



Terms of Reference for the Risk Committee / Approved by the Board of Directors: September 20, 2016

Purpose

Acknowledging [the Organization] as a regulated financial institution and a member-owned cooperative pursuing a values based sustainable banking model, the role of the Risk Committee (“RC”) is to ensure the existence of a strong risk management focus and culture at all levels of the credit union, to effectively protect member assets and accelerate impact and enhance member value. The RC is to provide effective oversight and advice to the Board in relation to current and potential future risk exposure and future risk strategy, including determination of risk appetite and tolerance. The RC promotes a risk awareness culture at the Board level and within the credit union, such that risk is addressed proactively rather than reactively, and ensures risk controls are effective

Accordingly, the RC ensures Management has established, and follows, an enterprise risk Management framework which will include the establishment of risk tolerance for the following specific principle risks: systemic, strategic, business, reputation, regulatory, legal, talent, technology, credit, liquidity, and market (the Principle Risks). For each principle risk the RC will ensure management has implemented risk related policies and the Committee will monitor compliance with those policies.

Objectives

The objectives of the Committee are to:

- Provide oversight and advice to the Board in relation to current and potential future risk exposures and future risk strategy, including determination of risk appetite and tolerance;
- Promote a risk awareness culture within all levels of the credit union;
- Identify any matters within its mandate where it considers that action or improvement is needed, make recommendations as to the steps to be taken, and receive reporting in response;
- assist the Board in fulfilling its oversight responsibilities with respect to management of the Principle Risks;
- ensure prudent policies set the tolerance for specific categories of risk;
- ensure that Management actions are within the policies; and
- deal with exceptions that may occur.

Membership and Quorum

Members of the Committee are appointed by the Board. The Board may fill a vacancy that occurs in the Committee at any time. The committee will be comprised of at least four (4) directors plus one member of the committee being an officer who will serve “exofficio”. A quorum for meetings will be a majority of members. In the event of a tie vote, the Committee Chair will cast the deciding vote. The Chair or Vice Chair of the Board will be on this Committee. If feasible, the Chair of the Audit Committee will also be a member of this Committee.

Chair and Vice Chair





The Chair of the Committee will be ratified by the Committee, after it has taken into account a recommendation from the Board. The Vice Chair of the Committee will be elected by the Committee at the first constituted meeting of the Committee following the Annual General Meeting. In the event of a tie vote, the Committee Chair will cast the deciding vote.

Authority

The Committee fulfills its role on behalf of the Board by making recommendations to the Board on:

- future risk strategy;
- steps to be taken to promote and maintain a strong risk awareness culture at all levels of the credit union; and
- the establishment and modification of policies deemed to comprise the “Investment and Lending Policy” as defined under the Financial Institutions Act.

The Committee has the authority to:

- establish and modify policies related to the Principle Risks (other than any policy deemed to be part of the Investment and Lending Policy);
- review and approve specific credit transactions that exceed the credit authority delegated to Management, but which are within the limits delegated to the RC by the Board of Directors;
- review, and make recommendations to the Board on, specific credit transactions that exceed both the credit authority delegated to Management and the limits delegated to the RC by the Board; request and receive copies of all internal and external audit reports relating to the Principle Risks, and request the attendance of either the Internal Auditor and/or external auditors at Committee meetings;
- request the attendance of any executive and/or staff member with relevant information pertaining to the subject matter being dealt with by the Committee; and
- approve, for recommendation to the Board, transactions for derivatives, investments and borrowings by the credit union that exceed Management’s authority. The Chief Risk Officer serves as the ex officio member

Responsibilities

The following responsibilities are recurring activities performed by the Committee, with the understanding that the Committee may carry out additional functions as may be appropriate in response to:

- changing business, legislative, or regulatory conditions; and
- other responsibilities or duties delegated to the Committee by the Board.

Chief Risk Officer

- The Committee ensures the Chief Risk Officer has a direct reporting line to the RC.
- Jointly with the CEO, appoints and dismisses the Chief Risk Officer.





Risk Strategy and Policy

- Consider the risk profile relative to current and future strategy and risk appetite, and identify risk trends, concentrations or exposures and requirements for changes to policy.
- Review the design and implementation of risk management and measurement strategies across the credit union and the procedures for monitoring the adequacy and effectiveness of those processes.
- Review the design and implementation of risk management policy, within the organization's Policy Framework, ensuring links to the credit union's vision and values.
- Oversee specific Board policies pertaining to the Principle Risks, including the following, and ensures they are reviewed regularly:
 - o Capital Management;
 - o Enterprise Risk Management;
 - o Fiduciary Risk;
 - o Investment Portfolio;
 - o Lending;
 - o Liquidity;
 - o Market Risk;
 - o Operational Risk Management; and
 - o Regulatory Compliance.
- Meets the requirements of sections X and Y of [the Act], for Investment and Loan Committees. Ensure the credit union and its subsidiaries are fulfilling their fiduciary obligations for trust and estates for which they are trustees.

