31 October 2019

Annual Report & Accounts

STAFFORD RAILWAY
BUILDING SOCIETY

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BUILDING SOCIETY

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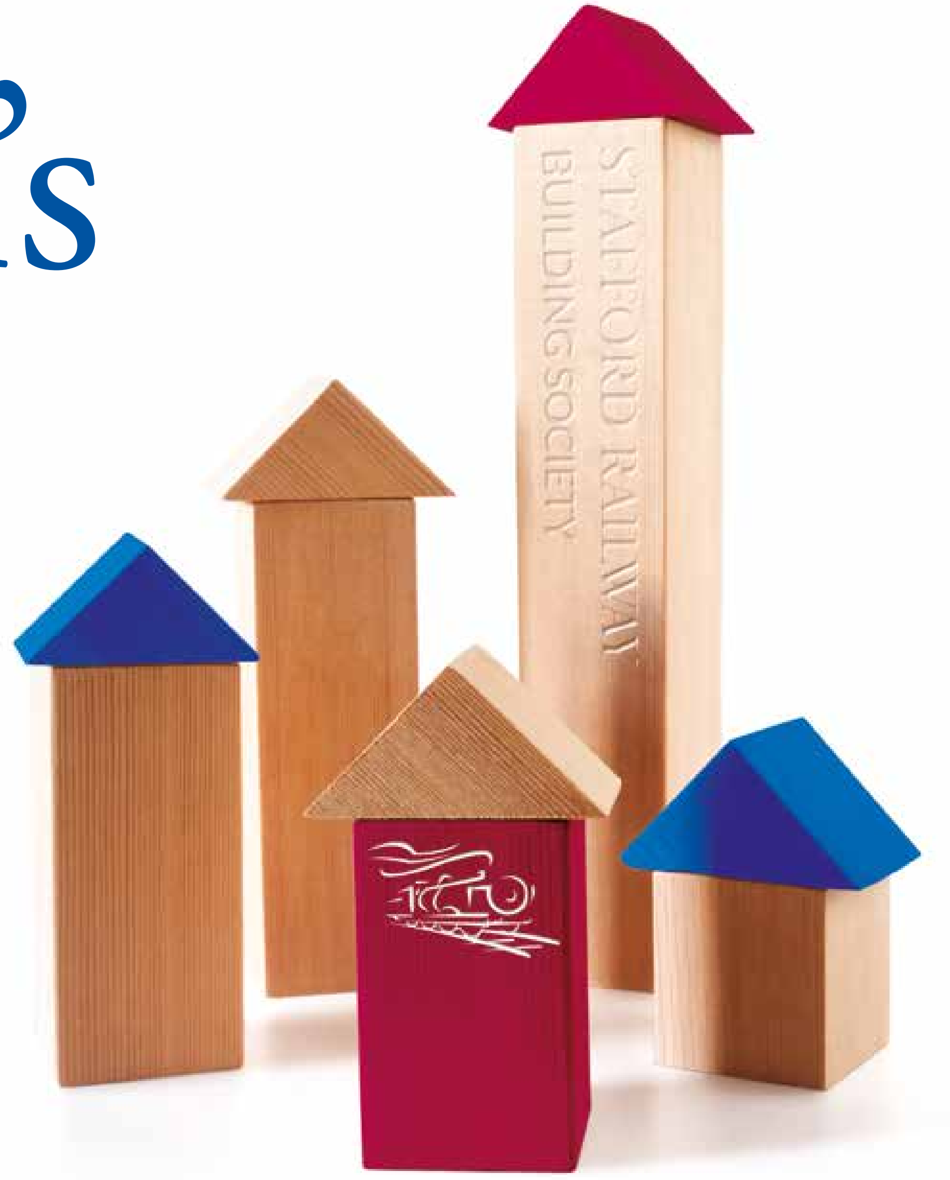

STAFFORD RAILWAY
BUILDING SOCIETY

Chairman's Statement

This is my first Chairman's report, having taken over from James Dean in March – a proud moment in my career in the financial services industry, extending over forty years. I would like to take this opportunity to thank James for his chairmanship of the Society covering the past four years and for his continued contribution to the Board, as the Senior Independent Director.

I am proud to report, in 2018/2019 we have demonstrated a continued period of development within the Society's first full accounting year of the new Executive Team. Following a strategic review, we have seen the delivery of a successful year, the first of our new five year Plan. For the Society, this has meant the positive growth in retained profit and accumulated capital, mortgage lending and retail savings. An excellent set of achievements in a competitive market which provides momentum as we start our new financial year. To demonstrate the numbers behind these achievements, our accumulated capital at the end of the financial year stands at £21.9m (2018: £21.0m). Our gross mortgage lending stands at £47.6m (2018: £34.7m) and our overall pre-tax profit, at £1.07m (2018: £1.0m).

We have introduced new savings products and further developed our mortgages, adding more products covering a wider range of mortgage options for our existing and future membership.

It is important that the Society offers attractive mortgage products and I am delighted to report a positive growth in our mortgage assets. Despite the market remaining extremely competitive, gross mortgage lending increased by 37% during the year. A continued focus on manual underwriting and skilled due diligence ensures we continue to experience a lower level of arrears. Liquidity has reduced by 12.3%. This was in line with the Board appetite to redeploy liquidity into more value enhancing assets. Liquidity as a percentage of shares and amounts owed to other customers remains at an extremely healthy 29.95%.

During 2019/2020, our focus, as in previous years, will remain to provide competitive products and high-quality services to both savers and borrowers. We will continue to develop our simple, yet very effective business model, taking deposits and providing mortgages.

However, we will be actively looking at new ways for you to do business with your Society. Our simple model means we do not borrow money from other financial institutions thereby avoiding some of the risks experienced by other financial institutions.

I would like to thank my fellow Board members for their commitment and support throughout the year.
Also, on behalf of the Board, I wish to thank the Membership for the trust they place in the Society. It is a pleasure to meet you in the branch or whilst attending the Annual General Meeting. Finally, thank you to all the staff of the Society, for their hard work, commitment and professionalism in contributing to another successful year.

Colin C Lloyd
Chairman
18 December 2019

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Reports

Chief Executive's Report

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 networks, 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 Development

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- online 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

Strategic Report

The Directors are pleased to present their Annual Report, together with the Society's Accounts and Annual Business Statement for the year ended 31 October 2019.

Our vision is to be an energised, modern innovative Community focused mutual delivering world class service to engaged Members both digitally and locally, whilst achieving financial stability.

Optimising profits is important because it provides the capital strength to appropriately manage the risks, which generates the conditions for growth, inward investment and savings and lending capacity.

Business Objectives

The principal business objective of the Society is to provide a safe and secure home for Members' savings whilst offering secured lending on residential property in order to support home ownership. Mortgage activity is funded by offering traditional retail savings products which are competitive, easy to understand and designed to attract savings from individuals and businesses alike.

The Society's strategy is driven by its core values, which are:

- *Simplicity and Availability*
  Ensuring front and back office processes embrace the balance of optimising technology and human interface consistent with the principles of the five 'Make its' specifically - Make it Right, Make it Friendly, Make it Special, Make it Helpful and Make it Clear - whilst observing the highest ethical standards.

- *Service*
  Having trust and respect for the individual, both Member and employees. Ensuring the point of contact service is available both locally and digitally for the benefit of all Members and employees, across a diversified demographic: and

- *Security*
  Governing ourselves as a self-sustaining prudent, financially and technologically resilient Society, in an environment of long term people development.

To enable us to adhere to our core values, we put the Member at the centre of everything we do. The core purposes of the Society are principally:

- To help people to save for what they want in life; and

- To help people acquire their own home.

The Society also has the following secondary purposes:

- To carry out the principal purposes in a friendly but professional way, with personal service; and

- To provide savings accounts and mortgages at the best long-term rates that we can sustainably provide.

Business Review and Key Performance Indicators

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 following table provides an overview of the main Key Performance Indicators ('KPI') used by the Board to monitor the performance of the Society are detailed below.

	2019	2018	2017
Net interest margin	1.73%	1.63%	1.48%
Management expenses as a % of mean total assets	1.32%	1.24%	1.16%
Cost income ratio	75.69%	76.66%	78.84%
Profit after taxation	£0.86m	£0.80m	£0.73m
Profit for the year as a % of mean total assets	0.34%	0.31%	0.27%
Total assets growth	2.16%	(3.42)%	(3.09)%
New mortgage lending	£47.6m	£34.7m	£25.6m
Mortgage assets growth	8.93%	0.90%	(0.88)%
Liquid assets as a % of shares and amounts owed to other customers	29.95%	34.83%	37.96%
Shares and amounts owed to other customers growth	1.98%	(3.93)%	(3.78)%
Capital growth	4.31%	3.98%	3.40%
Gross capital as a % of shares and amounts owed to other customers	9.23%	9.03%	8.34%
Total Capital	**£22.1m**	**£21.2m**	**£20.4m**

Key Performance Indicators: Three years to 31 October 2019

Profitability

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. Financial strength also protects the Society against its principal risks and uncertainties and safeguards Members' funds.

A summary of the Statement of Comprehensive Income is as follows:

	2019 £'000	2018 £'000	2017 £'000
Total net income	4,472	4,198	3,941
Administrative expenses	(3,269)	(3,143)	(3,047)
Depreciation	(116)	(75)	(60)
Operating profit before impairment losses and provisions	1,087	980	834
Loan impairment provisions	(22)	(6)	84
Provisions for liabilities – FSCS	-	28	(9)
Profit before tax	**1,065**	**1,002**	**909**

Statement of Comprehensive Income: Three years to 31 October 2019

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Profit before tax increased during the year by £0.06m due principally to the £0.3m increase in net income achieved through the growth in overall net interest receivable. As reported in the 2018 annual report the Society commenced an investment programme in its infrastructure, focusing on IT systems, people and premises, the costs of which are reflected in a £0.2m uplift in administrative expenses. The level of profitability was more than sufficient to maintain the financial strength of the Society.

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 deprecation 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.

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%).

Statement of Financial Position at 31 October 2019

	2019 £'000	2018 £'000	2017 £'000
Liquid assets	71,026	80,961	91,870
Loans and advances to customers	187,609	172,228	170,598
Tangible fixed and intangible assets	855	763	560
Deferred tax and other debtors	124	124	110
Total assets	**259,614**	**254,076**	**263,138**
Shares and amounts owed to other customers	237,122	232,450	242,042
Other liabilities, accruals and provisions	596	634	907
Reserves attributable to Members of the Society	21,896	20,992	20,189
Total reserves and liabilities	**259,614**	**254,076**	**263,138**

Statement of Financial Position as at: 31 October 2017-2019

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.

The Society monitors and reports its levels of liquidity in relation to measures introduced by the Prudential Regulation Authority ('PRA') under the Capital Requirements Directive IV ('CRD IV'). Specifically these are the liquidity coverage ratio ('LCR') which measures unencumbered high quality liquid assets as a percentage of net cash outflows over a 30 day stress period. The liquidity coverage ratio is measured monthly and as at 31 October 2019 was 338.44% (2018: 316.53%). In addition the net stable funding ratio ('NSFR') measures the stability of the Society's funding beyond 30 days.

The net stable funding ratio is measured quarterly and as at 31 October 2019 was 189.40% (2018: 183.44%). Both the liquidity coverage ratio and the net stable funding ratio were comfortably in excess of the minimum regulatory limit of 100%.

Loans and advances to customers

The Board is particularly pleased to report a very strong mortgage lending performance with advances of £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.

There continues to be strong customer demand for different segments of mortgage lending including First Time Buyer/Low Deposit mortgages, Buy to Let, Self-Build and Lending into Retirement, and the Society continues to widen its product portfolio to meet these demands whilst monitoring internal limit exposures to ensure no over reliance on the performance of any particular lending segment.

