

## **RISK AND COMPENSATION COMMITTEE TERMS OF REFERENCE**

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### **Mandate**

The Risk and Compensation Committee oversees the Company's<sup>1</sup> Enterprise Risk Management (ERM) Program, including the Company's identification of key risks, risk appetite, risk management policies, risk measurement and assessment, risk monitoring and reporting, and program compliance. The Committee provides oversight of the Company's Chief Risk Officer, gives guidance and advice to senior management on strategic issues linked to The Co-operators Top Risk Issues and fulfils the oversight responsibility of the Board of Directors in relation to the Company's lending and investment programs.

The Committee develops for the Board's approval and periodically evaluates the Board of Directors' and President and CEO's compensation programs. It administers the performance management programs of the President and CEO and Executive Vice-President, Member Relations, Governance and Corporate Services. The Committee ensures that effective management succession plans are in place and provides oversight of the Company's responsibilities as Sponsor of The Co-operators Retirement Plan.

### **Responsibilities**

#### **Enterprise Risk Management**

Through its oversight activities, the Risk and Compensation Committee promotes a strong ERM culture that supports appropriate risk-taking behaviour within the Company. Its specific responsibilities include the following:

1. **Risk Identification:** The Committee studies reports from management setting out the Company's risk profile, develops an understanding of the key risks facing the business, and satisfies itself that management has effective processes in place to evaluate known risks, monitor trends and identify emerging risks.
2. **Risk Appetite:** After considering management's advice, the Committee determines the Company's aggregate risk appetite for the Board of Directors' approval.
3. **Risk Frameworks and Policies:** The Committee recommends, for the Board's approval, the Company's Enterprise Risk Management Framework and Risk Appetite Framework. The Committee approves all other risk management frameworks and policies addressing such subjects as operational risk management, asset-liability management, hedging, liquidity management, stress testing, reinsurance, fronting arrangements, earthquake risk, capital management, outsourcing, corporate development and incident management. Annually, the Committee reviews the ERM framework and the risk management policies to ensure that there are appropriate controls in place for the significant risks faced by the

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<sup>1</sup> The Committee serves as the Risk and Compensation Committee for The Co-operators Group Limited, Co-operators Financial Services Limited, Co-operators General Insurance Company and Co-operators Life Insurance Company (together "the Company").

Company. Changes are recommended to the Board or approved by the Committee, as appropriate.

4. **Risk Assessments:** In accordance with regulatory requirements and sound business practices, the Company performs a number of different risk assessments at regular intervals. The Committee oversees the assessment processes, as follows.
  - a. **OSFI-Mandated Testing:** With the goal of satisfying itself that the Company is holding sufficient capital to withstand extreme adverse scenarios, the Committee reviews reports from the appointed actuaries on the results of the annual Industry Standardized Stress Tests and the annual Dynamic Capital Adequacy Tests for each of Co-operators Life Insurance Company and Co-operators General Insurance Company.
  - b. **Stress Testing:** The Committee provides advice to management on the scenarios used to simulate the effects on the Company's income and capital of various possible adverse circumstances. The Committee explores the results of the stress tests, including available management actions, with a view to ensuring that the Company will not exceed its risk appetite under plausible scenarios.
  - c. **Own Risk and Solvency Assessment (ORSA):** With the goal of ensuring that all material risks have been identified, assessing its current and probable future solvency position and capital needs, and enhancing its understanding of the interrelationship between its risk profile and its capital needs, the Company conducts regular risk and solvency assessments. The Committee
    - ensures that the assessments consider all reasonably foreseeable and relevant material risks, are forward-looking and are integrated with the Company's business- and strategic-planning activities;
    - reviews and discusses the reasonableness and appropriateness of results in the context of the Company's risk appetite;
    - confirms that the assessments rely on sound and effective internal controls.
5. **Risk Reporting:** The Committee
  - receives and examines quarterly reports from management showing the Company's risk exposures relative to its approved risk appetite, discusses management's plans to mitigate risk exposures and reports to the Board on all exposures outside the Company's risk appetite;
  - receives regular updates from management on the Company's risk-management related strategies and initiatives;
  - monitors the effectiveness of the Company's asset-liability management and hedging programs;
  - evaluates management's progress in carrying out risk-management action plans.
6. **Risk Compliance:** The Committee
  - seeks the assurances it needs from management to allow it to judge the effectiveness of the Company's Enterprise Risk Management Program and the extent of compliance with the Company's approved risk policies;

