

Annual Review



Incorporating
Summary Financial Statement



**STAFFORD RAILWAY
BUILDING SOCIETY**



Summary Financial Statement For The Year Ended 31 October 2019

Foreword

The Directors have pleasure in presenting the Summary Financial Statement of the Society for the year ended 31 October 2019 being the one hundred and forty second Annual Report. This financial statement is a summary of information in the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available to Members and Depositors free of charge on demand from the Society from 28 January 2020.

Approved and signed on its behalf by the Board of Directors on 18 December 2019.

Colin C Lloyd

(Chairman)

Michael R Smith

(Chief Executive)

Steven Jones

(Deputy Chief Executive
and Finance Director)

Chief Executive's Business Review



The last twelve months has witnessed the first full financial year of our five year Corporate Plan. I am pleased to report that in terms of our transitional development and reinvestment within the Society, we have made good progress which will continue into next year. This is reflected in both improvements in operational efficiencies but also in a pleasing set of annual results. We continue to build a sustainable Society which remains our goal and we can confirm the core elements of growth in mortgages, growth in savings, growth in total assets, growth in profit and growth in capital retained were all achieved.



Building on the strong and financially stable position, the Society has made good progress in the following areas:

Membership

A key aim in the year was to stimulate an increase in Membership, which has been achieved following the opening of previously closed retail savings products and the launch of the Notice 60 account. We remain very keen to develop an on-line savings proposition, and at the time of writing we anticipate this being launched during 2020.

Mortgage Origination

Our expert led manual approach to underwriting standards ensures we understand the personal circumstances behind each mortgage application. This has been readily apparent in the growth of our mortgage book without any dilution of the credit quality, and continues to provide confidence in our ability to innovate with our mortgage lending. Gross mortgage lending of £47.6m (2018: £34.7m) is a record for your Society. This has contributed to our positive growth in mortgage assets to £187.6m (2018: £172.2m). The growth in business has primarily been driven by our relationships with the intermediary network, which was in line with our expectations. We continue to explore opportunities to expand our portfolio within our key Staffordshire heartland and in 2019/2020 we anticipate further enhancements to our service and product portfolio to enable growth in this key area.

Product Developments

The appointment of Robert Hassall as Head of Product Strategy and Communications in May 2019 has provided the capability to speedily develop and market products. The Society's core Standard Variable Rate ('SVR') continues to be one of the lowest rate of all lenders in the residential United Kingdom ('UK') market, but it has become apparent that although this product still serves a need for Members, a greater range of choice is required. The enhanced initiatives have seen the launch of seven new discounted products, together with niche products of Mixed Use and Self-Build. We are also seeking to enhance our range of retention products, together with an expansion into inter-generational products, as we seek to embrace a younger demographic.

Information Technology

We have invested significant time and money into improving our IT infrastructure and we anticipate further enhancements in 2019/2020. The majority of the improvements have been to ensure our security remains of the highest standard and also to prepare our platform for future enhancements. The Broker-on-line facility has been a key development, together with the ability for Members to pay into their accounts via card payments. A new website is to be launched during Quarter 1 of our forthcoming financial year, which will have a more user friendly approach, together with enhancements to our social media presence.

Staff and Working Environment

We have continued to invest in new staff, with further recruitment into the mortgage team. We have also introduced improved staff benefits to ensure our people feel valued and appreciated for the excellent work they undertake. We are pleased to report that the staff survey evidenced high levels of staff satisfaction and understanding of the transitional activities your Society is undertaking. This, coupled with the very high Member satisfaction scores, provides great confidence for continued future growth.

The working environment continues to be improved with an investment during the year of £208k in both premises and IT systems. We are also seeking to ensure we continue to build on our special model with a more empowered and Member focused culture being stimulated. We introduced in April 2019 the 'Keeping Us on Track' cultural handbook, providing clear guidance on The Stafford's special way of working.

Community

We remain committed to supporting the local community, by means of donations, sponsorship and our Affinity programme. We have extended our programme to include Katharine House Hospice and Stafford Rugby Club, where we have become main shirt sponsors.

We have continued our sponsorship of both the Stafford 10k and Stafford Half Marathon, for which we are sponsors until 2021, as we seek to support local events within our Staffordshire heartland.

We are delighted to be a party to the Military Covenant supporting the local Beacon Barracks.