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 Society aims to generate a level of savings balances that meets its mortgage funding and liquidity requirements.

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.

Reserves

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.

Also included in reserves is the Available-For-Sale Reserve which represents any unrealised gains or losses on Treasury Assets, which are accounted for at market value even though the intention is to hold them to maturity. At 31 October 2019 the available-for-sale reserve stood at £(1k), a net reduction on the 2018 position of £(43)k.

Capital ('Basel III/Capital Requirements Directive IV basis') ('Unaudited')

The Directors ensure that a satisfactory level of capital is maintained to protect the Society against adverse market movements or changes in economic conditions.

Total Capital and Risk Weighted Assets

	2019 £'000	2018 £'000	2017 £'000
Tier 1 capital	21,896	20,992	20,189
Tier 2 capital	177	187	179
Total capital	**22,073**	**21,179**	**20,368**
Risk weighted assets:			
Liquid assets	6,057	10,546	14,186
Loans and advances to customers	66,390	60,805	60,450
Other assets	1,248	1,131	820
Mortgage commitments	1,358	6,034	2,945
Operational risk	7,882	7,462	7,144
Total	**82,935**	**85,978**	**85,545**

Total Capital and Risk Weighted Assets as at: 31 October 2017-2019

Capital Ratios

	2019 %	2018 %	2017 %
Core tier 1	26.40	24.42	23.60
Gross capital ratio	9.23	9.03	8.34
Leverage ratio	8.30	8.20	7.64

Capital Ratios as at: 31 October 2017-2019

The core tier 1 ratio expresses core tier 1 capital as a percentage of risk weighted assets. The leverage ratio expresses tier 1 capital as a percentage of total assets plus mortgage impairments plus a proportion of mortgage pipeline commitments.

As at 31 October 2019 the core tier 1 ratio stood at 26.40% (2018: 24.42 %) and the leverage ratio stood at 8.30% (2018: 8.20%). 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).

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 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 Management Report

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.

In principle, each of the Board Committees fulfil a similar role, in that, operating under a Board delegated mandate, they provide a forum for the direction and challenge of the Leadership Team whilst monitoring business performance and risk exposures. Each of the Board Committees comprises Non-Executive Directors with other attendees being drawn from the Executive and Leadership Team. Full details of the Society's Board and Committee structure are contained within the Corporate Governance Report

Risk management framework ('RMF')

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.

The Board has implemented a clearly defined risk management framework built on:

- A risk-focused governance structure;
- Risk appetites;
- Policy and risk limits;
- Risk identification, monitoring and reporting processes;
- An effective internal control framework; and
- Risk Governance.

The overall risk management framework was reviewed during the year to ensure that it is embedded throughout the Society with allocated ownership, a defined reporting structure to support the Board's risk appetite statements and associated limits, and ultimately the Society's sustainability and viability over the corporate planning five year horizon.

The risk management framework is reviewed annually by the Board Risk Committee and then approved by the Board.

The risk management framework includes the use of Board approved risk appetite statements covering the current and future principal risks faced by the Society. They set out key limits and escalation triggers. The risk position is reported to the Board monthly and risk appetites are formally reviewed and approved annually. The risk management framework makes use of stress and scenario testing undertaken for the purpose of business planning, the Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process ('ILAAP') to ensure the Society's approach to risk management will remain effective under a range of hypothetical economic and business conditions.

Risk management information includes a Risk Dashboard which reflects the Board's Risk Appetite Statement and is monitored by the Assets and Liabilities Committee, the Risk Committee and the Board at all of their meetings.

Any changes to risks, or new and emerging risks, are identified and communicated to the Executive at management meetings. The Head of Risk and Compliance is responsible for updating risk documentation for presentation to the Assets and Liabilities Committee, Risk Committee and the Board.

Decisions by the Board in respect of policies, risk appetite, management information required, limits and triggers on key risk indicators or risks controls are communicated to the Leadership Team who enact those decisions and reflect them in the risk documentation, policies and operational procedures and train appropriate staff.

Three Lines of Defence Approach

The Society risk management framework is based on a 'Three Lines of Defence' model which is recognised as an industry standard for risk management. This approach ensures that staff are aware of their responsibilities and that an effective segregation of duties is in place across the Society. The model is illustrated below.

First Line of Defence: Leadership Team	The First Line of Defence is embedded within the Leadership Team and the staff relevant to their operational responsibilities. All risks are identified and recorded on the Risk Register, together with a gross and net risk assessment, key controls and an assessment as to control effectiveness.
Second Line of Defence: Risk & Compliance Team	The Second Line of Defence lies with the Risk & Compliance Team who are responsible for challenging of risks, policies and controls. This team is operationally independent from the Leadership Team and can therefore uphold the principles and policies of the Society. They provide oversight of the First Line of Defence and independently report to the Risk and Audit Committees.
Third Line of Defence: Internal Auditors	The Third Line of Defence is provided through independent assurance activities mainly from the Society's Internal Auditors Deloitte LLP. On an annual basis and thereafter on a rolling basis, the Society's Internal Auditor undertakes a programme of risk-based audits. The plan covers aspects of both First and Second Lines of Defence. Each audit examines the Society's control environment, tests that controls are robust, and that they work effectively in accordance with the Society's policies and procedures, and wider laws and regulations. Additionally, the audits will review the Society's relevant records and reports for accuracy and reliability. The Audit Committee approve the annual internal audit plan and receive regular updates on the progress made against the plan and the results of each audit visit.

Stress Testing

Stress tests are an integral part of the annual business planning process and annual review of risk appetite. Tests are designed to ensure that the Society's financial position and risk profile provide sufficient resilience to withstand the impact of severe economic stress on the market ('systemic stress') or Society's specific stress events. Stress testing also informs early-warning triggers, management actions and contingency and recovery plans to mitigate or avoid potential stresses and vulnerabilities and as such is integral to the risk management framework. The stress testing framework also includes reverse stress testing techniques which aim to identify circumstances under which the Society's business model could be rendered unviable, leading to a significant change in business strategy. Examples include extreme macroeconomic downturn scenarios and a cyber-attack on the Society. Stress testing is used to identify, assess and quantify the potential effectiveness of management actions that could be taken to mitigate the impact of a stress.

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 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, including forbearance to clear arrears.

The Society's Lending Policy details the limits set on the Society's lending operations. The Society's lending book is predominantly secured on residential property. The criteria applied to individual mortgages, and the limits set on different types of lending, are designed to reduce to a minimum the probability of any loss from lending.

Counterparty and country limits mean that there is little concentration of treasury assets. The counterparties that the Society invests in are highly rated by external rating agencies. Building Societies are subject to a financial review and the treasury instrument and overall exposure limits are set by the Board and monitored by the Assets and Liabilities Committee.

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. This includes Recovery and Resolution plans. Stress Testing is undertaken on an annual basis to assess the impact on the Society's Corporate Plan.

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.

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.

The interest rate sensitivity exposure of the Society is set out in note 20 of the accounts.

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.

The Assets and Liabilities Committee and Risk Committee monitors the Society's capital position under Internal Capital Adequacy Assessment Process regularly and the Risk Committee reports its assessment of these results to the Board.

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.

On behalf of the Board of Directors

Colin C Lloyd
Chairman
18 December 2019

STAFFORD RAILWAY
BUILDING SOCIETY

Directors' Report *– for the year ended 31st October 2019*

The Directors have pleasure in presenting their annual report, together with the annual accounts and annual business statement of the Society for the year ended 31 October 2019.

Business Objectives and Activities

The Society, which was founded in 1877, is an independent building society based in Stafford, financed by and run for the benefit of its Members. The mutual corporate form removes the need to consider returns for equity shareholders, making it easier for management to take a longer-term view and balance the needs of its Members. The Board remains unanimous in its belief that the mutual form is the most appropriate and beneficial when the interests of all existing and potential Members are taken into account.

As a mutual organisation, we aim only to earn sufficient profits to enable us to prudently achieve our main purposes, as described above under the Strategic Report. We are pleased to report that we have achieved a profit after tax of £0.86m which contributes to a healthy level of capital and supports the financial stability of the Society.

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

Nicholas H J Sandy
MRICS

Executive Directors

Michael R Smith
ACIB (Chief Executive)

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

The tenure of office for the Board is detailed in the following table.

Directors	Executive	Non-Executive
Tenure at year-end		
0-3 years	2	1
Up to 6 years	-	3
Up to 9 years	-	2
Over 9 years	-	-

As at 31 October 2019 The Board's gender ratio was seven males: one female.

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, has 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. Further details of the Society's compliance with the Code are set out in the Corporate Governance Report.

Creditor Payment Policy

The Society's continuing policy concerning the payment of its trade creditors is to pay invoices within the agreed terms of credit once suppliers have discharged their contractual obligations. Amounts due to relevant creditors of the Society are paid on average within eleven days of receipt of invoice (2018: fourteen days).

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.

Events since the Year End

The Directors consider that there has been no event since the end of the financial year that has a significant effect on the position of the Society. The Directors are cognisant of the General Election held on 12th December and will continue to assess the impact on the Society.

Going Concern

The Directors have prepared forecasts of the Society's capital position, financial position and liquidity for the period ending twelve months from the date of approval of these financial statements. The Directors have also prepared forecasts to consider the effect on the Society's business, financial position, capital and liquidity of operating under stressed, but plausible, operating conditions. The Directors' are satisfied that the Society has adequate resources to continue in business for the foreseeable future. Accordingly, the accounts continue to be prepared on a going concern basis.

External Auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Society's auditor is unaware; and
- The Director has taken all the steps that should be taken by a Director in order to be aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

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 Chairman 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.

Capital Adequacy

As part of the Capital Requirements Directive, the Society has assessed the adequacy of its capital resources, and the Society's Pillar 3 disclosures, which are a requirement of the Capital Requirements Directive, together with the disclosures to comply with the requirements of Article 89 of the Capital Requirements Directive, are provided on the Society's website, or are available from the Society's Secretary.

Future Developments

The Directors are committed wholeheartedly to maintaining the Society's success by concentrating its efforts upon traditional Building Society business and offering a high standard of service to its investing and borrowing Members.

On behalf of the Board of Directors

Colin C Lloyd
Chairman
18 December 2019

STAFFORD RAILWAY
BUILDING SOCIETY

Corporate Governance Report

The Directors of the Society are committed to best practice in corporate governance. The United Kingdom Corporate Governance Code outlines that a principle of governance is to be 'led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society'.

As a mutual organisation, whilst not required to fully comply with the Code (effective for accounting periods beginning on or after 17 June 2016, with latest changes effective from January 2019), the Society has regard to the principles of the Code when establishing its governance arrangements, as required by our regulators the Prudential Regulation Authority and Financial Conduct Authority and the Building Society Act 1998. The Board supports the principles of the Code and has had regard to them in preparing this report.

A revised United Kingdom Corporate Governance Code was issued by the Financial Reporting Council in July 2018 and applies to accounting periods beginning on or after 1 January 2019.

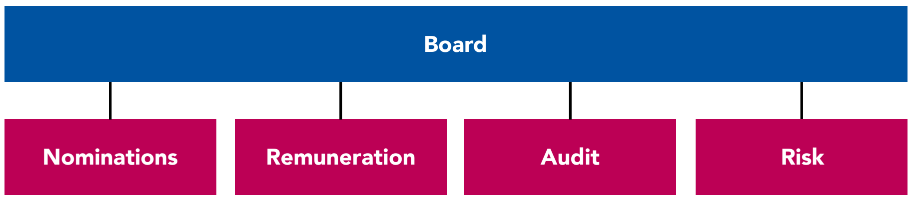
The Board will have regard to the principles of the revised Code for the financial year commencing 1 November 2019. The Board however, in line with the revised Code, has agreed that all Directors will offer themselves for election at the forthcoming Annual General Meeting.

