

Board Succession Policy

Approved: September 16, 2022

Reviewed: September 13, 2022

1.1 PURPOSE

The purpose of this Board Succession Policy (the “**Policy**”) is to ensure the stability, continuity and effectiveness of the Board of Directors (the “**Board**”) of Central 1 Credit Union (“**Central 1**”) through establishing a framework for succession and renewal of the Board as a whole and of its various leadership positions to meet the following ongoing objectives:

- Directors have the appropriate competency requirements in order to effectively fulfill their oversight responsibilities to Central 1 and its member-owners and thereby, contribute to enhancing the credit union system;
- identify and onboard qualified Directors who complement the skills sets, education and experience of other Directors, and enable them to contribute to governance of Central 1 in their new roles as quickly as possible;
- assess the Board and its Directors on an ongoing basis to ensure effective governance ability;
- develop Directors for leadership positions within the Board and prevent stagnation and dependencies on individuals; and
- Central 1’s commitment to continuous improvement in governance practices.

The succession framework is regularly reviewed to maintain alignment with Central 1’s evolving strategy to effect long-term value for its member-owners. Further, it is the intention of the Board that this Policy should at all times satisfy requirements within Central 1’s legal and regulatory framework, including its *Constitution and Rules* (the “**Rules**”), the British Columbia Financial Services Authority (“**BCFSA**”) Governance Guidelines for British Columbia Credit unions, National Instruments 58-101 and 58-201, as well as reflect the cooperative principles and values and Central 1’s Domestically Important Financial Institution (“**D-SIFI**”) designation.

The Policy is consistent with, and supports the Board Structure, Board Mandate, Directors Terms of Reference, the Board Diversity and Inclusion Policy, the Director Orientation, Education and Development Policy, the Board Skills and Assessment Framework Matrix (“**Skills Matrix Framework**”) as well as the Terms of Reference for the Conduct Review and Corporate Governance Committee (the “**Governance Committee**”) and the Nominations and Elections Committee (the “**Elections Committee**”).

1.2 INTRODUCTION

This Policy adopts the following seven (7) interdependent governance practices that collectively influence Board renewal, effectiveness and succession at Central 1:

1. Competencies and attributes of the Board;
2. Diversity;
3. Nomination and election of Directors;
4. Board Leadership Succession;
5. Director orientation and ongoing development;
6. Board/Committee and Director effectiveness evaluations; and
7. Director Term Limits.

The resulting processes should be proactive, fair, transparent, competency-based, inclusive and consistently applied.

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1.2.1 Competencies and Attributes of the Board

Central 1 relies on the collective knowledge, experience and skill of each Director and the Board for its effective governance and success. It is important that Directors have the appropriate competency requirements in order to fulfill their oversight responsibilities to Central 1 and its member-owners and thereby, contribute to enhancing the credit union system. The skills and experiences needed on the Board at any given time are articulated through an ongoing and forward-looking review of Central 1's mission, vision and strategic objectives, as well as emerging key issues and risks.

To assist in this process, the Board uses a Skills Matrix which defines the optimal characteristics and skills composition of the Board, including the "hard" elements (e.g., specific skills and experience) and "soft" elements (e.g., personal and behavioral attributes, diversity, and Board leadership succession). In addition to defining the ideal Board composition, the Skills Matrix is used to identify skills and experiences gaps on the Board, ensure diversity and to support the development of each Director's education and training plans in conjunction with the *Director Orientation, Education and Development Policy* and individual director assessments. The Skills Matrix is reviewed by the Governance Committee to ensure that it aligns with the strategy of the organization.

1.2.2 Diversity

The Board recognizes that diversity is important in ensuring its members, as a whole, possess the qualities, attributes, experience, education and skills required to effectively steward and oversee the strategic direction and management of Central 1. The Board recognizes the benefits of having a diverse composition and identifies diversity as an essential element in attracting high-calibre directors, maintaining a high-functioning board and building a competitive advantage. To the extent possible, through the democratic process, the Board will take steps to ensure its membership is diverse as set out in the Board Diversity and Inclusion Policy.

1.2.3 Nomination and Election of Directors

Central 1's Board is proactive in defining the needed skills of the Board, and in communicating those needs to members for consideration in the nomination and election process. Directors are asked to annually complete the Skills Matrix Self-Assessment. The Governance Committee reviews the results of the Skills Matrix Self-Assessment to ensure they are calibrated appropriately and makes adjustments if/as needed. The results of the Skills Matrix Self-Assessment are then used to identify the skills and experience gaps on the Board. In reviewing the Board's composition, the Governance Committee will also consider diversity as defined in the Policy to maintain an appropriate mix and balance of diversity. The Governance Committee prepares the Director recruitment profile and provides the same to the Elections Committee, who is responsible for recruiting, assessing and nominating candidates for appointment/election to the Board, taking diversity into consideration.

Incumbent directors will not be automatically endorsed by the Elections Committee. Incumbent directors who wish to return to the Board must follow the same nomination procedure as other candidates. There is no guarantee an incumbent director will be endorsed; the choice to endorse a candidate will depend on the needs of the Board as detailed in the most recent Director recruitment profile.

