

Appendix 3 – Board of Directors Terms of Reference

Introduction

The authority of the Board of Directors (“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 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 Northern Savings Credit Union (“Northern”).

The Board has the authority and obligation to protect and enhance the assets (tangible, intangible, human resources) of Northern. The Board is accountable to the Credit Union and must conduct its duties in the best interest of Northern as a whole. In order for Northern 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, suppliers, 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: The Board ...

- 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 Northern’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 premise 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 Northern.

Appointing, Monitoring and Compensating Executive Management: The Board ...

- 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 Northern'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 Northern and sets the compensation philosophy which enables Northern to recruit and retain staff while meeting affordability within Northern's resources; and monitors such. (Includes incentive-based compensation plans.)
- 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 the CEO's actions and Northern processes to requirements of Board policies.

Oversee Risk Management: The Board

- 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 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 Northern.
- d) Receives reports as articulated in the 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 and Uphold the Credit Union's Integrity, Ethics and Social Responsibility: The Board...

- 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 Northern's Code of Business Conduct for employees and Code of Business Conduct for Officers & Directors, monitors compliance with the Codes and receives reports on adherence to the Codes.
- 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: The Board ...

- 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 rules.

Integrity of System of Internal Control and Management Information: The Board ...

- a) Approves and monitors adherence with policies by which the Credit Union is governed.
- b) Gains assurance that Northern 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 Northern.
- 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: The Board

- 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, fix 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 rules
- 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, Ethics and Human Resources Policy Committee
- Member and Community Relations Committee (including oversight of nominations)
- Audit and Operational Risk Committee
- Credit and Market Risk Committee

Further 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 Northern Savings.

I have read, understand, and agree to fulfill the duties and expectations for the Board of Directors as outlined:

Name of Director

Signature of Director

/ /

Date