BUCKINGHAMSHIRE BUILDING SOCIETY

Capital Requirements Directive

Pillar 3 Disclosure 2016

Financial Services Register Number 206022

Index

1. Introduction

The Capital Requirements Directive (CRD) establishes a regulatory framework governing the amount and nature of capital financial institutions are required to maintain. In the United Kingdom, the CRD is implemented by the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA). Buckinghamshire Building Society therefore is subject to the provisions of the CRD which also contains guidance about disclosure requirements that institutions must satisfy focusing on risk management, capital resources and adequacy, asset encumbrance and remuneration policies and practices.

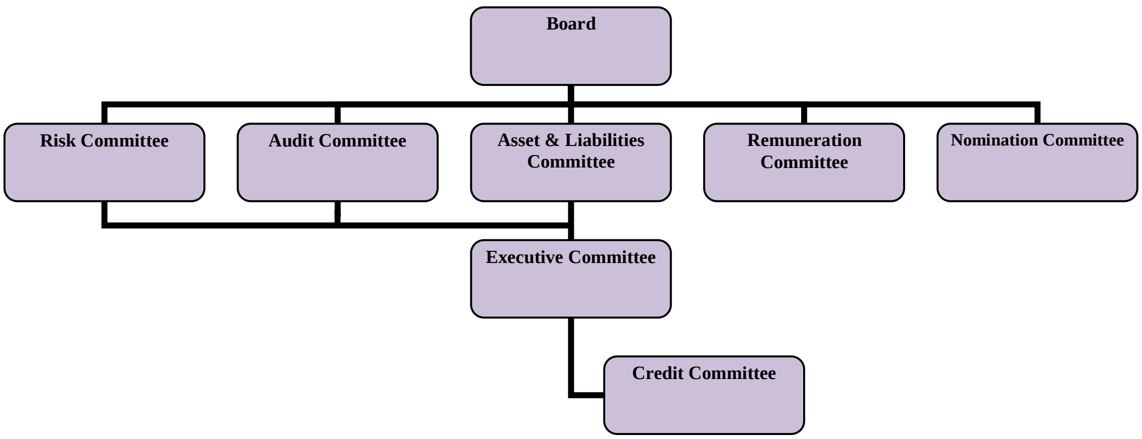
The CRD sets out three Pillars, each dealing with the different aspects of the rules. An explanation of the three Pillars is set out below:

Pillar 1	Sets out the minimum levels of capital that has to be maintained. The calculation of Pillar 1 is based on the size of an institution and its risk characteristics. Larger firms calculate their Pillar 1 requirements using an Internal Ratings Based (IRB) model which allows an internal assessment of risk weightings to be applied to assets. As a small firm the Buckinghamshire Building Society operates under the Standardised Approach which uses prescribed risk weightings as set out in the CRD for credit risk and the Basic Indicator Approach for operational risk.
Pillar 2	Is focussed on an internal assessment of risk that is not fully covered by Pillar 1 or risks that are not within the scope of Pillar 1. Pillar 2 also calculates a capital planning buffer and capital conservation buffer, which are required to ensure the Society will meet its capital adequacy requirements even under periods of economic stress. The review of Pillar 2 is documented in the Society's Internal Capital Adequacy Assessment (ICAAP) which is approved annually by the Board and is subject to review by the PRA.
Pillar 3	Covers the disclosure requirements of the CRD and is satisfied by the publication of this document. The document provides details on the principal business risks faced by the Society, the Society's approach to their management and gives a breakdown of the capital amounts calculated under the Pillar 1 provisions. The document is also required to provide details concerning the remuneration of certain staff that have been assessed as being subject to the requirements of the Remuneration Code.

This disclosure document has been prepared by the Society on a non-consolidated basis given that there are no subsidiaries or associated entities. Unless otherwise stated all financial information contained within this document is as at 31 December 2016.

2. Risk Management Policies and Objectives

The Board and Senior Management take the lead in embedding a risk-aware culture that supports a high level of risk awareness and a strong internal control environment. The Board is accountable for the adequacy of risk management within the Society and has designed the Society's governance structure to effectively manage this responsibility.



Until the end of 2016 we had a sub-committee of the Board focussed on Conduct and Culture, although these duties are in the process of being moved to primarily Risk Committee and the Board.

