

# Excessive or Luxury Expenditures Policy



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## Purpose of the Policy

The purpose of this policy is to establish parameters and internal controls governing the expenditures of Leaders Credit Union (together with its subsidiaries and controlled affiliates, referred to hereafter as “Leaders”). Expenditures of Leaders should be customary, prudent, consistent with applicable laws and regulations, and reasonably related to Leaders’ business objectives and needs. Leaders has the authority to provide compensation and benefits that are reasonable. This policy identifies expenditures that are excessive or luxury expenditures, creates processes that are reasonably designed to eliminate such expenditures, and establishes accountability for compliance. Routine operating expenses, capital expenditures, and other reasonable expenses are not prohibited by this policy.

## Additional Authority

To the extent required and/or appropriate, this Policy has been developed in accordance with the following, which is not intended as a complete listing of all applicable laws, regulations, and/or guidance:

- Department of Treasury’s Emergency Capital Investment Program regulations - 31 C.F.R. Part 35
- NCUA Regulations – 12 C.F.R. Parts 701, 702, and 750

## Responsibility

This Policy is the responsibility of Leaders’ Board of Directors (Board). The Board has approved this Policy and will review compliance with this Policy no less frequently than annually, and summary data on excessive or luxury expenditures will be reported to the Board as part of the compliance review.

## Scope

This Policy applies to all volunteers serving on Leaders’ Board and to all Leaders’ employees. In making any expenditure on behalf of Leaders, its employees, officers, and directors should consider whether the expenditure is an excessive or luxury expenditure that is prohibited under this policy.

## Excessive or Luxury Expenditures

“Excessive or luxury expenditures” means expenditures on any of the following to the extent not reasonable or appropriate expenditures for business development, staff development, performance incentives, or other similar measures conducted in the normal course of Leaders’ business operations:

- (1) **Entertainment or events.** This category includes fees, dues, tickets costs related to social, athletic, artistic and dining clubs, activities, celebrations or other events, and similar expenditures.

Expenditures for charitable contributions and charitable events are not prohibited under this Policy.

- (2) **Office and facility renovations.** This category includes costs and allowances for office renovation, including expenditures related to furniture, art, office personalization, interior finishing, design and decoration, and similar expenditures.
- (3) **Aviation or other transportation services.** This category includes charter fees, tickets, slip or docking fees, vehicle installment payments, reservation and travel agent expenses, and similar expenditures associated with transportation services (e.g., airline, train, rental cars, or vans). Mileage reimbursable according to current Internal Revenue Service mileage rates is exempt from this Policy.

The President/Chief Executive Officer (President/CEO) may establish or delegate to an appropriate executive officer the authority to establish processes for reimbursement of reasonable travel expenditures, which processes must be reviewed by executive management no less frequently than annually.

- (4) **Tax gross ups.** This category includes any reimbursement of taxes owed with respect to any compensation. This category does not apply to tax equalization agreements for employees subject to tax from a non-U.S. jurisdiction.
- (5) **Other similar items, activities, or event for which Leaders may reasonably anticipate incurring expenses or reimbursing an employee for incurring expenses**

“Excessive or luxury expenditures” does not mean:

- (1) Reasonable capital investments in technology, equipment, and similar items that expand the long-term capability of the credit union to provide products and services to its members and community are not excessive or luxury expenditures, or
- (2) Expenditures evaluated and approved as not excessive or luxury by an Excessive or Luxury Expenditures Evaluation Committee (“ELEE Committee”). An ELEE Committee, if deemed necessary by the President/CEO, shall be appointed by the President/CEO to establish processes for the evaluation and approval of expenditures in the preceding categories that are not luxury or excessive expenditures and that are not otherwise exempt from this Policy. These processes must be reviewed by the President/CEO no less frequently than annually, as well as any additional threshold expenditure amounts per item, activity, or event, or a threshold expenditure amount per employee receiving the item or participating in the activity or event under this Policy. Such

approvals must be reported to the Board (which may be in an appropriate summary form) no less frequently than annually. The ELEE Committee shall be chaired by the Chief Financial Officer (CFO) and shall include at least two other Leaders employees with the title of manager or above and with expertise in finance, accounting, or compliance.

Expenditures in any of the five enumerated categories that satisfy BOTH of the following conditions are deemed to be below the threshold requiring prior approval by the ELEE Committee:

- (a) The total **would not** result in Leaders operating at a loss for the quarter<sup>1</sup> AND
- (b) The total **would not** result in Leaders being less than “well capitalized” under 12 C.F.R. Part 702 after reducing the numerator of any applicable capitalization measures (i.e., either the net worth ratio and risk-based capital ratio or the complex credit union leverage ratio) as determined at the prior quarter end by the sum of:
  - (i) {[Leaders’ ECIP Investment Amount, to the extent included in the original numerator] x [Number of whole years since May 10, 2022]} / 30,
  - (ii) The next twelve ECIP interest payments, calculated at the maximum interest rate of 2% until May 10, 2032 and at the actual interest rate to be paid thereafter, and
  - (iii) The total of such expenditures since the prior quarter end.

### **Exceptions or Violations**

Any exception or violation of this Policy must be promptly reported to the credit union’s (i) President/Chief Executive Officer (President/CEO), (ii) Executive Vice President (EVP), (iii) Chief Financial Officer (CFO), or (iv) other officer designated with primary responsibility for overseeing the administration or, monitoring of, and compliance with this Policy. Exceptions and violations must be reported to the Board no less frequently than annually, or more frequently as the nature and severity of the violation may warrant. All employees, officers, and Directors must adhere to this Policy and will be held accountable for compliance. Any employee or officer who violates this Policy may be subject to disciplinary action up to and including termination of employment.

Any employee or officer that is aware of any circumstance that may indicate a violation of this Policy is required to report such circumstance to their supervisor or Leaders’ compliance team. The credit union

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<sup>1</sup> Under certain circumstances, it would be impossible to determine with certainty that an expenditure would cause a loss. Because of this, large expenditures should be accrued before the quarter in which they are paid and/or Leaders becomes contractually obligated to pay the expenditure, whenever allowed by time and to the extent allowed by GAAP. When prior accrual is not possible, this condition will be considered met if Leaders’ best estimate using commercially reasonable accounting and financial methods indicated no loss would occur.

prohibits retaliation against any employee or officer for making a good faith report of actual or suspected violations of applicable laws and regulations or of the credit union's code of conduct or policies including this one. A finding of retaliation against any such employee or officer may result in disciplinary action up to and including termination. Failure to promptly report known violations by others may also be deemed a violation of the credit union's code of conduct.

Employees and officers may ask questions, raise concerns, or report instances of non-compliance with this Policy and/or any of the existing underlying relevant policies by contacting the compliance team at [Compliance@LeadersCU.com](mailto:Compliance@LeadersCU.com) or any of the officers listed in this Section.

### **Certification**

On an annual basis, the credit union will deliver to the Department of the Treasury a certification, executed by two senior executive officers, of whom one must be either the President/CEO or the CFO, certifying that (i) the credit union is in compliance with this Policy and (ii) the approval of any expenditure requiring the prior approval of any senior executive officer, any executive officer of a substantially similar level of responsibility, or the Board (or a committee of the Board), was properly obtained with respect to each such expenditure.