1. The Board

The full Board, which meets in eleven months of the year, provides leadership and direction with the strategic aim of promoting success within an effective and controlled framework. The Board sets the Society's strategic aims and objectives, ensuring that sufficient human and financial resources are in place to meet them, whilst always acting in the best interests of the Society's Members. It satisfies itself on the integrity of financial information at the same time making sure that financial controls and risk management systems are robust. The risk management framework and internal controls are reviewed at least annually.

In line with the Society's Rule as at 31 October 2019 the Board consisted of two Executive Directors and six Non-Executive Directors who provide the appropriate mix of skills and professional expertise required. Changes to Executive Team are outlined in the Directors' Report section.

The Board has four key Board Committees as shown below together with summaries of the terms of reference. Full details are available from the Secretary or can be found on the website at www.srbs.co.uk.



Audit Committee

This Committee consists entirely of Non-Executive Directors under the chairmanship of Gary Crowe (appointed 21st March 2019) and previously chaired by Colin Lloyd. It meets at least four times per year. Membership of the Committee were Karen McCormick, Nicholas Sandy and James Dean (with effect from 21st March 2019), as well as attendees from the Society Executive and Risk and Compliance functions together with the Society's internal and external auditors. Members of the Audit Committee have experience of the sector, with at least one member having recent and relevant financial and audit experience. The Committee considers all matters of an audit and compliance nature applying to the Society, including internal controls, compliance reports, scope and content of internal and external audit work, financial reporting and other relevant systems and controls requirements. It validates the financial statements and market disclosures of the Society.

A dotted reporting line exists directly between the Chair of the Audit Committee and the Head of Risk and Compliance.

Risk Committee

The Risk Committee is chaired by David Grant (appointed 21st March 2019) and previously chaired by Gary Crowe. It meets six times or at least quarterly during the year and advises the Board on the overall risk appetite, tolerance and strategy and reviews the risk management framework and policies. With effect from 21st March 2019 the membership of the Committee was widened to include all Non-Executive Directors, (previously Gary Crowe ('Chair'), James Dean and David Grant) and the Deputy Chief Executive and Finance Director. In particular, the Committee monitors and reviews the consolidated risk picture across the Society. It is responsible for the ongoing development and maintenance of the Internal Liquidity Adequacy Assessment Process, Internal Capital Adequacy Assessment Process and Recovery Plan as well as the risk management framework. It also provides support and challenge for the development of the strategic plan and adequate stress testing strategy. The Committee receives standing reports on the risk register along with detailed risk management information that enables it to track performance against the risk appetite.

A dotted reporting line exists directly between the Chair of the Risk Committee and the Head of Risk and Compliance.

Nominations Committee

The Nominations Committee is chaired by Colin Lloyd (appointed 21st March 2019), and previously chaired by James Dean. It also comprises Karen McCormick ('Vice Chairman') and James Dean ('Senior Independent Director'). The Committee leads the process for appointments, ensures plans are in place for orderly succession to the Board and Leadership Team positions, and oversees the development of a diverse pipeline for succession.

It meets when there is an appropriate vacancy to fill and at least twice a year to review the skills mix of the Board and succession policy.

Remuneration Committee

The Remuneration Committee is chaired by Karen McCormick and is attended by all Non–Executive Directors. The Committee have delegated responsibility for determining the policy for Executive Director remuneration and setting remuneration for the Board Chairman, Executive Directors and other members of the Leadership Team. Further details of this Committee are provided within the Directors' Remuneration Report on pages 28 to 30.

In addition to its terms of reference relating to Directors, it approves the remuneration of the Head of Risk and Compliance.

2. Corporate Code Principles

Code Principle A2: There should be a clear division of responsibilities at the head of the company between the running of the Board and the Executive Responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

The offices of Chairman and Chief Executive are distinct and held by different people. The Chairman's role is described in Code Principle A3. The Chief Executive is responsible for leading the development and execution of the Board's strategy in the day-to-day management of the Society.

Code Principle A3: The Chairman is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role.

The Chairman is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role. He is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues, and for promoting a culture of openness and debate.

Code Principle A4: As part of their role as members of a unitary Board, Non-Executive Directors should constructively challenge and help develop proposals on strategy.

The Society's Non-Executive Directors are recruited from a range of appropriate backgrounds, ensuring they have the necessary breadth of skills, knowledge and experience to monitor the performance of the Society and to challenge the Executive in a constructive manner.

Code Principle B1: The Board and its Committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

The Board considers that all its Non-Executive Directors are independent and free of any relationship which could materially interfere with the exercise of their judgement. Under the terms of the Code, factors to be taken into account when assessing independence include the length of service and whether the Director has recently been an employee of the Society. James Dean is the Senior Independent Director (appointed 21st March 2019) and previously Colin Lloyd, to whom Members may address any concerns or issues they may wish to raise. However, all Directors are happy to make themselves available to Members for such purposes.

Code Principle B2: There should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

All Non-Executive vacancies are advertised to Members and the Nominations Committee make appointments having considered the balance of skills and experience required. All Directors must meet the test of fitness and propriety as laid down by the Prudential Regulation Authority as Approved Persons to fulfil their roles as Directors. The Board is mindful of the Davies Report on diversity and has disclosed information on gender mix in the Directors' Report.

Code Principle B3: All Directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

During the recruitment process applicants are advised on the time requirement for proper discharge of their duties. Their ability to commit sufficient time is assessed during their evaluation on appointment and as part of the formal appraisal process. Details of Board and Committee attendance throughout the year are shown at the end of this report.

Code Principle B4: All Directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.

New Directors receive full and formal induction training and all Directors are provided with on-going training and professional development to provide continual updating of their skills. Training is provided in a range of appropriate forms including in-house training, industry events, seminars and conferences.

Code Principle B5: The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

Through the Executive, the Chairman ensures that Directors receive accurate, timely and clear information to enable them to make effective contributions to Board meetings. All Directors have access to the advice of the Secretary and, if necessary, are able to take independent professional advice at the Society's expense.

Code Principle B6: The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors.

All Directors are subject to annual performance and evaluation review to ensure they continue to meet the Society's stringent requirements and in addition there is also an annual evaluation of the Board as a whole and the individual Committees. The performance of the Chairman is separately assessed by the Senior Independent Director, James Dean.

Code Principle B7: All Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

The Society's Rules require all Directors to offer themselves for re-election at the first opportunity after their appointment and for re-election every three years. Non-Executive Directors will normally serve for no more than nine years, after which they are subject to annual re-election in line with best corporate governance practice.

As previously noted the Board, in line with the revised Code, have agreed that all Directors will offer themselves for election at the forthcoming Annual General Meeting and annually thereafter.

3. Internal control and responsibilities

Code Principle C1: The Board should present a fair, balanced and understandable assessment of the company's position and prospects.

The Board considers that it has properly carried out its requirements in connection with the production of the annual report and accounts, and that the accounts are fair, balanced and understandable. The Board has identified no material uncertainties as to the Society's ability to continue to adopt the going concern basis of accounting over the coming period.

Further information is given in the Statement of Directors' Responsibilities.

Code Principle C2: The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.

The Board is responsible for determining a framework for risk management and control. The Leadership Team has the tasks of designing, operating and monitoring risk management and internal control processes whilst the Risk and Audit Committees, on behalf of the Board, are responsible for reviewing the adequacy and effective operation of such processes.

The Board has carried out a robust assessment of the principal risks facing the Society. The Board has assessed the prospects of the Society and has set out the strategy for the next five years from 31 October 2019 within the Society's Corporate Plan, during which time the Society is expected to continue in operation and meet its liabilities as they fall due whilst ensuring future sustainability and viability. Further detail is contained within the Strategic Report under Risk Management Report.

Code Principle C3: The Board should establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.

The system of internal control is designed to enable the Society to achieve its corporate objectives within a managed risk profile, not to eliminate risk. Internal Audit provides independent and objective assurance that these processes are appropriate and effectively applied.

4. Communication with Members and the Annual General Meeting

Code Principle E1: There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

Member newsletters are produced on an annual basis to ensure that Members are kept informed regarding developments at the Society, with reaction and feedback encouraged. Member satisfaction surveys and questionnaires are issued to all new Members on joining the Society as well as part of the Annual General Meeting communication and via the Society's website.

Code Principle E2: The Board should use the general meetings to communicate with investors and to encourage their participation.

The Society encourages all eligible Members to participate in the Annual General Meeting, either by attending in person, voting by proxy or by voting online. All Board members are normally present at the Annual General Meeting and are therefore available to meet with Members, discuss issues and answer questions.

5. Attendance at the Board and Committee meetings

All Committee meetings are minuted formally with the minutes being considered at the next Board meeting. Attendance of members of the Board and Committees at meetings for the year to 31 October 2019 is as follows:

Name	Board	Remuneration	Audit	Risk	Nominations
Colin C Lloyd	10 (10)	6 (6)	1 (1)	6 (6)	2 (2)
Karen E McCormick	8 (10)	6 (6)	3 (4)	5 (6)	*
James W Dean	9 (10)	4 (6)	1 (2)	7 (8)	2 (2)
Gary CD Crowe	9 (10)	6 (6)	3 (3)	6 (8)	*
David J Grant	10 (10)	6 (6)	*	8 (8)	*
Nicholas HJ Sandy	10 (10)	6 (6)	4 (4)	5 (6)	2 (2)
Michael R Smith	10 (10)	2 (2)*	4 (4)*	8 (8)*	2 (2)*
Steven Jones	10 (10)	*	3 (3)*	8 (8)	*

Board Committee Attendances: Year ended 31 October 2019

*(Figures in brackets represent maximum possible attendance) / *Denotes not a member of the Committee*

On behalf of the Board of Directors

Colin C Lloyd
Chairman
18 December 2019

Audit Committee Report

The Audit Committee forms part of the Society's corporate governance framework.

The responsibilities of the Committee reflect the provisions of the Financial Reporting Council's ('FRC') Guidance on Audit Committees. The main function of the Committee is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of:

- The integrity of the financial statements, any formal announcements relating to financial performance and significant financial reporting judgements contained therein;
- The effectiveness of the system of internal controls; and
- The internal audit and external audit functions, including:
  - The performance and independence of both Internal and External Auditor; and
  - The engagement of the External Auditor for non-audit work.

Following each Committee meeting, the minutes are distributed to the Board, and the Committee Chairman provides a report to the Board on key matters discussed by the Committee.

The composition of the Committee is detailed within the corporate governance section of this report. The Chief Executive, Deputy Chief Executive and Finance Director, the Head of Risk and Compliance and the Financial Risk Manager attend the meeting by invitation. Both the Internal and External Auditors are also invited to each meeting. The Committee holds a periodic discussion without the Executive Directors being present.

James Dean as the Senior Independent Director who is a member of the Audit Committee, discharges a role of Whistleblowing Champion providing the Board with an annual report on whistleblowing arrangements within the Society.

Key areas reviewed during 2019

The Committee met four times during the year and focused on the following matters:

Financial Reporting

The primary role of the Committee in relation to financial reporting is to review and assess with the Executive, Compliance Function and the external auditor the integrity and appropriateness of the annual financial statements concentrating on amongst other things:

- The quality and acceptability of accounting policies and practices;
- The clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements including advising the Board on whether the Annual Report and Accounts, when taken as a whole are fair, balanced and understandable and provide information sufficient for Members to assess the Society's performance, business model and strategy; and
- The material areas in which significant judgements have been applied.

The primary areas of judgement considered by the Committee in relation to the 2019 accounts was that of loan loss provisions which included a review of judgements used to determine timing of recognition and valuation of loan loss provisions in line with FRS102.

