"Insert CU LOGO"

Credit Union Deposit Guarantee Corporation

Model Policy – Board Credit Risk Management

The following is an outline of a comprehensive Credit Risk Management Policy, for Board approval and annual review. Any risk tolerance levels included within the model policy are for illustrative purposes only. The model policy should be amended, or augmented to reflect the unique characteristics of the credit union, including the scope of credit risk activities, and the sophistication of risk management and technology.
(PS: Please delete this text box)

Board Credit Risk Management Policy

"Your Credit Union Name"

Month/Day/Year

Policy Recommendation/Approval				
Version	Original	Review	Responsibility	Date
1.0	X		Management Credit Committee	
1.0	X		Board (Risk) Committee	
1.0	X		Board of Directors	

Board Credit Risk Management Policy

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Board Credit Risk Management Policy

Background

Credit risk is the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Settlement risk is the potential that completion of a financial transaction will fail to occur as intended and will be considered as a subcomponent of credit risk, where appropriate. A customer automated funds transfer (CAFT) facility, that is not pre-settled, is one example of settlement risk. "Credit Union Name" needs to manage credit risk inherent in the portfolio, including concentration risk as well as individual, connected and related credit risk of loans, guarantees and transactions.

The board Credit Risk Management Policy (CRMP) is the responsibility of the Credit Department, prepared with stakeholder input and recommended by the Management Credit Committee (MCC) for approval by the Board (Risk) Committee and the Board of Directors. The CRMP requires sound practices for the management of credit risk and applies to all lending and other "CU Short Name" activities that incur credit risk. CRMP exceptions, where allowed, are subject to exception approval guidelines, and regular reporting, in a time frame related to the materiality and severity of the exception.

Lending requirements may be restricted through other Board Risk Management Policies, including Investment, Liquidity and Capital.

Credit Risk Philosophy

The Board of Directors has the responsibility to establish an appropriate credit risk philosophy, including credit strategy and risk appetite. Senior Management has the responsibility to implement the philosophy, strategy, and appetite, including establishing an appropriate credit risk culture, throughout the organization. The Board has approved a conservative risk philosophy, that will encourage realizing opportunities for profit, while minimizing financial and reputational risk. This conservative philosophy is to be applied on an enterprise wide basis, and to be a prime focus of strategic and operational planning, ensuring the continued operations of the credit union, while sustaining brand and shareholder value.

Regulatory Requirements

The CRMP must incorporate regulatory and legal requirements, including:

- The Credit Union Act – Alberta (The Act);
- The Credit Union Principal & Ministerial Regulations (The Regulations);
- Credit Union Deposit Guarantee Corporation, (CUDGC) Lending Guidelines and Standards of Sound Business and Financial Practices;
- Laws of the Province of Alberta and Government of Canada, as applicable, including Privacy, Anti-Money Laundering and Terrorist Financing, etc...

Industry Best Practice

The CRMP will incorporate Industry Best Practice, where appropriate, such as credit risk management principles outlined by The Office of Superintendent of Financial Institutions Canada (OSFI), and Principles for the Management of Credit Risk outlined by The Bank for International Settlements, Basel Committee on Banking Supervision (Basel).

Credit Risk Appetite

The Board of Directors has approved a conservative and balanced risk philosophy to include:

- Approval of management's prudent lending risk policies, supporting safety and soundness of the credit union;
- Management implementation of effective lending operating policies, and procedures, including appropriate internal controls, for monitoring and reporting on compliance and non-compliance with Board risk policies;
- Development and adherence to Board approved concentration limits, credit key risk indicators (KRI) and credit key performance indicators (KPI);

- Annual or multi-year business plans and business objectives, such as loan growth, are to be consistent with the CRMP, including risk strategy and risk appetite;
- "Credit Union Name" will only participate in lending situations where sales and credit management have developed an appropriate level of knowledge and skills to assess and monitor the particular risk;
- "CU Short Name" Credit Department will review and approve material credit risk embedded in new products, and may implement product concentration limits, monitoring and reporting;
- Delinquent loans 60-days and higher, are to be contained within a range of # % to # % of total loans;
- Impaired loans are to be contained within a range of # % to # % of total loans;
- Loan write-offs are to be contained within a range of # % to # % of total loans.

