

### **Introduction**

The authority of the Board of Directors (“Board”) is granted pursuant to certain legislation (Business Corporations Act, The Credit Union Act) and the bylaws of the Credit Union. The following is an articulation of the Board’s terms of reference which outlines the Board’s responsibilities to meet the legislative requirements and to outline how governance will be fulfilled for the benefit of PenFinancial Credit Union (“PenFinancial”).

The Board has the authority and obligation to protect and enhance the assets (tangible, intangible, human resources) of PenFinancial. The Board is accountable to the Credit Union and must conduct its duties in the best interest of PenFinancial as a whole. In order for PenFinancial to be successful, the Board recognizes that the Credit Union needs to be accountable to and strive to meet the needs of its stakeholders (including members, employees, regulator, and the Credit Union system).

The Board will fulfill its role through decision making and oversight. The decision making function involves the formulation of strategic goals, establishing governing policies and approving certain significant actions and items. The oversight function includes the duty to supervise management’s decisions, to gain assurance of the adequacy of controls and information, and to gain assurance of adherence to governing policies.

### **Duties of the Board**

The Board operates by delegating certain of its responsibilities to management and reserving certain powers to itself. The Board’s principal duties fall into seven main categories as follows:

1. Adoption and monitoring of strategic and business planning processes and plans.
2. Appointing, monitoring and compensating executive management.
3. Overseeing management of enterprise risk.
4. Establishing and upholding the Credit Union’s integrity, ethics and social responsibility.
5. Overseeing integrity of system of internal control and management information.
6. Providing for effective communication with members.
7. Establishing and maintaining effective governance practices.

Each of these duties creates the responsibilities, described below.

### **Strategic and Business Planning**

- a) In conjunction with executive management, approves the approach to strategic planning.
- b) Constructively engages with executive management in establishing the mission, vision, values and strategic goals and takes action to approve and uphold them.
- c) Provides for congruence and compatibility between stakeholder expectations, Credit Union plans, and management performance.
- d) Monitors PenFinancial’s progress towards its goals, revising and altering direction in light of changing circumstances, and taking action when performance falls short of its goals or special circumstance warrants such action.
- e) Understands foundation and assumptions to annual business plan and financial budget, and, subject to the Board’s satisfaction, approves the plans. The Board approves major changes to the plans.
- f) Approves significant capital expenditures and corporate decisions (significant is as defined by the Board).
- g) Monitors progress on strategic plan and business plans by receiving reports from the CEO on the changing business environment, the Credit Union’s strategies, operations and financial results.
- h) Provides guidance and input on strategic issues facing PenFinancial.

### **Appointing, Monitoring and Compensating Executive Management**

- a) Ensures a person with integrity, the appropriate competencies and attributes is appointed into the CEO position. The Board understands that it is the supervisor for the CEO position. The Board establishes the expectations for appointment of people into the other officer positions and monitors fulfillment of such.
- b) Assesses the CEO's performance against objectives established jointly by the Board and the CEO, and assesses his/her contribution to the achievement of PenFinancial's strategy and operational and financial strength.
- c) Reviews and subject to its satisfaction, approves the organizational structure and management officer positions as recommended by the CEO.
- d) Gains assurance that programs are in place to develop executive management, gains assurance for the orderly succession of executive management, and controls the CEO succession planning.
- e) Sets the employment principles providing for the desired working environment at PenFinancial and sets the compensation philosophy which enables PenFinancial to recruit and retain staff while meeting affordability within PenFinancial's resources; and monitors such. (Includes incentive based compensation plans and appropriateness of what compensation plans incentive staff to do.)
- f) Develops the compensation levels for the CEO and executive management appropriate in relation to the Credit Union's needs and sector comparables.
- g) Sets the authorities of the CEO including authority for purchasing, signing contracts, corporate transactions, and appointing employees to various positions and to fix their salaries.
- h) Monitors adherence of CEO's actions and PenFinancial processes to requirements of Board policies.

### **Oversee Risk Management**

- a) Understands the principal risks of the business of the Credit Union and strives to achieve a proper balance between risks incurred and potential returns.
- b) Establishes the proper policy framework for enterprise risk and specific areas of risk.
- c) Gains assurance that management has implemented policies and systems for effective risk management and that risks are monitored and managed with a view to the soundness of the Credit Union and the long-term viability of PenFinancial.
- d) Receives various reports as articulated in the various governing level policies relating to the major sources of risk, as well as the consolidated risk position, and makes enquiries to understand the level of risk, and that it is within the Board's risk appetite.

### **Establish & Uphold the Credit Union's Integrity, Ethics and Social Responsibility**

- a) Gains assurance as to the integrity of the CEO and executive management and that the CEO and other executive management strive to create a culture of integrity throughout the Credit Union.
- b) Approves PenFinancial's Code of Ethical Conduct for Directors, Committee Members, Senior Management and Employees, monitors compliance with the Code and receives reports on adherence to the Code.
- c) Monitors adherence of the Credit Union and its people to the values of the Credit Union and its ethical standards.
- d) Establishes governing policies and practices for dealing with matters related to integrity, ethics and social responsibility.