Risk Committee

The Risk Committee is a Board Committee whose purpose is to ensure that the approach to identification and management of risk is adequate, cost effective and integrated. Oversight includes ensuring operation within Risk Appetite; ensuring effective stress and scenario testing is carried out; assessing and recommending to the Board for approval, the ICAAP, Risk Management Framework & Appetite and a number of Policies; ensuring Audit Committee adequately review and respond to breaches incidents and issues tracking; ensuring Remuneration Committee adequately consider conduct risk, capital and timing of variable remuneration schemes; and facilitating identification of emerging risks within a supportive, risk aware culture. Committee constituted of 4 non executive directors (NEDs), Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Risk Officer (CRO). Outsourced Internal Audit provide independent advice where required.

Audit Committee

The Audit committee is a Board Committee responsible for ensuring the integrity of the Society's financial statements; ensuring accounting and reporting systems provide accurate information; ensuring that systems and controls continue to operate effectively; and ensuring the Combined Assurance Plan allocates adequate resources to assess the controls in the first line of defence, to ensure compliance with regulatory requirements. Committee constituted of 3 NEDs. Outsourced Internal and External Audit provide independent advice where required.

Remuneration Committee

The Remuneration committee is a Board Committee responsible for determining remuneration policy across the Society. Committee constituted of 3 NEDs.

Nomination Committee

The Nominations committee is a Board Committee responsible for ensuring the Directors and senior management have appropriate skills, experience, and competencies to perform their roles; to develop and consider succession plans for Board and key management roles; to make recommendations to the Board for the selection of new Directors and senior managers; and make recommendations regarding Governance requirements. The Nomination Committee is constituted by all NEDs.

Assets & Liabilities Committee (ALCO)

ALCO is a Board Committee responsible for ensuring liquidity and funding adequacy; suitability of interest rate basis risk and maturity mismatch controls; and ensuring suitability of Treasury investments and controls. ALCO recommends ILAAP and Financial Risk Management Policy to the Board and sets the parameters within which the Executive can price products. Committee constituted by 4 NEDs, CEO, CFO, CRO & Head of Lending (HoL).

Executive Committee (ExCo)

ExCo is a management committee focussing on Operational and Business Risks, supporting the CEO in directing and coordinating the day-to-day management of the business:

- Monitoring, managing and communicating progress and actions to achieve Strategy;
- Allocating and prioritising resources; human, physical and financial;
- Developing, pricing, launching and managing products and services;
- Establishing and maintaining effective internal and external relationships; and
- Promoting the business and maintaining its reputation.

Committee constituted by CEO, CFO, CRO, HoL, Compliance manager, Marketing manager, Human Resources Manager, Customer Services Manager, IT Manager and Society Secretary to ensure adequate representation of all parts of the business.

Credit Committee

The Credit Committee is a management committee whose purpose is to review mortgage cases outside Lending Policy or exhibiting specific risks such as lending to borrowers in or into retirement and all loans over £450k. The Committee also considers changes to Lending Policy and reviews arrears performance. Committee constituted of CEO, CFO, CRO, HoL, Money Laundering Reporting Officer and Senior Underwriter.

At an operational level risk is managed through the three lines of defence structure which is defined below:

First Line of Defence - Operate Key Controls:

The Society has an Internal Control Framework designed by each Department to identify measure and manage risk within risk appetite. Risk Owners maintain adequate key control documentation to evaluate how key controls are operating. Key responsibilities include:

- Assessing and managing risks within regulatory requirements as they change;
- Prompt reporting, managing and learning from incidents;
- Embedding controls in policies, procedures and training;

- Implementing control checks and monitoring; and
- Validating that controls are operational and effective.

Second Line of Defence - Key Control Reviews:

The Risk & Compliance function provide risk management expertise, independent challenge and support for the Board, management and staff. Oversight involves review of all key controls and associated documentary evidence of how they are operating on an annual basis. Other independent assurance work is carried out in accordance with the risk based Combined Assurance Plan as approved by the Audit Committee. The CRO has a direct reporting line to the CEO with a dotted line to the Chairman and Chair of Risk Committee. Key responsibilities include:

- Creation and maintenance of Risk Management Framework & Appetite;
- Balance challenge and support of the first line of defence;
- Provide oversight and leadership on risk matters; and
- Report to the Board and its Committees.

