

## Risk Review and Investment & Loan Committee Terms of Reference

Approved: February 22, 2019

### 1.1 PURPOSE

The Risk Review and Investment & Loan Committee (“**Committee**”) is a committee of the Board of Directors (the “**Board**”) to which the Board has delegated responsibility for overseeing the effective operation of all risk-taking operations and risk management functions of Central 1 and ensuring appropriate risk governance processes are executed effectively and that all business operations of Central 1 are undertaken in a prudent and risk-informed manner.

The Committee shall review the risks associated with the business activities of Central 1, investments and divestitures, the associated corporate policies and any significant and emerging events and related action plans and shall recommend any improvements or changes to the Board as deemed necessary or desirable. The Committee is responsible for ensuring that Central 1 has adequate capital to support its risk-taking activities and making any required recommendations to the Board in that regard. The Committee shall also monitor and oversee regulatory compliance and compliance with anti-money laundering and counter terrorism financing (“**AML/CTF**”) legislation and related policies.

The Committee derives its authority from the Board.

### 1.2 COMPOSITION AND TERM OF OFFICE

1.2.1 The members of the Committee shall be elected or appointed, as the case may be, by the Board at the first meeting of the Board following Central 1’s annual general meeting (“**AGM**”). The Committee shall consist of a minimum of five (5) members of the Board, of which (a) one (1) member shall be the Chairperson of the Audit and Finance Committee; and (b) at least one (1) member must be an officer of Central 1, such as the Chairperson or the Vice-Chairperson of the Board. A casual vacancy may be filled by, and additional members of the Committee may be appointed by, the Board, to hold office until the next AGM.

1.2.2 Each member of the Committee shall possess a majority of the following, and, in aggregate, the Committee shall possess all of the following:

- a) experience managing the type and complexity of risk facing Central 1, including crisis resolution and recovery plans;
- b) an understanding of how risk relates to integrity, ethics and ultimately to success;
- c) an understanding of how incentive and compensation design influence risk taking;
- d) an understanding of the broad scope of risk, risk terminology, the tools of risk management and how to assess their proper application to Central 1;
- e) an understanding of risk management best practices and their application to Central 1 and its specific areas of operation, including a general familiarity with the principles of existing global standards;
- f) an understanding of the influence of corporate and departmental cultures on risk-taking;
- g) an understanding of how risks can be diversified, amplified, transformed and/or migrated;
- h) an understanding of the regulatory environment in which Central 1 operates and prospective changes related to risk governance;
- i) a sound knowledge of financial reporting, including balance sheets, income statements, cash flow statements, and internal control processes as well as how reporting may be influenced by accounting practices; and
- j) an understanding of distribution functions, correlations and statistics commensurate to the complexity of Central 1’s risk-taking activities.

1.2.3 A majority of the Committee must be Independent as defined in the Board Structure section of the Board Manual. None of the members of the Committee shall be: (a) employees of Central 1 or its subsidiaries; or (b) an officer of Central 1 or its subsidiaries who are involved in the day-to-day operation of Central 1 or its subsidiaries.

1.2.4 No more than one representative from any one (1) credit union is permitted to serve on the Committee, except where one (1) representative is serving as an *ex-officio* member of the Committee.

1.2.5 The Chairperson of the Board of Directors shall be an *ex-officio* member of the Committee, if not otherwise elected or appointed, as the case may be, to the Committee.

1.2.6 The Committee may appoint up to three (3) advisors to the Committee. An advisor to the Committee is not a member of the Committee and is not able to vote on any matter.

## Risk Review and Investment & Loan Committee Terms of Reference

1.2.7 The Board shall appoint the Chairperson of the Committee at the first meeting of the Board following the AGM, but shall not appoint the Chairperson of the Board to this role. The Chairperson of the Committee shall act in accordance with the Position Description: Committee Chairperson section of the Board Manual.

### 1.3 DUTIES AND RESPONSIBILITIES

The powers of the Committee are set out in the *Credit Union Incorporation Act*, the *Financial Institutions Act* and Central 1's Rules. Notwithstanding the foregoing, the Committee shall perform the following duties, as well as any other duties specifically authorized by the Board:

#### 1.3.1 Risk Management Oversight

The Committee has the responsibility to:

- a) oversee Central 1's risk management activities to ensure that they are independent of management, adequately resourced and have the appropriate status and visibility throughout Central 1 and shall recommend improvements to the Board as deemed necessary or desirable;
- b) ensure that Central 1 has the systems, processes and capabilities in place to evaluate its overall risk profile and the interconnectedness of Central 1's risk exposures;
- c) periodically review, approve, oversee and evaluate the processes, controls, principles, reporting and systems developed by the Chief Risk Officer ("CRO") and management to identify, evaluate and oversee appropriate management of applicable risks, including the status of any remediation plans implemented by the CRO to rectify any deficiencies identified;
- d) annually review and approve the organizational structure, resource plan and strategic priorities of the risk management function and recommend to the Audit and Finance Committee its budget;
- e) receive reporting on all risks with an emphasis on financial risks, compliance, and Top Line, Critical and Emerging Risks and conduct periodic deep dives into these risks, as appropriate;
- f) receive summaries of specialized risks, annually;
- g) at each quarterly meeting receive, review and discuss the Integrated Risk Report, which provides coverage of all risks;
- h) receive and review quarterly reports from each of the CRO and the Chief Investment Officer ("CIO") that outline their respective views on the risk profile, business activities and strategies, and level of risk preparedness of Central 1;
- i) review inspection reports prepared by the Superintendent of Financial Institutions and/or FICOM and recommend proposed responses to the Board; and
- j) periodically assess the appropriateness of Central 1's risk management functions against industry best practices relating to risk management.

#### 1.3.2 Chief Risk Officer

- a) The Committee shall have direct and unfettered access to the CRO;
- b) The Committee shall review, and jointly with the Human Resources Committee, recommend the appointment, replacement, reassignment, or dismissal of the CRO to the Board on an annual basis; and
- c) The Committee shall also annually review and assess the effectiveness of the CRO and his or her mandate and recommend improvements to the Board as deemed necessary or desirable.

#### 1.3.3 Risk Management Governance and Policies

The Committee shall:

- a) ensure that Central 1 has effective risk management governance and risk management processes in place to ensure that all risks are appropriately:
  - (i) recognized and identified;
  - (ii) assessed and/or measured, including stress tests;
  - (iii) monitored and reported;
  - (iv) analyzed;
  - (v) planned for on a proactive basis; and
  - (vi) embedded in Central 1's business and strategic decision-making processes and activities;
- b) at least annually review and evaluate all risk and risk-related policies of Central 1, including, at a minimum, the Corporate Risk Management Policy, individual policies for each major risk class, the Capital Policy and the Liquidity Funding Policy and, as deemed advisable, recommend changes to these policies to the Board for approval;

## Risk Review and Investment & Loan Committee Terms of Reference

- c) at least annually review and evaluate Central 1's Risk Appetite Framework and associated risk tolerances, limits and related metrics, Central 1's Capital Management Plan, Central 1's Funding and Contingency Funding Plan, Recovery Plan and Central 1's Business Continuity and Disaster Recovery Plans and recommend plans to the Board for approval;
- d) ensure that Central 1 has adequate capital to support its risk-taking activities, including through reviewing and approving, at least annually, Central 1's Internal Capital Adequacy Assessment Process and associated report and recommending the same to the Board for its approval.
- e) review and recommend for approval by the Board, as appropriate, all requests for exemptions from any risk related policy and review exception incidence reporting;
- f) review and provide recommendations to the Board regarding any proposed transaction which if completed would breach any Central 1 policy, principle or limit before the transaction is executed;
- g) review violations or breaches of any Central 1 policy and recommend for approval by the Board, as appropriate, all breach resolution plans and activities, including proposed timelines;
- h) monitor compliance with all regulations and legislation, including AML/CTF requirements;
- i) review reports on risk profile, including reports on risk exposure relative to limits and preferred positioning;
- j) monitor Central 1's risk profile against its Risk Appetite and/or policy limits including stress testing results across all business activities, key risks, and exposures and identify special areas of concerns for risk management review;
- k) review and recommend for approval by the Board, if appropriate:
  - (i) applications for risk levels, including credit applications, in excess of the limits established by the Board for the President and Chief Executive Officer; and
  - (ii) any new product classes, markets or other activities that introduce new risks to Central 1;
- l) review and approve the annual risk work plan and ensure all identified risk management needs, including staff, funding and any other required resources are captured in the Plan;
- m) oversee Central 1's legal and regulatory risk management and recommend for Board approval legal and regulatory management strategies and policies;
- n) review and report back to the Board at least annually approved significant business lines, products and subsidiaries, and Central 1's investments in affiliates to determine whether each line or product has created any unanticipated liquidity risk and determine whether the liquidity risk of each strategy or product continues to be within Central 1's established liquidity risk tolerance;
- o) review and approve the implementation and application of an enterprise stress testing program that is appropriate to Central 1's operations, one that meets the requirements of OSFI Guideline E-18: Stress Testing;
- p) review emerging risks and significant events and assess the adequacy of management's mitigation strategies and action plans;
- q) critically assess business strategies and plans, including investments and divestitures, from a risk perspective and conversely, assess enterprise risk profile alignment with business strategies and plans;
- r) ensure policies and related internal controls are in place to manage risk, including the manner by which material changes to policies and controls are identified, monitored, measured and controlled, along with remedial actions when exceptions/breaches are identified;
- s) review Central 1's material outsourcing arrangements; and
- t) review and assess at least annually Central 1's mitigation tools to provide a secondary check that all of major risks are managed.

