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## BOARD RISK COMMITTEE CHARTER

### Purpose

1. A Board Risk Committee ("**Committee**"), of the Board of Directors ("**Board**") of the Business Development Bank of Canada ("**BDC**") is established to assist the Board in overseeing the risk management framework and monitoring BDC's Risk Profile, BDC's performance against the framework, major risk exposures and important strategic initiatives. The Committee also assists the Board in overseeing that appropriate policies, controls, structures, and resources are in place to address and manage the risks to which BDC is exposed. The Committee is responsible for adjudicating transactions above management's delegation of authority.

### Composition and Operation

2. Composition of Committee

The Committee shall be composed of a minimum of three directors ("**Members**") appointed by the Board to hold office until such time as a successor is appointed or the Member resigns, is removed, or otherwise ceases to be a Director of the Board.

The Board shall appoint one Member as Chairperson of the Committee. If the Chairperson is absent or unable to act, the Committee may elect an Acting Chairperson for the meeting.

The Chairperson of the Committee shall have sufficient risk management knowledge to fulfill the responsibility. All Committee Members are independent from management and have sufficient knowledge to fulfill their responsibility.

3. Operation of the Committee

For the purposes of carrying out its duties or any that are referred to it by the Board and to investigate any matter brought to its attention, the Committee shall have access to all books, records, and personnel of BDC, and may engage legal counsel, consultants or other advisors on terms and conditions that the Committee deems reasonably appropriate (including reasonable fees).

4. Meetings

The Committee shall meet at the call of its Chairperson at least quarterly and may be called by any Member of the Committee or the Chairperson of the Board.

### Quorum

For the transaction of its business, the majority of Members of the Committee shall constitute the quorum ("**Quorum**"). A Director who fulfills the requirements to serve as a Committee Member may be requested by the Committee Chairperson to attend a meeting as a temporary Member if Quorum cannot be reached with the appointed Committee Members.



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#### Decisions

Matters presented to the Committee for decision at any meeting shall be decided by a majority of votes.

#### Secretary

BDC's Corporate Secretary or Assistant Corporate Secretary shall act as Secretary to the Committee ("Secretary"). The Committee may appoint a Secretary for a meeting if the Corporate Secretary and Assistant Corporate Secretary are unavailable to attend.

#### Notice

The Secretary shall give notice of Committee meetings by telephone, email or other electronic communications to Committee Members, the President and CEO and the Chairperson of the Board.

#### Minutes of the Meeting

Minutes of the Committee meetings shall be prepared by the Secretary, who shall, subsequent to Committee's approval, keep them in a book of minutes.

#### Attendance at Meetings

The President and CEO and the Chief Risk Officer ("**CRO**") may attend Committee meetings and, upon the Committee's request, any other officer or employee of BDC or any special advisor may attend Committee meetings to assist and advise the Committee as required.

#### In Camera Meetings

The Committee shall hold at each regular meeting *in camera* sessions with Committee Members, the President and CEO, the CRO, and, as needed, with members of management or special advisors.

#### Reporting

The Committee shall report to the Board on its activities, findings, and recommendations at the first meeting of the Board following each Committee meeting.

### 5. Governance of the Committee

The Committee shall:

- i. review annually the annual work plan for its meetings. Any matters that arise from time to time will be added to the agenda on an *ad hoc* basis;
- ii. review at least every two years this Charter and evaluate its mandate to ensure that the Charter reflects best practices and is relevant to BDC's business and associated risks and shall make recommendations to the Governance and Nominating Committee with respect to any proposed modifications; and

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- iii. assess annually its contribution and effectiveness in fulfilling its mandate and provide the results and make recommendations to the Governance and Nominating Committee.

## **Responsibilities and Duties**

### **6. Risk Management Framework**

The Committee shall:

- i. review and recommend to the Board all strategies with respect to the material financial offerings of BDC, other than investment activities as defined in the Charter of the Board Investment Committee, with a particular focus on risk-related discussions, both for specific risks and in the aggregate and review the alignment of BDC's strategy with the Risk Management Framework;
- ii. review and recommend to the Board for approval the Enterprise Risk Management Policy which includes the Risk Management Framework and related risk category frameworks to manage BDC's major risk exposures;
- iii. review and recommend to the Board for approval the Risk Appetite Statement and Framework and oversee BDC's Risk Culture, Risk Profile and performance against the Risk Appetite Statement;
- iv. review and approve material new products and services, including the ongoing monitoring, reporting and oversight requirements, other than for investments which are reviewed by the Board Investment Committee;
- v. take all reasonable measures to ensure that BDC's major risks are identified and controls and processes are in place to manage them to secure the sustainability of BDC's activities, including: strategic risk, environmental and social risk (including climate change related risks), credit and investment risk, market non-trading risk, liquidity risk, operational risk, technology risk, legal and regulatory compliance risk and reputational risk as well as regularly assess the effectiveness of such controls;
- vi. take input from the other Committees with respect to risk for which they have primary oversight in their area of responsibility and expertise;
- vii. review the provisioning methodology for credit losses and adequacy of BDC's provision for credit losses;
- viii. review and recommend for approval by the Board BDC's risk-based capital requirements and management's evaluation of the effectiveness of BDC's internal capital adequacy assessment process ("ICAAP") for determining these requirements; and
- ix. oversee BDC's business continuity planning including a recovery plan in the event of a financial crisis; and

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- x. regularly review BDC's risk management performance and obtain reasonable assurance from the CRO that BDC's risk management policies for major risks are being adhered to.

