

2021



Hanley
ECONOMIC
Building Society

**ASSETS AND LIABILITIES COMMITTEE (ALCO)
TERMS OF REFERENCE**

Approved by ALCO:
May 2021

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1. CHANGES SINCE LAST REVIEW

Date of change	Section	Description of change	Author
May 21	7	Updated wording and to cover annual policy review.	Finance Director
May 21	9	Updated for monthly and quarterly management information to reflect more frequent reporting in ALCO commentary.	Finance Director

2. CONSTITUTION

The Board of The Hanley has established an Assets and Liabilities Committee, known as ALCO.

Comprising Non-Executive and the Executive Directors, ALCO is responsible for:

1. The management of structural risk in the statement of financial position alongside the maintenance of margin in line with the Society's three year Corporate Plan.
2. Recommending limits on treasury counterparties, country exposures and types of financial instruments for approval by the Board.

3. ALCO OBJECTIVES

ALCO's key objectives are:

1. To ensure individual business lines are aligned in terms of the Society's overall objectives and proactively controlled, with regard to the prudential risks under ALCO's control – specifically liquidity, funding and structural risk namely that of interest rate risk.
2. To ensure that all ALM risks remain within the risk appetite set by the Board and to report any breaches or anticipated breaches to the Board.
3. To evaluate and assess the impact of other potential drivers of earnings volatility, such as competitor pressures or non-interest rate related changes to market conditions.
4. To evaluate and assess the potential implications of up-coming developments.

4. MEMBERSHIP AND QUORUM

1. The ALCO shall comprise a minimum of four members, at least two of which should be Non-Executive Directors.
2. The Chairman of ALCO shall be an Executive Director (currently the Finance Director). This appointment is reviewed annually in conjunction with the review of the ALCO Terms of Reference. In the absence of the Chair, the Committee will elect a Chair of the meeting.
3. A quorum is 3 Directors, at least one of which will be a Non-Executive Director.
4. The Board shall determine that each ALCO member has sufficient treasury knowledge and experience in order to discharge their responsibilities. Each member will maintain a contemporary understanding of key financial topics via ongoing training and personal development.

5. MEETINGS

1. Meetings will be held a minimum of 8 times a year and coincide with key dates in the Society's financial reporting cycle. Additional meetings may be held as required.

2. In addition to ALCO members, other Board members may attend and invitations may be extended to other members of staff as required.

6. AUTHORITY

The ALCO is authorised by the Board to;

- Investigate any activity within its Terms of Reference;
- Seek information as required from any employee of the Society. Hanley employees will be expected to co-operate with such a request from ALCO and
- Obtain external, independent professional advice.

7. RESPONSIBILITIES

The ALCO is accountable for:

- Determining the degree of financial risk to which The Hanley should be exposed, and ensuring that adequate systems are in place to both manage and monitor such risk.
- Asset and Liability impacts of current operating plans and economic market update.
- Liquidity and Funding risks.
- Interest rate risk and other drivers of net interest income sensitivity:
 - Non-traded market interest rate risk in the banking book, including market index basis risks;
 - Structural non-discretionary interest rate risk in the banking book;
 - Other potential non-interest rate drivers of income volatility.
- Credit risk in the banking book – namely capital consumption and treasury counterparty risk.
- Contingency funding planning and refinancing risk.
- The assessment of the liquidity levels of the Society and the adequacy of liquid funds in relation to the Society's Corporate Plan, OLAR, LCR and NSFR, having regard to both expected and unexpected events and recommending any necessary consequent changes to the liquidity policy where appropriate
- The review and recommendation to the Board of any changes in treasury counterparties for approval on at least an annual basis.
- To approve pricing structure for new products which are outside mandates of PDC, namely any product which does not fall within a 0.35% variation on the hurdle rate.
- To review, at least annually, the policies which relates to balance sheet risk and recommend changes to the Board in line with the RMF including: the ILAAP, ICAAP and RP documents and Stress Testing and Model Risk.

8. REPORTING PROCEDURES

1. ALCO will adhere to a standing agenda with additional items added upon prior notification to the Committee Chairman.

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2. Minutes will be itemised with action points and submitted to the Chair within 10 working days. These will be formally presented to the subsequent month's ALCO meeting, and following approval will be included in the successive month's Board pack.
3. The ALCO Chairman will report on Committee business and decisions to the Board following each ALCO meeting.
4. The Terms of Reference will be reviewed annually and approved by the ALCO prior to seeking Board approval.
5. Product Development Committee reports to ALCO.

9. MANAGEMENT INFORMATION

The Committee will receive the following reports:

MONTHLY

1. Treasury Policy Limits Report & Group Counterparty limits;
2. ALCO Dashboard – inclusive of snapshot month end position for GAP, Liquidity Stress Testing, Interest Margin, Basis Risk and Capital;
3. EBA six predefined shock scenarios on own funds;
4. Interest Margin Trend Analysis;
5. Overall NII metric (200bps shock);
6. Overall Basis Risk metric (NII calibration)
7. Summary LCR;
8. Summary NSFR;
9. SS20/15 Financial Risk Limits;
10. Forward looking GAP, Basis Risk and Capital positions;
11. Yield curve trend analysis;
12. Mortgage LTV trend analysis;
13. Details of assumptions within the ALCO Commentary; and
14. Minutes of each PDC, with access to the full Committee pack.

QUARTERLY

1. Interest Margin Volume and Price analysis;
2. A detailed LCR;
3. A detailed NSFR;
4. Liquidity Counterparty Limits including a breakdown of Large Exposures.