Risk Profile

- Monitor and review, on an enterprise-wide basis, the performance of the organization relative to risk appetite, including receiving and reviewing reports from the Audit Committee in relation to financial, treasury, and liquidity risk that relate to any significant issues that require, or are subject to remedial action or recommendation arising in the period under review, including those relating to adherence to internal risk policy, standards and agreed risk limits.
- Monitor, review, and understand the risk profile of the organization, through the ongoing process of identification, evaluation and management of all material risks, in particular longer-term macro and strategic threats.
- At least annually, review the key risks, current and prospective, to the credit union and ensure the process to identify and manage risk are appropriate and effective.





- Report to the Board on the performance of the organization relative to risk appetite and the risk profile of the credit union, including the degree to which risk management is considered in decision making.
- Ensure the credit union has a disaster management and recovery plan which is reviewed regularly.

Risk Appetite, Framework and Limits

- Consider and recommend for Board approval the risk appetite framework (Enterprise Risk Management Framework) and tolerance for current and future strategy, taking into account capital adequacy, liquidity, and the external risk environment.
- Recommend to the Board on an annual basis, the risk appetite for the Principle Risks, and related authorities, limits and mandates.
- Ensure rigorous stress and scenario testing of [the Organization's] business to ensure a sufficient level of risk mitigation is in place.
- Review the due diligence of any proposed strategic transaction (involving a merger, acquisition or disposal) prior to Board approval of the transaction.

Risk Management Operating Model

- Consider the adequacy and effectiveness of resources within the credit union focused on risk management.
- Review the scope and nature of the work undertaken by the Risk division, noting any significant issues in the period under review and work planned for the next period in connection with the Principle Risks. Risk Architecture.
- Consider the adequacy and effectiveness of the technology infrastructure supporting the risk management framework.
- Ensure suitability of data captured, to facilitate appropriate modeling, data analysis and timely and effective management information for risk monitoring and decision-making purposes.

Technology

Oversee and approve management's plan for the technology infrastructure that supports the achievement of strategic goals, including protection of member information.

Operational Risk

- Review annually the processes designed to disclose to members and potential members who it is that provides service or product under a transaction arranged by or on behalf of [the Organization] and ensure that disclosure requirements are fulfilled.
- Review annually the processes established to restrict the use of confidential information and satisfy itself that those processes are being adhered to.





- Receive reporting from management respecting [the Organization's] compliance with privacy legislation.
- Monitor the adequacy of corporate security and fraud management.
- Review any breaches or concerns involving employees which could pose risk to [the Organization], as advised by the Chair of Human Resource Committee.

Approvals

- Following approval by the Chief Risk Officer, the Chief Financial Officer, Chief Operating Officer and the Chief Executive Officer, review transactions in excess of management's authorities and, as appropriate considering the committee's delegated authorities, either approve or recommend for approval to the Board.
- Annually review, and recommend to the Board for approval, the dividend/patronage for the Shared Success payout formula. (The Audit Committee reviews and approves for recommendation to the Board the Shared Success calculation based on the Board approved payout formula).
- Review and approve quarterly, all new loan loss provisions in excess of \$200,000.
- Review and approve annually, the allowance for loan impairment including both process of deriving the specific and general allowance and the absolute dollar value of the allowance.
- Review and approve, or recommend for approval, the encumbrance of [the Organization's] assets for any borrowings.

Meetings

The Committee shall meet as required, but not less frequently than quarterly. Meetings are open to other Directors who are non-voting. The Committee shall determine its own procedures for the conduct of the meetings. In addition to the quarterly meetings the Committee will meet periodically to deal with specific credit requests in excess of Management authorities. These particular meetings will generally be conducted by teleconference. Reporting Minutes of all meetings will be made available to the Board. The Chair will provide a report to the Board on matters not yet minuted. Supporting schedules and information reviewed by the RC will be available for examination by any Director through the board portal.

Resources

- Chief Executive Officer
- Chief Risk Officer
- Corporate Secretary
- Chief Financial Officer
- Vice President, Treasury and Foreign Exchange
- Other management, as needed





TERMS OF REFERENCE: RISK COMMITTEE / COOPERATIVE / FINANCIAL SERVICES INDUSTRY

- External consultants, as needed



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