

5100. ASSET / LIABILITY MANAGEMENT POLICY

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Purpose

The purpose of Resource One Credit Union's (the "Credit Union") Asset/Liability Management (ALM) Policy is to guide the Management and Board in the decision-making process regarding the Credit Union's lending, investing, operating expense control, and member-service pricing policies.

Asset / Liability Management Committee (ALM)

Implementation of the Credit Union's ALM Policy is the primary responsibility of the ALM Committee. The voting members of the ALM Committee shall consist of:

1. At least one member of the Board of Directors (One to serve as Committee Chairperson);
 2. The Credit Union's President;
 3. The Credit Union's Chief Financial Officer (CFO);
- The ALM Committee will meet at least monthly. When deemed necessary, the ALM Committee may review the Credit Union's monthly and year-to-date spreads, operating expenses, non-interest income, operating profitability, rate sensitivity, funds flow, asset and liability mixes, loan and dividend rates, monthly investment activity and maturities, assets quality, liquidity trends and capitalization. Current money market conditions and their possible effects on the Credit Union's spreads in future months will also be reviewed. The ALM Committee will report periodically to the Board, and when warranted, recommend to the Board changes regarding the Credit Union's lending, investment, dividend, operating expense control, and pricing structure of member services policies.

Interest Rate Risk (IRR) Management

1. Given the potential types and characteristics of Interest Rate Risk (IRR), it is important that the Credit Union maintain an appropriate process and set of measurement tools to enable it to identify and quantify its primary sources of IRR. The Credit Union also recognizes that effective management of IRR includes understanding when potential changes in interest rates will flow through the earnings statement. Accordingly, the Credit Union will manage its position so that it monitors its short-term and long-term IRR exposure.

The Credit Union's primary tools in managing IRR in this manner will be the income simulations (interest rate sensitivity analysis) and the net economic value analysis, which will be utilized to quantify the potential impact on earnings and capital of changes in interest rates.

The complex nature of the Credit Union's balance sheet dictates the need for adequate oversight and management of the longer-term maturity / repricing horizons of the balance sheet. Here the ALM functions and responsibilities will include:

- Monitoring available opportunities to undertake major corrective actions (in the nature and mix of assets and liabilities) for structural mismatches.
- Determining the appropriateness of fixed rate vs. variable rate lending and formulating policies to influence this activity.
- Developing parameters for the investment portfolio in the context of overall balance sheet management (liquidity, Interest Rate Risk, credit risk, valuation risk, and earnings).
- Establishing financial goals, including minimum standards for return on assets and equity.
- Overseeing the long-term strategic use of capital so as to maximize the return on equity within reasonable levels of risk.

Specific strategies for managing both one year and longer-term components of interest rate risk are the focal point of the ALM meeting agenda. At least quarterly, the ALM will review the Credit Union's overall position and related sources of risk and develop a plan. The general types of strategies which ALM will consider typically include:

- Loan pricing, promotion and product structure
- Deposit pricing, promotion and product structure
- Use of alternative funding sources
- Loan purchases and sales
- Security purchases and sales

Risk Measurement

In assessing the appropriateness of any strategy, ALM will assess the expected results of actions with the desired effect of either lengthening or shortening the overall interest rate sensitivity of the Credit Union's assets and liabilities. Exposure limits will be analyzed at least on a quarterly basis.

Repricing Gap – projects future repricing flows of rate sensitive assets and liabilities, both on a contractual as well as a behavioral basis, of the month end balance sheet. The Credit Union should strive to have the cumulative one year repricing gap at no greater or less than 20% of assets. Differences in the behavior of lending and funding rates makes repricing gap a limited tool in the asset/liability management process. For this reason, repricing gap should always be considered in conjunction with other ALM analyses.

Maximum Potential Reduction in Net Interest Income (NII) - these limits will be specified for a ramp up and down of interest rates as a percentage reduction in the base case net interest income scenario. The committee's goal is to manage projected NII over the next twenty four months to ensure NII will not be reduced by more than 20% at twelve months, and 35% at twenty four months under a "shock rate environment" of +/- 300 basis points (instantaneous, parallel and sustained change in interest rates).

Maximum Potential Reduction in Net Economic Value – these limits will be specified for instantaneous, parallel and sustained changes in interest rates plus or minus 300 basis points in 100 basis point increments. A percentage change greater than - 40% from the credit union's base net economic value will require recommended adjustments to the asset - liability mix.

NEV Ratio – under a +/- 300 basis points market rate shock scenario, the credit union's NEV ratio shall not fall below 4%. Any scenario producing a NEV Ratio lower than 4% will require recommended adjustments to the asset - liability mix.

