



**Board Governance Manual - Appendix G1
(Section 4 & Section 8)**

**Terms of Reference of Board Sub Committees:
Assets and Liabilities Committee (ALCO)**

September 2021

Document Control

The content and any amendments of this document are the responsibility of the Financial Controller and Secretary.

Terms of Reference should be reviewed annually together with the Committee's own effectiveness.

Version	Date	Changes made
1.0	June 2018	Full Review
2.0	October 2018	Manual divided into individual sections
3.0	November 2019	Full Review
4.0	June 2020	Full Review
5.0	November 2020	Timetable updated
6.0	January 2021	Timetable updated
7.0	June 2021	Guidance Note Added
8.0	September 2021	Updates

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Assets and Liabilities Committee (ALCO)

Purpose and Constitution

The prime purpose of the Assets and Liabilities Committee is to anticipate and identify emerging risks to the Society's position in relation to its balance sheet structure, and to guide the Board in defining the liquidity risk appetite and governance framework and approve or recommend changes to financial policies or limits.

The main responsibilities of ALCO are:

- Defining the liquidity and market risk appetite for Board consideration
- Monitoring and controlling funding and liquidity, interest rate and counterparty risk
- Overseeing Treasury activities

The Committee shall be appointed by the Board from amongst the Directors and shall comprise two executive directors, and not less than two non-executive directors. The Head of Risk shall also be a Committee member. A quorum shall be three directors, two of whom should be non-executive directors. Any director is entitled to attend the meeting. The Chair of the Committee shall be appointed by the Board.

Frequency of Meetings

Meetings shall be held not less than four times each year. Committee members may have such number of meetings as they deem appropriate to fulfil their duties.

Authority

The Committee is authorised by the Board to handle any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee. The Committee is authorised by the Board to obtain external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

The duties of the Committee shall include:

Financial Management

1. To consider, at least annually, the Liquidity and Funding policy, IRRBB policy and Counterparty policy, and to recommend any changes to the Board.
2. To review the Society's compliance with agreed policy and regulatory limits.
3. To review the overall adequacy of the Society's liquidity to meet liabilities under stressed conditions.
4. To review and approve composition of the Overall Liquidity Adequacy Requirements (OLAR) and monitor the Society's position against the requirement.
5. To approve treasury counterparties.
6. To authorise the signing of agreements relating to treasury matters, unless these constitute part of a new initiative under regulatory guidance, in which case Board approval is required.
7. To review the gap analysis report and note the hedging position in regard to IRRBB.
8. To review the Society's exposures to Basis Risk in regard to IRRBB.

9. To review and recommend to the Board the Individual Liquidity Adequacy Assessment Process (ILAAP).
10. To review the Society's compliance with regulatory liquidity requirements including the LCR and NSFR.
11. To review and approve the treasury risk characteristics of new categories or classes of wholesale and retail products.
12. To receive internal audit findings with regards to treasury, specifically, but not limited to, policy and documentation (Audit & Compliance Committee having primary responsibility for considering findings regarding treasury controls).
13. To consider key regulatory changes in relation to Liquidity and IRRBB and their likely impact on the Society.
14. To consider the impact and response to any Bank of England Base Rate Change

General

1. To review the Committee's Terms of Reference annually and recommend any changes to the Board.
2. To discuss and review trends in Government economic policy and economic conditions in regards to any opportunities and risks to the Society.
3. To consider any training and development needs for ALCO members.
4. To periodically, and at least annually, carry out a Committee Self-Evaluation exercise.

Timetable for Consideration of Business Issues

At each meeting:

1. Current economic outlook
2. Liquidity and funding
3. Consideration of governance and regulatory matters
4. Compliance with regulatory and policy limits
5. Liquidity stress testing and reverse stress testing
6. Liquidity counterparties and exposures
7. IRRBB: Gap and hedging analysis (EVE and NII)
8. Overall liquidity adequacy requirement and cash flow forecast
9. Liquidity coverage ratio and net stable funding ratio
10. Basis risk report and scenario modelling

March:

1. Self-Evaluation Questionnaire Template
2. Agree forward interest rate scenarios for basis risk modelling
3. Consider changes in product duration and structural risk alongside dynamic balance sheet
4. Review of Treasury Limits and RAG metric tolerances
5. Consider Key Regulatory Changes
6. Full review of OLAR assumptions and outputs

June:

1. Results of Self-Evaluation Questionnaire
2. Sensitivity analysis for the pension scheme liability
3. Review of Regulatory Treasury Approach
4. Terms of Reference of Committee
5. Consider market driven impacts on ALCO responsibilities (attendance of Sales & Marketing representatives)
6. Agree propensity outflow assumptions for liquidity stress testing

September:

1. Review of Liquidity and Funding Policy, Counterparty Policy and Interest Rate Risk in the Banking Book (IRRBB) Policy
2. Review of Approved Counterparties, including Building Societies
3. Review of Individual Liquidity Adequacy Assessment (ILAAP)
4. Agree forward interest rate scenarios for basis risk modelling
5. Consider Key Regulatory Changes
6. Consider outputs of dynamic balance sheet

December:

1. Review of Information Supplied to Committee
2. Sensitivity analysis for the pension scheme liability
3. Analysis of contractual versus actual payments on fixed rate mortgages

4. Consider market driven impacts on ALCO responsibilities (attendance of Sales & Marketing representatives)
5. Agree propensity outflow assumptions for liquidity stress testing

Reporting Procedures

The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board, and the Committee will report formally to the Board on its deliberations, decisions and recommendations.

Policies and Processes for Consideration by ALCO:

1. Liquidity and Funding Policy
2. IRRBB Policy
3. Counterparty Policy
4. ILAAP

* The timetable is produced for guidance to ensure all matters are considered in a timely manner but meetings and items may move within the year, dependent on the full Board meeting timetable.