

Aeroquip Credit Union Directorship Policy

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The Board of Directors of Aeroquip Credit Union (Credit Union) adopt this Directorship Policy for the purpose of setting requirements and guidelines for directors and to state the view of the board in its role in guiding the Credit Union, in accordance with the Michigan Credit Union Act (MCUA) and in conjunction with the Aeroquip Credit Union Officials Code of Ethics.

Statement of Board's Role in Guiding the Credit Union

The Board of Directors believes that the quality of a credit union's leadership is probably the most important factor in its success. As a result, it is the Board's position that each Director must maintain the high level of competence and understanding in all areas of the credit union's policies.

The Board of Directors views its role in guiding the Credit Union as:

- ◆ Providing safe and sound financial stewardship of the assets of the credit union.
- ◆ Providing the membership with the high-quality financial services at competitive prices.
- ◆ Providing opportunities for the membership to improve their economic and social condition.
- ◆ Complying with all applicable laws and regulations including Article VI of the Bylaws of Aeroquip Credit Union.

This is accomplished through planning, adopting appropriate policies, and oversight of the Credit Union's management.

The Board of Directors will carry out their duties in good faith, in a manner reasonably believed to be in the best interest of the membership of the Credit Union, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

Responsibilities

A credit union's board has general management of the affairs of the Credit Union. The Board of Directors has the authority and responsibility for the general direction of the business affairs, funds, and records of the Credit Union and is responsible for maintaining safety and soundness. The duties of the Board of Directors, include, but are not limited to the following:

- Filling vacancies on the board until a successor is elected by the members.
- Establishing the maximum amount of secured and unsecured loans made by the credit union.
- Employing a general manager or chief executive officer and fixing his or her compensation.
- Approving an annual operating budget.
- Appointing special committees that the board considers necessary.
- Determining the par value of shares.
- Recommending changes in the bylaws to members.
- Adopting investment policies.
- Adopting other policies, the board considers necessary for the operation of the Credit Union.
- Establishing the titles of the board officers. The board shall not establish any misleading titles for those officers.
- Performing any other duties required by the members.

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The Board of Directors is responsible for delegating the authority to the Chief Executive Officer, according to guidelines established by credit union guidelines, to further delegate one or more of the following duties:

- Approving, disproving, or otherwise acting on applications for membership.
- Determining interest rates on deposits and loans.
- Hiring employees other than the general manager or chief executive officer and fixing their compensation.
- Making and selling investments according to the investment policies adopted by the board.
- Designating one or more depositories for funds.
- Establishing procedures to implement policies of the credit union board.
- Establishing necessary internal controls.
- Acquiring, selling, or encumbering real property.
- Borrowing money under Section 401(2)(j) of the (MCUA), 2003 PA 215 as amended.
- Fixing the amount of the surety bonds for all officers and employees who handle money.
- Specifying forms and procedures for applications for membership and set criteria for use in determining whether to accept an applicant for membership.

Attendance and Meetings

Directors cannot fulfill their responsibilities if they do not attend board meetings on a regular basis. Each director is required to devote sufficient time and effort to maintain a strong understanding and awareness of issues affecting the Credit Union. It is the policy of this Credit Union that directors attend all regular and special meetings of the board unless otherwise excused.

It is important that the Board meetings are an efficient use of time. It is the policy of this Credit Union that a clear agenda will be developed prior to each meeting and adhered to at all Board meetings. Directors will focus on business that needs to be addressed and not spend time on irrelevant issues.

Compliance

The Board of Directors must maintain the integrity of the Credit Union by ensuring compliance with all applicable laws and regulations. It is of primary importance that Credit Union management provides directors with materials necessary for understanding new legal and regulatory requirements, and what changes may be necessary for implementation. When appropriate, professional counsel will be sought to ensure an appropriate level of understanding by directors and compliance with all regulations. The Board of Directors will promote a culture of compliance within the Credit Union based on FinCEN's requirements in correlation with the Bank Secrecy Act.

Continuity

Directors are responsible for maintaining safe and sound operations over time and for assuring that the credit union is strategically positioned for future operations. Several areas of the Credit Union's overall operations contribute to maintenance of continuity. Each of these areas is addressed in the policies and procedures of this Credit Union. These are:

- ◆ Strategic and Operational Planning

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It is important for directors to be forward looking and to develop clear annual financial plans, member-service goals, and a vision for the Credit Union. Directors will engage in setting 1-2 year financial goals and other objectives, and (annually) perform a review and evaluation of the plan. A component of this process will be evaluating the Board's effectiveness in providing the necessary tools for the credit union to accomplish its goals and objectives.

◆ **Capital Adequacy**

In order to determine the optimum level of capital, an assessment of Credit Union exposure to various risks must be made. In accordance with FIB Bulletin 96-1 this Credit Union maintains procedures that address capital adequacy.