Return on Average Assets - key ratio used in the CAMEL evaluation process represents the result of managing net interest income to cover all expenses and still provide for adequate capital growth. The ALM will strive to achieve the credit union's targeted Return on Assets (ROA) goals. All of the credit union's financial goals are included within the credit union's Board approved, business plan and financial budget.

Should any one or more of the above mentioned ratios move outside the policy limits, the ALM will review strategies directed at returning the ratio(s) back within policy limits. These strategies must address the impact to earnings, capital, and liquidity. Based on the strategic review, the Committee will determine where or not any action should be taken. If an action plan is set in place, there will be monthly updates until the desired results are achieved.

Investment Policy

The Credit Union's Investment Policy adheres to the matching principle in accordance with the Credit Union's ALM Policy. Thus, with the exception of investments in, fixed rate investments with either market-repricing opportunities or duration's exceeding seven years are not authorized, unless recommended by the ALM Committee and approved by the Board of Directors.

The following restrictions, limitations and credit standards are imposed on the Credit Union's investment portfolio. These restrictions and limitations should be considered before executing all investment transactions. Any investment transaction(s) that falls outside the restrictions and/or limitations detailed below must obtain the ALM's approval prior to executing the transaction. For the purpose of this policy, investments are defined as: "the cumulative total of investments, overnight funds, deposits at other institutions and other non-vault cash equivalents".

U.S. Treasury Securities

1. Investment Limits - U.S. Treasuries are limited to 300% of Net Worth
2. Credit Risk - US Treasury Securities possess no credit risk.
3. Recommended Maximum Maturity - Maturity/reprice-ability of seven years.

Federal Agency Securities

1. Non-Callable Agency Securities are limited to 200% of Net Worth. Callable Securities or Securities Containing Embedded Options - Aggregate limit of 100% of Net Worth.
2. Credit Risk - US Federal Agency Securities possess little credit risk.
3. Recommended Maximum Maturity - Maturity/reprice-ability of seven years.

Federal Funds

1. Investment Limits - Federal Funds are limited to 250% of Net Worth.
2. Credit Risk - Federal Funds possess little credit risk.
3. Recommended Maximum Maturity - Maturity/reprice-ability of one day (overnight).
4. Institutional Limits - Limited to institutions with equity capital over \$50 million. Total limit per institution cannot exceed 15% of that institution's total capital.

Repurchase Agreements (RP)

1. Investment Limits - RP's are limited to 10% of the credit union net worth.
2. Credit Risk - The ALM Committee must approve a new institution prior to execution of a transaction.
3. Recommended Maximum Maturity - Maturity/reprice-ability of one year.

Certificates of Deposit (CD)

1. Investment Limits - CD's are limited to 200% of Net Worth.
2. Credit Risk - the FDIC or NCUA must federally insure All CD's.
3. Recommended Maximum Maturity - maturity/reprice-ability of five years.
4. Institutional Limits up to the maximum NCUA or FDIC insured limit per institution and equity capital over \$50 million and cannot exceed 15% of that institution's total capital. Higher limits require approval by the ALM Committee
5. Institutions must be rated as being a "Three Star" or greater by Bankrate's Safe and Sound Rating System (See Exhibit I for Rating Criterion)

The Investment Committee may invest excess funds in FDIC or NCUA insured certificates of deposits without prior approval of the ALM Committee or the Board of Directors, pending the institution credit rating using the preceding rating guidelines and the following restrictions:

1. Maximum Institutional Limit: up to maximum amount insured by the NCUA or FDIC
2. Maximum Maturity: 7 Years

These investments will be periodically reviewed and a new rating obtained upon maturity if considering renewal. Any institution showing a consistent declining rating will not be renewed. The ALM Committee and the Board of Directors will review the investment list regularly.

Mortgage-Backed Securities (MBS)

1. Investment Limits - MBS's are limited to 200% of the Credit Union's total Net Worth. Aggregate limit: 100% of net worth for Pass-Through MBS, Collateral Mortgage Obligations and Adjustable-Rate MBS, respectively.
2. Credit Risk - Federal Agencies only
3. Recommended Maximum Maturity - Fixed rate securities - five years, Variable rate securities - seven years.

Catalyst Corporate (Designated Depository), Federal Home Loan Bank (FHLB), Federal Reserve Bank (FRB), & Other Corporate Credit Unions

1. Investment Limits – 250% of Net Worth (i.e. total equity).
2. Credit Risk - Catalyst Corporate, FHLB and FRB possesses little or no credit risk.
3. Recommended Maximum Maturity - Maturity/reprice-ability of seven year.

