

**DAVENHAM GROUP PLC**  
**ASSET AND LIABILITY MANAGEMENT COMMITTEE**  
**TERMS OF REFERENCE**

**1. SCOPE**

The Davenham Group Plc (the “Company”) Asset and Liability Management Committee (“ALCO”) is responsible for advising the Board on all matters relating to the balance sheet of the Company, specifically the following matters:

- Capital structure and related matters
- Funding
- Liquidity

The Committee will advise the Board and recommend actions it considers necessary or desirable to establish that the Company’s balance sheet matters are suitably understood and managed.

The Committee will report key recommendations and provide information to the Board.

**2. AUTHORITY**

The Committee has been established under the specific authority of the Board. The Chairman of the Committee is empowered to establish working groups with a specific task and a finite life to assist the Committee.

The Chairman of the Committee will brief the Board on significant risk issues arising.

**3. RESPONSIBILITIES**

The key responsibilities of the Committee will be:

**3.1. Balance Sheet Management**

3.1.1. To ensure proper management within defined control parameters set by the Board, of the Company’s net interest income and its structural exposure to movements in market rates and other changes in the external environment.

3.1.2. To consider interest rate forecasts and, in light of these forecasts and other information:

- To consider the Company’s structural exposures, including the evaluation of appropriate stress scenarios, and to formulate actions, where required;
- To review information on the Company’s net interest income margin performance in order to identify potential margin compression or similar concerns and formulate appropriate actions to be taken; and

- To oversee the transfer charging of capital, funding, liquidity and risk costs, in order to optimise value across divisions.

3.1.3. To consider the significance on ALM of any changes in customer behaviour and formulate appropriate actions.

## **3.2. Capital**

3.2.1. To consider, if appropriate, the composition of the Company's capital structure, taking account of future regulatory requirements and rating agency views, and formulate appropriate actions where required.

3.2.2. To provide an overview of the Company's capital planning matters, including:

- monitoring of capital funds usage by divisions;
- banking covenants

3.2.3. To consider the capital needs of the Company and the process for the raising of capital;

3.2.4. To evaluate appropriate stress scenarios relating to the Company's capital position and formulate appropriate actions;

3.2.5. The Board will recommend actual capital allocation decisions.

## **3.3. Funding**

3.3.1. To review and assess the management of funding undertaken by Company and formulate appropriate actions to be taken;

3.3.2. To review the Company's funding profile and consider:

- the diversification, cost and robustness of funding sources;
- the funding needs (both actual and projected);
- current and new funding structures e.g. securitisations; and
- the impact of structural investments;

and formulate appropriate actions to be taken;

3.3.3. To evaluate the results of stress scenarios relating to the Company's funding position, and formulate appropriate actions.

## **3.4. Liquidity**

3.4.1. To review and assess the management of the Company's liquidity across divisions within the framework and policies established by the Board, as the case may be, and formulate appropriate actions to be taken;

3.4.2. To review the Company's liquidity profile and consider:

- the management of sterling and currency short term liquidity;
- collateral management;

and formulate appropriate actions to be taken;

3.4.3. To evaluate the results of stress scenarios relating to the Company's liquidity position, and formulate appropriate actions.

### **3.5. Other matters**

3.5.1. To review developments and changes in legal, regulatory, and accounting requirements and their impacts on ALM, funding, liquidity and capital management policies;

3.5.2. To review any other matters that affect ALM, capital management, funding and liquidity; and

3.5.3. To provide information to the Executive and Risk Committees, or their nominated committees, where required.

## **4. MEMBERS**

The Board will determine membership.

Current members are:

NED	David Stewart (Chair)
CEO	David Coates
FD	Paul Burke
Risk Director	David Bowles

Other Board members may attend for specific items. In addition, the Chairman of Davenham Group Plc is entitled to attend as an observer.

## **5. CHAIRMAN**

The Committee will be chaired by a duly appointed Non-Executive Director.

## **6. QUORUM**

The quorum for a meeting shall be a minimum of three members one of whom must be a NED.

## **7. SECRETARY**

The Group's Company Secretary.

## **8. MINUTES**

Minutes of the Committee meetings will be circulated to the Board.

## **9. NOTICE AND FREQUENCY OF MEETINGS**

The Committee meets once every two months, with those members attending being given an Agenda and supporting papers at least five business days in advance. Ad-hoc Committee meetings can be convened at short notice, assuming a quorum is available. Requests for any ad-hoc Committee meeting should be submitted to the Chairman. Notice of all meetings will be provided to all members whether or not they are able to attend.

## **10. CHANGES TO THE TERMS OF REFERENCE**

The Board must approve changes to the Terms of Reference and these must be notified to Secretariat.

## **11. CHANGE HISTORY**

Version 1.0 - Terms of Reference approved on 31 January 2007.