The Committee considers that it has properly carried out its requirements in connection with the financial reporting of the annual report and accounts, and that the accounts are fair, balanced and understandable. The Committee has identified no material uncertainties as to the Society's ability to continue to adopt the going concern basis of accounting over the coming period.

Internal Audit

The Committee is responsible for monitoring internal audit activities and effectiveness and ensuring that sufficient resources are in place. In common with other Building Societies of its size and structure, the Society outsources this role to an independent firm of accountants with appropriate specialist expertise and resource. The firm currently providing this service is Deloitte LLP.

Key reviews were completed through their agreed work programme during the year including areas of internal control significance, specifically data protection and General Data Protection Requirements, operational resilience, lending controls, risk management framework, Internal Capital Adequacy Assessment Process and Treasury Management Framework.

Internal audit findings and thematic issues identified were considered by the Committee, as well as management's response and the tracking and completion of outstanding actions.

The Committee considers guidance from the Chartered Institute of Internal Auditors entitled 'Effective Internal Audit in the Financial Services Sector' when ensuring that Internal Auditors and the Committee are properly fulfilling their obligations.

The Committee also approved the fee for the programme of internal audit work for the year having reviewed the scope of the work programme in detail and any thematic reviews undertaken by the regulators in which the Society was asked to participate.

System of Internal Controls

The Board recognises that robust systems of internal control are essential to the achievement of its objectives and the safeguarding of Members' and the Society's assets. Internal control also contributes to the effectiveness and efficiency of operations, helping to ensure the reliability of internal and external reporting and enables compliance with applicable laws and regulations.

The Board is responsible for determining a framework for risk management and control. The Leadership Team has the tasks of designing, operating and monitoring risk management and internal control processes whilst the Risk and Audit Committees, on behalf of the Board, are responsible for reviewing the adequacy and effective operation of such processes.

The Board has carried out a robust assessment of the principal risks facing the Society. The Board has assessed the prospects of the Society and has set out the strategy for the next five years from 31 October 2019 within the Society's Corporate Plan, during which time the Society is expected to continue in operation and meet its liabilities as they fall due.

The system of internal control is designed to enable the Society to achieve its corporate objectives within a managed risk profile, not to eliminate risk. Internal Audit provides independent and objective assurance that these processes are appropriate and effectively applied.

The Committee review the internal control framework through regular reporting from the Leadership Team and Internal Auditors. The main internal control matters which were reviewed by the Committee in 2019 were:

- Prudential and conduct related;
- Internal audit plans;
- Reports from the Internal Auditor;
- Reports from the Risk and Compliance Manager;
- Reports from the Society's internal Money Laundering Reporting Officer;
- The status of any issues raised in control reports to ensure a timely resolution; and
- Whistleblowing arrangements.

The information received and considered by the Committee provided 'adequate and effective' assurance that during 2019 there were no material breaches of control or regulatory standards and that, overall, the Society maintained an adequate internal control framework.

External Audit

The Society's External Auditor for 2018/2019 was KPMG LLP.

The Committee holds regular private meetings with the External Auditor. This provides the opportunity for open dialogue and feedback from the Committee and the Auditor without the Executive Directors being present. Matters typically include the Auditor's assessment of financial reporting risks and key financial reporting judgements, the transparency and openness of interactions with the Leadership Team, confirmation that there has been no restriction in scope placed on them and the independence of their audit.

The effectiveness of the external audit process is dependent on appropriate audit risk identification. At the start of the audit cycle the Committee receives from the External Auditor a detailed audit plan, identifying their assessment of the key risks.

The Committee accepted a notice from the External Auditors for service to complete at the end of this financial year.

The Committee approved the fees for audit services for 2019 after a review of the level and nature of the work to be performed and having been satisfied that the fees were appropriate for the scope of work required. The Board accepted the Committee's recommendation to continue with the services of the External Auditor and also assessed their independence as appropriate as no material non-audit services were provided during this reporting year. 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 Chairman 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.

Compliance

The Society's Risk and Compliance Team provides second line assurance. The Committee approves the Compliance Monitoring Plan and reviews reports and assesses progress against agreed actions.

Audit Committee Effectiveness

The Committee conducts a self-assessment review annually to monitor performance against its Terms of Reference. The resulting effectiveness report is presented by the Chair of the Committee with any relevant recommendations addressed. The Committee's Terms of Reference were reviewed during the year and found to be appropriate.

Gary C D Crowe
Chair of Audit Committee
18 December 2019

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.

Code Principle D1: Executive Directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.

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 and 2018, 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.

Code Principle D2: There should be a formal and transparent procedure for developing policy on Executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be responsible for setting his or her own remuneration.

STAFFORD RAILWAY
BUILDING SOCIETY

The Remuneration Committee

This Committee comprises all the Non-Executive Directors under the chairmanship of Mrs Karen McCormick and 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 basis of remuneration is consistent with sound and effective risk management and does not encourage excessive risk taking. The Committee meets at least twice a year to consider the remuneration and other terms of service of the Executive Directors.

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 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.

Total emoluments of the Society's Directors (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**

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**

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 eight months to 30 June 2018 totalled £224.8k, comprising Base Fee (£162.7k), Bonus (£24.6k) and Value Added Tax (£37.5k). The amounts paid were in addition to the £392.1k noted above in respect of total emoluments of the Directors for the year ending 31 October 2018.

Executive Directors

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

31 October 2018	Salary £'000	Annual Bonus £'000	Pension £'000	Total £'000
Michael R Smith	165.0	24.0	-	189.0
Steven Jones	52.0	10.0	4.8	66.8
	217.0	**34.0**	**4.8**	**255.8**

Colin C Lloyd
Chairman
18 December 2019

Directors' Responsibilities

STAFFORD RAILWAY
BUILDING SOCIETY

Statement of Directors' Responsibilities

Directors' responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors' Report and the Annual Accounts.

The Directors are responsible for preparing the Annual Report, Annual Business Statement, Directors' Report and Annual Accounts in accordance with applicable law and regulations.

The Building Societies Act 1986 (the Act) requires the Directors to prepare annual accounts for each financial year. Under that law they have elected to prepare the annual accounts in accordance with United Kingdom Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice).

The Annual Accounts are required by law to give a true and fair view of the state of affairs of the Society as at the end of the financial year and of the income and expenditure of the Society for the financial year.

In preparing these Annual Accounts, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Annual Accounts; and
- Prepare the Annual Accounts on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

In addition to the Annual Accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society.

Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Society:

- Keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society, in accordance with the Act; and
- Takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of Annual Accounts may differ from legislation in other jurisdictions.

On behalf of the Board of Directors

Colin C Lloyd
Chairman
18 December 2019

Independent Auditor's Report

STAFFORD RAILWAY
BUILDING SOCIETY

Independent Auditor's Report *– to the members of Stafford Railway Building Society*

1. Our opinion is unmodified

We have audited the annual accounts of Stafford Railway Building Society ("the Society") for the year ended 31 October 2019 which comprise the statement of comprehensive income, statement of financial position, statement of changes in members' interests, cash flow statement and the related notes, including the accounting policies in note 1.

In our opinion the annual accounts:

- give a true and fair view of the state of the Society's affairs as at 31 October 2019 and of the income and expenditure of the Society for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the Society before 1990. The period of total uninterrupted engagement is for more than the 29 financial years ended 31 October 2019.

We have fulfilled our ethical responsibilities under, and we remain independent of the Society in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: financial statements as a whole	£210,500 (2018:£45,100) 1% of Net Assets (2018: 4.5%) of profit before tax

Key audit matters	**vs 2018**
Recurring risks Impairment of loans and advances to customers	<>
Event driven **New:** The impact of uncertainties due to the UK exiting the European Union on our audit	^

STAFFORD RAILWAY BUILDING SOCIETY

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Following a re-assessment in the year, net assets has been considered the most appropriate benchmark to use in the current environment for the Society, given their strategy is not one purely of profit maximisation but instead to provide a secure place for customer investments, in a mutual environment.

The impact of uncertainties due to the UK exiting the European Union on our audit

Refer to page 17 (Strategic Report)

The risk

Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in loan impairment below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Society's future prospects and performance.

Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

Our response

We developed a standardised, firm-wide approach to the consideration of the uncertainties arising from Brexit, in planning and performing our audits. Our procedures included:

Our Brexit knowledge

We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.

Sensitivity analysis

When addressing loan impairment and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.

Assessing transparency

As well as assessing individual disclosures as part of our procedures on loan impairment we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

Our results

As reported under loan impairment, we found the resulting estimates and disclosures in relation to loan impairment and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for an organisation and this is particularly the case in relation to Brexit.

Impairment of Loans and Advances to Customers

(£214,600; 2018: £193,000)

Refer to page 25 (Audit Committee Report), page 46 (accounting policy) and page 54 (financial disclosures).

The risk

Subjective Estimate:

Specific impairment provisions cover loans specifically identified as impaired, and a collective impairment provision is recognised against all other loans for those impairments incurred but not yet specifically identified.

The directors judge specific impairments by reference to loans that have suffered significant financial difficulty of the borrower, default or delinquency by a borrower or the restructuring of a loan or advance by the society on terms that the society would not otherwise consider.

The collective impairment provision is derived from a model which uses a combination of the Society's historical experience and, due to the Society's limited loss experience, external data, adjusted for current conditions. In particular, judgement is required on the key assumptions of probability of default and forced sale discount against collateral.

The impairment provision is most sensitive to movements in the probability of default applied to mortgages.

The effect of these matters is that, as part of our risk assessment, we determined that impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual report and accounts as a whole.

Our response

Our procedures included:

Benchmarking Assumptions:

We compared the key assumptions used in the impairment provision model, being probability of default and forced sale discount, with those applied at peer organisations.

Our sector experience:

We challenged the key assumptions used in the impairment provision model, being probability of default and forced sale discount, using our knowledge of recent impairment experience in this industry, including that of the Society.

Tests of Detail:

We identified a population of loans against which no specific loss allowance had been recognised, and assessed whether there was any indication of unidentified impairments by reference to the historic performance of the account, and relevant documentation such as correspondence with customers.

Sensitivity Analysis:

We assessed the impairment provision model for its sensitivity to changes in the key assumptions of probability of default and forced sale discount by performing stress testing to help us assess the reasonableness of the assumptions and identify areas of potential additional focus.

Assessing Transparency:

We assessed the adequacy of the Society's disclosures in respect of the degree of estimation involved in arriving at the impairment allowance.

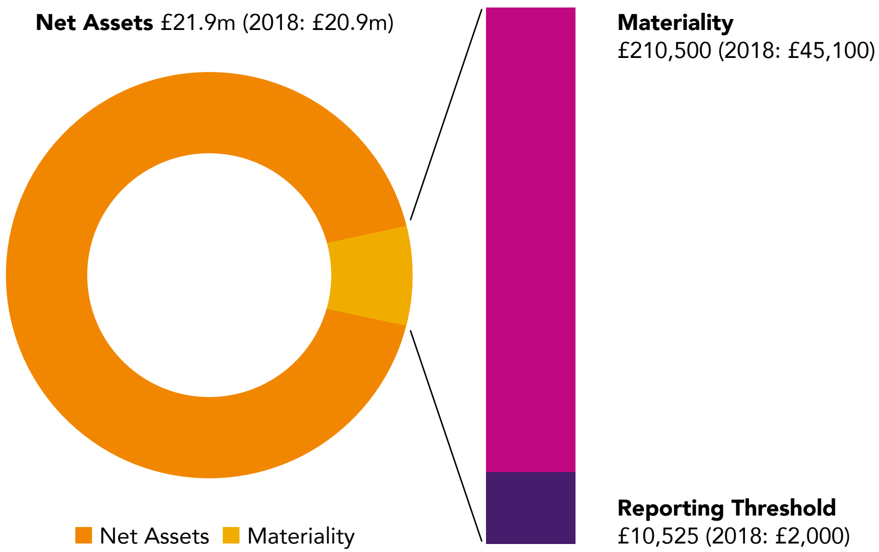
Our results

We found the estimate of the impairment provision in respect of loans and advances to customers to be acceptable (2018: acceptable)

3. Our application of materiality and an overview of the scope of our audit

Materiality for the society annual accounts as a whole was set at £210,500 (2018: £45,100), determined with reference to a benchmark of net assets (of which it represents 1.0% (2018: 4.5% of Profit before tax before one off items)).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £10,525, in addition to other identified misstatements that warranted reporting onqualitative grounds



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Society or to cease their operations, and as they have concluded that the Society’s financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements (“the going concern period”).

