

31 October 2017

Annual Report & Accounts



STAFFORD RAILWAY
BUILDING SOCIETY



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Chairman's Statement



Chairman's Statement

It is my great pleasure to present to the Members the Annual Report and Accounts for the year to 31 October 2017. The external landscape still has its uncertainties, but the Society maintains its focus on the products and services that our Members require from us; simple and secure savings accounts and straightforward mortgages. The Society is now in its one hundred and fortieth year, proving that there is still a way that financial services can be successfully delivered with truly personal service, whether face to face in the local community or to Members who are further afield. It is clear to me that being a Building Society has been a major contributor to The Stafford Railway's longevity, despite the restrictions that such organisations face in comparison with other business models. The mutual model, meaning ownership by the Members and hence no requirement to pay out dividends to shareholders and no prospect of short-term gains from sales of shares, enables the Board of the Society to take the long view and adhere to our principles which put sustainability for our Members at the heart of what we do.

I am delighted that the care we take in the design and provision of our mortgage products has been recognised by the Mortgage Finance Gazette by awarding us Best Local Building Society in its recently announced 2018 awards, and my sincere thanks go to all members of staff who contributed to this achievement.

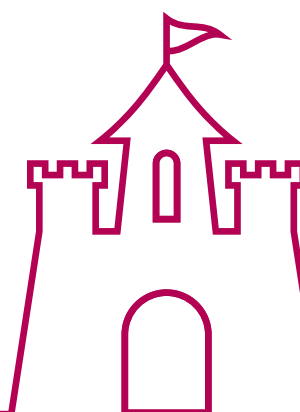
At the last Annual General Meeting (AGM), David Gage, MBE, retired from the Board in accordance with the Society's policy of limiting Non-Executive Directors' terms in office to nine years. A former Chairman of the Board and its Audit and Risk Committees, David made a major contribution to The Stafford Railway over a period of significant growth.

We welcome to the Board David Grant, an excellent addition to our team, who was appointed during the year and therefore stands for election by the Members at the forthcoming AGM.

Last year in my Chairman's Statement I referred to the succession planning that would be undertaken to find successors to Susan Whiting and Jeremy Hodgkiss as Chief Executive and Finance Director respectively. I am delighted to report that after a rigorous external selection process we have appointed Michael R Smith as Chief Executive, formerly of Barclays Bank and Handelsbanken, who also stands for election by the Members at the AGM. Michael served previously as a Non-Executive Director of the Society and he is extremely well qualified to continue to promote and progress The Stafford Railway's ethos and aims. Susan Whiting has now stepped into the role of Finance Director, and the transitional period continues as we now proceed to recruit a new director for that role. Given these changes, I have agreed to the Board's request to continue as Chairman for a further year.

It only remains for me to thank our loyal and supportive Members on behalf of the Society's Board and staff.

James W Dean
Chairman





Reports

Chief Executive's Report

I am delighted and honoured to have joined the Stafford Railway Building Society at this exciting time. As Susan Whiting was the Chief Executive during the period I have asked her to comment on the results.

Business Overview from Susan Whiting

This has been an extremely busy year for the Society and a demanding one for the team as the Society upgraded its Core IT System for Members shortly before the year-end, a project which was planned and prepared for throughout the year while business as usual continued. In addition, the changes required under the ring-fencing rules for banks meant that the Society had to open new accounts with its clearing bank. Base rates were at the record low of 0.25% throughout this year, although with some anticipation of the increase to 0.5% which took place on 2 November.

The mortgage market remained fiercely competitive, with a number of new players entering the sector. The Society continues to have the lowest Standard Variable Rate of all lenders in the UK for its residential mortgages and with a team of fully qualified mortgage advisers is extremely accessible for those individuals who wish to deal directly with us. The Society has also expanded its links with brokers and broker networks and has made some particularly successful alliances in the areas of lending to older borrowers and self-build. The Society adheres to its very strict policies and lending criteria to ensure that the quality of its mortgage book remains of the highest standard. This has resulted in gross lending during the year of £25.6m and a slight reduction of the mortgage book to £170.6m.

The Society has levels of liquidity that are more than ample for its needs, and at the beginning of this financial year the Society's Board took the view that these levels should be managed down by restricting inflows of savers funds. Liquidity reduced by 7% to £91.9m. The Society now has a reserve account with the Bank of England, in common with many of its peers. As part of a planned streamlining of our Treasury portfolio, funds are being invested in the reserve account and the number of counterparties with whom the Society invests has been reduced.

General uncertainty still remains about how our economy will be affected by the United Kingdom's decision to leave the European Union. The Board and staff of the Society continue to be watchful for any adverse signs and aim in their policies and stress testing to maintain the Society's resilience against economic shocks, whatever their cause.

We were also mindful of the effect of the low interest rate environment on our Members and have sought to keep our rates as competitive as possible compared with equivalent products available from other providers. The demand for our simple savings products is ongoing, so we balanced the requirements of our existing Members with the aim of welcoming new Members by launching the Coachman savings account. The savings balances of our individual Members are £226.9m, with deposits from corporate Members standing at £15.1m.

Although the actions described above resulted in a small contraction of the Balance Sheet, the Society achieved a very satisfactory profit before tax and Core IT System upgrade costs of £1.4m and statutory profit before tax of £0.91m. Its key gross capital ratio increased from 7.76% at 31 October 2016 to 8.18%, adding to its already strong financial resilience.

Upgrade of Core IT System

In 2017, the Society's contract with Newcastle Systems Management Limited (NSML), a subsidiary of Newcastle Building Society, came to an end. NSML provided the Society with our Core IT System which enables us to administer all our Members' savings and mortgage accounts. During 2016, the Society carried out a robust tender and assessment process in which all staff were involved. As a result of this, the decision was made to appoint a new provider, Mutual Vision, who provide such services to a number of building societies. This was a major project for the Society, the planning of which began in 2016 with the execution of the programme taking place throughout the financial year. The fact that the migration of the system took place on time and under budget is a credit to the Society's staff, those of our new system provider, and the experts and advisers who assisted us in the process. I would also like to record my sincere thanks and appreciation to the staff of NSML, for providing us with an extremely resilient and reliable service over many years, and for their assistance with the migration.



The costs of the system change have been fully expensed through the profit and loss account as part of Administrative expenses. These costs are non-recurring and the Society's Board regards them as a necessary investment for the future.

The Team

It has been an absolute privilege to work with the Society's staff during my years as Chief Executive and previously as Deputy Chief Executive. Perhaps more so this year than any other, they have proved their worth not only in consistently delivering excellent service to our Members as business as usual, but also in embracing our systems and operational changes with positivity and professionalism.

The Society continues to operate within the requirements of the Senior Managers' Regime, the Prudential Regulation Authority and Financial Conduct Authority's approach to supervision.

Community and Member Engagement

It is a pleasure to support many local causes, including Katharine House Hospice and Staffordshire Women's Aid. Our Members' feedback is extremely important to us and we collect this in a variety of ways, including product questionnaires and regular general surveys. We welcome Members' participation at our Annual General Meeting where the Board of Directors and other staff are available to answer Members' questions.

Susan J Whiting

The Future

The Society remains in a strong and stable financial position, thus providing a very solid foundation as I seek to ensure the Society continues to serve the needs of its Members not only for today but also for our Members of tomorrow.

Michael R Smith
Chief Executive



Strategic Report

Business Review

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

- Simplicity, which is reflected in its operations and structure, its compact range of straightforward products and its transparency;
- Service, aspiring to give Members a first class personal service, being responsive to their requests and proactively seeking feedback. We recognise the importance of the human element in the way we deal with Members, in a world increasingly affected by systemisation and regulation;
- Security, reflected in the prudent policies, strong financial and budgetary controls and general resilience of the Society.

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:

1. To help people to save for what they want in life; and
2. To help people acquire their own home.

The Society also has the following secondary purposes:

1. To carry out the principal purposes in a friendly but professional way, with personal service; and
2. To provide savings accounts and mortgages at the best long-term rates that we can sustainably provide.

Activities in this financial year centred around controlling the Society's surplus liquidity, which resulted in a reduction in liquid assets and expanding our mortgage offering and distribution channels.

In addition, the Society completed the major project of migrating its Core IT System to a new provider. The cost of this was material, but was absorbed within administrative expenses, meaning that the Society still achieved a healthy profit in the financial year and improved its capital ratios.

Key Performance Indicators

The main Key Performance Indicators (KPIs) which are used by the Board to monitor the performance of the Society are detailed below:

	2017	2016
Net interest margin	1.48%	1.42%
Management expenses as a percentage of mean total assets	1.16%	0.88%
Management expenses excluding non-recurring IT system migration costs as a percentage of mean total assets	0.99%	0.86%
Profit after taxation	£0.73m	£1.09m
Profit for the year as a percentage of mean total assets	0.27%	0.41%
Gross mortgage lending	£25.6m	£27.7m
Growth in mortgage assets	(0.88)%	(4.02)%
Total arrears >2.5% of mortgage balance	£2k	£3k
Shares and deposits balance	£242.0m	£251.5m
Gross capital as a percentage of shares and borrowings	8.18%	7.76%
Free capital as a percentage of shares and borrowings	7.95%	7.69%
Liquid assets as a percentage of shares and borrowings	37.96%	39.35%
Total assets	£263.1m	£271.5m

Net interest margin

This expresses the net amount arising from interest charged to borrowers and earned on liquid assets less the cost of interest paid to savers, as a percentage of mean total assets.

Management expenses as a percentage of mean total assets

Managing costs is part of an efficient business model and improved profitability.

Profit for the financial year

This is the amount which is added to reserves and so increases the capital held by the Society.

Profit for the year as a percentage of mean total assets

This is similar to a company's return on capital.

Gross mortgage lending

Conservative lending ensures long-term security of the business.

Growth in mortgage assets

The mortgage book is the principal source of revenue for the Society.

