



NORTHERN SAVINGS
CREDIT UNION

GOVERNANCE ACCOUNTABILITY REPORT 2017

INTRODUCTION

The members of Northern Savings Credit Union (“Northern Savings” or the “Credit Union”) elect the individuals to the Board of Directors (the Board).

RULES

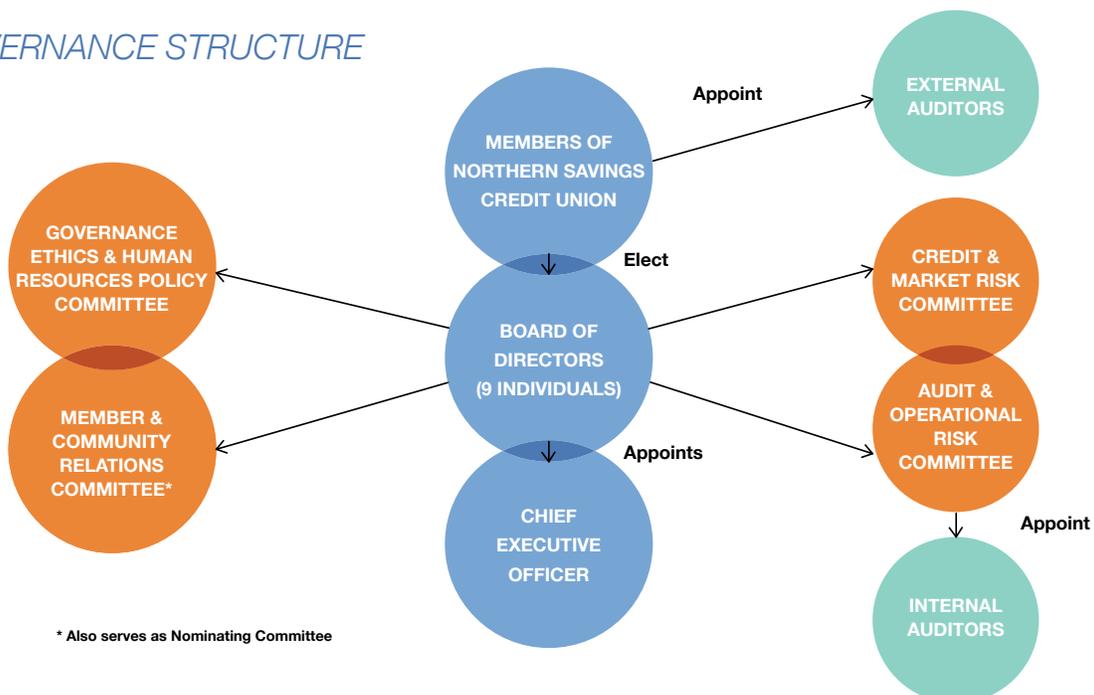
Northern Savings and its Board must follow the guidelines stated within the Credit Union’s rules which were approved by the members on May 10, 2017. The rules provide guidelines on the following:

1. Membership
2. Deposits
3. Shares
4. Borrowing and Lending
5. Qualifications and Election of Directors
6. Duties, Powers and Proceedings of the Directors
7. Removal of Directors
8. Indemnification of Directors and Officers
9. General Meetings
10. Special resolutions
11. Seal
12. Alteration
13. Miscellaneous

Members can find the full contents of the rules at <http://www.northsave.com/AboutUs/WhoWeAre/Governance>

THE GOVERNANCE FRAMEWORK

GOVERNANCE STRUCTURE



BOARD OF DIRECTORS

The current rules of the Credit Union provide for nine Directors on the Board with one (1) from the Haida Gwaii North district, one (1) from the Haida Gwaii South district, one (1) from the Terrace and surrounding area district and one (1) from the Prince Rupert and surrounding area district. Other Directors are referred to as Directors-at-large and can be from any location in British Columbia as long as they are members in good standing with the Credit Union. Directors are elected for a three-year (3) term of office, unless they have been appointed or elected to complete the unexpired portion of a term of office of a former Director.