Our responsibility is to conclude on the appropriateness of the Directors’ conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Society will continue in operation.

In our evaluation of the Directors’ conclusions, we considered the inherent risks to the Society’s business model and analysed how those risks might affect the Society’s financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely effect the Society’s available financial resources over this period was the impactof Brexit on the Society’s liquidity and capital resources.

As these were risks that could potentially cast significant doubt on the Society's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Society’s financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit on loan collateral valuations.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Annual Business Statement and Directors' Report

In our opinion:

- the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;
- the information given in the Directors' Report for the financial year is consistent with the accounting records and the annual report and accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Building Societies Act 1986, we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the Society, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 32, the Directors are responsible for: the preparation of the annual accounts including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

STAFFORD RAILWAY BUILDING SOCIETY

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Society's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Society is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related building society legislation), and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Society is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of building society legislation recognising the financial and regulated nature of the Society's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditor's report 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, for our audit work, for this report, or for the opinions we have formed.

Matthew Rowell
(Senior Statutory Auditor)
18 December 2019

for and on behalf of
KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Statements

STAFFORD RAILWAY
BUILDING SOCIETY

Statement of Comprehensive Income *– for the year ended 31 October 2019*

	Notes	2019 £'000	2018 £'000
Interest receivable and similar income	2	6,606	6,019
Interest payable and similar charges	3	(2,152)	(1,793)
Net interest income		4,454	4,226
Fees and commissions receivable		18	17
Fees and commissions payable		(27)	(37)
Other operating income / (charges)		27	(8)
Total net income		4,472	4,198
Administrative expenses	4	(3,269)	(3,143)
Depreciation and amortisation	12	(116)	(75)
Operating profit before impairment losses and provisions		1,087	980

	Notes	2019 £'000	2018 £'000
Impairment losses on loans and advances	11	(22)	(6)
Provisions for liabilities	18	-	28
Profit before tax		1,065	1,002
Tax expense	7	(204)	(198)
Profit for the financial year		**861**	**804**
Other comprehensive income			
Valuation gains/(losses) on available-for-sale investments taken to equity		52	(1)
Income tax on other comprehensive income		(9)	-
Total comprehensive income for the year		**904**	**803**

Profit for the financial year arises from continuing operations. Both the profit for the financial year and total comprehensive income for the year are attributable to the Members of the Society.

The notes on pages 45 to 70 form an integral part of these financial statements.

STAFFORD RAILWAY BUILDING SOCIETY

Statement of Financial Position – *at 31 October 2019*

	Notes	2019 £'000	2018 £'000
Assets			
Liquid assets			
Cash in hand		132	82
Loans and advances to credit institutions	8	47,241	43,977
Debt securities	9	23,653	36,902
Loans and advances to customers	10	187,609	172,228
Tangible fixed assets	12	855	763
Other debtors	13	124	124
Total assets		**259,614**	**254,076**

	Notes	2019 £'000	2018 £'000
Liabilities			
Shares	14	224,701	218,178
Amounts owed to other customers	15	12,421	14,272
Other liabilities	16	196	177
Accruals and deferred income		361	435
Deferred tax liability	17	39	22
Total liabilities		**237,718**	**233,084**
Reserves			
General reserve		21,897	21,036
Available-for-sale reserve		(1)	(44)
Total reserves attributable to members of the Society		21,896	20,992
Total reserves and liabilities		**259,614**	**254,076**

These accounts were approved by the Board of Directors on 18 December 2019 and signed on its behalf:

The notes on pages 45 to 70 form an integral part of these financial statements

Colin C Lloyd
Chairman

Michael R Smith
Chief Executive

Steven Jones
Deputy Chief Executive
and Finance Director

Society Statement of Changes in Members' Interests

	General reserve 2019 £'000	Available -for-sale reserve 2019 £'000	Total 2019 £'000	General reserve 2018 £'000	Available -for-sale reserve 2018 £'000	Total 2018 £'000
Balance at 1 November 2018	21,036	(44)	20,992	20,232	(43)	20,189
Total comprehensive income for the period						
Profit for the financial year	861	-	861	804	-	804
Other comprehensive income:						
Valuation gains/(losses) on available for-sale investments taken to equity	-	52	52	-	(1)	(1)
Income tax on other comprehensive income	-	(9)	(9)	-	-	-
Total comprehensive income for the period	861	43	904	804	(1)	803
Balance at 31 October 2019	**21,897**	**(1)**	**21,896**	**21,036**	**(44)**	**20,992**

Cash Flow Statement

	Notes	2019 £'000	2018 £'000
Cash flows from operating activities			
Profit before tax		1,065	1,002
Adjustments for			
Depreciation	12	116	75
Valuation gains / (losses) on available-for-sale investments taken to equity		52	(1)
Increase in impairment of loans and advances		22	1
Total		**1,255**	**1,077**
Changes in operating assets and liabilities			
(Increase) in prepayments, accrued income and other assets		-	(14)
(Decrease) in accruals, deferred income and other liabilities		(74)	(327)
(Increase) in loans and advances to customers		(15,403)	(1,631)

	Notes	2019 £'000	2018 £'000
Increase / (Decrease) in shares		6,523	(8,713)
(Decrease) in amounts owed to other credit institutions and other customers		(1,851)	(879)
Increase in deferred taxation		17	22
Taxation paid		(177)	(143)
Net cash generated by operating activities		**(9,710)**	**(10,608)**
Cash flows from investing activities			
Purchase of debt securities		(23,560)	(35,109)
Maturity of debt securities		36,792	72,488
Purchase of tangible fixed assets	12	(208)	(278)
Net cash generated by investing activities		**13,024**	**37,101**
Net Increase in cash and cash equivalents		**3,314**	**26,493**
Cash and cash equivalents at 1 November 2018	8	44,059	17,566
Cash and cash equivalents at 31 October 2019	**8**	**47,373**	**44,059**

Notes to the Accounts

STAFFORD RAILWAY
BUILDING SOCIETY

Notes to the Accounts

1. Accounting policies

Stafford Railway Building Society (the 'Society') has prepared these Society annual accounts in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102, The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS 102') as issued in August 2014. The Society has also chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the European Union). The presentation currency of these annual accounts is sterling. All amounts in the annual accounts have been rounded to the nearest £1,000. There are no foreign currency transactions.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these annual accounts.

Judgements made by the Directors, in the application of these accounting policies that have a significant effect on the annual accounts and estimates with a significant risk of material adjustment in the next year are discussed in note 1.11.

1.1 Measurement convention

The annual accounts are prepared on the historical cost basis with the exception that the Society has elected to adopt IAS 39 Financial Instruments: Recognition and Measurement which requires the Society to measure its debt securities that it has classified as 'Available-For-Sale' at fair value with interest and amortisation recognised using the effective interest rate method.

1.2 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Society estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the income statement and other comprehensive income include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- Interest on available-for-sale debt securities calculated on an effective interest basis.

1.3 Fees and commission

Fees, commission income and expenses associated with bringing a mortgage onto the balance sheet are amortised against the expected life of the mortgage on an effective interest rate basis.

Other fees and commission income are recognised on an accruals basis when the service has been provided or on the completion of an act to which the fee relates.

1.4 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the Annual Accounts. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.5 Financial instruments

Recognition

The Society initially recognises loans and advances to customers, loans and advances to credit institutions and debt securities on the date on which they are originated at fair value. All other financial instruments are recognised on the trade date, which is the date on which the Society becomes a party to the contractual provisions of the instrument.

Classification

Financial assets

The Society classifies its financial assets into one of the following categories:

- *Loans and receivables*
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and that the Society does not intend to sell immediately or in the near term. Loans and receivables include loans and advances to customers.

The Society measures its loans and advances at amortised cost less impairments. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The initial value may, if applicable include certain fees which are recognised over the average life of mortgage assets, as noted above.

Throughout the year and at each year end, the mortgage life assumptions for each scheme are reviewed for appropriateness. Any changes to the expected life assumptions of the mortgage assets are recognised through interest receivable and similar income and reflected in the carrying value of the mortgage assets.

- *Available-for-sale*
  Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise debt securities and are measured at fair value after initial recognition.

  Interest income is recognised in profit or loss using the effective interest method. Impairment losses are recognised in profit or loss.

  Other fair value changes, other than impairment losses, are recognised in Other Comprehensive Income and presented in the available-for-sale reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

- *Financial liabilities*
  The Society classifies its financial liabilities as measured at amortised cost.

Derecognition

The Society derecognises a financial liability when its contractual obligations are discharged or either cancelled or expire.

Measurement

Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Identification and measurement of impairment

At each reporting date, the Society assesses whether there is objective evidence that financial assets not carried at fair value are impaired. A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- Significant financial difficulty of the borrower or issuer;
- Default or delinquency by a borrower;
- The restructuring of a loan or advance by the Society on terms that the Society would not consider otherwise;
- Indications that a borrower or issuer will enter bankruptcy;
- The disappearance of an active market for a security; or
- Observable data relating to a group of assets such as adverse changes in the payment status of borrowers.

The Society considers evidence of impairment for loans and advances at both a specific asset and a collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment, the Society uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Where certain emerging impairment characteristics are considered significant but not assessed as part of the impairment calculation, The Board may elect to apply an overlay to impairment provision.

The amount of impairment loss is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of provisions.

Forbearance strategies and renegotiated loans

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The main options offered by the Society include:

- Moving to an interest only arrangement; and
- Payment plans.

Members requesting a forbearance option will need to provide information to support the request which is likely to include a budget planner, statement of assets and liabilities, bank/credit card statements, payslips etc. in order that the request can be properly assessed.

If the forbearance request is granted the account is monitored in accordance with our policy and procedures. At the appropriate time the forbearance option that has been implemented is cancelled, with the exception of capitalisation of arrears, and the customer's normal contractual payment is restored.

Loans that are subject to restructuring may only be classified as restructured and up-to-date once a specified number and/or amount of qualifying payments have been received. These qualifying payments are set at a level appropriate to the nature of the loan and the customer's ability to make the repayment going forward.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired assets continues to accrue. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the available for sale reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognised through Other Comprehensive Income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in Other Comprehensive Income.

1.6 Cash and cash equivalents

For the purposes of the Cash Flow Statement, cash comprises cash in hand and unrestricted loans and advances to credit institutions repayable on demand. Cash equivalents comprise highly liquid unrestricted investments that are readily convertible into cash with an insignificant risk of changes in value with original maturities of less than three months. The Cash Flow Statement has been prepared using the indirect method.

1.7 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

The Society assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- Buildings 50 years
- Computer equipment 3 years
- Fixtures and fittings 5-10 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Society expects to consume an asset's future economic benefits.

The Society assesses at each reporting date whether any tangible fixed assets are impaired.

1.9 Employee benefits

A defined contribution plan is a post-employment benefit plan under which the Society pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of Comprehensive Income in the periods during which services are rendered by employees.

