his/her own credit union, implicitly or explicitly, that Central 1 either could have obtained for itself or that it was actively seeking; and
- h) refrain from engaging in any activities that would provide the Director with a direct benefit that should have been earned by Central 1.

1.4 ORGANIZATIONAL AND INDUSTRY KNOWLEDGE

Recognizing that better decisions are made by well-informed Directors, through Central 1's director orientation, education and development program, each Director shall develop within the first year of being a Director a basic understanding in each of the following areas:

- a) the Board Manual which sets out the formal governance structure of the Board, the role of the Board, its committees and the individual performance expectations and all policies contained therein; the FIA, the CUIA, and the Rules, FICOM Governance Guidelines and OFSI Governance Guidelines as they apply to the regulation and governance of Central 1;
- b) Financial Literacy – an ability to read, interpret and understand basic financial information and financial principles. Directors should be able to understand the overall financial performance of Central 1 through a review of basic accounting statements, such as the balance sheet and income statement. All directors should be able to contribute to discussions regarding financial performance and objectives;
- c) Risk Management Knowledge – an understanding of concepts around enterprise risk management as well as system-wide risk management. The directors should be able to identify and describe the range of risks that Central 1 is exposed to (both as a business and as part of the credit union system) and have a high level understanding of how those risks are mitigated;
- d) Liquidity Management Knowledge - knowledge of the sources of liquidity available to financial institutions broadly and Central 1. All directors should have exposure to commercial or inter-financial institution lending. All directors should have a high level understanding of the payments, settlement and clearing operations of financial institutions and Central 1;
- e) Legal and Regulatory Knowledge – an ability to identify general legal risks related to Central 1 and have a general understanding of the regulatory requirements of Central 1, financial institutions and reporting issuers (i.e. a public company). All directors are capable of understanding and applying the information contained in management's compliance reports; and
- f) Central 1 Business and Functions Knowledge – knowledge of Central 1's cooperative business model and primary functions from a wholesale business perspective, Central 1's role as a liquidity provider and its strategy, organizational structure, major stakeholders, key business drivers and related risks.

1.5 BOARD ACTIVITY

- 1.5.1 During Board and Committee meetings, each Director is expected to:
- a) support principled and ethical business practices and a culture of integrity;
 - b) bring his/her own business skills and experience, wisdom, judgment and influence to bear constructively on issues;
 - c) interact with fellow Board members and management in a respectful and constructive manner;
 - d) actively participate in Central 1 Board functions;
 - e) speak and act independently while remaining a "team player";
 - f) express opinions in a clear, organized and relevant manner;
 - g) express points of view for the Board's consideration even if they may seem contrary to other opinions previously expressed;
 - h) think critically, strategically and independently, as demonstrated by his/her willingness to ask questions and challenge assumptions;
 - i) listen to, and exercise tolerance for, other perspectives;
 - j) be adaptable, flexible and open-minded in considering and implementing change;
 - k) exercise a logical, rational approach to problem solving;
 - l) analyze issues from many perspectives and consider the impact of decisions on Central 1's internal and external environments (e.g. staff, members, credit union system, community);
 - m) be innovative and/or resourceful in finding or developing solutions;

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- n) whenever possible, advise the Chairperson of the Board and the Corporate Secretary before introducing significant and previously unknown information;
- o) focus inquiries on issues related to strategy, policy, implementation and results rather than issues relating to day-to-day management of Central 1; and
- p) once Board decisions are made, support those decisions in a positive manner and together with other Directors "speak with one voice".

1.5.2 Between Board meetings, each Director is expected to:

- a) be available as a resource to management and the Board; and
- b) as necessary and appropriate, communicate with the Chairperson of the Board and with management.

1.5.3 In carrying out his/her responsibilities, every Director is expected to be actively engaged in the work of the Board and add value to the Board's work. Those Directors who have particular areas of expertise are expected to use their unique skills and experience to the benefit of the Board; for example, by taking a lead on areas of Board investigation or discussion within their area of expertise.

1.5.4 A Director shall be entitled to rely on material information, opinions, reports, and statements, including financial statements and other financial data, prepared or presented by officers and employees of Central 1, its external accounting and legal advisers; provided that the Director does not have knowledge concerning the matter in question that would cause such reliance to be unwarranted. A Director shall not be considered to be acting in good faith if he/she withholds non-confidential information from fellow Directors or from management.

1.6 PREPARATION

A Director must devote the necessary time and attention to be able to make informed decisions on issues that come before the Board. While management will provide Directors with all of the information management thinks Directors need in order to discharge their responsibilities, a Director has a responsibility to ask for all information he/she believes necessary to make an informed decision.

