MEMBERS 1ST CREDIT UNION
ALLOWANCE FOR CREDIT LOSSES CALCULATION POLICY

Revised 01/2024 Approved 01/16/2025

POLICY

Members 1st Credit Union's (Credit Union) financial statements provide for the full and fair disclosure of all assets, liabilities, and members' equity, including such allowance accounts necessary to fairly present the Credit Union's financial condition. The Allowance for Credit Losses (ACL) represents the Credit Union management's evaluation of various factors influencing the collectability and expected losses for all categories of loans and the proper valuation of loans. The allowance encompasses expected losses over the lives of the relevant financial assets.

This policy governs the Credit Union's ACL policy, methodology, and documentation practices. This policy is designed to comply with the NCUA Accounting Bulletin 06-01, Accounting Standards Codification (ASC) 326, Current Expected Credit Loss Standard ("CECL"), Generally Accepted Accounting Principles ("GAAP"), and all related laws and regulations.

RESPONSIBILITY & OVERSIGHT

A. Board of Directors - The Board of Directors is responsible for ensuring that the Credit Union has controls in place to determine the appropriate allowance for credit losses (ACL) in accordance with the Credit Union's policies, methodology, generally accepted accounting principles (GAAP), and supervisory guidance. The Board of Directors are also responsible for the following:

   i. Reviewing and approving the Credit Union's ACL policy at least annually;
   ii. Reviewing management's assessment and justification that the loan review system is sound and appropriate for the size and complexity of the Credit Union;
   iii. Reviewing management's assessment and justification for the amounts estimated and reported each period for the ACL;
   iv. Requiring management to periodically validate and, when appropriate, revise the ACL methodology;
   v. Approving the internal and external audit plans for the ACL, as appropriate;
   vi. Reviewing any identified audit findings and monitoring resolution of those items;
   vii. Reviewing the adequacy of the ACL at least monthly, or more often as required, and approve the amounts to be reported each period for the provision for credit losses and the ACL;
   viii. Adjusting the ACL through current earning in accordance with GAAP; and
   ix. Understanding that they must meet the full and fair disclosure requirements of the NCUA Rules and Regulations before distributing dividends.

B. Supervisory Committee - The Supervisory Committee is responsible for the oversight and monitoring of the internal controls over the ACL determination process.

C. Management - The Board of Directors authorizes the Credit Union Management to develop and maintain an appropriate, transparent, and consistent process to determine ACL amounts and provisions for losses, and to document the Credit Union's ACL methodology. The Credit Union's ACL process will incorporate management's current judgments about the credit quality of the financial assets, considering all significant factors that affect the collectability of assets using consistently applied methods and techniques.

i. The Board of Directors delegates the daily administration of the Credit Union's ACL policies, procedures, and recordkeeping to the Credit Union management. The management will review all loans, by groups as appropriate, for relevant internal and external factors, loss history, collateral values, and methods to ensure they are applied consistently when estimating probable existing losses and modify loss estimates for new factors affecting collectability;
ii. The management will document the relationship between the findings of its detailed review of the loan portfolio, the ACL amount, and the provision for credit losses reported in each period;
iii. The management will prepare an analysis report of the amount to be reported in the financial statements for the ACL. This report will be prepared quarterly and prior to submitting the quarterly NCUA Call Report. The Board of Directors will review and approve this summary, which will include:
    a. An estimate of the probable loss or range of loss incurred for each category;
    b. The aggregate probable loss estimated using the Credit Union's methodology;
    c. A summary of the current ACL balance;
    d. The amount by which the ACL is to be adjusted (if any); and
    e. Detailed sub-schedules of loss estimates that reconcile to the summary schedule, if necessary.