Total arrears >2.5%

The total amount of arrears greater than 2.5% of the balance. This provides a headline indication of arrears trends.

Shares and deposits balance

This is the main source of the Society's funding.

Gross capital as a percentage of shares and borrowings

Such capital provides a financial cushion against any losses that may arise in the Society's business and therefore protects Members.

Free capital as a percentage of shares and borrowings

As with the gross capital percentage but focused on short term coverage.

Liquid Assets as a percentage of shares and borrowing

Liquidity is essential for the Society to manage its obligations as they arise.

Total Assets

Asset levels indicate the resources available to the business to generate future returns.

Statement of Comprehensive Income overview

	2017 £000	2016 £000
Total net income	3,941	3,800
Administrative expenses	(2,574)	(2,267)
New Core IT System migration costs	(473)	(65)
Depreciation and amortisation	(60)	(40)
Operating profit before impairment losses and provisions	834	1,428
Impairment losses on loans and advances (reduction in provisions)	84	3
Provisions for liabilities – FSCS	(9)	(58)
Profit before tax	909	1,373

Net interest margin

The Society's net interest margin reflects the surplus that remains after deducting the Society's funding costs in the form of interest paid to retail and commercial savers from its interest income which comprises mortgage interest and interest earned on the Society's investments. A reduction in funding costs enabled the margin to increase slightly in 2017.

Administrative expenses

- **New Core IT System migration costs**

These represent costs of the implementation of the new software system, overlap and finalisation costs with the previous system supplier, legal fees, project assistance, Board assurance and additional resource to able staff training and system testing. The project had been fully costed prior to approval, and was carried out within the approved budget.

- **Other**

The increase in other expenses reflects inflationary pressures across all accounts and recruitment that took place mainly in 2016. Costs of the cyber incident which took place in the Spring of 2017 were mainly covered by insurance and did not impact materially on the results.

Financial Services Compensation Scheme levy

The net profit reported takes account of a provision charge of £0.009m (2016: £0.058m) in respect of the above levy which is fully explained in Note 19 to the accounts.

Statement of Financial Position

	2017 £000	2016 £000
Liquid assets	91,870	98,965
Loans and advances to customers	170,598	171,969
Tangible fixed assets	560	464
Deferred tax and other debtors	110	94
Total assets	263,138	271,492
Shares and amounts owed to other customers	242,042	251,507
Other liabilities, accruals and provisions	907	460
Reserves attributable to Members of the Society	20,189	19,525
Total reserves and liabilities	263,138	271,492

Liquidity

The Society maintains liquidity in a range of assets which are highly liquid or realisable, with counterparties chosen for the security. In particular, it has a buffer of high quality liquid assets comprising funds in a Bank of England reserve account, UK Government gilts and UK Treasury Bills. Total liquid assets amounted to £91.9m (2016: £99.0m), representing 37.96% (2016: 39.35%) of total shares and deposit liabilities as at 31 October 2017.

The Society monitors and reports its levels of liquidity in relation to two new measures introduced by the Prudential Regulation Authority (PRA) under the Capital Requirements Directive IV (CRD IV).

These measures are the Liquidity Coverage Ratio (LCR), which quantifies short term liquidity and the Net Stable Funding Ratio (NSFR) which measures liquidity in the longer term. The Society's liquidity is more than ample to meet regulatory requirements.

Loans and advances to customers

During the year the Society lent £25.6m (2016: £27.7m) to borrowers. Total advances secured on residential property and other loans reduced during the year to £170.6m (2016: £172.0m).

The Society identifies borrowers whose mortgage accounts have gone into arrears and consults with them about the reason for the arrears and in order 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 have to be repossessed and sold, sometimes at a loss to the Society.

When potential losses are envisaged the Society makes impairment adjustments to cover such circumstances.

During the year the Society took possession of 2 properties (2016: no possessions). One property was sold at no loss, the other remained in possession at the year end, in respect of which a specific impairment provision of £0.011m has been made.

At 31 October 2017, there were no mortgage accounts 12 months or more in arrears (2016: nil) and only two mortgage accounts over three months in arrears (2016: three).

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 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 2017, there were nineteen accounts under forbearance measures and no individual impairments were required.

Shares and other investors

Shares and other investors' balances at 31 October 2017 were £242.0m (2016: £251.5m), a decrease of £9.50m or 3.78% on the previous year. The reduction in overall savings balances was part of a strategy to reduce excess liquidity and preserve benefits for existing Members in preference to accepting additional funds, by restricting large deposits. We were pleased to be able to satisfy demand from new customers by launching a new account during the year, the Coachman.

Total assets

In line with the Board's strategy to reduce liquid assets, it was necessary for a target of negative growth to be set this year. The total assets of the Society at the end of the financial year amounted to £263.14m (2016: £271.49m), a decrease of £8.35m or 3.08%.

Net profit and reserves

An appropriate level of profit is required to ensure the sustainability of the business and to maintain the capital required to satisfy regulatory requirements. The net profit for the year after taxation which amounted to £0.73m (2016: £1.09m) has been added to the General Reserve which now totals £20.19m (2016: £19.52m).

Also included in reserves is the available-for-sale reserve, established last year as a result of International Accounting Standard (IAS) 39. It 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 2017 the available-for-sale reserve stood at £(0.43)m (2016: £0.21m).

Capital (Basel III/CRD IV basis)

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

	2017 £000	2016 £000
Tier 1 Capital	20,189	19,525
Tier 2 Capital	179	273
Total Capital	20,368	19,798
Risk weighted assets:		
Liquid assets	13,938	19,848
Loans and advances to customers	60,160	63,368
Other assets	897	602
Operational risk	7,144	7,083
Total	82,139	90,901
Capital ratios:		
	%	%
Core Tier 1	24.80	21.78
Gross capital ratio	8.18	7.76
Leverage ratio	7.42	7.06

The Core Tier 1 ratio expresses Core Tier 1 Capital (reserves excluding mortgage impairments) as a percentage of risk weighted assets.

Gross capital is defined as the total reserves as shown in the balance sheet and is shown as a percentage of share and deposit liabilities.

The leverage ratio expresses Tier 1 Capital as a percentage of total assets plus mortgage impairments plus a proportion of mortgage pipeline commitments.

Risk Management Report

Risk governance and strategy

The Society's Board has ultimate responsibility for developing an appropriate risk and control framework. The Board is responsible for setting the overall risk strategy and approving the design and implementation of risk management approaches, including the risk management framework policy, the risk appetite statements and metrics that underpin them. It delegates authority for cascading the setting and approval of the more granular limits and tolerances to the Chief Executive.

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 Management 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 Senior Management. Full details of the Society's Board and Committee structure are contained within the Corporate Governance Report.

Risk management framework

The principal purpose of the Society is to make loans for the purchase and improvement of residential property and to encourage savings by offering our Members competitive savings rates and a truly personal service.

The Society views risk management as an integral part of good internal control and corporate governance and puts the safety and security of Members' deposits above everything else. This is achieved by appropriate management and minimisation of the risks arising from business activities.

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 Risk Committee to advise the Board on the overall risk appetite, tolerance, and strategy. It also oversees and advises the Board on the current risk exposures and future risk strategy.

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

Risk management information includes a Risk Dashboard which reflects the Board's Risk Appetite Statement and is monitored by the Assets and Liabilities Committee (ALCO), the Risk Committee and the Board at all of their meetings. In addition, the higher risk items from the Risks and Controls Register are reviewed at each Board meeting. The risks in the Risks and Controls Register are an intrinsic part of the ICAAP process, which requires an assessment of key risks and a quantification of how much capital must be held to mitigate those risks.

Any changes to risks, or new and emerging risks, are identified and communicated to the Executive at management meetings. The Risk and Compliance Manager is responsible for updating risk documentation for presentation to the Risk Committee and Board. Decisions by the Board in respect of policies, risk appetite, management information required, limits and triggers on key risk indicators or risks and controls are communicated to the management team who amend the risk documentation, policies and operational procedures and train appropriate staff.

The risk management framework identified principal risks as being most material to the Society. The Society appoints a Risk Framework Owner (RFO) for each risk, the risk framework must be defined and documented; this comprises a principal risk policy, second level policy (if applicable), procedures and standards and risk appetite tolerance metrics. Principal risks and uncertainties are set out below.

'Three Lines of Defence' approach:

The Society has adopted a 'Three Lines of Defence' approach to the operational management of the firm. This approach ensures that staff are aware of their responsibilities and that an effective segregation of duties is in place across the Society.

The Society's risk management framework is based on the best practice 'Three Lines of Defence' model, which is illustrated below.

1. First line of defence – Operational Management

The Society's managers are in the best position to assess and manage the risk exposures within their teams. The management identify, assess, and manage risk through normal business operation. Any breaches are reported to Executive and through the governance structure as appropriate.

2. Second line of defence – Risk and Compliance function

The second line of defence is responsible for challenging of risks, policies and controls in place. This function is operationally independent from the business managers, and can therefore uphold the principles and policies of the Society. They provide oversight of the first line functions and independently report to Risk and/or Audit Committees any policy breaches or control issues.

3. Third line of defence – Internal audit

Internal audit is entirely independent of the operational functions of the Society, and reports directly to the Audit Committee. The function is outsourced to Deloitte LLP to ensure further independence. Their role is to independently confirm that all activities are within policy, legal or regulatory requirements.

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 (e.g. unemployment or credit default) and also targeted attacks on the Society (e.g. cyber threats). 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.

Credit risk

Credit risk is the risk that a borrower or counterparty to a contract will not be able or unwilling to meet their obligations as they fall due. For the Society, this normally means the risk that a borrower will not repay their mortgage loan, or that a financial institution will not repay funds invested by the Society in that institution. The ALCO is responsible for monitoring the arrears profile and treasury counterparty risk whilst the Board approves changes to counterparties, treasury or lending policy.

