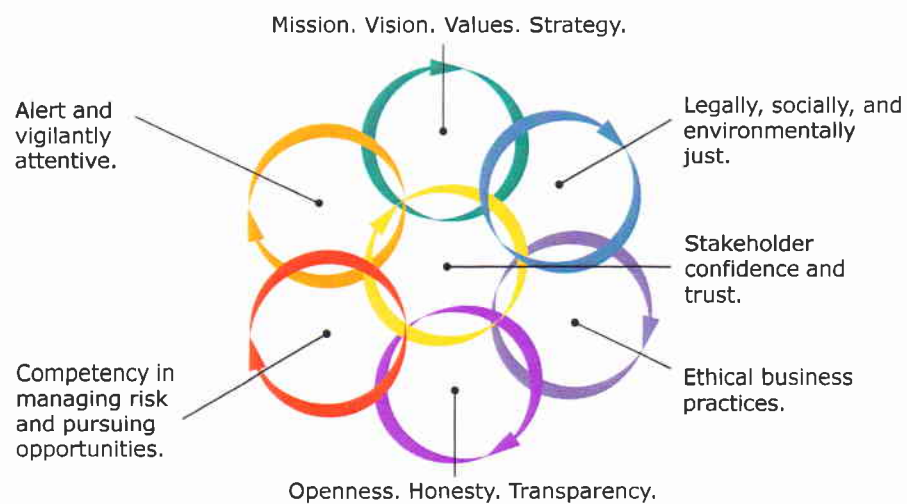


Sustainability: Building Effective Corporate Governance

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Key Indicators of Management Quality



Sustainability through Good Corporate Governance

- Corporate Governance is the system of processes and procedures an organization has in place to protect the interests of its diverse stakeholders.



Corporate Governance Framework™

Sustainable Benefits of Good Corporate Governance

- Greater investor confidence.
- Enhanced ability to attract new investment capital.
- Reduction in the cost of capital.
- Ability to attract high quality directors.
- Ability to hire and retain a high quality workforce.
- Reduced risk of financial reporting and other business failures.
- A sustainable and stable organization.



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Safety and Soundness Management Evaluation

- Technical competence
- Leadership and administrative ability
- Compliance with banking regulation and statutes
- Adequacy of and compliance with internal policies
- Depth and succession
- Ability to plan and respond to changing circumstances
- Quality of internal controls and operating procedures



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5

Board of Directors & Committees

- Clarifies the direction and values of the Organization
- Oversees performance of the organization
- Protects stakeholder interests

Challenge

Each Organization needs to have an unique solution that takes the individuality of the entity into account



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6

Legal & Regulatory

- Understands legal and regulatory impacts to business and stakeholders
- Coordinates regulatory responses

Challenge

Maintaining an understanding of the compliance requirements in the dynamic regulatory environment



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7

Business Practices & Ethics

- Targets integrity risks to the organization
- Emphasizes clear and well defined business practices
 - Corporate governance policies
 - Business strategy
 - Business processes & procedures
 - Performance goals & measures
 - Compensation systems
 - Human resource policies & procedures

Challenge

Establishing Ethical Business Practices that keep up with the expectations of Stakeholders.



Corporate Governance Framework™

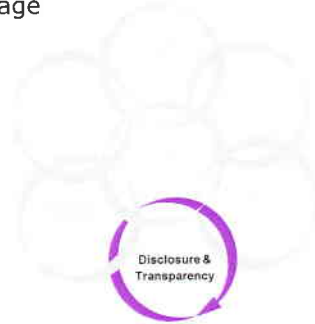
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Disclosure & Transparency

- Emphasizes understandability, relevance, reliability, comparability of information for stakeholders
- Provides stakeholders as much relevant information as possible without compromising competitive advantage

Challenges

Ensuring that stakeholders receive the information they need in an understandable way.



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9

Monitoring

- Advocates continuous improvement in governance processes through monitoring, e.g. corporate governance audits
- Coordinates monitoring activities:
 - Internal Audit
 - Regulatory Compliance
 - Board Self-Assessment
 - Legal/In-house Counsel
 - Internal Reporting
 - Ethics Officer/Function



Challenge

Continually working to create a sustainable Corporate Governance process.

