

Annual Report & Accounts

31 October 2021



**STAFFORD RAILWAY
BUILDING SOCIETY**

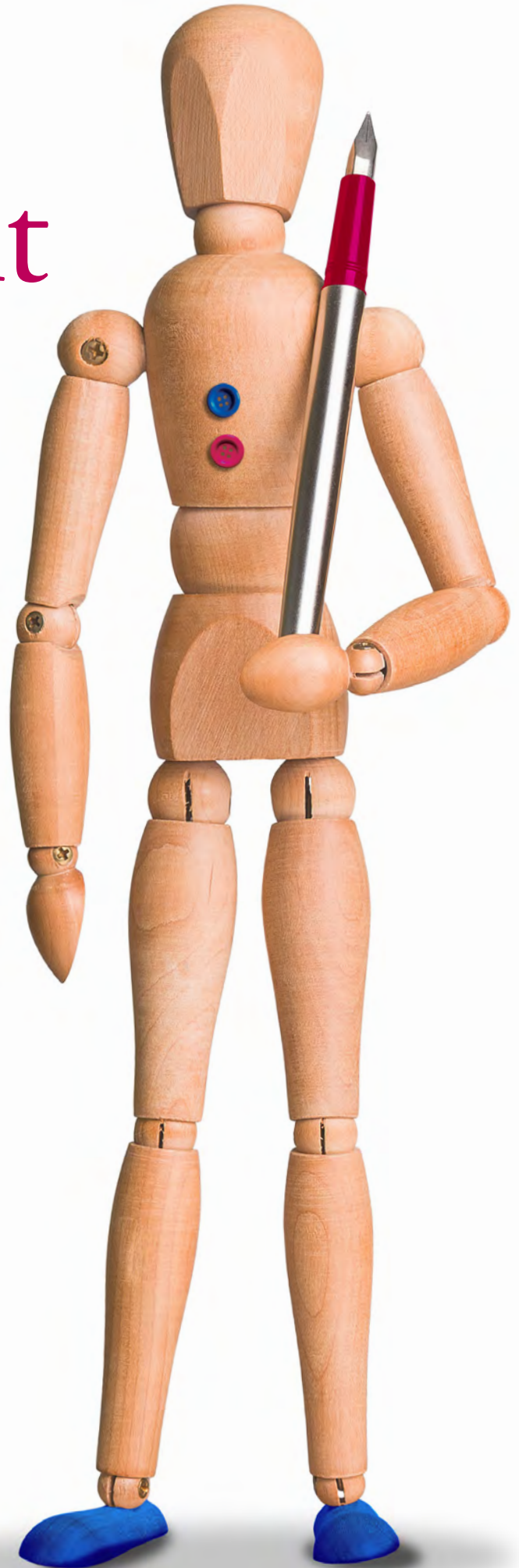
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Chair's Statement



STAFFORD RAILWAY
BUILDING SOCIETY

4 Chair's Statement

May I begin by introducing myself as your new Chair having taken over the helm following the Annual General Meeting ('AGM') in February 2021. I am delighted and honoured to be serving in this role and look forward to helping the Society achieve its goals over a number of years to come. As last year, I and the rest of the Board remain immensely proud of how well the Society has coped with another turbulent and challenging year however the effects of Covid are far from over.

We continue to remain open to serve all of you and continue to adapt our ways of working to better manage efficiently and improve how we can make our offerings available. For example, this year we have launched our online access to open savings accounts and to view your mortgages which is a major step forward for us and one we hope is of benefit to many of you.

Turning to our performance in the year, it remained strong, I am delighted to say. There was further growth in both our savings and mortgage books leading to an increase in profits, and importantly we maintained our strong capital and liquidity positions. Specifically, the profit for the financial year was £0.94m (2020: £0.85m), and our reserves now stand at £23.66m (2020: £22.76m). Savings have grown to £274.98m (2020: £245.91m) and mortgage balances to £202.09m (2020: £197.70m). Finally our liquidity is £96.47m (2020: £70.73m). This continued strong performance enables the Board to feel very confident of our sustainable future.

I would like to thank all Board members for their continued support and commitment, again in a year where all meetings have had to be conducted remotely. We very much look forward to meeting in person again and indeed coming into Stafford to meet all the team and perhaps some of our members. Sadly, Karen E McCormick decided to leave the Board over the summer, my thanks to her for her support in my initial months as Chair. Otherwise the

Board has had a stable membership this year although our long serving Senior Independent Director, James W Dean, will be standing down at the AGM, and I would like to thank him for all his support in my first year. We are actively recruiting a replacement.

Specifically of course my thanks go to the previous Chairman, Colin Lloyd, who stood down at the AGM, for his years of service steering the Board to best support the Society.

Last, but not least, I would like to express my thanks, and that of all the Board, to all our staff who have continued to provide exemplary service in another difficult year - we are most grateful for all they do. We do hope 2022 will see a return to a more normal set of conditions.

Joanne Hindle

Chair
20 December 2021

5 Reports



6 Chief Executive's Report

The 2021 financial year continued to be dominated by the Covid-19 pandemic, which has challenged us all to adapt to different and new ways of working, living and consuming. Covid-19 has not only been a health crisis, but also has had serious societal and economic consequences, from which both the United Kingdom ('UK') and the world will require time to recover. In recent months we have witnessed many encouraging developments, enabling millions to resume a more normal way of life. The country has entered a new phase of recovery from the pandemic and at The Stafford Railway Building Society we have done so from a position of strength.

The exceptional situation has truly shown our purpose as a mutual Building Society. Throughout the period we have done our utmost to support our members, keep our employees safe and maintain business continuity. As I reflect on the events of the last twelve months and the adaptations we have all made, I have realised more than ever that what we have achieved is what good businesses do. They adapt and evolve to ensure sustainability, providing a strong platform for our members to achieve their financial ambitions.

It is times like these that require us to be an even safer and more trusted partner to our members, staff and suppliers. We, at The Stafford Railway Building Society, remain a strong, member centric, and well capitalised small Building Society, even in these most turbulent of times.

In 2021, we continued to make good progress in implementing our Corporate Plan and have again delivered performance consistent with our key objective of building a sustainable Building Society for the longer term, with our core elements of growth in mortgages, growth in savings, growth in total assets and growth in capital retained, all being achieved. This has ensured a considered and balanced performance across the business, to reinforce our ethos.

We have remained focused on growing revenues faster than costs. Income growth and continued cost disciplines have resulted in an improved cost / income ratio of 74.54% (2020: 76.20%) in line with our desire to improve operational efficiencies. Capital growth increased to 3.96% (2020: 3.92%).

Our credit quality remains good. An individual specific, criteria based underwriting and prudent lending approach ensured we have sufficient resilience to overcome any potential setbacks as we recover from the pandemic. We have not experienced any loan losses nor any significant adjustments to our provisioning.

Our key business areas continue to deliver in line with our growth aspirations.

Retail Deposits: Increased by 11.82% (2020: 3.70%), led by our attractive Notice 90 and Regular Saver offerings. Savings membership also increased by 1.70%.

Mortgages: Gross mortgage lending of £40.48m (2020: £37.56m) represents a deliberately well-paced increase, following the introduction of significant process improvements to our infrastructure. The internal automation of processes should ensure we are equipped for our staff to concentrate on applying relationship driven, criteria led, individual underwriting skills, whilst allowing the technology to provide operational efficiency. I am particularly pleased that we have observed growth in both our Direct and Intermediary offerings.

As I reflect on 2021, I am very pleased with the financial results, in line with our Corporate Plan, but more so take pride in the development behind the scenes. The operational efficiencies we have undertaken shall ensure we are considerably less manual and are positioned for sustainability and considered growth. We have rebuilt the mortgage process, enabling our members to receive both a speedier decision and the important offer documentation. I am particularly proud that we are now able to offer an integrated online savings capability.

We have continued our strategy of investing in our Information Technology ('IT'). In 2021, we have reviewed and further enhanced our cyber security. We have developed our Intermediary Portal, together with enhancements to telephony systems, enabling members to speak directly to staff, consistent with our desire to maximise our personal touch.

We are also well positioned to increase the pace on our technical enhancements, most notably at point of sale, Regulatory reporting and core systems, all of which, in this re-energised and ever more demanding digital world, are areas a modern Building Society must optimise with capability.

7 Staff and Working Environment

We have not participated in the government Furlough Scheme, ensuring all our staff remained, throughout the pandemic, on full pay and we have continued to invest in staff and the working environment. We are pleased to report that the staff survey, taken in Quarter 3, evidenced ongoing high levels of staff satisfaction and this, coupled with the very high member satisfaction scores, provides great confidence for our continued growth.

Community

We remain committed to supporting the local community by means of donations, sponsorship and our Affinity programme with local organisations. We look forward in 2022, as the pandemic restrictions ease, to a more active involvement.

We have undertaken a review of our Environmental, Social and Governance ('ESG') requirements and will continue to seek ways of working together with both our suppliers and members to help drive a low carbon economy.

The Future

Over the past few quarters, and notwithstanding the uncertainties of both the macro and microeconomic environment, I am pleased to say we have consistently delivered on our key priorities.

It remains a core strength of the Society to remain financially strong and supportive of our members, staff and community, demonstrated as follows:

- Our mortgage impairment provision is more than adequate to cover current mortgage credit risk defaults;
- Our cost / income ratio remains in line with expectation;
- Our profitability is proportionate to fund our growth ambitions, whilst providing good value products for new and existing members;
- Our capital position has continued to strengthen;
- New depositors have been attracted, and importantly existing depositors have remained very loyal, reinforcing their trust in our brand; and
- Our considered inward investment and continuous improvement to provide sustainability for your Society.

New products are to be a feature of 2022, with developments in our Intergenerational and Homesaver aspirations being prioritised. Our ambition in delivering such new initiatives must be to foster personal relations in meeting places such as digital, post or telephony with members and suppliers that are equally as personal as with those members who we meet face to face.

One area which will not change is our view of risk. It has been proven over an extended time period that The Stafford Railway Building Society's prudent approach has contributed to our trusted reputation, highlighted in our low credit losses. This helps provide the solid foundation to our financial stability and provides the platform for great optimism in our future.

In 2021 I could not be more proud of the efforts of our staff. First of all, they have done their utmost to support our members. They have also implemented new ways of working, embracing the technological and process changes, whilst also engaging with local communities. I would like to take the opportunity to thank our dedicated and highly competent staff, who will ensure our future success.

I believe that both our employees and culture are the key to our sustainable value creation. We shall strive to ensure that diversity and inclusivity contribute to better collaboration and engagement, in turn leading to quality decisions and results.

I believe the events of the last eighteen months proved that nothing is certain but the unforeseen. I have no doubts the road ahead will include some setbacks, but I wish to reassure you that as we emerge into the brighter times ahead, your Society does so from a position of strength.

We are well on track and committed to delivering on our Corporate Plan and our financial aspirations. We will continue to focus on our key priorities to create great member experiences, drive income growth initiatives and optimise operational efficiencies. In doing so, we shall adhere to our goal of creating a long-term sustainable Society for our members, staff and community.

We enter into 2022, our 145th year, with confidence.

Michael R Smith

Chief Executive

20 December 2021

8 Strategic Report

The Directors are pleased to present their Annual Report, together with the Society's Accounts and Annual Business Statement for the year ended 31 October 2021.

Business Strategy and Objectives

The Board's strategy is focused on the delivery of its vision of the Society being 'an energised, modern, innovative, community-focused mutual', delivering world class service to engaged Members both digitally and locally, whilst achieving financial stability.

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

The Society's strategy is driven by its core values of:

- **Simplicity and Availability:**
Ensuring processes and communications embrace the balance of optimising technology and human interface consistent with the Society's principles of the five 'Make its' specifically: Make it Right; Make it Friendly; Make it Special; Make it Helpful; and Make it Clear, whilst observing the highest ethical standards;

- **Service:**
Having trust and respect for the individual, Member and employee. Ensuring 'point of contact service' is available both locally and digitally for the benefit of all Members and employees, across a diversified demographic; and
- **Security:**
Governance in ensuring a self-sustaining prudent, financially and technologically resilient Society, in an environment of long-term people development.

Business Review and Key Performance Indicators

The Board is satisfied with the Society's positive performance during the year. This is demonstrated by the 2.22% growth in mortgages (2020: 5.38%), 11.17% growth in total assets (2020: 3.74%), solely funded by the 11.82% (2020: 3.70%) growth in retail funding. The reported retained profit for the year of £0.94m (2020: £0.85m), has further strengthened the Society's overall capital reserves which have grown by 3.96% (2020: 3.92%).

This positive performance is all the more creditable given the ongoing challenges and impact of the Covid-19 pandemic which has touched the lives of us all including your Society. Despite this unprecedented backdrop the Society has demonstrated financial resilience as shown by its reported key performance indicators.

