Apple Financial Holdings, Inc.
Automated Clearing House (ACH) Procedure

JUNE 25,2021

Contents

REVIEW AND TRACKING CHART

Effective Date*:	June 25, 2021
Version Number:	2.0
Review Frequency:	Annual (Every 12 Months)
Last Business Area Leader/Department Head Review Date*:	June 25, 2021
Next Business Area Leader/Department Head Review Date*:	June 2022
Business Area Leader/Department Head:	Debi Gupta, CTO
Overarching Policy or Policies:	Automated Clearing House (ACH) Policy
Procedures Owner:	Joe Petti

I.   PROCEDURES PURPOSE STATEMENT AND SCOPE

The Automated Clearing House (ACH) Procedures (the "Procedures") apply to the development, implementation, management, monitoring and compliance with ACH requirements at Apple Financial Holdings, Inc. ("AFH"), inclusive of Apple Bank for Savings and its subsidiaries (collectively, "ABS," "Apple," or the "Bank") in accordance with applicable state and federal statutes, rules and regulations.

All AFH employees and third party resources engaged by the Bank must comply with the terms of these Procedures to the degree applicable to them.

II.   DEFINITIONS

- **Annual or Annually:** Every twelve (12) months.

- **Business Area Leader or Department Head:** The management level person who is responsible for (1) the business unit that has developed a set of Procedures and (2) the Annual review and approval of Procedures.

- **Control Form:** The form to be submitted to the PPA (defined in this Section) in connection with revised Procedures. The Control Form is available on AppleNet.

- **Legal Contact:** The attorney from the Legal Department assigned to the group responsible for these Procedures. To the extent needed, the Procedures Owner may consult with the Legal Contact in drafting and updating the Procedures.

- **Policies and Procedures Administrator ("PPA"):** The PPA is a member of Risk Management. The PPA monitors the occurrence and timeliness of scheduled Procedure reviews, obtains updated versions of Procedures, and ensures that they are uploaded to AppleNet within seven days of the approval dates of the documents.. The PPA will also provide guidance on the PPGP (defined in this Section) to Bank Personnel.

- **Policy, Standards, Procedures, and Manual Index:** An index, maintained by the PPA, which sets out the Policy, Standards, Procedures, or Manual name, Owner, regularly scheduled review dates, Regular Board Review Cycle (to the extent applicable), Designated Management Committee, and Designated Board Committee (to the extent applicable). The index is available on AppleNet.

- **Policy and Procedures Governance Policy (PPGP):** The PPGP establishes a standardized and consistent approach to the creation, review, approval and maintenance of Policies, Standards, Procedures, and Manuals across the Bank.

- **Procedures Owner:** The person responsible for managing and tracking a set of Procedures. This includes initiating the required Annual review of the relevant Procedures and recommending updates to the Procedures, to the extent needed. Procedures Owners are responsible for providing the approved documents to the PPA (defined in this Section) for upload to AppleNet. The Procedures Owner will monitor these Procedures. Any non-compliance with the

Procedures will be escalated to the Business Area Leader or Department Head for resolution.

III.   KEY PROCEDURES COMPONENTS

1.   Executive Summary

It is the policy of ABF to offer ACH products and services that comply with related laws and regulations. This document outlines the Data Processing procedures necessary to help ensure that compliance.

2.   Objectives

The purpose of this procedure is to address all areas of ACH activity Data Processing is responsible for, including the receipt of ACH transactions as an RDFI and/or the origination of ACH transactions as an ODFI.

3.   Key Components of Procedures

ACH Process Summary

ACH files are downloaded from the Clearing House by logging into the EPN secure access portal and processed on the Unisys core. As an RDFI, Apple is responsible for receiving entries directly or indirectly from the Clearing House. There are four ACH processing windows three of which are Same Day ACH. These files must be processed by a certain time to follow NACHA guidelines. The Data Processing department is responsible for receiving and sending these entries. The entries are combined into files and downloaded from the EPN portal. Access to the portal is controlled by username and password as well as MFA using an RSA token. Once the files are uploaded to the core, Miser and Apple programs are run to process and store transactions. Reports are provided to the Accounting department used to prove the files.

EPN Users

The Clearing House requires 2 Security Administrators. The Data Processing Manager and the Operations Manager are assigned the role of Security Administrators. The function of the Security Administrator is to act as liaison between Apple and TCH. In order to obtain an RSA token for access to the EPN system a SecureID form must be filled out and submitted by the Security Administrator. Once the form is complete and submitted an email is sent to the new user with credentials and the secure token is sent to the Security Administrator who the forwards the token to the user.

EPN Access

Access to EPN is controlled by an administrator. The administrator grants the user functionality within the system. On a monthly basis user access and functionality is reviewed as part of the department's monthly ASAP (Apple Self Audit Program). In addition on a quarterly basis the administrator reviews activity logs which show all user changes made during that period.

To log into the EPN portal username and password are required as well as an RSA token. Passwords are required to be changed every 90 days and follow strict password rules requiring upper, lower, numerical and special characters.