Credit Authorization

"Credit Union Name" lending limits for all borrowing classes are requested by the credit union board and confirmed, in writing, by CUDGC to the Board, who will then delegate appropriate limits and conditions to the MCC.

The MCC, operating under their terms of reference, as per Appendix “E” attached, will approve a credit authority framework to be utilized by the CEO/Senior Credit Officer in delegating lending limits to credit adjudication and sales staff. Delegation of lending authorities will be based on the risk assessment competency and credit skill level of the individual, irrespective of the staffing position held.

The credit authority framework will include a periodic and regular review of a sample of loans approved within the delegated approval limits, to ensure that safe and sound underwriting practices and "CU Short Name" /CUDGC Lending Guidelines are applied with any allowed exceptions documented, mitigated and approved. This may be accomplished through a combination of periodic reviews by officers with higher lending limits and/or an internal loan review program.

Risk Ratings

Retail: Consumer lending will be adjudicated based on a credit score, (customized or Beacon) as developed by Retail Credit. Authority to extend exceptions outside the approved credit score ranges will be subject to an exception credit review and appropriate risk mitigation. Retail loan origination will be monitored by credit score bands and the credit score approval range adjusted where appropriate, based on historical delinquency, default and write-offs and the "Credit Union Name" risk appetite.

Commercial: Non-consumer loans will be subject to a Borrowers Risk Rating (BRR) model that grades the borrower based on risk characteristics outlined in CUDGC Business Lending Guidelines. Risk groupings include the following categories:

BRR 1 through 4	Excellent to Acceptable
BRR 5	Acceptable with risk
BRR 6	Watch
BRR 7	Unacceptable risk – non performing
BRR 8	Impaired **-** performing
BRR 9	Impaired – non performing

The BRR is applied on a member basis on the whole credit relationship and will be downgraded when incremental risk is identified.

A status report will be provided covering Watch and Impaired loans for review by the MCC and Board (Risk) Committee at least quarterly. "Credit Union Name" will monitor and report on the distribution of BRR, including outstanding exposure and trending on a product basis (Agriculture and Commercial loans).

Credit Risk Assessment and Adjudication

All requests for credit will be assessed based on the 5 C's, including:

- ✓ **Character**: Management ability, financial strength(s);
- ✓ **Capacity:** Ability to pay;
- ✓ **Collateral:** Appropriate security based on "CU Short Name" policy and guidelines, which will be consistent with CUDGC Lending Guidelines, where appropriate;
- ✓ **Conditions**: Credit structure, credit environment, "CU Short Name" risk appetite;
- ✓ **Credit:** Credit history.

All requests for credit must comply with "Credit Union Name" policy and guidelines and where allowed, exceptions will be highlighted, mitigated, authorized and monitored.

Credit approval will be contained within assigned credit authorization limits, which will be subject to periodic review by the Credit department. All credits forward to Credit department for adjudication must have the support and full recommendation of the Commercial/Retail Sales Departments. The originating officers and those who recommend approval to higher authority levels maintain accountability for the ultimate credit decision.

Assigned credit authorization limits will be subject to connected account requirements within the Credit Union Act, Regulations and CUDGC Lending Guidelines.

Credit decline decisions, below the lending limit authorized for the Senior Credit Officer, will be subject to confirmation by a "one-up" level credit authority.

Syndication lending will be subject to a full credit assessment and due diligence investigation, independent of decisioning made by the syndication leader. The Credit Union Act requires CUDGC credit approval for syndications where the aggregate loan amounts exceed any one of the participating credit union's lending limits.

All non-consumer loans will be subject to a minimum annual review, as per the following policy section under "Credit Administration", unless specifically exempted by the appropriate exception level for credit authority.

Special Borrowing Classes

Connected & Related Borrowings

Credit authorization limits will be applied to the aggregate direct and connected loan exposure as defined in the Credit Union Act, Regulations and CUDGC Lending Guidelines.