- oversees management's response to the expectations and requirements of the Company's regulator respecting enterprise risk management.
7. **Business Continuity Planning:** The Committee oversees the Company's business continuity program, satisfying itself on an annual basis that the program design and execution meet the Company's needs.
  8. **Reinsurance:** After considering the recommendations of the Company's Management Risk Committee, the Committee approves the maximum level and type of retained risk exposures for each of the insurance company subsidiaries of The Co-operators.
  9. **Earthquake Risk Management:** Upon receiving and reviewing an annual report from management, the Committee satisfies itself that the Company is using effective tools to manage its earthquake risk, including an appropriate reinsurance program.
  10. **Capital Management:** The Committee receives and considers annual recommendations from management on the Company's minimum internal capital ratios, recommending appropriate target ratios to the Board for approval.
  11. **Outsourcing:** The Committee reviews reports and opinions from the Chief Compliance Officer and takes other steps as necessary to assure itself that management has established and maintained an effective outsourcing risk management system.

### **Oversight of the Chief Risk Officer**

The Risk and Compensation Committee oversees the Chief Risk Officer function in the Company. Specifically, the Committee

1. discusses with management the appointment of the Chief Risk Officer and his or her compensation and other terms of employment;
2. approves the CRO's mandate, resources and annual budget;
3. seeks assurances from the CRO that oversight of risk-management activities is independent of the operational management of the business and is adequately resourced and that the risk-management program has appropriate visibility throughout the Company;
4. holds periodic discussions with management on the performance of the CRO;
5. through discussion with management, satisfies itself that succession plans are in place to ensure that a temporary replacement for the CRO will be available if needed and that a pool of qualified candidates exists for consideration for permanent appointment to the position.

### **Strategic Issues**

The Risk and Compensation Committee is available to provide advice and counsel to the President and CEO on strategic issues and proposals linked to The Co-operators Top Risk Issues. These proposals may include but are not limited to mergers, acquisitions, divestitures, capital restructurings, prospective public offerings, major capital expenditures or commitments, long-term contractual agreements and other like matters. Any binding action to affect a material transaction requires the prior approval of the full Board of Directors.

## **Lending and Investments**

The Risk and Compensation Committee oversees the Company's compliance with the investment provisions of the *Insurance Companies Act* and any other applicable legislation. Specifically, the Committee

1. establishes, for the Board of Directors' approval, policies, standards and guidelines respecting the Company's lending and investment activities;
2. annually reviews the Company's lending and investment policies, standards and guidelines to ensure they remain current, recommending changes to the Board as necessary;
3. approves the Company's annual investment plan and budget, including asset mix;
4. receives and examines quarterly reports on the performance of the Company's investment portfolios addressing such matters as
  - changes in asset mix
  - portfolio book and market values
  - investment concentration
  - investments in co-operatives
  - securities lending
  - investment watch list
  - non-performing investments
  - proxy voting;
5. advises the Board of investment impairments.

## **Compensation of Directors**

1. The Risk and Compensation Committee recommends, for the Board of Directors' approval, a guiding philosophy for the compensation of the Chair and members of the Board.
2. The Committee stays abreast of compensation trends and regularly reviews the Company's Board compensation philosophy and compensation levels against those trends, recommending changes as necessary.

## **Senior Executive Compensation and Performance**

The Risk and Compensation Committee supports the Board of Directors in managing the compensation and performance of the Company's senior executives. Its specific duties include the following:

1. The Committee recommends, for the Board of Directors' approval, a guiding philosophy for the compensation of the Company's President and Chief Executive Officer.