Reverse Repurchase Agreements (Reverse RP)

1. Investment Limits - Reverse RP's are limited to 200% of Net Worth.
2. Credit Risk - Limited to Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) (no credit risk).
3. Recommended Maximum Maturity - maturity/reprice-ability of 28 days.
4. Institutional Limits - limits require approval by the ALM Committee and equity capital over \$50 million and cannot exceed 15% of that institution's total capital.
5. Reverse Repos represent borrowings by the credit union, credit unions must record them as notes payable and the board or ALM committee should approve them.
6. The credit union may only utilize the FHLB and FRB as reverse repurchase facilities.

Split Dollar Life Insurance

1. Investment in a credit union owned life insurance policy shall be limited to the amount necessary to fund the employee benefit plan obligation.
2. The aggregate cash surrender value held by the credit union shall not exceed 25% of the credit union's net worth.
3. Aggregate cash surrender value from any one insurance company shall not exceed 20% of the credit union's net worth.

Lending Policy

The Credit Union's Lending Policy is in accordance with the Credit Union's ALM Policy. Thus, the Credit Union's capacity to fund and hold fixed-rate (i.e., non-repriceable) mortgages and non-mortgage loans that have original maturities exceeding seven years is limited; however, longer termed lending of this nature may be acceptable provided the Credit Union's:

1. Overall liquidity is not impaired; and
2. The Credit Union's twelve-month cumulative GAP to total assets ratio does not exceed negative 20% of total assets.
3. The total amount of first lien real estate mortgage loans shall not exceed 15% of the credit union's total assets. The sum of all remaining real estate loans, not included in the aforementioned 15% limit, shall not exceed 30% of the credit union's total assets.

The total aggregate amount of credit union assets that are securitized by mortgages shall not exceed 55% of the total assets. This limit includes all real estate loans, member business loans secured by real estate, mortgage-backed securities and collateralized mortgage obligations.

4. The combined total of outstanding D & E as defined in the "Credit Wise Pricing Matrix" should not exceed established ALM limits.

D & E Credit Wise loans are defined as follows:

- **D & E Credit Wise Loans-** Are defined as credit union loans advanced to members whose individual credit scores fall within pre-determined ranges as defined by the ALM. The Credit Union utilizes the member's "Credit Scores" that are calculated and obtained from independent third party credit bureaus. Please refer to the Credit Union's current "Credit Wise Pricing Matrix" for specific Credit Wise Loan classification criterion.

Loan Participations Purchased

1. The credit union may only purchase a participating interest from an eligible organization which includes: credit unions, credit union organizations, federally chartered or federally insured financial institutions, federal or state agencies and subdivisions.
2. The underlying loan(s) must be one that the credit union is empowered to grant under applicable law and internal lending policies.
3. The aggregate outstanding amount of loan participations that may be purchased from any one originating lender may not exceed 10 percent of the credit union's net worth.
4. Loan participations shall not exceed 30 percent of the credit union's net worth and must be secured by commercial real estate or prime auto loans.
5. The aggregate amount of outstanding loan participations that may be purchased with respect to a single borrower or group of associated borrowers, shall not exceed 10 percent of the credit union's net worth, unless waived by the NCUA regional director, and, with prior written concurrence of the Texas Credit Union Department.

Summary of Limits

Type	Percentage of Net Worth
Aggregate Loan Participations	30%
Single Originating Lender	10%
Sole Borrower or Group of Borrowers	10%

ALM Policy and Capital Goals

The Credit Union will adhere to the net worth requirements as prescribed by the Texas Credit Union Commissioner's Rule 91.901 entitled "Reserve Requirements".

The Board and ALM Committee have established a minimum net worth limitation of 7.25%. (See Procedure Manual – "Capital Restoration Contingency Procedures" for further details)

The ALM Committee is responsible for regularly monitoring these capitalization objectives, and when significant deviations from the Credit Union's capitalization goals are noticed, reporting these deviations to the Board for further review and discussion.

Board Approval

The Credit Union's management shall review the ALM Policy annually. Any changes or amendments deemed necessary and recommended to and approved by the Credit Union Board shall be placed in effect before implemented.