Risk appetite will be developed for connected borrowings as well as global exposure, which will include direct, connected and related.

Directors & Related Parties

Loans to directors and their related parties, as defined by the Act, Regulations and CUDGC Lending Guidelines are subject to approval by the Board. The Board may pass a special resolution allowing "Credit Union Name" management to approve loans to directors, and their related parties, subject to regular reporting to the Board. Loans approved under the special resolution are to be forward immediately on approval to CUDGC through their Loan Transaction Review Program.

Loans to Directors and their related parties are to be at fair market rate, not to exceed amounts prescribed by CUDGC and otherwise consistent with the Credit Union Act, Regulations and CUDGC Lending Guidelines.

Loans to directors in arrears exceeding 45 days are to be reported to CUDGC and the Alberta Superintendent of Financial Institutions. Should arrears exceed 60-days, the borrower is no longer eligible to sit as a Director of "Credit Union Name" .

Staff

- Loans to the President and CEO are subject to the Senior Credit Officer confirming the loans meet the approved policy and approval by the Board, within the Credit Union's discretionary lending limits;
- Loans to "CU Short Name" Senior Officers (Vice President and higher) are to be recommended by the Senior Credit Officer and approved by the President & CEO, within staff approval limits assigned by CUDGC;
- Loans to all other staff are to be approved within the approved credit authority framework and within staff approval limits assigned by CUDGC;
- All loans exceeding the staff approval limits, and within the (regular) discretionary limits assigned in writing by CUDGC require prior Board approval;
- All Senior Officer loans, including the president & CEO and all other employee loans aggregating more than $XXX,000 are to be reported to the Board at their next scheduled Board meeting

Market Service Area Exposure

"Credit Union Name" loan exposure is expected to be primarily within the Market Service Area (MSA), as defined by the Board (Risk) Committee. Non-consumer loan exposure, including Syndicated loans, outside of the MSA is to be limited to a maximum aggregate amount of # % of "CU Short Name" total capital.

Syndication Lending

Syndicated loans are to be consistent with CUDGC subject matter guidelines and subject to a maximum aggregate amount of # % of "CU Short Name" total capital.

Real Estate Lending

Retail

Residential mortgage lending represents a material loan exposure within the credit union's loan mix. Mortgage lending practices are required to be prudent and contain appropriate risk controls to support the safety and soundness of the credit union. Residential mortgage concentration should be a critical component within portfolio risk management activities.

The Board will provide "high level" guidance and oversight relative to Management's development of a Residential Mortgage Underwriting Policy (RMUP). The Board will review the RMUP and any material changes prior to implementation.

The RMUP, as a stand-alone management operational policy, or a compilation of mortgage policy and procedure documents, will reflect industry best practice, including consideration of the Office of the Superintendent of Financial Institutions' five fundamental principles for sound residential mortgage underwriting:

1. Residential mortgage practices and procedures will comply with the credit union's comprehensive Residential Mortgage Underwriting Policy;
2. Reasonable due diligence is required to confirm the mortgagee's identity, background and demonstrated willingness to service debt obligations on a timely basis;
3. Capacity to service debt obligations on a timely basis will be adequately assessed;
4. Sound collateral management and appraisal processes for the underlying mortgage properties;
5. Effective credit and counterparty risk management practices and procedures that support residential mortgage underwriting and credit portfolio management, including, as appropriate mortgage insurance.

The RMUP will apply to residential mortgages, home equity lines of credit and other consumer financial products that use residential property as security, including mortgage pool purchases where individual borrower credit risk belongs to the credit union.

Loans secured by residential mortgages must comply with quality mortgage loan requirements of the Credit Union Act and Regulations and CUDGC Lending Guidelines, including the maximum prescribed fair market lending value, unless the excess is covered by a government guarantee or mortgage default insurance.

Maximum lending values for uninsured mortgages will be based on a sliding scale by discounting appraised values based on exposure over a specified amount and by geographical location, managed by the credit oversight function.

Aggregate out of province and out of market service area mortgage loan exposure through direct loans, loan syndications or loan portfolio purchases (with credit risk exposure) will not exceed XX% (e.g. 10%) of the total residential consumer loan portfolio.

