

# ChoudWest Bank

## Asset and Liability Management Committee (“ALCO”)

### Terms of Reference

<b>Chair</b>	<ul style="list-style-type: none"> <li>• Chief Financial Officer</li> </ul> <p>In the absence of the Chief Financial Officer, the Head of Treasury will act as the meeting Chair. If the Head of Treasury is unavailable a suitable alternative for the Chair shall be appointed by the Chief Executive Officer.</p>
<b>Members</b>	<ul style="list-style-type: none"> <li>• Chief Financial Officer</li> <li>• Chief Executive Officer</li> <li>• Head of Treasury</li> <li>• Group Head of Balance Sheet Management, Group Treasury [for GROUP entities] or alternate</li> <li>• Head of Corporate Banking</li> <li>• Head of Retail Banking</li> <li>• Head of Private Banking</li> <li>• Chief Risk Officer</li> <li>• Head of Strategy</li> </ul>
<b>Attendees</b>	<ul style="list-style-type: none"> <li>• MD Products &amp; Marketing</li> <li>• Head of ALM / Money Markets</li> <li>• Head of Liquidity Risk</li> <li>• Head of Valuation Control / Product Control</li> <li>• Chief Economist</li> <li>• [Head of Internal Audit]</li> <li>• [Board NED]</li> </ul>
<b>Additional Invitees</b>	As appropriate.
<b>Deputies</b>	If a Member is unable to attend a meeting, he/she shall appoint a deputy to attend on his/her behalf. Such deputy's attendance shall not count towards the quorum and the deputy shall not hold the right to vote.
<b>Quorum</b>	Three members, at least one of whom shall be the Chief Financial Officer or the Chief Risk Officer, <i>OR</i> one from the 1 <sup>st</sup> line of defence and one from the 2 <sup>nd</sup> line of defence.
<b>Meeting Frequency</b>	<p>Monthly and <i>ad hoc</i> as required by any member.</p> <p><i>Ad hoc</i> meetings are permitted to take place via email if necessary. Rules regarding decision making and quorum remain the same as for face to face meetings.</p>
<b>Voting protocol</b>	Items presented for approval may be approved by majority vote in favour, provided at least one from the 1 <sup>st</sup> line of defence and one from the 2 <sup>nd</sup> line of defence are in favour.
<b>Secretary</b>	Provided by Treasury.
<b>Committee Authority</b>	ALCO operates as a sub-committee of the Board.
<b>Authority Delegated by the Committee</b>	ALCO may delegate any of its powers to a sub-committee consisting of one or more ALCO members. Any sub-committee so formed shall conform to any regulations that may be imposed on it by ALCO and the acts and proceedings of a sub-committee shall be reported to ALCO.

	<p>ALCO shall review and approve the ToR of those committees to which it has delegated authority at least annually and on an ad hoc basis should material amendment be proposed.</p> <p>ALCO operates with two sub-committees:</p> <p>The Balance Sheet Management Committee (BSMCO) will operate as a technical sub-committee of ALCO. This committee operates under specific formal ToR.</p> <p>The Product Pricing Committee (PPC) will report as a sub-committee of ALCO. This committee operates under specific formal ToR.</p> <p>Specific delegated authorities are set out within scope of the Committee's oversight and responsibility.</p>
<b>Committee accountability</b>	<p>ALCO operates as a sub-committee of the Board and reports to the Board</p> <p>[<i>Alternatively:</i> ALCO operates with Board-delegated authority.]</p>
<b>Escalation</b>	<p>Management decisions beyond this Committee's authority and matters which this Committee deems necessary for escalation will be escalated to the Board or appropriate other Board committees where relevant.</p>
<b>Purpose of the Committee</b>	<p>Responsible for identifying, managing and controlling all of the bank's balance sheet risks and capital management in executing its chosen business strategy. Balance sheet risks are managed by setting limits, monitoring exposures and implementing controls across the dimensions of capital, credit, FX, funding and liquidity, and non-traded interest rate risk.</p> <p>It is responsible for the implementation of ALCO strategy and policy for the bank's balance sheet.</p>
<b>Scope of the Committee's oversight and responsibility</b>	<p><b>Strategic overview</b></p> <ul style="list-style-type: none"> <li>• Provide a single forum where the balance sheet risks of the bank can be monitored and managed.</li> <li>• Ensure a consistency of approach across a range of Treasury issues.</li> <li>• Establish and approve risk appetite for the individual business lines and monitor exposures against limits.</li> <li>• Provide a single forum to consider developments in balance sheet management policy and regulation, including official communications from the Regulatory authorities.</li> <li>• Approve significant transactions where appropriate.</li> <li>• Ensure that the decisions and policies from the Board are fully adhered to</li> <li>• Ensure compliance with regulatory requirements</li> </ul> <p><b>Capital</b></p> <ul style="list-style-type: none"> <li>• Owns, approves and reviews the bank's capital management policy</li> <li>• Monitor long term RWA trends and oversee actions to optimise RWA levels</li> </ul>

- Monitor and review capital usage and return on capital metrics for each business against targets
- Review capital budgets / forecasts by business to ensure compliance with Board strategy.
- Approve allocation of capital between businesses where appropriate
- Review strategic transactions as required.
- Review proposed changes in bank balance sheet risk policy and drive action as required
- Exercise responsibility for the overall oversight, preparation, drafting and approval of the internal capital adequacy assessment process (ICAAP), for upward submission to the Board.
- Responsible for the drafting and approval process of the Recovery Plan (RP), for upward submission to the Board.