Northern Savings seeks Directors who have the appropriate combination of talents to provide for sound governance over the Credit Union. The Nominating Committee is responsible for overseeing the nomination process and election of Directors to the Board in accordance with the Credit Union's rules.

The authority of the Board is granted pursuant to certain legislation (Business Corporations Act, The Credit Union Act, the Financial Institutions Act) and the rules of the Credit Union.

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

The Board fulfills 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.

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.

BOARD COMMITTEES

The Board works diligently throughout the year to oversee the operations of Northern Savings with a view to the long term sustainability of the Credit Union. Directors are required to attend the regularly scheduled Board meetings (generally there are ten a year), strategic planning and special meetings to deal with specific issues, as well as generally four meetings annually for each Board committee. There are four standing committees established by the Board:

1. Audit and Operational Risk Committee

The Audit and Operational Risk Committee's primary role is to set the context for an effective enterprise risk management (ERM) framework and gain assurance that management has implemented appropriate systems and practices aligned with an ERM framework. This Committee oversees the design and implementation of internal controls to support the risk management framework.

Within the ERM and control frameworks, the Committee assists the Board in fulfilling its oversight responsibilities regarding safeguarding of assets and members deposits, compliance with laws, regulations and governing policies, integrity of management and financial information, and efficiency and effectiveness of operations. Further, the Committee oversees the work of the external and internal audit functions. This Committee serves the requirements of the Audit Committee as outlined in the Credit Union Act.

2. Credit and Market Risk Committee

The Credit and Market Risk Committee's role is to provide effective oversight of Northern Savings' risk management activities related to investment risk, credit risk, liquidity risk, interest rate risk, foreign exchange risk, and capital management. This includes providing for the appropriate governing policies to be developed to provide the context for risks to be taken, the level of risks, and the monitoring of adherence to those

policies. This Committee serves the requirement of the Investment and Loan Committee under the Financial Institutions Act.

3. Governance, Ethics and Human Resources Policy Committee

The Governance, Ethics and Human Resources Policy Committee assists the Board of Directors in providing for effective governance and ensuring that governance practices evolve with the needs of the Credit Union.

This Committee also assists in protecting the reputation of Northern Savings by developing and monitoring policies which provide for the desired ethical conduct by Directors and employees and to prevent the exercise of undue influence by related parties. This Committee serves as the Conduct Review Committee specified by the Financial Institutions Act.

The Committee is also responsible for having governing policies in place and implemented by management to provide employees at Northern Savings with fair and meaningful employment in a safe and respectful workplace. The Committee has specific responsibilities with respect to the appointment, monitoring and compensation for the CEO and the positions which report directly to the CEO.

4. Member and Community Relations Committee

The Member and Community Relations Committee has two primary roles. One of the roles is to gain assurance that Northern Savings develops and pursues objectives to maximize member engagement in the Credit Union, and to fulfill its social responsibility within the communities where Northern Savings operates. Additionally, the Committee gains assurance that appropriate processes are in place to communicate effectively with members and other stakeholders.

This Committee also serves as the Nominating Committee required by Northern Savings' rules. These responsibilities include facilitating the identification of qualified candidates for election to

the Board of Directors. The Committee is to provide for the proper conduct of the Director elections including overseeing an orderly, open and transparent Board election process. The intent of the election process is to encourage broad-based, informed, active and effective member engagement and participation in the election process.

In addition to the above committees, the Board establishes adhoc committees as needed. In 2016, the Board established a joint Board-Management adhoc committee to oversee the redesign of the Masset Branch. This committee continued its work in 2017 to oversee the decision making for the substantial capital expenditure which will be incurred to renovate the Masset branch and integrate the Masset insurance operations with the retail financial operations.

DIRECTOR RESPONSIBILITIES

Directors act as part of a Board and rarely have power to act individually. Thus, a Director is part of a team and must be prepared to cooperate with other Directors to ensure the Board's work is carried out successfully and in a timely manner. Each Director is required to serve on at least one Board committee, to attend all Board meetings, to attend various meetings at the regional and provincial levels and membership meetings, and to fulfill requirements for ongoing education.