The Future

The macroeconomic environment continues to be uncertain, particularly in light of the ongoing Brexit negotiations. We remain hopeful there will be a smooth transition to a new relationship between the United Kingdom and the European Union ('EU') although we do not anticipate this being of significant impact to the Society.

The year has been one of good progress for your Society, as we seek to modernise the infrastructure and offering to our Members, whilst staying true to our values of Simplicity, Service and Security. I consider that with the financial strength, quality of staff and our cost efficient model, the Society is well positioned to continue to grow. My focus will remain upon income growing faster than costs, to enable us to remain a low cost operator, optimising profits for the benefit of our Members.

To achieve this in the year ahead, I have confidence that our staff will continue with their committed approach to the business of the Society, motivated by the achievements of the past year, for which I take this opportunity to thank them.

I would also like to reiterate my thanks to our Members, for the trust you have in the Society. Our future priority will be to match, or indeed exceed, your expectations, continuing our vision of a people led business that embraces new technologies, whilst maintaining traditional individual service for our Members.

The positive progress we have achieved during our year ended 31 October 2019 sees us well positioned as we look forward into our one hundred and forty third year.

Michael R Smith

Chief Executive
18 December 2019

“I would like to reiterate my thanks to our Members, for the trust you have in the Society.”



**STAFFORD RAILWAY
BUILDING SOCIETY**

Summary Directors' Report

This has been a positive year for the Society, as demonstrated by the 8.9% growth in mortgages (2018: 0.9%), 2.2% in total assets (2018: (3.4)%), solely funded by the 2.0% growth in retail funding (2018: (3.9)%). This uplift in performance has resulted in the reported retained profit for the year of £0.86m, which has been added to the Society's overall capital reserves which have grown by 4.3% (2018: 4.0%). The positive performance is all the more credible given the backdrop of political uncertainty amidst Brexit, dampening of United Kingdom economic growth and the increasingly challenging mortgage and savers markets.

Key Performance Indicators

The main Key Performance Indicators ('KPI') used by the Board to monitor the performance of the Society are detailed below.

	2019	2018
Net interest margin	1.73%	1.63%
Management expenses as a % of mean total assets	1.32%	1.24%
Cost income ratio %	75.69%	76.66%
Profit after taxation	£0.86m	£0.80m
Profit for the year as a % of mean total assets	0.34%	0.31%
Total assets growth	2.16%	(3.42)%
New mortgage lending	£47.6m	£34.7m
Mortgage assets growth	8.93%	0.90%
Liquid assets as a % of shares and amounts owed to other customers	29.95%	34.83%
Shares and amounts owed to other customers growth	1.98%	(3.93)%
Capital growth	4.31%	3.98%
Gross capital as a % of shares and amounts owed to other customers	9.23%	9.03%
Total capital resources	£22.1m	£21.2m



The Society seeks to make sufficient profits in order to invest in and grow the business for the benefit of its current and future Members. Retained profits are the sole source of the Society's capital and enhances its financial strength which is necessary to meet the levels of capital, including protection buffers, required under the Capital Requirements Directive ('CRD'). Financial strength also protects the Society against its principal risks and uncertainties and safeguards Members' funds.

Net interest margin

Net interest margin is a measure of the Society's net interest income and equates to the difference between interest received on assets and interest paid on liabilities, divided by the Society's average total assets during the year. The Society's net interest margin at 1.73% remains healthy, having increased by 0.10% during the year, as the Society continued to manage the margin by balancing the risks and rewards in relation to borrowing Members while continuing to offer value to its retail Members.

Administrative expenses and depreciation

Administrative expenses and depreciation ('management expenses') increased by £167k in the year reflecting the Society's investment in systems, people and processes to support expected growth in the business and to deliver Member value. Employee costs increased by 10.4% whilst other administrative costs reduced by 4.1% during the year. The 54.7% increase in depreciation charge in the year reflects the ongoing investment in both IT systems and premises. A part of this investment is the development of the Society's new website, which, offering increased functionality, allows both existing and new Members the benefits of engaging with the Society as well as promoting the Society's product range and digital footprint.