Credit Union Liquidity

(See 5300 Liquidity & Contingent Funding Policy)

Exhibit I

SAFE & SOUND STAR RATINGS Ratings Structure for Banks, Credit Unions, and Thrifts

<u>Star rating</u>	<u>Definition</u>
Five Stars	Superior
Four Stars	Sound
Three Stars	Performing
Two Stars	Below peer group
One Star	Lowest rated

Safe & Sound® Ratings

The Safe & Sound® ratings system employs more than 20 tests to measure the capital adequacy, asset quality, profitability and liquidity of each rated financial institution. Individual performance levels are determined from publicly available regulatory filings and are compared to asset-size peer norms, industry standards and key absolute benchmarks. Combined results form the basis for the Star Ratings. Safe & Sound ratings are updated on a quarterly basis.

The most desirable Safe & Sound rating is five stars; the least desirable is one. Performing institutions will generally receive a rating of three or more stars with the majority of financial institutions falling into the three- to four-star range. The top retail banks, thrifts and best credit unions will have a star rating of three or higher.

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Historical Record of Policy Changes

Date Revised: September 20, 2004

Date Approved: September 20, 2004

Policy Change

Lending Policy

~~Real Estate loans cannot exceed 30% of total assets.~~ The total amount of first lien real estate mortgage loans shall not exceed 10% of the credit union's total assets. The sum of all remaining real estate loans, not included in the aforementioned 10% limit, shall not exceed 35% of the credit union's total assets.

Date Revised: January 26, 2007

Date Approved: February 15, 2007

Policy Change

Asset/Liability Management Committee (ALM)

Removed item numbers 3 and 4.

Interest Risk Control

Deleted entire section and re-wrote as "Investment Rate Risk (IRR) Management".

Risk Measurement

New section

Investment Policy

The ALM Committee requires approval of any investment transactions that fall outside the restrictions/limitations detailed in the policy.

Lending Policy

Item #2 – The Credit Union's ~~twelve-month~~ six-month cumulative GAP to total assets ratio does not exceed negative 20% of total assets.

D & E Credit Wise Loans – Are defined as credit union loans advanced to members'

Revised: December 2018

Ratified: April 2019

members who's individual credit scores fall within predetermined ranges as defined by the ALM Committee. The Credit Union utilizes the member's individual "Beacon Scores" "Credit Scores".

Date Revised: July 2008
Date Approved: August 2008

Policy Change

Entire Policy

Changed ALCO Committee to ALM Committee.

ALM Policy and Capitol Goals

The Board and ALM Committee have established a minimum net worth limitation of ~~6.70%~~ 7.25%.

Date Revised: January 2011
Date Approved: January 2011

Lending Policy

#3. The total amount of first lien real estate mortgage loans shall not exceed ~~40%~~ 15% of the credit union's total assets. The sum of all remaining real estate loans, not included in the aforementioned ~~40%~~ 15% limit, shall not exceed ~~35%~~ 30% of the credit union's total assets.

Date Revised: July 2011
Date Approved: September 2011

Policy Change

Asset/Liability Management Committee (ALM)

Added #3. ~~The Credit Union's Chief Financial Officer (CFO)~~

Investment Policy

Removed: ~~loan participations purchased~~

Revised: December 2018
Ratified: April 2019

Certificate of Deposit (CD)

Institution Limits – up to the maximum NCUA or FDIC insured limit ~~\$100,000~~

Collateralized Mortgage Obligations (CMO)

#2 – Removed or rated Moody's (AAA/AA), Standard and Poor's (AAA/AA).

Southwest Catalyst Corporate

Made name change correction throughout the policy.

Alternative Sources of Liquidity

Maximum Institutional Limit: ~~\$100,000~~ up to maximum amount insured by the NCUA or FDIC

Date Revised: April 2014

Date Approved: April 2014

Policy Change

- Added the Split Dollar Life Insurance section on page 10.

Date Revised: July 2014

Date Approved: July 2014

Policy Change

- The aggregate investment limits established in the Asset Liability Management Policy (ALM) and the Investment Policy were inconsistent. Updated on pages 6-9.
- The Safe & Sound Star Ratings, Exhibit I on page 17, has been updated. Safe & Sound service is a proprietary system designed to provide information on the relative financial strength and stability of U.S. commercial banks, savings institutions and credit unions. This was not cited in the exam but is a recommended revision.

Revised: December 2018

Ratified: April 2019

Date Revised: December 2014

Date Approved: December 2014

Policy Change

The Liquidity section (pg. 13 & 14) has been removed from the policy and placed into a standalone policy (Policy 5300 Liquidity & Contingency Funding Policy)

Date Revised: July 2015

Date Approved: August 2015

Policy Change

Lending section (pg. 11) inserted:

The total aggregate amount of credit union assets that are securitized by mortgages shall not exceed 75% of the total assets. This limit includes all real estate loans, member business loans secured by real estate, mortgage-backed securities and collateralized mortgage obligations.