Third Line of Defence - Audit:

The Internal Audit function is responsible for independently reviewing the effectiveness of the internal control environment utilising a risk-based work programme. Internal Audit provides advice, benchmarking and training to assist in the continuous improvement of the control framework. In addition External Audit function carries out a high level Interim Control Audit particularly focussed on matters that impact financial reporting and provide independent assurance of financial statement accuracy. The Board may from time to time call upon External Audit to provide specific assurance work.

The Society's Risk Appetite

The Risk Appetite is designed to promote sound decision making that recognises the consequential impact. The Board debate, refine and approve a set of parameters consistent with achieving the Strategic Plan. Management operate within these limits and report performance in relation to the key risk indicators, trends and management actions where needed. The Risk Appetite Statement is reviewed when significant changes occur within the business or the external environment. The Risk Appetite Statement is refreshed at least annually.

Principal Risks

The principal risks to which the Society is exposed and which are continually assessed and managed by the Board and Management comprise:

- **Credit Risk –** Credit risk arises from two main areas, firstly if mortgage holders are unable to meet payments on their mortgage and ultimately default on their loan. Secondly, if a treasury counterparty is unable to settle its financial or contractual obligations to the Society.

  The Board has set a Risk Appetite designed to avoid losses by targeting a balanced portfolio of mortgage assets that match expertise and experience of underwriters. At an operational level mortgage credit risk is managed through a combination of adherence to the Society's Lending Policy and strict underwriting procedures. The Society's Lending Policy contains detailed limits as to the amount and type of lending the

Society can undertake in both the current year as well as the overall mortgage book. These limits ensure the structure of the mortgage book is consistent with the Society's risk appetite.

On going review and control of credit risk is managed by Credit Committee, ExCo and Risk Committee, the Risk Committee will report any relevant matters to the Board. These committees receive detailed information focusing on:

- Arrears and forbearance
- Proportion of the overall book made up of owner occupied, buy to let (BTL) and commercial lending
- Indexed loan to value
- Affordability
- Repayment type

In addition to the above the Risk and Compliance function will perform credit reviews focussing on various aspects of recent and back book lending.

Treasury counterparty risk is managed by only investing in counterparties with high credit ratings, in other building societies and in successful challenger banks following a detailed individual risk assessment by our Assets and Liabilities Committee. In addition, the Society limits exposures to particular counterparties, types of investment or countries. These limits, together with a range of other mitigating processes and controls, are documented in the Society's Individual Liquidity Adequacy Assessment (ILAA).

On going review and control of treasury credit risk is managed by ExCo and the ALCO who receives detailed information focussing on:

- Approved counterparty list
- Exposures to approved counterparties
- Credit ratings of approved counterparties
- Country exposures

- **Capital risk -** the risk that the Society has insufficient capital to cover stressed losses or to meet regulatory requirements. The Society conducts an assessment of capital adequacy covering all risks to determine the level of capital required to support current and future risks in the business, including any changes in business volumes, mix of assets and multiple stress scenarios. This assessment is approved by the Board and monitored monthly. The assessment is utilised by the regulators to set the Society's capital requirements as Individual Capital Guidance (ICG). At the present time the Society has capital that significantly exceeds the regulatory requirements.

- **Interest Rate risk -** Interest rate risk is the risk of fluctuation in financial markets which could impact on the value of the Society's assets and liabilities, primarily as a result of movements in interest rates. The Society is on the 'Matched' Treasury approach under PRA guidelines. This means that it has to match the interest rate profile of both its assets and liabilities, and can only take limited interest rate risk subject to tight limits set by Board, and only then to the extent that the PRA is satisfied that the Society has the requisite risk management capability. Management of interest rate risk is predominantly set out in the Society's Individual Liquidity Adequacy Assessment (ILAA). Control of interest rate risk exposure is managed by ExCo and the ALCO. Committees will receive information focussing on:

  - Proportion of the both assets and liabilities on fixed rates
  - Matching reports both static and forward looking
  - Report highlighting exposure to various basis categories for example base rate, libor, fixed and administered

- Sensitivity analysis highlighting the impact of changing interest rates

- **Liquidity and Funding Risk -** Liquidity and Funding risk is the risk that the Society is unable to meet its current and future payment obligations when they fall due. Payment obligations arise in respect of repayments due to depositors and commitments to lend, in addition to repayment of other borrowings and overhead costs.