9 Key Performance Indicators

The Board use a number of key performance indicators to monitor the development, performance and position of the Society on an annual basis. These are included to allow Members to gain a more comprehensive understanding of the Society's performance over the last three years.

	2021	2020	2019
Net interest margin (% of mean total assets)	1.60%	1.68%	1.73%
Management expenses (% of mean total assets)	1.20%	1.28%	1.32%
Cost / income ratio	74.54%	76.20%	75.69%
Profit for the financial year	£0.94m	£0.85m	£0.86m
Profit for the financial year (% of mean total assets)	0.33%	0.32%	0.34%
Total assets growth	11.17%	3.74%	2.18%
Gross mortgage advances	£40.48m	£37.56m	£47.62m
Mortgage assets growth	2.22%	5.38%	8.93%
Liquid assets (% of shares and amounts owed to other customers)	35.08%	28.76%	29.95%
Shares and amounts owed to other customers growth	11.82%	3.70%	2.01%
Capital growth	3.96%	3.92%	4.31%
Gross capital (% of shares and amounts owed to other customers)	8.60%	9.25%	9.23%
Total reserves	£23.66m	£22.76m	£21.90m

Key Performance Indicators: Three years to 31 October 2021

Profitability

The Society seeks to make sufficient profits in order to invest in and grow the business for the benefit of its current and future Members. Profit enhances the Society's financial strength and is necessary to meet the levels of capital, including protection buffers, required under the Capital Requirements Directive. Financial strength is imperative in protecting the Society against the principal risks and uncertainties it faces and in safeguarding members' funds. Profit for the financial year of £0.94m (2020: £0.85m) increased by 10.59%, and represents 0.33% (2020: 0.32%) of the average of total assets at the beginning and end of the financial year. As at 31 October 2021 the Society's reserves amounted to £23.66m (2020: £22.76m) and are at a level considered by the Board to offer adequate support for the business.

A summary of the Statement of Comprehensive Income, detailed on page 45, is as follows:

	2021 £'000	2020 £'000	2019 £'000
Total net income	4,560	4,429	4,472
Management expenses	(3,274)	(3,245)	(3,269)
Depreciation	(125)	(130)	(116)
Operating profit before impairment losses and provisions	1,161	1,054	1,087
Loan impairment provisions	17	-	(22)
Profit before tax	1,178	1,054	1,065
Taxation	(236)	(209)	(204)
Profit for the financial year	942	845	861

Summary Statement of Comprehensive Income: Three years to 31 October 2021

10 *Total net income*

Total net income of £4.56m (2020: £4.43m) represents net interest income (total interest receivable from mortgage and liquid assets less total interest payable on retail savings), fees and other operating income. Net interest Income has increased during the year and represents an interest margin of 1.60% (2020: 1.68%) which expresses net interest income as a percentage of the average of total assets at the beginning and end of the financial year. The Board is ever-minded that the Society manages the interest margin by balancing the risks, rewards and value both to borrowing and retail Members.

Management expenses

Management expenses and depreciation of £3.40m (2020: £3.38m) comprise staff costs and overheads necessary in the running the Society. Together with depreciation they represent the total operating costs of the Society and, expressed as a percentage of the average of total assets at the beginning and end of the financial year, represent a management expenses ratio of 1.20% (2020: 1.28%).

The Board consider the cost / income ratio, which represents the aggregate of administration expenses and depreciation expressed as a percentage of total income less other operating charges, to be a key measure in its assessment of returning 'value for money' which is a key ongoing financial objective. During the year the reported cost / income ratio at 74.54% is a reduction on the 76.20% reported in the prior year indicating that total income has increased to a greater extent than the Society's cost base.

Loan impairment provisions

The Society's mortgage impairment policy protects the Society against future difficulties in the housing market and makes provisions for any estimated losses resulting from loans that are impaired on either an individual or collective basis. The overall provision requirement reduced by £17K in the year.

Statement of Financial Position at 31 October 2021

	2021	2020	2019
	£'000	£'000	£'000
Liquid assets	96,468	70,728	71,026
Loans and advances to customers	202,093	197,695	187,609
Tangible fixed assets	670	759	855
Other debtors	168	130	124
Total assets	299,399	269,312	259,614
Shares and amounts owed to other customers	274,981	245,907	237,122
Other liabilities, accruals and deferred income	728	601	557
Deferred tax liability	34	49	39
Reserves attributable to Members of the Society	23,656	22,755	21,896
Total reserves and liabilities	299,399	269,312	259,614

Summary Statement of Financial Position: Three years to 31 October 2021

11 Total assets

Total assets have increased by 11.17% (2020: 3.74%) to £299.40m (2020: £269.31m). This was solely funded by the growth in retail shares.

Loans and advances to customers

Mortgage balances have increased by £4.39m in the year to £202.09m (2020: £197.70m) with gross lending (the total value of new mortgage advances) of £40.48m increasing by £2.92m above that achieved during 2020 of £37.56m. This equated to 2.22% mortgage assets growth in the year (2020: 5.38%). Mortgage redemptions during the year of £23.81m were £5.51m above the £18.30m reported for 2020.

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

Key market segments for mortgage lending include Residential house purchase and re-mortgages, First Time Buyer, Buy to Let, Self-Build and Lending into Retirement. Looking forward the Society will continue to widen the product portfolio to meet demand, whilst monitoring internal limit exposures to ensure no over-reliance on a particular segment.

Overall arrears levels have remained at low levels despite the difficulties some Members may have experienced from the onset of the pandemic. This reflects the Society's robust underwriting approach which stress-tests future borrower affordability. As at 31 October 2021, the Society had 1 (2020: 2) mortgage accounts 12 months or more in arrears. There were 3 additional mortgage accounts over 3 months in arrears (2020: 3).

The Society proactively contacts all borrowers whose mortgage accounts have gone into arrears to enable a mutually acceptable action-plan to return the account to a fully performing status. Despite the Society's best efforts to help borrowers in such circumstances there are occasions when properties are repossessed. As at 31 October 2021 the Society had no properties in possession (2020: nil).

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. At all times 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 Credit Committee, chaired by the Chief Executive, assesses the impact of forbearance and monitors whether there is a possibility of loss, in which case an impairment provision is made in accordance with the Society's policies. As at 31 October 2021, there were 8 (2020: 28) accounts under forbearance measures. A total of 4 (2020: 3) individual impairment provisions were required in those cases where the Society's model indicated a potential shortfall in collateral compared to the outstanding balance.

Liquidity

Total liquid assets as at 31 October 2021 amounted to £96.47m (2020: £70.73m), representing 35.08% (2020: 28.76%) of total shares and amounts owed to other customers. Total liquid assets include £72.13m (2020: £51.40m) deposited in the Bank of England Reserve Account, which is classed as a high-quality liquid asset and qualifies for the Society's liquidity buffer.

The Society maintains its liquidity in a range of assets which are highly liquid and realisable at short notice, with counterparties whose external credit rating meets the Society's Board Risk Appetite. This is a key indicator that a counterparty can meet its financial obligations as they fall due under normal and stressed scenarios. The Society has no exposure to any counterparty outside of the UK.

The Society conducts an Internal Liquidity Adequacy Assessment ('ILAAP') at least annually. This enables the Board to identify the potential liquidity-related risks and risk drivers it may face under both normal and stressed conditions. The level of liquidity held at 31 October 2021 is significantly in excess of the Board's internal assessment of minimum requirements.

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

- Liquidity Coverage Ratio ('LCR') which measures unencumbered high quality liquid assets as a percentage of net cash outflows over a 30 day stress period. The LCR is reported monthly and as at 31 October 2021 was 577.63% (2020: 400.75%); and
- Net Stable Funding Ratio ('NSFR') measures the stability of the Society's funding beyond 30 days. The NSFR is reported quarterly and as at 31 October 2021 was 194.91% (2020: 185.85%).

Both the LCR and the NSFR were comfortably in excess of the minimum regulatory limit of 100%.

12 Shares and amounts due to other customers

The Society aims to attract a level of savings balances that enable funding of both mortgage advances and liquidity requirements.

Shares and amounts due to other customers' balances at 31 October 2021 were £274.98m (2020: £245.91m), an increase of £29.07m or 11.82% (2020: 3.70%) on the previous year. The increase in the overall savings balances was a result of the Society's continued strategy of providing members with a choice of savings products to meet individual needs, which during the year saw the launch of the Notice 90 account, which was favourably received by both existing and new customers.

The strengthening of the retail base during the year was achieved at a time when interest rates were at historically low levels. In line with its strategy the Society focuses on operating fairly, with simple product design, attractive terms and conditions and delivering long-term Member value. Current interest rates are benchmarked to the marketplace to monitor trends, and most importantly, ensure our Members remain at the heart of any decisions that we make.

Reserves

Total reserves as at 31 October 2021 amounted to £23.66m (2020: £22.76m), with the gross capital ratio of 8.60% (2020: 9.25%) and free capital ratio of 8.39% (2020: 8.98%).

Included in total reserves is the Available-For-Sale Reserve ('AFS') which represents any unrealised gains or losses on liquid assets accounted for at fair value at the balance sheet date. At 31 October 2021 the AFS reserve was £(28)k (2020: £13k).

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

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

Total Capital and Risk Weighted Assets

	2021 £'000	2020 £'000	2019 £'000
Tier 1 capital	23,656	22,755	21,896
Tier 2 capital	90	87	177
Total capital	23,746	22,842	22,073
Risk weighted assets:			
Liquid assets	9,763	6,829	6,058
Loans and advances to customers	71,174	69,677	66,390
Other assets	995	1,071	1,246
Mortgage commitments	1,349	1,044	1,358
Operational risk	8,413	8,186	7,881
Total	91,694	86,807	82,933

Total Capital and Risk Weighted Assets: Three years to 31 October 2021

Capital Ratios

	2021 %	2020 %	2019 %
Common equity tier 1	25.80	26.21	26.40
Gross capital ratio	8.60	9.25	9.23
Leverage ratio	7.80	8.35	8.30

Capital Ratios: Three years to 31 October 2021

13 The Common Equity Tier 1 ('CET1') ratio expresses tier 1 capital as a percentage of risk weighted assets. The leverage ratio expresses tier 1 capital as a percentage of total assets plus mortgage impairments plus a proportion of mortgage pipeline commitments.

As at 31 October 2021 the CET1 ratio was 25.80% (2020: 26.21%) and the leverage ratio was 7.80% (2020: 8.35%). Tier 1 capital was £23.66m (2020: £22.76m) and tier 2 capital £0.09m (2020: £0.08m), providing total Capital Resources of £23.75m (2020: £22.84m).

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

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

Risk Management Report

Risk Governance and Strategy

The Society's Board of Directors has ultimate responsibility for developing and having oversight of an appropriate risk and control framework. The Society has a Board Risk Appetite Statement and Risk Management Framework ('RMF') that is designed to identify, assess, manage and mitigate risks that may influence the delivery of the Society's strategic objectives and fair outcomes for Members. The Board has delegated powers to the Board Risk Committee to advise on the overall risk appetite, tolerance, and strategy. It also oversees and advises the Board on the current risk exposures and future risk strategy.

Membership of the Board Risk Committee comprises four Non-Executive Directors with the Executive Directors and the Head of Risk in attendance.

Risk Management Framework

The overall RMF was enhanced during the year to ensure that it is further embedded throughout the Society with allocated First Line ownership in particular on risks held in the Society's Risk Register, a defined reporting structure to support the Board's Risk Appetite statements and associated limits, and ultimately the Society's sustainability and viability over the corporate planning five year horizon.

The RMF includes the use of Board approved Risk Appetite Statements covering the current and future principal risks faced by the Society with emerging risks being identified by First Line in their regular reviews of their risks and controls held in the Risk Register.

The RMF is reviewed at least annually by the Board Risk Committee and then approved by the Board.

Risk Culture

The Society's risk culture is an important component and driver of our overall corporate culture. The Board has established a risk culture that is guided by strong risk management principles and aligned to our values to support and provide appropriate standards and incentives for professional and responsible behaviour. In this regard, it is the responsibility of the Society Chair and of the Board to ensure that a sound risk culture is embedded throughout the Society and all colleagues feel able to 'speak up'.

The Society's risk culture is expressed through the attitudes and behaviours demonstrated by all colleagues regarding risk awareness, risk taking and risk management. The Board has created an environment for colleagues where integrity, ownership, accountability, customer interests and respect are at the heart of the Society's objectives, values and business practices. Our risk culture underpins how our colleagues approach their work and guides decision making. The Society's values are outlined on page 8 and are an integral part of our risk culture along with our member-led strategy and core purpose of helping members, communities and colleagues to thrive.