Corporate Governance FrameworkTM

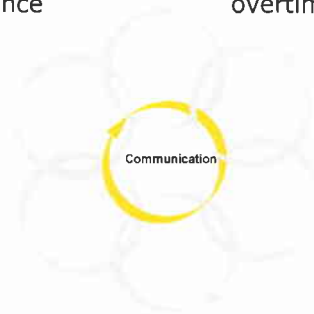
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Communication

- Emphasizes the value of communication including clarifying information, timely delivery, and multiple correspondence channels.
- Advocates two way dialogue throughout the organization.
- Functions as the "HUB" of Corporate Governance by assisting in the moving and improving Corporate Governance overtime.

Challenge

Finding ways to improve the interactions between the stakeholders within various components of the Corporate Governance Framework.



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11

ERM: An Integral Component of Corporate Governance

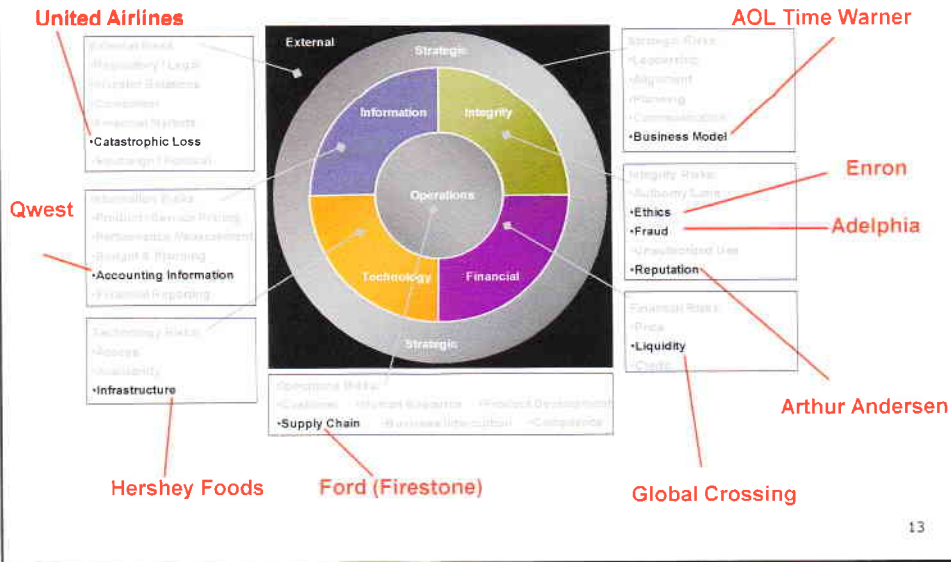
- Enterprise Risk Management (ERM) is a process designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.



