

Assets & Liabilities Committee: Terms of Reference

1. The Assets & Liability Committee (“ALCO”) is a sub-committee of the Board established to ensure that an appropriate framework exists, and is being successfully operated, around all areas of financial risk management. ALCO is responsible for defining, reviewing and updating financial risk management policies (making policy recommendations to the Board for approval) and for approving decisions which are outwith day to day financial risk management boundaries. ALCO is responsible for oversight of the Management ALCO (“MALCO”) which has responsibility for management decision making and financial risk management within the boundaries and limits set by the relevant policies. The remit of ALCO is reviewed at least annually by the Board.

Membership and Attendees

2. The Committee is appointed by the Board and consists of two Non-Executive Directors, the Chief Executive, the Finance Director and the Head of Finance. The Committee Chairman will be a Non-Executive Director. A minimum of three members (two of whom should be Non-Executive Directors) is required to establish a quorum.

3. Other members of management may attend meetings as required, including the Head of Risk, Head of Sales, Management Accountant & Treasurer and MI & Financial Risk Reporting Manager.

Meetings

4. The Committee meets at least eight times per year, prior to the main Board meeting. Minutes are taken and the Chairman of the Committee reports to the Board at its next meeting. Additional meetings of the Committee may be held as and when required.

Responsibilities

5. The Committee is responsible for setting, monitoring and reviewing financial risk management policy and controls, specifically covering the following key topics:

- Financial Risk Management
 - i. Oversee the Financial Risk Register and report regularly to the Board on areas of concern.
 - ii. Review the Financial Risk Dashboard and consider any breaches and necessary actions.
 - iii. Recommend Financial Risk Appetite ‘Trigger’ and ‘Hard’ limits to the Board for approval.
- Interest Rate Risk and hedging strategy to reduce that risk
 - i. Define, review and update the Financial Risk Management policy and recommend to Board for approval on at least an annual basis;
 - ii. Monitor activity under the scope of the Financial Risk Management Policy to ensure adherence to set policies and limits;
 - iii. Set guidelines for the management of market value risk and earnings risk in relation to agreed interest rate sensitivities;
 - iv. Overview the impact of basis risk on the net interest margin, highlighting positions outwith agreed risk limits to the Board as appropriate;
 - v. Overview the impact of early prepayments and their effect on market value and earnings risk, highlighting positions outwith agreed risk limits to the Board as appropriate;
 - vi. Review the use of interest rate derivatives;

- vii. Consider and, if appropriate, authorise any periodic restructuring of the interest rate derivatives portfolio necessary to improve hedge effectiveness and/or to appropriately manage the risk profile.
- Treasury Credit Risk
 - i. Agree the framework for assessing counterparty credit risk;
 - ii. Review on a quarterly basis (or more regularly if appropriate) the authorised list of investment counterparties. Authorise any subsequent amendments to the approved list and to counterparty credit limits;
 - iii. Overview compliance with agreed policy limits, highlighting any breaches to the Board.
- Funding
 - i. Recommend for approval by the Board the Funding Policy on at least an annual basis;
 - ii. Recommend for approval by the Board the Contingency Funding Plan on at least an annual basis;
 - iii. Overview the overall funding position (including forward looking data) highlighting any positions outwith agreed risk limits to the Board;
 - iv. Consider and, if appropriate, approve any recommendations from MALCO in relation to changes in composition of funding.
- Liquidity
 - i. Recommend for approval by the Board the Liquidity Policy on at least an annual basis;
 - ii. Recommend for approval by the Board the ILAAP on at least an annual basis which incorporates the Society's liquidity processes, systems, controls, buffer asset calculations, governance process and liquidity risk appetite amongst other items;
 - iii. Overview the liquidity position (including forward looking data) highlighting any positions outwith policy limits to the Board.
 - iv. Agree stress testing scenarios to be tested and report results to the Board.
- Net Interest Margin and Profit Performance:
 - i. Review, understand and challenge as appropriate interest margin trends including forecast position and the variances from the plan.
- Product Pricing
 - i. Agree the Product Pricing framework to be operated by MALCO, including authorisation of any changes to the methodology;
 - ii. Overview the product pricing as agreed by MALCO;
 - iii. Authorise any new investment product types;
 - iv. Authorise a general Society wide interest rate change (for which 3 directors must approve with one of the directors being the ALCO Chairman, the Chief Executive or the Society Chairman).
- Other
 - i. Decide upon appropriate ALM recruitment, training and development for the Board, ALCO, senior management, audit and treasury personnel to ensure the requisite skills are available to monitor and control risk;
 - ii. Review results of internal audit reports, feedback from external auditors and any other regulations/pronouncements/correspondence from external bodies (including the PRA and BSA) which consider the effectiveness and appropriateness of the control environment of the Treasury function and authorise any specific actions arising;

- iii. Overview compliance with the appropriate guidelines as set out in PRA Supervisory Statement SS20/15;
- iv. Review compliance with specific guidelines issued by the PRA as they pertain to ALCO activities e.g. Dear CEO letters and results of thematic reviews;
- v. Review and agree at least annually the Terms of Reference and membership of MALCO.

Communication

6. The Secretary of ALCO (Head of Finance) will normally circulate the agenda and papers for meetings at least three working days before the meeting.

7. All Board members are provided with Committee papers and subsequent formal minutes via the Board portal.

Date Remit last reviewed

28 July 2016 [amended December 2016]