Requests for information should be directed through the Chairperson of the Board, Committee Chairperson or Corporate Secretary.

To enhance the effectiveness of Board and Committee meetings, a Director is expected to:

- a) read and absorb materials (including budgets and reports) before the meetings, analyze the information and do independent research if necessary;
- b) make reasonable inquiries about information provided to them by management to ensure the information provided is clear and correct; and
- c) ensure he or she has acquired adequate information necessary for decision making.

A Director may inspect any of Central 1's books and records and receive such information as he/she may reasonably request. Directors may reasonably consult in a general way with others to understand their position on a matter or their view of a particular initiative so long as the director does not breach its confidentiality obligations. In appropriate circumstances (alone or jointly with other Directors), a Director may communicate with Central 1's principal legal, accounting and compensation advisors.

1.7 RELATIONSHIP WITH MANAGEMENT

A Director shall direct questions or concerns regarding the performance of management through Board and Committee meetings or through the Board Chairperson or Committee Chairperson to the President and Chief Executive Officer.

A Director is expected to respect the organizational structure of management. A Director has no authority to direct any staff member, with the exception of the Corporate Secretary, who reports to the Chairperson of the Board.

1.8 COMMITTEES

To assist Committees in being effective and productive, a Director is expected to:

- a) participate on Committees of the Board and become knowledgeable about the purpose and goals of those Committees;
- b) understand the process of Committee work, and the role of management and staff supporting the Committee; and
- c) become knowledgeable about the Terms of Reference for the Committees on which he/she serves.

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1.9 COMMUNICATIONS

A Director has an important role as an ambassador of Central 1 but should ensure all external communications are conducted as described in Central 1's Disclosure Policy.

A Director may communicate openly with the Chairperson of the Board, fellow Directors and management.

1.10 ATTENDANCE

Absent extenuating circumstances, a Director is expected to attend all regular meetings, special meetings (such as Board planning sessions) and Committee meetings for those Committees on which a Director serves. From time to time it may be necessary to hold Board or Committee meetings by phone or video conference.

Attendance at all board and committee meetings will be recorded and reported to the membership in the annual report. The Chairperson of the Board may recommend to the Board the removal of a Board member who has failed, without being excused, to attend three consecutive regular meetings of the Board.

Where a Director is unable to attend a Board or Committee meeting:

- a) the Director shall advise the Board Chairperson or Committee Chairperson, as appropriate, in writing at his/her earliest convenience of the Director's unavailability and the reasons therefore and shall provide a copy to the Corporate Secretary; and
- b) the meeting minutes shall reflect the Director's absence e.g. "absent with prior notice."

1.11 EXTERNAL ACTIVITIES AND OTHER DIRECTORSHIPS

A Director shall:

- a) be an effective ambassador and representative of Central 1; and
- b) be available to attend corporate and community events at the request of the Board Chairperson or President and Chief Executive Officer.

A Director should, when considering membership on another board or committee, make every effort to ensure that such membership will not impair the Director's time and availability for his/her commitment to Central 1. No Director shall serve on a board of a competitor of Central 1 without the consent of the Board.

1.12 BOARD AND PEER ASSESSMENT

A Director is expected to actively participate in Board and peer assessments.

1.13 RE-ELECTION

A Director shall advise the Board Chairperson as soon as possible if he/she will or will not seek re-election or re-appointment, as the case may be, when eligible to do so.

1.14 CEASING TO HOLD OFFICE

A Director ceases to hold office when his/her term expires in accordance with the Rules or when he/she:

- a) dies or resigns;
- b) is removed by special resolution adopted at a general meeting of members;
- c) is not qualified to act as a Director in accordance with the CUIA and/or the Rules; and
- d) is removed in accordance with the FIA, CUIA and/or the Rules.

1.15 SANCTIONS

A Director who, in the opinion of a majority of two-thirds of the Board has:

- a) breached the Code of Conduct, Director's Terms of Reference and/or Conflict of Interest Policy, or the confidentiality of any proceedings, deliberations, or information of the Board or its Committees; or
- b) has failed to act honestly in good faith and in the best interests of Central 1,

shall be subject to sanctions imposed by the Board. These sanctions may include, but shall not be limited to private censure, public censure, request for resignation, and if necessary, legal action.

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1.16 END OF TERM

When a Director's term ends, the Director is required to return to Central 1 all materials and other items belonging to Central 1, including confidential Board materials.

1.17 ACCOUNTABILITY

A Director is accountable to the Board.

1.18 AMENDMENTS

The Board must authorize substantive amendments to these Terms of Reference. The Conduct Review and Corporate Governance Committee may make administrative amendments, including amendments related to dates, organization, and similar matters.