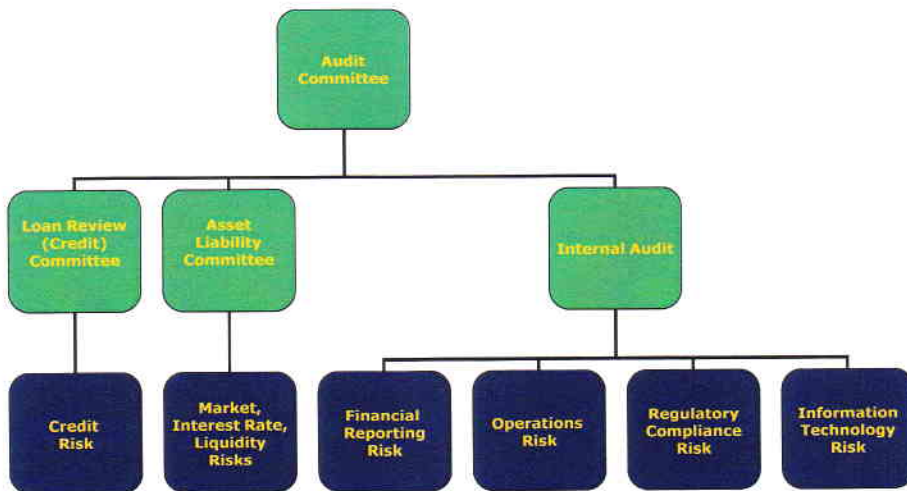
Corporate Governance Framework™

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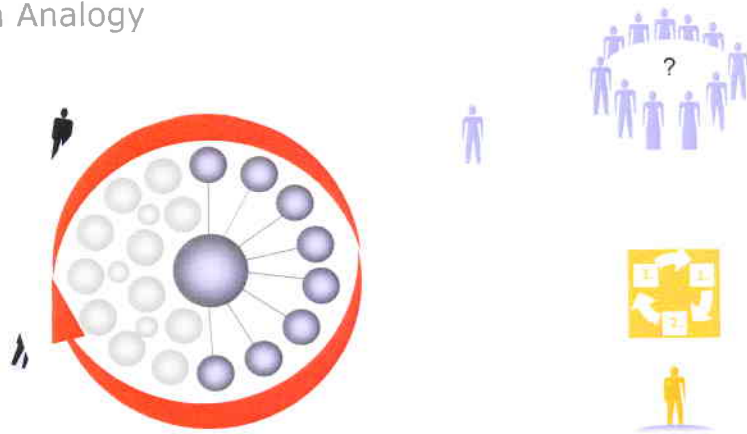
The Impact of Unmitigated Risks – “The Classics”



Traditional “Risk” Structure

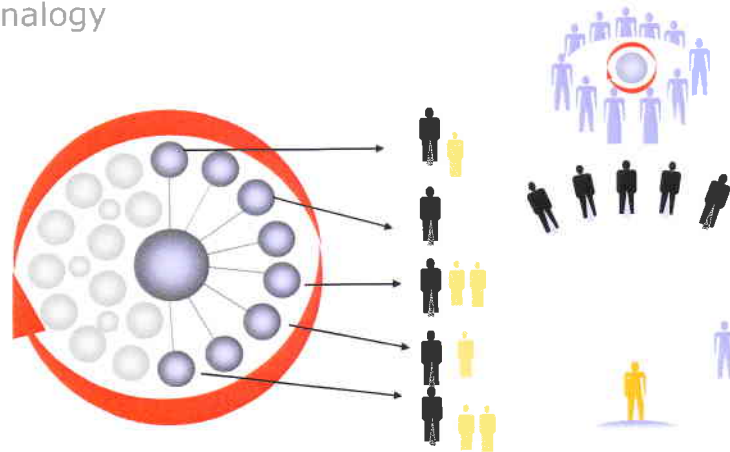


An Analogy



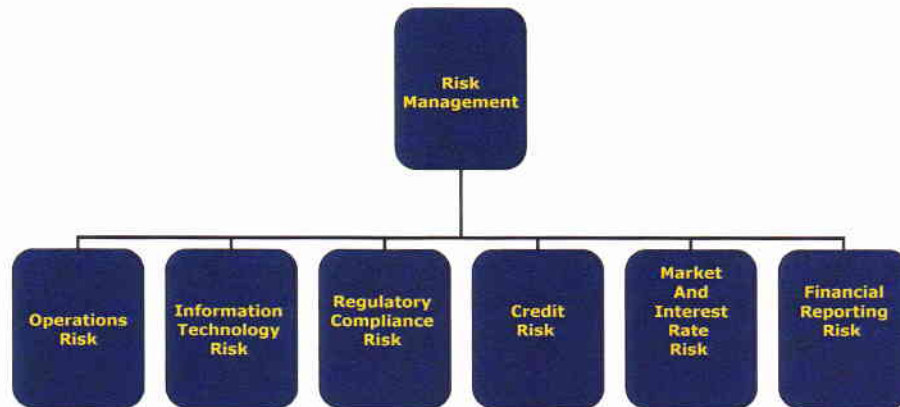
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An Analogy



16

Enterprise "Risk" Management Structure



17

Focus, Commitment and Mission



18

COSO ERM Framework – ERM Defined

"A process, effected by an entity's board of directors, management, and other personnel, that is applied in **strategy setting** and across the enterprise. Its goal is to provide reasonable assurance regarding the **achievement of organizational objectives** by identifying events that may effect the entity and **managing risk** to be within the entity's **risk appetite**."

