

MEMBERS 1ST CREDIT UNION

ASSET & LIABILITY MANAGEMENT POLICY

Revised 01/2024

Approved 01/16/2025

PURPOSE

The assets and liabilities of the Credit Union shall be managed to maintain a meaningful balance between the needs of members and sound financial management. It is the purpose of this policy to establish guidelines and directions for the implementation of strategic objectives and goals. These goals include the following:

1. To provide a stable flow of dependable earnings
2. To provide the liquidity necessary to meet the day-to-day cyclical and long-term changes in the mix of assets and liabilities
3. To provide the ability to absorb funds when loan demand is slack and to provide funds when loan demand is strong
4. To minimize interest rate risk by monitoring and managing net interest income

The financial strategies stated within this policy are meant to supplement the Credit Union strategic plan, investment, lending, and dividend policies.

LEGAL COMPLIANCE

All policies and practices governing asset/liability/funds management shall be in full compliance with all applicable state and federal laws, rules, and regulations.

OBJECTIVES AND GOALS

The Credit Union has five major objectives for successful asset/ liability/ funds management:

1. Managed net interest margins
2. Maintenance of adequate liquidity
3. Optimum return on assets
4. Attainment of adequate capital and reserves
5. Protection of principal

RECORD REQUIREMENTS

The Board of Directors will maintain records and dates of approval of the following:

1. Investment activity
2. Loan and deposit changes
3. A current listing of deposit rate offerings
4. A current copy of the Credit Union investment portfolio

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RESPONSIBILITIES

The Board of Directors shall be responsible for establishing assets and liability management procedures that enable the Credit Union to achieve its strategic goals while adhering to prudent financial practices. Along with the responsibility of declaring dividend and loan rates, the Board of Directors will also have the following responsibilities:

1. To invest the funds of the Credit Union to maximize its investment income within the framework of maximum safety and soundness, current regulations governing the Credit Union investments, and current board policies.
2. To set the dividend rates, which the Credit Union will pay its members on share accounts, share certificates, share draft, and club accounts.
3. To establish rates on loans so that the Credit Union will be competitive with other lending institutions. However, the Credit Union's spread differentials and return on investable funds must also be considered along with the Credit Union's cost of funds.
4. To preview policies affecting the above responsibilities.

PRIMARY CONSIDERATIONS

1. Interest rate sensitivity - It is the responsibility of the Board of Directors to maintain competitive but cost-effective interest and dividend pricing.
2. Capital adequacy - It is the policy of the Credit Union to maintain an adequate capital base consistent with regulatory requirements. While striving for a higher ratio of capital to assets, it is the responsibility of the Board of Directors to balance the increase in total capital with the need for superior member service. The directors must evaluate capital adequacy before the setting of dividend rates.
3. Liquidity management - It is the policy of the Credit Union to maintain an adequate liquidity level consistent with prudent financial practices and regulatory requirements. Specific liquidity requirements are contingent upon a variety of factors including seasonal fluctuations in the economy; the desirability of invested income versus loan income; the present as well as the forecasted mix of earning assets; and the availability of funds.
4. Strategic planning - The Board of Directors will evaluate each decision as to its overall contribution to the Credit Union's strategic plan. At all times, the Credit Union will maintain flexibility to meet changing market and operating conditions while focusing on key financial goals.
5. Projection analysis and budgeting - Financial management techniques require that projections and analysis of statistics be made. The projections can be simple straight-line historical projections.
6. Economic, political, and operational forecasting – Management should have the ability to make reasonable and valid projections. Data on economic, political, and operational factors should be assembled and analyzed. Management should utilize all resources available to them.

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LIQUIDITY

The failure to maintain access to adequate and stable sources of funds could prevent the Credit Union from meeting members' demands for share withdrawals and new loan advances. Insufficient liquidity could also cause potential disruptions in service that could result in diminished member and public confidence. Non-traditional sources of liquidity, such as a line of credit with Corporate Credit Union will be maintained, which could be executed to meet excessive loan demand and share withdrawals if needed. The Credit Union currently has a line-of-credit limit of \$ 1,000,000 with Tricorp Federal Credit Union.