Given the complex nature of the financial services business, each Director is provided with a considerable amount of material related to the business and directly to the affairs of the Credit Union. Directors must understand the financial services sector and stay current on the Credit Union's operations. Being informed is a major responsibility of each Director and is a requirement in order that

Board discussions can proceed at a high-level and sound and prudent decisions can be reached. Given the demanding responsibilities, there are education requirements established for all Directors which are outlined below.

A Board approved terms of reference sets out the responsibilities of each Director. Each Director signs the document to indicate their commitment to perform the responsibilities. Further, each Director must review and sign their commitment to honour the Code of Conduct set for Directors.

Annually, the Board Chair meets individually with each Director to discuss their contribution to the governance of the Credit Union.

Director development is an important component of providing for continuous effective governance of Northern Savings. As such, the Board is committed to providing all Directors with access to education specific to understanding the concept of governance and the technical aspects of governing a financial institution.

The Board expects all Directors to utilize informal and formal mechanisms to acquire the necessary knowledge and to enhance their ability to be an effective Director. Directors are to invest at least 35 hours in professional development on an annual basis.

Ongoing development/learnings for Directors can be achieved through attendance at various forums including formal courses, conferences, credit union system related meetings, and informal means (such as reading a national or international financial press).

Credit Union Director Achievement (CUDA) is a nationally recognized program that Directors are to complete within three (3) years of joining the Board. Northern Savings requires its Directors to attend the mandatory courses to achieve their CUDA certificate while optional courses are the choice of the Director.

THE CURRENT DIRECTORS

The Directors (in alphabetical order) who were in office in 2017 are listed below. The information provided for each Director includes a brief outline of their background and experience, the Board Committees to which they were appointed following the annual general meeting, and the tenure of their directorship. There are no interlocking directorships with other Directors and no Director serves on any other Boards by virtue of their directorship on the Board of Northern Savings.



SEAN CARLSON

BOARD POSITIONS AS OF DECEMBER 2017:

Chair, Credit & Market Risk Committee;
Member, Audit & Operational Risk Committee

DIRECTOR SINCE: 2014

CURRENT TERM EXPIRES: 2018

BACKGROUND/EXPERIENCE:

Sean is an engineer-in-training with McElhanney Consulting Services Ltd in Prince Rupert. He brings an innovative perspective to the boardroom, representing a new generation of young professionals returning to live and work as proposed industrial and commercial projects become operational in the region. Sean's present community involvement includes the establishment in 2017 of the Kaien Island Trail Enhancement and Recreation Society, which partnered with the Rotary Club of Prince Rupert to rehabilitate the Rushbrook Trail. In 2016 Sean earned the Accredited Canadian Credit Union Director designation.



MIMMO CICCONE

BOARD POSITIONS AS OF DECEMBER 2017:

Member, Governance, Ethics & Human Resources Policy Committee;
Member, Member & Community Relations Committee

DIRECTOR SINCE: 2016

CURRENT TERM EXPIRES: 2020

BACKGROUND/EXPERIENCE:

Mimmo is a manager with the Ministry of Solicitor General providing counselling, case management and risk assessment services to court-ordered offenders; general and specialized individual, group and family counselling; and provides consultation to probation officers, social workers, community agencies and care-givers who are involved in service provision to offenders.



RODNEY COX

BOARD POSITIONS AS OF DECEMBER 2017:

Vice Chair, Board of Directors;
Chair, Governance, Ethics & Human Resources Policy Committee;
Member, Credit & Market Risk Committee

DIRECTOR SINCE: 2015

CURRENT TERM EXPIRES: 2020

BACKGROUND/EXPERIENCE:

Rodney has over 30 years of accounting and financial management experience and has worked in a wide range of industries in the Northwest including construction, forestry and logging, retail/wholesale, and media. Rodney's board experience includes the BC Chamber of Commerce, United Way Northern, BC, and the Institute of Professional Bookkeepers of Canada. Rodney currently operates CFR Management Inc. In 2017 Rod earned the Accredited Director designation.



