

Risk Review and Investment & Loan Committee Terms of Reference

Approved: November 23, 2023

Reviewed: November 16, 2023

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 (i) the effective management of all material risks to which Central 1 is exposed as a result of its business model and business activities, (ii) investment and lending policies and related business activities, and (iii) regulatory compliance, which includes compliance with anti-money laundering and counter terrorism financing ("**AML/CTF**") and privacy 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 Chair of the Audit and Finance Committee; and (b) at least one (1) member must be an officer of Central 1 who is not involved in the day-to-day operation of Central 1 or its subsidiaries, such as the Chair or the Vice-Chair 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 sound understanding of the types of risk to which Central 1 may be exposed and the techniques and systems used to identify, assess, measure, monitor, report on and mitigate those risks, or be willing and able to acquire the necessary knowledge. It is desirable, where possible, for the Committee members to have experience and knowledge in the lending and treasury fields.

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) officers 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 Chair of the Board of Directors shall be an *ex-officio* member of the Committee, if not otherwise ~~also~~ 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.

1.2.7 The Board shall appoint the Chair of the Committee at the first meeting of the Board following the AGM but shall not appoint the Chair of the Board to this role. The Chair of the Committee shall act in accordance with the Position Description: Committee Chair 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 function to ensure it is independent of management, adequately resourced and has the appropriate status and visibility throughout Central 1;
- b) 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 tested;
 - (iii) monitored and reported;
 - (iv) planned for on a proactive basis; and
 - (v) embedded in Central 1's business and strategic decision-making processes and activities;

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- c) assess the appropriateness of Central 1's risk management framework against industry best practices; and
- d) recommend improvements to Central 1's risk management framework to the Board as deemed necessary.

The Committee shall:

- a) review at least annually all risk and risk-related policies of Central 1, all capital and liquidity management policies and, as deemed advisable, recommend changes to these policies to the Board for approval;
- b) review at least annually Central 1's Risk Appetite Framework and associated risk tolerances, limits and related metrics, Central 1's Capital and Capital Contingency Plans, Funding and Contingency Funding Plan, Recovery Plan, Business Continuity Plan, and Disaster Recovery Plan and recommend plans to the Board for approval;
- c) review at least annually Central 1's risk-based capital requirements as assessed through Central 1's internal capital adequacy assessment process ("ICAAP") and recommend the same to the Board for its approval;
- d) review quarterly reports from the CRO that outline their view on the risk profile, business activities and strategies, and level of risk mitigation and preparedness of Central 1;
- e) review and approve the annual Risk Plan, including the strategic priorities of the risk management function and ensure all identified risk management needs, including staff, funding and any other required resources are captured in the plan;
- f) review annually and approve the implementation of an enterprise stress testing program that meets the requirements of OSFI Guideline E-18: Stress Testing;
- g) ensure that an outsourcing risk management program is applied and review annually Central 1's material outsourcing arrangements and all other relevant outsourcing reports;
- h) determine, at least annually whether Central 1 has adequate commercial lending experience and expertise to implement the commercial lending policies of Central 1; Commercial Lending Portfolios and Capabilities; review and approve, at least annually the credit approval policies of Central 1 as included in the Credit and Counterparty Risk Policy; Credit and Counterparty Risk Policy section 4;
- i) 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 (Quarterly Risk Reports);
- j) review inspection reports prepared by the BC Financial Services Authority and recommend proposed responses to the Board;
- k) review and recommend for approval by the Board all requests for exceptions from any risk or risk-related policy and review any policy non-compliance reporting;
- l) 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;
- m) 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;
- n) review and report back to the Board at least annually on the risk profiles of significant business lines, products and subsidiaries, and Central 1's investments in affiliates to determine whether the strategy of each line or product has created any unanticipated risk and determine whether the risk of each strategy or product continues to be within Central 1's established risk appetite and Annual Business Line Strategic and Risk Profiles; and
- o) 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.

1.3.2 Investment and Lending Oversight

The Committee shall:

- a) Annually review and recommend to the Board for approval the written investment and lending policies of Central 1, in accordance with the requirements of the *Financial Institutions Act Investment and Lending Regulation* ;
- b) review and approve, at least annually, the interest rate assessment report of Central 1 showing the comparison between the profile of interest rates payable to it for its financial assets and the profile of interest rates payable by it for its financial liabilities (Treasury Performance Report);
- c) ensure that Central 1 has effective procedures in place to implement the investment and lending policies of Central 1;
- d) receive and review quarterly reports from the Chief Investment Officer ("CIO") that outline their respective view on business activities and strategies;
- e) provide feedback to and review feedback of the CEO on the CIO's performance and qualifications and recommend the appointment, replacement or reassignment of CIO to the Board;
- f) have direct and unfettered access to the CIO and
- g) review and approve Treasury Annual Plan.