#### **Liquidity and Funding**

- Establish liquidity risk appetite and set appropriate business limits (where measurable) and targets.
- Set liquidity risk tolerances via specific metric limits, at bank, corporate banking, retail banking and business line level
- Review liquidity and funding positions by business (where possible) against limits and approve excesses as required.
- Review liquidity and funding budgets/forecasts by business to ensure compliance with Group strategy.
- Review stress testing and underlying assumptions. Consider whether alterations to modelling scenarios are required.
- Approve and sign off on the bank's Contingency Funding Plan
- Approve business line Treasury Funding Policy statements
- Exercise responsibility for the overall oversight, preparation, drafting and approval of the individual liquidity adequacy assessment process (ILAAP), for upward submission to the Board.

#### **Non-Trading Interest Risk (IRRBB) & Foreign Currency Exposure**

- Establish risk appetite and set appropriate business limits.
- Review principle positions, hedging strategies and approve excesses as required.
- Review proposed changes in Board policy and drive action as required
- Review the effects of stress tests and potential impact of significant external events on interest rate and FX exposure

#### **Pricing**

- Support business pricing strategy through transparent identification and communication of liquidity, funding and capital costs.
- Review and monitor portfolio pricing initiatives and implications for strategic balance sheet management
- Review and challenge margin trends/movements.

- Ensure that pricing methodologies remain appropriate, including the FTP and RAROC pricing model (where appropriate), particularly the assumptions of funding costs.

#### **Ownership of Stress Testing Process**

- Review and approve the stress testing scenario planning process
- Provide oversight of business line Stress Testing, including approval of idiosyncratic stress scenarios and market-wide stress scenarios
- Review, challenge and approve stress testing output for Board review
- Manage, review, challenge and approve ICAAP/ILAAP process from start to Board submission

#### **Credit risk**

- Credit risk oversight is within the scope of ALCO governance to the extent that approval of all credit policies, guidelines and direction, and approval of country and sector limits, must be granted in advance by ALCO.
- Credit policy approval includes high level reporting and review of key credit risk parameters which have implications for RWA reporting, capital usage and trends.

#### **Model validation**

- Review and approve the model validation process for all models employed by the bank, including approval of input parameters, assumptions and back-testing process.

#### **Intra Group Limits (IGLs)**

- [For GROUP entities] Oversight, approval and monitoring of all intra-group limits and limit usage by business lines and [subsidiaries for GROUP entities]

#### **Internal funds pricing regime**

- Approve the Bank's internal funds pricing regime ("FTP") and sign off the FTP policy on semi-annual basis.
- Delegate authority for FTP implementation to Treasury.
- Approve and sign off FTP policy statements for Retail banking and Corporate Banking.

#### **Policies**

- ALCO is responsible for ownership, approval, implementation and annual review of the following policies:
  - Asset-Liability Management Policy
  - Liquidity Risk Management Policy
  - Capital Management Policy
  - IRRBB Policy
  - HQLA Policy
  - Funds Transfer Pricing Policy
  - Pricing Policy
  - Model Governance Policy

#### **Other**

- Approve all funding cost re-charge mechanisms.
- Other issues relating to the management of financial risk and the balance sheet, as the Chair and members identify from time to time.

	<ul style="list-style-type: none"> <li>• Ensure effective operation of the ALCO in line with best-practice and regulator requirements, including as the appropriate forum for challenge and debate of all balance sheet-related issues and concerns.</li> <li>• Promote and ensure a culture of good corporate governance.</li> <li>• Escalation of issues to Board where necessary.</li> </ul>
<b>Board Administration/Secretariat</b>	<p>The Treasury team is responsible for meeting administration.</p> <p>The draft agenda for each meeting is agreed with the Head of Treasury and the Chief Financial Officer in advance of meetings. Papers are circulated to Members and Attendees a minimum of three business days before each meeting. Draft minutes and agreed actions are circulated for approval as soon as possible after each meeting, and within a period of one week.</p> <p>The minutes of the meeting shall include:</p> <ul style="list-style-type: none"> <li>• A record of all material issues discussed and agreed by the Committee;</li> <li>• All agreed actions and items approved by the Committee; and</li> <li>• Any matters which require escalation.</li> </ul> <p>The Chair of the meeting has responsibility for ensuring the meeting minutes are reviewed before circulation to the Members and Attendees for review and comment. The minutes from the previous Committee meeting will be submitted for formal approval at its next meeting.</p> <p>Copies of the approved minutes and record sets for all meetings are retained by the secretariat.</p>