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

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 mortgages, 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 institutions that the Society invests in are highly rated (at least A-) or, in the case of Building Societies, are subject to a financial review and the asset types and limits have been agreed with the Regulator as compatible with their guidance to the Society under the Supervisory Statement (SS) 20/15 – Supervising building societies' treasury and lending activities. The limits are monitored through the weekly liquidity report.

Concentration risk

The types of concentration risks facing the Society are concentration in one product type, geographical concentration and over-exposure to single borrowers, investors, or counterparties.

Although the Society has only one mortgage product, which is predominantly secured on residential property wholly within the UK, this concentration is of low risk because of the inherent nature of the assets and the controls in place as detailed in the lending policy.

The Society has no dependency on any one form of introduction for mortgages and there is no concentration risk in the type of property held as security.

As part of our stress testing, we quantified and provided capital for a severe economic downturn which for whatever reason affected only our core operating area. The Society accepts that Stafford and Staffordshire are its core areas and have stress tested the impact of this.

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 recover and resolution plans and specific stress testing is undertaken on an annual basis to assess the impact on the Society's Corporate Plan.

a) 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.

b) Pension obligation risk:

Pension obligation risk is the risk to the Society caused by its contractual or other liabilities to or with respect to a pension scheme (whether established for its employees or those of a related company or otherwise) or the risk that the Society will make payments or other contributions to or with respect to a pension scheme because of a moral obligation or because the Society considers that it needs to do so for some other reason.

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.

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 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 UK Treasury Bills, government securities and deposits in a Bank of England reserve account as part of regulatory requirements. The Society's approach to liquidity risk is documented in the Society's Internal Liquidity Adequacy Assessment Process (ILAAP).

The Society had no wholesale funded liabilities at any point during the year.

Liquidity is monitored daily by the Executive and senior management, reviewed at ALCO meetings, and included in the Management Information for Board meetings.

Interest rate risk, basis and market 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 and market 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 assets and liabilities being linked to different interest rate types including:

Fixed rates – Treasury bills, wholesale funding and term deposits (with other banks and other building societies);

LIBOR – Reinvestment risk on wholesale funding and term deposits;

Managed rates – The majority of shares and deposits; and

Zero rates – The Society's capital and fixed assets.

A basis risk analysis is prepared monthly and reviewed by ALCO. New products and treasury activities are assessed by ALCO taking into account their impact on the Society's basis risk exposure. The Society's exposure to basis risk manifests itself as funding risk – the risk that the Society cannot attract appropriate funding, or that funding can only be obtained at high cost.

The interest rate sensitivity exposure of the Society is set out in Note 21 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 provides a range of variable rate mortgage and investment products. The Society does not provide any other financial products and it has appropriate controls in place with respect to mortgage advice.

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 Risks and Controls Register which is reviewed by the Risk Committee, both Internal and External Auditors 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 UK and EU 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 (customers) 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.

People risk

People risk refers to the costs that may arise because of matters such as discrimination, employee compensation, health and safety, training and competency and key man risk. This risk area also addresses remuneration, recruitment as well as nomination of directors. The Society's employees are vital to delivering and managing the risk framework. The Society manages this risk through the operational management structure, specific policies and standards as well as management information reported to the Operations Management Committee (OMC) and Risk Committee.

People risk includes the risk that the Society's remuneration policy does not provide effective risk management and is vulnerable to ignoring concentration risks and liquidity risks. No member of the Society's staff is sales-incentivised.

Financial Services Compensation Scheme (FSCS) risk

This is the risk of additional cost arising because of failure of retail institutions. All retail savings institutions regulated by the Financial Conduct Authority (FCA) contribute to the FSCS to enable it to fund the insured liabilities of failed institutions. The Society budgets for its share of this cost using the most accurate available information.

On behalf of the Board of Directors

James W Dean

Chairman

20 December 2017

Directors' Report for the year ended 31 October 2017

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 2017.

Business objectives and activities

The Society is an independent building society 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 to earn sufficient profits to enable us to prudently achieve our main purposes, as described in the Strategic Report. We are pleased to report that we have achieved a profit after tax of £0.73m which contributes to a healthy level of capital and supports the financial stability of the Society.

Directors

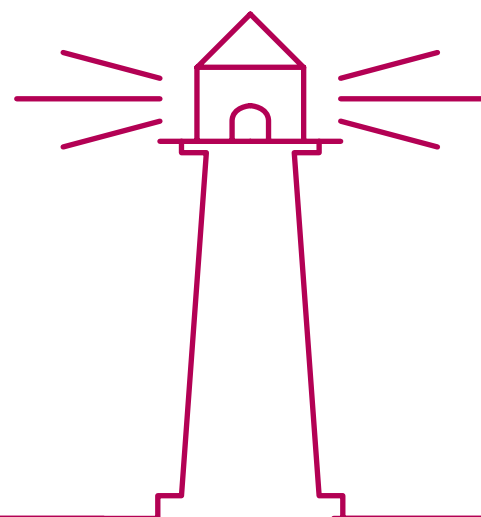
The following persons were Directors of the Society during the year:

James W Dean, FCA	Chairman
David J Gage, MBE DL ACIB	Retired 15 February 2017
Gary C D Crowe, FCIM CAifs ACIB MCIBS	
David J Grant, MBA FCIB FISMM	Appointed 22 May 2017
Jeremy G Hodgkiss, FCA CF MSI	Executive Director (previously Finance Director)
Colin C Lloyd, ACIB	Senior Independent Director
Karen E McCormick, ACIS PIIA	
Nicholas H J Sandy, MRICS	Vice Chairman (previously Senior Independent Director)
Michael R Smith, ACIB	Chief Executive – Appointed 9 October 2017
Susan J Whiting, BA ACA CTA	Finance Director – (previously Chief Executive)

The Directors who retire by rotation in accordance with rule 26(1) of the Society rules are James Dean and Nicholas Sandy who offer themselves for re-election at the forthcoming Annual General Meeting. David Grant and Michael Smith, having been appointed to the Board under rule 25, retire and offer themselves for election.

The Directors wish to place on record their appreciation of the services of David Gage who retired during the year in accordance with the Society's policy on the maximum tenure of office for Non-Executive Directors.

Directors	Executive	Non-Executive
Tenure at year-end		
0–3 years	1	3
Up to 6 years	-	2
Up to 9 years	1	1
Over 9 years	1	-
Gender		
Female	1	1
Male	2	5



**James W Dean****Chairman**

James is a Chartered Accountant and former

Ernst & Young partner where he specialised in the financial services sector. He joined the Board as a Non-Executive Director. James is the Senior Independent Director at Liverpool Victoria Friendly Society and a Non-Executive Director at Rathbone Brothers Plc. James is a life-long Member of the Building Society with a strong interest in its future success.

**Nicholas H J Sandy****Vice Chairman**

Nicholas is a member of the Royal Institute of Chartered

Surveyors. He has over 30 years' experience of working in the Staffordshire housing market. Nicholas is a Director of Nicolsons Estate Agents and is able to provide an expert view of the existing and ever changing property markets. In the past Nicholas has also been Chairman of Staffordshire Blind and has been involved with the Stafford Round Table.

**Gary C D Crowe****Non-Executive Director**

Gary Crowe is a Professor in Innovation Leadership

at the University of Keele Management School and a Chartered Banker with over 30 years experience in the retail and commercial financial sector. Gary also holds a number of other Board positions as an experienced Chair and Non-Executive director. He was Managing Consultant at PA Consulting Group, an international management consultancy firm. He specialised in advising and supporting financial services businesses across the UK. Gary is Chair of the Risk Committee.

**David J Grant****Non-Executive Director**

David has over 30 years experience in the

Financial Services Industry, both in the UK and overseas. He has held a variety of positions, to Board level, in Banks, a Building Society, Pension Funds, and in Life and General Insurance. He now operates as an independent consultant specialising in organisational and people development, in financial services and beyond. David has uses the knowledge and experience he has gained to support charitable causes, serving variously as trustee, secretary, chair of finance and governor. He lives in Staffordshire.

**Jeremy G Hodgkiss****Executive Director**

Jeremy is a Chartered Accountant, a member

of the Chartered Institute for Securities and Investment and also a qualified Corporate Financier. Jeremy is a partner in the Stafford accountancy practice Deans. Against a current climate of further regulation and increased focus on financial stability and controls, Jeremy further strengthens the Board's experience in these areas.

**Colin C Lloyd****Senior Independent Director**

Colin has 40 years of

experience within the financial services industry. He brings to the Society a wealth of recent and relevant industry and sector experience. Colin, an Associate of the Chartered Institute of Bankers, is also a Rotarian and Trustee and Treasurer of Aquabox, a charity providing water filtration equipment and humanitarian aid to disaster zones worldwide. Colin is Chair of Audit Committee.

**Karen E McCormick****Non-Executive Director**

Karen has held a broad industry career that began

in accountancy and progressed into business leadership with a particular interest in business performance improvement with a focus on people. Karen has worked across a diverse range of sectors and held various senior leadership roles. Karen is now an established Chairman and Non-Executive Director with extensive experience working with senior executives and Boards to improve business performance from the formation of vision and strategy to delivery at the front line. Karen is Chair of the Remuneration Committee.

**Michael R Smith****Chief Executive**

Michael, appointed CEO

October 2017, is a highly experienced corporate and retail banker, having previously served the Society as a Non-Executive Director for 8 years. He has been actively involved in a broad range of commercial and personal banking activities during his 33 year career with both Barclays Bank PLC and Svenska Handelsbanken, including treasury management and development of marketing strategy. Mike is a Stafford man with strong local knowledge.

**Susan J Whiting****Finance Director and Deputy Chief Executive**

Susan Whiting has been

appointed Finance Director during the current transitional period until a new Finance Director is appointed. She was formerly Chief Executive since January 2011, having served as Deputy since 2004. Susan is a qualified chartered accountant, a member of the Institute of Taxation and has advised many local businesses and organisations, as a partner of the accountancy practise Deans.