  The Society's business model is based on long term mortgage lending which is financed mainly by retail funding that is contractually short term. This therefore requires the Society to maintain sufficient quantity and quality of liquid assets with appropriate access characteristics.

  The Society's ILAA ensures that it always holds a highly prudent level of liquid assets so that it can meet these obligations. As well as holding relatively high levels of liquid assets, the Society also has contingency funding plans in place to cope with any sudden or extreme outflows, and carries out regular stress tests to ensure the robustness of these plans.

  The assessment of the appropriate balance of liquid assets which is documented in the ILAA is informed by both regulatory guidance termed liquidity coverage ratio (LCR) considered as the Pillar 1 requirement and an internal analysis considered as the Pillar 2 requirement. In combination both the Pillar 1 and 2 assessments satisfy the overall liquidity adequacy rule that states the Society must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

  In addition to LCR the regulator provides further guidance through supervisory statement 20/15 'Supervising building societies treasury and lending activities ("Sourcebook"). The Society operates under the 'matched' approach as set out in SS20/15, which contains guidance for treasury deposits as well as wholesale borrowing.

  Control of liquidity and risk is managed by ExCo and the ALCO. Committees will receive information focussing on:

  - Quantity of high quality liquid assets (HQLA)
  - Level of LCR
  - Level of on and off balance sheet treasury assets compared to overall funding balance
  - Maturity profile of funding book
  - Results of cash flow stress tests

- **Operational Risk -** This relates to the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. The management of operational risk is set out within the Society's various policies and procedures. All such risks are identified, assessed and closely monitored as part of the formal risk management structure. It is the responsibility of each business area, supported by the Risk department, to understand how operational risk impacts them and to put in place appropriate controls or take other mitigating actions.

- **Business Risk -** The risk to the Society that future business plans, financial targets and business model may not generate sufficient profit to build and maintain sufficient capital and invest in the business to maintain adequate value to our members leading to a business that no longer remains viable, resulting in an unsustainable business and thus failure of the Society. The Society mitigates this risk by preparing a business plan that it believes to be robust and achievable and then by stress testing this plan to assess the impact of various adverse market conditions. The business plan for the forthcoming year has agreed review points where the Board can assess actual performance and decide if any actions are required if variance against plan exist. The key indicators the Board will assess business risk are as follows:

- Capital and liquidity adequacy
- Net interest margin
- Management expense and cost income ratios
- Profit before tax
- Mortgage book growth
- Total asset growth

- **Concentration Risk -** Concentration risk is the risk arising from the lack of diversification in the Society's business. As a regional building society the business is concentrated in residential mortgage lending funded by retail savings and this represents product concentration. Concentration risk can also occur due to large exposure to an individual or group of connected individuals that are affected by a common issue (e.g. property price falls in a specific area).

    - Product – 85% of lending is owner occupied, 13% buy to let and 2% commercial
    - Geographic – The Society lends in England and Wales only, however as a regional building society there is a 65% concentration of lending in Outer Metropolitan, Greater London and Outer South East
    - Funding – The Society has a concentration of personal retail deposits of c80%, however these deposits are considered mainly stable (likely to stay with the Society over the longer term). Approximately 19% of funding is from small corporate entities, which although considered less stable than personal deposits have been maintained at a similar level for a number of years. As at 31 December 2016 only 1% of funding was from the wholesale markets. In addition to funding sources the Society has a geographic focus of retail funding balances in the South East which account for approximately two thirds of balances.

  The concentrations in the South East for both mortgages and funding balances cover a wide area of country including London and therefore there is no one major industry or employer that if closed could cause either mortgage arrears or losses or retail funding outflows.

- **Conduct Risk -** Conduct Risk is the risk of detrimental outcomes to customers derived from staff interaction throughout the product lifecycle. The risk to the Society is that we suffer reputational damage, a loss or do not benefit from an opportunity because of consumer detriment. Conduct risk comprises high-level principles of treating customers fairly, specific regulatory requirements, wider legal provisions, any relevant codes of practice and statements from the FCA.

  By striving to deliver good outcomes, we will build our brand and make our relationship with customers a source of competitive advantage. The Society's Conduct Risk Policy is the key policy, owned by the CRO and approved via Risk Committee and Board.