1.10 Provisions

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.11 Assumptions and estimation uncertainties

Certain asset and liability amounts reported in the accounts are based on management estimates, judgements and assumptions. There is, therefore, a risk of changes to the carrying amounts for these assets and liabilities within the next financial year. The most significant areas where judgements and assumptions are made are as follows:

Loan impairment

In determining whether an impairment loss should be recorded, the Society is required to exercise a degree of judgement. Impairments are calculated as the difference between expected future cash flows and the current outstanding balance, using management's best estimate of propensity to default using all available data. Estimates and assumptions are around the probability of any account defaulting, the time taken to complete the sale of properties in possession and the eventual loss incurred in the event of forced sale discount, including realisation costs. These assumptions are based on previous experience complemented by data sourced from an external credit reference agency. They are updated as the Board consider appropriate to reflect both current and future circumstances.

In exercising its judgement, the Board consider a number of scenarios, incorporating a range of the key variables noted. The scenarios include, for example geographical concentration and type of lending / market segment.

The probability of default used in the collective impairment model is 5%. A 2.5% increase in the outcome of probability of default would result in an increase in the collective impairment provision of £78,000. A more aggressive stress based on a 5% increase would result in an increase of £162,000.

The forced sale discount used in the collective impairment model 32%. A 5% increase in the forced sale discount would result in an increase in the collective impairment provision of £129,000. Conversely a 5% decrease would result in a decrease in the collective impairment provision of £95,000.

The realisation period used in the scenarios varied between 12 months to 24 months dependent on the type of lending / market segment. A 6 month increase in the realisation period would result in an increase in the collective impairment provision of £16,000.

Effective interest rate ('EIR')

The Society recognises interest on loans and advances to customers on the basis of their Effective Interest Rate. This is a constant rate that averages out the effect of incentives and fees across the expected life of the loan account. A critical assumption in the calculation is the expected life, as this determines the assumed period over which customers may be paying various differentiated interest rates. The determination of the estimated life is based on historical redemption data as well as management judgement.

Any changes to the average life will create an adjustment to the loan balance in the balance sheet with a corresponding adjustment to interest receivable in the Statement of Comprehensive Income.

A 3 month increase in the life profile of mortgage assets would result in an increase in the value of loans on the Statement of Financial Position by approximately £10,479 (2018: £4,560) and a corresponding increase in interest receivable.

2. Interest receivable and similar income

	2019 £'000	2018 £'000
On loans fully secured on residential property	5,925	5,420
On loans and advances to credit institutions	92	120
On debt securities	589	479
	6,606	**6,019**

Included within interest income is £12,778 (2018: £3,021) in respect of interest income accrued on impaired loans two or more months in arrears.

3. Interest payable and similar charges

	2019 £'000	2018 £'000
On shares held by individuals	2,120	1,770
On deposits and other borrowings	32	23
	2,152	**1,793**

4. Administrative expenses

	2019 £'000	2018 £'000
Wages and salaries	1,667	1,556
Social security costs	165	122
Contributions to defined contribution plans	110	81
	1,942	**1,759**
Other administrative expenses	1,327	1,384
	3,269	**3,143**

The remuneration of the external auditor, which is included within other administrative expenses above, is set out below (excluding Value Added Tax):

	2019 £'000	2018 £'000
Audit of these annual accounts	87	63
Amounts receivable by the Society's auditor and its associates in respect of:		
Other services	8	7
	95	**70**

5. Employee numbers

The average number of persons employed by the Society during the year, analysed by category, was as follows:

	2019 £'000	2018 £'000
Full time	31	22
Part time	11	15
	42	**37**

As at 31 October 2019 the Society employed a total of 42 staff (full time 30 and part time 12). The analysis excludes the Society's Non-Executive Directors.

6. Directors' remunerations

Total remuneration of the Society's Directors for the year was £503,335 (2018: £616,851). Full details are given in the tables within the Directors' Remuneration Report on pages 28 to 30.

Fees for Directors are not pensionable. Non-Executive Directors do not participate in any incentive scheme or receive any other benefit.

7. Tax expense

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

Analysis of tax charge in the year	2019 £'000	2018 £'000
Current tax United Kingdom corporation tax on income for the period	196	177
Overprovision of corporation tax in previous period	-	(2)
	196	**175**
Deferred tax (see note 17) Origination and reversal of timing differences	8	23
Total deferred tax	8	23
Total tax	**204**	**198**

Factors affeting the current tax charge in the year:	2019 £'000	2018 £'000
Profit on ordinary activities before tax	1,065	1,002
Tax or profit on ordinary activities at United Kingdom standard rate of 19.0% (2018: 19.0%)	202	190
Expenses not deductible for tax purposes	2	11
Overprovision of corporation tax in previous period	-	(2)
Accelerated capital allowances and other timing differences	-	(26)
Movement in collective provision	-	2
Current tax charge for the year	**204**	**175**

The current tax charge for the period is at the standard rate of corporation tax in the United Kingdom which is 19%. Reductions in the United Kingdom corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. A further reduction to 17% with effect from 1 April 2020 was announced in the United Kingdom Budget on 16 March 2016. Accordingly, deferred tax has been measured based on a future effective rate of 17%.

8. Loans and advances to credit institutions

	2019 £'000	2018 £'000
Repayable on demand	47,241	43,977
Total loans and advances to credit institutions	**47,241**	**43,977**
Total loans and advances to credit institutions	47,241	43,977
Cash	132	82
Total included within cash and cash equivalents	**47,373**	**44,059**

9. Debt securities

	2019 £'000	2018 £'000
Debt securities have remaining maturities as follows:		
In not more than one year	23,653	26,474
In more than one year	-	10,428
	23,653	**36,902**
Transferable debt securities comprise:		
Listed on a recognised investment exchange	19,087	10,187
Unlisted	4,566	26,715
	23,653	**36,902**
Movements in debt securities during the year are summarised as follows:		
At 1 November 2018	36,902	74,304
Additions	23,560	35,109
Disposals and maturities	(36,784)	(72,463)
Movement in premium and accrued interest	(77)	(47)
Valuation gains / (losses) on available-for-sale investments taken to equity	52	(1)
At 31 October 2019	**23,653**	**36,902**

10. Loans and advances to customers

	2019 £'000	2018 £'000
Loans fully secured on residential property	185,919	170,373
Loans fully secured on land	1,690	1,855
	187,609	**172,228**
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
On call and at short notice	157	540
In not more than three months	1	223
In more than three months but not more than one year	419	410
In more than one year but not more than five years	8,140	7,754
In more than five years	179,107	163,494
	187,824	**172,421**
Less: allowance for impairment (note 11)	(215)	(193)
	187,609	**172,228**

The maturity analysis above is based on contractual maturity not expected redemption levels.

11. Allowance for impairment

	Loans fully secured on residential property £'000	Total £'000
Individual provision		
At 1 November 2018		
Individual impairment	6	6
Collective impairment	187	187
	193	**193**
Utilised in the year		
Individual impairment	-	-
	-	**-**
Charge/(credit) for the year		
Individual impairment	32	32
Collective impairment	(10)	(10)
	22	**22**
At 31 October 2019		
Individual impairment	38	38
Collective impairment	177	177
	215	**215**

	Loans fully secured on residential property £'000	Total £'000
Individual provision		
At 1 November 2017		
Individual impairment	13	13
Collective impairment	179	179
	192	**192**
Utilised in the year		
Individual impairment	(5)	(5)
	-	**-**
Charge/(credit) for the year		
Individual impairment	(2)	(2)
Collective impairment	8	8
	6	**6**
At 31 October 2018		
Individual impairment	6	6
Collective impairment	187	187
	193	**193**

12. Tangible fixed assets

	Freehold Land and Buildings £'000	Computer Equipment £'000	Office Equipment /Fixtures & Fittings £'000	Total £'000
Cost				
Balance at 1 November 2018	643	178	686	1,507
Additions	-	62	146	208
Disposals	-	(7)	(2)	(9)
Balance at 31 October 2019	**643**	**233**	**830**	**1,706**
Depreciation and impairment				
Balance at 1 November 2018	253	106	385	744
Depreciation charge for the year	15	40	61	116
Disposals	-	(7)	(2)	(9)
Balance at 31 October 2019	**268**	**139**	**444**	**851**
Net book value				
At 1 November 2018	390	72	301	763
At 31 October 2019	**375**	**94**	**386**	**855**

Land and buildings

The net book value of land and buildings comprises:	2019 £'000	2018 £'000
Freehold	375	390
Net book value of land and buildings occupied for own use	**375**	**390**

13. Other debtors

	2019 £'000	2018 £'000
Prepayments and accrued income	124	124
	124	**124**

14. Shares

	2019 £'000	2018 £'000
Held by individuals	224,701	218,178
Shares are repayable with remaining maturities from the balance sheet date as follows:		
Repayable on demand	217,979	218,178
In not more than 3 months	6,722	-
	224,701	**218,178**

15. Amounts owed to other customers

	2019 £'000	2018 £'000
Repayable on demand	12,421	14,272
	12,421	**14,272**

16. Other liabilities

	2019 £'000	2018 £'000
Corporation tax	196	177
	196	**177**

17. Deferred tax assets and liabities

	Assets 2019 £'000	Assets 2018 £'000	Liabilities 2019 £'000	Liabilities 2018 £'000	Net 2019 £'000	Net 2018 £'000
Excess of capital allowances over depreciation	-	-	59	51	59	51
Effective Interest Rate transitional adjustment	-	-	10	12	10	12
Collective impairment allowance	(30)	(32)	-	-	(30)	(32)
Income tax on other comprehensive income	-	(9)	-	-	-	(9)
Deferred tax (assets) / liabilities	**(30)**	**(41)**	**69**	**63**	**39**	**22**

No significant reversal of the deferred tax liability in respect of accelerated capital allowances or collective impairment allowance is expected to occur in the year to 31 October 2020. The Corporation Tax impact of the Effective Interest Rate transitional adjustment is spread over ten years and so deferred tax has been recognised accordingly.

18. Provisions for liabilities

In March 2018, The Financial Services Compensation Scheme made a final payment to HM Treasury in respect of liabilities arising out of the resolution of Dunfermline Building Society. In May 2018, the capital balance on the Bradford and Bingley loan was fully repaid through the sale of certain Bradford and Bingley mortgage assets. Therefore, the Society had received the last FSCS levy raised in respect of the costs of the 2008/9 failures. The outstanding amount of £8k, in respect of the scheme year 2017/18, calculated on protected deposits as at 31 December 2016 was paid on 1 September 2018 and hence there was no outstanding liability in respect of the FSCS as at 31 October 2018. The surplus provision of £28k was realised in the Statement of Comprehensive Income for the year ended 31 October 2018.

19. Employee benefits

Defined contribution plans

During the year, the Society has contributed to the personal pension plans of its staff. The pension charge in relation to these plans for the year was £110,132 (2018: £80,981). Accrued contributions as at 31 October 2019 were £nil (2018: £4,855).

20. Financial instruments

A financial instrument is a contract that gives rise to a financial asset or financial liability. The Society is a retailer of financial instruments in the form of mortgage and savings products. The Society does not run a trading book.

The Society has a formal structure for managing risk, including established risk limits, reporting lines, mandates, credit risk appetite and other control procedures. The Board delegated Risk Committee is responsible for managing the Society's overall exposure to risk.

The Assets and Liabilities Committee reviews treasury and balance sheet risk related activities and examines market movements to discern changes required to the Society's product range.

Key performance indicators in the form of a dashboard, are provided to the Board on a monthly basis and summary information is reviewed on a weekly basis by Management.