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 14 days of receipt of invoice (2016: 14 days).

Charitable and political donations

During the year the Society made donations of £6,172 (2016: £6,835) 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. Society policy is to source 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 AGM 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.

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 forecasts satisfy the Directors 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.

Auditor

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.

KPMG LLP has expressed its willingness to continue in office as Auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Capital adequacy

As part of the Capital Requirements Directive (CRD), the Society has assessed the adequacy of its capital resources, and the Society's Pillar 3 disclosures, which are a requirement of the CRD, together with the disclosures to comply with the requirements of Article 89 of the Capital Requirements Directive IV (CRD IV), 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

James W Dean

Chairman

20 December 2017

Corporate Governance Report

The Directors of the Society are committed to best practice in corporate governance. As a mutual organisation we are not required to fully comply with the UK Corporate Governance Code (effective for accounting periods beginning on or after 17 June 2016) but we have regard to the Code when developing our own corporate and governance arrangements, as required by our regulators the PRA and FCA. The Board supports the principles of the Code and has had regard to them in preparing this report. In addition, the Society adheres to the supervisory approach 'Strengthening Accountability in UK Banking', a senior managers' certification regime which came into effect in March 2016.

The Board

Code Principle A1: Every company should be headed by an effective Board, which is collectively responsible for the long-term success of the company.

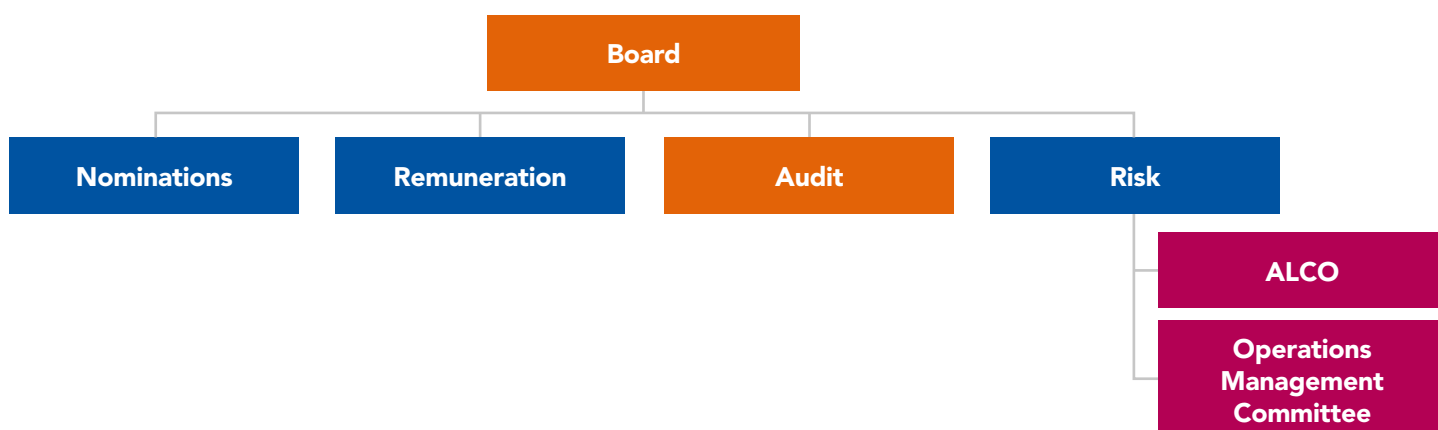
The full Board, which meets in eleven months of the year, provides leadership and direction with the strategic aim of promoting success within an effective and controlled framework. The Board sets the Society's strategic aims and objectives, ensuring that sufficient human and financial resources are 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.

As at 31 October 2017 the Board consisted of three Executive Directors and six Non-Executive Directors who provide the appropriate mix of skills and professional expertise required.

The Board has key Board Committees, the structure is 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 Colin Lloyd and meets at least four times per year. Other Members of the Committee are Karen McCormick and Nicholas Sandy, representatives 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 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 prudential requirements. It validates the financial statements of the Society. A dotted reporting line exists directly between the Chairman of the Audit Committee and the Risk and Compliance Manager.



Risk Committee

The Risk Committee is chaired by Gary Crowe, following the retirement of David Gage. It meets 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. The other members of the Committee are James Dean (Chairman of the Board) and David Grant. 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 ILAAP and ICAAP 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 Chairman and the Risk Committee and the Risk and Compliance Manager.

Nominations Committee

The Nominations Committee is chaired by the Chairman of the Board, James Dean. It also comprises Nicholas Sandy (Vice Chairman) and Colin Lloyd (Senior Independent Director). It identifies and recommends to the Board candidates for nomination as Non-Executive Directors and considers Board succession planning. 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

Further details of this Committee are provided within the Directors' Remuneration Report below. In addition to its terms of reference relating to Directors, it approves the remuneration of the Risk and Compliance Manager.

Assets and Liabilities Committee (ALCO)

Comprising both Executive Directors and members of the management team, this Committee meets on a monthly basis and monitors and controls balance sheet risk, funding and liquidity in line with the Society's policies. The Committee is chaired by Susan Whiting, Finance Director and reports to the Risk Committee. Other members of staff and Non-Executive Directors attend as required. The Committee is responsible

for ensuring that the Society's treasury risks (liquidity, treasury counterparty risk, interest rate risk in the banking book) are managed and mitigated in line with the Board's risk appetite and related policies. The Committee also ensures that all (non-treasury) lending undertaken by the Society is in line with the Board's risk appetite. The Committee reviews ongoing management information and is responsible for recommending changes to the credit policy for Board approval.

The Committee reports and escalates breaches to the Risk Committee.

Operations Management Committee (OMC)

Comprising members of the management team and chaired by Michael Smith, Chief Executive, this Committee meets monthly and is responsible for organising and co-ordinating the day-to-day management of the Society, including financial crime, operational risk, conduct risk and information technology, in line with the Board's risk appetite, Corporate Plan and overall strategic direction. Other members of staff and Non-Executive Directors attend as required. The Committee reports and escalates breaches of the Risk Committee.

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 below. 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 on 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. Colin Lloyd is the Senior Independent Director 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 PRA as Approved Persons to fulfil their Controlled Functions as Directors. The Board is mindful of the Davies Report on diversity and has disclosed information on gender mix in the Directors' Report, above.

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, Colin Lloyd.

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 submit 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.

Internal control

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 comprehensive. 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. Senior management have 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 2017 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.

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. The internal audit provides independent and objective assurance that these processes are appropriate and effectively applied.

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.*

Twice-yearly Member newsletters are produced to ensure that Members are kept informed regarding developments at the Society, with reaction and feedback encouraged. Member satisfaction surveys and questionnaires are regularly issued. Communication with Members is also conducted 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 AGM and are therefore available to meet with Members, discuss issues and answer questions.

Minutes and attendance

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 2017 is as follows:

Name	Remuneration	Audit	Risk	Nominations	ALCO	OMC	Board
James W Dean	1 (1)	-	7 (7)	2 (2)	-	-	11 (11)
Nicholas H J Sandy	1 (1)	4 (4)	-	2 (2)	-	-	11 (11)
David J Gage	1 (1)	-	1 (1)	1 (1)	-	-	2 (3)
Gary C D Crowe	1 (1)	-	7 (7)	-	-	-	10 (11)
David J Grant	-	-	4 (4)	-	-	-	4 (5)
Colin C Lloyd	1 (1)	4 (4)	2 (2)	1 (1)	-	-	10 (11)
Karen E McCormick	1 (1)	4 (4)	-	-	-	-	10 (11)
Susan J Whiting	-	-	-	2 (2)	10 (11)	11 (11)	11 (11)
Jeremy G Hodgkiss	-	-	-	-	10 (11)	1 (1)	11 (11)
Michael R Smith	-	-	-	-	1 (1)	1(1)	1 (1)

(Figures in brackets represent maximum possible attendance)

On behalf of the Board of Directors

James W Dean

Chairman

20 December 2017

Audit Committee Report

The Audit Committee forms part of the Society's Corporate governance framework. The Board has delegated oversight of financial reporting, internal controls, internal audit and external audit to this Committee. This report provides a summary of the Committee's work and how it has discharged its responsibilities during the year.

The responsibilities of the Committee reflect the provisions of the Financial Reporting Council (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;
- 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 on page 21. The Chief Executive, Finance Director, the Risk and Compliance Manager and the Financial Risk Manager attend the meeting by invitation. Both the Internal and External Auditors are also invited to each meeting. The Committee regularly holds a discussion without the Executive Directors being present.

Key areas reviewed during 2017

1. 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 2017 accounts were:

- Loan loss provisions: review of judgements used to determine timing of recognition and valuation of loan loss provisions in line with FRS102;
- Revenue recognition: review of the design, implementation and effectiveness of controls around the calculation of interest income and charges, including the timing of fees and commission recognition under effective interest rate methodologies; and
- Core IT System migration: review of the recognition, accounting treatment and disclosure of the costs relating to the migration of the Society's Core IT System to a new provider. Oversight of the project to ensure the accuracy and integrity of the data on migration.

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.

2. 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.

Key reviews were completed through their agreed work programme during the year including areas of internal control significance, specifically financial crime, product governance and complaint handling, payroll and expenses, lending (sales and underwriting), financial key controls and payments, treasury operations, ICAAP, Prudential reporting and IT and business continuity.

In addition to the planned programme of audit work, the Committee, at the request of the Board, commissioned Deloitte to undertake a review of the Society's response to the cyber incident affecting the Society's email system in February and March of this year.

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.

3. 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. Senior management have 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 2017 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 Senior Management Team, Internal and External Auditors. The main internal control matters which were reviewed by the Committee in 2017 were:

- Prudential and conduct related;
- Internal audit plans;
- Reports from the Internal Auditor;
- Reports from the Risk and Compliance Manager;
- 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 2017 there were no material breaches of control or regulatory standards and that, overall, the Society maintained an adequate internal control framework.