- **Pension Obligation Risk -** Pension risk arises from a potential pension liability. The Society no longer provides a defined benefit scheme for staff and it is considered, therefore, that there is no longer a risk in this category.

3. Capital Resources

The Capital Resources of the Society are calculated under the Capital Requirements Directive. The Capital Resources are comprised of:

- Retained earnings and revaluation reserves accumulated by the Society, representing Tier 1 Capital
- and collective provisions for bad and doubtful loans, included in Tier 2 Capital

Reserves are eligible to be treated as capital only after the annual accounts have been independently assessed by the Society's auditors, therefore the Society's capital will be updated annually following the financial year end.

Tier 1 and 2 Capital Resources have been set out in the table below

Capital Resources Breakdown as at 31/12/16	£'000s	£'000s
Profit and Loss Reserves	21,135	
Revaluation Reserve	240	
Total Tier 1 Capital		**21,375**
Collective Provisions	98	
Total Tier 2 Capital		**98**
Total Capital		**21,473**

Total Society assets as at 31 December 2016 were £225m

Requirement for Capital

Capital is required primarily to protect the Society from losses. Losses will mainly result following repossession of property which does not cover the loan balance from mortgage customers that have been in arrears. However other risks can result in losses such as a treasury counterparty default, changes in interest rates that may result in a reduction in net interest margin to a point where overheads are not covered.

A strong capital position also provides confidence to our members and to our regulators, and supports the Society's long term objectives of sustainable growth, targeting optimum profitability generating sufficient earnings to invest in the services our customers require.

4. Capital Adequacy Assessment

The Society aims to maintain its capital strength above the Board agreed requirement, which is higher than the minimum required by the PRA. In order to do this, the Society needs to generate, and retain, optimum profits that will add to the general reserves, the main source of capital.

Strategy and Planning

The Society considers its strategic priorities regularly and produces a five-year strategic plan; this is reviewed by the Society's Board at least annually. The Strategic plan includes the financial plan for the forthcoming year's business activities which takes account of the Board's risk appetite and also current and changing economic conditions. The plan considers the impact of the planned activities on the Society's capital resource. The plan also considers various adverse business and economic scenarios called stress tests; capital resource is measured against these various stress scenarios.

Capital Adequacy Assessment Process

The Society prepares an Internal Capital Adequacy Assessment Process (ICAAP), which focuses on ensuring the capital resources of the Society are sufficient to support its plan both in normal and stressed conditions. The ICAAP is aligned to the strategic plan and the combination of both ICAAP and strategic plan ensure that the Society maintains sufficient capital to support its planned business objectives.

The ICAAP process involves reviewing risks relating to the Society's assets and operations and making an assessment of capital required to mitigate any material financial impact of those risks. Included in the process is a detailed assessment of the results of the Society stress models based on a number of economic scenarios.

Finally the Board approves the capital assessment taking into account any areas where they may feel the regulatory calculations do not adequately capture the full risk exposure and then use internal models to determine if any extra capital is required.

Lending & Business Decisions

The Society translates its overall risk appetite for credit risk into a range of individual lending limits controlling the exposures to be taken by the Society. The performance against these limits is monitored monthly and reviewed at least annually.

Pricing

The Society's new mortgage pricing models include a capital assessment and are used to provide guidance as to the level of interest rate required to ensure an appropriate level of return is achieved.

5. Risk Weighted Exposure and Operational Risk Capital

The Society calculates its Pillar 1 capital requirement under the "standardised approach" for credit risk, standardised risk weightings are applied to each asset class resulting in a risk weighted asset (RWA), the minimum capital requirement is 8% of RWA.

In addition an evaluation of capital required to cover Operational Risk is calculated under the "Basic Indicator Approach" and determined by reference to the net income of the Society averaged over the previous 3 years, the minimum capital requirement under Pillar 1 being 15% of the average net income calculation.

