

ASSETS & LIABILITIES COMMITTEE (ALCO)

TERMS OF REFERENCE

1. Constitution

The Assets and Liabilities Committee is a Management Committee reporting to the Board of Directors via the Audit, Risk & Compliance Committee.

2. Authority

The Committee is under the Authority of the Chief Executive to investigate activity within its terms of reference.

The Committee is authorised to obtain external legal or other professional advice and to secure the attendance of anyone it considers has relevant experience expertise or knowledge.

Minutes of each meeting are issued to all members to the Audit Risk & Compliance Committee and to the Board.

3. Membership

Mr. S. Penlington (Chief Executive) (Chairman)

Mrs. A. Kos (Finance Director)

Mrs. K. Roby (Customer Services Director)

Mr. S. Melbourne (Head of Risk and MLRO)

Mr. D. Shelley (Head of Finance)

Attendees

Ms. A. Platt (Treasury Dealer)

Mr. M. McLoughlin (Treasury Dealer)

Mr. R. Rangzeb (Treasury Dealer)

Ms. A. Egginton (Head of Marketing)

Ms. J Chatwood (Minute Taker)

4. Attendance at Meetings

The Chairman will chair the meeting. In his absence the members present shall elect one of their members to be Chairman for that meeting.

The quorum necessary for the transaction of the business of the Committee shall be three (3) Committee members, one (1) of whom must be an Executive Director.

All matters shall be decided by a majority of votes. Every Member present, including the Chairman shall have one vote. In the event of a tie, the Chairman shall have a second and casting vote.

5. **Frequency of Meetings**

The Committee shall meet on a monthly basis or more frequently if required. There will be a minimum of ten meetings each year.

6. **Purpose**

The purpose of ALCO is to monitor the structure of the Society's assets and liabilities, controlling financial, liquidity and treasury risks and reviewing control procedures including limits, reporting lines and mandates. The Committee focuses on capital risk, liquidity risk, interest rate risk, counterparty credit risk, funding risk, basis risk and refinancing risk.

7. **Duties**

Treasury Matters:

- * to review and recommend to the Audit, Risk & Compliance Committee , the Board the Financial Risk Management Policy Statement and Internal Liquidity Adequacy Assessment Process (ILAAP) , on at least an annual basis
- * to receive assurance that the Society's liquidity risk appetite as documented in the Risk Appetite Policy is appropriate for its business strategy
- * to review and approve the treasury strategy within the Treasurer's Report
- * to review compliance with agreed treasury limits
- * to review treasury activity and performance
- * to assess implications, monitor and agree developments / changes in treasury activity especially with regard to regulatory requirements and guidelines
- * to assess the liquidity levels of the Society and the adequacy of liquid funds in relation to the Society's Corporate Plan, OLAR, LCR and NSFR, having regard to both expected and unexpected events
- * to approve the Liquidity Alert Levels suggested in the Treasurer's Report
- * to monitor Liquidity Early Warning Indicators as laid out in the RRP
- * to review the requirements for wholesale funding
- * to review and recommend to the Board any changes in treasury counterparties for approval on at least an annual basis
- * to receive and review a due diligence report on the custodian at least annually
- * to receive and review a due diligence report on the money market brokers at least annually
- * to monitor levels and quality of collateral where applicable

Capital Matters

- * to review and recommend to the Board the Internal Capital Adequacy Assessment Process (ICAAP) for approval , on a least an annual basis
- * to review the capital position and make recommendations to the Board as appropriate
- * to approve the Capital Alert Levels suggested in the Finance Report
- * to monitor Capital Early Warning Indicators as laid out in the RRP

Policies

- * to review and recommend to the Audit Risk & Compliance Committee the Stress Testing & Reverse Stress Testing Policy for approval on at least an annual basis

Financial Risk Management:

- * to receive monthly reports on the financial performance of the Society to receive the Treasury Back Office report
- * to monitor the fixed rate maturity mismatch position and ensure the Society adheres to the requirements of the matched approach
- * to monitor the interest rate risk gap analysis and ensure the Society keeps within the limits agreed by the Board of Directors
- * to monitor the impact of basis risk on the net interest margin
- * to review and challenge liquidity stress testing results and processes
- * to propose liquidity stress scenarios to test vulnerabilities of concern
- * to recommend any global interest rate changes to the Board
- * to receive and agree the Society's interest rate expectations as reported in the balance sheet margin, simple interest margin and rate of return on mortgages and retail so that the Corporate Plan is achieved
- * to review the risk dashboard in respect of those limits and ratios identified as the responsibility of ALCO
- * to review the risk registers for Treasury and Finance

Products:

- * to receive and approve recommendations from the Product Committee on all fixed rate, cap, floor, collar and tracker products if within Corporate Plan parameters
- * to receive and approve any administered rate savings products that will lead to a greater overall cost of funding than that budgeted for in the Corporate Plan
- * to receive and approve any administered rate mortgage products which will not achieve the overall rate of return for new lending as set out in the Corporate Plan
- * any products not meeting Corporate Plan parameters should be referred to ALCO and if thought necessary recommended to the Board for approval
- * to receive and recommend to the Board any loss leading mortgage product
- * to receive and recommend to the Board any product which requires a higher capital risk weighting
- * to approve the Mortgage Pricing Policy on at least an annual basis
- * to review the mortgage pricing model assumptions on a quarterly basis

Other matters:

- * to review, agree and recommend for approval to the Board, the Terms of Reference of the ALCO Committee
- * to review, agree and recommend to the Audit Risk & Compliance Committee the Fixed Assets Policy Statement for approval, on at least an annual basis
- * to receive assurance that relevant management information provided to the Board of Directors and the appropriate regulator is both timely and accurate
- * to oversee the performance of any relevant GOSPA projects
- * to assess current and forward looking economic and market conditions
- * as a Committee to undertake an annual review of performance and to ensure all duties have been discharged
- * to relinquish all authority to the Crisis Management Committee in the event that Committee is invoked

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