### **Communications with Members and Shareholders**

- a) Ensures there is policy and processes for effective communication with members and other stakeholders.
- b) Provides for the financial, operational, strategic performance of the Credit Union to be reported to the members on a timely, regular and accurate basis.

- c) Provides for timely reporting to the appropriate stakeholders of developments that have a significant and material impact on the value of the Credit Union's assets.
- d) Reports annually to the members on the Board's stewardship for the preceding year.
- e) Ensures that member and shareholder meetings (annual and special) are called as appropriate.
- f) Gains assurance that admitting and terminating members is handled according to the relevant legislation and Credit Union bylaws.

#### **Integrity of System of Internal Control and Management Information**

- a) Approves and monitors adherence with policies by which the Credit Union is governed.
- b) Gains assurance that PenFinancial operates at all times within applicable laws and regulations.
- c) Gains assurance of the integrity of the control environment, system of internal controls and management information to provide for sound and prudent operations of PenFinancial.
- d) Gains assurance that control and information systems are in place to provide for effective discharge of the Credit Union's mandate, adherence to laws and the sound management of the Credit Union.

#### **Governance Practices**

- a) Is responsible for ensuring its own effectiveness. This includes ensuring proper understanding of duties and responsibilities of individual directors, Board officers, the Board as a whole and each Board Committee, and that independent judgment is exercised in decisions at the Board table.
- b) Ensures its own succession, training and development, including, effective orientation programs and ongoing training and development.
- c) Ensures there are processes to educate and inform Directors of their duties as stipulated in various Acts, policies, and terms of reference.
- d) Develops, approves and monitors the Credit Union's approach to corporate governance including corporate governance principles and guidelines.
- e) Establishes the structures and procedures which allow the Board to function independently of management and monitors the composition of the Board with a view to the effectiveness and independence of the Board and the Directors.
- f) Establishes Board committees and defines their mandates to assist the Board in carrying out its roles and responsibilities.
- g) Sets expectations and responsibilities of directors, including attendance at, preparation for, and participation in Board and committee meetings.
- h) Establishes, maintains and implements appropriate formal processes for regularly assessing the effectiveness of the Board, the Board Chair, the Board Committees, each committee chairperson and individual directors.
- i) Identifies competencies and skills necessary for the Board as a whole and takes action to bridge gaps in the actual combined competencies.
- j) Reviews the Board's mandate annually to determine that it properly and completely reflects the Board's responsibilities.
- k) Executes specific duties as articulated in governing policies.

#### **Specific Functions**

In addition to the broad duties set out above, the Board has other specific duties. These are outlined in policies of the Board, in regulations, legislation and other pertinent guidelines. These include:

- a) Elect Board officers, i.e. Chair of the Board, and Vice Chair.
- b) Adopt/change the corporate seal.

- c) Recommend to members the appointment of External Auditor, ensure appropriateness of External Auditor's remuneration.
- d) Approve the audited financial statements of the Credit Union.
- e) Declare dividends on shares or a patronage return, dividend or payment.
- f) Approve the issuance, purchase, redemption or cancellation of shares of the Credit Union.
- g) Make recommendation to members for adoption, amendment or repeal of the Credit Union bylaws.
- h) Fill a vacancy on the Board.

### **Reliance on Management and Others**

The Board can expect and will hold management accountable for:

- Management are subject matter experts in the sound and prudent operations of a credit union.
- Management will report all material information about the Credit Union to the Board.
- Management will not act outside of their authority.
- Management will provide timely, complete and accurate information to permit the Board to make effective decisions, enable it to properly monitor the operations, and monitor adherence to policies and legislation.

The Board need not rely entirely on its own expertise or that of management for all decisions. It may and should call upon expert and independent advice to offer an opinion or guidance when required, in order to assist with informed decision making. It is the responsibility of the Board to be reasonably assured that such experts are independent and qualified to offer the advice being sought. The use of expert opinion does not relieve the Board and directors from the obligation of exercising their own judgment.

### **Board Committees**

The Board will operate through the terms of reference for the Board and will delegate responsibilities to Committees of the Board through the approval of terms of reference for the Committees. The Board has decided to delegate governing responsibilities to Board Committees as follows:

- Governance and Human Resources Committee
- Member and Community Relations Committee (including oversight of nominations)
- Audit and Risk Committee
- Executive Committee.

Staff support to each committee including recording secretary will be determined in consultation with the CEO.

The responsibilities for a Director, for the Chair of the Board, and for Chairs of Committees have been articulated by the Board in specific terms of references. The authorities of the Board Committees and governance positions are only as articulated in the applicable and approved terms of reference or otherwise as duly delegated by a motion of the Board. The terms of reference of the Board Committees and governance positions are an integral part of the governance framework for PenFinancial.