

#### 4.7.1 ALCO

##### **Powers and Functions**

This Committee operates in line with good governance principles in comparable organisations to the Society in their duties as follows:

The Assets and Liabilities Committee (ALCO) has responsibility for fulfilling the Key Driver of Value (KVD) 4.3.3 – Financial Resources as defined in the EBS Risk Management Framework, reporting in the first instance to the full Board on adherence to the quantitative and qualitative measures associated with the KVD.

In order to fulfil the above, ALCO monitors and controls structural risks in the balance sheet, liquidity, treasury, funding, recommending policy development and monitoring implementation to ensure that board defined risk limits are adhered to and that the Society has adequate liquid financial resources to meet its liabilities as they fall due.

ALCO papers are made available to the whole Board for each meeting via the secure website.

##### **Balance sheet**

- Monitor the structure of the Society's Assets and Liabilities with regard to regulatory limits and internal limits set by the Board
- Monitor mortgage and savings books in terms of Balance Sheet structure and risk, specifically addressing the contribution of particular products to achieving Corporate Plan objectives, and indications for future product development
- Monitor Interest Rate Risk and Basis Risk exposures against policy limits
- Review Balance sheet forecasts
- The committee must maintain an active view of external factors pertinent to funding activity, including:
  - general economic outlook
  - interest rate movements.

##### **Liquidity and treasury**

- Monitor and agree proposed developments/changes in treasury activity
- Scrutinise Treasury transactions as appropriate in order to provide guidance and a steer for policy evolution
- Monitor the balance and mix of liquid assets by instrument, maturity and counterparty quality against policy limits
- Monitor counterparty credit risk resulting from transactions undertaken by the Treasury function against policy limits
- Review previous month's Treasury activity and performance
- Review and approve treasury counterparties and their associated credit limits, after due consideration of Board resolutions on the ethical quality of counterparties
- Monitor and approve any Committed Funding Lines

- Review cash-flow projections and liquidity stress testing, in particular to identify potential breaches of structural risk limits.

### Other

- Review the balance and mix of the Society's issued capital (subordinated debt, deferred shares etc)
- Assess implications of relevant FCA/PRA guidance
- Design and implement the Funds Transfer Pricing mechanism and engage in margin management
- To consider, regarding the above, the imperatives raised by the Society's ecological mission, in particular the impacts of climate change risk.

### Policy development

The Committee owns the following policy and procedural documents and recommends changes to the full Board:

- Financial Risks Policy, which in particular encompasses:
  - Structural risk management
  - Risk appetites
  - Liquidity management
  - Treasury
  - Capital
- Stress Testing and Reverse Stress Testing Policy
- Recovery Plan scenarios also encompassing the Liquidity Contingency Plan
- ILAAP and ICAAP stress scenarios

### Reports received

- Monthly Financial Summary
- Gap analysis
- Basis risk report
- Treasury dashboard
- Cash-flow projections
- Forecasts
- Stress test results.

### Composition

The Committee will be comprised of:

- Deputy CEO & FD
- CEO
- COO
- Two non-executives with relevant experience.

The Deputy CEO & FD acts as the Chair, with the CEO deputising as necessary. Two executive members must be present, one of which must be the Deputy CEO & FD or in the Deputy CEO & FD's absence a designated deputy and one non-executive director.

Other staff members will be requested to attend and report as necessary.

A Board Governance Officer is in attendance as secretary to the meeting.

### **Ratification**

The Committee is largely autonomous in its workings within the Board defined policy limits, except for ratification of policy statements and ultimate sanctioning of counterparties by the Board. A report on the deliberations and decisions of the Committee is given by the ALCO Chair the next full meeting of the Board. ALCO also reports on its review of Financial Risks policy to the Board, and submits exception reports on sensitivity analysis to the Board.

### **Frequency of meetings**

The Committee will meet a minimum of six times per annum. Additional meetings are called as required by the ALCO Chair following consultation with the other attendees if there are significant events that have occurred with immediate balance sheet impacts.

Minutes will be maintained on the Minutes database and contain a full record of challenges.