METHODOLOGY

The Credit Union will use a method to estimate the Credit Union's ACL that is logical and relevant to the Credit Union's particular circumstances, and the calculations will be comprehensive, taking into account the risk inherent in the various types of loans offered by the Credit Union, based on information from past events, current economic conditions, and reasonable forecasts of future economic conditions that affect the ability to collect on the previously reported loans. For periods beyond which management can forecast future economic conditions, management will revert to historical loss information for the remaining life of the financial asset. For those segments that require an ACL, the Credit Union will estimate the losses, at least on a quarterly basis. The Credit Union will maintain supporting documentation for the technique used to develop the Credit Union's loss rates, including the period over which the losses were incurred.

The Credit Union will utilize the Simplified CECL Tool (CECL Tool) created by the National Credit Union Administration (NCUA). The CECL tool uses the Weighted Average Remaining Maturity (WARM) methodology. The CECL Tool calculates the ACL for a loan portfolio category by multiplying the period-end portfolio balance, the annual charge-off rate, and the WARM factor. The estimated ACL is comprised of estimates for pooled loans and individually evaluated loans separately, segmented based on loan portfolio segments that mirror the segments in the NCUA's Call Report.

ESTIMATING LOSS ON LOAN SEGMENTS

Management will apply an empirically derived loss rate to each loan segment to determine an appropriate level of funding for the segment's ACL.

The loss rate shall be determined by the following formula:

a) ACL calculation of segmented loan categories that are segmented in accordance with NCUA's Call Report loan categories;
b) Past due, non-accrual, renewed and restructured loans
c) Adjustment for individually evaluated loans with a principal balance of over $100,000.00;
d) Adjustment for applicable qualitative and WARM factors

To determine amount required for loan loss reserve, the Credit Union will total:

a) Required amount in each segment according to CECL Tool;
b) Additional funds for qualitative and WARM adjustments;
c) All loans deemed uncollectable

The total of above calculation will be compared to the current amount in General Ledger account 719.000 and any variances will be noted at the Board meeting.

QUALITATIVE FACTOR ADJUSTMENTS

The Credit Union will maintain supporting documentation for the technique used to develop their loss rates including the period over which they incurred the losses. These loss rates will be reviewed annually for appropriateness and refined as warranted. In developing and maintaining loss measurements, management will consider the impact of current environmental factors and document which factors have been used in the analysis and how these factors affect the loss measurements. Management should also consider the following factors when developing loss measurements:

a. Levels of and trends in delinquencies and impaired loans;
b. Levels of and trends in charge-offs and recoveries;
c. Shifting trends in the nature, volume , and terms of loans;
d. Effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedures, and practices;
e. Quality of credit review function;
f. Changes in the value of underlying collateral;
g. Experience, ability, and depth of lending management and other relevant staff;
h. International, national, regional, and local economic trends and conditions;
i. Industry conditions;
j. The volume and severity of adversely classified or graded loans;
k. Effects of changes in credit concentrations;

l. The effect of other external factors, such as competition and legal and regulatory requirements on the level of estimated credit losses in the Credit Union's existing portfolio; and natural disaster;
m. The quality of the Credit Union's loan review system;
n. Changes to the general market conditions of a local area.

NEW LOAN PRODUCTS

For new loan products, management will use the experience of other enterprises in the same lending business until the Credit Union has developed loss experience for these groups of loans.

INDEPENDENT REVIEW

In addition to ongoing internal quality control, the Credit Union's independent auditing firm is responsible for periodically selecting loans for review on a random basis. This review will consist of verification of loan documentation, compliance with the Credit Union's lending and charge-off policy and proper reporting to the Board of directors.

DOCUMENTATION

The Credit Union will maintain and support its ACL with documentation that is consistent with the Credit Union's stated policies, methodology, GAAP, and applicable supervisory guidance. At a minimum, the Credit Union will maintain documentation for the following:

i. Policies and methodology;
ii. Loan classification or credit grading system or process;
iii. Summary or consolidation of the ACL balance;
iv. Validation of the ACL methodology (the rationale used for determining the best estimate from within the range of losses);
v. Periodic adjustments to the ACL process;
vi. Loan Trial balances by category and types of loans;
vii. Management reports about the mix of loans in the portfolio;
viii. Delinquency reports;
ix. Charge-off and Recovery reports