

TERMS OF REFERENCE ASSETS & LIABILITIES COMMITTEE



Constitution

The Assets & Liabilities Committee ("ALCO") is an executive committee that reports into the Risk Committee.

Membership

The ALCO shall comprise of the following members or be as decided from time to time by the Board:

- Chief Executive
- Deputy Chief Executive & Finance Director (current Chairman)
- Chief Risk Officer
- Commercial Director
- Finance Risk & Reporting Manager (Secretary)

The Chairman of ALCO is appointed by the Board.

Quorum

For a quorum to be established, a minimum of 3 of the above members must be present, one of whom should be a member of the Board.

Mini ALCO

Mini ALCO facilitates decision making between meetings. A minimum of 3 of the above members must be present, one of whom should be a member of the Board. Any decisions made by Mini ALCO 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. Any Non-Executive Director and representatives of the Group's Internal Audit function may attend an ALCO without invitation.

Frequency of Meetings

Meetings should be held on a monthly basis, with no meeting held in August each year.

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 members or the Mini ALCO.

Authority

ALCO has authority to make decisions on all areas identified within the Responsibilities section of this Terms of Reference, but at all times operating within the Group Risk Policy & Appetite, Financial Risk Management Policy and Group Lending Policy statements as they apply to those Responsibilities.

ALCO is further authorised by the Board to:

- to investigate any activity within the Responsibilities, and to provide proposals and recommendations to the Board on these matters.
- to seek any information it requires from any employee, and all employees are

directed to co-operate with any request made by ALCO.

- to obtain external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise.

Responsibilities

ALCO provides management oversight (first line of defence) for asset and liability management within the Group and ensures treasury and lending operations are conducted within the parameters of the Group Risk Policy & Appetite statement.

All risks associated with the Society's business and operations are monitored by the Group's first line Executive Committees, EXCO and ALCO. ALCO has specific responsibility for managing Mortgage Credit Risk, Treasury Credit Risk, Liquidity Risk, Interest Rate Risk, Pension Obligation Risk and specific areas of Business Risk consisting of all asset and liability product management (including related Conduct Risk matters), net interest margin management and capital management. All other risk categories are monitored by EXCO.

The purpose and objectives of ALCO have been established as below:

1 Financial Risk Management

- a) Recommend for approval by the Board (via the Risk Committee) the Financial Risk Management Policy, on at least an annual basis, including the review of all Financial Risk Management controls, policy limits and early warning indicators; and
- b) Monitor activity under the scope of the Financial Risk Management Policy to ensure adherence to set policies and limits.

2 Mortgage Credit Risk

Since the Group does not have a separate credit committee, the Risk Committee places reliance on ALCO in the following areas:

- a) Recommend for approval by the Board (via the Risk Committee) the Group Lending Policy, on at least an annual basis, including the review of all controls, policy limits and early warning indicators;
- b) Monitor the overall mortgage portfolio to ensure that the emerging risks and trends are identified and actions taken where necessary;
- c) Monitor mortgage arrears and forbearance and authorise mitigating actions;
- d) Monitor mortgage credit risk stress tests and ensure sufficient capital is held in aggregate to cover expected losses arising;
- e) Monitor activity under the scope of the Group Lending Policy and ensure adherence to set policies and limits;
- f) Review the Mortgage stressed interest rates used to assess mortgage affordability and the MCD Benchmark rate on a quarterly basis;
- g) Review the Self Build mortgage portfolio on a quarterly basis; and
- h) Review the Interest Only mortgage report on a quarterly basis.

3 Treasury Credit Risk

- a) Review on at least a semi-annual basis the authorised counterparties list, and recommend to the Board new additions to the list for approval; and
- b) Monitor adherence to counterparty credit limits set within the Financial Risk Management Policy.

4 Concentration Risk

- a) Monitor mortgage concentrations (geographic and large exposures) and make recommendations to the Board regarding any changes to the Group Lending Policy.