14 Three Lines of Defence Approach

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

First Line of Defence: Individual Risk Owners	The Individual Risk Owners own and manage risks as the First Line of Defence. They are responsible for identifying, assessing, controlling and mitigating risks by implementing corrective actions to address process and control deficiencies.
Second Line of Defence: Risk & Compliance Functions	The Society's Risk & Compliance functions are the Second Line of Defence who monitors and reports on risk and compliance to the relevant Committee. This helps to ensure the Society complies with applicable laws and regulations and that policies and procedures are contemporary and operating as intended.
Third Line of Defence: Internal Audit	Internal Audit provide the Third Line of Defence providing the Audit Committee and Board with comprehensive assurance based on a level of independence and objectivity which is not available in the Second Line of Defence.

Stress Testing

Stress tests are an integral part of the annual business planning process and annual review of Board risk appetite. Tests are designed to ensure that the Society's capital and liquidity position and risk profile provide sufficient resilience to withstand the impact of severe, but plausible, economic stress on the market ('systemic stress') or Society 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 RMF. The stress testing framework also includes reverse stress testing techniques which aim to identify circumstances under which the Society's business model could be rendered unviable, leading to a significant change in business strategy.

Examples include extreme macroeconomic downturn scenarios and a cyber-attack on the Society. The Risk Committee reviews the Society stress testing (including reverse stress testing) across the ICAAP, ILAAP and Recovery Plan ('RP') prior to final approval by the Board.

Principal Risks and Uncertainties

Outlined below are the main principal risks and uncertainties to achieving the Society's strategic priorities together with the Society's mitigating activities:

Principal Risk	Society Approach	Risk Control and Mitigation
<p><i>Strategic Risk</i> The risks that affect or are created by the Society's business strategy and strategic objectives. Risks arising from changes to the Society's business model and the risk of the Plan proving inappropriate due to macroeconomic, geopolitical, regulatory or other factors.</p>	<p>Embrace change and explore new opportunities to serve our members in pursuit of sustainable asset growth and accumulation of capital reserves in line with our ambitious 5 year strategy.</p>	<ul style="list-style-type: none"> • Business planning process. • Periodic strategic updates to Board. • Ongoing monitoring of Key Performance Indicators and Risk Appetite measures. • Investment in underlying processes, systems and people to support new business developments. • Business planning stress testing. • Robust risk management and corporate governance frameworks.
<p><i>Credit Risk Mortgage:</i> The risk that mortgagors will fail to meet their obligations as they fall due, which results in a potential loss following enforcement of the loan and realisation of the mortgage security and related additional security.</p> <p><i>Counterparty:</i> The risk that market counterparties will fail to meet their obligations as they fall due and subsequently default resulting in a loss.</p>	<p>A prudent lending approach to mortgage customers and treasury counterparties to minimise default rates and impact on earnings or capital whilst generating an appropriate level of return reflecting the risk.</p>	<ul style="list-style-type: none"> • Board approved risk appetite and risk limits. • Board approved Responsible Lending Policy. • Board approved Treasury and Treasury Counterparty Policies. • Robust underwriting criteria. • Mortgage loans are manually underwritten. • Counterparty and exposure limits and Assets and Liabilities Committee ('ALCO') reviews. • Stress testing. • Credit Committee oversight for mortgage lending risk and financial soundness risk (including market risk). • Capital planning as part of the Society's ICAAP.

Principal Risk	Society Approach	Risk Control and Mitigation
<p><i>Financial Soundness Risk</i> The risk that insufficient funds are available to meet financial obligations as they fall due and/ or, insufficient capital resources, resulting in the inability to support business activities, as well as the inability to meet liquidity and capital regulatory requirements.</p>	<p><i>Liquidity</i> Maintain liquid resources above Board-approved treasury financial minimums to give members confidence on the Society's ability to meet its obligations.</p> <p><i>Capital</i> Utilise capital effectively to support current and future business initiatives, including stressed losses that arise as a result of plausible but extreme scenarios and to meet regulatory requirements.</p>	<ul style="list-style-type: none"> • Board approved risk appetite and risk limits. • Maintaining appropriate levels of High Quality Liquid Assets. • Liquidity is monitored daily by the Leadership Team. • Board approved Treasury and Treasury Counterparty Policies. • Liquidity planning as part of the Society's ILAAP. • Capital planning as part of the Society's ICAAP. • Stress testing. • ALCO oversight. • Board approved Recovery Plan.
<p><i>Market Risk</i> The risk of losses arising from changes in market rates or prices.</p>	<p>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.</p>	<ul style="list-style-type: none"> • Board approved risk appetite and risk limits. • Specialist external treasury advisers used for investing surplus funds. • Stress testing. • ALCO oversight.
<p><i>Operational Risk</i> The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The scope of operational risks includes legal and regulatory, financial crime (including fraud), business continuity, information technology (including cyber-risk), people and resources, process and conduct.</p> <p>Execution of information technology change is a key driver of Operational Resilience risk and can impact on systems availability and the ability to deliver services to customers to the level desired.</p>	<p>The principal operational risks facing the Society are change management, fraud, information technology and cyber and operational resilience, management of third party suppliers, provision of inappropriate advice to consumers, non-compliance with regulation, key person risk and business interruption.</p>	<ul style="list-style-type: none"> • Board approved risk appetite and risk limits. • Strong and effective internal control environment. • Insurances. • Operational Management Committee ('OMC') oversight. • Continued investment in developing risk management frameworks, policies, systems and processes. • Continuous improvement, learning from internal and external events and responding to findings from Second Line and Third Line reviews. • Investment in our operational resilience including cyber-crime and IT.

Principal Risk	Society Approach	Risk Control and Mitigation
<p><i>Conduct Risk</i> The risk of financial or reputational loss as a result of treating customers unfairly and delivering inappropriate outcomes that lead to customer detriment.</p>	<p>We aim to deliver positive outcomes for customers, maintaining a high degree of customer and public confidence by focusing on the Society's aims and values.</p>	<ul style="list-style-type: none"> • Board approved risk appetite and risk limits. • Board approved Conduct Risk Policy. • Members are placed at the heart of our decision-making, aligned to our Society values. • OMC oversight. • Strong risk management culture. • Vulnerable Customer Standard.
<p><i>Legal and Regulatory Risk</i> The risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK or EU legal and regulatory requirements.</p>	<p>Maintain robust controls to ensure compliance with the intent and spirit of relevant laws and regulation.</p>	<ul style="list-style-type: none"> • Board approved risk appetite and risk limits. • Regulatory horizon scanning. • Strong compliance culture. • Regulations and Compliance Management Committee oversight ('RCMC'). • Compliance Monitoring Plan. • Open and transparent relationship with all regulatory bodies.
<p><i>COVID-19</i> Coronavirus represents a generational disruption to life in the UK, with the true and lasting impact to the UK and global economy not yet known.</p>	<p>The Society has responded effectively to the challenges of COVID-19, ensuring our members and colleagues are safe and supported throughout.</p> <p>We continue to monitor and assess the longer-term impacts the pandemic may bring.</p>	<ul style="list-style-type: none"> • The Society continued to respond constructively to the pandemic over the past 12 months, capitalising on the successes of our early response to support future growth. For example, steps taken to enable remote working have improved our operational resilience and allowed us to introduce an agile working approach to the benefit of current and future colleagues. • Looking forward, from a macroeconomic perspective, the true impact of the pandemic remains unclear, particularly the impact from the unwinding of the government support schemes, for example the cessation of the Furlough Scheme in September 2021. • The Society will continue to assess its arrears management strategies to ensure they are fit for purpose in the event of an increase in payment difficulties for our members.

Principal Risk	Society Approach	Risk Control and Mitigation
<p><i>Climate Change</i> The Bank of England ('BoE'), Financial Conduct Authority ('FCA') and PRA are continuing to review and update regulatory expectations related to climate change.</p> <p>The Society recognises two primary elements of climate change risk:</p> <p><i>Physical Risk</i> The risk of the Society being impacted by climate and weather related events, such as heatwaves, droughts, floods, storms and sea level rise. These events can potentially result in large financial losses, impairing asset values and the creditworthiness of borrowers and;</p> <p><i>Transition Risk</i> Risks arising from the process of adjustment towards a low-carbon economy. Changes in policy, technology and sentiment could prompt a reassessment of the value of a large range of assets and create credit exposures for banks and other lenders as costs and opportunities become apparent.</p>	<p>Ensure the Society develops processes, controls and reporting metrics to assess and manage climate change risk.</p> <p>The climate change elements manifest as increasing credit, market and operational risk for the Society which require effective mitigation and management.</p>	<ul style="list-style-type: none"> • The Society continues to track the requirements of the PRA's SS3/19 the recommendations made by the Task Force on Climate Related Financial Disclosures ('TCFD') as well as increasing expectations on Environmental, Social and Corporate Governance arising from various sources. • This entails assessing the impacts and potential mitigations for credit, market and operational risks which may transpire.

On behalf of the Board

Joanne Hindle

Chair

20 December 2021

19 Directors' Report – for the year ended 31 October 2021

The Directors have pleasure in presenting their Annual Report, together with the audited Annual Accounts and Annual Business Statement of the Society for the year ended 31 October 2021.

Business Objectives and Activities

The Society, which was founded in 1877, is an independent building society based in Stafford, financed by and run for the benefit of its Members. The 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. 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.

Information on the business objectives of the Society are detailed within the Strategic Report on pages 8 to 18.

Business Review

The Chair's Statement on page 4, the Chief Executive's Report on pages 6 to 7 and the Strategic Report on pages 8 to 18 report on the performance of the Society, referring to key performance indicators, and its future objectives.

As a mutual organisation, we aim only to earn sufficient profits to enable us to prudently achieve our main purposes, as described above under the Strategic Report. We are pleased to report that we have achieved a profit for the financial year of £0.94m (2020: £0.85m) which contributes to a healthy level of capital and supports the financial stability of the Society.

Applying the United Kingdom Corporate Governance Code

The United Kingdom Corporate Governance Code 2018 ('the Code') applies to listed United Kingdom companies. It requires them to explain how they have applied the governance principles which are contained within the Code, to enable a company's shareholders to understand how effectively a company has complied. The Code's provisions come into effect for companies whose year-end reporting commences on or after 1st January 2019. As a mutually-owned organisation, the Society does not have the equivalent of shareholders and is not directly subject to the Code. Nevertheless, the Board has voluntarily chosen to follow most of the principles of the Code where they are considered relevant (and the Board deems them appropriate) to an organisation of this size. Further details of the Society's compliance with the Code are set out in the Corporate Governance Report on pages 22 to 28.

Compliance and Regulation

The Society is regulated by both the FCA and the PRA. We fully support and accept the need for, and the responsibilities associated with, regulatory compliance.

The Society takes its responsibility to adhere to various laws, statutes and codes of practice seriously throughout the business and does not seek to avoid compliance with them. It is the Society's objective to not only comply with the letter of the various requirements but also the spirit and to be entirely transparent in its disclosures.

Directors

The following persons were Directors of the Society during the year and up to the date of signing the Annual Report and Accounts:

Non-Executive Directors

Joanne Hindle, LLB (Chair) (appointed 23 March 2021)
 Colin C Lloyd, ACIB (Chairman) (retired 24 February 2021)
 Karen E McCormick, ACIS PIIA (Vice Chair)
 (resigned 24 June 2021)
 James W Dean, FCA (Senior Independent Director)
 Gary C D Crowe, FCIM CAifs ACIB MCIBS
 David J Grant, MBA FCIB FISMM FRSA
 Mary A Kerr, MA Oxon MBA DipM MIOD

Executive Directors

Michael R Smith, ACIB (Chief Executive)
 Steven Jones, BSc DBA MBA FCA
 (Deputy Chief Executive and Finance Director)

Equality and Diversity

The Society operates a policy on Equality and Diversity to provide opportunity for all staff and Directors. No parameters are deemed appropriate due to the Society's size and we always seek to appoint the most appropriate candidate.

The gender breakdown is detailed in the following table.

Role	Male (number)	Female (number)	Total (number)	Male %	Female %	Total %
Board	3	2	5	60.0	40.0	100.0
Leadership Team	5	6	11	45.5	54.5	100.0
Staff	6	21	27	22.2	77.8	100.0
Total	14	29	43	32.6	67.4	100.0

Gender Breakdown as at 31 October 2021

Tenure of Office

The tenure of office for the Board is as follows.

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

Director Tenure as at 31 October 2021

Having regard to the United Kingdom Corporate Governance Code 2018, all Directors will retire and being eligible will seek re-election at the AGM. James W Dean will retire from the Board having completed his nine year tenure.

21 **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 10 days of receipt of invoice (2020: 11 days).