4. External 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 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 Senior Management Team, confirmation that there has been no restriction in scope placed on them and the independence of their audit.



The Committee approved the fees for audit services for 2017 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 Committee considers the reappointment of the External Auditor, including rotation of the Audit Partner, each year and also assesses their independence on an ongoing basis.

5. Audit Committee effectiveness

The Committee conducts a self-assessment review annually to monitor performance against its Terms of Reference. The Committee's Terms of Reference were reviewed during the year and found to be appropriate.

Colin C Lloyd

Chair of Audit Committee

20 December 2017

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 UK Corporate Governance Code 2016 (the Code) 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 FCA'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.

As reported in the Annual Report and Accounts for 31 October 2016, the Society commenced the process of succession planning for Susan Whiting, Chief Executive and Jeremy Hodgkiss, Finance Director and Deputy Chief Executive last year, and was successful in recruiting Michael Smith to the role of Chief Executive on 9 October. Michael Smith is employed directly by the Society. The contract with Deans provides the services of Finance Director, Deputy Chief Executive and Secretary while the recruitment process for these roles continues.

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 experience, and to reward the achievement of stretching targets that are in line with the Society's Corporate strategy.

For the employed Executive, the main components of the remuneration are governed by a service contract and are:

- a) Basic salary commensurate with the responsibilities of the role and market conditions;
- b) Bonus determined by the Remuneration Committee and based on a range of financial and non-financial corporate performance targets. Bonus payments are payable annually, are not guaranteed and are reviewed each year; and
- c) Other benefits as provided to staff generally including income protection and death-in-service benefits.

The notice period is twelve months. The contract does not include entitlement to pension contributions.

The Society's contract with Deans (Staffordshire) Limited, Chartered Accountants, for the services of the Chief Executive and Secretary and of the Finance Director and Deputy Chief Executive was amended to reflect the transitional arrangements that took effect on the appointment of Michael Smith.

The components of the remuneration are:

- **Base fee** – The method of calculation of the base fee is specified in the contract with Deans (Staffordshire) Limited.
- **Bonus** – The bonus is assessed by the Remuneration Committee and is based on a range of financial and non-financial corporate performance targets. Bonus payments are payable annually, are not guaranteed and are reviewed each year.
- **Pension** – There are no provisions within the contract for any pension arrangements for the Executive Directors and no pension payments are made.
- **Other benefits** – There are no provisions within the contract for any other benefits for the Executive Directors and no such benefits are provided.

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.

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 (FCA) Remuneration Code. The basis of remuneration is consistent with sound and effective risk management and does not encourage excessive risk taking. The Committee meets at least once per 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 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 are listed below (excluding national insurance):

	2017 £000 Fees	2016 £000 Fees
Non-Executive Directors		
James W Dean (Chairman)	27.0	25.5
Nicholas H J Sandy (Vice Chairman from March 2017)	19.7	14.2
Gary C D Crowe	19.7	14.2
David J Grant (appointed 22 May 2017)	8.5	-
David J Gage (retired 15 February 2017)	8.3	19.3
Colin C Lloyd	24.0	14.6
Karen E McCormick	17.0	14.2
Brett W J Phillips	-	14.0
	124.2	116.0

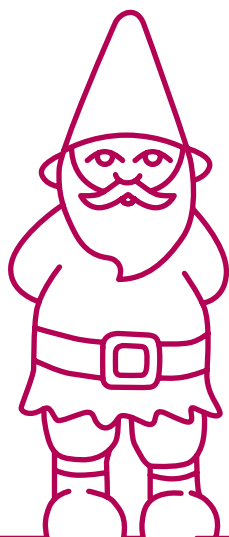
	2017 £000	2016 £000
Executive Directors		
Michael R Smith – salary from 9 October 2017	10.7	-

Amounts paid for services of the Chief Executive (to 9 October 2017) and Secretary and of the Finance Director and Deputy Chief Executive are as follows

	2017 £000	2016 £000
Base fee	235	230
Bonus	28	17
VAT	52	49
	315	296

Karen E McCormick

Chairman of the Remuneration Committee
20 December 2017





Statement of Directors' Responsibilities

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 UK Accounting Standards and applicable law (UK 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;
- 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;
- 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 UK governing the preparation and dissemination of Annual Accounts may differ from legislation in other jurisdictions.





Independent Auditor's Report

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 for the year ended 31 October 2017 which comprise the statement of comprehensive income, statement of financial position, statement of changes in Members' interest, 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 affairs of the Society as at 31 October 2017 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 FRS102 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 appointed as auditor by the Society before 1990.

The period of total uninterrupted engagement is for more than the 27 financial years ended 31 October 2017.

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 applicable to public interest entities. No non-audit services prohibited by that standard were provided.

£56k (2016: £70k) 4% (2016: 5%) of profit before tax	
Materiality:	£56k (2016: £70k)
Annual Accounts as a whole	4% (2016: 5%) of profit before tax
Risks of material misstatement vs 2016	
Recurring risks	Impairment of loans and advances to customers <>
New risk	IT migration n/a

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 Annual Accounts 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 Annual Accounts 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.

	The risk	Our response
<p>Impairment of loans and advances to customers:</p> <p>(£192,000; 2016: £277,000)</p> <p>Refer to page 25 (Audit Committee Report), page 45 (accounting policy) and page 51 (financial disclosures)</p>	<p>Subjective estimate:</p> <p>Impairment provisions cover loans specifically identified as impaired and a collective impairment provision for all other loans for those impairments incurred but not yet specifically identified.</p> <p>The Directors judge individual impairments by reference to loans that have suffered significant financial difficulty of the borrower, 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.</p> <p>The collective impairment provision is derived from a model which uses the Society's historical experience. In particular, judgement is required on the key assumptions of probability of default and forced sale discount against collateral.</p> <p>The impairment model is most sensitive to movements in the propensity to default assumption.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Control testing: We tested controls over the acceptance, monitoring and reporting of credit risk. • 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. • Sensitivity analysis: We assessed the collective 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. • Tests of detail: We identified a selection of loans by filtering data from loan book reports and examined accounts with higher LTVs to identify individual loans which may have unidentified impairments. We tested the provision attached to these loans by reference to relevant supporting information such as the core loan system in addition to other items such as the existence of additional collateral to challenge the completeness and accuracy of the Society's specific impairment provision estimate. • Assessing transparency: We assessed the adequacy of the Society's disclosures in respect of the degree of estimation involved in arriving at the provision. <p>Our results:</p> <p>We found the assumptions used in the calculation of the impairment provision in respect of loans and advances to customers to be acceptable (2016: acceptable).</p>



	The risk	Our response
	<p>Data capture:</p> <p>The collective and individual impairment provision models use a combination of static (e.g. original collateral valuation) and dynamic data (e.g. current balance/interest rates/valuations) in respect of the Society's loans as well as from external sources (e.g. house price index (HPI) tables to derive indexed valuations). Owing to the risk of incorrect data in the underlying system there is a risk that the data used in the collective provision model are inaccurate.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Control observation: We tested controls over the lending processes that capture certain static data used in the impairment model (e.g. initial collateral valuation, loan amounts and product interest rates) by observing the operation of the controls over these processes, and inspecting underwriting documents. • Data comparison: We checked both a sample of the internal data and the data totals used in the model back to the Society's underlying source (e.g. current balance on the mortgage loan system). We also checked the external inputs of HPI to external sources. <p>Our results:</p> <p>We found the data used in the calculation of the impairment provision in respect of loans and advances to customers to be acceptable (2016: acceptable).</p>
<p>IT migration:</p> <p>Refer to page 25 (Audit Committee Report), page 44 (accounting policy) and page 48 (financial disclosures).</p>	<p>Data capture:</p> <p>During the year, the Society migrated its core mortgage and savings platforms from one outsourced provider to another. With such migrations, there is a risk of errors arising in the core mortgage and savings data such that they no longer reflect the underlying arrangements with customers. The financial statements are based on reports from the core system so corruption of core data would result in the financial statements no longer accurately recording the Society's arrangements with its customers.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Assessment of approach: We assessed the approach taken by the Society to undertake the migration including consideration of parallel runs and the reconciliations of key balances to be performed. • Tests of detail: We used our own analytical tools to verify the accuracy of the data migration in respect of all variables that may have a significant impact on the financial statements including account balance, interest rate and product type. <p>Our results:</p> <p>We did not identify any material misstatements arising from the data migration.</p>

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

Materiality for the Annual Accounts as a whole was set at £56,000 (2016: £70,000), determined with reference to a benchmark of profit before tax, of which it represents 4% (2016: 5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £2,800 (2016: £3,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Society was undertaken to the materiality level specified above and was all performed at the Society's head office in Stafford.

4 We have nothing to report on going concern

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 twelve months from the date of approval of the Annual Accounts. We have nothing to report in these respects.

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

The Directors are responsible for the other information presented in the Annual Report together with the Annual Accounts. Our opinion on the Annual Accounts 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 Annual Accounts audit work, the information therein is materially misstated or inconsistent with the Annual Accounts 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 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
- The Annual Accounts are not in agreement with the accounting records; or
- We have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in these respects.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 31, the Directors are responsible for: the preparation of Annual Accounts which give a true and fair view; such internal control as they determine is necessary to enable the preparation of Annual Accounts 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.

7 Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Annual Accounts as a whole are free from material misstatement, whether due to fraud, other irregularities, 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 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 Annual Accounts. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the Annual Accounts.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. In planning and performing our audit we considered the impact of laws and regulations in core areas such as financial reporting, and building society and taxation legislation. We identified these areas through discussion with the directors and other management (as required by auditing standards) and from our sector experience.

We considered the extent of compliance with those laws and regulations that directly affect the financial statements, being



financial reporting, building society and taxation legislation, as part of our procedures on the related financial statement items. For the remaining laws and regulations, we made enquiries of directors and other management (as required by auditing standards), and inspected correspondence with regulatory authorities.

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.

Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

20 December 2017



Statements

Statement of Comprehensive Income for the year ended 31 October 2017

	Notes	2017 £000	2016 £000
Interest receivable and similar income	2	5,741	6,764
Interest payable and similar charges	3	(1,797)	(2,964)
Net interest income		3,944	3,800
Fees and commissions receivable		10	17
Fees and commissions payable		(43)	(43)
Other operating income		30	26
Total net income		3,941	3,800
Administrative expenses – recurring	4	(2,574)	(2,267)
New core IT system migration costs – non recurring	4,5	(473)	(65)
		(3,047)	(2,332)
Depreciation	13	(60)	(40)
Operating profit before impairment losses and provisions		834	1,428
Impairment losses on loans and advances	12	84	3
Provisions for liabilities	19	(9)	(58)
Profit before tax		909	1,373
Tax expense	8	(181)	(283)
Profit for the financial year		728	1,090
Other Comprehensive Income			
Valuation gains/(losses) on available-for-sale investments taken to equity		(28)	(41)
Realised (gains)/losses on available-for-sale investments transferred to income statement		(28)	(17)
Income tax on other Comprehensive Income		(8)	-
Total Comprehensive Income for the year		664	1,032

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.

Statement of Financial Position at 31 October 2017

	Notes	2017 £000	2016 £000
Assets			
Liquid assets			
Cash in hand		94	54
Treasury bills and similar securities	10	32,892	34,972
Loans and advances to credit institutions	9	17,472	7,423
Debt securities	10	41,412	56,516
Loans and advances to customers	11	170,598	171,969
Tangible fixed assets	13	560	464
Deferred tax asset	18	-	27
Other debtors	14	110	67
Total assets		263,138	271,492
Liabilities			
Shares	15	226,891	232,404
Amounts owed to other customers	16	15,151	19,103
Other liabilities	17	145	52
Accruals and deferred income		726	342
Deferred tax liability	18	-	-
Provisions for liabilities	19	36	66
Total liabilities		242,949	251,967
Reserves			
General reserve		20,232	19,504
Available-for-sale reserve		(43)	21
Total reserves attributable to Members of the Society		20,189	19,525
Total reserves and liabilities		263,138	271,492

These accounts were approved by the Board of Directors on 20 December 2017 and signed on its behalf:

James W Dean
Chairman

Nicholas H J Sandy
Vice Chairman

Michael R Smith
Chief Executive

Society Statement of Changes in Members' Interests

	2017 General reserve £000	2017 Available- for-sale reserve £000	2017 Total £000	2016 General reserve £000	2016 Available- for-sale reserve £000	2016 Total £000
Balance at 1 November 2016	19,504	21	19,525	18,414	79	18,493
Total Comprehensive Income for the period						
Profit for the financial year	728	-	728	1,090	-	1,090
Other Comprehensive Income:						
Valuation gains/(losses) on available-for-sale investments taken to equity	-	(28)	(28)	-	(41)	(41)
Realised (gains)/losses on available-for-sale investments transferred to income statement	-	(28)	(28)	-	(17)	(17)
Income tax on other Comprehensive Income	-	(8)	(8)	-	-	-
Total Comprehensive Income for the period	20,232	(43)	20,189	19,504	21	19,525
Balance at 31 October 2017	20,232	(43)	20,189	19,504	21	19,525

Cash Flow Statements

	Notes	2017 £000	2016 £000
Cash flows from operating activities			
Profit before tax		909	1,373
<i>Adjustments for</i>			
Depreciation	13	60	40
Valuation gains/(losses) on available-for-sale investments taken to equity		(28)	(41)
Realised (gains)/losses on available-for-sale investments transferred to income statement		(28)	(17)
Increase in impairment of loans and advances to customers		(84)	(3)
Total		829	1,352
Changes in operating assets and liabilities			
Decrease/(increase) in prepayments, accrued income and other assets		632	(256)
Increase/(decrease) in accruals, deferred income and other liabilities		439	(254)
Decrease in loans and advances to customers		1,455	7,199
(Decrease)/increase in shares		(5,513)	9,597
(Decrease) in amounts owed to other credit institutions and other customers		(3,952)	(4,203)
Taxation paid		(181)	(298)
Net cash generated by operating activities		(6,291)	13,137
Cash flows from investing activities			
Purchase of debt securities		(121,110)	(122,106)
Disposal of debt securities		137,646	110,154
Purchase of tangible fixed assets	13	(156)	(15)
Disposal of tangible fixed assets	13	-	-
Net cash generated by/(used in) investing activities		16,380	(11,967)
Net increase/(decrease) in cash and cash equivalents		10,089	1,170
Cash and cash equivalents at 1 November 2016		7,477	6,307
Cash and cash equivalents at 31 October 2017		17,566	7,477



Notes

Notes

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 UK and Republic of Ireland ('FRS102') 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 EU). 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 1.10.

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;
- 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 it is 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. 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 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 through the Statement of Comprehensive Income 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.

Customers 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 Statements of Cash Flow, 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 Statements of Cash Flow have 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.

1.8 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.

1.9 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.

1.10 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 going into default, the probability of defaulting accounts progressing to possession, the time taken to complete the sale of properties in possession and the eventual loss incurred in the event of forced sale or write-off. These assumptions are based on observable historical data and updated as management considers appropriate to reflect current circumstances. A 5% increase in the outcome of probability of default would result in an increase in the impairments of £2,000.

Effective interest rate (EIR)

The Society recognises interest on loans and advances to customers on the basis of their EIR. 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 expected 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 three 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 £7,517 and a corresponding increase in interest receivable.

2 Interest receivable and similar income

	2017 £000	2016 £000
On loans fully secured on residential property	5,265	5,917
On loans and advances to credit institutions	125	143
On debt securities	351	704
On other liquid assets	-	-
	5,741	6,764

Included within interest income is £8,375 (2016: £9,734) in respect of interest income accrued on impaired loans two or more months in arrears.

3 Interest payable and similar charges

	2017 £000	2016 £000
On shares held by individuals	1,782	2,821
On deposits and other borrowings	15	143
	1,797	2,964

4 Administrative expenses

	2017 £000	2016 £000
Wages and salaries	1,261	1,076
Social security costs	82	61
Contributions to defined contribution plans	66	52
	1,409	1,189
New Core IT System migration costs	473	65
Other computer expenses	364	287
Repairs and renewals	39	94
Other administrative expenses	762	697
	3,047	2,332

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

	2017 £000	2016 £000
Audit of these Annual Accounts	79	44
Amounts receivable by the Society's auditor and its associates in respect of:		
Other services	5	5
	84	49

5 New Core IT System migration costs

These represent costs of the implementation of the new software system, overlap and finalisation costs with the previous system supplier, legal fees, project assistance, Board assurance and additional resource to able staff training and system testing. The project had been fully costed prior to approval, and was carried out within the approved budget.

6 Employee numbers

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

	2017	2016
Full time	18	17
Part time	20	15
	38	32

7 Directors' remuneration

Total remuneration of the Society's Directors for the year was £450,283 (2016: £412,757). Full details are given in the tables within the Directors' Remuneration Report on pages 28 to 29.

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

8 Tax expense

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

Analysis of tax charge in the year:	2017 £000	2016 £000
Current tax		
UK corporation tax on income for the period	146	300
Deferred tax (see Note 18 on page 54)		
Origination and reversal of timing differences	35	(17)
Total deferred tax	35	(17)
Total tax	181	283
Factors affecting the current tax charge in the year:	2017 £000	2016 £000
Profit on ordinary activities before tax	909	1,375
Tax on profit on ordinary activities at UK standard rate of 19.4 % (2016: 20.0%)	176	275
Expenses not deductible for tax purposes	1	13
Accelerated capital allowances and other timing differences	(13)	1
Movement in collective provision	(18)	-
Current tax charge for the year	146	289

The current tax charge for the period is at the standard rate of corporation tax in the UK which is 19%. Reductions in the UK 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 UK Budget on 16 March 2016. Accordingly, deferred tax has been measured based on a future effective rate of 17%.

9 Loans and advances to credit institutions

	2017 £000	2016 £000
Repayable on demand	17,472	7,423
Total loans and advances to credit institutions	17,472	7,423
Total included within cash and cash equivalents	17,472	7,423

10 Debt securities

Debt securities have remaining maturities as follows:	2017 £000	2016 £000
In not more than one year	68,654	88,664
In more than one year	5,650	2,824
	74,304	91,488
Transferable debt securities comprise:		
Listed on a recognised investment exchange	15,425	6,756
Unlisted	25,987	49,760
	41,412	56,516

Movements in debt securities during the year are summarised as follows:	2017 £000	2016 £000
At 1 November	91,488	79,282
Additions	121,110	122,106
Disposals and maturities	(138,230)	(109,842)
Valuation gains/(losses) on available-for-sale investments taken to equity	(28)	(41)
Realised (gains)/losses on available-for-sale investments transferred to income statement	(28)	(17)
Income tax on other comprehensive income	(8)	-
At 31 October	74,304	91,488

11 Loans and advances to customers

	2017 £000	2016 £000
Loans fully secured on residential property	168,526	169,773
Loans fully secured on land	2,072	2,196
	170,598	171,969
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
On call and at short notice	217	403
In not more than three months	282	169
In more than three months but not more than one year	808	683
In more than one year but not more than five years	8,253	7,658
In more than five years	161,230	163,332
	170,790	172,245
Less: allowance for impairment (Note 12 on page 51)	(192)	(276)
	170,598	171,969

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

12 Allowance for impairment

	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
Individual provision			
At 1 November 2016			
Individual impairment	3	-	3
Collective impairment	273	-	273
	276	-	276
Charge/(credit) for the year			
Individual impairment	10	-	10
Collective impairment	(94)	-	(94)
	(84)	-	(84)
At 31 October 2017			
Individual impairment	13	-	13
Collective impairment	179	-	179
	192	-	192

