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**Department:**  
**Procedure For:**

Administration  
ALCO Committee

**Annual Board Approval:**  
**Prior Approval Date:**

December 14, 2023

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## **ASSET/LIABILITY (ALCO) COMMITTEE CHARTER**

### **Purpose**

The purpose of the ALCO Committee (Committee) of the Board (Board) of Directors of Summit State Bank (Bank) is to (1) monitor, measure and understand economic developments in both the loan and the investment worlds that might impact liquidity, capital or earnings of the Bank and (2) Maintain an open line of communication with management and staff when issues may arise.

The Committee will continually review the scope and complexity of risks associated with the loan, deposit and the investment portfolios and the appropriateness of those risks in the context of the overall balance sheet and impact to liquidity, capital and earnings.

### **Committee Membership**

The Committee shall consist of three (3) or more directors, each of whom shall:

- (i) have been appointed by the Board of Directors; and
- (ii) have been determined by the Board of Directors to fulfill the requirements for membership on the Committee as provided in the federal securities laws, the rules of the FDIC thereunder and the rules of NASDAQ, as such provisions may be amended from time to time.

### **Committee Operations**

A quorum of the committee shall consist of a majority of members, but not less than two (2) members. The Committee shall meet in person, by phone, or via video conference as often as needed in order to fulfill the duties and responsibilities outlined in this Charter and in the Treasury Management Policy. The Committee Chairman shall have the authority to call any Committee meetings other than meetings set by the Board. The Committee may have in attendance such other members of management and persons as it may deem necessary to provide appropriate information and explanations. The Chairperson of the Committee will report back to the full Board the recommendations of the Committee.

At least one member of the ALCO Committee shall have:

- (i) the requisite skills to effectively administer the investment and Asset/Liability of the bank;
- (ii) an understanding of generally accepted accounting principles and financial statements;

- (iii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves; and
- (iv) an understanding of internal control over financial reporting.

No member of the ALCO Committee, including the Chair, may simultaneously serve on the ALCO committee of more than two other corporations besides the Bank, unless the Board of Directors determines that such simultaneous service would not impair the director's ability to effectively serve on the Bank's ALCO Committee and such determination is disclosed in the Bank's proxy statements relating to its annual meetings of shareholders.

The Board of Directors reserves all authority permitted under the rules of the FDIC and the relevant listing authority in connection with any matter referred to in this Charter, including but not limited to the determination of independence of ALCO Committee members.

## **RESPONSIBILITIES OF ALCO COMMITTEE**

### **General Responsibilities**

The Board of Directors recognizes that the Bank's management is responsible for preparing the scope and complexity of risks associated with the loan, deposit and the investment portfolios and the appropriateness of those risks in the context of the overall balance sheet and impact to liquidity, capital and earnings, and therefore, management is ultimately accountable to the ALCO Committee and the Board of Directors.

Nothing in this Charter should be construed to imply that the ALCO Committee is required to provide or does provide any assurance or certification as to the Bank's financial statements or systems of internal controls, or as to its compliance with laws, rules or regulations.

In order to fulfill its oversight responsibility, the ALCO Committee must be capable of conducting free and open discussions with management, internal and independent auditors, employees and others regarding the quality of the financial statements and the system of internal controls.

### **Committee Duties and Responsibilities**

The specific duties of the ALCO Committee shall be as follows, with details outlined in the Treasury Management Policy:

#### **Investments**

All investment transactions must be pre-authorized by ALCO Chairman and disclosed to the Board after the transaction executed.

#### **Cash Advance Line of Credit**

All new, modification to and closures of cash advance lines of credit must be pre-authorized by ALCO and approved by the Board; this includes opening a new cash advance line of credit, increasing or decreasing an existing cash advance line, or closing a cash advance line.

#### **Brokered Deposits**

##### *Quarterly Review*

All brokers must be approved by ALCO upon due diligence and recommendation by the CFO including a review of the Broker's BSA program. Only brokers regulated by the SEC or affiliated with a bank may be

considered. Purchase of brokered deposits must be approved by the CEO and/or CFO, in accordance with the Brokered Investment Approval Exhibit. In assessing the decision to purchase, the cost of the purchase should be consistently compared against other alternatives, such as local deposits and FHLB borrowing rates; this will help minimize paying premium rates for such deposits and preserve the net interest margin to the greatest extent possible.