As a result the ratio of management expenses to mean total assets ratio at 1.32% (2018: 1.24%) has increased during the year. However the Board consider the cost income ratio, which represents the aggregate of administration expenses and depreciation expressed as a percentage of total income less other operating charges, to be a key measure in its assessment of returning 'value for money' and hence a core strategic objective. During the year the reported cost income ratio at 75.69% has reduced on the 76.66% reported in the prior year indicating that total income has increased to a greater extent than the Society's cost base.

Loan impairment provision

The impairment provision for loans and advances to customers was increased by £22k comprising an increase in individual impairments of £32k, which has been partially offset by a decrease of £10k in the Society's overall collective impairment provision, calculated in accordance with the accounting policy detailed in section 1.1 of the Annual Report and Accounts.

Profit for the financial year

Profit for the year increased by 7.1% on the previous year and at £0.86m represents 0.34% of mean total assets (2018: 0.31%).

Liquidity

The Society has continued to maintain liquidity in a range of assets which are highly liquid or realisable, with counterparties chosen for the security thereby ensuring it can meet its financial obligations as they fall due under normal and stressed scenarios. The Society has no exposure to any counterparty outside of the United Kingdom. Total liquid assets amounted to £71.0m (2018: £81.0m), representing 29.95% (2018: 34.83%) of total shares and amounts owed to other customers as at 31 October 2019. The Society holds a buffer of high quality

liquid assets comprising funds in a Bank of England Reserve Account, Government Gilts and Treasury Bills.

Loans and advances to customers

The Board is particularly pleased to report a very strong mortgage lending performance with advances £47.6m to both new and existing borrowers, an increase of 37.2% on the prior year (2018: £34.7m). All advances are secured on residential wholly owner occupied property. This performance significantly contributed to the 8.9% increase in total mortgage assets to £187.6m (2018: £172.2m).

The Society is mindful to ensure that the strong mortgage growth has been delivered in a controlled and measured way, and continues to closely monitor all lending decisions, adopting a common-sense and responsible approach to new lending in order to maintain a high quality loan book. All mortgage cases are fully assessed by our internal underwriting team in preference to automated credit scoring. This personalised approach enables each case to be individually assessed on its own merits which includes the assessment that borrowers have adequate repayment affordability even allowing for the impact of potential future interest rate increases.

Overall arrears levels have remained at very low levels reflecting the low levels of unemployment and the Society's robust underwriting approach which stress-tests future borrower affordability were interest rates to increase significantly. As at 31 October 2019, the Society had no (2018: two) mortgage accounts twelve months or more in arrears. There were ten mortgage accounts over three months in arrears (2018: two) and the Society had no properties in possession (2018: nil).

The Society identifies borrowers whose mortgage accounts have gone into arrears and consults with them about the reason for

the arrears and to draw up a plan of action to bring the accounts up to date. Despite the Society's best efforts to help borrowers in such circumstances there are occasions when properties must be repossessed and sold, sometimes at a loss to the Society.

In certain circumstances the Society uses forbearance measures to assist those borrowers who are experiencing financial difficulty, for example, agreeing a temporary transfer to interest only payment in order to reduce the borrower's financial pressures. In each case an individual assessment is made to ensure forbearance is in the best interests of both the borrower and the Society. It is expected that the borrowers will resume normal payments once they are able. The Society's Assets and Liabilities Committee ('ALCO') assesses the impact of forbearance and monitors whether there is a possibility of loss, in which case provision is made in accordance with the Society's policies. As at 31 October 2019, there were seventeen (2018: thirteen) accounts under forbearance measures. No individual impairment provisions (2018: two) were required in those cases where the Society's models indicated a shortfall in collateral compared to the outstanding balance.

Shares and other investors

Shares and other investors' balances at 31 October 2019 were £237.1m (2018: £232.5m), an increase of £4.6m or 1.98% on the previous year. The reported increase in the overall savings balances was due, in part, to the proactive promotion of the Society's existing product range, together with the introduction of new retail products, noticeably the Notice 60 account, which was favourably received by both existing and new customers with a total of one hundred and forty four accounts opened following its introduction on 1 July 2019. Looking forward our retail product portfolio will be expanded further, for example with the forthcoming launch of a Regular Saver account.