SUSAN CROWLEY

BOARD POSITIONS AS OF DECEMBER 2017:

Member, Credit & Market Risk Committee;
Member, Member & Community Relations Committee

DIRECTOR SINCE: 2013

CURRENT TERM EXPIRES: 2019

BACKGROUND/EXPERIENCE:

Susan is a retired teacher who spent much of her career in Prince Rupert. She has also taught internationally in Australia and Namibia. She has also worked in positions for Elections Canada and Elections B.C. Susan taught Early Childhood Education courses for the First Nations Training and Education Centre in Prince Rupert.



FLORA D'ANGELO

BOARD POSITIONS AS OF DECEMBER 2017:

Chair, Board of Directors;
Member, Governance, Ethics & Human Resources Policy Committee

DIRECTOR SINCE: 2007

CURRENT TERM EXPIRES: 2019

BACKGROUND/EXPERIENCE:

Flora has been a principal, literacy support teacher and classroom teacher in the Northwest for 30 years. She has been an educator at the elementary, secondary and adult levels. Flora has been a member of the Credit Union since coming to Prince Rupert.



TRENT MORAES

BOARD POSITIONS AS OF DECEMBER 2017:

Chair, Member & Community Relations Committee;
Member, Governance, Ethics & Human Resources Policy Committee

DIRECTOR SINCE: 2013

CURRENT TERM EXPIRES: 2019

BACKGROUND/EXPERIENCE:

Trent is a councilor for the Skidegate Band Council. Previously, Trent was the Housing Coordinator with the Skidegate Band Council for approximately nine years with a focus on creating and maintaining healthy and safe housing for all Band members. His work has mainly been in housing and infrastructure but he has also worked in lands and economic developments, energy, Band memberships, and estates.



KIM MUSHYNSKY

BOARD POSITIONS AS OF DECEMBER 2017:

Chair, Audit & Operational Risk Committee;
Member, Credit & Market Risk Committee;
Chair, Masset Branch Redesign Adhoc Committee

DIRECTOR SINCE: 2015

CURRENT TERM EXPIRES: 2018

BACKGROUND/EXPERIENCE:

Kim is the former Chief Administrator for the Village of Port Clements. Kim has over 30 years of experience as an Administrator, specifically in the area of accounting. Kim worked in the retail cooperative sector for over 15 years. Kim has served terms on three other boards. Kim has a Bachelor's Degree in Business Administration and a degree in Municipal Government Management. Kim serves on the executive for the Northline group of credit unions.



ERIN NEWTON

BOARD POSITIONS AS OF DECEMBER 2017:

Member, Audit & Operational Risk Committee

DIRECTOR SINCE: 2015

CURRENT TERM EXPIRES: 2018

BACKGROUND/EXPERIENCE:

Erin currently operates Northern Laboratories (2010) Ltd located in Prince Rupert. The business serves government authorities, industry, businesses, consultants and private individuals from Haida Gwaii to Prince George and from Kemano to the Yukon border. Erin has a Bachelor's of Business Administration and has previous experience in the accounting profession.



ANNE PELTIER

BOARD POSITIONS AS OF DECEMBER 2017:

Member, Audit & Operational Risk Committee;
Member, Member & Community Relations Committee

DIRECTOR SINCE: 2012

CURRENT TERM EXPIRES: 2018

BACKGROUND/EXPERIENCE:

Anne has over 40 years of experience working in both the not-for-profit social service sector as well as working in the business sector. She has sat on the Provincial Early Childhood Educators Board as Treasurer and Director of Conference and the Provincial Family Resource Programs Board. Anne is presently the Administrator for two Terrace based companies. Anne holds a Diploma in Early Childhood Education Specialty in Infant Toddler Care and Special Needs, and holds a Diploma in Events and Convention Management from UCC (now Thompson Rivers University).