Management will establish standard and exception maximum lending values by product, based on the risk characteristics of each mortgage product (sample table in appendix ``B`` attached).

The Board will require timely, accurate, independent and objective reporting on risks inherent in the residential mortgage business. Board reports will include, at a minimum, quarterly and year-to-date aggregate origination statistics by mortgage product, including segregation by material geographic exposure, lending value and amortization buckets. Management will monitor and report on total mortgage concentration by product and material geographic location, or by location determined to represent incremental risk.

Management will provide an annual declaration to the Board confirming the credit union's residential mortgage underwriting and acquisition practices, risk management practices and procedures are materially in compliance with the Residential Mortgage Underwriting Policy, with any material exceptions noted.

Commercial

Loans against commercial or multi-family real estate are generally not to exceed # % of the lower of cost or appraised value, although exceptions to a maximum of # % as prescribed under CUDGC Lending Guidelines may be approved based on the merits and risk mitigation of the individual request. Exceptions are to be clearly outlined in the credit application, outlining mitigating factors, and where approved, included in aggregated exception reporting to the Board (Risk) Committee.

Loans against hospitality real estate are generally not to exceed the standard lending values prescribed in the following table, although the exception lending value may be approved, based on the merits and risk mitigation of the individual request. Exceptions are to be clearly outlined in the credit application, and if approved, included in risk exception reporting to the Board. The exception lending value is further subject to maximum lending values and terms approved by CUDGC, including the Corporation's Hospitality Lending Guidelines. (Note: The following type of table could also be utilized to establish standard and exception lending values for commercial real estate, addressed in the previous paragraph)

Location of Hotel	Standard Lending Value*	Exception Lending Value *
Prime Market	# %	65%
Secondary Market	# %	60%
Tertiary Market	# %	55%
* Lower of cost or appraised value		

Appraisals

"Credit Union Name" is to maintain a list of approved appraisers. Appraisals are to include valuations based on direct sales and net income capitalization and where the purpose is construction, an additional valuation for replacement cost. "CU Short Name" may require appraisals to be commissioned by the credit union, where borrowing risk is assessed as elevated. Appraisals are to be subject to lender due diligence, particularly relative to direct sales comparables, net operating income determination and capitalization rates.

Environmental

Environmental conditions are to be addressed when lending against non-consumer real estate, with the exception of non-intensive farm property and appropriate documentation maintained. "Credit Union Name" is to maintain a list of approved environmental engineers. Environmental assessments are to be subject to lender due diligence. Material environmental concerns are to be monitored and included in periodic Board reporting.

Mechanical & Building Condition Reports

Mechanical and building conditions are to be addressed and documented when lending against non-consumer real estate, with the exception of non-intensive farm property. "Credit Union Name" is to maintain a list of approved Engineers. Condition reports are to be subject to lender due diligence. A maintenance reserve may be required to fund material structural and maintenance concerns identified within the report.

Credit Administration

"Credit Union Name" will establish and implement appropriate operating policies, guidelines and processes, supporting the Board's credit risk strategy and appetite, promoting sound credit risk management for loan underwriting; loan approval; security preparation and registration; loan funding; amendments; annual reviews; security maintenance; collection of arrears and special debt management.

Segregation of duties is required to promote independence and integrity of the loan system, where resources are available, and where not available mitigated by appropriately mitigating and compensating internal controls.

At a minimum, an out-of-order report including expired loans, security deficiencies, and margin deficiencies is to be maintained, and actioned on a regular basis.

Annual Reviews

Non-consumer loans will be subject to an annual review in a format commensurate with the risk of the individual exposure. Exemptions may be approved by the appropriate exception authority level. Commercial loan agreements will include appropriate conditions for an annual review, including provision of updated financial statements and covenant compliance.

Minimum annual review requirements typically include:

- Full review of corporate financial statements;
- Full review for covenant compliance;
- Updated BRR worksheet;
- Members who have been provided inventory financing will be subject to at a minimum, an annual on-site review.

