

## TERMS OF REFERENCE ASSETS & LIABILITIES COMMITTEE



### Constitution

The Assets & Liabilities Committee ("ALCO") is a sub committee of the Board.

### Membership

The ALCO shall comprise of the following members or be as decided from time to time by the Board. The membership of ALCO shall at all times include the Chief Executive, the Finance Director and the Director of Operations.

- Chief Executive (current Chairman)
- Finance Director
- Group Accountant
- Director of Operations
- Group Marketing Director
- Director of Risk & Compliance
- Treasury Front Office representative(s)
- Society Secretary & Compliance Manager (Secretary)

The Chairman of ALCO is appointed by the Board.

### Quorum

For a quorum to be established, a minimum of 4 of the above members must be present, one of whom should be a member of the Board.

### Mini ALCO

Mini ALCO facilitates decision making between meetings. A minimum of 3 of the above members must be present. Any decisions made by Mini ALCO are to be ratified at the following ALCO meeting.

### Attendance at Meetings

The members as outlined above should normally attend meetings. In addition, other professional advisers and Society officers should be invited to attend depending on the agenda to be discussed.

### Frequency of Meetings

Meetings should be held on a monthly basis.

The Chairman of ALCO may also convene a special meeting of the Committee, if in his judgement an issue arises that cannot wait until the next regularly scheduled meeting, and the issue cannot be adequately dealt with via a quorum of ALCO members or the Mini ALCO.

### Authority

ALCO has responsibility for recommending Financial Risk Management Policy, the implementation of Financial Risk Management Controls, the review of Financial Risk Management controls, and the authorisation of proposals and recommendations brought forward from the Executive.

ALCO also provides an oversight role in relation to asset and liability management within the Society and other Group entities.

ALCO is authorised by the Board to investigate any activity within its set objectives, and to provide proposals and recommendations to the Board on these matters. ALCO is further authorised to seek any information it requires from any employee, and all employees are directed to co-operate with any request made by ALCO. ALCO is also authorised by the Board, if considered necessary, to secure the attendance of outsiders with relevant experience and expertise.

## **Objectives**

The objectives of ALCO have been established as below:

### **1 Financial Risk Management**

- a) Recommend for approval by the Board the Financial Risk Management Policy on at least an annual basis, including the review of Financial Risk Management controls;
- b) Oversee the activity of the Executive in their objectives; and
- c) Monitor activity under the scope of the Financial Risk Management Policy to ensure adherence to set policies and limits.
- d) Monitor the product pricing and hedging decisions of the Executive and, where appropriate, assess the financial impact of decisions implemented.

### **2 Interest Rate Risk**

- a) Set the Group's interest rate expectations. Consider, and if it be determined, authorise any specific actions arising from this agreed interest rate view;
- b) Monitor the use of interest rate derivatives used in the management of interest rate risk;
- c) Consider, and if it be determined, authorise any changes to the Financial Risk Management Policy in respect of appropriate interest rate limits and sensitivity analysis, and regularly review the relevant Financial Risk Management controls in place.
- d) Set guidelines for the management of market value risk and earnings risk within the balance sheet in relation to the agreed interest rate view;
- e) Monitor the impact of basis risk on the net interest margin and authorise mitigating actions; and
- f) Monitor the impact of early prepayments and their effect on market value and earnings risk.

### **3 Credit Risk (pertaining to Treasury)**

- a) Consider, and if it be determined, recommend to the Board, new additions to the authorised list of investment counterparties;
- b) Regularly review on at least a semi-annual basis the authorised list of investment counterparties;
- c) Consider, and if it be determined, authorise any changes to the Financial Risk Management Policy in respect of credit and counterparty risk, and regularly review the relevant Financial Risk Management controls in place.

### **4 Funding**

- a) Set the funding strategy parameters;
- b) Consider, and if it be determined, approve any changes that the Executive have recommended in respect to the composition of funding, and authorise any specific actions; and

c) Consider, and if it be determined, authorise any changes to the Financial Risk Management Policy in respect of funding, and regularly review the relevant Financial Risk Management controls in place, including the adequacy of liquidity stress testing scenarios and contingency funding plans in place.

## **5 The Net Interest Margin and Profit Performance**

- a) Review the profit performance, and the variances from the planned net interest rate margin, and detail any required actions as appropriate; and
- b) Monitor the impact on net interest margin, reserves and profit from changes in the market value of liquid assets and derivatives.

## **6 Liquidity Investments**

- a) Consider, and if it be determined, approve any changes that the Executive have recommended in respect to liquidity investments, and authorise any specific actions arising.
- b) Consider, and if it be determined, authorise any changes to the Financial Risk Management Policy in respect of liquidity investments, and regularly review the relevant Financial Risk Management controls in place.
- c) Periodically review that the liquidity requirements set out in the FSA's handbook have been adhered to, including regular review of the Society's Liquidity Stress Testing.
- d) Monitor the requirement to hold high quality assets in the liquidity buffer, conduct regular reviews of the formula and method used in calculating the buffer and instruct transactions which confirm the realisability of buffer assets on a regular basis.

## **7 Other Matters**

- a) Through the Executive, liaise with the Marketing and Sales functions in order to provide guidance on appropriate product mix; and
- b) Decide upon appropriate recruitment, training and development for Board, ALCO, senior management, audit and treasury personnel to ensure the requisite skills are available to monitor and control risk.
- c) Receive internal audit reports which consider the effectiveness and appropriateness of the Treasury control environment, and authorise any specific actions arising.

## **8 Communication**

- The Group Accountant will normally circulate the ALCO agenda and papers at least two working days before the meeting.
- Formal minutes, approved by the Chairman of ALCO, shall be submitted to the Board following each meeting of ALCO. ALCO shall also provide key management information (dashboard) to the Board on a regular basis.
- ALCO holds a key role in liaising with the Risk Committee and shall, as a minimum, provide the Risk Committee with a written note of key decisions made at each of its ALCO meetings.
- The Chairman of ALCO will provide a verbal report on the activities of ALCO at each subsequent full Board meeting.