### 1.3.4 Investment and Lending Policies

The Committee shall:

- a) ensure that Central 1 has effective approaches in place to implement the investment and lending policies of Central 1;
- b) review and approve, at least annually the credit approval policies of Central 1; and
- c) determine, at least annually whether Central 1 has adequate commercial lending experience and expertise to implement the commercial lending policies of Central 1.

### 1.3.5 Capital Management Activities

The Committee shall:

- a) review, and as deemed advisable, make recommendations to the Board for its approval regarding share issuances and share calls (other than in circumstances where authority for share issuances has been delegated to management by the Board);
- b) review, and as deemed advisable, make recommendations to the Board for its approval regarding redemptions of shares; and

## Risk Review and Investment & Loan Committee Terms of Reference

- c) review, and as deemed advisable, make recommendations to the Board for its approval regarding dividends.

### 1.4 MEETINGS AND PROCEDURES

1.4.1 The Committee shall meet as it deems necessary to fulfill its duties hereunder, but no less than once each quarter. The time and location of meetings and the procedures to be followed at such meetings shall be determined, from time to time, by the Committee. The Board Chairperson, the Committee Chairperson, any two (2) members of the Committee, the CRO or the Corporate Secretary may call meetings of the Committee. The Committee may meet in person, by conference call or by other electronic means.

1.4.2 Whenever possible, seven (7) days' notice of the meeting shall be provided, in writing, to members of the Committee. The agenda and required reports shall be circulated to the Committee one week in advance of the meeting date, whenever possible, and shall include:

- a) reports from the CRO and the senior executive for each business function or Group, providing clear articulation of risk and business activities since the last meeting and updates on action plans as previously presented to the Committee, as requested by the Committee or as required by external stakeholders including regulators and external auditors.

1.4.3 A quorum at any meeting of the Committee shall be a majority of the members of the Committee, excluding any ex-officio members. Decisions of the Committee will be by an affirmative vote of the majority of those members of the Committee voting at a meeting. The Committee may also act by resolution in writing signed by all the members of the Committee.

1.4.4 The Chairperson of the Committee shall appoint a Recording Secretary who need not be a director to keep minutes or other records of the meeting.

1.4.5 The Committee will meet "*in-camera*" at each meeting with the CRO, subsequently with the CEO and, subsequently, only the members of the Committee present.

1.4.6 The Committee may invite any director, officer or employee of Central 1 or any other person, as appropriate, to attend meetings of the Committee to assist in the discussion and examination of the matters under consideration by the Committee, including the President and Chief Executive Officer, any member of executive management, external auditor, or external counsel.

### 1.5 MANAGEMENT AND RESOURCES

1.5.1 The Committee shall be resourced by the CRO.

1.5.2 The Committee shall have the authority to engage and determine funding for any independent counsel, consultants and advisors, as it may deem necessary to carry out its responsibilities, provided that all contracts for such services shall be reviewed, where appropriate, by Central 1's Legal Department and that any contract in excess of \$10,000 must be approved by the Chairperson of the Board or the Board prior to execution. The Committee shall report to the Board on any undertakings to engage such external resources, including the level of compensation.

### 1.6 RECORDS

The official records of the Committee, including all meeting material and minutes are maintained by the Corporate Secretary. Minutes of every meeting shall be recorded and available to Committee members and the Board.

### 1.7 ACCOUNTABILITY

The Committee is accountable to the Board, and the Chairperson of the Committee shall, at least quarterly, report to the Board on its activities and its assessment of the health and condition of Central 1 from a risk management perspective, and shall make such recommendations to the Board as it deems advisable.

### 1.8 EVALUATION OF COMMITTEE EFFECTIVENESS

The Committee shall annually review and assess the adequacy of its mandate. As part of this review, the Committee will review and assess the adequacy of its Terms of Reference on an annual basis taking into account all legislative and regulatory requirements applicable to the Committee, as well as any best practice guidelines, and, if appropriate will recommend changes to the Conduct Review and Corporate Governance Committee. The Committee shall assess its effectiveness in fulfilling its mandate through its inclusion in reviews of Central 1 Committees led by the Conduct Review and Corporate Governance Committee.

# Risk Review and Investment & Loan Committee Terms of Reference

## **1.9 COMMITTEE OUTPUT**

The major annual activities of the Committee are outlined in RRILC's Annual Calendar which is subject to review and approval as appropriate and is included in the meeting materials.

## **1.10 AMENDMENTS**

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