Risk Measurement (pg. 4):

Maximum Potential Reduction in Net Interest Income (NII) - these limits will be specified for a ramp up and down of interest rates as a percentage reduction in the base case net interest income scenario. The committee's goal is to manage projected net interest income NII over the next ~~twelve~~ **twenty four** months to ensure NII will not be reduced by more than 20% **at twelve months, and 35% at twenty four** months under a "shock rate environment" of +/- 300 basis points (instantaneous, parallel and sustained change in interest rates).

Date Revised: August 2016

Revised: December 2018

Ratified: April 2019

Date Ratified: August 2016

Policy Change

Loan Participations Purchased section added to the policy (pg. 12).

Loan Participations Purchased

1. The credit union may only purchase a participating interest from an eligible organization which includes: credit unions, credit union organizations, federally chartered or federally insured financial institutions, federal or state agencies and subdivisions.
2. The underlying loan(s) must be one that the credit union is empowered to grant under applicable law and internal lending policies.
3. The aggregate outstanding amount of loan participations that may be purchased from any one originating lender may not exceed 10 percent of the credit union's net worth.
4. Loan participations must be secured by commercial real estate, not to exceed a 20 percent of the credit union's net worth.
5. The aggregate amount of outstanding loan participations that may be purchased with respect to a single borrower or group of associated borrowers, shall not exceed 10 percent of the credit union's net worth, unless waived by the NCUA regional director, and, with prior written concurrence of the Texas Credit Union Department.

6. Summary of Limits

Type	Percentage of Net Worth
Aggregate Loan Participations	20%
Single Originating Lender	10%
Sole Borrower or Group of Borrowers	10%

Revised: December 2018
Ratified: April 2019

Date Revised: September 2018
Date Approved: September 2018

Page 8 - #1 Federal Funds are limited to 250% of Net Worth changed from 200%.

Page 9 – Added two Designated Depositories: Federal Home Loan Bank (FHLB), and Federal Reserve Bank (FRB).

1. Increased Investment Limits from 200% to 250% of New Worth
2. Added FHLB and FRB to credit risk list

Page 9 & 10 - Reverse Repurchase Agreements (Reverse RP)

1. Investment Limits - Reverse RP's are limited to 200% of Net Worth.
2. Credit Risk - Limited to Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) (no credit risk).
3. Recommended Maximum Maturity - maturity/reprice-ability of 28 days.
4. Institutional Limits - limits require approval by the ALM Committee and equity capital over \$50 million and cannot exceed 15% of that institution's total capital.
5. Reverse Repos represent borrowings by the credit union, credit unions must record them as notes payable and the board or ALM committee should approve them.
6. The credit union may only utilize the FHLB and FRB as reverse repurchase facilities.

Page 10

Catalyst Corporate (Designated Depository) ,Federal Home Loan Bank (FHLB), Federal Reserve Bank (FRB), & Other Corporate Credit Unions

4. Investment Limits – 250% of Net Worth (i.e. total equity).
5. Credit Risk - Catalyst Corporate, FHLB and FRB possesses little or no credit risk.

Revised: December 2018
Ratified: April 2019

6. Recommended Maximum Maturity - Maturity/reprice-ability of seven year.

Page 13

4. Loan participations shall not exceed 30 percent of the credit union's net worth and must be secured by commercial real estate or prime auto loans.

Summary of Limits

Type	Percentage of Net Worth
Aggregate Loan Participations	30% increased from 20%

Date Revised: December 2018

Date Approved: December 2018

Asset / Liability Management Committee (ALM)

Policy Change

(Page 3) Items 1, 2, and 3

Delete:

4. At least one member of the Board of Directors (One to serve as Committee Chairperson);
5. The Credit Union's President;
6. The Credit Union's Chief Financial Officer (CFO);

Replace with:

1. At least one member of the Board of Directors;
2. The Chairperson will be a Director, who does not serve on the Executive Committee,

Revised: December 2018

Ratified: April 2019

3. Any volunteer/appointed staff members as deemed necessary.

Risk Measurement

Policy Change

(Page 5) Paragraph 1, last sentence.

Delete:

Exposure limits will be analyzed at least on a quarterly basis

Replaced with:

Exposure limits, interest rate scenario stress testing, and sensitivity analysis will be analyzed at least on a quarterly basis.

Risk Measurement – NEV Ratio

(Page 5) Last Paragraph, first sentence.

Delete: 4%

Replaced With: 7%

Risk Measurement – NEV Ratio

(Page 6) first sentence.

Delete: 4%

Replaced With: 7%