◆ **Liquidity**

Credit Union liquidity must be monitored regularly to ensure that there are sufficient funds on hand to meet operating expenses, fund loan commitments, cover savings outflows, and meet unexpected emergencies. Specific liquidity issues are covered in the liquidity policy and investment policy of this Credit Union.

◆ **Funds Management**

Funds management addresses the whole of a credit union's asset and liability management (ALM). It sets financial goals and limits that guide the decision making of the Credit Union in the day-to-day management of its assets and liabilities. The Board will adopt and annually review an Asset-Liability Policy and quarterly ALM reports.

◆ **Risk Management**

It is the policy of this Credit Union that directors understand the existence and types of risk of the Credit Union and take necessary steps to ensure adequate controls are in place to manage risk.

◆ **Management Development and Accountability**

Hiring and retaining competent management is one of the most important duties of the Board. Clear short-term and long-term measurable performance standards for the manager will be developed and the manager's performance will be formally and objectively reviewed against these standards at least annually. It is also the responsibility of the Board to provide the manager with adequate guidance and training to ensure successful implementation of the Credit Union's strategic goals and the manager's performance measures.

◆ **Board Succession Plans**

The Board of Directors succession plan will follow the guidelines in Article VI and VII of the bylaws.

Education/Self Improvement

Directors must be competent to discharge their responsibilities properly under the MCUA. Education is a necessary element of maintaining director competence and the confidence of the membership. It is expected that each director will develop a level of confidence in the philosophical and financial topics that directors need to discharge their duties under the Michigan Credit Union Act, DIFS Rules, DIFS Bulletins and the Bylaws of this credit union.

Integrity

Directors must maintain the highest standards of personal and professional ethical conduct. Paramount is the maintenance of member confidentiality and Credit Union business confidentiality, and appropriate disclosure of any

conflict of interest. Therefore, no director shall discuss member or Credit Union information that is of a confidential nature unless it is in the furtherance of appropriate Credit Union business. Directors shall attempt to avoid conflicts of interest or the appearance of conflicts of interest. In the event that a conflict exists, a director shall appropriately disclose the conflict and act accordingly. Directors should take care not to violate the law, and not to be involved in decisions that benefit the director personally. Board unity, which includes being unified on most matters, standing behind a decision once it has been made, and accepting decisions of the group is a measure of a Director's integrity.

Financial Responsibility

Directors are expected to maintain the highest standards of financial responsibility, especially in dealings with the credit union. Therefore, each director must be accepted as a bonding risk by a licensed bonding company, and not have been convicted of a crime involving dishonesty or breach of trust. No person shall be permitted to take or retain a position as a director of the credit union if they have caused the Credit Union a financial loss. Likewise, no person shall be permitted to take or retain a position as a director of the Credit Union if any obligations with the credit union are 30 days or more past due.

Leadership

Directors chart the financial and service course for the Credit Union and effective Directors use good judgement and work for the best interests of the membership. Directors must provide adequate direction and control for management, but not be involved in minutiae. Directors are expected develop leadership roles through well thought out strategic and/or operational planning, goal setting, setting policy, maintaining a high level of competence in legislative and regulatory issues, and understanding the financial needs of the membership. Competent Directors will make decisions based on facts, strategic plans, and overall goals and will demonstrate leadership by showing strong commitment to board duties, willingness to participate in committees, being prepared for board meetings, and working to accomplish goals and objectives.

Policies

Establishing sound policies is one of the Board of Director's most important functions. Directors must strive to develop sound policies and clearly and concisely state intentions, limitations and controls that dictate specific courses of action. All policies will be reduced to writing and reviewed annually by the Board in accordance with Rule 5 of the DIFS Credit Union Rules. During this annual review the Board will determine whether policies should be reaffirmed, amended, or discontinued.

Policies, at a minimum will address the following:

- Lending and Collection Policies.
- Investment Policy.
- Asset-Liability Management.
- Liquidity Policies.
- Capital Adequacy (Accumulatio and Maintenance) Policy.
- Personnel Policies.

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- Board and Directorship Policies.
- Bank Secrecy Act Policies.
- Disaster Recovery Policy/Plan.
- Escheat Policy.
- Information Security Policy.
- General Security Policies.
- CECL and Allowance for Credit Loss Policies.
- Loan Classification/Loan Watch List Policy.
- Travel/Expense Reimbursement Policy.
- Cash Over/Short Policy.
- Confidentiality/Privacy Policy.
- Education/Training Policy.
- Internal Audit Policy.
- Personnel Policies.

Promotion of the Credit Union

Directors are expected to demonstrate their commitment to understanding and meeting the needs of the membership. They can do this by promoting the Credit Union to members and potential members as their primary source of financial services. It is important that each director has a full understanding of the Credit Union's products and services and seeks to understand the service needs of members to fulfill this role.