It shall be the policy of the Credit Union to replenish a depleted reserve within 120 days unless the Board of Directors considers circumstances preventing the replenishment is justifiable. Alternatives such as special rates to attract deposits or increasing loan rates to discourage borrowing should be considered before borrowing but in those situations where borrowing will be used to meet loan demand, the following conditions shall prevail:

1. The minutes of the meeting shall reflect such action
2. Repayment of such borrowing shall be made within 6 months of said loan

Monitoring cash flow and establishing minimum liquidity levels are critical components of the liquidity plan. In doing so, liquidity surpluses and shortfalls will be properly identified so that the Credit Union may develop appropriate proactive action steps to address these situations when they arise.

Each month, the following key ratios must be reviewed by the Board of Directors and results documented in the board meeting minutes:

- Capital / Asset = 9% or above
- Total Loans / Total Shares = between 60 % and 80 %
- Total Loans / Total Assets = between 60 % and 80 %
- Regular Shares and Share Drafts / Total Shares and Borrowings = between 30 % and 60 %
- Liquid Assets / Assets = between 25 % and 45 %

In addition, internal spreadsheet calculations will be prepared by the CEO and provided to the Board of Directors quarterly in order to better determine interest rate gaps on rate sensitive assets and liabilities. The objective of these reports is to better forecast potential future liquidity and interest rate changes.

If further actions become necessary, potential actions to be taken include:

- Adjust loan rates
- Adjust deposit rates
- Offer special certificate of deposit rates and terms
- Utilize excess contingent funding (line of credit at Tricorp Federal Credit Union)
- Adjust Business Plan to reflect a change in the strategic direction of the Credit Union
- Buy or sell investments

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While these action steps should be able to address most scenarios, there is still the potential for a situation where other steps not listed above must be taken. The Board of Directors has full authority to make those decisions if necessary.

Each course of action should be prepared by the CEO and presented to the Board of Directors. The documentation should include the estimated financial impact to the Credit Union, the estimated impact to short-term and long-term liquidity as well as the impact to the balance sheet and the income statement.

SOURCES OF FUNDS

The primary source of funds for the Credit Union is the member's shares and other deposits. These are listed below in the order of volatility:

1. Share drafts - These are the most volatile deposits, which are drawable by check or debit card. No interest is paid on these and a \$3.00 fee is charged each month per account.
2. Regular Share Accounts - This type represents the majority of funds. They are interest bearing deposits and are drawable in person or transferable by telephone.
3. Platinum Plus Accounts - These are demand deposits that bear interest and are drawable by check. A minimum balance of \$1,000.00 is required making them less volatile than the above accounts.
4. Certificate of Deposits - These are interest bearing deposits with a 6-month maturity and a minimum deposit of \$ 1,000.00. Specials are run and Certificate of Deposit specials may be from 6 months – 5 years.
5. Club Savings Accounts - These are interest bearing deposits and are drawable in person or transferable by telephone.
6. IRA Accounts – These are interest bearing deposits with a minimum balance required of \$250.00. There is no term required. These tend to be quite stable as there is a tax consequence for withdrawal.

USE OF FUNDS AND INVESTMENTS

The primary use of funds is the extension of credit to our members in the form of good loans. The various types of credit and pertinent terms are addressed in our lending policy. The CEO will review the liquidity need on a, no less than, weekly basis. Included in the investment strategy will be a review of member certificates maturing, pending loan requests awaiting funding, knowledge of large loan pay-offs and large deposit withdrawal requests. The un-loaned balances of funds represent our primary liquidity source and are deposited as listed below.

1. Cash-on-hand - The primary use of these funds is for daily in-person withdrawals and check cashing. They are non-interest-bearing funds and generally kept at approximately \$350,000.00. Temporary increases will be allowed, up to an additional \$100,000.00, with prior approval from Board of Directors.

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2. Corporate Deposit Accounts - A minimum amount of \$1,000,000 will be kept in a clearing (liquidity) account at Tricorp Federal Credit Union. These funds are used for daily clearing of ACH transactions, wires etc. If the daily balance remains above \$1,500,000 for a period of 60 days, other investment options will be reviewed. If the interest rate paid on the clearing account is the same or better than other investment vehicles, the funds will be kept in clearing account.
3. Investments – All investments shall be limited to \$ 200,000.00 per institution with the exception of TriCorp Federal Credit Union. No investments will be made that are not insured by FDIC or NCUSIF. Investments shall be held to maturity. The term shall not exceed three (3) years. Investment vehicles are restricted to certificate of deposits. The CEO or Treasurer shall have the authority to make investments within these guidelines.