Charitable and Political Donations

During the year the Society made donations of £6,008 (2020: £13,121) 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 in which it operates. Consequently, the Society actively endeavours to identify with and support the community. The Society actively sources purchases and services locally if possible, and provides 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. However, both the Society and the Directors will continually monitor the ongoing developments regarding Covid-19.

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 Annual Report and Accounts. 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 including economic uncertainty arising from the Covid-19.

The Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. Accordingly, the Accounts continue to be prepared on a going concern basis.

External Auditors

The Society's External Auditors, PwC, who were appointed at the 2021 AGM, have expressed their willingness to continue in office and, in accordance with Section 77 of the Building Societies Act 1986, a resolution to this effect will be proposed at the 2022 AGM.

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.

Capital Adequacy

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

On behalf of the Board

Joanne Hindle

Chair

20 December 2021

22 Corporate Governance Report

The Board believes that good governance is vital in providing effective leadership and ensuring the Society continues as a successful organisation run for the benefit of its current and future Members.

The Financial Reporting Council published the United Kingdom Corporate Governance Code ('the Code') in July 2018. The Code applies to publicly quoted companies. In the interests of transparency, the FCA and PRA also encourage each building society to explain in its Annual Report and Accounts whether, and to what extent, it adheres to the Code.

The Board is committed to having regard to the Code, to the extent that its provisions are relevant to a building society of this scale, in the continuing development of corporate governance practice at the Society. This report describes the Society's governance practices.

The Board

The principal functions of the Board, whilst always acting in the best interests of the Society's Members, are to:

- Provide leadership and direction with the strategic aim of promoting success within an effective and controlled framework;
- Set the Society's strategic aims and objectives;

- Ensure sufficient human and financial resource are available to meet the objectives;
- Satisfy itself on the integrity of financial information at the same time ensuring financial controls and risk management systems are robust, reviewed at least annually; and
- Comply with all legal and regulatory requirements that affect the Society.

The Board meets regularly throughout the year and separately undertakes a formal review of strategy at least annually. Additional Board meetings take place when required.

The Chair is responsible for the leadership of the Board, setting its direction and culture and ensuring effective contributions from all Directors.

As at 31 October 2021, the Board consisted of two Executive Directors and five Non-Executive Directors who provide the appropriate mix of skills and professional expertise required. Prior to 24 June 2021, there were six Non-Executive Directors.

The Board has four key Board Committees and reviews the composition of the Committees and the Committee's Terms of Reference annually to ensure they remain relevant and up to date. The Committee's Terms of Reference are available on request from the Society's Secretary and on the Society's website at www.srbs.co.uk.

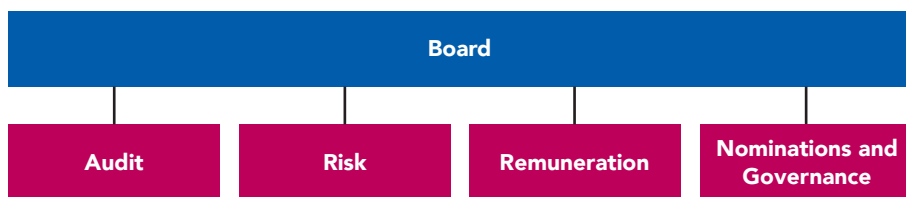


Fig: Board and Board Sub-Committee Structure

23 *Audit Committee*

The principal functions of the Audit Committee are to:

- Consider all matters of an audit and compliance nature applying to the Society, including internal controls and financial reporting;
- Approve the scope and content of Internal and External Audit work; and
- Advise the Board on whether the Society's Annual Accounts give a fair, balanced and understandable assessment of the Society's financial position and performance, business model and strategy.

The Audit Committee consists entirely of Non-Executive Directors. The following Non-Executive Directors served during the year: Gary C D Crowe (Chair), Karen E McCormick (resigned 24 June 2021), James W Dean, Mary A Kerr. In addition, the Executive Directors, representatives from the Society's Finance and Risk and Compliance functions, External Audit and the outsourced Internal Audit attend by invitation.

The Audit Committee meets at least four times a year.

Risk Committee

The principal functions of the Risk Committee are to:

- Consider the principal and other risks set out in the Strategic Report on pages 8 to 18. The risks are identified and recorded in the Risk Register which is reviewed and monitored to ensure compliance with the Board's Risk Appetite;
- Ensure the ongoing development and maintenance of the ICAAP, the ILAAP and Recovery Plan ('RP') as well as the RMF; and
- Support and challenge the development of the strategic plan and adequacy of stress testing.

The Risk Committee is chaired by David J Grant and until August 2021, the Risk Committee consisted of all the Non-Executive Directors and the Executive Directors. Due to a change in Committee structure, Mary A Kerr no longer attends the Risk Committee.

The Risk Committee meets at least five times a year.

Nominations and Governance Committee

The principal function of the Nominations and Governance Committee is to lead the process for appointments, ensuring plans are in place for orderly succession to the Board and Leadership Team positions, and overseeing the development of a diverse plan for succession.

The Nominations and Governance Committee consists entirely of Non-Executive Directors. The following Non-Executive Directors served during the year: Karen E McCormick (Resigned 24 June 2021) Joanne Hindle (Chair) James W Dean (Senior Independent Director). Due to Karen E McCormick resigning the Committee now consists of Joanne Hindle (Chair) and James W Dean with Michael R Smith (Chief Executive) in attendance

The Nominations and Governance Committee meets when there is an appropriate vacancy to fill and at least twice a year to review the skills mix of the Board.

Remuneration Committee

The principal function of the Remuneration Committee is to make recommendations to the Board in respect of the remuneration of the Board Chair, Executive Directors and other members of the Leadership Team.

Further details of this Committee are provided within the Directors' Remuneration Report on pages 32 to 34.

Until August 2021, the Remuneration Committee consisted of all the Non-Executive Directors, and was chaired by Karen E McCormick. From August 2021 the revised structure of the Remuneration Committee consists of Mary A Kerr (Chair) David J Grant and Gary C D Crowe.

The Remuneration Committee meets at least annually.

24 Attendance at the Board and Committee meetings

All Committee meetings are formally documented with the minutes being reviewed at the next meeting. Attendance of members of the Board and Committees at meetings are as follows (November 2020-October 2021)

Name	Board	Remuneration	Audit	Risk	Nominations and Governance
Joanne Hindle (from 23 March 2021)	4/(4)	*	*	2/(3)	6(6)
Colin C Lloyd (to 24 February 2021)	2/(3)	1/(1)	*	1/(2)	0/(1)
Karen E McCormick (to 24 June 2021)	3/(5)	1/(1)	2/(3)	3/(4)	1/(2)
James W Dean	7/(7)	1/(1)	3/(4)	5/(5)	7/(7)
Gary C D Crowe	6/(7)	1/(1)	4/(4)	5/(5)	*
David J Grant	6/(7)	1/(1)	*	5/(5)	*
Mary A Kerr	7/(7)	1/(1)	4/(4)	3/(3)	*
Michael R Smith	7/(7)	*	*	4/(5)	*
Steven Jones	7/(7)	*	*	5/(5)	*

Board Committee Attendances: Year ended 31 October 2021. (Figures in brackets represent maximum possible attendance) and * denotes not a member of the Committee.

25 Application of the Code

The Code has five sections, each setting out 'principles' that should be followed, with further detailed 'provisions', explaining in more depth how the principles should be applied.

To assist Members, the principles of each section are reproduced below and an explanation of how these have been applied / not applied follows. To assist readership, the principles are shown in italic text and are enumerated alphabetically from A to R, appearing under five section headings, following the format of the Code.

1. Board Leadership and Company Purpose

'A. A successful company is led by an effective and entrepreneurial Board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.'

The requirement for and composition of the Society's Board is contained in the Society's Rules.

Consistent with being a mutually owned organisation the Board does not consider itself 'entrepreneurial' in the usual sense of the word, or in the context of the Code (which principally applies to limited companies), since that would imply taking financial risks which may not be in the interests of its Members and the sustainability of the Society, or seeking to act beyond its purpose. However, the Board strives to ensure the Society remains profitable, efficient and to be innovative, wherever it can do so.

The Society maintains appropriate liability insurance cover in respect of any legal action against its Directors and Officers. The Board has access to independent professional advice, at the expense of the Society, if required.

'B. The Board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All Directors must act with integrity, lead by example and promote the desired culture.'

The Society's purpose is defined by the Building Societies Act 1986. The Board may not act beyond that purpose. The Board defines and monitors the Society's strategy and culture, which are linked to providing Members with savings and mortgages.

Its Directors are required to lead with integrity at all times, being consistent with the established legal duty of a building society Director to act in the best interests of its Members, and to recognise that all Directors are regulated by the 'Senior Managers Certification Regime' ('SMCR'), enforced by the PRA and the FCA. The Society operates a framework to provide assurance that Directors meet the fitness and propriety standards required by SMCR.

The Board considers its strategy annually together with the Society's purpose and values, to ensure our culture is aligned. More detail is set out in the Strategic Report beginning on page 8. The Board through its Committees regularly receives information to provide assurance that culture is aligned to our purpose and values.

'C. The Board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The Board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.'

The Society has implemented a robust RMF to monitor and mitigate risk where possible.

A comprehensive Committee structure is in place to facilitate this control mechanism via the three Lines of Defence model.

The Board regularly considers the resources available to the Executive and seeks to ensure they are deployed effectively to achieve the agreed strategy.

'D. In order for the company to meet its responsibilities to shareholders and stakeholders, the Board should ensure effective engagement with, and encourage participation from, these parties.'

The Board reports formally to its Members at the AGM of the Society each year. In usual circumstances, all Members are invited to attend and may pose questions on the Annual Report and Accounts, the Auditors Report as well as the general business of the Society. However, due to the Covid-19 pandemic the 2021 AGM was hosted remotely via 'Teams'. This did not result in a lack of interest, rather the remote environment enabled more active engagement. Members are given voting rights on key decisions, as required by the Society's Rules. Voting by post / online / in branch (the latter as a last resort for 2021 AGM) or by representative is provided for where a Member cannot attend in person, with voting overseen by an independent scrutineer.

The Society's other two key stakeholders are its Regulators, the PRA and the FCA. The Regulators are active in monitoring the Society's performance and operations in order to ensure it observes the extensive regulations, which all building societies are subject to (designed to ensure the safety and soundness of the financial services sector, protect customers and promote competition).

Members' views are sought via a range of questionnaires.

James Dean, the Senior Independent Director, also acts as a point of contact for Members wishing to make representation to the Board.

'E. The Board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.'

The Board is satisfied that its human resources policies are consistent with ensuring the long-term success of the Society. The Society does not have any form of bonus schemes that might encourage unethical practices or otherwise target sales of its products by incentives.

The Society has an established Whistleblowing Policy designed to support our values and ensure employees can raise concerns without fear of suffering retribution or victimisation, providing a transparent and confidential process for dealing with concerns. The Society also subscribes to 'Protect' formerly 'Public Concern at Work' which is an independent organisation where concerns can be raised.

2. Division of Responsibilities

'F. The Chair leads the Board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the Chair facilitates constructive Board relations and the effective contribution of all Non-Executive Directors, and ensures that Directors receive accurate, timely and clear information.'

The Chair is responsible for leadership of the Board and the Chair must be satisfied that the Board is properly advised at all times. The annual fee payable for the Chair's role is recommended to Board by the Remuneration Committee in a meeting, which the Chair does not attend. Approval to hold the position of Chair is required under SMCR, given jointly by the PRA and FCA.

The Chair should be considered independent at the time of appointment. The Board expects a candidate for the position of the Chair to be able to demonstrate that they are capable of exercising objective judgement, that they can promote a culture of openness and debate at all times and be able to ensure the Board maintains an independent view of the performance of the Chief Executive.

It is expected the Chair would normally only act in that capacity for a maximum period of nine years.

The Remuneration Committee have responsibility for determining the policy for Executive Director remuneration and recommending remuneration for the Chair, Executive Directors and Senior Management.

'G. The Board should include an appropriate combination of Executive and Non-Executive (and, in particular, independent Non-Executive) Directors, such that no one individual or small group of individuals dominates the Board's decision-making. There should be a clear division of responsibilities between the leadership of the Board and the Executive leadership of the company's business.'

At 31 October 2021, the Board comprised five Non-Executive and two Executive Directors providing a balance of skills appropriate to the requirements of the business.

All Non-Executive Directors have held office for less than nine years. The Board has considered the independence of all Non-Executive Directors. Under the Code, the Board considers all its Non-Executive Directors to be independent in character and judgement. The roles of Chair and Chief Executive are held by different individuals, with a clear division of responsibilities. The Chair, who is a part-time Non-Executive Director, is responsible for leading the Board and ensuring it acts effectively. The Chief Executive has responsibility for managing the Society and for the implementation of the strategies and policies agreed by the Board. The Chief Executive also holds the position of Company Secretary.

