

## **Assets and Liabilities Committee (ALCO) Terms of Reference**

Last reviewed by Committee: March 2021

Last Approved by Board: May 2021

### **1. Membership**

1.1. The committee shall comprise of at least four directors as follows:

- Chief Executive Officer;
- Finance Director; and
- Two independent non-executive directors;

1.2. The Chief Operating Officer is a member of the committee.

1.3. The appointment of non-executive directors to the committee are made by the board on the recommendation of the nomination committee and shall be for a period of up to three years, which may be extended for up to two additional three-year periods, provided the director still meets the criteria for membership of the committee.

1.4. Only members of the committee have the right to attend committee meetings. However, other individuals such as senior members of the finance team may be invited to attend for all or part of any meetings, as and when appropriate.

1.5. The board shall appoint the committee chair and the Finance Director is usually appointed as the committee chair. The Chief Executive Officer acts as the deputy chair. In the absence of the committee chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting from those who qualify under these terms of reference to be appointed to that position by the board.

### **2. Secretary**

The society secretary, or their nominee, shall act as secretary of the committee and will ensure that the committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

### **3. Quorum**

The quorum necessary for the transaction of business shall be one non-executive director and two executive members, one of which must be the Finance Director or Chief Executive Officer.

### **4. Frequency of meetings**

The Committee shall meet a minimum of six times per annum and otherwise as required.

### **5. Notice of meetings**

5.1 Meetings of the committee shall be called by the secretary of the committee at the request of the committee chair or any of its members.

5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time, and date, together with an agenda of items to be discussed, shall be forwarded to each member of the committee and any other person required to attend no later than 5 working days before the date of the meeting. Unless otherwise agreed, supporting papers shall be sent to committee members and to other attendees, as appropriate, at the same time.

## 6. Minutes of meetings

6.1 The secretary shall minute the proceedings and decisions of all committee meetings, including recording the names of those present and in attendance.

6.2 Draft minutes of committee meetings shall be circulated to all members of the committee. Once approved, minutes should be made available to all other members of the board and the company secretary unless, exceptionally, it would be inappropriate to do so.

## 7. Engagement with stakeholders

7.1 The committee chair should attend the annual general meeting to answer any member questions on the committee's activities. In addition, the committee chair should seek engagement with members on significant matters related to the committee's areas of responsibility where appropriate to do so.

## 8. Duties

The committee has responsibility for overseeing financial risks associated with capital; liquidity and funding including counterparty credit risk; interest rate risk and market risk as outlined in the Society's Risk Management Framework, reporting in the first instance to the full Board on adherence to the quantitative and qualitative measures associated with that oversight.

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.

The Committee shall:

### 8.1 Balance Sheet

- Monitor the structure of the Society's Assets and Liabilities regarding 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.

## **8.2 Liquidity and Treasury**

- Monitor and agree proposed developments/changes in treasury activity
- Scrutinise Treasury transactions as appropriate 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, to identify potential breaches of structural risk limits.

## **8.3 Other**

- Review the balance and mix of the Society's issued capital (Core Capital Deferred Shares, subordinated debt, deferred shares etc)
- Assess implications of relevant FCA/PRA guidance
- 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.

## **8.4 Policy development**

The Committee has delegated authority to scrutinise and approve policies assigned to it under the Policy Governance Framework and Policy Delegations Schedule.

The Committee are responsible for the following policy documents and recommends changes to the Board:

- Financial Risks Policy, which 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

## 9. Reporting responsibilities

9.1 The committee chair shall report to the board after each meeting on the nature and content of its discussion, recommendations, and action to be taken.

9.2 The committee reports to the Board on its review of Financial Risks policy and submits exception reports on sensitivity analysis to the Board.

9.2 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed, and adequate time should be made available for board discussion when necessary.

9.3 The committee shall receive reports on the following:

- Monthly Financial Summary.
- Gap analysis.
- Basis risk report.
- Treasury dashboard.
- Cash-flow projections are provided on an as needed basis.
- Forecasts and scenarios.
- Stress test results.

## 10. Other matters

The committee shall:

10.1 Have access to sufficient resources to carry out its duties, including access to the company secretariat for advice and assistance as required.

10.2 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.

10.3 Give due consideration to all relevant laws and regulations, as appropriate.

10.4 Ensure that a periodic evaluation of the committee's own performance is carried out.

10.5 At least annually, review the committee's constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.

## 11. Authority

11.1 The committee is authorised by the board to obtain, at the company's expense, outside legal or other professional advice on any matters within its terms of reference.

11.2 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.

11.3 The Committee has delegated authority to scrutinise and approve or recommend to board for approval policies assigned to it under the Policy Governance Framework and Policy Delegations Schedule.