ANGLICAN FUNDS
GRAFTON DIOCESE

INTEREST RATE SETTING POLICY

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1. Introduction

(a) Interest Rate policy is designed to establish a framework that effectively manages the risks associated with movements in interest rates. This means interest rate risk must be identified, measured, monitored and be consistent with the level of risk acceptable to the Board.

(b) Interest rate need to be established in a transparent manner that provides sufficient margin, yet are sufficiently flexible to adjust to changing external conditions in the money market.

2. Definition

(a) Interest rate risk is the risk of loss of earnings due to the movements of interest rates.

(b) Interest rate risk is measured by interest rate gaps and net interest margins. Interest rate gap is defined for a given period as the difference between fixed rate (insensitive) assets and fix rate (sensitive) liabilities. Net interest margin is a measure of the difference between lending rates and investment rates, after deducting the cost of funding.

3. Responsibilities

(a) The Board is responsible for;

- defining and communicating the acceptable level of interest rate risk for managing the Fund. The parameters that define this risk are set out in the attached rules;
- ensuring the risk management framework is reviewed periodically, and this policy is regularly reviewed as part of that framework;
- providing prudential oversight of the effectiveness of interest rate setting and its impact on the overall performance of the Community Fund;
- approving any changes to this policy.

(b) Management is Responsible for:

- ensuring that interest rates are set within the parameters established and approved by the Board.
- reporting interest rate risk performance against benchmark to the meetings of the Board;
- ensuring there are sufficient resources to effectively set rates and process transactions within the risk management framework;
- documenting interest rate risk performance that includes assumptions used and calculations relied upon, similar to the requirements of APRA Prudential Standard APS117.

4. Publication

(a) The Anglican Fund Grafton Diocese interest rates shall be published on the Anglican Fund Grafton Diocese website as soon as practicable after each determination.

INTEREST RATE SETTING – RULES

1. NET INTEREST MARGIN

(a) The net interest margin (excluding offsetting loans and investments) is recorded as a percentage:

Where:
AII is the Annualised Interest Income excluding interest from offset loans
AA is the Average assets excluding assets in the offset loan arrangements
COF is the Annualised Cost of Funds excluding interest paid on offset investments
AL is the Annualised Liabilities excluding liabilities in offset investment arrangements

(b) The net interest margin (excluding offsetting loans and investments) must always exceed zero, and be sufficient to offset expenses other than interest expenses (i.e. generate a surplus) over a set time period. A target net interest margin of 150 basis points (excluding offsetting loans investments) is set based on the estimated cost of expenses other than interest expense.

2. INVESTMENTS

(a) CUSTOMERS

i. Investments are only acceptable from Parishes, Parishioners, and Anglican Affiliated Entities.

(b) INVESTMENT TYPES

i. At call savings investments have no minimum or maximum amount.
ii. Term Investment investments will be available;

1. 90 Day
2. 6 Month
3. 12 Month
4. other terms by negotiation.

iii Interest will be paid at the end of each term.

(c) INVESTMENT RATES

(i) Investment rates will be set considering current RBA cash rates, competitor rates for similar products, and net interest margins. Net interest margins should be sufficient to cover administration expenses that would result in a net surplus to the Community Fund.

(ii) Investment rates will ordinarily be set at RBA Cash Rates plus a margin.

(d) MARGIN SETTING

iii. At call rates should ordinarily be the RBA Cash Rate plus or minus a small margin.
iv. The margin for Term Investments should be based on:

    1. The margin that results in the current interest rate being no greater than that quoted from at least 3 reputable financial institutions (ADI's) for a similar product (term investment), and
    2. A margin that aims for a net margin of at least 120 basis points over RBA.

v. Management may bring before the Board proposals, to be offered either on an ongoing basis, or over a limited time. The Board can accept such proposals provided that they determine that the proposal is:

    1. commercially valid
    2. either relates to a Corporate Plan development item or is in response to a credible competitive offering, and
    3. contributes to a positive net interest margin.

(e) TIMING OF RATE CHANGES

i. Where investment rates are based on RBA Cash Rate, movements by the RBA shall trigger a management review of these rates. Should a change be necessary, such rate changes will take effect on the date set by the Board upon formal adoption of the new rate.
ii. Offers made under Section 2.d.iii above shall have their rates change on a frequency and timing as determined in the proposal put by Management to the Board.
iii. From time to time, the Board may consult by email.