19

Common Drivers for Enterprise Risk Management (ERM) Programs

1. Build Risk Management Concepts into Strategic Planning and Everyday Business Processes
2. Provide a Common Language and Framework for Identifying and Managing Risks Throughout the Organization
3. Encourage Intelligent Risk Taking (Risk for Fun and Profit)
4. Anticipating Big Unexpected Events within Defined Risk Tolerances
5. Provide the Board of Directors with sufficient information to enable them to represent the shareholders in approving policy for management
6. Meet Regulatory and Credit Rating Agency Expectations
7. Assess the Environment After an Unexpected Event
8. Answer Questions from the Board of Directors

What is driving your ERM Program?

20

What are the top three influences driving ERM at your organization?

- Growth and Increasing Overall business complexity
- New risk challenges posed by existing or new types of risk exposure
- Changes in the regulatory and legislative environment drive new risk challenges
- Potential large exposure due to credit crisis
- Disclosure requirements
- Fraud/criminal activity
- Business risk (e.g., mortgage origination cycle)
- New risk challenges posed by new products or businesses
- Potential large exposure due to operational risk failure
- Technology
- Other (please specify) _____
- Potential large exposure due to structural interest rate event
- Rate of growth
- Catastrophic disaster(s) (e.g., new outbreak of terrorism)
- Losses or surprises at other institutions
- Historical losses or surprises at your institution
- Regulatory expectations

Please think about the reasons for implementing ERM at your organization.

(Source: Risk Management Association Enterprise Risk Management Survey)

21

What are the main benefits that ERM implementation has brought to your institution? What are the benefits that your institution hopes to realize in 18-24 months?

- Improved strategic decision making and support for growth and strategic initiatives
- Ability to set a common risk culture – risk appetite, language, etc.
- Improved understanding of risks and controls
- Opportunity to identify and assess risk “in total”
- Ability to apply consistent policies and standards
- Improved communications
- Protected/enhanced shareholder value
- Improved risk adjusted returns
- Reduced losses
- Process improvement (improved efficiency)

Please think about the benefits that you would like to achieve through ERM.

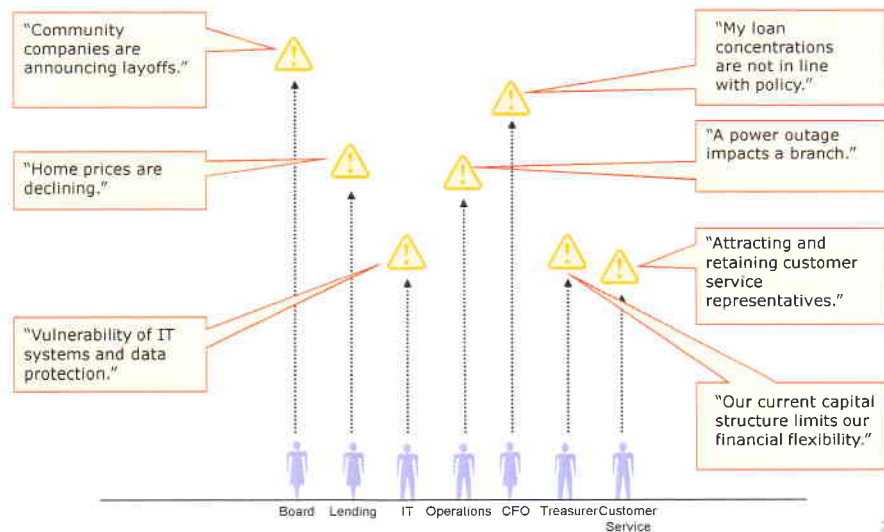
(Source: Risk Management Association Enterprise Risk Management Survey)