Delinquent Loan Management

Management will establish a Collections Lending Operating Policy supporting a robust delinquency management program to reduce potential losses from delinquent loans. Collection activity should elevate from the Line of Business to Credit and subsequently to Special Debts based on the age of the delinquency, exposure amount or requirement for special handling to mitigate losses.

Delinquency ratios and trends will be monitored relative to approved tolerance levels reported monthly to Senior Management and quarterly to the Board (Risk) Committee.

Written collection processes and procedures will be developed to assist management of delinquent loans.

Impaired Loan Management

Loans will be transferred to impaired status when one of the following conditions is identified:

1. Payment of principal and or interest is 90-days in arrears; or
2. There is a material deterioration in borrowers operations such that there is a reasonable expectation that the total principal and accrued interest may not be repaid in full; or

3. There is a material deterioration in security value that no longer covers the "CU Short Name" loan exposure;

   unless the Senior Credit Officer provides written authorization to defer impaired classification for up to an additional 90-days, where:

   a) The loan is funded under a government guarantee program; or
   b) There is reasonable expectation that the delinquency is of a temporary nature, the loan is well secured and under active management.

All impaired loans will be subject to a loan loss assessment to determine if a specific provision for loss is required.

Senior Management will develop a process to review and report impaired loan activity, including updated provisions to the Management Credit (Special Debts) Committee and Board (Risk) Committee at least quarterly.

Loan Loss Allowances

"Credit Union Name" will prepare a separate Loan Loss Allowance policy for Board (Risk) Committee approval and annual review. The policy should address the following components:

- Board allowance strategy;
- Guiding Principles;
- Model description;
- Model application;
- Reporting and approval.

Collective Allowance (Provisions)

"Credit Union Name" will develop and maintain a collective allowance model to establish an appropriate level of provisions, mitigating potential losses from loans that are impaired, however not yet specifically identified. The collective allowance model will be consistent with regulatory guidance and industry best practice, recalculated on a minimum quarterly basis and approved by the executive/management (credit) committee. Changes to collective model methodology require approval of the Board (Risk) Committee.

Specific Allowance (Provisions)

Specific provisions will be established by the Credit Department for each impaired loan, based on the estimated loss after deducting the net realizable value of security held. Net realizable value will take into account costs of disposal. Where impaired loan exposure is greater than $# million and recovery is expected to be protracted more than 1-year, the net realizable value is to be reduced under a net present value calculation. Specific provisions will be approved by the Management Credit (Special Debts) Committee and reviewed at least quarterly.

Write-offs

Loans will be written off when there is no reasonable expectation of further recovery. Credit cards and unsecured overdrafts will be written off when they reach 180-days in arrears.

The Management Credit Committee may delegate specific write-off limits, supported by appropriate reporting. The Management Credit Committee will provide a (minimum) quarterly summary write-off report to the Board (Risk) Committee. Loans written off will be reviewed periodically and records, including judgements, where applicable maintained to support the potential for future recovery.

Risk Tolerance Levels

Senior Management has developed key credit risk indicators for Board approval, as per Appendix “A”. Key Risks include delinquencies, watch accounts, defaults, expired loans and loan losses on a product basis. Performance reporting will be provided to Management monthly and the Board (Risk/ERM) Committee at least quarterly.

Concentration Limits

Management has developed credit concentration limits, including those required under CUDGC Lending Guidelines for Board approval, as per Appendix "B". Concentration limits include line of business, industry exposure, including commercial real estate and hospitality, geographical exposure, direct and connected borrower exposure, and global exposure. Concentration reporting will be provided to Senior Management monthly and the Board (Risk) Committee at least quarterly.

Counterparty Risk

Counterparty risk must be monitored and approved within assigned credit authorization limits, through a formal credit application process. Counterparty risk includes, for example aggregate credit exposure to a Financial Institution, including investments or derivative contracts sourced directly or through intermediaries, such as Credit Union Central of Alberta.