The Pillar 1 capital requirement as at 31 December 2016 is set out below:

Pillar 1 Capital Resource Requirement

	Asset £'000s	Risk Weighted Asset £'000s	Capital £'000s
Treasury Assets			
Cash balances	59	0	0
Claims or contingent claims on central governments or central banks	26,311	0	0
Claims or contingent claims on institutions	17,666	5,036	403
SWAPs held duration of 1 year or more	110	22	2
Total Treasury Assets	**44,146**	**5,058**	**405**
Loans & Advances to Customers			
Fully secured on Land	2,486	2,466	197
Fully secured on Residential property	175,238	61,608	4,929
Past due items	667	667	53
Offers < 3 months 50%	1,788	642	51
Retentions	542	190	15
Total Loans & Advances to Customers	**180,721**	**65,573**	**5,245**
Other Assets			
Other Assets including Fixed Assets	2,413	2,413	193
Total Other Assets	**2,413**	**2,413**	**193**
Total Credit Risk Exposures	**227,280**	**73,044**	**5,843**
Operational risk Capital Requirement		**11,033**	**883**
Total Pillar 1 Capital Resource Requirement		**84,077**	**6,726**
Core Tier 1 as a Percentage of Risk Weighted Assets			**25.4%**

Basel III requires the calculation and disclosure of the Society's leverage ratio which provides a non risk-based measure to supplement the risk-based capital adequacy assessment. The leverage ratio is a measure of Tier 1 capital as a proportion of on- and off-balance sheet assets. The ratio does not distinguish between the credit quality of loans and acts as a primary constraint to excessive lending in proportion to the Society's capital. The minimum ratio must be 3%, but the leverage ratio does not come into force until 1 January 2018. The Society's leverage ratio as at 31 December 2016 was 9.39%.

6. Credit Risk - Mortgages

The Society regards as 'past due' any mortgage or loan account three or more monthly repayments have not been made at the accounting date. Arrears of mortgage repayments are monitored closely and the Society has performed well in comparison with national arrears and possession statistics. A detailed geographical analysis including 'past due' and 'performing' exposures is set out below.

Geographical exposure of loan book showing "Past Due" (Loans > 3 months in arrears), performing and total split by category for the Buckinghamshire Building Society as at 31st December 2016

Buckinghamshire Building Society

Geographic Region	Residential			Non-Residential			Total
	Past Due £'000s	Performing £'000s	Total £'000s	Past Due £'000s	Performing £'000s	Total £'000s	Residential and Non-Residential £'000s
Outer South East	61	29,651	29,712				29,712
Greater London		37,293	37,293		1,452	1,452	38,745
Outer Metropolitan	87	46,169	46,256		1,168	1,168	47,424
East Anglia		6,576	6,576				6,576
South West	34	18,025	18,059				18,059
West Midlands	316	9,526	9,842				9,842
East Midlands	121	6,880	7,001				7,001
North West	50	7,734	7,784				7,784
Yorkshire and Humberside		4,971	4,971				4,971
North		3,158	3,158				3,158
Wales		5,339	5,339				5,339
Total	669	175,322	175,991		2,620	2,620	178,611

* Past Due amounts relate to overall mortgage balances not the amount in arrears
* Balances in the above table will differ to balances per the Pillar 1 capital requirement for the following reasons
  - Capital calculation reduces mortgage balances by specific loan loss provisions
  - Mortgage offers and retentions are added to the capital calculation

Provisions

Having regard to the size of the Society's mortgage assets and the limited number of arrears cases provisioning is carried out on an individual basis. A collective provision is made to cover losses, which, although not yet specifically identified, are from experience known to exist within the loan portfolio. Such cases will include arrears cases not yet 3 months in arrears. The Society carries out a provisioning exercise using industry standard methodology, which is based upon house price indexation, forced sale discounts and probability of default and loss given default factors from the differing arrears groupings using industry standard figures reviewed by the Society's auditor.

7. Credit Risk – Treasury

The purpose of the Society's ILAA is to ensure that the Society has sufficient liquidity to meet its obligations as they fall due. This overarching requirement informs policy limits for the amount and quality of treasury assets.

The methodology for establishing counterparty limits involves consideration of the background rating information and balance sheet data relevant to the counterparty. The Society's policy is to measure counterparties against three main ratings agencies; a counterparty is acceptable if it achieves a minimum rating against two of the ratings agencies. For challenger banks that do not have a credit rating a detailed individual risk assessment is made by our Assets and Liabilities Committee taking into account detailed internal data supplied by the prospective counterparty and audited accounts.

Replacement values of outstanding hedging instruments are calculated and counterparty limits are adjusted to reflect an off-balance sheet exposure.