There was one additional Director, Jocelyn Lebell, who served as a Director in 2016 and in 2017 until January 4. Ms. Lebell retired from the Board due to a change in her employment which created a conflict with the Credit Union Director role. Given that Ms. Lebell served for only four days in 2017, she has not been included in the information on the Directors provided above and in the sections below.

DIRECTOR ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS

The following chart presents the attendance record for each Director at Board meetings, meetings of the standing committees and the adhoc committee. The Board meeting numbers also include the Director's attendance at the strategic planning session which took place over two days in October 2017.

The chart shows the number of applicable meetings attended by the Director during the period January 1 to December 31, 2017 and his/her attendance percentage. During the 2017 year, Directors were moved between committees; therefore, the number of applicable meetings will not be the same for all Directors.

| <i>Director</i> | <i>Board Meetings</i> | <i>STANDING BOARD COMMITTEES</i> | | | | <i>ADHOC</i> | |
|---------------------|-----------------------|-------------------------------------|---------------------------------|--|---|-------------------------------|------------------|
| | | <i>Audit & Operational Risk</i> | <i>Credit & Market Risk</i> | <i>Governance Ethics & Human Resources</i> | <i>Member & Community Relations</i> | <i>Masset Branch Redesign</i> | <i>TOTAL</i> |
| S. Carlson | 17 of 17 | 2 of 2 | 6 of 6 | 2 of 3 | | 4 of 4 | 31 of 32 97% |
| M. Ciccone | 16 of 17 | 4 of 4 | | 3 of 3 | 3 of 3 | | 26 of 27 97% |
| R. Cox | 17 of 17 | | 6 of 6 | 6 of 6 | | | 29 of 29 100% |
| S. Crowley | 15 of 17 | | 4 of 6 | | 6 of 7 | | 25 of 30 83% |
| F. D'Angelo | 17 of 17 | | | 5 of 6 | | | 22 of 23 97% |
| T. Moraes | 15 of 17 | | | 6 of 6 | 2 of 3 | 4 of 4 | 27 of 30 90% |
| K. Mushynsky | 17 of 17 | 6 of 6 | 4 of 4 | | 3 of 4 | 4 of 4 | 34 of 35 97% |
| E. Newton | 14 of 17 | 5 of 6 | 2 of 2 | | 4 of 4 | | 25 of 29 86% |
| A. Peltier | 16 of 17 | 6 of 6 | | | 7 of 7 | | 29 of 30 97% |

While most Directors sit on two Board Committees, the Board Chair is only required to sit on one committee being the Governance, Ethics & Human Resources Policy Committee. However, the Board Chair does attend other committee meetings to be apprised of their work, and in 2017, F. D'Angelo, Board Chair, attended 13 committee meetings (other than the Governance, Ethics & Human Resources Policy Committee noted above).

DIRECTOR EDUCATION

The Board has established an expectation that Directors will invest time in formal education to continue to update and expand their knowledge with the goal of providing continuation of good governance for the Credit Union. In 2017, the Directors attended formal education sessions which are included in the curriculum of the Credit Union Director Achievement program including the continuous education element. The Credit Union supports the Director's education by paying for the course registration fees and reimbursing Directors for travel, accommodation, and meal costs associated with attending the courses (the amount of the reimbursements is included in the section titled Director compensation, benefits and reimbursement of expenses incurred).

During 2017, Directors attended courses held locally or as part of educational conferences held by the credit union system in various locations in British Columbia and other provinces. In total, the Directors invested approximately 135 hours in 2017 in formal education sessions to continue to enhance their ability to govern Northern Savings. The following includes courses attended by some or all of the Directors in 2017:

- Strategy: The Art of Execution
- Role of Audit Committee
- Governing Credit Risk
- Governing Market Risk
- Productive Meetings
- Governance of a Risk Based Business
- Risk Oversight
- Case Studies in IT Governance Risk Based Business
- Webinars covering subjects such as:
 - o Anti-Money Laundering and Counter-Terrorist
 - o Flag the Money for Directors
 - o Navigating Difficult Decisions
 - o Strategies for Improved Decision Making
 - o Aligning Policies and Practices for the Sharing Economy
 - o Demystifying Blockchain, Bitcoin and Cryptocurrencies
 - o Blockchain and Bitcoin: Beyond the Hype
 - o Designing Credit Union Culture

The Credit Union Director Achievement (CUDA) program comprises three levels:

Level A - Foundations of Governance

Level B - Governance In Action

Level C - Governance Applications.