Financial assets and liabilities are measured on an on-going basis either at fair value or at amortised cost. Note 1.5 'Financial instruments' describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following tables analyse the Society's assets and liabilities by financial classification:

Carrying values by category 31 October 2019	Held at amortised cost			Held at fair value	
	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Other non -financial assets and liabilities £'000	Available -for-sale £'000	Total £'000
Financial assets					
Cash in hand	132	-	-	-	132
Loans and advances to credit institutions	47,241	-	-	-	47,241
Debt securities	-	-	-	23,653	23,653
Loans and advances to customers	187,609	-	-	-	187,609
Total financial assets	234,982	-	-	23,653	258,635
Non-financial assets	-	-	979	-	979
Total assets	**234,982**	**-**	**979**	**23,653**	**259,614**
Financial liabilities					
Shares	-	224,701	-	-	224,701
Amounts owed to other customers	-	12,421	-	-	12,421
Total financial liabilities	-	237,122	-	-	237,122
Non-financial liabilities	-	-	596	-	596
Total liabilities	**-**	**237,122**	**596**	**-**	**237,718**

Carrying values by category 31 October 2018	Held at amortised cost			Held at fair value	
	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Other non -financial assets and liabilities £'000	Available -for-sale £'000	Total £'000
Financial assets					
Cash in hand	82	-	-	-	82
Loans and advances to credit institutions	43,977	-	-	-	43,977
Debt securities	-	-	-	36,902	36,902
Loans and advances to customers	172,228	-	-	-	172,228
Total financial assets	216,287	-	-	36,902	253,189
Non-financial assets	-	-	887	-	887
Total assets	**216,287**	**-**	**887**	**36,902**	**254,076**
Financial liabilities					
Shares	-	218,178	-	-	218,178
Amounts owed to other customers	-	14,272	-	-	14,272
Total financial liabilities	-	232,450	-	-	232,450
Non-financial liabilities	-	-	634	-	634
Total liabilities	**-**	**232,450**	**634**	**-**	**233,084**

Valuation of financial instruments carried at fair value

The Society holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below).

Valuation techniques

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value:

- Level 1 – The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 – Inputs other than quoted prices included within level 1 that are observable (that is, developed using market data) for the asset or liability, either directly or indirectly; and
- Level 3 – Inputs are unobservable (that is, for which market data is unavailable) for the asset or liability.

The table below summarises the fair values of the Society's financial assets and liabilities that are accounted for at fair value, analysed by the valuation methodology used by the Society to derive the financial instruments fair value:

31 October 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Available for sale				
Debt securities	23,653	-	-	23,653
31 October 2018				
Financial assets				
Available for sale				
Debt securities	36,902	-	-	36,902

Valuation techniques

The main valuation technique employed by the Society to establish fair value of the financial instruments disclosed above are set out below:

Debt securities – Level 1: Market prices have been used to determine the fair value of listed debt securities.

Credit risk

Credit risk is the risk of loss or delay if a customer or counterparty fails to perform their obligations, such as the timely repayment of a loan or other credit arrangement. The Society has no appetite for material credit losses. This is controlled through credit quality standards, underwriting rules, as well as limits by exposure to counterparty, sector, country and instrument. The Society's maximum credit risk exposure is detailed in the table below:

	2019 £'000	2018 £'000
Loans and advances to credit institutions	47,241	43,977
Debt securities	23,653	36,902
Loans and advances to customers	187,609	172,228
Total statement of financial position exposure	258,503	253,107
Off balance sheet exposure – mortgage commitments	12,369	11,087
	270,872	**264,194**

The Society does not use credit derivatives, or similar instruments, to manage its credit risk.

Loans and advances to credit institutions and debt securities

The Assets and Liabilities Committee is responsible for approving treasury counterparties for investment purposes. The credit risk appetite for liquid assets is defined by: the minimum counterparty credit rating; the permissible instruments; the maximum percentage of total liquid assets held at each credit risk level; and the investment term. This is monitored daily by the Society's Executive and Management and reviewed monthly by the Assets and Liabilities Committee.

An analysis of the Society's treasury asset concentration is shown in the table below:

	2019 £'000	2019 %	2018 £'000	2018 %
Industry sector				
Banks	16,692	23.5	17,970	22.2
Bank of England	42,285	59.5	39,688	49.0
Building Societies	1,254	1.8	6,379	7.9
Central Government	10,795	15.2	16,924	20.9
Total	**71,026**	**100.0**	**80,961**	**100.0**

STAFFORD RAILWAY BUILDING SOCIETY

Geographic region	2019 £'000	AA %	A %	BBB %	Other %	2018 £'000
United Kingdom	71,026	81.89	18.11	-	-	80,961
	71,026	**81.89**	**18.11**	**-**	**-**	**80,961**

The Society has no exposure to foreign exchange risk. All instruments are denominated in sterling.

There are no impairment charges against any of the Society's treasury assets at 31 October 2019 (2018: nil).

Loans and advances to customers

All mortgage loan applications are assessed with reference to the Society's risk appetite and Board approved Lending Policy.

The Board's risk appetite is based on:

1. The maximum proportion of the total mortgage portfolio that certain loans types can represent;

2. Loan-to-value ('LTV') ratios; and

3. The arrears level.

Loan to value and arrears levels are key drivers of the Pillar 1 credit risk capital calculation. All mortgage products are priced to ensure that the margin appropriately reflects the credit risk involved and the carrying cost of the incremental risk capital.

The Board believes in a stepwise approach to product development. New products should typically be introduced via a limited number of channels, such as well-established and highly reputable specialist brokers. Capital will be committed in a staged manner, with regular product performance reviews being performed.

For the Society as a whole, mortgages on prime owner occupied residential properties will be a minimum of 80% of mortgage assets and arrears rates will be kept below the national average reported by UK Finance.

The lending portfolio is monitored by the Operational Management Committee to ensure that it remains in line with the stated risk appetite of the Society. All mortgage applications are underwritten individually on a case-by-case basis ensuring that they meet the Lending Policy rules which support the risk appetite of the Society. All mortgage applications will be overseen by the Head of Mortgages and Underwriting who ensures that all lending criteria have been applied and that all information submitted within the application is validated.

	2019 £'000	2019 %	2018 £'000	2018 %
Industry sector				
Residential mortgages				
Owner occupied	151,216	80.5	140,975	81.7
Buy-to-let	34,431	18.3	29,074	16.9
Commercial mortgages	2,177	1.2	2,372	1.4
Total Gross Mortgages	**187,824**	**100.0**	**172,421**	**100.0**

The Society operates throughout England and Wales.

An analysis of the Society's geographical concentration is shown in the table below:

	2019 £'000	2018 £'000
Stafford ST16-ST18	33,877	37,190
Rest of Staffordshire	28,831	26,390
Rest of United Kingdom	125,116	108,841
Total Gross Mortgages	**187,824**	**172,421**

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value ratio. Loan to value is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

	2019 £'000	2018 £'000
Loan To Value ratio		
Less than 50%	104,530	110,997
51 – 70%	63,025	50,782
71 – 90%	20,269	10,642
91 – 100%	-	-
More than 100%	-	-
Total Gross Mortgages	**187,824**	**172,421**
Average Loan To Value	**33.0%**	**32.2%**

Credit risk

Credit quality analysis of loans and advances to customers

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Society and Society against those assets.

	Loans fully secured on residential property 2019 £'000	Loans fully secured on land 2019 £'000	Total loans 2019 £'000	Loans fully secured on residential property 2018 £'000	Loans fully secured on land 2018 £'000	Total loans 2018 £'000
Neither past due nor impaired	**180,122**	**1,620**	**181,742**	**167,288**	**1,855**	**169,143**
Past due but not impaired						
0 – 60 days	4,722	-	4,722	2,989	-	2,989
60 – 90 days	171	70	241	27	-	27
90 – 180 days	308	-	308	53	-	53
180 days+	167	-	167	56	-	56
	5,368	**70**	**5,438**	**3,125**	**-**	**3,125**
Individually impaired						
0 – 60 days	575	-	575	153	-	153
60 – 90 days	69	-	69	-	-	-
90 – 180 days	-	-	-	-	-	-
180 days+	-	-	-	-	-	-
Possession	-	-	-	-	-	-
	644	**-**	**644**	**153**	**-**	**153**
Total gross mortgages	**186,134**	**1,690**	**187,824**	**170,566**	**1,855**	**172,421**

	Loans fully secured on residential property 2019 £'000	Loans fully secured on land 2019 £'000	Total loans 2019 £'000	Loans fully secured on residential property 2018 £'000	Loans fully secured on land 2018 £'000	Total loans 2018 £'000
Allowance for impairment						
Individual	38	-	38	(6)	-	(6)
Collective	177	-	177	(187)	-	(187)
Total allowance for impairment	**215**	**-**	**215**	**(193)**	**-**	**(193)**

Individual assessments are made of all mortgage loans where objective evidence indicates that losses are likely (for example when loans are past due) or the property is in possession, or where fraud or negligence has been identified. Further consideration is given in accounting policy 1.5 to the accounts.

The status 'past due but not impaired' includes any asset where a payment due is received late or missed but no individual provision has been allocated. The amount included is the entire loan amount rather than just the overdue amount. The status also includes cases in forbearance measures, which as at 31 October 2019 totalled £1.20m (2018: £0.88m).

Possession balances would represent those loans where the Society has taken ownership of the underlying security pending its sale. Repossessed properties are made available-for-sale in accordance with statutory guidelines with proceeds used to reduce or repay the outstanding loan. Any collateral surplus on the sale of repossessed properties, after a deduction for costs incurred in relation to the sale, would be returned to the borrower.

Forbearance

The Society has various forbearance options to support Members who may find themselves in financial difficulty. These include payment plans, capitalisations, term extensions, temporary transfer to interest only and reduced payment concessions.

All forbearance arrangements are formally discussed with the Member and reviewed prior to acceptance of the forbearance arrangement. By offering Members in financial difficulty the option of forbearance the Society potentially exposes itself to an increased level of risk through prolonging the period of non-contractual payment and/or potentially placing the Member into a detrimental position at the end of the forbearance period.

Regular monitoring of the level and different types of forbearance activity are reported on a monthly basis. In addition, all forbearance arrangements are reviewed and discussed with the Member on a regular basis to assess the ongoing potential risk to the Society and suitability of the arrangement for the Member.

The table below analyses residential mortgage balances under forbearance arrangements at the year-end:

	2019 £'000	2018 £'000
Payment plan	239	159
Transfers to interest only	963	717
	1,202	**876**

These represent a total of seventeen accounts in forbearance at 31 October 2019 (2018: Thirteen). These accounts are shown above as impaired.

No individual impairments in respect of cases in forbearance have been recognised (2018: nil).

Liquidity risk

Liquidity Risk is the risk that the Society, although solvent, has insufficient financial resources available to meet its obligations as they fall due, or can only secure those resources at excessive cost.

The Society must at all times have sufficient liquidity to meet its liabilities over all reasonable market-wide and Society-specific stress scenarios (both short-term and long-term) over the economic cycle, expressed in terms of a survival period.

The Society has a conservative approach to managing liquidity risk and requires sufficient liquid assets to be maintained in order to:

- Meet day-to-day business needs;
- Cater for an unexpected funding stress scenario; and
- Ensure maturity mismatches are provided for.

Balance sheet and liquidity risk limits (including counterparty limits) are set to support this risk appetite within the Society's suite of treasury and liquidity policies.

The monitoring of liquidity, in line with the Society's policy framework, is performed daily by the Executive and Management.

The Society's Liquidity and Funding Policy is designed to ensure that the Society has sufficient liquid resources to withstand a range of stressed scenarios. A series of liquidity stress tests have been developed as part of the Society's Individual Liquidity Adequacy Assessment Process. They include scenarios that fulfil the specific requirements of the Prudential Regulation Authority, the idiosyncratic, market-wide and combination stress tests and scenarios identified by the Society which are specific to its business model.

The stress tests are performed periodically and reported to Assets and Liabilities Committee to confirm that the Liquidity Policy remains appropriate. The Society's liquid resources comprise high quality liquid assets, including Gilts and Treasury Bills. As at 31 October 2019 the ratio of liquid assets to shares and amounts owed to other customers was 29.95% compared to 34.83% at 31 October 2018.

