

**ASSETS & LIABILITIES COMMITTEE (ALCO)  
 TERMS OF REFERENCE**

**Purpose**

The purpose of ALCO is to monitor and control the structure of the Society’s assets and liabilities, by managing the following key financial risks:

Liquidity & Funding Risk	This is the risk that the Society is not able to meet its financial obligations as they fall due or can do so only at excessive cost.
Capital Risk	The risk that the Society has insufficient capital to cover regulatory requirements and/or to support its growth plans.
Market Risk	The risk that the value of income arising from the Society’s assets and liabilities may change adversely as a result of changes in interest rates.
Treasury Credit Risk*	The risk of financial loss arising from a treasury counterparty failing to meet their financial obligations to the Society in accordance with the terms that have been agreed.

\*including Concentration Risk

**Constitution**

The ALCO is a first line Management Committee reporting to the Board of Directors (Board).

**Authority**

The Committee is authorised by the Chief Executive to investigate any 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 Committee members and to the Board.

The Committee will relinquish all authority to the Crisis Management Committee (CMC) in the event that Committee is invoked.

**Membership**

Chief Executive Officer & MLRO (Chair) Finance Director Customer Services Director Chief Risk Officer Head of Finance Head of Compliance & DPO	For Product decisions only membership may also include: Head of Lending Head of Retail
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**Attendees**

Head of Marketing  
 Head of Business Development  
 Head of Products  
 Minute Taker  
 Treasury dealer(s)  
 Other staff members may be requested to attend and report as necessary

**Attendance at Meetings**

In the absence of the Chair, remaining Committee members shall elect one of them to be Chair for that meeting taking into account any member(s) with conflicts of interest.

The quorum necessary for the transaction of 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 Chair, shall have one vote. In the event of a tie, the Chair shall have a second and casting vote.

### **Frequency of Meetings**

The Committee shall meet on a monthly basis.

Additional meetings are called as required by the Chair of ALCO.

### **Duties**

#### **Policies**

- Review and recommend to the Board the Financial Risk Management Policy (FRMP) which encompasses:
  - Liquidity
  - Funding
  - Balance Sheet Structure
  - Counterparty Credit Risk including Counterparty List and Credit Limits
  - Interest Rate Risk in the Banking Book (IRRBB) including the fixed rate Hedging Strategy

- Review and recommend to the Board the Internal Liquidity Adequacy Assessment Process (ILAAP) which encompasses:
  - Liquidity Coverage Reporting
  - Liquidity Risks
  - Funding Risks
  - Liquidity Adequacy
  - Liquidity Stress Testing

- Review and recommend to the Board the Recovery Plan which encompasses:
  - Recovery Options
  - Recovery Indicators
  - Stress Testing
  - Liquidity Contingency Plan

- Review and recommend to the Board the Internal Capital Adequacy Assessment Process (ICAAP) which encompasses:
  - Capital Requirements
  - Capital Adequacy
  - Capital Stress Testing

- Review and recommend to the Board the Mortgage Pricing Policy

- Review and recommend to the Board the Society's mortgage product fees and charges tariff (which forms part of the Lending Policy)

- Review and approve the Product Governance Framework

### **Liquidity & Funding Risk**

- Review and monitor via the Treasury Back Office Report the following:

<ul style="list-style-type: none"> <li>○ Performance against the policy limits set in the FRMP in relation to Liquidity &amp; Funding</li> <li>○ Performance against the Key Risk Indicators set out in the Risk Appetite Framework in relation to Liquidity &amp; Funding</li> <li>○ Fixed rate and aggregate refinancing risk positions</li> <li>○ Stress testing results</li> </ul>
<ul style="list-style-type: none"> <li>● Review and monitor via the Treasury Risk Report the following: <ul style="list-style-type: none"> <li>○ Liquidity Early Warning Indicators as laid out in the Recovery Plan</li> <li>○ Liquidity Alert Level as defined in the Recovery Plan</li> <li>○ Financial risks arising from Climate Change</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>● Review and monitor via the Treasury Front Office Report the following: <ul style="list-style-type: none"> <li>○ Recent and imminent treasury activity and performance, liquidity and funding</li> <li>○ 20-week Liquidity Forecast Report and agree action required</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>● Review and monitor, via the Treasury Risk Report, performance of the collateral pool pledged as part of the Discount Window Facility (DWF) including associated EPC data.</li> </ul>
<p><b>Capital Risk</b></p>
<ul style="list-style-type: none"> <li>● Review and monitor via the Finance Report <ul style="list-style-type: none"> <li>○ Performance against the Key Risk Indicators set out in the Risk Appetite Framework in relation to Capital</li> <li>○ Capital and Profitability Early Warning Indicators as laid out in the Recovery Plan</li> <li>○ Capital Alert Level as defined in the Recovery Plan</li> <li>○ Capital adequacy in relation to capital surplus</li> <li>○ Financial performance including the latest forecast</li> </ul> </li> </ul>
<p><b>Market Risk (Interest Rate Risk)</b></p>
<ul style="list-style-type: none"> <li>● Review and monitor via the Treasury Back Office Report the following: <ul style="list-style-type: none"> <li>○ Performance against the policy limits set in the FRMP in relation to Market Risk (IRRBB)</li> <li>○ Performance against the Key Risk Indicators set out in the Risk Appetite Policy in relation to Market Risk (IRRBB)</li> <li>○ Fixed rate maturity mismatch position and ensure the Society adheres to the requirements of the matched approach</li> <li>○ The effectiveness of interest rate swaps</li> <li>○ The fair value impact on the income Statement of interest rate swaps</li> <li>○ Interest rate risk gap and ensure the Society operates within the limits in the FRMP</li> <li>○ The impact of a parallel 2% interest rate shock and consider appropriate management action (both of an NPV and accruals basis)</li> <li>○ Basis risk position and ensure the Society operates within the limits in the FRMP</li> </ul> </li> </ul>
<p><b>Treasury Credit Risk</b></p>
<ul style="list-style-type: none"> <li>● Review and monitor performance against the Key Risk Indicators set out in the Risk Appetite Framework in relation to Treasury Credit Risk via the Treasury Back Office Report</li> </ul>
<ul style="list-style-type: none"> <li>● Review and recommend to the Board any changes in treasury counterparties on an annual basis</li> </ul>
<ul style="list-style-type: none"> <li>● Review the Annual Due Diligence Report in relation to the Society's custodian arrangements incl. counterparty climate change considerations</li> </ul>

<ul style="list-style-type: none"> <li>• Review the Annual Due Diligence Report in relation to the Society’s panel of money market brokers</li> <li>• Review and monitor levels and quality of collateral where applicable</li> </ul>
<b>Mortgage and Savers Products</b>
<ul style="list-style-type: none"> <li>• Approve all new mortgage and savers products in accordance with the Product Governance Framework</li> <li>• Recommend any global interest rate changes to the Board including any changes to the Standard Variable Mortgage Rate (SVR)</li> <li>• Approve any changes to existing mortgage and savers products in accordance with the Product Governance Framework</li> <li>• Approve individual (not global) changes to product interest rates</li> <li>• Approve tranche limits for all mortgage and savers products</li> <li>• Receive and review the benchmarking results of the Society’s products in the Competitor Analysis Report</li> <li>• Receive assurance that all products are compliant with governing legislation and regulations and any prevailing Codes</li> <li>• Receive assurance that all new products are priced in accordance with the Mortgage Pricing Policy</li> <li>• Receive assurance that the Society’s up to date range of products are provided to third party sourcing system providers and the Society’s website</li> <li>• Approve procuration fees payable to intermediaries</li> <li>• Recommend to the Board any loss leading mortgage product</li> <li>• Review and approve any changes to product terms and conditions</li> </ul>
<b>Other Matters</b>
<ul style="list-style-type: none"> <li>• Maintain an active view, via Treasury Risk Report, of external factors affecting funding including: <ul style="list-style-type: none"> <li>○ General economic outlook and External interest rate environment</li> </ul> </li> <li>• Review and monitor CBS-specific, Asset Quality, Market-based and Macro-economic Early Warning Indicators as laid out in the Recovery Plan via the Finance Report</li> <li>• Assess implications, monitor and agree developments/changes in treasury activity especially with regard to regulatory requirements and guidelines</li> <li>• Review and recommend to the Board, the Terms of Reference of ALCO</li> </ul>