The strengthening of our savers' base during the year was achieved at a time when interest rates remain historically low, demonstrating our attractive pricing in the market for new and existing Members alike coupled with the quality of our service proposition. In line with its strategy the Society focuses on operating fairly with simple product design, attractive terms and conditions and to deliver long-term Member value. Current interest rates are benchmarked to the marketplace to monitor trends, and most importantly, ensure our Members remain at the heart of any decisions that we make.

Capital

Total reserves as at 31 October 2019 amounted to £21.90m (2018: £20.99m), with both the gross capital ratio of 9.23% (2018: 9.03%) and free capital ratio of 8.95% (2018: 8.78%), expressed as a percentage of shares and deposit liabilities, have increased during the year. Tier 1 capital was £21.9m (2018: £21.0m) and Tier 2 capital £0.2m (2018: £0.2m), providing total capital resources of £22.1m (2018: £21.2m). Core Tier 1 ratio, calculated as Tier 1 capital as a % of total risk weighted assets stood at 26.40% (2018 24.42 %). The leverage ratio, calculated as Tier 1 capital as a % of total assets plus mortgage impairments and mortgage commitments, stood at 8.30% (2018: 8.20%).

The Board complies with the Basel IV Capital Requirements Directive which requires the Society to assess the adequacy of its capital strength through an Internal Capital Adequacy Assessment Process ('ICAAP'). Through the Internal Capital Adequacy Assessment Process the Board is satisfied that the Society holds a level of capital more than sufficient to satisfy the Capital Requirements Directive's Pillar 1 minimum capital requirements and additional Pillar 2 capital to mitigate the principal risks to which the Society is exposed. The Board approve the Internal Capital Adequacy Assessment Process on an annual basis, and it is reviewed by the Prudential Regulation Authority ('PRA') in setting the Society's Total Capital Requirement ('TCR').

Further details of the Society's approach to risk management can be found in the Society's Pillar 3 disclosures, required by the Capital Requirements Directive, on the Society's website, www.srbs.co.uk.

Risk governance and strategy

The Society's Board of Directors has ultimate responsibility for developing an appropriate risk and control framework. The Society has developed a Board risk appetite statement and risk management framework that is designed to identify, assess, manage and mitigate risks that may influence the delivery of the Society's strategic objectives and has delegated powers to the Board Risk Committee to advise the Board on the overall risk appetite, tolerance, and strategy. It also oversees and advises the Board on the current risk exposures and future risk strategy.

The Society's risk management framework is designed to enable the Board to proactively identify, measure, manage, monitor, report and control risks to support the achievement of the Society's Strategy and to ensure fair outcomes for Members.

Principal Risks and Uncertainties

Managing risk is a necessary part of running a successful business, and many of the risks faced by the Society are similar to those involved in running any financial services business: competition, pressure on margin, ever-changing regulatory and statutory requirements, reputation, staff recruitment and retention and risks from changes in the wider economy. The Society has a risk-averse culture which ensures that it maintains a low exposure to risk and hence helps to protect Members' interests.

The principal risks to which the Society is exposed include the following:

Credit risk: Credit risk is the risk that a borrower or counterparty to a contract will not be able or unwilling to meet their obligations as they fall due. For the Society, this normally means

the risk that a borrower will not repay their mortgage, or that a financial institution will not repay funds invested by the Society in that institution. The Assets and Liabilities Committee is responsible for monitoring the arrears profile and treasury counterparty risk whilst the Board approves changes to Counterparties, Treasury or Lending Policies.

Mortgage credit risk is outlined in the Lending Policy and managed through the Society's underwriting process which seeks to ensure that borrowers only assume a debt that they can afford to repay. All mortgage applications are rigorously assessed with reference to the Society's Lending Policy. No matter how prudent lending is, however, some Members can get into financial difficulties. In such circumstances the Society is highly proactive in providing support which can include working with them to clear arrears, making arrangements, or forbearance.

Strategic risk: This is the risk that the Society fails to execute its strategic plan or fails to effectively execute elements of its strategic plan due to poor planning or changes in the strategic environment. Strategic risk is managed through regular review and development of key performance indicators, management oversight and an embedded corporate governance framework.

Business risk: Business risk means any risk to the Society arising from changes in the business or economic conditions, including the risk that the Society may not be able to carry out its business plan or implement required strategy. Business risk is managed through regular review and development of the business plan, management oversight and an embedded corporate governance framework.