Stress Testing

Individual Stress Testing

Risk analysis for credit applications in excess of $# million will include an interest sensitivity analysis that indicates the borrower produces sufficient cash flow (i.e. DSCR 1.00 or better) to meet scheduled payments incorporating an interest rate of ### basis points higher than the current 5-year fixed interest rate. Multi-scenario simulations should be considered, such as lower cash flow resulting from higher lease vacancy rates, combined with increased debt service requirements from higher interest rates, etc.

Portfolio Stress Testing

A credit stress testing program, as a component of the credit union's ERM and ICAAP stress testing processes, will be developed to assess the risk of default, on a portfolio basis with results and recommendations presented to the Board (Risk) Committee. Stress testing should incorporate multi-scenario analysis where appropriate, including credit union specific and macro-economic default/loss drivers. The Commercial Real Estate sub portfolio will be subject to stress testing at least annually. Portfolio stress testing will be a component of "Credit Union Name" 's overall Enterprise Risk Management stress testing program.

Early Warning Signals:

Early warning triggers will be developed for commercial borrowings in excess of $# million to indicate increased risk, requiring increased monitoring and initiating communication with the borrower, before a default condition is incurred. The BRR will be reviewed and downgraded, where warranted.

Portfolio early warning signals will be developed to trigger analysis, monitoring and reporting, including any recommended corrective action, and potentially result in a model review of collective allowances. Early warning signals could be based on internal indicators, such as a material increase in migration of BRR; increased migration of delinquencies between 30-60 or 90-days or a specified percentage of delinquency or default on a portfolio or product basis. Early warning signals will also be based on external events, such as a specified increase in the unemployment rate or increase in interest rates.

Reporting

Monthly reporting to Senior Management and quarterly reporting to the Board (Risk) Committee will include quantitative data on current positions and trending, relative to stated risk tolerances as well as qualitative information, including corrective action, where appropriate. These reports include out of order, watch list, and impaired loans, with relative risk tolerance statistics and benchmarks.

Effective Date

This Board Credit Risk Management Policy is effective upon approval by the Board of Directors and subject to annual review.

Board Credit Risk Management Policy

References

The Credit Union Act - Alberta
The Credit Union (Principal) Regulations
The Credit Union (Ministerial) Regulations
Credit Union Deposit Guarantee Corporation Standards of Sound Business and Financial Practices
Credit Union Deposit Guarantee Corporation Lending Guidelines, including:

- Connection Rule and Direct Obligations
- Borrower Risk Rating
- Higher Risk Loans
- Loans to Directors and Employees
- Nonperforming/Doubtful Loans
- Syndication of Loans/ Loan Participation
- Credit Reviews
- Standard Terms and Conditions
- Consumer lending Criteria and Debt Service Capacity Calculations

Office of the Superintendent of Financial Institutions:

OSFI B1	Prudent Person Approach
OSFI B2	Large Exposure Limits
OSFI B20	Residential Mortgage Underwriting Practices and Procedures
OSFI C1	Impaired Loans
OSFI C5	General Allowance for Credit Risk
OSFI E18	Stress Testing

Bank of International Settlements, Basel Committee on Banking Supervision:
BIS Principles for Management of Credit Risk (2000)
BIS Principles for Sound Stress Testing Practices and Supervision (2009)

Abbreviations:

Basel:	Basel Committee on Banking Supervision
BIS:	Bank for International Settlements
BP:	Basis Point (100 BPS = 1%)
BRR:	Borrowers Risk Rating
CAFT:	Customer Automated Funds Transfer
CREA :	Commercial Real Estate
CUDGC:	Credit Union Deposit Guarantee Corporation
CRMP:	Credit Risk Management Policy
CRMMP:	Credit Risk Management Model Policy
ERM:	Enterprise Risk Management
EWS:	Early Warning Signals
GLLA:	General Loan Loss Allowance
ICAAP:	Internal Capital Adequacy Assessment Process
IFRS:	International Financial Reporting Standards
KRI:	Key Risk Indicator
KPI:	Key Performance Indicator
MCC:	Management Credit Committee
MSA:	Market Service Area
OSFI:	Office of the Superintendent of Financial Institutions
RMUP:	Residential Mortgage Underwriting Policy
SLLA:	Specific Loan Loss Allowance
TLLA:	Total Loan Loss Allowance

Glossary:

Materiality:

a) For accounting purposes, materiality is usually quantified as a certain percentage, typically 5% of assets, revenues or expenses

b) For market risk management purposes, materiality may be defined as a confidence interval, representing the relationship between the a distribution mean and it's standard deviation

c) For credit risk management purposes, although materially may be quantified, it is typically a judgmental view of the significance of an item relative to asset/liability concentration or impact on revenue/profitability.

