

## **CITIZENS & NORTHERN CORPORATION**

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

#### **A. Purpose**

The purpose of the ALCO is to monitor compliance with the Corporation's Asset/Liability Management Policy, and other related policies including Liquidity, Investment, Derivatives and Capital and Dividend Policies. The objective is to support achieving the Corporation's strategic plans without incurring undue or excessive financial risk. The ALCO will pursue this objective by maximizing and stabilizing net interest income while maintaining reasonable interest rate and economic value of equity risk, and adequate capital and liquidity. In its role the ALCO will seek to:

- Maintain appropriate liquidity for the Corporation and C&N Bank.
- Minimize fluctuations in earnings due to the cyclical changes in economic performance and interest rates.
- Manage interest rate risk to limit exposure to changes in its net interest income and economic value of equity (the "EVE") under rate shock scenarios to fall within board-established limits for the Corporation and C&N Bank.
- Maintain the Corporation's budgeted financial targets for Return on Average Equity, Return on Average Assets, Equity and Net Interest Income.
- Identify opportunities to broaden investment and financing alternatives.

#### **B. Structure and Membership**

1. *Number.* The ALCO shall consist of at least 3 members of the Board of Directors plus the President and CEO.
2. *Chair.* The President and CEO shall serve as the chair of the committee and may authorize another committee member to act as chair in his absence.
3. *Compensation.* The Board of Directors shall determine the compensation of ALCO members.
4. *Selection and Removal.* The Board, upon the recommendation of the Governance & Nominating Committee, shall appoint members of the ALCO. The Board may remove members of the ALCO from such Committee, with or without cause.

#### **C. Authority and Responsibilities**

1. ALCO exists and is authorized to perform the following functions:
  - Establish, review and implement policies for managing sources and uses of funds that will provide an appropriate level of profitability within acceptable levels of risk.
  - Communicate approved policies to officers and managers of the Corporation and C&N Bank, and monitor and enforce compliance with these policies.
  - Assign projects to the ALCO Chairman for senior management to research, analyze and formulate recommendations on issues before the ALCO.

- Review securities investment and funding strategies that are consistent with the Corporation's ALCO strategies.
2. ALCO members are responsible for developing, evaluating and recommending alternative strategies to achieve the Corporation's goals and objectives. In order to carry out this responsibility, the ALCO may review the following information for C&N Bank and on a consolidated basis:
- Financial Reports for the previous month and year-to-date periods including Balance Sheets, Income Statements, Performance Ratios, Income and Balance Sheet Simulation Reports, and Rate Shock Analyses.
  - Investment Securities Report on Book versus Market Value.
  - Investment Securities transactions conducted since the last meeting.
  - Detail of outstanding borrowings sorted by expected maturity or repayment date
  - Borrowing (excluding overnight) or out-of-market deposit transactions conducted since the last meeting.
  - Economic and Interest Rate forecasts for local and national markets.
  - Current Loan and Deposit Rates with competitor rate survey provided periodically.
  - Current balances and forecasts for loans and deposits.
  - Deposit concentrations report.
  - Pledged securities report.
  - Liquidity Analysis to assess and determine liquidity requirements and to monitor the sources and uses of liquidity, including the status of contingency plans.
  - Analysis of Mortgage-related activity, including mortgage loans held, sold, and mortgage servicing rights.

#### **D. Procedures and Administration**

1. *Meetings.* The ALCO shall hold scheduled meetings on a quarterly basis. Committee members may meet in person or by conference call. The Committee shall keep minutes and other records of its meetings, as it shall deem appropriate, which will be submitted to the Board of Directors for review at the next regular Board meeting.
2. *Attendance.* In addition to Committee members, certain management personnel will attend the meetings, including but not limited to the Chief Financial Officer and other members of the Finance staff.
3. *Reports to the Board.* The Committee shall provide a report to the Board of its actions and recommendations following the meeting.
4. *Independent Advisors.* The Committee shall have the authority to engage such independent advisors as it deems necessary or appropriate to carry out its responsibilities. Such independent advisors may be regular advisors to the Corporation or Bank.
5. *Charter.* The ALCO shall review and assess the adequacy of this Charter on an annual basis and will recommend any proposed changes to the Charter to the Board of Directors for approval.