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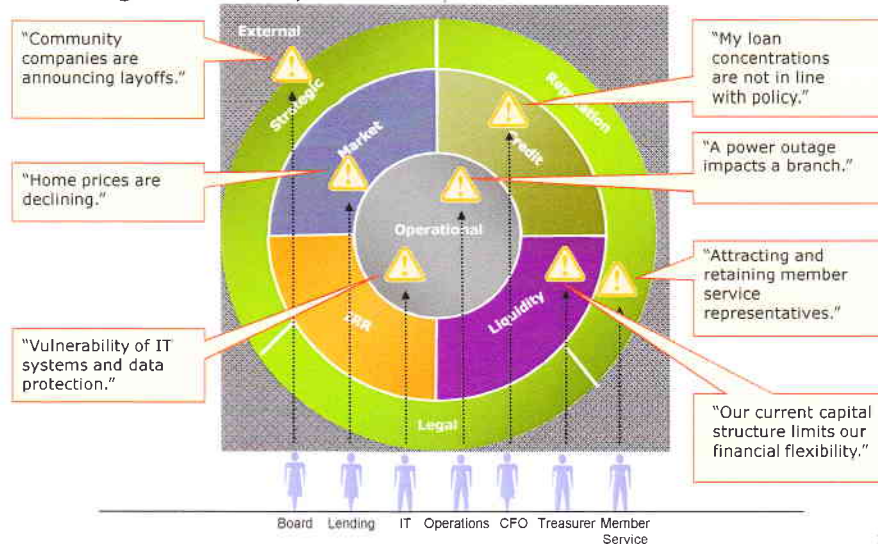
What Keeps You Up at Night?



Defining Your Unique Enterprise Risk Universe



Defining Your Unique Enterprise Risk Universe

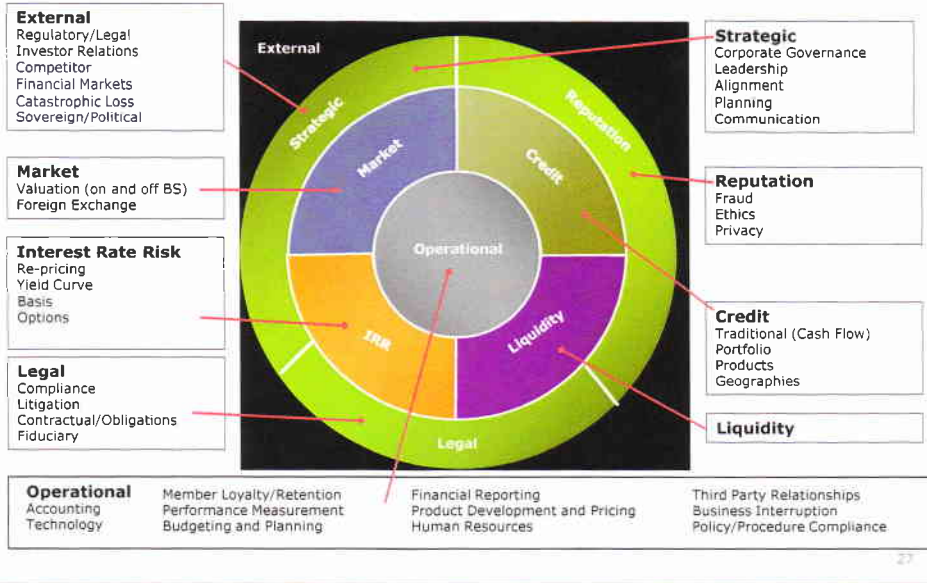


Defining Risk and Risk Universe

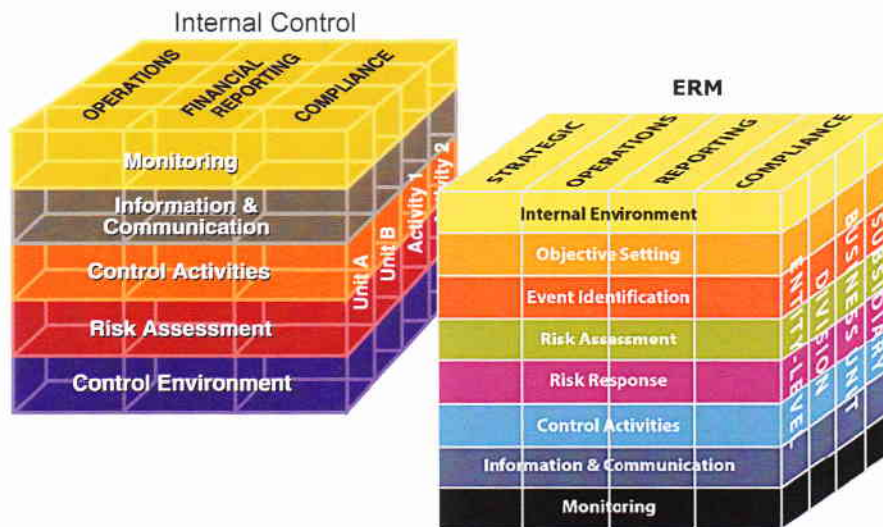
- Risk is anything that has the potential to keep you from achieving your business objectives.
- Every organization has a definite set of risks that can impact its success called a "Risk Universe."