Non-conforming Residential Mortgage: Generally includes non-income qualifying loans, loans to those with low credit scores or high debt service ratios; mortgages on properties with elevated credit risk, such as illiquid resale market or any loan that has clear deficiencies relative to a conforming residential mortgage.

Quality Mortgage: A mortgage where the amount of the indebtedness, including prior charges does not exceed 80% of the fair market value, unless insured. (Credit Union Principal Regulation 1(1)(m)

Risk Appetite: The amount of risk the Board is willing to accept on behalf of shareholders/stakeholders.

Risk Tolerance: Quantification of risk appetite through risk positions or ranges

Sensitivity Analysis: Typically applies a constrained shock, such as a 2% interest rate increase to a single loan exposure, for the purpose of assessing a member's repayment capacity under a potential , however realistic deterioration of economic conditions.

Stress Testing: A simulation technique applying single or multiple shocks to a loan portfolio or portfolio segment to assess the potential cost to the institution, resulting from increased loan losses. Typical shocks for a loan portfolio could include a material increase in interest rates, unemployment rates and/or a material decrease in residential or commercial real estate prices. The shocks should represent a worst case event(s), to assess the maximum potential loss against available capital. Stress testing may be sometimes referred to as a multi-scenario analysis.

Syndicated Loans: A credit facility structured by a lead bank and offered to select lenders under a participation agreement. Each participant is responsible to independently assess the credit risk and returns, while borrower contact is restricted to the lead bank.

Appendix "A" Risk Tolerance Levels

Key Risk Indicators – Risk Matrix							
Loan Type	**Product**	**Condition**	**Delinquency**	**Defaults**	**Watch List**	**Expired**	**Write-Offs**
	RML Conventional	Acceptable	≤	≤			≤
		Caution					
		Concern	≥	≥			≥
	RML Insured	Acceptable	≤	≤			≤
		Caution	to	to			to
		Concern	≥	≥			≥
	RML Total	Acceptable	≤	≤			≤
Consumer		Caution	to	to	**Not Applicable**		to
		Concern	≥	≥			≥
	HELOC	Acceptable	≤	≤			≤
		Caution	to	to			to
		Concern	≥	≥			≥
	Other Consumer	Acceptable	≤	≤			≤
		Caution	to	to			
		Concern	≥	≥			≥
		Condition	**Delinquency**	**Defaults**	**Watch List**	**Expired**	**Write-Offs**
	Small Business	Acceptable	≤	≤	≤	≤	≤
Non Consumer		Caution	to	to	to	to	to
		Concern	≥	≥	≥	≥	≥
	Commercial	Acceptable	≤	≤	≤	≤	≤
		Caution	to	to	to	to	to
		Concern	≥	≥	≥	≥	≥
Credit Card		Acceptable	≤	≤			≤
		Caution	to	to			to
		Concern	≥	≥	**Not Applicable**		≥
Total Loans		Acceptable	≤.75%	≤.50%			≤.25%
		Caution	.76% to 1.24%	.51% to .99%			.26% to .49%
		Concern	≥1.25%	≥1.00%			≥.50%

- Delinquencies: Percentage of loans with arrears 60-days or higher, relative to total loans. (Arrears between 30 days and 30 to 59 days should be monitored);
- Defaults: Percentage of Impaired loans (BRR 7, 8 & 9) to total loans;
- Watch List: Percentage BRR 6 loans and non-consumer loans expired more than 90-days, relative to total loans;
- Expired Loans: Percentage of loans expired 30-days or more relative to total loans.