EPN Processing Windows

There are 4 processing windows for files to be received and posted:
• 06:00am – First distribution window
• 10:30am submission deadline with a 1:00pm settlement (Same Day)
• 02:45pm submission deadline with a 5:00pm settlement (Same Day)
• 04:45pm submission deadline with a 6:00pm settlement (Same Day)

ACH PROCESSING

Files Received

The Data Processing computer operators log into the EPN portal and export the files which are ready for processing. They perform this function based on the processing windows. The files are saved to a LAN directory and then ftp'd to the mainframe using MoveIt ftp software. Once the files are on the mainframe Miser and Apple programs are run to balance, warehouse and process the ach transactions. In addition to the files, totals are exported and an advice file is downloaded. The totals are used by the DP department to prove the files received and the advice file is uploaded to accounting's share directory for them to use for balancing.

File Proof

After files are uploaded, Miser TWD001 program is run which reads the files and produces totals and reports. The program goes into waiting and the DP operator ensures the totals produced by the program agrees to the totals exported from EPN. If the totals prove an OK is given to the program which then warehouses the transactions in the miser ACH system for processing on the date they are scheduled.

Proofs of all transmission are kept with the DP proof sheets. These include the exported totals and program totals. Supervisors and Managers review these and include them in their shift turnover and daily summaries reports.

After TW001 the following programs are run:
• TWD002 – Processes warehoused items
• TAD001 – Provides a list of rejected items
• TWD004 - Provides a list of not cleared IAT transactions

All of these programs produce reports that are used by the Accounting department in order to prove, process or return daily transactions. The reports are printed to the accounting share directory upon completion. Once these initial programs are run email correspondences are sent to and from the Accounting and Data Processing department communicating when to run additional TWD002 programs once IAT items that need to be processed are cleared and to batch ALTINs to process rejected items that can be processed.

File Returns

Once all balancing is complete and all items that can be processed are debited or credited the remaining item are returned back to TCH. TWD003 creates a return file from transactions marked in the warehouse to be returned, produces a report and customer notifications to be sent to customers informing them that there transaction was returned. The program will also produce an ALTIN which will charge a customer fee for items marked to be charged. Prior to Data Processing sending the file to TCH accounting reviews the report and either emails to send the file or rerun. Once accounting verifies that everything is proof the file is sent to TCH using the EPN portal. The report is viewed by the Data Processing operator and used to schedule the return by entering the number of items, debit and credit amounts. The file is then uploaded and processed by TCH and verified to the totals entered. If there are any discrepancies the file will not be accepted otherwise the file will process. Like the TWD001 file, reports and totals are kept with the daily proof sheets and are reviewed by supervisors and managers and are included in the shift turnover and daily summaries reports.

Originations

Apple also acts as an ODFI and originates the following:
- Account to Account transfers –Via Q2 online banking
- Business ACH – Via Q2 business online banking
- Commercial Mortgage Payments – Via McCracken
- Personal Loans – Via Upstart
- Vendor Payments –Via BankTel
- Pension Distribution – Via Miser

Q2 – Originations

Files are received Monday through Friday at 4 pm via MoveIt secure ftp transfers established with Q2. Along with the files, totals are sent via email which are used by Data Processing to prove the file to. Data Processing runs a non-updating TWD001 program to prove the file. Once the file is in proof the program is run updating which warehouses the file based on process date. An email is sent by DP stating the file proves and includes an email group call achstop@apple-bank.com which the accounting department is part of. Accounting uses this email as well as Miser reports to help prove what is being sent to the clearing house when the file originates.

> **A to A** – These are account to account transfers set up by online banking users who wish to transfer funds to or from their accounts established at two different institutions. Micro deposits are sent initially to validate accounts.

> **Business ACH** – Business ACH is offered in the Q2 platform. ACH limits are established with each business which controls the number of batches, dollar amounts and transmissions that each business can process. Separate agreements are signed by each business and approved by Apple.

<u>McCracken</u>

Commercial Loan Payments that are generated from the McCracken Commercial Loans system. Files are downloaded from the McCracken system by the Loan Servicing Department and placed in a LAN directory and an email is sent to DP stating a file is ready for processing and includes totals for DP to prove to. The file is then downloaded by DP from the LAN directory to the mainframe using MoveIt secure ftp. Data Processing runs a non-updating TWD001 program to prove the file. Once the file is in proof the program is run updating which warehouses the file based on process date. An email is sent by DP stating the file proves and includes an email group call achstop@apple-bank.com which the accounting department is part of. Accounting uses this email as well as Miser reports to help prove what is being sent to the clearing house when the file originates.

<u>Upstart</u>

Unsecured, non-revolving, fixed rate consumer loans who were approved for loans via Upstart. These are next day ACH files and must be processed and sent to the clearing house the same day. A file is received Mon-Fri and downloaded via MoveIt secure ftp between Upstart and Apple. An email is sent by the banks Consumer Lending department to Data Processing to be used to prove the file. Data Processing runs a non-updating TWD001 program to prove the file. Once the file is in proof the program is run updating which warehouses the file based on process date. An email is sent by DP stating the file proves and includes an email group call achstop@apple-bank.com which the accounting department is part of. Accounting uses this email as well as Miser reports to help prove what is being sent to the clearing house when the file originates. The file is processed between 5:00 and 5:30pm and is originated to the Clearing House in the banks final TWD003 file sent.