James Dean is the Society's Senior Independent Director acting as a sounding board for the Chair and with other Non-Executive Directors, appraises the Chair's performance at least annually.

'H. Non-Executive Directors should have sufficient time to meet their Board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.'

The requirement for Directors to devote sufficient time to discharge their responsibilities effectively is stated in the Letter of Engagement supplied on appointment. Details of the number of Board and Committee meetings in 2020/2021 and the attendance record of individual Directors are set out on page 24. All Directors have the right of attendance at Committee meetings, however only the attendance record of those who were members of the respective Committee meeting are detailed.

Where Directors have other significant commitments, these are set out in the Annual Business Statement on page 80 in section 3, Information Relating to Directors.

'I. The Board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.'

The Directors receive timely, accurate and relevant information to enable them to fulfil their duties. All Directors have access to the advice and services of the Secretary who is responsible for ensuring compliance with all Board procedures and advising the Board, through the Chair, on governance matters. The Board has access to independent professional advice, at the expense of the Society, if required.

3. Composition, Succession and Evaluation

'J. Appointments to the Board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for Board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.'

The Nominations and Governance Committee has responsibility for succession planning for both the Board and the Leadership Team, recommending to the Board the appointment of new Directors. Appointments to the Board are subject to a formal, rigorous and transparent process. The Society will utilise executive search and selection consultants to support the process of making new appointments to the Board unless it is judged appropriate not to do so. Where this is not deemed necessary, an explanation will be provided within the Corporate Governance Report in the year the appointment is made.

The Society values diversity and reflects this within policy. In making appointments, the Board will seek to achieve a diversity and balance of skills, with independence and experience being key determinants, where selection of the most suitable candidate is paramount.

'K. The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the Board as a whole and membership regularly refreshed.'

The Society has chosen to apply annual re-election of its Directors. The performance of all Directors is subject to annual appraisal by the Chairman, who must also be satisfied and able to certify that each Director continues to exhibit the 'fit and proper' requirement of SMCR.

The Chairman's annual recertification of a Director must be thoughtful and given in upmost good faith, having regard to the Director's continuing ability to contribute to the stewardship and effective governance of the Society, in the interest of its Members.

'L. Annual evaluation of the Board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each Director continues to contribute effectively.'

The Board should consider having a regular externally facilitated Board evaluation. The decision to or not to facilitate this action is contained within the Board minutes and is discussed annually.

The Board is of the view that all Directors contribute effectively and are considered suitable for election/re-election (where appropriate) at the 2022 AGM.

4. Audit, Risk and Internal Control

'M. The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.'

Periodically, External Audit meet with the Committee without the Executive Directors being present. The Chair of the Committee provides a report to the subsequent Board Meeting.

The Audit Committee implements the Society's policy on the use of External Audit for non-audit work. The External Auditor, PwC, did not undertake any non-audit work in year.

The Chair of the Board is not a member of the Audit Committee. The Audit Committee Report on pages 29 to 31 describes how the Audit Committee applies the Code principles in relation to corporate reporting and internal control.

'N. The Board should present a fair, balanced and understandable assessment of the company's position and prospects.'

The responsibility of the Directors in respect of preparation of the Annual Report and Accounts, accounting records and internal controls and the statement that the Society's Accounts are prepared on a going concern basis, are set out on pages 15 to 18 in the Directors' Report. The Chief Executive's Review on pages 6 to 7 and the Strategic Report on pages 8 to 18 provides Members with a detailed review of the position of the Society and its future prospects.

The Audit Committee report on pages 29 to 31 describes the main areas of accounting judgement considered by the Audit Committee.

'O. The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.'

The Board has a duty to ensure the Society operates within a framework of prudent controls which enables risk to be assessed and managed.

The Board has overall responsibility for the Society's internal control system and for reporting its effectiveness to the Members in the Annual Report and Accounts. The Board is also responsible for defining and influencing the culture of risk management across the Society.

The Board has overall responsibility for ensuring the Society maintains adequate financial resources, both in terms of capital and liquidity, through review and approval of both the Society's ICAAP and ILAAP. The Board monitors the role of Management in identification, monitoring and review of major risks facing the Society through the Board Sub-Committee and Management Committee Structure including ALCO, OMC, RCMC, Product Development and Credit Committees.

The Society operates a Three Lines of Defence model as set out on page 14.

The Leadership Team is responsible for designing, implementing, maintaining and monitoring the systems of internal control. The Board and each Board Committee has oversight responsibility for risks within its remit. The Society's internal auditors provide assurance that systems and controls are effectively applied.

The Board is satisfied the Society operates effective systems and controls which are appropriate to the nature, scale and complexity of the Society's business.

5. Remuneration

'P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.'

The Board is ultimately accountable for the determination of the Society's strategy and promoting its long-term sustainable success. Execution of the strategy is delegated to the Chief Executive, subject to Board oversight.

The Society rewards its Chief Executive by reference to market rates for a comparable society or equivalent and taking account of skills, attributes and flight risk. The performance of the Chief Executive is reviewed by the Board (led by the Chair) annually and that process has regard to the delivery of the strategy and the financial standing of the Society at the end of its business year.

Remuneration rewards are considered, as appropriate, by the Remuneration Committee in accordance with its Terms of Reference and recommended to the Board as necessary. They generally reflect annual price inflation and evidence of pay awards at comparator firms.

Details of the Executive Directors' incentive scheme are set out on pages 32 to 34 in the Directors' Remuneration Report.

'Q. A formal and transparent procedure for developing policy on Executive remuneration and determining Director and senior management remuneration should be established. No Director should be involved in deciding their own remuneration outcome.'

Remuneration is considered, as appropriate, by the Remuneration Committee in accordance with its Terms of Reference, and recommended to the Board as necessary. The Chair of that Committee reports upon its activities on pages 32 to 34 of this report. The Chair of the Board and the Chief Executive determine the Non-Executive Directors' fees and certain personnel who are not part of the Executive and not a Director, by reviewing data provided by the Remuneration Committee.

'R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.'

The Remuneration Committee is comprised of three Non-Executive Directors and, amongst other things, takes account of the expectations of this principle.

Joanne Hindle

Chair

20 December 2021

29 Audit Committee Report

The Audit Committee forms part of the Society's corporate governance framework to which the Board has delegated oversight of financial reporting, internal controls, Internal Audit ('Deloitte' – to be replaced by RSM UK Risk Assurance Services LLP on 14 December 2021) and External Audit ('PwC'). The Committee consisted of four independent Non-Executive Directors, during the latter part of 2021, this reduced to three Non-Executive Directors. This report provides an overview of the Committee's work and details how it has discharged its responsibilities during the year.

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

- The integrity of the Annual Report and Accounts, any formal announcements relating to financial performance and significant financial reporting judgements contained therein;
- The effectiveness of the system of internal control processes; and
- The Internal Audit and External Audit processes, including:
 - The appointment, re-appointment and removal of the External Auditors and the periodic review of their performance and independence;
 - The policy on the engagement of the External Auditor for non-audit work; and
 - Appointment of the Internal auditors ensuring their independence and reviewing their performance.

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

The composition of the Committee is detailed within the Corporate Governance section of this report on page 20. The Executive Directors', representatives from the Society's Finance and Risk and Compliance functions and Internal and External Audit attend by invitation.

Key areas reviewed during 2021

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

1. Financial Reporting

The primary role of the Committee in relation to financial reporting is to review and assess with the Executive and External Audit the integrity and appropriateness of the Annual Report and Accounts concentrating on amongst other matters:

- 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.

During the year, the Committee focused on the following matters having regard to the significance of their impact on the reported position and the involvement of a high degree of complexity, judgement or estimation by Management:

- Provisioning for loan impairment, the Committee monitored loan impairment provisions through review of the key inputs and assumptions to the Society provisioning model. In the absence of historical loss experience by the Society, the Committee focused closely on the methodology and model inputs developed by Management. The Committee paid attention to the impact of different assumptions on the outcome of the models to satisfy itself that the quantification of impairment provisions is appropriate; and

- Effective Interest Rate Income in the form of interest receivable, together with fees earned and incurred as a result of bringing mortgages onto the balance sheet, are measured under the effective interest rate method. This approach involves consideration of both the effective life of the loan, and degree of amortisation of balance over the effective life, based on observed behaviour of mortgages and Management judgement. The Committee reviewed empirical data prepared by Management on both effective life and amortisation of balance and formed conclusions on the same for utilisation in determining the approach taken and judgements applied by Management in recognition of income on mortgages.

The Committee considers that the 2021 Annual Report and Accounts are fair, balanced and understandable. The Committee undertook this by satisfying itself that there was a robust process of review and challenge to ensure balance and consistency.

The Committee considers that it has properly discharged its responsibilities in relation to financial reporting of the 2021 Annual Report and Accounts.

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 LLP. The new financial year will see RSM UK Risk Assurance Services LLP taking on this role. The Society is evolving and moving forward, after a successful and productive seven year relationship with Deloitte LLP the committee made the decision that, the Society should tender for the Internal Audit contract. The rigorous process involved shortlisting firms from five to three, culminating in the appointment of RSM UK Risk Assurance Services LLP, which was decided at the Audit Committee meeting, held on the 21 September 2021. The Committee wish to thank Deloitte LLP for their support and professionalism over the last seven years.

Key reviews were completed through their agreed work programme during the year including areas of internal control significance, specifically lending (policy and underwriting) controls, interest rate and structural risk, operational regulatory reporting, information technology and cyber risk.

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 outsourced Internal Audit operates in accordance with an Internal Audit Charter.

The Committee considers the re-appointment of Internal Audit each year and also assesses their independence on an ongoing basis. Internal Audit is required to rotate the Audit Partner responsible for the Society's audit at least every five years.

The Annual Audit Plan is reviewed and approved to ensure it is consistent with the scope of the audit engagement.

The Committee also approves the fee for the programme of internal audit work for the year having reviewed the scope of the work programme in detail.

To preserve the independence of Internal Audit, the Committee holds periodic private meetings with its Internal Auditors during the year without the Executive Directors present.

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 Society operates in a dynamic business environment and, as a result, the risks it faces are continually changing. The internal control framework has been designed to ensure thorough and regular evaluation of the nature and extent of risk and the Society's ability to react accordingly. It is the role of Management to implement the Board's policies on risk and control. It is also recognised that all employees have responsibility for internal control as part of their accountability for achieving objectives. Staff training and induction is designed to ensure that they are clear on their accountabilities in this area and are competent to operate and monitor the internal control framework.

Internal Audit provided independent assurance to the Board on the effectiveness of the internal control framework through the Audit Committee. The Committee reviewed this aspect through regular reporting from Management, the Society's Internal Audit and External Audit. The main internal control matters which were reviewed by the Committee in 2020 / 2021 were:

- Prudential and conduct related issues;
- Internal Audit plans;
- Reports from Internal Audit;
- Reports from External Audit in relation to the financial reporting process arising from the external audit. During the year, External Audit did not highlight any material control weaknesses;
- Reports from the Society's internal Money Laundering Reporting Officer;
- The status of any issues raised in control reports to ensure a timely resolution; and
- Whistleblowing arrangements. The Committee is responsible for reviewing and approving the Society's Whistleblowing Policy annually. The Committee continues to be satisfied that the Society's Whistleblowing Policy remains appropriate and that the requisite arrangements are in place to enable colleagues to raise concerns about improprieties in a confidential manner. Awareness of the whistleblowing arrangements is maintained through internal communications and training modules.

The Committee is provided with an annual Whistleblowing summary report.

The Society's Risk and Compliance function provides second line assurance. The Committee approves the internal Compliance Monitoring Plan and receives regular reports from Risk and Compliance having undertaken reviews scheduled in the Compliance Monitoring Plan. The key areas contained in the Plan are:

- Event / incident reporting;
- Horizon scanning;
- Recent communications with the PRA / FCA;
- Reviews undertaken across mortgage, finance and the branch;
- Update on the progress of the completion of the Compliance Monitoring Plan;
- Second line monitoring of actions; and
- Internal audit action tracking.

The information received and considered by the Committee provided reasonable assurance that during 2021 there were no material breaches of control or regulatory standards and that, overall, the Society maintained an adequate internal control framework that met the principles of the Code.

4. External Audit

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

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

The Committee considers the re-appointment of External Audit each year and also assesses their independence on an ongoing basis. External Audit is required to rotate the Audit Partner responsible for the Society's audit at least every five years.

The Committee approved the fees for audit services after a review of the level and nature of the work to be performed and was satisfied that the fees were appropriate for the scope of work required.