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1.3.3 Compliance Oversight

The Committee shall:

- a) provide feedback to and review feedback of the Chief People and Corporate Services Officer on the Chief Compliance Officer (“CCO”) performance and qualifications and recommend the appointment, replacement or reassignment of the CCO to the Board
- b) have direct and unfettered access to the CCO;
- c) review, at least biennially, the Compliance Policy and, as deemed advisable, recommend changes to the Compliance Policy to the Board for approval;
- d) review and approve the annual compliance plan;
- e) meet quarterly with the CCO to review reports covering:
 - (i) the testing of business line compliance functions; and
 - (ii) the adequacy and effectiveness of the compliance program;
- f) review the results of periodic independent reviews (typically internal audit reviews) of compliance functions;
- g) review and oversee the status of remediation plans implemented by management to rectify any deficiencies identified during independent reviews of compliance functions;
- h) review instances of material non-compliance with laws and regulations, and recommend for approval by the Board, as appropriate, related remediation plans, including proposed timelines; and
- i) review relevant reports of regulators to Central 1 and any required action by management.

1.3.4 Capital Management Oversight

The Committee shall:

- a) review, at least biennially, the Capital Policy and, as deemed advisable, recommend changes to the Capital Policy to the Board for approval;
- b) 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);
- c) review, and as deemed advisable, make recommendations to the Board for its approval regarding redemptions of shares; and
- d) review, and as deemed advisable, make recommendations to the Board for its approval regarding dividends.

1.3.5 Chief Risk Officer

The Committee shall:

- a) have direct and unfettered access to the Chief Risk Officer (“CRO”);
- b) provide feedback to and review feedback of the CEO on the CRO’s performance and qualifications, and recommend the appointment, replacement or reassignment of the CRO to the Board; and
- c) annually review and assess the effectiveness of the CRO and their mandate and recommend improvements to the Board as deemed necessary or desirable.

1.3.6 Chief Financial Officer

- a) The Committee shall have direct and unfettered access to the Chief Financial Officer (CFO).

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 Chair, the Committee Chair, 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.

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.

1.4.2 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.

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

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1.4.4 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.

1.4.5 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’s management representative shall be the CRO, who will serve as the primary liaison between the Committee and management.

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 Chair 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 Chair 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.

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.

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Risk Review and Investment & Loan Committee – Annual Calendar

	Feb	May	Sep	Nov
	Review Q4	Review Q1	Review Q2	Review Q3
Risk Related Outputs (all annual review unless otherwise stated)				
Quarterly Risk Report	•	•	•	•
Risk Policies				
Risk Appetite Framework				•
Enterprise Risk Management			•	
Credit and Counterparty Risk			•	
Liquidity Risk			•	
Market Risk			•	
Operational Risk			•	
Outsourcing Risk Management (first review 2023)			•	
Internal Capital Adequacy Assessment Process			•	•
Recovery Plan Annual Review			•	•
Corporate Insurance Policy Coverage Risk Assessment, including D&O coverage (biennial review, next review - Sep. 2024)			•	
Business Continuity Plan				•
Disaster Recovery Plan				•
Annual Risk Plan				•
Cyber Risk Review – Exposures, Risk Management and Action Plans			•	
Commercial Lending Portfolios and Capabilities – Annual Review			•	
Enterprise Stress Testing Program Annual Review				
Material Outsourcing Arrangements / Ensure Risk Management Program is applied				
Quarterly Chief Risk Officer Attestation	•	•	•	•
Review and recommend appointment of the CRO, as applicable				
Investment and Lending Outputs				
Quarterly CIO Report	•	•	•	•
Quarterly Treasury Performance Report	•	•	•	•
Annual Treasury Plan				•
Liquidity Funding Plan and Contingency Funding Plan				•
Investment and Lending Policies Annual Review			•	
Review and recommend appointment of the CIO, as applicable				
Compliance Outputs				
Compliance Policy (reviewed biennially-next review Feb. 2024)	•			
Annual Compliance Plan				•
Compliance Capabilities and Quarterly Compliance Report	•	•	•	•
Quarterly Chief Compliance Officer Attestation	•	•	•	•
Review and recommend appointment of the CCO, as applicable				
Capital Outputs				
Capital Plan and Capital Contingency Plan				•
Capital Policy (biennial review, next review Nov. 2024)				•
Committee Member Education		•	•	
Committee Terms of Reference and Annual Evaluation of Committee Effectiveness		•		
Provide feedback to and review feedback from the CEO on performance of the CRO, CIO and CCO. Make recommendation to the Board in accordance with the Risk Review and Investment & Loan Committee's Terms of Reference				•