7. Oversight of the Chief Risk Officer and Risk Functions

The Committee shall oversee the Risk Functions as well as the CRO, who is a member of Senior Management and reports to the President and CEO and ensure that risk management is independent of the business, adequately resourced and has status and visibility to perform its responsibilities.

The CRO is responsible for developing the Risk Appetite Framework and is involved in key decision-making processes from a risk perspective, including strategic planning, new product or services approvals and capital and liquidity management.

The Committee shall:

- i. review recommendations on the Risk Limits from the CRO and regular reports on the performance of BDC against such Risk Limits;
- ii. review regular reports from the CRO that ensure the effectiveness of the stress-testing procedures;
- iii. review recommendations from the Human Resources Committee on the appointment, removal and succession planning of the CRO and, as the case may be, recommend to the Board for approval;
- iv. review and approve annually the mandate and performance objectives of the CRO and the design and organizational structure of BDC's Risk Oversight Functions;
- v. review the performance of the CRO against the CRO's mandate and provide an assessment to the Human Resources Committee;
- vi. ensure that the CRO and the Risk Oversight Functions are effective control functions with adequate resources and budget. The Committee shall do an annual review of the design and organizational structure of the Risk Oversight Functions with respect to their effectiveness and controls;
- vii. follow-up on issues raised by the CRO and the Risk Oversight Functions to ensure they are properly addressed; and
- viii. provide risk input into firm-wide compensation decisions to ensure compensation incentives are aligned with BDC's Risk Appetite Statement and industry standards.



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8. Policies and Plans

The Committee shall review annually and recommend to the Board for approval the policies to address and manage the material risks to which BDC is exposed, take input from other Committees with respect to the policies that fall within their area of expertise, and ensure they are adequate and followed.

9. Monitoring and Reports

The Committee shall review reports on:

- i. BDC's Risk Profile, stress testing processes, major risks related to BDC's business and operations, strategic and emerging risks and issues, and compliance with BDC's Risk Limits and policies, including reports on strategic risk, environmental and social risk (including climate change related risks), credit and investment risk, market non-trading risk, liquidity risk, operational risk, technology risk, legal and regulatory compliance risk and reputational risk, including the process to identify, measure and report risks that should be quantified for capital purposes, risk tolerance and treasury risk management;
- ii. any material exceptions to the Risk Appetite Statement and policies, how material exceptions to policies and controls are identified, monitored, measured, and controlled, and remedial actions for material breaches of policies or controls; and
- iii. the attestations of Senior Management of compliance with the Risk Appetite Statement and related policies.

10. Delegation of Authority

The Committee shall review on an annual basis and recommend for approval to the Board, the Delegation of Authority Policy with respect to delegations to Committees and senior management for loans, guarantees, securitizations, investments, and consulting activities. The Committee shall consult the Board Investment Committee regarding the delegations of authority to the Board Investment Committee and senior management for investments.

11. Transaction Approval

The Committee shall approve transactions related to loans, guarantees and securitization transactions that exceed the delegation of authority of senior management and review and recommend to the Board those that exceed its own delegation of authority. The Committee may also approve any transaction mentioned above in which a Board Member has declared an interest and report such transactions to the Board.

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## Appendix A

### Glossary

**Risk Management Framework (RMF)** provides a consistent and structured approach to manage the risks inherent to BDC's activities while ensuring that the outcome of such risk-taking activities is aligned with BDC's strategy, mandate, and in conformity with its Risk Appetite Statement. The RMF is structured around the following key tenets: Risk Governance and Accountabilities, Risk Inventory, Risk Appetite, and Risk Management Processes to identify, assess, manage (risk control), monitor and report on risks.

**Risk Appetite Statement** is the articulation in written form of the types and levels of risk that BDC is willing to accept, or to avoid, to achieve its mandate and objectives. It includes qualitative statements as well as quantitative measures.

**Risk Culture** the shared set of norms and expectations that are embedded in the BDC Act and propagated through BDC's mandate and core values.

**Risk Limits** means the allocation of BDC's Risk Appetite Statement to:

- specific risk categories (e.g., credit, market, liquidity, operational);
- the business unit or platform level (e.g., retail, capital markets);
- lines of business or product level (e.g., concentration limits, value-at-risk limits; and
- other levels as appropriate.

**Risk Profile** means a point in time assessment of BDC's risk exposures.