The Board assessed their independence as appropriate as no non-audit services were provided during this reporting year.

5. Audit Committee Effectiveness

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

The Board continues to be satisfied that the Committee members have the requisite levels of knowledge and understanding relevant to the markets in which the Society operates.

Gary C D Crowe
Chair of Audit Committee
20 December 2021

32 Directors' Remuneration Report

The purpose of this Report is to inform Members about the current policy on the remuneration of Executive and Non-Executive Directors. The Report provides details of the different elements of the Executive Directors' remuneration and explains the process for determining them. The Society has adopted a Remuneration Policy which describes how the Society has complied with the requirements of both the supervisory statements issued by the PRA and the FCA relating to remuneration and the Code. The Board is committed to best practice in corporate governance and will ask Members to vote, on an advisory basis, on the Directors' Remuneration Report at the forthcoming AGM.

The Remuneration Committee

The over-arching purpose of the Committee is to ensure that remuneration policies and the reward structure are in line with the Society's business strategy, risk appetite and long-term objectives. This ensures that effective risk management is a key component of remuneration and incentive structures. The Committee is satisfied that the basis of remuneration is consistent with sound and effective risk management and does not encourage excessive risk taking.

The Committee takes account of the Code, as far as it is relevant and appropriate to an organisation of the Society's size.

The Committee comprises of three Non-Executive Directors with Mary A Kerr as Chair and is responsible for making recommendations to the Board in respect of remuneration for the Chair of the Board, Executive Directors and other members of the Leadership Team. The Chief Executive attends by invitation only and takes no part in the discussion relating to his remuneration. The remuneration of the Chair of the Board is set at a meeting of the Board where the Chair of the Board is not present. The remuneration of all other Non-Executive Directors is set by the Chief Executive and Chair of the Board.

The Committee meets at least annually to consider the remuneration and other terms of service of the Executive Directors and make recommendations to the Board where appropriate.

Executive Directors' Remuneration

The Society's policy is to set remuneration levels which will attract and retain Executive Directors with appropriately high levels of skill and expertise and to reward the achievement of stretching objectives in line with the Society's Corporate Plan. It comprises:

Basic Salary

This takes into account the role and position of individuals including professional experience, responsibilities, complexity of the role and market conditions. Basic salary is reviewed annually and includes external benchmarking against data from within the building society sector.

Incentives

A bonus scheme is determined and recommended to the Board by the Remuneration Committee. This is based on a range of financial and non-financial corporate performance objectives including appropriate risk management objectives. Bonus payments are payable annually and set at a maximum of 20% of contractual gross salary for both the Chief Executive and Deputy Chief Executive and Finance Director.

Pensions

The Society contributes to the personal pension arrangements of its Executive Directors. The Society does not have a Defined Benefit / Final Salary Pension Scheme. The Chief Executive has opted out of the defined contribution pension scheme.

Benefits

Executive Directors receive other benefits as afforded to staff including private medical insurance, death-in-service and income protection. The Society does not provide concessionary home loans to Directors.

Contractual Terms

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

As at 31 October 2021 no notices had been served by any of the parties.

Non-Executive Directors' Remuneration

All Non-Executive Directors are remunerated by fees which are reviewed annually, with periodic external benchmarking against data from within the building society sector. The Chair of the Board, Chair of the Audit Committee, Chair of the Risk Committee and the Chair of the Remuneration Committee also receive additional payments reflecting the additional duties and responsibilities of their roles.

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 are entitled to claim reimbursement of expenses incurred on behalf of the Society.

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

	2021 £'000	2020 £'000
Non-Executive Directors' fees	153.8	148.2
Executive Directors' remuneration	392.5	369.0
	546.3	517.2

Non-Executive Directors

	2021 £'000 Fees	2020 £'000 Fees
Joanne Hindle (Chair) (from 23 March 2021)	23.4	-
Colin C Lloyd (Chairman) (to 24 February 2021)	11.2	31.6
Karen E McCormick (Vice Chair) (to 24 June 2021)	18.2	25.1
James W Dean (Senior Independent Director)	22.6	20.6
Gary C D Crowe	27.3	25.1
David J Grant	27.3	25.1
Mary A Kerr	23.8	13.8
Nicholas H J Sandy (to 26 February 2020)	-	6.9
	153.8	148.2

34 **Executive Directors**

31 October 2021	Salary £'000	Annual Bonus £'000	Pension £'000	Total £'000
Michael R Smith	181.5	29.0	-	210.5
Steven Jones	143.0	22.0	17.0	182.0
	324.5	51.0	17.0	392.5

31 October 2020	Salary £'000	Annual Bonus £'000	Pension £'000	Total £'000
Michael R Smith	172.0	30.9	-	202.9
Steven Jones	133.2	17.6	15.3	166.1
	305.2	48.5	15.3	369.0

Mary A Kerr

Chair of Remuneration Committee
20 December 2021

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Directors' Responsibilities



36 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 for each financial year. Under that law they have elected to prepare the Annual Accounts in accordance with United Kingdom Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice), including FRS102 The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland.

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 United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the Annual Accounts;
- Assess the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use 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.

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

Directors' Responsibilities for Accounting Records and Internal Control

The Directors are responsible for ensuring that the Society:

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

The Directors are responsible for such internal controls as they determine are necessary to enable the preparation of Annual Report and Accounts that are free from material misstatement, whether due to fraud or error, and they have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

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

On behalf of the Board

Joanne Hindle

Chair

20 December 2021



Independent Auditor's Report



Independent auditors' report to the members of The Stafford Railway Building Society

Report on the audit of the annual accounts

Opinion

In our opinion:

- The Stafford Railway Building Society's annual accounts (the "annual accounts") give a true and fair view of the state of the society's affairs as at 31 October 2021 and of the society's income and expenditure and cash flows for the year then ended;
- the annual accounts have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the annual accounts have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the annual accounts, included within the Annual Report (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 October 2021; the Statement of Comprehensive Income, the Cash Flow Statement, and the Statement of Changes in Members' Interest for the year then ended; the accounting policies; and the notes to the annual accounts.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the society in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK, which includes the FRC's Ethical Standard applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the society.

We have provided no non-audit services to the society in the period from 01 November 2020 to 31 October 2021.

39 Our audit approach

Overview

Materiality

- £234,460 (2020: £227,000) - Society annual accounts
 - Based on 1% of net assets
-

Scoping

- This is our second year audit of the society
 - We conducted the audit using a team from Manchester
 - We performed audit procedures over all material account balances
-

Key audit matters

- Incomplete capture of impairment indicators in the allowance for impairment of loans and advances to customers.
-

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the annual accounts. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the annual accounts section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the society/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles such as those governed by the Prudential Regulation Authority, and we considered the extent to which non-compliance might have a material effect on the annual accounts. We also considered those laws and regulations that have a direct impact on the annual accounts such as the Building Societies Act 1986. We evaluated management's incentives and opportunities for fraudulent manipulation of the annual accounts (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries to increase revenue or reduce expenditure and management bias in accounting estimates, Audit procedures performed included:

- Review of correspondence with regulators
- Testing of significant accounting estimates (See key audit matter below)
- Testing of journals entries with unusual account combinations back to corroborating evidence
- Discussions with management in relation to known or suspected incidents of fraud

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the annual accounts of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Covid-19, which was a key audit matter last year, is no longer included because we deem our consideration of this area in the current year to be adequately captured by our other key audit matter and not represent an area of increased audit attention in its own right.

Key audit matters

Incomplete capture of impairment indicators in the allowance for impairment of loans and advances to customers

The Society holds an impairment provision of £198k (2020: £215k) to account for impairment losses on mortgage assets which have been incurred. This is split between a collective impairment provision of £90k (2020: £87k) and individual impairment provision of £108k (2020: 128k.)

The collective impairment provision is calculated using year end data from the mortgage book, combined with assumptions for the portfolio default rate, future collateral values and time to recovery. These are based on management judgement given the limited loss experience of the Society.

The individual impairment provision applies further stressed scenarios to individual accounts where the directors have identified indicators of impairment. This included accounts where the borrower appears to be suffering financial distress for example accounts with a history of arrears or having been offered forbearance arrangements.

The Society has limited experience of loan losses being incurred and therefore assumptions used in the models are subjective to a high degree of judgement. There is a risk of unobserved impairments due to the continuing Covid-19 pandemic and we have determined that this accounting estimate represents a greater area of risk.

The directors' disclosures are given in note 11. Managements' associated accounting policies are given in note 1. Managements' judgements in the application of the accounting policy and critical estimate is disclosed in note 1.10. The Audit Committee's consideration of the matter is described on pages 28 to 29.

How our audit addressed the key audit matter

We discussed the basis of allowance for impairment with management and the Audit Committee, including rationale for the accounts identified within the individual assessed provision.

We tested the data used within the calculations to evidence from underlying customer records. This included obtaining evidence on a sample basis over the charge held by the Society on the mortgaged properties, testing the accuracy of third party independent valuations and recalculating the period end collateral valuations using independently sourced House Price indices.

We confirmed that the provision calculations were mathematically accurate and captured all loan data through reconciliation of the models to the loan book. We read the impairment disclosures given by management and re-performed the disclosed sensitivity analysis.

With regards to the collective provision we understood, evaluated and challenged the appropriateness of the assumptions used by the directors by considering alternative assumptions based on industry data, market forecasts and the actual loss experience of the Society.

We tested the completeness of the individually assessed provision by selecting a sample of loans under forbearance measures or in arrears and ensuring their inclusion within the provision. We tested the completeness of accounts in arrears by sampling customers who had failed to make a mortgage repayment, ensuring this was flagged correctly in the mortgage system. We tested the completeness of further impairment events by sample testing high value loan exposures and reviewing the latest account correspondence.

Based on the procedures we performed and the evidence obtained we conclude that the calculation of the impairment provision is materially complete and accurate, and the overall level of provision held is reasonable.

41 *How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the annual accounts as a whole, taking into account the structure of the society, the accounting processes and controls, and the industry in which it operates.

All of the Society's business takes place in the United Kingdom. The principal activity of the Society is to provide mortgage and savings products to individuals to fund secured lending on residential property. The majority of the Society's mortgage book is secured on UK residential property with a small portion secured on UK commercial property. The Society is a standalone entity and the accounting records are maintained at their office in Stafford.

Audit procedures were performed over all material balances and financial information of the Society by a single audit team from Manchester. The team visited the Stafford office and conducted the audit with a blend of in person and remote working.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the annual accounts as a whole.

Based on our professional judgement, we determined materiality for the annual accounts as a whole as follows:

	<i>Society annual accounts</i>
Overall materiality	£234,460 (2020: £ 277,000)
<i>How we determined it</i>	1% of reserves.
<i>Rationale for benchmark applied</i>	The Society's principal activity is to provide residential mortgage loans financed by retail savings products. The strategy is not one purely of profit maximisation but to provide a secure place for customer savings in a mutual environment. The soundness of the Society is based on its regulatory capital, which is closely aligned to accounting reserves. As such we consider a benchmark based on reserves to be appropriate.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £175,845.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £11,723 (2020: £11,350) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the society's ability to continue to adopt the going concern basis of accounting included:

- We critically assessed the directors' conclusions on their going concern assessment, including any key assumptions used by the directors in their determination of the going concern of the Society;
- We reviewed the impact of management's stress test scenarios and considered the likelihood of successful implementation of management actions to mitigate the impacts. We considered whether the Society would continue to operate above required regulatory capital and liquidity minima during times of stress;

- We challenged the reasonableness of the scenarios used by the directors in their going concern assessment and checked the appropriateness of the assumptions used within their forecasting; and
- Corroborated legal and regulatory correspondence with audit procedures performed to ensure that there are no compliance issues which may impact the going concern of the company.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the society's ability to continue as a going concern for a period of at least twelve months from the date on which the annual accounts are authorised for issue.

In auditing the annual accounts, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the annual accounts is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the society's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the annual accounts and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Annual Business Statement and Directors' Report we also considered whether the disclosures required by the Building Societies Act 1986 have been included.

Building Society Act 1986 – Opinion on Annual Business Statement and Directors' Report

In our opinion, based on our work undertaken in the course of the audit:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the year ended 31 October 2021 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.

Responsibilities for the annual accounts and the audit

Responsibilities of the directors for the annual accounts

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for 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.

In preparing the annual accounts, the directors are responsible for 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 the directors either intend to liquidate the society or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the annual accounts is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Building Societies Act 1986 exception reporting

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 society 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 no exceptions to report arising from this responsibility

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 26 February 2020 to audit the annual accounts for the year ended 31 October 2021 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 October 2020 to 31 October 2021.