Directors are required to invest nine days to complete the full suite of courses included in the program. Even though a Director may have completed all three levels of the CUDA program, they are still required to invest 35 hours in professional development on an annual basis.

The following chart outlines the status of each Director in their completion of the CUDA program.

| DIRECTOR | STATUS IN CUDA PROGRAM |
|---------------------|--|
| S. Carlson | Has completed all three levels |
| M. Ciccone | Levels A and B complete, Level C in progress |
| R. Cox | Has completed all three levels |
| S. Crowley | Has completed all three levels |
| F. D'Angelo | Has completed all three levels |
| T. Moraes | Level A complete, Levels B and C in progress |
| K. Mushynsky | Has completed all three levels |
| E. Newton | Has completed all three levels |
| A. Peltier | Has completed all three levels |

DIRECTOR COMPENSATION, BENEFITS AND REIMBURSEMENT OF EXPENSES INCURRED

Northern Savings' Directors receive compensation for the fulfillment of their duties as a Board member and they receive reimbursement of expenses incurred. The following principles are used to determine compensation for Northern Savings' Directors:

- Compensation will reflect demands placed on the Directors in their accountability to an organization with the operations, complexity and size of Northern Savings
- The amount of compensation will be set in relation to the credit union sector
- The compensation will be affordable for Northern Savings
- The compensation will be determined using an objective process
- The administrative process for compensation will not be unduly burdensome on staff to maintain.

Directors are paid an annual honorarium with no additional amounts for attendance at meetings. The following amounts were set in 2014 as compensation to the people fulfilling the positions listed:

| | |
|-----------------|-----------------------------|
| Director | \$6,000 annually |
| Board Chair | Additional \$4,000 annually |
| Vice Chair | Additional \$1,500 annually |
| Committee Chair | Additional \$1,500 annually |

The policy requires the Director’s compensation schedule to be set for a three year period and, as a result, this was reviewed in 2017 for its continued appropriateness given the evolving responsibilities of the Directors. This compensation was reviewed by the Board in December 2017 and the following is the new compensation schedule which will take effect as of May 1, 2018:

| | |
|-----------------|-----------------------------|
| Director | \$7,000 annually |
| Board Chair | Additional \$4,000 annually |
| Vice Chair | Additional \$500 annually |
| Committee Chair | Additional \$1,500 annually |

Northern Savings also provides life insurance, accidental death and dismemberment coverage for each Board Member. In 2017, the premium cost for the life insurance and accidental death and dismemberment coverage was \$3,762. The Credit Union is also required to contribute towards the Canada Pension Plan given the honourarium paid to the Directors; in 2017, this amounted to \$2,589.

It is understood that Directors will incur expenses in the conduct of their duties and Directors are reimbursed for reasonable expenses incurred. Directors are expected to exercise discretion and good judgement in determining what is a reasonable and proper expense to be incurred on behalf of Northern Savings. Directors are expected to demonstrate a good example for use of corporate resources.

It is recognized that Directors may be employed in situations where they are compensated by an hourly or daily rate only if they are present at their employer’s site and therefore lose income when attending required events such as Board meetings, Committee meetings, strategic planning sessions, and training sessions. In these situations, the Director can submit a claim for wage loss. The amount is actual lost income with pro-rata amounts applied for portions of a day, to a maximum of \$2,000 annually. The purpose of this provision is to not disadvantage a Northern Savings member in taking on the role of a Director.