1.2.4 Board Leadership Succession

To ensure continuity at the Board and Committee levels, the Board must remain cognizant of the competencies and attributes necessary in individuals holding a Chair role, and actively foster a rotation of leadership roles to develop a pool of trained leaders and avoid dependency risks. Committee Chair roles offer opportunities for individual Directors to develop their leadership style and demonstrate ability to work with Central 1's executive leadership team, with a view to consideration for the role of Board Chair and Vice Chair. As part of a Director's individual development plan, potential successors will be given training, development and/or mentorship to enable them to effectively step into the role with a deep understanding of their leadership role.

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a) Committee Composition and Committee Chairs

In conjunction with the Corporate Secretary, the Board Chair annually reviews expressions of interests received and recommends to the Governance Committee for its consideration the composition of the Board's standing Committees and their respective Chairs. Factors considered by both the Board Chair and the Governance Committee include:

- skills and experience as set out in the Skills Matrix;
- a Director's expression of interest to serve on a certain standing Committee and interest in a leadership position;
- available time;
- role rotation and refreshment;
- succession and continuity;
- statutory requirements, Central 1's Rules, and requirements specific to the relevant Committee pursuant to its terms of reference;
- attendance at Committee meetings over the previous year and overall workload; and
- diversity.

Following its review, the Governance Committee makes its recommendation to the Board for its consideration at the Organizational Meeting held immediately following the conclusion of the Annual General Meeting ("AGM"). The Board elects, as the case may be, the Committee Chairs, with the exception of the Chair of the Audit and Finance Committee who is elected by the members of the Audit and Finance Committee. Members of each standing Committee, including the Committee Chair, serve for a term of one (1) year expiring at the conclusion of the next AGM.

b) Board Chair and Vice Chair

The Chair and Vice-Chair are elected annually, by and from, the Directors at the Organizational Meeting. Expressions of interest to stand for election as Board Chair and Vice Chair should be in writing and received by the Corporate Secretary not less than seven (7) days prior to the Organizational Meeting. At the Organizational Meeting, nominations for the Board Chair and Vice Chair are sought, including directors who have expressed interest in writing and any additional nominees. A director, so nominated, must accept or refuse said nomination unless their interest has been expressed in writing. The Chair and Vice-Chair are each elected for a one (1) year term expiring at the conclusion of the AGM following their election, with a maximum of three (3) consecutive terms. The term limit balances continuity with rotation and refreshment.

1.2.5 Director Orientation and Ongoing Development

The Board recognizes that investing in ongoing education and development is an important component of effective governance. Central 1's Director Orientation, Education & Development Policy sets out a comprehensive approach to Director orientation, education and development to ensure that all Directors develop, within their first year, a basic understanding in threshold business competencies (as set out in the Director Orientation, Education & Development Policy) and continue to deepen their education and training in those areas, as well as improve their skills and experience in the areas identified in their individual development plans.

The Corporate Secretary maintains a record of education, training and conferences and industry events attended by Directors each year and provides a report to the Governance Committee, annually. The information is also available to members in Central 1's annual governance report.

1.2.6 Board/Committee and Director Effectiveness Evaluations

Regular effectiveness evaluations of the collective Board, its individual committees and its individual Directors enables the Board to identify where its practices need improvement to achieve overall governance effectiveness. The evaluations assist in the development of action plans and inform the process of board renewal, as the Board identifies skills, experience and personal attributes it may need to strengthen. It also supports individual Directors' education and training plans and identifies those Directors who may be developed for Board leadership roles.

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Directors are encouraged to prepare/update individual development plans and take steps to improve/develop their skills and experience in the areas identified in the Individual Director Skills Matrix Self-Assessment and effectiveness evaluations, as well as their leadership skills if they are interested in a leadership role. The Board Chair will meet annually with each Director to review their individual development plans.

The Board uses both informal and formal methods to evaluate its effectiveness:

1. **Informal effectiveness evaluation.** Informal evaluation will take place during the in-camera portion of each Board and committee meeting, during informal conversations between the Board Chair, Vice-Chair, Directors and the Chief Executive Officer and in other non-structured situations.
2. **Formal effectiveness evaluation.** The Governance Committee develops and leads the formal evaluation process ensuring the process chosen is appropriate to the state of development of the Board and the Board's evaluation processes. Whole Board and Committee evaluations are conducted annually (alternating 3rd party and internal survey) and the Chair and individual Director evaluations are conducted biennially.

1.2.7 Director Term Limits

Director term limits are governed by Article 13 of the Rules and Section 1.3 of the Board Structure. Term limits allow for Director renewal and refreshment.

1.3 COMMUNICATION AND REPORTING

The Governance Committee is responsible for overseeing and monitoring compliance with this Policy, and for enhancing current processes and developing new ones as required to fulfill these Policy objectives. Any questions relating to how this Policy should be interpreted or applied should be addressed to the Corporate Secretary.

1.4 AMENDMENT

The Board has the authority to make substantive amendments to this Policy. The Corporate Secretary, with the Committee's approval, may make administrative amendments to this Policy, including amendments related to formatting, organization, spelling and similar matters.

1.5 REVIEW

The Governance Committee will review this Policy biennially, and, if appropriate, make recommendations for changes to the Board for approval.