Defining Your Unique Enterprise Risk Universe



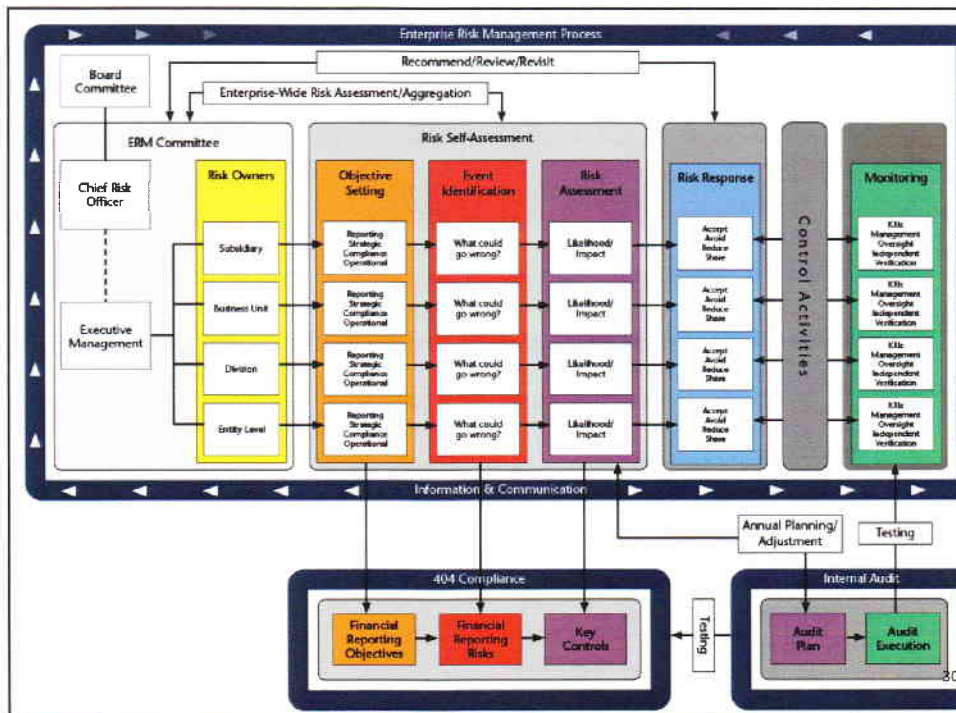
COSO ERM Framework



ERM Scorecard

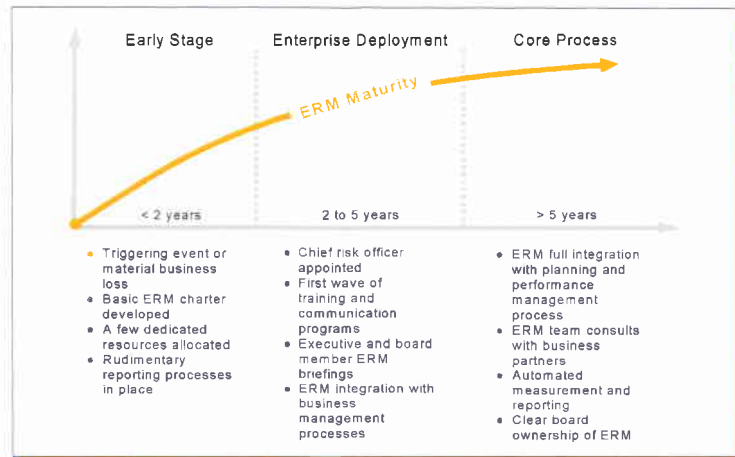
Enterprise Risk Management Component	Maturity Level		
	Initial Stages	On Track	Ahead of the Curve
Internal Environment -			
Risk Management Philosophy		▲	
Board of Directors		▲	
Integrity and Ethics			▲
Commitment to Competence	▲		
Risk Appetite		▲	
Organizational Structure			▲
Assignment of Authority and Responsibility	▲		
Human Resource Standards		▲	
Objective Setting		▲	
Event Identification	▲		
Risk Assessment	▲		
Risk Response		▲	
Control Activities		▲	
Information Communication	▲		
Monitoring		▲	