Generally, Northern Savings covers expenses incurred by Directors for:

- Registration fees for education sessions.
- Costs when travelling at the request of Northern Savings, when attending community events at Northern Savings’ request as well as attending meetings with business partners, within the credit union system, Board meetings, and training sessions. Out-of-pocket costs include transportation (airfare, ferries, mileage), as well as meals and accommodation if the meeting is out-of-town and extends for a day or if travel to home is not practical on same day. Regional credit union sector meetings in 2017 were held in Fort St. John and Prince George.
- Reasonable costs for entertaining when attendance at the event/meeting is at the request of Northern Savings.
- Technology expenses given the requirement for Directors to receive large amounts of information in electronic form

The following chart provides information on the compensation earned by the Directors in 2017 for the fulfillment of their assigned responsibilities and items reimbursed to each Director for expenses incurred and lost wage claims. The Directors did not spend the full budget for expenses incurred for meetings and education. The actual spent was \$44,619 out of a budget of \$75,800.

| Director Compensation and Description of 2017 Expenses | Compensation Earned | Total Expenses Reimbursed |
|--|------------------------|------------------------------|
| <p>S. Carlson</p> <p>Chair of a Board Committee throughout the year</p> <p>Expenses include: registration fees for education session, accommodation and transportation costs for travelling from Prince Rupert to attend education session and Board meeting in Village of Queen Charlotte</p> | \$7,500 | \$1,379 |
| <p>M. Ciccone</p> <p>Expenses include: registration fees, accommodation and transportation costs for attending education sessions in Vancouver</p> | \$6,000 | \$2,895 |
| <p>R. Cox</p> <p>Vice Chair of Board of Directors and Chair of a Board Committee throughout the year</p> <p>Expenses include: registration fees for an education session, accommodation and transportation costs for travelling from Terrace to attend Board and strategic planning meetings in Prince Rupert</p> | \$9,000 | \$3,583 |
| <p>S. Crowley</p> <p>Expenses include: registration fees for education session, accommodation and transportation costs for travelling from Prince Rupert to attend education session and Board meeting in Village of Queen Charlotte and for attending out-of-town regional credit union sector meetings</p> | \$6,000 | \$2,574 |
| <p>F. D'Angelo</p> <p>Chair of Board throughout the year</p> <p>Expenses include: registration fees for education session, accommodation and transportation costs for travelling from Prince Rupert to attend education session and Board meeting in Village of Queen Charlotte and for attending out-of-town regional credit union sector meetings</p> | \$10,000 | \$4,814 |

| Director Compensation and Description of 2017 Expenses | Compensation Earned | Total Expenses Reimbursed |
|--|------------------------|------------------------------|
| <p>T. Moraes</p> <p>Chair of a Board Committee from May to December 2017</p> <p>Expenses include: registration fees for an education session, accommodation and transportation costs for travelling from Skidegate to attend Board and strategic planning meetings in Prince Rupert</p> | \$6,963 | \$4,650 |
| <p>K. Mushynsky</p> <p>Chair of a Board Committee from May to December 2017</p> <p>Expenses include: accommodation and transportation costs from Masset to attend strategic planning and Board meeting in Prince Rupert and for out-of-town regional credit union sector meetings, including meetings for her involvement on the Northline group of credit unions, as well as transportation costs to travel from Masset to attend Membership and Board meeting in Village of Queen Charlotte</p> | \$6,963 | \$5,884 |
| <p>E. Newton</p> <p>Chair of a Board Committee from January to April 2017</p> <p>Expenses include: registration fees for education sessions and for accommodation and transportation costs for attending out-of-town regional credit union sector meetings</p> | \$6,538 | \$1,213 |
| <p>A. Peltier</p> <p>Chair of a Board Committee from January to April 2017</p> <p>Expenses include: registration fees for education sessions, accommodation and transportation costs for travelling from Terrace to attend education session and Board meeting in Village of Queen Charlotte, to attend strategic planning and Board meeting in Prince Rupert, and for attending out-of-town regional credit union sector meetings</p> | \$6,538 | \$5,300 |

Other expenses incurred generally to support the Board of Directors include: technology costs, meals provided for meetings extending for three hours or more, charges for meeting room space for the annual general meeting, and Directors' errors and omission insurance. These totaled \$21,341 for the year.