New limits are approved and existing limits removed only on the recommendation of ALCO to the Board. The Finance Director prepares a submission for the approval of new, or the removal of existing counterparties. Limits may be suspended by Treasury Department pending removal in the events of adverse market intelligence. No dealing will take place with counterparties which do not have a pre-approved limit. Where appropriate, exposure to counterparties is monitored on a consolidated basis.

Breakdown of treasury assets under the standardised approach

Ratings	Maturity of Treasury Investment			
	<3 months £'000s	3 months to 1 year £'000s	> 1 year £'000s	Total £'000s
AAA to AA-	**9,404**		**360**	**9,764**
A+ to A-	**2,892**			**2,892**
BBB+ to BBB-				
BB+ to BB-				
B+ to B-				
UK Government and cash	**25,024**		**1,346**	**26,370**
Unrated Building Societies / Banks	**1,003**	**4,006**		**5,009**
Total	**38,323**	**4,006**	**1,706**	**44,035**

8. Asset encumbrance

Article 100 of the Capital Requirements Regulation (CRR) requires institutions to report the level of their asset encumbrance. Asset encumbrance is a claim against an asset by another party, often in the form of security interests given on assets by a borrower to a lender. The Society's assets can be used to support collateral requirements for secured funding or central bank operations. Encumbrance benefits the Society as it provides cheaper and more stable funding. An analysis of how the Society has used its balance sheet in this regard at 31 December 2016 is set out in the table below:

	Encumbered	Unencumbered	
	Pledged as collateral*	Available as collateral**	Total
	£000	£000	£000
At 31 December 2016			
Loans and advances to customers	20,153	17,609	37,762
At 31 December 2015			
Loans and advances to customers	24,319	21,553	45,872

* Encumbered assets are a portfolio of Bank of England approved mortgage assets pledged to support an amount of T-Bills issued to the Society under the Funding for Lending Scheme (FLS).

** Unencumbered assets are a readily available portfolio of Bank of England approved mortgage assets.

9. Remuneration Policy

The Society may be subject to excessive risk if remuneration policies and practices result in staff being rewarded for decisions inconsistent with the Board's risk appetite. It is therefore the Society's policy to ensure that its remuneration decisions are in line with effective risk management.

The Society through its Remuneration Committee seeks to ensure that its remuneration policies and decisions are in line with its business strategy and long term objectives, and consistent with the Society's current and future financial position. It also seeks to establish an appropriate balance between the fixed and variable elements of remuneration. Variable remuneration will only be paid if the Society's current and expected future financial position is sufficiently strong. In addition to financial position and business performance the level of variable pay is dependent on a number of measures that focus on the following:

- Customers
- Employees
- Systems and controls risk management

The Performance measurements used to calculate variable remuneration are therefore adjusted to take into account current or potential risks to the business and are consistent with the need to retain a strong capital base. Guaranteed incentive payments do not form part of any remuneration package and all incentive schemes are non-contractual.

The Society's members are invited, at the AGM, to vote on the adoption of the Directors' remuneration report.

Code Staff

The Board has identified that those personnel whose professional activities have a material impact on the Society's risk profile are the directors, members of the Executive team, and the Money Laundering Reporting Officer. Two members of the Executive team, the Chief Executive and the Finance Director, are executive directors. The above personnel are considered by the Society to be Remuneration Code staff under SYSC 19A of the Prudential Regulation Authority Handbook.

Aggregate information on the remuneration of code staff is given below; with the exception of the Executive Officers further details are contained in the Directors Remuneration Report in the Society's Annual Report and Accounts 2015

Fixed and variable remuneration 2016 – Code Staff

	Non Executive Directors	Executive Directors	Executive Officers	Total
Number of Code Staff	7 (1)	2	9 (2)	
	£000's	£000's	£000's	£000's
Fixed Remuneration	142	259 (3)	493 (3)	894
Variable Remuneration	0	22	21	43

(1) Include 1 leaver in the year
(2) Includes 2 starters
(3) Includes employers pension contributions and benefits in kind for executive directors and officers

10. Conclusion

This disclosure document is intended to provide background information on the Society's approach to risk management as related to maintaining and preserving the capital position of the Society. It also provides asset information and capital calculations under Pillar 1.

In the event that a user of this document has comments or requires further information then they are requested to contact Rajesh Patel, Finance Director at:

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