

## **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.

- Chief Executive (Chairman)
- Sales & Marketing Director
- At least two non Executive Directors
- Director of Strategy
- Acting Finance Director
- Chief Risk Officer
- General Manager Group Treasury
- Assistant Group Treasurer
- Head of Asset & Liability Management

The chairman of ALCO is appointed by the Board.

Secretariat duties are undertaken by the Assets & Liabilities Manager.

### **Quorum**

For a quorum to be established, a minimum of 4 of the above members must be present, at least two of whom should be members of Board, of which one must be a non-executive director of the Society.

### **Rapid Response Protocol**

The Rapid Response Protocol facilitates decision making between meetings. A minimum of 3 of the above members must be present, at least two of whom should be members of the Board. Any limit amendments made under the Rapid Response Protocol 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 not less than 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 member or the rapid response protocol.

## **Authority**

ALCO has full responsibility for setting Financial Risk Management Policy, the implementation and review of financial risk management controls, and the authorisation of proposals and recommendations brought forward from the Management Assets & Liabilities Committee (MALCO).

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

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 MALCO in their objectives; and
- c) Monitor activity under the scope of the Financial Risk Management Policy to ensure adherence to set policies and limits.

### **2 Interest Rate View**

- a) Receive the Society's interest rate expectations as agreed by MALCO. Consider, and if it be determined, authorise any specific actions arising from MALCO agreed interest rate view;
- b) ALCO reserves the right, should it deem appropriate, in exceptional circumstances to ask MALCO to reconsider the agreed interest rate view on reflection of changed circumstances with regard to economic outlook and the interest rate environment;
- c) Monitor the use of interest rate derivatives used in the management of interest rate risk;

- d) Consider, and if it be determined, authorise any substantial periodic restructuring of the interest rate derivatives portfolio necessary to improve hedge effectiveness and/or to appropriately manage risk profile; and
- e) 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.

### **3 Interest Rate Risk**

- a) Set guidelines for the management of market value risk and earnings risk within the Core Portfolio in relation to the agreed interest rate view;
- b) Monitor the impact of basis risk on the net interest margin and authorise mitigating actions; and
- c) Monitor the impact of early prepayments and their effect on market value and earnings risk.

### **4 Treasury Credit Risk**

- a) Consider, and if it be determined, approve, under the delegated authority of the Board, new additions to the authorised list of investment counterparties;
- b) Regularly review on at least a quarterly basis the authorised list of investment counterparties; and
- 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.

### **5 Funding**

- a) Set the funding strategy parameters;
- b) Consider, and if it be determined, approve any changes that MALCO have recommended in respect to the composition of funding, and authorise any specific actions arising from MALCO;
- 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;
- d) Review the performance of the covered bond programme and consider, and if it be determined, authorise any changes to the pool and legal structure in respect to ensuring that the issue meets its legal and regulatory requirements;
- e) Regularly review and recommend for approval by the Board the Society's funding strategy, particularly in light of any changes to the environment in which the Society operates; and
- f) Review and recommend for approval by the Board the Society's

contingency funding plan.

## **6 Foreign Exchange Rate Risk**

- a) Set limits for the management of Foreign Exchange Rate risk;
- b) Consider, and if it be determined, approve any changes that MALCO have recommended in respect to the composition of Foreign Exchange Rate risk, and authorise any specific actions arising from MALCO; and
- c) Consider, and if it be determined, authorise any changes to the Financial Risk Management Policy in respect of Foreign Exchange Rate risk, and regularly review the relevant Financial Risk Management controls in place.

## **7 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, derivatives and embedded derivatives under IAS 39 Accounting for Financial Instruments.

## **8 Liquidity**

- a) Consider, and if it be determined, approve any changes that MALCO have recommended in respect to liquidity investments, and authorise any specific actions arising from MALCO; and
- 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) Regularly review (at least annually) and recommend for approval by the Board the Society's liquidity risk appetite.
- d) Regularly review (at least annually) and recommend for approval by the Board the Society's Individual Liquidity Adequacy Assessment which incorporates the Society's strategies, policies, processes and systems relating to the management of liquidity risk.
- e) Regularly review (at least annually) and recommend for approval by the Board the adequacy of the liquidity stress testing scenarios; and
- f) Regularly review and report to the Board the results of the liquidity stress tests.

## **9 Capital Structure**

- a) Consider, and if it be determined, approve any changes that MALCO have recommended in respect of the Society's capital requirements in relation to interest rate risk, and the capital investment strategy,

including optimum duration for capital given the agreed interest rate view, and authorise any specific actions arising from MALCO; and

- b) Consider, and if it be determined, authorise any changes to the Financial Risk Management Policy in respect of the capital requirements (as detailed above) or the nature of the capital portfolio, and regularly review the relevant Financial Risk Management controls in place.

## **10 Other Matters**

- a) Through the MALCO, 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; and
- c) Receive Internal Audit reports which consider the effectiveness and appropriateness of the control environment, of both Treasury and the ALM and Treasury Risk departments, and authorise any specific actions arising.

### **Communication**

The Secretary of ALCO will normally circulate the agenda and papers for meetings at least two days before the meeting.

Formal minutes, approved by the Chairman of ALCO, shall be submitted to the Board following each meeting of ALCO.

The Chairman will provide a verbal report on the activities of ALCO to be considered by the Board following each meeting of ALCO.

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October 2011