2. The Committee recommends to the Board initial terms of employment of the President and CEO, including job responsibilities, perquisites, fixed and variable compensation, and benefits, and revisions to these terms as may be appropriate from time to time.
3. As advisable, the Committee develops and recommends, for the Board's approval, any arrangements that may be necessary with the President and CEO respecting termination, severance, a change in control of the Company or similar matters. The Committee reviews recommendations from the CEO respecting change-in-control arrangements with the CEO's direct reports.
4. Through surveys of the executive-compensation practices of other comparable organizations and consultations with appropriate advisers, the Committee periodically evaluates the Company's executive compensation policies and practices to ensure that they are competitive and provide appropriate motivation for the achievement of the Company's goals.
5. The Committee recommends, for the Board's approval, periodic adjustments to the President and CEO's base salary and performance goals for inclusion in his or her short- and long-term incentive plans.
6. The Committee directs and oversees the President and CEO's annual performance review and, upon consideration of the results, recommends the CEO's annual bonus and long-term incentive award to the Board for approval.
7. The Committee receives an annual report from the President and CEO on the performance of the Company's senior management team.
8. The Committee recommends, for the Board's approval, annual performance goals for the Executive Vice-President, Member Relations, Governance and Corporate Services and directs and oversees the Board's annual review of his or her performance against those goals.

### **Management Succession Planning**

The Risk and Compensation Committee receives an annual report from the President and CEO on the development of senior management talent in the Company and the succession plans and processes in place for the President and CEO and key management positions. Through discussion with the President and CEO, it satisfies itself that the plans are sufficient to ensure that temporary replacements will be available when needed and that a pool of qualified candidates exists for consideration for permanent management appointments. The Committee reports the results of its annual review to the Board of Directors.

### **Pension Plan**

On behalf of the Board of Directors, the Risk and Compensation Committee provides oversight of the Company's responsibilities as Sponsor of The Co-operators Retirement Plan. Specifically, the Committee

1. receives and reviews semi-annual and annual reports from management on the Retirement Plan;

2. reviews and approves structural changes to the Retirement Plan and changes to the Plan text;
3. periodically reviews pension-related policies, recommending changes to the Board as necessary;
4. reviews and advises the Board on any recommendations the Pension Trustees may make that require Board approval.

#### **Other Duties**

1. The Risk and Compensation Committee reviews the Company's board and executive compensation disclosures contained in the Company's Annual Information Form.
2. The Committee performs such other duties as are consistent with these terms of reference or as may be assigned to it by the Board of Directors.

#### **Composition and Appointment**

1. The Risk and Compensation Committee includes the Chair of the Committee, the Chair of the Board of Directors and three other members of the Board.
2. The Board of Directors may fill a vacancy that occurs in the Committee at any time.

#### **Authority**

1. Where explicitly stated in these Terms of Reference, the Risk and Compensation Committee has the authority to approve risk-related policies of the Company.
2. As needed, the Committee has the authority to engage outside advisors and to call upon other resources in the execution of its responsibilities.

#### **Organization and Procedures**

##### **Chair**

The Chair of the Risk and Compensation Committee is elected by the Board of Directors annually at the Board Re-organization meeting.

##### **Meetings**

1. The Committee meets four times a year, or more often as may be required to discharge its responsibilities.
2. Meetings are held at the call of the Chair, in conjunction with regularly scheduled Audit Committee meetings, whenever practicable.
3. Notice of each meeting is to be given to every member of the Committee not less than seven days in advance of the meeting. With the unanimous consent of all members, the notice period may be shortened or waived. Attendance of a committee member at a

meeting of the Committee, unless his or her attendance is to object to the lack of notice, is deemed to be a waiver of notice.