Removal from the Board of Directors

A director shall be removed from their office for good cause as determined by the Supervisory Committee and/or Board of Directors. Good cause includes but is not limited to a breach of member or Credit Union business confidentiality, a breach of fiduciary responsibility, violation of a conflict of interest, or a violation of the Credit Union Act, DIFS Rules, or Bylaws of this Credit Union.

Section 341(9) and 342(4c) of the MCUA sets forth the procedure for removal of a Director from office.

In the event that the majority of the Board of Directors has been suspended, the remaining Board members shall have the general management of the affairs of the Credit Union until the suspended directors are reinstated or replaced at the special meeting.

This policy will be made a part of the Credit Union's overall operating policies and will be reviewed at least annually. At such review each director individually and all directors as the Board shall objectively analyze performance and compliance with this policy.

Fiduciary Duty

The key measures of the Credit Union's success or failure are represented in the Credit Union financial statements. As such, a director must understand these financial statements to participate in a meaningful manner in the direction and control of the institution.

- A director must have at least a working familiarity with basic finance and accounting practices, including the ability to read and understand the Credit Union balance sheet and income statement and the ability to ask, as appropriate, substantive questions of management and auditors.
- At a minimum, a director should be able to examine the Credit Union's balance sheet, income statement and be able to answer the following questions:
 - What does this line-item mean?
 - Why is it important to the Credit Union?
 - Is the value of the line item changing over time? If so, what does that change (either positive or negative) mean?
 - Is the change important to the Credit Union?

Associate Board Member Program

The board of a domestic credit union may appoint 1 or more associate board members. All the following apply concerning associate board members:

- A credit union board at its discretion shall determine whether to appoint associate board members, the number of associate board members, if any, and their duties. The credit union board has authority concerning the appointment and removal of individuals as associate board members.
- A credit union board shall not appoint an individual as an associate board member if he or she does not meet the eligibility requirements for a board member.
- An individual appointed as an associate board member serves in an *ex officio* capacity. An associate board member may participate in meetings of a credit union board, but only in an advisory capacity; has no authority to vote or otherwise act as a board member; and is not considered a board member.
- An associate board member must sign a confidentiality agreement, to ensure that any information concerning the credit union remains confidential and that he or she shall not disclose that information to any other person. Disclosure of confidential information by an associate board member without approval of the director is a violation of the Michigan Credit Union Act.

Aeroquip Credit Union Associate Board Member Program

Purpose:

The purpose of the Associate Board Program is to attract, train, educate and evaluate potential directors who may have interest in serving on the Board of Directors when position(s) become available. The Board selects up to three (3) Associates Board Members. The associate position is non-voting. The Associate Board Members serve at the will of the Board and can be removed at any time.

Expectations:

- Attend all meetings of the Board and participate in all discussions. These meetings include monthly board meetings, strategic planning sessions, committee meetings and annual meetings. There will be no more than 3 excused absences during the 1-year term of service
- Accept committee assignments
- Keep the same confidentiality of individual members' records and other credit union information as regular Directors and Aeroquip CU staff.
- Prepare for meetings by reviewing all related materials pertaining to the meeting.
- Review materials pertaining to the Credit Union, such as the Bylaws to gain an understanding of the overall operations of the CU.
- Attend CU sponsored social activities.
- Maintain all business affairs in a professional and confidential manner and refrain from conduct that may present a conflict of interest to the CU.

Qualifications Requirements:

- Must be a member in good standing of Aeroquip CU for a period of at least twelve (12) consecutive months.
- Must be capable of and willing to serve as a volunteer on the Board of directors, if selected.
- Must be able to attend monthly Board meetings; meetings are usually held at 5:00pm on the third Tuesday of each month and generally last at least one hour, depending on the material to be covered.
- Ability and desire to attend appropriate educational seminars and training programs related to the responsibilities of a credit union volunteer, at the discretion of the Board of Directors.
- Complete application for Associate Board member.

Name: _____

Current address: _____

Aeroquip CU account number: _____

Why do you want to join the Aeroquip Credit Union Associate Board Member Program?

Please list any organizations where you serve as a volunteer.

I would like to be considered for the Aeroquip CU Associate Board Member Program and if selected, I will be able to meet the requirements of the program. I understand that potential candidates will be selected at the discretion of the Aeroquip Credit Union Board of Directors, and it is a 1-year term. I state that I am a member in good standing, have no known conflict of interest, and have no delinquent obligations, past or present, with Aeroquip Credit Union.

I affirm that I have read the qualifications and expectations for the Aeroquip Credit Union Associate Board Member Program and that my signature below verifies my understanding and acceptance of these statements.

Print Name

Signature

Date