	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
Individual provision			
At 1 November 2015			
Individual impairment	4	-	4
Collective impairment	275	-	275
	279	-	279
Charge/(credit) for the year			
Individual impairment	(1)	-	(1)
Collective impairment	(2)	-	(2)
	(3)	-	(3)
At 31 October 2016			
Individual impairment	3	-	3
Collective impairment	273	-	273
	276	-	276

13 Tangible fixed assets

	Freehold land and buildings £000	Computer equipment £000	Office equipment/ fixtures and fittings £000	Total £000
Cost				
Balance at 1 November 2016	643	147	366	1,156
Additions	-	25	131	156
Disposals	-	-	-	-
Balance at 31 October 2017	643	172	497	1,312
Depreciation and impairment				
Balance at 1 November 2016	223	130	339	692
Depreciation charge for the year	15	15	30	60
Disposals	-	-	-	-
Balance at 31 October 2017	238	145	369	752
Net book value				
At 1 November 2016	420	17	27	464
At 31 October 2017	405	27	128	560

Land and buildings

The net book value of land and buildings comprises:	2017 £000	2016 £000
Freehold	405	420
Net book value of land and buildings occupied for own use	405	420

14 Other debtors

	2017 £000	2016 £000
Deferred tax assets (Note 18)	-	27
Prepayments and accrued income	110	67
	110	94

15 Shares

	2017 £000	2016 £000
Held by individuals	226,891	232,404
Shares are repayable with remaining maturities from the balance sheet date as follows.		
Repayable on demand	226,891	232,404

16 Amounts owed to other customers

	2017 £000	2016 £000
Repayable on demand	15,151	19,103

17 Other liabilities

	2016 £000	2015 £000
Corporation tax	145	52

18 Deferred tax assets and liabilities

	Assets 2017 £000	Assets 2016 £000	Liabilities 2017 £000	Liabilities 2016 £000	Net 2017 £000	Net 2016 £000
Excess of capital allowances over depreciation	-	-	25	6	25	6
Effective interest rate transitional adjustment	-	-	13	19	13	19
Collective impairment allowance	(30)	(52)	-	-	(30)	(52)
Income tax on other comprehensive income	(8)	-	-	-	(8)	-
Deferred tax (assets)/liabilities	(38)	(52)	38	25	-	(27)

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 2017. The corporation tax impact of the Effective Interest Rate transitional adjustment is spread over ten years and so deferred tax has been recognised accordingly.

19 Provisions for liabilities

	FSCS levy £000
Balance at 1 November 2016	66
Provisions made during the year	9
Provisions used during the year	(39)
Balance at 31 October 2017	36

In common with all regulated UK deposit takers, the Society pays levies to the Financial Service Compensation Scheme (FSCS) based on its share of protected deposits, to enable the FSCS to meet claims against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy.

The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. The FSCS meets these claims by way of loans received from HM Treasury.

20 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 £65,630 (2016: £52,038). At 31 October 2017, there were no accrued contributions.

21 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 may use wholesale financial instruments to invest in liquid assets and raise wholesale funding in order to manage the risks arising from its operations. 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 tasked with managing the Society's overall exposure to risk.

The Assets and Liabilities Committee (ALCO) 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 tables below analyse the Society's assets and liabilities by financial classification:

Carrying values by category 31 October 2017	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	94	-	-	-	94
Loans and advances to credit institutions	17,472	-	-	-	17,472
Debt securities	-	-	-	74,304	74,304
Loans and advances to customers	170,598	-	-	-	170,598
Total financial assets	188,164	-	-	74,304	262,468
Non-financial assets	-	-	670	-	670
Total assets	188,164	-	670	74,304	263,138
Financial liabilities					
Shares	-	226,891	-	-	226,891
Amounts owed to other customers	-	15,151	-	-	15,151
Total financial liabilities	-	242,042	-	-	242,042
Non-financial liabilities	-	-	907	-	907
Total liabilities	-	242,042	907	-	242,949

Carrying values by category 31 October 2016	Held at amortised cost			Held at fair value	Total £000
	Loans and receivables £000	Financial liabilities at amortised cost £000	Other non-financial assets and liabilities £000	Available-for-sale £000	
Financial assets					
Cash in hand	54	-	-	-	54
Loans and advances to credit institutions	7,423	-	-	-	7,423
Debt securities	-	-	-	91,488	91,488
Loans and advances to customers	171,969	-	-	-	171,969
Total financial assets	179,446	-	-	91,488	270,934
Non-financial assets			558	-	558
Total assets	179,446	-	558	91,488	271,492
Financial liabilities					
Shares	-	232,404	-	-	232,404
Amounts owed to other customers	-	19,103	-	-	19,103
Total financial liabilities	-	251,507	-	-	251,507
Non-financial liabilities			460	-	460
Total liabilities	-	251,507	460	-	251,967

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 (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- **Level 3** – Inputs are unobservable (i.e. 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:

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
31 October 2017				
Financial assets				
Available-for-sale				
Debt securities	74,304	-	-	74,304
31 October 2016				
Financial assets				
Available-for-sale				
Debt securities	91,488	-	-	91,488

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:

	2017 £000	2016 £000
Loans and advances to credit institutions	17,472	7,423
Debt securities	74,304	91,488
Loans and advances to customers	170,598	171,969
Total statement of financial position exposure	262,374	270,880
Off balance sheet exposure – mortgage commitments	8,415	7,887
	270,789	278,767

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 ALCO 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 ALCO.

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

Industry sector	2017 £000	2017 %	2016 £000	2016 %
Banks	25,533	27.8	48,149	48.6
Bank of England	10,002	10.9	-	-
Building Societies	8,019	8.7	9,088	9.2
Central Government	48,316	52.6	41,728	42.2
Total	91,870	100.0	98,965	100.0

Geographic region	2017 £000	AA %	A %	BBB %	Other %	2016 £000
United Kingdom	91,870	71.61	28.39	-	0.10	74,737
Europe	-	-	-	-	-	12,995
Australia	-	-	-	-	-	5,150
Canada	-	-	-	-	-	3,020
USA	-	-	-	-	-	3,063

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 2017.

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:

- i) The maximum proportion of the total mortgage portfolio that certain loans types can represent;
- ii) Loan-to-value (LTV) ratios; and
- iii) The arrears level.

LTV and arrears levels are key drivers of the Pillar 1 credit risk capital calculation. All mortgage products should be 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 the Council of Mortgage Lenders.

The lending portfolio is monitored by the Operational Management Committee (OMC) 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 Mortgage Manager who ensures that all lending criteria have been applied and that all information submitted within the application is validated.

Industry sector	2017 £000	2017 %	2016 £000	2016 %
Residential mortgages				
Owner occupied	142,867	83.7	140,979	81.8
Buy-to-let	25,360	14.8	28,438	16.5
Commercial mortgages	2,563	1.5	2,828	1.7
Total Gross Mortgages	170,790	100.0	172,245	100.0

The Society operates throughout England and Wales.

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

	2017 £000	2016 £000
Stafford ST16–ST18	44,141	48,897
Rest of Staffordshire	28,564	19,816
Rest of UK	98,085	103,532
Total Gross Mortgages	170,790	172,245

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV 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.

LTV ratio	2017 £000	2016 £000
Less than 50%	84,116	76,808
51–70%	56,578	58,239
71–90%	28,607	35,345
91–100%	919	1,422
More than 100%	570	431
Total Gross Mortgages	170,790	172,245
Average LTV	34.8%	36.0%

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.

	2017 Loans fully secured on residential property £000	2017 Loans fully secured on land £000	2017 Other loans £000	2016 Loans fully secured on residential property £000	2016 Loans fully secured on land £000	2016 Other loans £000
Neither past due nor impaired	165,067	2,072	167,139	164,271	2,196	166,467
Past due but not impaired						
30–60 days	2,787	-	2,787	4,408	-	4,408
60–90 days	478	-	478	546	-	546
90–180 days	113	-	113	445	-	445
180 days+	-	-	-	87	-	87
	3,378	-	3,378	5,486	-	5,486
Individually impaired						
Not past due	-	-	-	-	-	-
30–60 days	108	-	108	206	-	206
60–90 days	66	-	66	86	-	86
90–180 days	-	-	-	-	-	-
180 days+	-	-	-	-	-	-
Possession	99	-	99	-	-	-
	273	-	273	292	-	292
Allowance for impairment						
Individual	(13)	-	(13)	(3)	-	(3)
Collective	(179)	-	(179)	(273)	-	(273)
Total allowance for impairment	(192)	-	(192)	(276)	-	(276)

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.

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 customers 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 customer and reviewed prior to acceptance of the forbearance arrangement. By offering customers 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 customer 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 customer on a regular basis to assess the ongoing potential risk to the Society and suitability of the arrangement for the customer.

The table below analyses residential mortgage balances with renegotiated terms at the year-end:

	2017 £000	2016 £000
Payment plan	763	993
Transfers to interest only	748	404
	1,511	1,397

These represent a total of 19 accounts in forbearance at 31 October 2017 (2016: 18). These accounts are shown above as impaired.

No individual impairments in respect of cases in forbearance (2016: £3,342).

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;
- 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 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 (ILAAP). They include scenarios that fulfil the specific requirements of the Prudential Regulation Authority (PRA), 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 ALCO to confirm that the liquidity policy remains appropriate. The Society's liquid resources comprise high quality liquid assets, including gilts and treasury bills. At the end of year, the ratio of liquid assets to shares and deposits was 37.96% compared to 39.35% at 31 October 2016.

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 2017	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	226,891	-	-	-	-	226,891
Amounts owed to other customers	15,151	-	-	-	-	15,151
	242,042	-	-	-	-	242,042
Other liabilities		907				907
Total financial liabilities	242,042	907	-	-	-	242,949

31 October 2016	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	232,404	-	-	-	-	232,404
Amounts owed to other customers	19,103	-	-	-	-	19,103
	251,507	-	-	-	-	251,507
Other liabilities		460				460
Total financial liabilities	251,507	460	-	-	-	251,967

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. 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.