Liquidity risk: Liquidity risk is the risk that the Society is not able to meet its financial obligations as they fall due or can only do so at excessive cost. The Society's Board approved Liquidity and Funding Policy is to maintain sufficient liquid resources to cover cash flow requirements and fluctuations in funding, to maintain full public confidence in the solvency of the Society and to meet its financial obligations. This is achieved by maintaining a prudent level of liquid assets and through management control of the growth of the business. The Society holds a buffer of high quality liquid assets such as Treasury Bills, Government Securities and deposits in a Bank of England Reserve Account as part of regulatory requirements. The Society's approach to liquidity risk is documented in the Society's Internal Liquidity Adequacy Assessment Process ('ILAAP'). The Society had no wholesale funded liabilities at any point during the year. Liquidity is monitored daily by the Executive and Leadership Team, and is reviewed by both the Assets and Liabilities Committee and the Board.

Interest rate risk and basis risk: The Society's interest rate risk arises from the impact changes in interest rates have on the Society's cash flows. The Society does not have any fixed rate savings or mortgage products, only variable, and therefore the interest rate risk for the Society is significantly less than for other similar institutions. The Society's main exposure to interest rates arises from its investment in Government Gilts and Certificates of Deposit with other financial institutions. The Society uses specialist external treasury advisers for investing surplus funds and has a good spread of maturity of its invested monies to manage this risk effectively.



Basis risk is the risk of an impact on economic value due to pricing assets and liabilities according to different interest rate bases. The Society's basis risk arises from a number of treasury instruments that where the contractual interest rate is either fixed or tracks the bank base rate.

Interest rate and basis risk exposures are reviewed by the Assets and Liabilities Committee.

Operational risk: Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes financial crime, fraud, data protection and technology and cyber risk amongst others. The Society manages this risk by having a strong and effective internal control environment in which risks are monitored and controlled on a timely basis. Controls have been established and are maintained for all business areas. These controls appropriately address identified risks and ensure good conduct of the business in accordance with the Society's policies and risk appetite and compliance with relevant laws, regulations and rules.

The Society is extremely mindful of the threats which cyber-crime presents to all businesses. Whilst taking all reasonable precautions to mitigate this risk, it also has a comprehensive insurance policy in place to protect Members in the event of such criminal activity.

The Society considers that its simple product range, robust systems, policies and internal control framework are the major factors in the achievement of strong control of operational risk. The main operations and controls are summarised in the Risk Register which is reviewed by the Risk Committee, Internal Audit and the Board.

Regulatory risk: This is the risk that the volume and complexity of regulatory issues may impact the Society's ability to compete and grow, or result in fines, public censure or restitution costs

because of a failure to understand, interpret and comply with United Kingdom and European Union regulatory requirements. The Society has an internal compliance function to monitor compliance with existing legislation, the implementation of controls and the impact of new requirements. This is overseen by the Audit Committee.

Conduct risk: This is the risk that the Society does not treat its Members fairly and of inappropriate or unsatisfactory consumer outcomes. The Board acknowledges the requirement to fully embrace the Financial Conduct Authority ('FCA')'s Principle 6, namely to ensure that the Society pays due regard to the interests of its customers and to treat them fairly at all times. These principles are firmly embedded within the Society's culture. This ethos has manifested itself into working practices throughout the Society. The risk is monitored by the Audit Committee and the Board. In addition, the Risk Committee reviews and challenges the conduct risk management information. The Board reviews the Conduct Risk Policy annually and receives conduct risk monitoring information monthly.

Brexit risk: This is the risk of adverse implications arising from the significant uncertainty regarding the future relationship between the United Kingdom and the European Union. As a solely United Kingdom focused organisation, the Society has no direct exposure to the European Union. However, the wider United Kingdom economic implications and operational impacts of Brexit have been considered and are summarised below:

The Board believe that the implications of a 'No Deal' Brexit are difficult to quantify, however there is a likelihood of recession leading to unemployment and subsequent reduction in the capacity of customers to repay their mortgages. The Board would also expect house price reduction and potential negative equity for customers and therefore losses for the Society

should those customers be unable / unwilling to repay their mortgage. The Board has focused on this potential downside when performing stress tests (whilst having regard to the Bank of England's published European Union Withdrawal Scenarios) on possible outcomes and is reassured that the Society has sufficient capital buffers to withstand this worst case Brexit scenario.