<u>Banktel</u>

Accounts Payable payments made via ACH are processed via Banktel a third party application. The Accounts Payable department uploads the ach file from Banktel and places it in a LAN directory and an email is sent to DP stating a file is ready for processing and includes totals for DP to prove to. The file is then downloaded by DP from the LAN directory to the mainframe using MoveIt secure ftp. Data Processing runs a non-updating TWD001 program to prove the file. Once the file is in proof the program is run updating which warehouses the file based on process date. An email is sent by DP stating the file proves and includes an email group call achstop@apple-bank.com which the accounting department is part of. Accounting uses this email as well as Miser reports to help prove what is being sent to the clearing house when the file originates.

<u>Pension Distributions</u>

Distributions are set up in Miser by the Pension Department. The department creates a transfer record in Miser. Theses distributions are the mandatory distribution the customer must take in a calendar year once they reach the age of 72. The distribution can be set up either monthly, quarterly, semi-annual or annual. TAM001 is run mid-month which the Pension department uses to verify what distribution will made for the current month. The transfers are processed on the last business day of the month when Miser program TFD091 is run. The program creates an ach file for all external distributions. The TFD091report is made available to the Pension department by DP for them to review to ensure all distributions are correct. Once verified the file is included

with the originations for the day and sent with the TWD003 file.

    4. Escalation Procedures

The Procedures Owner will monitor these Procedures. Any non-compliance with the Procedures will be escalated to the Business Area Leader or Department Head for resolution.

IV.   REQUIRED ANNUAL (12 MONTH) REVIEW

Procedures are required to be reviewed and approved at least annually by the Business Area Leader or Department Head. The Procedures Owner is responsible for initiating an Annual review of the Procedures. The Procedures Owner will track the review date for the Procedures and begin the review process early enough to provide ample time for the appropriate review to occur in a timely manner.

Once updated Procedures have been approved by the Business Area Leader or Department Head, the updated Procedures shall go into effect and the Procedures Owner shall be responsible for delivering the approved Procedures together with a Control Form to the PPA within seven days of the approval date so that it can be loaded in a timely manner to AppleNet or such other intranet site where Procedures are stored and made available to the employees of the Bank.

The Next Business Area Leader/Department Head Review Date shall be adjusted accordingly.

V.   OFF-CYCLE REVIEW AND APPROVAL PROCESS

If the Procedures require changes to be made outside the Required Annual (12 Month) Review outlined in the previous section, the same steps as outlined in the previous section shall apply.

VI.   EXCEPTIONS TO THE PROCEDURES

Requests for exceptions to these Procedures must be specific and may only be granted on specific items, rather than to entire sections. AFH staff must communicate their exception requests in writing to the Procedures Owner, who will then present the request to the Business Area Leader or Department Head for consideration.

VII.   ROLES AND RESPONSIBILITIES

The key roles and responsibilities for these Procedures are summarized below:

Bank Personnel: Bank Personnel are responsible for understanding and following relevant Procedures. Bank Personnel participate in the development or updates of Procedures that exist within their business unit. When creating or updating Procedures, Bank Personnel should follow the Policy and Procedure Governance Policy and utilize the associated Procedures template which is available on AppleNet.

Business Area Leader or Department Head: *See Section II – Definitions*.

bUSInternal Audit: The Internal Audit team is responsible for the periodic audit of these Procedures. Internal Audit will review the processes and any related gaps will be identified as findings to be monitored and remediated.

Legal Contact: *See Section II – Definitions*.

PPA: *See Section II – Definitions*.

Procedures Owner: *See Section II – Definitions*.

Senior Management: Members of management and business units are responsible for developing and implementing these Procedures which align with the requirements of the overarching Policy or Policies to which these Procedures relate, and ensuring compliance and understanding of these Procedures.

VIII.   RECORD RETENTION

Any records created as a result of these Procedures should be held pursuant to the Bank's Record Retention and Disposal Policy. Should records created as a result of these Procedures require a different retention period (either a shorter or longer time period), the Procedures Owner must describe the rationale for a different retention period and share the rationale with the Business Area Leader or Department Head, who shall in turn document the deviation and supporting rationale in such a way that it can be presented to relevant parties upon request.

IX.   QUESTIONS AND CONTACT INFORMATION

Questions regarding compliance with these Procedures may be addressed to the Procedures Owner listed in the tracking chart on the first page.

X.   LIST OF REFERENCE DOCUMENTS

- Automated Clearing House (ACH) Policy

XI.   REVISION HISTORY

Version	Date	Description of Change	Author	Approver
2.0	6/25/2021	Business ACH now processed via Q2 online Banking. Bank now offers Personal Loans via Upstart	J. Petti	Debi Gupta, CTO
1.0	5/26/2021	Align with Automated Clearing House (ACH) Policy	Ginetta Stroescu, Melissa Gonzales	Board Operations & Technology Committee