### **Interest Rate Risk Policy**

The Interest Rate Risk Policy is reviewed and approved by ALCO and overseen by the Board. The policy consists of a statement outlining the Bank's general approach to interest rate risk, along with specific limits to be placed on it, and a discussion of how the risk is to be measured, monitored, and managed.

### **Interest Rate Risk Exposure/Leverage Limits**

#### *Quarterly Review*

The Bank will calculate the interest rate risk exposure either internally or contract with an outside firm to conduct this calculation on the Bank's behalf. The results of the Bank's interest rate risk exposure and comparison to the Bank's limits will be reported to ALCO at least quarterly.

### **Asset/Liability Interest Rate Risk Modeling**

#### *Quarterly Review*

The Bank must perform an asset/liability income simulation to calculate interest rate risk and earnings-at-risk when interest rates are shocked up and down in 100 basis point increments. Accuracy of the model will rely on accurate assumptions and data inputs. The results must be computed quarterly and include parameters approved by the Board, ALCO and Management ALCO regarding calibration data, stress test scenario parameters, key ratios, targets and key assumption updates.

#### *Annual Review*

The Bank's model will be back tested at least annually to compare model projections to actual results. Back testing results will be used by management to adjust the model, as appropriate, including calibrating data and updating key assumptions. The results of the Bank's back test will be reported to ALCO and Management ALCO at least annually.

#### *Quarterly Review*

The CFO is responsible for reconciling the accuracy of the data input and output, communicating assumption updates as approved and submitting the final report to ALCO quarterly.

### **Appropriate Investments**

Each investment in the portfolio, and those considered for purchase or sale, shall be reviewed and approved based on:

- The strength of the Bank's balance sheet and capital accounts.
- The capacity and expertise of ALCO to identify, measure, monitor, and manage the risks and returns associated with the investment. Prior to purchase, and periodically thereafter, a review of the following risk elements of any given investment type must be considered.
- Credit Risk
- Market or Interest Rate Risk
- Liquidity Risk
- Compliance Risk

- Strategic Risk
- After tax return or impact on net earnings and capital

The high quality of the portfolio shall be assured by confining investments to those that will have low risk of default and full repayment of principal and interest.

It is the responsibility of ALCO to review all new investments and make a recommendation to the Board for holding such investments.

### **Other Investment Portfolio**

#### *Annual Review*

An analysis of the other investment portfolio will be presented to ALCO at least annually.

### **Internal Controls**

#### *Annual Review*

Independent review findings will be reported directly to ALCO annually.

### **Corporate Bond Portfolio**

#### *Quarterly Review*

An analysis of the corporate bond portfolio will be presented to ALCO quarterly.

### **Controls and Reporting**

#### *Quarterly Review*

Management will provide a summary of the actual and 12-month projected TR Exhibit performance to ALCO at least quarterly.

### **Liquidity Contingency Funding Plan (CFP)**

The CFP may be activated in response to stressed liquidity conditions and requires enhanced liquidity monitoring, planning, and communication. ALCO will regularly monitor liquidity levels and any member of ALCO may activate the CFP. Certain tasks may be delegated to an individual or team, but *ALCO will be primarily responsible for coordinating CFP activities*. Once the CFP is activated, ALCO will direct activities based on actual circumstances. The CFO will coordinate preparation of enhanced liquidity reporting, including cash flow forecasts and stress testing, which may need to be monitored monthly, weekly, or daily depending on the severity of the situation. The President/CEO will coordinate communication with the board, management team, staff, customers, media, and regulators as appropriate. ALCO may assign backup roles in the event that the President/CEO or CFO are unavailable. The CFP shall be deactivated upon a unanimous vote of ALCO.

### **Early Warning Indicators**

Early warning indicators will be monitored by ALCO and the CEO and CFO are responsible for communicating sudden changes in liquidity levels to the committee in a timely manner.

### **Optional Annual Self-Evaluation**

The Committee may, if it deems necessary, conduct an optional annual self-evaluation of its performance as outlined in the Treasury Management Policy.

**Annual Review of Charter**

Annually review this ALCO Committee Charter, and any provisions of the Bank's by-laws which refer to the ALCO Committee and propose to the Board of Directors necessary or appropriate revisions

**DOCUMENTATION AND REPORTING**

The ALCO Committee shall regularly report its activities, concerns, conclusions and recommendations to the Board of Directors, reviewing with the Board any issues that arise with respect to any economic developments in both the loan and the investment worlds that might impact liquidity, capital or earnings of the Bank, or the performance of the internal ALCO function. Meeting minutes are required by this Committee and should be presented to the full board after every ALCO Committee meeting.