29



30

An emerging maturity model for ERM



31

The Role of the Board of Directors/Supervisory Committee

Provides monitoring, guidance, and direction.

Defines what it expects in regards to integrity and ethical values.

Through its oversight, determines whether expectations are being met.

32

The Role of the Board of Directors/Supervisory Committee

Oversight to determine that appropriate risk management processes are implemented and effective.

Is aware of and concurs with the Credit Union's risk appetite.

Reviews the Credit Union's portfolio view of risk and considering it against the entity's risk appetite.

Is apprised of the Credit Union's most significant risks and risk mitigation efforts implemented by management.

The Role of the Supervisory Committee

While Senior Mgmt is responsible for assessing and managing the Credit Union's exposure to risk, the Supervisory Committee is responsible for guidelines and policies that govern the process of risk assessment and risk management.

"Risk" Committee Charter should address the Committee's duties and responsibilities.

- It addresses enterprise-wide risks, and sets performance measure goals and key risk indicators for those risks.
- It is responsible for capital allocations, capital planning, and risk capital allocation and overrides.
- The committee also reviews capital usage and actual risk management performance versus plan.

The Role of the Supervisory Committee

(example) Objectives

- Ensure that management understands and accepts its responsibilities for identifying, assessing, and managing risk;
- Management are focused on enterprise-wide risk strategy;
- Leading tools and processes are provided to the businesses to facilitate achievement of their Risk Management responsibilities;
- Business unit risk assessments are performed periodically and completely;
- Business unit risk mitigation activities are successful in:
 - safeguarding assets
 - maintaining appropriate standards regarding the environment and health and safety issues
 - meeting legal and regulatory obligations
 - reinforcing the values of the organization by focusing on stakeholder needs
- Proper accounting records are being maintained, appropriate accounting policies have been adopted and financial information is comprehensive and accurate; and
- Effective risk mitigation/control testing programs are in place and the results evaluated and acted upon.

35

The Role of the Supervisory Committee

(example) Responsibilities

- Oversee development of and participation in an annual enterprise-wide risk strategy analysis
- Develop and refine the enterprise-wide appetite/tolerance for risk
- Provide direction and oversight to the Chief Risk Officer and the Global Risk Leaders
- Evaluate material risk exposures and report to Board
- Evaluate enterprise-wide risk exposure report
- Evaluate enterprise-wide risk trending report and ensure corporate strategy is responsive to
 - issues raised
- Oversee the role and responsibilities of the Internal Audit Team
- Review semi-annual and annual consolidated accounts

36

The Role of the Supervisory Committee

(example) Structure and Membership

- * Members of the Committee will be appointed by resolution of the Board
- * The Committee will comprise four non-executive Board directors, one of whom will be appointed to chair the Committee

(example) Meetings

- * Meetings will be held quarterly prior to Board meetings
- * The General Counsel & Secretary will attend all Committee meetings and will act as Committee Secretary. The Chief Risk Officer and the CFO will also attend all Committee meetings
- * A report of the meeting will be presented to the next Board meeting following each Committee meeting

37

Questions the Board of Directors/Supervisory Committee Should Ask/Consider

- * What is the Credit Union's process for managing risks on an integrated enterprise-wide basis?
- * What are the Credit Union's key risks and vulnerabilities and plans to address them?
- * Who has the authority to take risk on behalf of the Credit Union?
- * Is management responding appropriately to managing the Credit Union's most significant risks?
- * Does the Credit Union have an enterprise risk management policy?
- * Does the Board need to seek outside resources for assistance?