The Board also considered other implications of Brexit and can confirm that treasury assets are all invested in the United Kingdom and staff are all United Kingdom residents. Although the Society has some exposure to suppliers with European Union parent companies the Board consider the risks to be controlled and that the operational resilience of the organisation to be sufficiently risk-mitigated against the adverse impacts arising from Brexit outcomes.

Pension obligation risk: The Society has only a defined contribution pension scheme which is open to all employees and so it has no exposure to pension obligation risk.

Charitable and Political Donations

During the year the Society made donations of £14,335 (2018: £29,288) to charities. No contributions were made for political purposes. The Society sponsors, and its staff commit their time to, a range of local charitable and community causes.

Staff

The Directors are extremely appreciative of the contribution made by the staff to the Society's successful performance. The Society obtains feedback from both borrowers and investing Members throughout the year in order to monitor our performance and make improvements where appropriate. The feedback we have received indicates a high level of satisfaction with the service provided by our staff.

The Society in the Community

The Society remains firmly committed to conducting all its affairs in an ethical and socially responsible manner. In particular, it is recognised that the major part of the Society's business and Membership is drawn from the local community within which it operates. Consequently, the Society actively endeavours to identify with and support the community. The Society actively sources purchases and services locally if possible, and to provide support in terms of both finance and practical assistance to local charities, worthwhile causes and community-based organisations.

The Society actively pursues environmentally friendly initiatives with the aim of mitigating the environmental impact of the business it undertakes. Members can play their part by registering to receive future Annual General Meeting packs online.

Directors

The following persons were Directors of the Society during the year:

Non-Executive Directors

Colin C Lloyd, ACIB
(Chairman);

Karen E McCormick, ACIS PIIA
(Vice Chairman);

James W Dean, FCA
(Senior Independent Director);

Gary C D Crowe,
FCIM CAifs ACIB MCIBS;

David J Grant,
MBA FCIB FISMM FRSA; and

Nicholas H J Sandy, MRICS.

Executive Directors

Michael R Smith, ACIB
(Chief Executive); and

Steven Jones, BSc MBA FCA
(Deputy Chief Executive and Finance Director).

A revised United Kingdom Corporate Governance Code ('the Code') was issued by the Financial Reporting Council in July 2018 and applies to accounting periods beginning on or after 1 January 2019. The Board will have regard to the principles of the revised Code for the financial year commencing 1 November 2019. The Board however, in line with the revised Code, have agreed that all Directors will offer themselves for election at the forthcoming Annual General Meeting. Mr Nicholas Sandy will however be retiring from the Board at the Annual General Meeting.

Auditors

During the year the Board requested a full re-tendering of the external audit service to be undertaken. The tender process was delegated to the Audit Committee, with independence and objectivity confirmed by the Chair of the Board. As a result of the tender process a resolution for the appointment of PricewaterhouseCoopers LLP will be proposed at the forthcoming Annual General Meeting.

The Board wish to express their gratitude to the outgoing external auditors, KPMG LLP for their support and services over the period of their engagement.

Colin C Lloyd

Chairman
18 December 2019

*The Society
actively pursues
environmentally
friendly
initiatives with
the aim of
mitigating the
environmental
impact of the
business it
undertakes.*



**STAFFORD RAILWAY
BUILDING SOCIETY**



Summary Directors' Remuneration Report

The purpose of this report is to inform Members of The Stafford Railway Building Society of our policy on the remuneration of Executive and Non-Executive Directors, and to explain how we comply with the principles in the United Kingdom Corporate Governance Code 2016 relating to remuneration, as far as they are applicable to a mutual organisation of our size. The Remuneration Policy complies with the relevant elements of the Financial Conduct Authority's remuneration code.



The Remuneration Committee

This report has been prepared by the Remuneration Committee, which is made up entirely of Non-Executive Directors and meets at least twice a year. This Committee, chaired by Mrs Karen McCormick, is responsible for compliance with relevant elements of the Financial Conduct Authority Remuneration Code. The Chief Executive attends by invitation only and takes no part in the discussion relating to his remuneration.