Society

Sensitivity of projected net interest income	100bp parallel increase £000	100bp parallel decrease £000	50bp increase after one year £000	50bp decrease after one year £000
At 31 October 2017				
Average for the period	1,047	349	762	634
Maximum for the period	1,083	353	782	646
Minimum for the period	1,011	345	741	621
At 31 October 2016				
Average for the period	974	324	686	612
Maximum for the period	1,001	327	700	622
Minimum for the period	946	321	671	601

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 recoded on the balance sheet. The results are reported to ALCO 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 (ICAAP) 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 Internal Capital Guidance (ICG).

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.
- 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 PRA. During 2017 the Society has continued to comply with the European Union (EU) Capital Requirements Regulation and Directive (Basel III) as amended by the PRA.

Regulatory capital is analysed into two Tiers:

- **Tier 1 Capital** – Which comprised retained earnings, revaluation reserve less intangibles (where applicable).
- **Tier 2 Capital** – Which includes collective provisions.

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 2017 under the standardised approach was as follows:

	2017 £000	2016 £000
Tier 1 Capital		
General reserves	20,189	19,525
Tier 2 Capital		
Collective provision	179	273
Total Regulatory Capital	20,368	19,798

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

23 Commitments

Capital commitments

Contractual commitments to purchase tangible fixed assets at the year-end were £nil (2016: £114,000) for the Society.

24 Related parties

Related parties are identified as 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 15 days up to and including the day of the Annual General Meeting.

Susan Whiting and Jeremy Hodgkiss are directors and shareholders of Deans (Staffordshire) Limited. During the year Deans (Staffordshire) Limited paid the Society rent for office accommodation amounting to £25,703 (2016: £25,100). In addition to the amounts disclosed in the Directors' Remuneration Report, the Society made payments to Deans (Staffordshire) Limited for some staff services and some office accommodation and facilities amounting to £48,000 (2016: £48,000). Amounts in respect of additional services are not included in directors' emoluments. At 31 October 2017 there was an accrual of £53,000 (2016: £52,000) relating to Executive Directors' fees and annual bonus.

At 31 October 2017 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 to £173,285 (2016: one Director in aggregate to £3,392).

Directors' and connected parties hold savings balances with the Society; all accounts have the same terms and conditions as available to customers 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 2017 was £162,581 (2016: £454,114).

24 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.

25 Country by Country Reporting

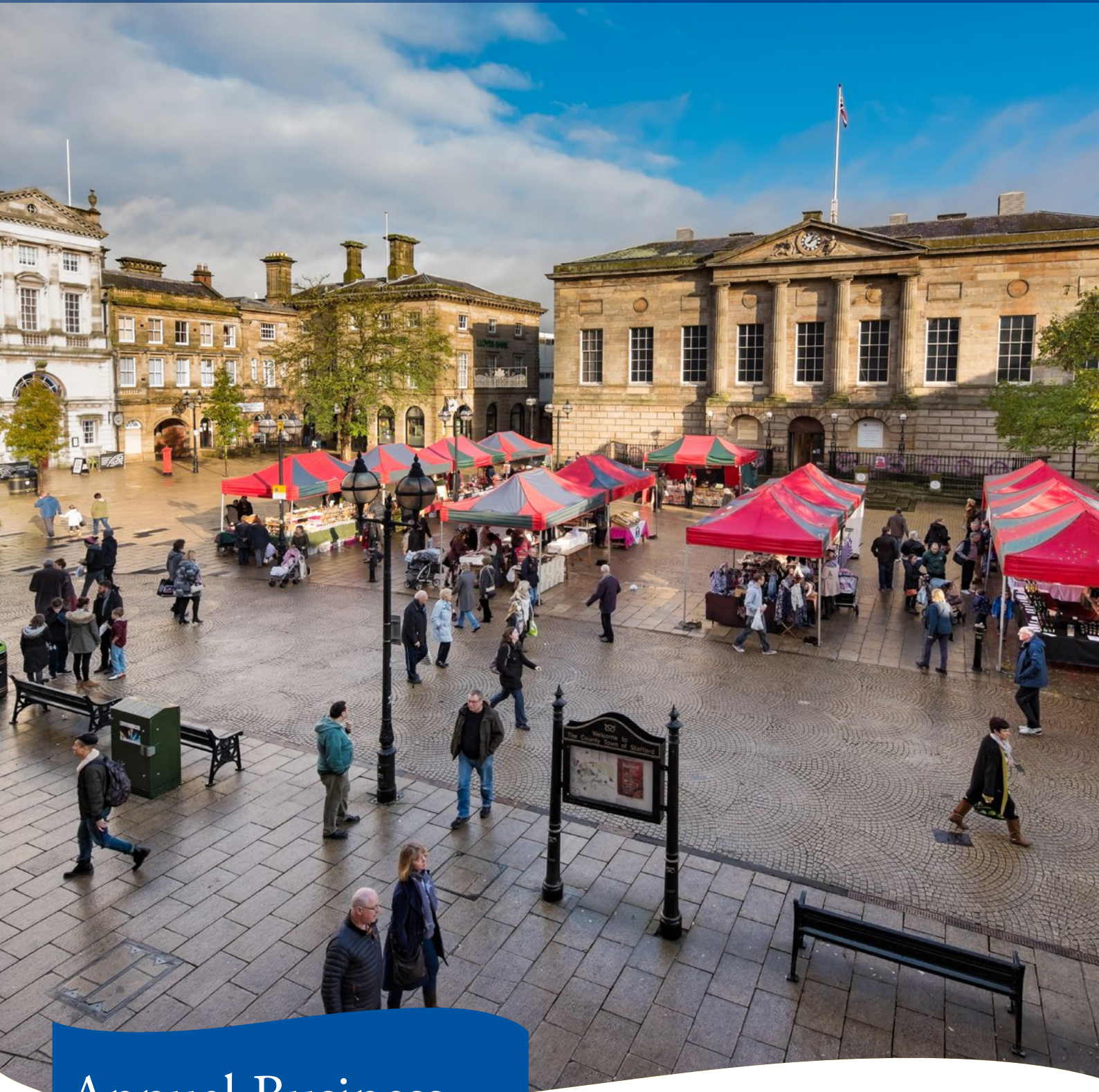
The reporting obligations set out in Article 89 of the European Union's Capital Requirements Directive IV (CRD IV) have been implemented in the UK by the Capital Requirements (Country-by-Country Reporting) Regulations.

As a mutual organisation, the Society's primary focus is its 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 2017:

The Society's Annual Accounts Report:

- Total operating income was £3.9m (2016: £3.8m). Total operating income is defined as net interest income plus fees and commissions receivable (net of fees and commissions payable).
- Profit before tax was £0.9m (2016: £1.4m) all of which arising from UK based activity.
- The average number of Society full time equivalent employees was 28 (2016: 26) all of which were employed in the UK.
- Corporation tax of £0.2m was paid in the year and is all within the UK tax jurisdiction.
- No public subsidies were received in the year.



Annual Business Statement

Annual Business Statement for the year ended 31 October 2017

1 Statutory Percentages

	Percentage as at 31 October 2017 %	Statutory Limit %
Proportion of business assets not in the form of loans fully secured on residential property (the 'Lending limit')	1.28	25
Proportion of shares and deposits not in the form of shares held by individuals (the 'Funding limit')	6.26	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 October 2017 %	31 October 2016 %
Gross capital as a percentage of share and deposit liabilities	8.18	7.76
Free capital as a percentage of share and deposit liabilities	7.95	7.69
Liquid assets as a percentage of share and deposit liabilities	37.96	39.35
As a percentage of mean assets:		
Profit after taxation	0.27	0.41
Management expenses – statutory basis	1.16	0.88
Management expenses – excluding IT system migration costs	0.99	0.86

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. The ratios above are expressed including and excluding non-recurring Core IT System migration costs.

3 Information relating to the Directors at 31 October 2017

Name and Date of Birth	Occupation and Date of Appointment	Other Directorships
James W Dean Chairman 11.11.57	Chartered Accountant 20.08.12	Liverpool Victoria Friendly Society Notemega Limited Seale Hill Management Company Rathbone Brothers PLC Rathbone Investment Management Limited School Governor (Reigate Grammar School – limited by guarantee) RJ Young Properties Limited
Nicholas H J Sandy Vice Chairman 18.11.57	Chartered Surveyor 20.12.10	Grey Geese Property Services Limited
Gary C D Crowe 18.01.67	Management Consultant 20.07.15	Staffordshire and Stoke-on-Trent Partnership NHS Trust University of Keele
David J Grant 26.12.59	Company Director and Consultant 22.05.17	BLAKK Limited Northern Baptist College Limited
Colin C Lloyd 08.02.56	Principal Consultant 21.07.14	Community Sports Trust Aquabox
**Jeremy G Hodgkiss 06.12.71	Chartered Accountant 15.11.10	Deans (Staffordshire) Limited Deans Wealth Management Limited
Karen E McCormick 26.02.56	Consultant 20.07.15	Mottram Hall Farm Karen McCormick Associates Currency Matters Limited
Michael R Smith 13.09.61	Chief Executive 09.10.17	
*Susan J Whiting 09.01.64	Chartered Accountant 01.07.04	Deans (Staffordshire) Limited

*Chief Executive to 9 October 2017, Finance Director and Secretary from 9 October 2017

**Finance Director to 9 October 2017 and Deputy Chief Executive

Documents may be served on the above Directors care of KPMG LLP (UK), 1 Sovereign Square, Sovereign Street, Leeds LS1 4DA.

Service Contracts: None of the Non-Executive Directors has a service contract. Michael Smith is employed under a contract that is terminable by either the Society or the Director on twelve months' notice.



**STAFFORD RAILWAY
BUILDING SOCIETY**

**Member of the Building Societies Association
Established 1877**

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