INDEPENDENT OVERSIGHT FUNCTIONS

The Board receives information from two independent oversight functions – internal audit and external audit. The external auditors are appointed by the members of the Credit Union and the internal auditors are appointed by the Audit & Operational Risk Committee. The Audit & Operational Risk Committee oversees the work performed by both sets of auditors.

The internal auditors report directly to the Committee and have a working relationship with management. The mandate of the internal audit function is to evaluate adequacy of the system of internal control to achieve control objectives encompassing: safeguarding of assets and member's deposits; reliability of financial and management information and reporting; compliance with laws, regulations, policies, and contracts; and effectiveness and efficiency of operations. The evaluation of the adequacy of the internal controls is conducted in relation to the inherent risk of the business and processes to the overall risk profile of the Credit Union.

The mandate of the external auditors is to audit the financial statements as prepared by management to determine if the information fairly presents the financial position of the Credit Union at December 31, 2017 and the financial results for the year. The responsibility of the external auditors is to express an opinion on the financial statements based on the results of the audit. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The report from the external auditors can be found in the financial statement section of the annual report.

COMPENSATION FOR CHIEF EXECUTIVE OFFICER (CEO)

The Board has set a general philosophy regarding compensation for staff. The Board directs that compensation for staff be set to allow Northern Savings to attract, motivate and retain personnel with the competencies and attributes required to meet the Credit Union's strategies and business objectives. In doing so, salary ranges and benefits will strive to provide for internal equity and be externally competitive with the local community and other financial services providers of like size and complexity to Northern Savings. The compensation plans must be financially affordable for Northern Savings in the short-term and long-term.

The Board has set policy guidelines with respect to the compensation of the CEO. The Board has directed that the CEO's compensation be established in light of the position responsibilities, the size and complexity of the Credit Union, the performance and experience level of the person in the position, the financial resources of the Credit Union, and the analysis of information gathered including compensation packages of CEOs at comparable organizations.

Generally, the compensation package for the CEO includes a salary plus an incentive payment and participation in employee benefits. In prior years the provision for an annual bonus (or short term incentive) was to a maximum of 10% of the base salary of the position. In 2017 this bonus provision was amended so that the incentive program for the CEO is consistent with the employees. The basis for the bonus is determined by the Board and is related to the CEO's personal performance on objectives and the Credit Union's progress on strategy as well as financial and operational performance. A bonus is paid to the CEO when performance by Northern Savings is satisfactory and the CEO's performance is satisfactory or exceeds expectations on the objectives set by the Board.

The CEO participates in the employee benefit plan covering medical, extended health, dental care, life insurance, accidental death and dismemberment, short-term disability, and long-term disability. The CEO is provided with a benefit of 7% of the base salary for contributions to post retirement plans.

In 2017, the Board appointed a person as the interim CEO until a decision could be reached with respect to a permanent place. For the period January 1 to November 30, Fay Booker was appointed as the interim CEO and fulfilled that position as a contractor. On December 1, 2017, Ms. Booker was appointed as the President & CEO and thus, an employee of Northern Savings.

Amounts paid to Ms. Booker in 2017 were \$278,000 for contractor fees and \$19,800 for an accommodation allowance. As a contractor, Ms. Booker did not participate in the pension nor benefit programs and therefore there were no costs for those items.

SENIOR MANAGEMENT

The senior management team works as a team to deliver services to members, to provide a positive work environment for our staff, and to oversee the performance of the Credit Union. The senior management team works with the Board of Directors to develop the Credit Union's strategic direction and management then develops plans to implement the direction. Senior management is responsible for coaching and monitoring the activities of staff to deliver products and services to members.

The following pictorial shows the current organization chart for the CEO and the positions which report directly to the CEO.

ORGANIZATIONAL STRUCTURE