The over-arching purpose of the Committee is to set remuneration policies to ensure that they are in line with the Society's business strategy, risk appetite and long-term objectives. This includes designing and implementing the reward structure of the Society and ensures that effective risk management is a key component of remuneration and incentive structures. The basis of remuneration is consistent with sound and effective risk management and does not encourage excessive risk taking. The Committee reviews supporting evidence, including external professional advice, if appropriate, on comparative remuneration packages. The Committee also reviews proposals by the Chief Executive for Leadership Team remuneration and any bonuses.

The remuneration of the Chairman is set at a meeting of the Board where the Chairman is not present. The remuneration of all other Non-Executive Directors is set by the Chief Executive and Chairman.

Policy for Executive Directors

The Society's policy is to set remuneration levels which will attract and retain Executive Directors with appropriately high levels of skill and expertise and to reward the achievement of stretching objectives in line with the Society's Corporate Plan. It comprises a basic salary, participation in a bonus scheme, pension and various benefits.

Basic Salary

Salaries are reviewed by benchmarking against jobs carrying similar responsibilities, from external salary benchmarking data from within the building society sector and financial services sector. This encompasses consideration as to the responsibility and complexity of the role, market conditions and demands and the Society's very high-quality standards.

Bonus

A Bonus scheme is determined by the Remuneration Committee and based on a range of financial and non-financial corporate performance objectives including appropriate risk management objectives. Bonus payments are payable annually and set at a maximum of 20% for the Chief Executive and 15% for the Deputy Chief Executive and Finance Director. In respect of the financial years ended 31 October 2019 the Deputy Chief Executive and Finance Director has a minimum guaranteed element.

Pensions

The Society contributes to the Executive Directors arrangements. The Chief Executive has opted out of the defined contribution pension scheme.

Benefits

Executive Directors receive other benefits as afforded to staff generally notably Death in Service and Income Protection. The Society does not provide concessionary home loans to Directors.

Contractual Terms

The Executive Directors are employed on open-ended service contracts. Notice period for the Chief Executive is twelve months, to be given by both the Society and the Individual. The notice period for the Deputy Chief Executive and Finance Director is six months to be given by both Society and the individual.

As at 18 December 2019 no notices had been served by any of the parties.

Policy for Non-Executive Directors

The remuneration of all Non-Executive Directors is reviewed annually. There are no bonus schemes for Non-Executive Directors and they do not qualify for pension entitlement or other benefits. Non-Executive Directors do not have service contracts but serve under letters of appointment following election by the Society's Membership.

Total emoluments of the Society's Directors are listed below (excluding national insurance):

	2019 £'000	2018 £'000
Non-Executive Directors' fees	148.2	136.3
Executive Directors' remuneration	355.1	255.8
	503.3	392.1

The Society had a contract with Deans (Staffordshire) Limited, for the provision of Executive services which ended on 30 June 2018. Amounts paid for Executive services during the for the 8 months to 30 June 2018 totalled £224.8k which were in addition to the £392.1k noted above in respect of total emoluments of the Directors for the year ending 31 October 2018.

Non-Executive Directors

	2019 £'000 Fees	2018 £'000 Fees
Colin C Lloyd (Chairman)	28.9	23.3
Karen E McCormick (Vice Chairman)	23.3	19.0
James W Dean (Senior Independent Director)	25.2	29.0
Gary C D Crowe	25.0	23.0
David J Grant	23.3	19.0
Nicholas H J Sandy	22.5	23.0
	148.2	136.3



Executive Directors

31 October 2019	Salary	Annual Bonus	Pension	Total
	£'000	£'000	£'000	£'000
Michael R Smith	172.0	25.0	0.0	197.0
Steven Jones	129.6	15.0	13.5	158.1
	301.6	40.0	13.5	355.1

31 October 2018	Salary	Annual Bonus	Pension	Total
	£'000	£'000	£'000	£'000
Michael R Smith	165.0	24.0	0.0	189.0
Steven Jones (appointed 6 June 2018)	52.0	10.0	4.8	66.8
	217.0	34.0	4.8	255.8



Colin C Lloyd

Chairman
18 December 2019

Summary Financial Statement

A summary review of the events and business of the Society during the year and commentary on the financial position at the end of the year can be found on pages 8 to 21.

