

Sample Asset/Liability Management Policy for _____

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Appendix - Sample Established Risk Guidelines and Other Financial Management Information (SAMPLE 1 – Absolute Limit Example ****)

The Established Risk Guidelines and Other Financial Management Information is intended to be a guide for the ALCO on measuring different risks, their “tolerance ranges”, and other key financial management information. *These guidelines are NOT meant to be absolute – rather help the ALCO and the Board of Directors in risk management and management of the Credit Union’s financial position.* There may be additional financial and risk measurements, as well as experience judgment, which will be used, yet not listed here. They may be amended from time to time. Definitions of each risk are outlined in the body of the Asset/Liability Management Policy.

Key Risks, their Measurements, and their Established Guidelines:

	Minimum Guideline	Maximum Guideline	Frequency of Measurement
Credit Risk			
1. Delinquent Loans to Total Loans	0.3%	3.0%	Monthly
2. Delinquent Loans to Total Assets	0.2%	2.5%	Monthly
3. Delinquent Loans to Total Capital	1.0%	20.0%	Monthly
4. Review Listing of top 20% of Past Due Loans (in dollar volume)	N/A	N/A	Monthly – by Credit Committee
Liquidity Risk			
1. Net Loans to Share Deposits	N/A	100%	Monthly
2. Cumulative 90 Day Maturity Gap %	50%	300%	Monthly
3. Cumulative 1 Year Maturity Gap %	60%	200%	Monthly
4. Net Long Term Assets/Total Assets (Maturity Gap measured on a behavioral basis)		30%	Monthly
Interest Rate Risk (Earnings at Risk)			
Project ROA and Net Income for the next 36-month period. ROA for the next 36 months must be above the minimums shown.			
1. + 300 basis point rate “shock”	> .35%	N/A	Quarterly
2. - 300 basis point rate “shock”	> .35%	N/A	Quarterly
IRR on Capital (Price Risk)			
Compute NEV using PROFITstar’s Fair Value Matrix. The NEV to Asset Ratio must be above the minimum shown.			
1. +300 basis point rate “shock”	> 5.0%	N/A	Quarterly
2. -300 basis point rate “shock”	> 5.0%	N/A	Quarterly

Key Financial Management Targets (Optional in Policy):

Ratio	Minimum Guideline	Long Term Target	Frequency of Measurement
Net Worth to Assets Ratio	6.0%	8.5% - 13.0%	Monthly
Return on Assets	.5%	> 1.0%	Monthly

Appendix - Sample Established Risk Guidelines and Other Financial Management Information (SAMPLE 2 Using Sensitivity Approach**)**

The Established Risk Guidelines and Other Financial Management Information is intended to be a guide for the ALCO on measuring different risks, their “tolerance ranges”, and other key financial management information. *These guidelines are NOT meant to be absolute – rather help the ALCO and the Board of Directors in risk management and management of the Credit Union’s financial position.* There may be additional financial and risk measurements, as well as experience judgment, which will be used, yet not listed here. They may be amended from time to time. Definitions of each risk are outlined in the body of the Asset/Liability Management Policy.

Key Risks, their Measurements, and their Established Guidelines:

	Minimum Guideline	Maximum Guideline	Frequency of Measurement
Credit Risk 1. Delinquent Loans to Total Loans 2. Delinquent Loans to Total Assets 3. Delinquent Loans to Total Capital 4. Review Listing of top 20% of Past Due Loans (in dollar volume)	0.3% 0.2% 1.0% N/A	3.0% 2.5% 20.0% N/A	Monthly Monthly Monthly Monthly – by Credit Committee
Liquidity Risk 1. Net Loans to Share Deposits 2. Cumulative 90 Day Maturity Gap % 3. Cumulative 1 Year Maturity Gap % 4. Net Long Term Assets/Total Assets (Maturity Gap measured on a behavioral basis)	N/A 50% 60%	100% 300% 200% 30%	Monthly Monthly Monthly Monthly
Interest Rate Risk on Earnings 36 month cumulative % effect on Net Interest Income Dollars (using IRSA in PROFITstar) NOTE: If the Credit Union’s Net Interest Margin Dollars AND ROA are ABOVE the financial targets, then the Maximum Guideline may be more liberal than shown here. 1. + 300 basis point “shock” % change 2. - 300 basis point “shock” % change	N/A N/A	-30.0% -30.0%	Quarterly Quarterly
IRR on Capital (Price Risk) Cumulative % effect on Net Economic Value (NEV) – or Net Fair Value (using Fair Value Matrix in PROFITstar) 1. +300 basis point “shock” % change 2. -300 basis point “shock” % change	N/A N/A	-30% -30%	Quarterly Quarterly

Key Financial Management Targets (Optional in Policy):

Ratio	Minimum Guideline	Long Term Target	Frequency of Measurement
Net Worth to Assets Ratio	6.0%	8.5% - 13.0%	Monthly
Return on Assets	.5%	> 1.0%	Monthly