Appendix “B” Concentration Limits

A. Portfolio Limits

Line of Business	Target Range		
RML, including	40%	to	50%
RML Insured	40%	to	60%
RML Conventional	40%	to	60%
HELOC	10%	to	20%
Other Consumer	5%	to	10%
Credit Card	3%	to	5%
Agriculture	5%	to	10%
Small Business	20%	to	30%
Commercial	25%	to	35%

B. Industry Specific Limits
Hospitality (Hotels & Motels): 14% of non-consumer loans (Note: CUDGC requirement maximum 15%)
Commercial Real Estate (Real Estate, Construction and Hospitality): 150% Total Capital

C. Syndication loans: 100% Total Capital

D. Geographic Concentration:
Out of Market Service Area: 50% total capital
Special Geographical Exposures (i.e. Fort McMurrray) # % total capital

E. Loan Exposure Limits

Direct/Connected and Related Credit Exposure Limits				
Residential Mortgage	$2,500,000			
MasterCard	$25,000			
Non-Consumer	**CREA**		**Other**	
BRR	**Direct & Connected**	**Direct, Connected & Related**	**Direct & Connected**	**Direct, Connected & Related**
1 & 2	12.5% Capital	25% Capital	10% Capital	20% Capital
3 & 4	10% Capital	20% Capital	8% Capital	15% Capital
5	8% Capital	10% Capital	5% Capital	8% Capital
6	Reducing	Reducing	Reducing	Reducing
7, 8 & 9	Reducing	Reducing	Reducing	Reducing

- Individual requests for exceptions to the above limits must be approved by the Board (Risk) Committee, however in no instance direct, connected and related exposure will exceed the lesser of maximum limits allowed under Credit Union Regulations or CUDGC written authorization.
- Incremental advances may be provided on BRR grades 6 through 9, within delegated authority limits, to a maximum of $1,000,000, without Board (Risk) Committee approval to preserve security or otherwise support maximum potential recoveries.

F. Residential Mortgage Product Lending Values:

Product	Standard L/V Maximum	Exception L/V Maximum
Conventional Mortgage (Purchase)	80%	N/A
Conventional Mortgage (Refinancing)	75%	80%
Non-conforming Mortgage* (Purchase)	75%	80%
Non-conforming Mortgage * (Refinancing)	70%	80%
Recreational Property Mortgage	70%	80%
Non-owner occupied Mortgage	70%	75%
Home Equity Line of Credit	65%	75%

****Non-conforming mortgages:*** Generally includes non-income qualifying loans, loans to those with low credit scores or high debt service ratios; mortgages on properties with elevated credit risk, such as illiquid resale market or any loan that has clear deficiencies relative to a conforming residential mortgage.

Exception parameters:

- The exception L/V must be authorized by designated credit approval authority, on a risk mitigated basis;
- Exception approvals are not to exceed 10% of aggregate mortgage/HELOC loans originated in the quarter;
- The Board is to receive quarterly aggregate exception reports.

Appendix “C” Delegated Credit Limits and Conditions

Appendix "D" Board (Risk) Committee Terms of Reference

*Note: Board committee terms of reference are included in the policy section of the Governance Manual. A **copy** of the terms of reference may be placed at this point to emphasise the committee's direct link to the Credit Risk Management Policy . (If attached, please ensure the copy reflects the current terms of reference).*

Appendix “E” Management Credit Committee Terms of Reference

Appendix "F" Risk Matrix

Potential Target Arrears Ratios	
Financial Product	**Acceptable Upper limit**
Commercial	≤ .40%
Small Business	≤ .60%
Agriculture	≤ .75%
Other Consumer	≤ .75%
HELOC	≤ .75%
Conv. RML	≤ .75%
Insured RML	≤ .75%
Total Loans	≤ .75%

Potential Target Concentration Ratios	
Loan Exposure	**Target Range**
Residential Mortgages	50% to 60%
(Insured)	(40% to 50%)
(Conventional)	(40% to 50%)
HELOC	15% to 25%
Other Consumer Loans	10% to 15%
Agriculture	10% to 15%
Small Business	15% to 20%
Commercial	15% to 20%