Results for the year ended 31 October

	2019 £'000	2018 £'000
Net interest receivable	4,454	4,226
Other income and charges	18	(28)
Administrative expenses	(3,385)	(3,218)
Impairment losses on loans and advances	(22)	(6)
Other provisions	–	28
Profit for the year before taxation	1,065	1,002
Taxation	(204)	(198)
Profit for the year	861	804

Financial position at 31 October

	2019 £'000	2018 £'000
Assets		
Liquid assets	71,026	80,961
Mortgages	187,609	172,228
Fixed and other assets	979	887
Total assets	259,614	254,076
Liabilities		
Shares	224,701	218,178
Borrowings	12,421	14,272
Other liabilities	596	634
Reserves	21,896	20,992
Total liabilities	259,614	254,076

The Society's financial statements have been prepared in accordance with FRS 102 and IAS 39.



Summary of Key Financial Ratios



	2019	2018
Management expenses as a % of mean total assets	1.32%	1.24%
Profit for the year as a % of mean total assets	0.34%	0.31%
Gross capital as a % of shares and borrowings	9.23%	9.03%
Liquid assets as a % of shares and borrowings	29.95%	34.83%

Gross capital as a percentage of shares and borrowings

The gross capital ratio measures the proportion that the Society's capital bears to the Society's liabilities to holders of shares, depositors and other providers of funds (investors). The Society's capital consists of the profits accumulated over many years in the form of general reserves. Capital provides a financial cushion against difficulties that might arise in the Society's business and therefore protects investors.

Liquid assets as a percentage of shares and borrowings

The liquid assets ratio measures how the proportion that the Society's assets held in the form of cash and short term deposits and marketable securities bear to the Society's liabilities to Members and other investors. Liquid assets are readily realisable, enabling the Society to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.

Profit for the year as a percentage of mean total assets

The profit to mean total assets ratio measures the proportion which the profit after taxation for the year bears to the average of total assets at the start and end of the year. The Society needs to make a level of profit each year which maintains its capital ratio at a suitable level to protect investors.

Management expenses as a percentage of mean total assets

The management expenses to mean total assets ratio measures the proportion which the Society's administrative expenses (including depreciation) bears to the average of the Society's total assets at the start and end of the year.

Independent Auditor's Statement

to the members and depositors of The Stafford Railway Building Society

Opinion We have examined the summary financial statement of Stafford Railway Building Society ('the Society') for the year ended 31 October 2019.

On the basis of the work performed, as described below, in our opinion the summary financial statement is consistent with the full financial statements, the Annual Business Statement and Directors' Report of the Society for the year ended 31 October 2019 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

Our examination of the summary financial statement consisted primarily of:

Agreeing the amounts and disclosures included in the summary financial statement to the corresponding items within the full financial statements, Annual Business Statement and Directors' Report of the Society for the year ended 31 October 2019, including consideration of whether, in our opinion, the information in the summary financial statement has been summarised in a manner which is not consistent with the full financial statements, the Annual Business Statement and Directors' Report of the Society for that year;

Checking that the format and content of the summary financial statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and

Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full financial statements, the Annual Business Statement and Directors' Report of the Society for the year ended 31 October 2019.

We also read the other information contained in the Annual Review and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Our report on the Society's full financial statements describes the basis of our opinions on those financial statements, the Annual Business Statement and Directors' Report.

Directors' responsibilities

The directors are responsible for preparing the summary financial statement within the Annual Review, in accordance with applicable United Kingdom law.

Auditor's responsibilities

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Annual Review, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

“In our opinion the summary financial statement is consistent with the full Annual report and accounts, the Annual Business Statement and Directors’ Report of the Society.”

The purpose of our work and to whom we owe our responsibilities

This auditor’s statement is made solely to the society’s members, as a body, and to the society’s depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the society’s members and depositors those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society’s members as a body and the society’s depositors as a body, for our work, for this statement, or for the opinions we have formed.

**Matthew Rowell (Senior Statutory Auditor)
For and on behalf of KPMG LLP,
Statutory Auditor**

Chartered Accountants

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

18 December 2019



**STAFFORD RAILWAY
BUILDING SOCIETY**



Protected

Stafford Railway Building Society is covered by the Financial Services Compensation Scheme and the Financial Ombudsman Service.

The Stafford Railway Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Registered no 206063).



STAFFORD RAILWAY BUILDING SOCIETY

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**Calls from landlines are charged at the standard rate. Calls from mobiles may vary.*