3. LENDING

A.CUSTOMER PRICING

i.General

This pricing policy shall apply to all new lending written after the date of this policy. All previous loans shall be priced as per the provisions of their loan contract.

ii.**Parishes**

A key objective of the Fund is assisting Parishes by providing loans that satisfy Anglican Fund Grafton Diocese lending criteria. The interest rate is set at the cost of funds plus the approved margin.

An Anglican Fund Grafton Diocese Parish Reference Rate shall be struck on the first business day of each month based on the lesser of;

1.The average cost of funds reported to the Board for the previous month plus 200bp, or
2.the mean Business Lending Rate advertised by each of the four major banks on that day minus 200bp;

provided that the resultant Parish Reference Rate is not less than the floor value of the marginal cost of capital plus 100bp, otherwise the Parish Reference Rate shall be set to this floor value.

A variable rate of interest applies.

iii Anglican Affiliated Entities:

A secondary objective of the Fund is assisting Anglican Affiliated Entities, such as schools and Anglicare, by providing loans that satisfy Anglican Fund Grafton Diocese's lending criteria.

An Anglican Fund Grafton Diocese Business Reference Rate (ABRR) shall be struck on the first business day of each month based on the higher of:

1. That day's BBSY plus 400bp; or
2. The mean Business Lending Rates advertised by each of the four major banks on that day.

A variable rate of interest applies, which shall be set at the ABRR plus or minus a suitable margin, to account for the risk and competitive settings of that transaction.

The approved margin for loans to Anglican Affiliated entities will be such that the result in the net interest margin is not less than 150bp's above Anglican Fund Grafton Diocese's marginal cost of capital.

(a) INTEREST RATE TYPES

i. **Variable:** Variable loan interest rates are preferred. They are set at a cost of securing funds at variable rates over a commensurate period, plus an approved margin. Interest is charged monthly and in arrears.

ii. **Fixed:** Fixed loan interest rates are only used where specifically requested, and are only accepted when appropriate funding can be sourced. They are set at a cost of securing such funds at fixed rates over a commensurate period, plus an approved margin. Interest is charged monthly and in arrears.

(b) LOAN TYPES

i. Interest only
ii Principal and Interest (Credit Foncier)
iii These will be considered based on their availability in the market and the adequacy of security offered.

(c) LOAN DURATION

i. Generally. Loans will be granted for a maximum of 15 years, or the life of the security asset, whatever is the lesser.

(d) COST OF FUNDS

i The cost of funds will depend on the source of funds. Loans for Parishes will, where possible, be sourced internally from Anglican Investments. The cost of internally sourced funds will be the weighted average rate used to pay interest on investments, which is expected to be the RBA Cash Rate (plus premium for term investments). Where funds are sourced externally, the cost of these funds will be the weighted average interest rate used to procure these funds from other banks.

(e) TIMING OF RATE CHANGES

i. Where a loan has been made on the basis of funding linked to the RBA Cash Rate, rate changes will take effect on the date set by the Anglican Fund Grafton Diocese Board upon formal adoption of the new rate. Variable rates will be reviewed annually at anniversary date of loan.

ii Where a loan has been made on the basis of an external funding source, or on a basis other than the RBA Cash Rate (e.g. BBSY), rate changes will take effect as soon as practicable after a movement in the rate of that cost of funding or index.

iii The manager has the authority to extend the effective date of rate change for arrangements dealing with offset loans, where the date of effect is the same for lending as for investment taking.

iv. From time to time. The Board may consult by email.

4.DELEGATED AUTHORITY/APPROVALS

a. Anglican Funds Grafton Diocese (AFGD) Board has delegated authority to approve interest rate changes within the parameters set in this document.

b. All rate changes are to be reported to the Board and include the impact on the current and forecast Balance Sheet and Profit and Loss statements (net interest margin, expense to income ratio, liquidity ratio, return on equity, capital adequacy).

c. Any arrangements with offsetting loans and investments reflecting broadly similar investment and lending interest rates are to be approved by the Board.

d. Variances to rates may be negotiated within the following limits:

i. Management – up to 25bp

ii. The Board - over 25bp