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
20 December 2021

Statements



45 Statement of Comprehensive Income

– for the year ended 31 October 2021

	Note	2021 £'000	2020 £'000
Interest receivable and similar income	2	5,373	5,945
Interest payable and similar charges	3	(819)	(1,513)
Net interest income		4,554	4,432
Fees and commissions receivable		8	4
Fees and commissions payable		(25)	(27)
Other operating income		23	20
Total net income		4,560	4,429
Administrative expenses	4	(3,274)	(3,245)
Depreciation	12	(125)	(130)
Operating profit before impairment losses and provisions		1,161	1,054
Impairment movement on loans and advances	11	17	-
Profit before tax		1,178	1,054
Tax expense	7	(236)	(209)
Profit for the financial year		942	845
Other comprehensive (expense) / income			
(Loss) / Gain in fair value	9	(51)	17
Taxation on other comprehensive (expense) / income		10	(3)
Total comprehensive income for the year		901	859

Profit for the financial year arises from continuing operations. Both the profit for the financial year and other comprehensive (expense) / income for the year are attributable to the Members of the Society.

The notes on pages 50 to 75 form an integral part of these Annual Report and Accounts.

46 Statement of Financial Position

– at 31 October 2021

	Note	2021 £'000	2020 £'000
Assets			
Liquid assets			
Cash in hand		90	55
Loans and advances to credit institutions	8	77,493	56,741
Debt securities	9	18,885	13,932
Loans and advances to customers	10	202,093	197,695
Tangible fixed assets	12	670	759
Other debtors	13	168	130
Total assets		299,399	269,312
Liabilities			
Shares	14	261,285	233,354
Amounts owed to other customers	15	13,696	12,553
Other liabilities	16	241	202
Accruals and deferred income		487	399
Deferred tax liability	17	34	49
Total liabilities		275,743	246,557
Reserves			
General reserve		23,684	22,742
Available-for-sale reserve		(28)	13
Total reserves attributable to Members of the Society		23,656	22,755
Total reserves and liabilities		299,399	269,312

These Accounts were approved by the Board of Directors on 20 December 2021 and signed on its behalf:

Joanne Hindle
Chair

Michael R Smith
Chief Executive

Steven Jones
Deputy Chief Executive
and Finance Director

The notes on pages 50 to 75 form an integral part of these Annual Report and Accounts.

47 Statement of Changes in Members' Interests

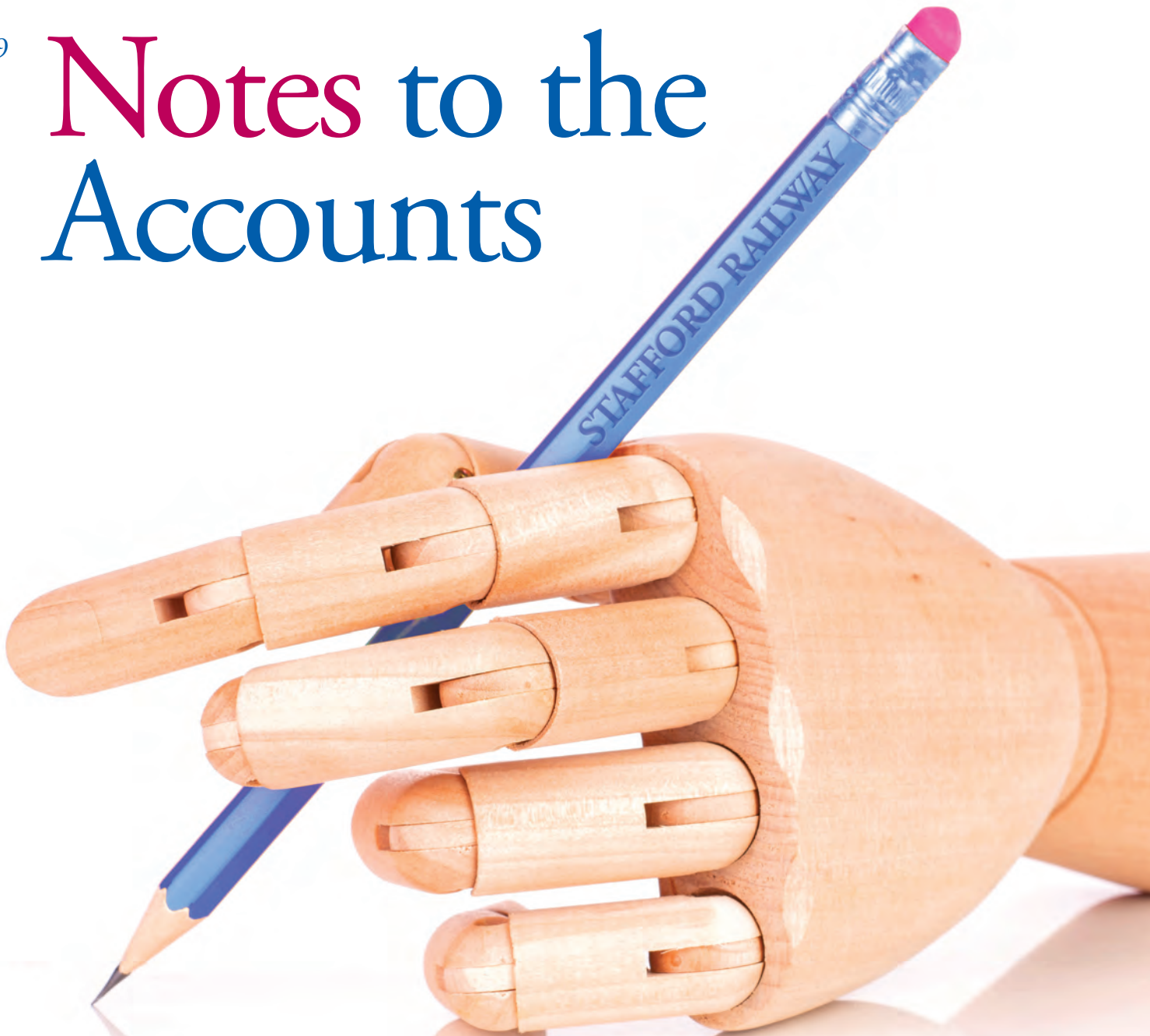
	General reserve	Available -for-sale reserve	Total	General reserve	Available -for-sale reserve	Total
	2021 £'000	2021 £'000	2021 £'000	2020 £'000	2020 £'000	2020 £'000
Balance at the beginning of the year	22,742	13	22,755	21,897	(1)	21,896
Total comprehensive income for the year						
Profit for the financial year	942	-	942	845	-	845
Other comprehensive (expense) / income:						
(Loss) / Gain in fair value	-	(51)	(51)	-	17	17
Taxation on other comprehensive (expense) / income	-	10	10	-	(3)	(3)
Total comprehensive income for the year	942	(41)	901	845	14	859
Balance at the end of the year	23,684	(28)	23,656	22,742	13	22,755

Cash Flow Statement

For the year ended 31 October 2021

	2021 £'000	2020 £'000	
Cash flows from operating activities			
Profit before tax	1,178	1,054	
Adjustments for			
Depreciation	125	130	
(Decrease) in impairment of loans and advances	(17)	-	
Movement in premium and accrued interest on debt securities	47	(82)	
Total	1,333	1,102	
Changes in operating assets and liabilities			
(Increase) in prepayments, accrued income and other assets	(38)	(6)	
Increase in accruals, deferred income and other liabilities	88	38	
(Increase) in loans and advances to customers	(4,381)	(10,086)	
Increase in shares	27,931	8,653	
Increase in amounts owed to other credit institutions and other customers	1,143	132	
Taxation paid	(202)	(196)	
Net cash generated from / (used in) operating activities	25,874	(363)	
Cash flows from investing activities			
Purchase of debt securities	(32,943)	(20,415)	
Maturity of debt securities	27,892	30,235	
Purchase of tangible fixed assets	(36)	(34)	
Net cash (used in) / generated from investing activities	(5,087)	9,786	
Net Increase in cash and cash equivalents	20,787	9,423	
Cash and cash equivalents at the beginning of the year	56,796	47,373	
Cash and cash equivalents at the end of the year	77,583	56,796	
Reconciliation of Net Debt			
	2020 £'000	Cash Flow £'000	2021 £'000
Cash and cash equivalents	56,796	20,787	77,583
Shares and amounts owed to other customers	(245,907)	(29,074)	(274,981)
Net Debt	(189,111)	(8,287)	(197,398)

Notes to the Accounts



1. Accounting policies

Stafford Railway Building Society (the 'Society') has prepared these Society Annual Report and Accounts in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102, The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS 102'). The Society has also chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the European Union).

The Society prepares detailed forecasts ('the Corporate Plan') for the five years following the year ended in these Annual Report and Accounts. The forecasts reflect the uncertain economic environment, specifically with reference to Covid-19 and Brexit. Furthermore, the Society models the impact of severe but plausible scenarios on capital and liquidity through robust stress testing and analysis of changes on key sensitivities. The Board is satisfied that based on empirical evidence, and current market data, the severe but plausible stress scenarios are in fact more severe than that previously or currently experienced by the Society, particularly in reference to Covid-19 and / or Brexit and the Financial Crisis of 2007 / 2008.

These severe but plausible stresses are established and defined in detail during the annual ICAAP and ILAAP, in line with PRA requirements. Considerations are given to a range of factors, including but not limited to HPI fluctuations, changes in customer propensity of default, unemployment, interest rate changes and circumstances that may give rise to funding outflows either on an idiosyncratic level or sector wide.

The Society maintains a surplus over regulatory limits for both capital and liquidity throughout the stresses. The Board, therefore, are satisfied that the Society has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of these Annual Report and Accounts. Accordingly they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Annual Report and Accounts.

Judgements made by the Directors, in the application of these accounting policies that have a significant effect on the Annual Report and 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 Report and Accounts are prepared on a going concern basis under the historical convention 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.

The presentation currency of these Annual Report and Accounts is sterling. All amounts in the Annual Report and Accounts have been rounded to the nearest £1,000. There are no foreign currency transactions.

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 paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

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

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

51 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 at fair value. All other financial instruments are recognised on the trade date, which is the date on which the Society becomes a party to the contractual provisions of the instrument.

Classification

Financial assets

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

- *Loans and receivables*

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

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

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

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

- *Available-for-sale*

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

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

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

- **Financial liabilities**

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

Derecognition

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

Measurement

Amortised cost measurement

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

Identification and measurement of impairment

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

Objective evidence that financial assets are impaired includes:

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

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

In assessing collective impairment, the Society uses benchmarking to external factors given our limited loss experience for 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.

53 Forbearance strategies and renegotiated loans

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

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

Members requesting a forbearance option will need to provide information to support the request which is likely to include a budget planner, statement of assets and liabilities, bank/credit card statements, payslips etc. in order that the request can be properly assessed. If the forbearance request is granted the account is monitored in accordance with our policy and procedures. At the appropriate time the forbearance option that has been implemented is cancelled, with the exception of capitalisation of arrears, and the customer's normal contractual payment is restored.

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

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

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

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

1.6 Cash and cash equivalents

For the purposes of the Cash Flow Statement, cash comprises cash in hand and unrestricted loans and advances to credit institutions repayable on demand.

Cash equivalents comprise highly liquid unrestricted investments that are readily convertible into cash with an insignificant risk of changes in value with original maturities of less than three months. The Cash Flow Statement has been prepared using the indirect method.

1.7 Tangible fixed assets

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

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

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

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

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

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

54 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 Judgements and estimation uncertainties

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

Loan impairment

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

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

The average probability of default used in the collective impairment model is 5.50%. A 2.5% increase in the outcome of probability of default would result in an increase in the collective impairment provision of £9,440 (2020: £27,000). A more aggressive stress based on a 5% increase would result in an increase of £18,881 (2020: £54,000).

The forced sale discount used in the collective impairment model is in a range of 25% to 40% based on the key mortgage segment. A 5% increase in the forced sale discount would result in an increase in the collective impairment provision of £49,388 (2020: £122,000). Conversely a 5% decrease would result in a decrease in the collective impairment provision of £27,519 (2020: £53,000).

The realisation period used in the provision varied between 18 months to 24 months dependent on the type of lending / market segment. A 6 month increase in the realisation period would result in an increase in the collective impairment provision of £7,973 (2020: £12,000).

Effective interest rate ('EIR')

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

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

A 3 month increase in the life profile of mortgage assets would result in an increase in the value of loans on the Statement of Financial Position by approximately £21,497 (2020: £17,938).

2. Interest receivable and similar income

	2021 £'000	2020 £'000
On loans fully secured on residential property	5,229	5,561
On other loans	23	77
On debt securities and other liquid assets	121	307
	5,373	5,945

There was no interest income (2020: none) in respect of interest income accrued on impaired loans two or more months in arrears.