The Society maintains a contingency funding plan to ensure that it has so far as possible, sufficient liquid financial resources to meet liabilities as they fall due under each of the scenarios.

All Society liquid assets are unencumbered as at the balance sheet date.

The tables below set out maturity analysis for financial liabilities that shows the remaining contractual maturities at undiscounted amounts. The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the statement of financial position date.

31 October 2019	**On demand £'000**	**Not more than three months £'000**	**More than three months but not more than one year £'000**	**More than one year but not more than five years £'000**	**More than five years £'000**	**Total £'000**
Financial Liabilities						
Shares	217,979	6,735	-	-	-	224,714
Amounts owed to other customers	12,421	-	-	-	-	12,421
	230,400	**6,735**	**-**	**-**	**-**	**237,135**
Other liabilities	-	400	196	-	-	596
Total financial liabilities	**230,400**	**7,135**	**196**	**-**	**-**	**237,731**

31 October 2018	**On demand £'000**	**Not more than three months £'000**	**More than three months but not more than one year £'000**	**More than one year but not more than five years £'000**	**More than five years £'000**	**Total £'000**
Financial Liabilities						
Shares	218,178	-	-	-	-	218,178
Amounts owed to other customers	14,272	-	-	-	-	14,272
	232,450	**-**	**-**	**-**	**-**	**232,450**
Other liabilities	-	457	177	-	-	634
Total financial liabilities	**232,450**	**457**	**177**	**-**	**-**	**233,084**

Market risk

Market risk is the risk that the value of, or income arising from, the Society's assets and liabilities changes as a result of changes in market prices, the principal elements being interest rate risk, foreign currency risk and equity risk.
The Society only deals with products in sterling so is not directly affected by currency risk. The Society's products are also only interest orientated products so are not exposed to other pricing risks.

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.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Society's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100-basis point ('bp') parallel fall or rise in the LIBOR yield curve and a 50bp rise or fall in the greater than 12-month portion of the LIBOR yield curve. Looking forward, the SONIA rate will be utilised once LIBOR has been discontinued. The following is an analysis of the Society's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position. The impact to profit would be the same to equity.

	100bp parallel increase £'000	**100bp parallel decrease £'000**	**50bp increase after 1 year £'000**	**50bp decrease after 1 year £'000**
Sensitivity of projected net interest income				
At 31 October 2019				
Average for the period	297	99	198	198
Maximum for the period	303	100	201	201
Minimum for the period	290	98	195	195
At 31 October 2018				
Average for the period	780	260	597	443
Maximum for the period	805	262	612	451
Minimum for the period	754	257	581	435

The Society is exposed to movements in interest rates and manages this exposure on a continuous basis, within limits set by the Board, using only instruments recorded on the balance sheet. The results are reported to Assets and Liabilities Committee and the Board on a monthly basis.

Capital

The Society's policy is to maintain a strong capital base to maintain Member, creditor and market confidence and to sustain future development of the business. The formal Internal Capital Adequacy Assessment Process assists the Society with its management of capital. The Board monitors the Society's capital position on a monthly basis to assess whether adequate capital is held to mitigate the risks it faces in the course of its business activities. The Society's actual and expected capital position is reviewed against stated risk appetite which aims to maintain capital at a level that equates to or exceeds its Total Capital Requirements.

The Board manages the Society's capital and risk exposures to maintain capital in line with regulatory requirements which includes monitoring of:

- Lending decisions: The Society maintains a comprehensive set of sectoral limits in its Lending Policy in order to manage credit risk appetite. Individual property valuations are monitored against House Price Index ('HPI') data;
- Concentration risk: The design of lending products takes into account the overall mix of the loan portfolio to manage exposure to risks arising from the property market and other markets the Society is active in; and
- Counterparty risk: Wholesale lending is only carried out with approved counterparties in line with the Society's lending criteria and is subject to a range of limits that reflect the risk appetite of the Society.

Stress tests are used as part of the process of managing capital requirements.

The Society's capital requirements are set and monitored by the Prudential Regulation Authority. During 2019 the Society has continued to comply with the European Union Capital Requirements Regulation and Directive ('Basel III') as amended by the Prudential Regulation Authority.

Regulatory capital is analysed into two tiers:

- Tier 1 capital: which comprised retained earnings, revaluation reserve less intangibles (where applicable); and
- Tier 2 capital: which includes collective impairment provision.

The level of capital is matched against risk-weighted assets which are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets.

There were no reported breaches of capital requirements during the year. There have been no material changes in the Society's management of capital during the year. The Society's regulatory position as at 31 October 2019 under the Standardised Approach was as follows:

	2019 £'000	**2018 £'000**
Tier 1 Capital		
General reserves	21,896	20,992
Tier 2 Capital		
Collective provision	177	187
Total Regulatory Capital	**22,073**	**21,179**

This is also referred to in the Society's Pillar 3 Document held on the Society's website.

21. Commitments

Contractual commitments to purchase tangible fixed assets at the year-end were £nil (2018: £48k) for the Society.

22. Related parties

Related parties comprise of key management personnel, being the Executive Directors and Non-Executive Directors who are responsible for ensuring that the Society meets its strategic and operational objectives. In the normal course of business, key management personnel, and their close family members, transacted with the Society. The balances of transactions with key management personnel and their close family members are disclosed below.

As required under Section 68 of the Building Societies Act 1986, a register is maintained at the Head Office of the Society which shows details of all loans, transactions and arrangements between the Society and its Directors and connected persons. A statement, for the current financial year, of the appropriate details contained in the register will be available for inspection at the Head Office for a period of fifteen days up to and including the day of the Annual General Meeting.

At 31 October 2019 there were outstanding mortgage loans granted in the ordinary course of business at the Society's standard variable mortgage rate to one Director in aggregate of £151,689 (2018: one Director in aggregate to £162,829).

Directors' and connected parties hold savings balances with the Society; all accounts have the same terms and conditions as available to Members of the Society. The savings balances are not detailed in the register unlike loans and transactions above, due to their sensitive nature. The aggregate amount of all savings balances at 31 October 2019 was £152,447 (2018: £136,736).

23. Subsequent events

The Directors consider that there has been no event since the end of the financial year that has a significant effect on the position of the Society. The Directors are cognisant of the General Election held on 12th December and will continue to assess the impact on the Society.

24. Country by Country Reporting

The reporting obligations set out in Article 89 of the European Union's Capital Requirements Directive IV have been implemented in the United Kingdom by the Capital Requirements ('Country-by-Country Reporting') Regulations.

As a mutual organisation, the Society's primary focus is it's Members and it aims to provide mortgage and savings products supported by excellent customer service.

Details of the principal activities are detailed in note 1 to the Annual Report and Accounts.

For the year ended 31 October 2019

The Society's Annual Accounts report:

- Total operating income was £4.5m (2018: £4.2m). Total operating income is defined as net interest income plus fees and commissions receivable (net of fees and commissions payable);
- Profit before tax was £1.1m (2018: £1.0m) all of which arising from United Kingdom based activity;
- The average number of Society full time equivalent employees was 37 (2018: 30) all of which were employed in the United Kingdom;
- Corporation tax of £0.2m was paid in the year and is all within the United Kingdom tax jurisdiction; and.
- No public subsidies were received in the year.

Annual Business Statement

STAFFORD RAILWAY
BUILDING SOCIETY

Annual Business Statement *– for the year ended 31 October 2019*

1. Statutory Percentages

	Percentage as at 31 Oct 2019 %	Statutory Limit
Proportion of business assets not in the form of loans fully secured on residential property (the "Lending limit")	1.06	25
Proportion of shares and deposits not in the form of shares held by individuals (the "Funding limit")	5.24	50
The percentages are calculated in accordance with, and the statutory limits are those prescribed by, sections 6 and 7 of the Building Societies Act 1986 as amended by the Building Societies Act 1997.		
Business assets are the total assets of the Society as shown in the balance sheet plus collective loan loss impairment less fixed assets and liquid assets.		
Loans fully secured on residential property are the amount of the principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the balance sheet plus collective loan loss impairment.		

2. Other Percentages

	31 Oct 2019 %	31 Oct 2018 %
Gross capital as a percentage of share and deposit liabilities	9.23	9.03
Free capital as a percentage of share and deposit liabilities	8.95	8.78
Liquid assets as a percentage of share and deposit liabilities	29.95	34.83
Cost income ratio represents the aggregate of administration expenses and deprecation expressed as a percentage of total income less other operating charges	75.69	76.66
As a percentage of mean assets		
Profit after taxation	0.34	0.31
Management expenses	1.32	1.24

The above percentages have been prepared from the Society's accounts and in particular

- Shares and deposits represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.
- Gross capital represents the general reserves including the available-for-sale reserve.
- Free capital represents the aggregate of gross capital and collective loan loss impairment less tangible fixed assets.
- Mean total assets represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- Liquid assets represent the total cash in hand, treasury bills, loans and advances to credit institutions and debt securities.
- Management expenses represent the aggregate of recurring administrative expenses, depreciation and amortisation.

STAFFORD RAILWAY
BUILDING SOCIETY

3. Information relating to the Directors at 31 October 2019

Name	Occupation and Date of Appointment	Other Directorships
Colin C Lloyd Chairman	Principal Consultant 21.07.14	Community Sports Trust Aquabox
Karen E McCormick Vice Chairman	Consultant / Independent Director 20.07.15	Mottram Hall Farm Management Company Limited Karen McCormick Associates Limited Currency Matters Limited Bank and Clients PLC
James W Dean Senior Independent Director	Chartered Accountant 20.08.12	Notemega Limited Seale Hill Management Company Rathbone Brothers PLC Rathbone Investment Management Limited School Governor (Reigate Grammar School – limited by guarantee) RJ Young Properties (Stafford) Limited
Gary C D Crowe	Management Consultant 20.07.15	University Hospitals of North Midlands NHS Trust The Dudley Group of Hospitals NHS Foundation Trust
David J Grant	Company Director and Consultant 22.05.17	BLAKK Limited Kingston Unity Friendly Society Limited Protosun Benefits Limited
Nicholas H J Sandy	Chartered Surveyor (Retired) 20.12.10	Grey Geese Properties Limited
Michael R Smith	Chief Executive 09.10.17	-
Steven Jones	Deputy Chief Executive and Finance Director 06.06.18	Newcastle and Stafford Colleges Group

Documents may be served on the above Directors c/o KPMG LLP , Chartered Accountants, One Snowhill, Snow Hill Queensway, Birmingham B4 6 GH. Service Contracts: None of the Non-Executive Directors has a service contract. Michael Smith and Steven Jones are employed under a contract that is terminable by either the Society or the Director on twelve months' and six months' notice respectively.

Officers

Name	Occupation	Directorships
C.J.Bennett BA (Hons), FMAAT	Head of Finance	-
V.Cartwright BA (Hons), ACBI	Head of Branch	-
M.N.Davies BA (Hons), FCCA, AMCT	Financial Risk Manager	-
R.Dulson BA (Hons), CeMap Assoc. CIPD	Head of Operations and Human Resources	-
A.K.Guy Dip.Comp	Head of Risk and Compliance	-
H.M.Hamilton	Head of Information Technology	-
R.I.Hassall BSc (Hons)	Head of Product Strategy and Communications	-
A.J.Phipps CeMap, CeRER	Head of Mortgages and Underwriting	-

The Officers of the Society together with the Executive Directors constitute the Leadership Team.

STAFFORD RAILWAY
BUILDING SOCIETY

Stafford Railway Building Society | 4 Market Square | Stafford | ST16 2JH | 01785 223212* | mutual@srbs.co.uk | www.srbs.co.uk

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