4. The Committee normally meets in person but, with the agreement of all of its members, may conduct business through electronic means. Members of the Committee may participate in meetings by conference call or other means of communication permitting all persons participating in the meeting to hear each other.
5. The Committee meets regularly in camera with the Chief Risk Officer.
6. The Committee meets in camera without any management present at the end of each regularly scheduled meeting.

### **Quorum**

A majority of the Committee (3 members) constitutes a quorum.

### **Resources**

1. The Vice-President and Chief Risk Officer and Corporate Secretary and Sr. Director, Governance, Member and Co-operative Relations serve as the lead staff resources to the Committee.
2. The President and Chief Executive Officer, Executive Vice-President, Finance and Chief Financial Officer, Vice-President and Chief Risk Officer, and Corporate Secretary and Sr. Director, Governance, Member and Co-operative Relations are entitled to receive notice of and to attend all meetings of the Committee, but will recuse themselves, as appropriate, during discussions of executive compensation or performance.
3. The Committee meets annually with the Executive Vice-President, Member Relations, Governance and Corporate Services to discuss the Board's annual review of his or her performance and otherwise as needed.
4. The Committee meets with the Senior Vice-President, Human Resources, Procurement and Workplace Services on an as needed basis.
5. As it sees fit from time to time, the Committee may invite, other employees of the Company or other persons to attend its meetings and to advise it during its deliberations.

### **Supporting Materials and Minutes**

1. The Corporate Secretary or his or her designate serves as Secretary to the Committee.
2. The agenda and supporting materials are provided to the Committee via the Board Portal one week in advance of the meeting.
3. The Secretary records minutes of every meeting, circulating them to the Chair of the Committee and to members shortly after the meeting takes place. After committee members have had an opportunity to review them and provide any corrections, the minutes are prepared for distribution to the full Board of Directors.

## **Reporting**

1. The committee Chair is provided an opportunity to give a report at each meeting of the Board of Directors.
2. As appropriate, the committee Chair may provide an oral report of the Committee's in-camera discussions with the CRO during the in-camera session at the next meeting of the full Board.

## **Annual Work Plan and Schedule**

The Committee adopts a work plan and annual activity schedule at its first meeting following its election each year.

## **Committee Effectiveness**

1. Once each year, the Risk and Compensation Committee reviews and evaluates its performance, including its compliance with these Terms of Reference.
2. The Committee receives education and training as necessary to enable it to fulfil its mandate effectively.
3. The Committee reviews these Terms of Reference each year, with a view to ensuring their continued compliance with statutes, regulations and guidelines of regulatory bodies as may be applicable to the Company and to the Committee's areas of responsibility and with best practices of risk and compensation committees. The Committee recommends any changes it deems necessary to the Board of Directors for approval.
4. A Risk and Compensation Committee Reference Guide and other orientation support are made available to new members joining the Committee following their election and before they attend their first committee meeting.

## **References**

Risk and Compensation Committee Reference Guide

## **Attachments**

Annual Work Plan

**Date of last review:** May 2017 (R&CC)

**Approved by the Board:** June 2017



## **Mandate of the Chief Risk Officer**

### **Role**

The Chief Risk Officer (CRO) provides independent oversight of the management of risks across The Co-operators Group (the “Company”). The role is responsible for identifying, measuring, monitoring and reporting on the risks inherent in the business and activities of the Company and its subsidiaries. The CRO provides regular risk reporting to the Board, the Risk and Compensation Committee of the Board (RCC) and the Management Risk Committee (MRC) to ensure that they clearly understand the risks being assumed by the Company and to supply an objective view on whether the Company is operating within its risk appetite.

The CRO reports directly to the Executive Vice-President, Finance and Chief Financial Officer of The Co-operators Group Limited and has direct accountability to the RCC. The RCC oversees the CRO and the risk management function in the Company. Specifically, the RCC:

- discusses with management the appointment of the CRO and his or her compensation and other terms of employment;
- approves the CRO’s mandate and annual budget;
- holds periodic discussion with management on the performance of the CRO;
- through discussion with management, satisfies itself that succession plans are in place to ensure that a temporary replacement for the CRO will be available if needed and that a pool of qualified candidates exists for consideration for permanent appointment to the position.