38

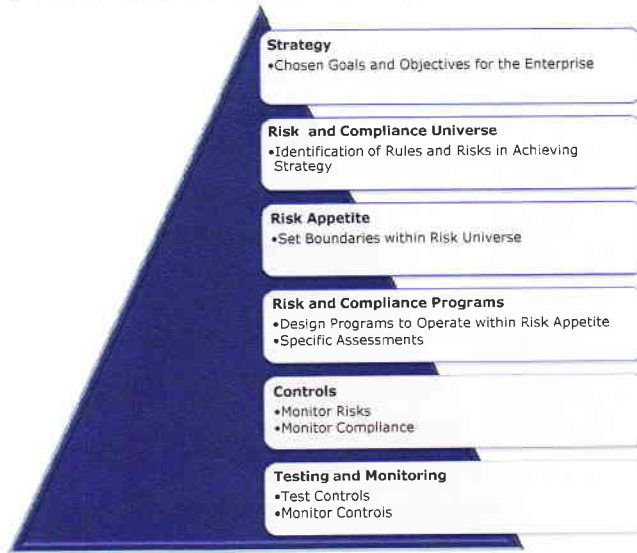
Questions the Board of Directors/Supervisory Committee Should Ask/Consider

- What information about the risks facing the Credit Union do we receive to fulfill our fiduciary and advisory governance responsibility?
- When and how does senior management report risk information to us?
- How do we know that the information we receive on risks and risk management is accurate and complete for our purposes?
- Have we effectively communicated our expectations to senior management concerning the Credit Union's risk management process, and is there a clear understanding of those expectations, including the information we expect to receive?

Questions the Board of Directors/Supervisory Committee Should Ask/Consider

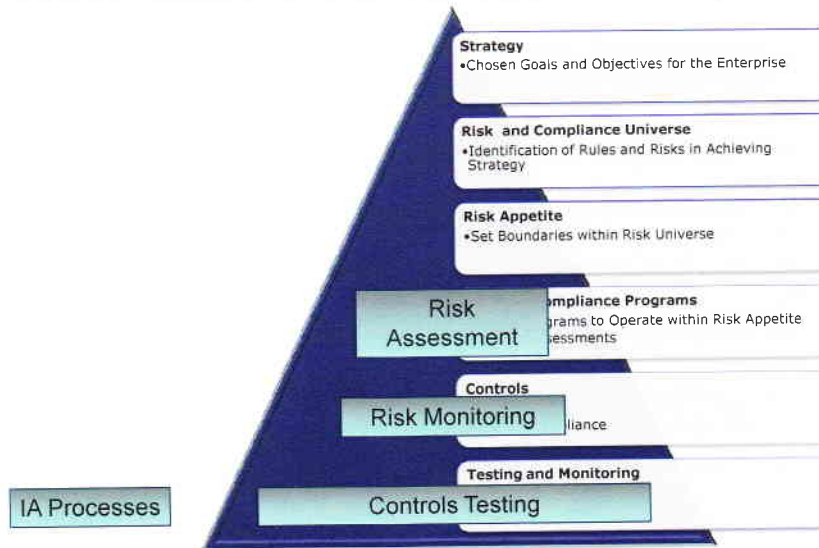
- How do we ensure that the Credit Union is performing according to established risk tolerance limits and overall risk appetite?
- How do we as a Board help establish the right "tone at the top" that reinforces values and promotes a "risk aware culture"?
- Are we effectively carrying out our responsibilities as a Board in overseeing risk management?

Governance, Risk and Compliance Pyramid



41

Internal Audit Provides Foundation to the Pyramid



42

Blueprint of the Risk-Intelligent Organization



Source: Responding to CDO ERM: An Integrated Approach for Moving Forward; theia.org

43

Hallmarks of True Enterprise Risk Management (ERM)

1. Risk management is linked to the organization's strategy.
2. A culture of sound business practices and ethics is deep-rooted throughout the Credit Union.
3. Management has a comprehensive understanding of how to manage risk.
4. One executive level individual is given the responsibility for driving the ERM process.
5. Common risk and process languages are used to assess and respond to risks.
6. Risk management is owned by everyone and an ongoing management process.
7. High-value information useful for management and Supervisory Committee, Board of Directors is generated.
8. Efficient processes are implemented to manage and monitor risks.

44

Thank YOU

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