TIB Customer Bank Name Here
City, State

Correspondent Concentration Risk (CCR) and Interbank Liabilities Policy

CORRESPONDENT CONCENTRATION RISK

The Correspondent Concentration Risk Interagency Guidance (CCR Guidance) requires management to formulate strategic plans and internal risk limits to measure, monitor and control correspondent bank credit quality and risk concentrations. The policy addresses the totality of the bank's aggregate credit and funding concentrations considering the correspondent bank and any affiliated organizations. Management believes controlling correspondent concentration risk is a sound tenant of banking.

Regulation F

This policy does not replace Regulation F - Interbank Liabilities - rather it specifies risk management controls exceeding the regulation's overall minimum requirements for additional protection. Management acknowledges Regulation F is the overriding regulation and shall maintain compliance with Regulation F.

Responsibilities

Management ensures the high quality of correspondent banks by measuring and monitoring concentration risk, and implementing proper internal controls and reporting.

Management shall also fulfill its responsibilities by addressing the following items:

- Management shall implement procedures for identifying the totality of the bank's aggregate credit exposures to correspondent banks and affiliates;
- Management shall establish prudent correspondent bank credit exposure risk policies, tolerances and procedures;
- Management shall specify credit assessment ratios to be reviewed on the correspondent bank;
- Management shall establish ranges or tolerances for each factor being monitored on the correspondent bank;
- Management shall develop plans for managing risks when limits, ranges or tolerances are exceeded;
- Management shall report correspondent credit exposure information and ratios to the board of directors or its delegated committee on at least a quarterly basis, and more frequently if the correspondent bank is in a distressed condition;
- Management shall conduct a credit analysis of new correspondent banks before entering into any credit or funding transactions with any correspondent bank;
- Management shall cease buying loan participations or syndications with a correspondent bank that falls below well capitalized guidelines or that enters into a public enforcement action with safety and soundness issues; and
- Management shall ensure it has no undue reliance on correspondent bank funding facilities by maintaining diversified funding sources for both tenor and volume. Correspondent provided funding concentrations as low as 5% of liabilities could pose a liquidity funding risk.

CREDIT EXPOSURE DEFINITION

Credit exposure to a correspondent bank includes all banking transactions with the correspondent bank, equity investments in the correspondent bank and debt instruments issued by the correspondent bank that creates a risk for non-payment or default. Credit exposure also applies to any affiliates of the correspondent bank, including the correspondent bank's bank holding company.

Credit exposure risks to a correspondent bank include the following transactional accounts:

- Demand Deposit Accounts
- Interest-Bearing Deposit Accounts
- Fed Funds Sold as Principal
- Unrealized Gains on Unsettled Securities Transactions (if material)
- Over Collateralized Portion of Repurchase Agreements (if material)
- Under Collateralized Portion of Reverse Repurchase Agreements (if material)

Credit exposure risks to a correspondent bank or bank holding company affiliate includes the following equity and debt issuances:

- BHC or Correspondent Bank Common Stock
- BHC or Correspondent Bank Preferred Stock
- BHC or Correspondent Bank Trusted Preferred Securities[1]
- BHC or Correspondent Bank Subordinated Debt
- BHC or Correspondent Bank Debt

Credit exposure risks to a correspondent bank <u>do not</u> include:

- FRB Excess Balance Account – Credit exposure is to the Federal Reserve System
- Safekeeping Custody – Safekeeping is conducted in a fiduciary capacity
- The proceeds of checks and other cash items not yet available for withdrawal
- Loans to third parties purchased from the correspondent without recourse
- Loans or obligations of third parties backed by stand-by letters of credit issued by the correspondent
- Deposits insured by the Federal Deposit Insurance Corporation

[1] All trust preferred securities issued by Independent Bankers Financial Corporation, Farmers Branch, Texas (TIB parent bank holding company) are securitized in two ALESCO branded pools and not individually issued to any respondent bank.

CREDIT ASSESSMENT RATIOS

The financial condition of correspondent banks shall be assessed using prudent and industry standard assessment ratios. The Primary Assessment ratios assess overall safety and soundness. These ratios serve as long-term indicators of the correspondent bank's viability. The Secondary monitoring ratios assess other general banking measurements. These ratios serve as indicators of short-term problems correctable in the normal course of business, when correspondent bank managers apply proper attention.

Primary assessment ratios and targets

Common Equity Tier 1 Capital Ratio must equal or exceed 7.0%.
This ratio measures tangible common equity capital to risk-weighted assets. The limit includes the minimum required ratio of 4.5% plus the phased-in capital conservation buffer of 2.5% for 7.0%, which exceeds the well-capitalized minimum of 6.5%.

Tier 1 Capital Ratio must equal or exceed 8.5%.
This ratio measures Tier 1 capital to risk-weighted assets. The limit includes the minimum required ratio of 6.0% plus the phased-in capital conservation buffer of 2.5% for 8.5%, which exceeds the well-capitalized minimum of 8.0%.