### **Authority**

#### *Scope*

The CRO has enterprise-wide authority for the risk management function.

#### *Independence and Objectivity*

The CRO has the authority to carry out the responsibilities of the role independent of operational management. Assessments of risk-taking activities by the CRO and the risk management function must remain objective.

- The CRO and the risk management function are not directly involved in revenue generation or in the management of any business line or product.
- The CRO’s compensation is not linked to the performance of a specific business line.

## *Resources*

The risk management function must be adequately resourced to carry out this mandate. Resources include the number, qualifications and competencies of staff, and the tools and systems used for risk assessment, measurement and reporting.

## *Access*

The CRO has the right of access to the Company's records, information and personnel. Senior management must ensure that the CRO is informed of any potential transactions that are expected to have a material impact on the risk profile of the Company or one of its subsidiaries.

The CRO attends all RCC meetings and has private access to the RCC via quarterly in camera sessions as well as on an ad hoc basis if required.

The CRO annually attends meetings of the Board and the boards of the subsidiary companies to review the Own Risk and Solvency Assessment (ORSA) report and the recommended internal capital targets. The CRO also attends board meetings when warranted by the volume and nature of risk management-related agenda items and is available at all times to answer questions from the boards.

## *Follow-Up*

The CRO has the authority to follow up on issues and recommendations which, in his/her opinion, have not been properly addressed by management and to escalate, as appropriate, when deemed necessary.

## **Responsibilities**

As head of Enterprise Risk Management (ERM), the CRO is responsible for ensuring that effective processes are in place for:

- identifying current and emerging risks;
- developing risk assessment and measurement systems, including the assessment of risks associated with business transactions and initiatives;
- establishing policies, practices and other control mechanisms to manage risks;
- developing the risk appetite for Board approval;
- monitoring exposures against approved risk limits and following up on material variances;
- reporting regularly on the results of risk monitoring to senior management and the Board; and
- conducting the ORSA and ensuring integration between risk management, capital management and strategic planning.

The responsibilities of the CRO are detailed in the ERM Policy, an excerpt from which is attached as Appendix 1. The ERM Policy is approved by the Board and reviewed annually.

## **Approval and Review**

The Mandate of the Chief Risk Officer is approved by the RCC and reviewed annually.

## **Appendix 1**

### **Chief Risk Officer and ERM Team**

The Chief Risk Officer (CRO) is the key champion for ERM and is responsible for the implementation of the ERM program for The Co-operators. The CRO has direct access to the RCC via quarterly in camera sessions. The ERM team reports to and assists the CRO in carrying out the following responsibilities:

- Establishing and communicating the organization's ERM vision;
- Providing education, fostering awareness and promoting an ERM culture;
- Developing and maintaining ERM policies;
- Enforcing compliance with ERM policies, standards and procedures;
- Facilitating the development of the Risk Appetite statements for the organization as well as clearly defined risk limits;
- Facilitating the development and integration of the organization's ORSA;
- Facilitating the identification of the Top Risk Issues for the organization;
- Facilitating enterprise-wide risk assessments and the development of risk profiles, which consider the aggregation and correlation of risks across the group of companies;
- Implementing processes to monitor trends and recognize emerging risks and report on these to the MRC and the RCC;
- Implementing appropriate and timely risk reporting to the MRC and the RCC;
- Providing the training, tools and other support that the Company ERM Champions require to fulfil their responsibilities;
- Developing and co-ordinating risk and capital modelling processes and making capital allocation recommendations;
- Making recommendations with respect to strategies and plans to help the organization achieve strategic and business objectives;
- Ensuring ERM practices align with all regulatory expectations and requirements and developing processes to monitor regulatory changes and respond appropriately; and
- Supporting first line of defence functions to manage their risk exposures through the development and implementation of standards, tools and processes.

**Approved by the R&CC February 2017**