5 Liquidity Risk

- a) Assess the adequacy of liquid assets held by the Society, in terms of quality and quantity, in relation to both expected (cashflow forecast) and unexpected events;
- b) Review liquidity stress testing results and ensure the scenarios remain appropriate;
- c) Ensure the liquid buffer assets held are always in excess of the minimum set by the Board and the regulator;
- d) Review the requirements for wholesale borrowing; and
- e) Review and recommend for approval to the Risk Committee the Recovery Plan indicators and options relating to liquidity and other risks on a periodic basis.

6 Funding

- a) Set the funding strategy parameters for the Executive to implement;
- b) Review the mix, stability and tenure of retail, wholesale and other funding sources; and
- c) Monitor asset encumbrance and ensure this remains within limits set by the Board.

7 Interest Rate Risk

- a) Agree the Group's interest rate expectations. Consider and authorise any specific actions arising from this agreed interest rate view;
- b) Monitor the gap analysis and ensure the Society keeps within the limits agreed by the Board;
- c) Monitor the results of the gap analysis stress scenarios and ensure the scenarios remain appropriate;
- d) Monitor the use of interest rate derivatives used in the management of interest rate risk;
- e) Monitor the impact of basis risk on the net interest margin and authorise mitigating actions; and
- f) Monitor the impact of early prepayments and mortgage pipeline and their effect on interest rate risk.

8 Business Risk

- a) Review the Group's net interest margin performance, including variances from plan, and authorise any specific actions arising;
- b) Monitor the impact on net interest margin, profit and reserves from changes in the market value of liquid assets and derivatives;
- c) Liaise with the Sales and Marketing functions in order to provide guidance on appropriate product mix and volumes;
- d) Review and approve the pricing of new products within existing categories, including rates, fees or other product features;
- e) Monitor product pricing and the assumptions used to price mortgage and savings products, including competitor analysis;
- f) Consider the risk characteristics of new categories or classes of products prior to their approval by the Board;

- g) Discuss and review trends in Government economic policy and economic conditions;
- h) Monitor capital resources and capital requirements and ensure the Group's capital risk appetite is adhered to; and
- i) Monitor Recovery Plan Indicators (including early warning signals) and ensure that any matters arising are highlighted to the Risk Committee and the Board.

9 Conduct Risk

- a) Consider the conduct risk implications of changes to existing or new products and authorise any specific actions arising.

10 Pension Obligation Risk

- a) Monitor the pension scheme surplus;
- b) Review the triennial scheme valuation and interim annual valuations, including their assumptions, and consider the need for any actions arising;
- c) Review the results of stress tests on the pensions scheme surplus and consider any actions arising, particularly on capital adequacy; and
- d) Review the pension scheme investments and consider any concentration risk both in isolation and together with the Society's liquid asset investments.

11 Other Matters

- a) Consider any training and development needs for ALCO members or those involved in asset and liability management to ensure the requisite skills are available to monitor and control all relevant risks;
- b) Receive internal audit reports relevant to the Committee's oversight responsibilities, including risk categories over which the Committee has oversight and the effectiveness of the Treasury control environment, and authorise any specific actions arising;
- c) Review the Committee's terms of reference annually and recommend any changes to the Board; and
- d) Undertake an annual committee self-assessment.

12 Communication

- a) ALCO shall also provide key management information to the Board on a regular basis (weekly ALCO dashboard); and
- b) ALCO holds a key role in liaising with the Board, the Risk Committee and the Audit & Compliance Committee and shall, as a minimum, provide these meetings with a written note of activities and key decisions made at each of its ALCO meetings.

Annual Timetable

In addition to the monthly business as usual items, the Committee will consider the following items at the meetings listed below:

January:	Committee self-assessment
February:	Financial Risk Management Policy review
March:	Group Lending Policy review
April:	Recovery Plan Indicators and Options review
May:	Liquidity stress test scenario and assumptions review
June:	Mortgage stress test scenario and assumptions review
July:	Interest rate stress test scenario and assumptions review
August:	No meeting
September:	ALCO Terms of Reference review
October:	Recovery Plan firedrill test
November:	Review of management information supplied to ALCO and other Committees
December:	Product pricing model and assumptions