Total Capital Ratio must equal or exceed 10.5%.
This ratio measures Tier 1 and Tier 2 capital amounts to risk-weighted assets. The limit includes the minimum required ratio of 8.0% plus the phased-in capital conservation buffer of 2.5% for 10.5%, which exceeds the well-capitalized minimum of 10.0%.

Leverage Ratio must equal or exceed 5.0%.
This ratio measures Tier 1 capital to average assets and assesses the correspondent's ability to weather economic downturns, absorb any potential or unexpected losses and access liquidity.

Secondary assessment ratios and targets

Texas Ratio not to exceed 90%.
The Texas Ratio assesses asset quality adequacy by measuring problem assets as a percentage of capital. The ratio is used widely by bank analysts and banking companies. The Texas Ratio is calculated as loans 90 day past due and still accruing, nonaccrual loans, restructured loans and other real estate owned divided by tangible equity capital plus ALLL reserves. This ratio measures and monitor problem assets within a single ratio making it a valid indicator of asset quality.

ALLL / Total Loans Ratio of at least 1%.
The ALLL to total loans ratio is an asset quality measurement that shows the correspondent bank's ability to cover loan losses with allocated reserves. A low ratio indicates possible provisions may be necessary and may hamper future earnings. A high ratio shows possible reserve adequacy and its level follows industry standards.

Return on Average Assets Ratio of Break-Even or better.
The return on average assets ratio is an earnings adequacy measurement showing the correspondent bank's profitability. A low or negative return on assets is often a short-term problem correctable in the normal course of business.

STATUS INDICATORS AND ACTION PLANS

Definition of Correspondent Bank Status:

- **Pass –** Indicates the correspondent bank is operating within all guidelines established by the board of directors in this policy and complies with applicable rules such as Regulation F and Correspondent Concentration Risk.
- **Watch** – Indicates the correspondent bank does not comply with secondary assessment ratios. The correspondent bank shall be required to provide corrective action plans to be achieved in a reasonable time. Failure of the correspondent bank to initiate timely correction action will cause a downgraded status.
- **Critical** – Indicates the correspondent bank is operating with ratios of less than "adequately capitalized"; has operated with non-compliant ratios for an extended period of time without corrective action; or has not provided a satisfactory corrective action plan.
- **Removal –** Indicates the correspondent bank will be removed as a correspondent within 90 days of determination.

Correspondent Bank falls below Primary Assessment Ratios:

- Per Regulation F, when a correspondent bank can no longer demonstrate it is at least adequately capitalized, the bank shall reduce its credit exposure to 25% of Total Risk-Based Capital. The reduction in credit exposure must occur within 120 days after the date when the current Report of Condition and Income or other relevant report normally would be available per Regulation F.
- The correspondent bank shall be placed on "Critical" status until such time the ratios are corrected. The correspondent bank shall submit an action plan showing steps being taken to restore primary assessment ratios, including timeframes.
- The correspondent bank shall be considered for "Removal" status by the board of directors or its delegated committee if the correspondent does not demonstrate satisfactory progress toward restoring primary ratios to acceptable levels.

Correspondent Bank falls below Secondary Assessment Ratios:

- When the correspondent bank falls below one of the secondary assessment ratios, management shall contact the correspondent bank to provide a corrective action plan to be achieved in reasonable time. If the correspondent does not provide the corrective action plan within 90 days of requesting, the correspondent bank is moved to "Critical" status.
- When the correspondent bank is below one of the secondary assessment ratios it shall be deemed "Watch" status.
- When the correspondent bank is below one of the secondary assessment ratios for over four quarters it shall be deemed "Critical" status.
- When the correspondent bank fails to provide corrective action after six quarters it shall be considered for "Removal" status, if the correspondent does not demonstrate satisfactory progress toward restoring secondary ratios to acceptable levels.

CREDIT ASSESSMENT MONITORING

Frequency
The financial condition of correspondent banks shall be monitored quarterly consistent with regulatory guidance on Correspondent Concentration Risk and Regulation F requirements.

Source
The financial assessment ratios used for monitoring upstream correspondent banks shall be those published in the Consolidated Reports of Condition and Income (Call Report) and reported in the Uniform Bank Performance Report (UBPR). Management may also rely on information reported from the correspondent bank as they are federal and state regulated institutions and their information is deemed reliable.

Timing
The Call Report is due 30 days after a quarter end and available to the public 10 – 15 days after the submission deadline. Within a reasonable time, but no later than 90 days after a quarter-end, management shall provide financial condition ratios to the board of directors or a delegated committee for review and approval.

Exempted Institutions
Financial assessment ratios shall be on all correspondent banks unless otherwise an exempted institution. The Federal Reserve Bank and Federal Home Loan Bank system are exempt because of their U.S. Government or U.S. Government Sponsored status. Any other U.S. Governmental organization or U.S. Governmental guarantee program account shall also be exempted for this policy. Regulation F defines a correspondent as a "U.S. depository institution", which is defined as an insured bank. Since these institutions are not insured depository institutions, they are not correspondents for Regulation F and CCR.

Agency Fed Funds Programs
When the bank uses a correspondent bank agency fed funds program, the correspondent bank shall provide adequate monitoring and reporting to comply with the Correspondent Concentration Guidance and Regulation F.

Early Warning Indicators of Correspondent Potential Problems
- Low or declining capital ratios caused by risky asset growth.
- Low or declining liquidity balances could signal liquidity concerns.
- Low or declining funding balances could signal inability to generate asset liquidity
- Rising or increasing funding cost.
- Significant deterioration in earnings could signal asset quality problems.
- Significant deterioration in asset quality could signal long-term problems.
- Significant deterioration in overall financial condition could signal impairment.
- Being place under a public enforcement action.

SCHEDULE OF PERMITTED EXPOSURE LIMITATIONS

Regulation F Limitation Schedule

Regulation F (12 CFR 206) requires the bank to limit its overnight credit exposure to any correspondent bank to 25% of the exposed bank's total capital unless the correspondent bank can demonstrate it is at least "Adequately Capitalized" as defined by Prompt Corrective Action (PCA) under 12 CFR Part 6.4. Otherwise, no limitation exists.

- ***The following table identifies Prompt Corrective Action limitations:***

	Well Capitalized	**Adequately Capitalized**	**Under Capitalized**	**Significantly Under Capitalized**	**Critically Under Capitalized**
Leverage Ratio	≥ 5.0%	≥ 4.0%	< 4.0%	< 3.0%	Tier 1 Capital to Average Assets of 2% or less.
Common Equity Tier 1 Capital Ratio	≥ 6.5%	≥ 4.5%	< 4.5%	< 3.0%	
Tier 1 Capital Ratio	≥ 8.0%	≥ 6.0%	< 6.0%	< 4.0%	
Total Capital Ratio	≥ 10.0%	≥ 8.0%	< 8.0%	< 6.0%	
Limitation on Credit Exposure	**No Limitation**	**No Limitation**	**25%**	**25%**	**25%**

Internal Limitation Schedule

Management acknowledges risk concentration limits must be more restrictive than Regulation F. Therefore, management will establish prudent credit exposure limitations for the bank capital classifications under Prompt Corrective Action (PCA). Credit exposure levels are based on total capital[2].

- ***The following table establishes more restrictive credit exposure limitations:***

	Well Capitalized Bank	**Adequately Capitalized Bank**	**Under Capitalized Bank**	**Significantly Under Capitalized Bank**	**Critically Under Capitalized Bank**
Limitation on Credit Exposure	**25%**	**25%**	**Intraday Exposure Allowed**	**No Exposure Allowed**	**No Exposure Allowed**

[2] For determining credit exposure, the term "total capital" means total capital as reported in the Consolidated Reports of Condition and Income (Call Report).

COMPLIANCE

Exceptions in the Normal Course of Business
Management acknowledges that due to the volume and types of services provided by its correspondent banks, the prescribed exposure threshold may be exceeded daily and in the normal course of business. Normal business flow, heavy customer activity and extraneous items may cause volume and activity variances which may be expected or unexpected but unavoidable.

These types of volume and activity variances are permitted by policy; however, management shall return to compliance within a reasonable period. Any exposures exceeding the prescribed limits for twenty (20) or more consecutive business days shall be reported to the board of directors or a delegated committee.

Reducing Exposure to Correspondent Banks
Management, when appropriate, shall try to reduce correspondent bank exposures to appropriate levels and over a reasonable period. The timing shall follow size, type and volatility of the risk and correspondent bank's condition.

For instance, credit exposure exceeding limits while the correspondent bank remains in compliance with risk assessments, may be allowed to come into compliance in the normal course of business. Conversely, credit exposure to a troubled correspondent will necessitate a more rapid and deliberate course of action. The goal of the orderly transition is not to disrupt internal operations when avoidable.

Actions to reduce correspondent bank exposure, when appropriate, include but are not limited to:

- Move funds to agent programs from principal;
- Reduce the volume of uninsured funds;
- Reduce uncollateralized funds; and
- Diversify funding sources.

Reporting
Management shall report quarterly to the board or delegated committee. The Chief Financial Officer conducts the risk assessment and presents the information to the approving authority.

RESOURCES

BASEL III Final Rule

FRB New Capital Rule – Community Bank Guide
http://www.federalreserve.gov/bankinforeg/basel/files/capital_rule_community_bank_guide_20130709.pdf

FRB SR Letter 10-10 Interagency Guidance on Correspondent Concentration Risk
http://www.federalreserve.gov/boarddocs/srletters/2010/sr1010.htm

FIL 18-2010 Correspondent Concentration Risk – Interagency Guidance
http://www.fdic.gov/news/news/financial/2010/fil10018.html

NR 2010-51 Correspondent Concentration Risk Guidance
http://www.occ.gov/ftp/release/2010-51a.pdf

FIL 13-2010 Interagency Statement on Funding and Liquidity Risk Management
http://www.fdic.gov/news/news/financial/2010/fil10013.html

FRB Release of Interagency Statement on Funding and Liquidity Risk Management
http://www.federalreserve.gov/newsevents/press/bcreg/20100317a.html

FRB Regulation F
http://www.federalreserve.gov/bankinforeg/regfcg.html