3. Interest payable and similar charges

	2021 £'000	2020 £'000
On shares held by individuals	806	1,483
On deposits and other borrowings	13	30
	819	1,513

4. Administrative expenses

	2021 £'000	2020 £'000
Wages and salaries	1,689	1,682
Social security costs	176	166
Contributions to defined contribution plans	113	108
	1,978	1,956
Other administrative expenses	1,296	1,289
	3,274	3,245

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

	2021 £'000	2020 £'000
For audit work	91	103
	91	103

5. Employee numbers

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

	2021	2020
Full time	28	24
Part time	10	13
	38	37

As at 31 October 2021 the Society employed a total of 38 staff (full time 28 and part time 10) (2020: 35 staff (full time 24 and part time 11)). The analysis excludes the Society's Non-Executive Directors.

6. Directors' remunerations

Total remuneration of the Society's Directors for the year was £546,299 (2020: £517,183). Full details are given in the tables within the Directors' Remuneration Report on pages 32 to 34.

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

7. Tax expense

Total tax expense recognised in the profit and loss account, other comprehensive (expense) / income and equity.

Analysis of tax charge in the year	2021 £'000	2020 £'000
<i>Current tax</i>		
United Kingdom corporation tax on income for the period	241	202
	241	202
<i>Deferred tax (see note 17)</i>		
Origination and reversal of timing differences	(5)	7
Total deferred tax	(5)	7
Total tax	236	209

Factors affecting the current tax charge in the year:	2021 £'000	2020 £'000
Profit on ordinary activities before tax	1,178	1,054
Tax on profit on ordinary activities before tax at United Kingdom standard rate of 19% (2020: 19%)	224	200
Expenses not deductible for tax purposes	2	4
Effect of changes in tax rates	10	5
Current tax charge for the year	236	209

The current tax charge for the year is at the standard rate of corporation tax in the United Kingdom which is 19%. Deferred tax has been measured based on a future effective rate of 25%.

8. Loans and advances to credit institutions

	2021 £'000	2020 £'000
Repayable on demand	77,493	56,741
Total loans and advances to credit institutions	77,493	56,741
Total loans and advances to credit institutions	77,493	56,741
Cash	90	55
Total cash and cash equivalents	77,583	56,796

58 **9. Debt securities**

	2021 £'000	2020 £'000
Debt securities have remaining maturities as follows:		
In not more than one year	17,871	13,932
In more than one year	1,014	-
	18,885	13,932
Transferable debt securities comprise:		
Listed on a recognised investment exchange	18,885	13,932
Unlisted	-	-
	18,885	13,932
Movements in debt securities during the year are summarised as follows:		
At the beginning of the year	13,932	23,653
Additions	32,943	20,415
Disposals and maturities	(27,892)	(30,235)
Movement in premium and accrued interest	(47)	82
(Loss) / Gain in fair value recognised as other comprehensive income	(51)	17
At the end of the year	18,885	13,932

10. Loans and advances to customers

	2021 £'000	2020 £'000
Loans fully secured on residential property	201,641	196,193
Loans fully secured on land	452	1,502
	202,093	197,695
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
On call and at short notice	191	134
In not more than three months	71	171
In more than three months but not more than one year	377	422
In more than one year but not more than five years	10,660	10,296
In more than five years	190,992	186,887
	202,291	197,910
Less: allowance for impairment (note 11)	(198)	(215)
	202,093	197,695

The maturity analysis above is based on contractual maturity.

11. Impairment Losses on Loans and Advances

	Loans fully secured on residential property £'000
Individual provision at 1 November 2020	
Individual impairment	128
Collective impairment	87
	215
Utilised in the year	
Individual impairment	-
	-
Charge/(credit) for the year	
Individual impairment	(20)
Collective impairment	3
	(17)
At 31 October 2021	
Individual impairment	108
Collective impairment	90
	198
	Loans fully secured on residential property £'000
Individual provision at 1 November 2019	
Individual impairment	38
Collective impairment	177
	215
Utilised in the year	
Individual impairment	-
	-
Charge/(credit) for the year	
Individual impairment	90
Collective impairment	(90)
	-
At 31 October 2020	
Individual impairment	128
Collective impairment	87
	215

12. Tangible fixed assets

	Freehold Land and Buildings £'000	Computer Equipment £'000	Office Equipment /Fixtures & Fittings £'000	Total £'000
Cost				
Balance at 1 November 2020	643	220	848	1,711
Additions	-	14	22	36
Disposals	-	(8)	-	(8)
Balance at 31 October 2021	643	226	870	1,739
Depreciation				
Balance at 1 November 2020	284	160	508	952
Depreciation charge for the year	15	44	66	125
Disposals	-	(8)	-	(8)
Balance at 31 October 2021	299	196	574	1,069
Net book value				
At 31 October 2020	359	60	340	759
At 31 October 2021	344	30	296	670

Land and buildings

	2021 £'000	2020 £'000
The net book value of land and buildings comprises:		
Freehold	344	359
Net book value of land and buildings occupied for own use	344	359

13. Other debtors

	2021 £'000	2020 £'000
Prepayments and accrued income	168	130
	168	130

14. Shares

	2021 £'000	2020 £'000
Held by individuals	261,285	233,354
Shares are repayable with remaining maturities from the balance sheet date as follows:		
Repayable on demand	223,213	214,166
In not more than 3 months	38,072	19,188
	261,285	233,354

61 **15. Amounts owed to other customers**

	2021 £'000	2020 £'000
Repayable on demand	13,696	12,553
	13,696	12,553

16. Other liabilities

	2021 £'000	2020 £'000
Corporation tax	241	202
	241	202

17. Deferred tax liability

	Assets 2021 £'000	Assets 2020 £'000	Liabilities 2021 £'000	Liabilities 2020 £'000	Net 2021 £'000	Net 2020 £'000
Excess of capital allowances over depreciation	-	-	54	53	54	53
Effective Interest Rate transitional adjustment	-	-	10	9	10	9
Collective impairment allowance	(23)	(16)	-	-	(23)	(16)
Taxation on other comprehensive (expense) / income	(7)	-	-	3	(7)	3
Deferred tax (assets) / liabilities	(30)	(16)	64	65	34	49

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 2022. The Corporation Tax impact of the Effective Interest Rate transitional adjustment is spread over ten years and so deferred tax has been recognised accordingly.

18. 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 £113,190 (2020: £107,393). There were no accrued contributions as at 31 October 2021 (2020: none).

19. Financial instruments

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

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

ALCO reviews treasury and balance sheet risk related activities and the Product Development Committee examines market movements to discern changes required to the Society's product range.

Key performance indicators in the form of a Dashboard, are provided to the Board on a monthly basis and summary information is reviewed on a weekly basis by Management. Financial assets and liabilities are measured on an on-going basis either at fair value or at amortised cost. Note 1.5 'Financial instruments' describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following tables analyse the Society's assets and liabilities by financial classification:

Carrying values by category 31 October 2021	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	90	-	-	-	90
Loans and advances to credit institutions	77,493	-	-	-	77,493
Debt securities	-	-	-	18,885	18,885
Loans and advances to customers	202,093	-	-	-	202,093
Total financial assets	279,676	-	-	18,885	298,561
Non-financial assets	-	-	838	-	838
Total assets	279,676	-	838	18,885	299,399
Financial liabilities					
Shares	-	261,285	-	-	261,285
Amounts owed to other customers	-	13,696	-	-	13,696
Total financial liabilities	-	274,981	-	-	274,981
Non-financial liabilities	-	-	762	-	762
Total liabilities	-	274,981	762	-	275,743
General and other reserves					23,656
Total reserves and liabilities					299,399

Carrying values by category 31 October 2020	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	55	-	-	-	55
Loans and advances to credit institutions	56,741	-	-	-	56,741
Debt securities	-	-	-	13,932	13,932
Loans and advances to customers	197,695	-	-	-	197,695
Total financial assets	254,491	-	-	13,932	268,423
Non-financial assets	-	-	889	-	889
Total assets	254,491	-	889	13,932	269,312
Financial liabilities					
Shares	-	233,354	-	-	233,354
Amounts owed to other customers	-	12,553	-	-	12,553
Total financial liabilities	-	245,907	-	-	245,907
Non-financial liabilities	-	-	650	-	650
Total liabilities	-	245,907	650	-	246,557
General and other reserves					22,755
Total reserves and liabilities					269,312

65 Valuation of financial instruments carried at fair value

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

Valuation techniques

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

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

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

31 October 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Available for sale				
Debt securities	18,885	-	-	18,885
31 October 2020				
Financial assets				
Available for sale				
Debt securities	13,932	-	-	13,932

Valuation techniques

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

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

66 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:

	2021 £'000	2020 £'000
Loans and advances to credit institutions	77,493	56,741
Debt securities	18,885	13,932
Loans and advances to customers	202,093	197,695
Total statement of financial position exposure	298,471	268,368
Off-balance sheet exposure – mortgage commitments	11,847	8,808
	310,318	277,176

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

Loans and advances to credit institutions and debt securities

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 ALCO.

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

	2021 £'000	2021 %	2020 £'000	2020 %
Industry sector				
Banks	21,707	22.5	19,330	27.3
Bank of England	72,134	74.8	51,398	72.7
Building Societies	2,627	2.7	-	-
Total	96,468	100.0	70,728	100.0

	2021 £'000	AA- %	A+ %	A %	A- %	2020 £'000
Geographic region						
United Kingdom	96,468	74.78	17.32	5.18	2.72	70,728

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 liquid assets at 31 October 2021 (2020: none).

Loans and advances to customers

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

The Board's Risk Appetite is based on:

1. The maximum proportion of the total mortgage portfolio that certain loans types can represent;
2. Loan-to-value ('LTV') ratios; and
3. The arrears level.

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

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

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

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

	2021 £'000	2021 %	2020 £'000	2020 %
Industry sector				
Residential mortgages				
Owner occupied	164,738	81.4	157,908	79.8
Buy-to-let	36,027	17.8	38,041	19.2
Commercial mortgages	1,526	0.8	1,961	1.0
Total Gross Mortgages	202,291	100.0	197,910	100.0

The Society operates throughout England and Wales.

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

	2021 £'000	2021 %	2020 £'000	2020 %
Stafford ST16-ST18	27,458	13.6	29,312	14.8
Rest of Staffordshire	25,928	12.8	27,214	13.8
Rest of United Kingdom	148,905	73.6	141,384	71.4
Total Gross Mortgages	202,291	100.0	197,910	100.0

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of the 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.

	2021 £'000	2021 %	2020 £'000	2020 %
LTV ratio				
Less than 50%	124,931	61.8	112,691	56.9
51 – 70%	63,596	31.4	70,898	35.8
71 – 90%	13,764	6.8	14,178	7.2
91 – 100%	-	-	143	0.1
Total Gross Mortgages	202,291	100.0	197,910	100.0
Average Loan To Value	31.3%		32.7%	

69 Credit risk

Credit quality analysis of loans and advances to customers

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

	Loans fully secured on residential property	2021 Loans fully secured on land	Total loans	Loans fully secured on residential property	2020 Loans fully secured on land	Total loans
	£'000	£'000	£'000	£'000	£'000	£'000
Neither past due nor impaired	199,797	382	200,179	193,629	1,431	195,060
Past due but not impaired						
0 – 60 days	1,330	70	1,400	1,724	-	1,724
60 – 90 days	-	-	-	-	-	-
90 – 180 days	226	-	226	97	71	168
180 days+	32	-	32	134	-	134
	1,588	70	1,658	1,955	71	2,026
Individually impaired						
0 – 60 days	454	-	454	824	-	824
	454	-	454	824	-	824
Total gross mortgages	201,839	452	202,291	196,408	1,502	197,910
Allowance for impairment						
Individual	(108)	-	(108)	(128)	-	(128)
Collective	(90)	-	(90)	(87)	-	(87)
Total allowance for impairment	(198)	-	(198)	(215)	-	(215)

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

The status 'past due but not impaired' includes any asset where a payment due is received late or missed but no individual provision has been allocated. The amount included is the entire loan amount rather than just the overdue amount. The status also includes cases in forbearance measures, which as at 31 October 2021 totalled £0.78m (2020: £3.03m).

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

Forbearance

The Society has various forbearance options to support Members who may find themselves in financial difficulty. These include payment plans, capitalisations, term extensions, temporary transfer to interest only and reduced payment concessions. All forbearance arrangements are formally discussed with the Member and reviewed prior to acceptance of the forbearance arrangement. By offering Members in financial difficulty the option of forbearance the Society potentially exposes itself to an increased level of risk through prolonging the period of non-contractual payment and/or potentially placing the Member into a detrimental position at the end of the forbearance period.

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

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

	2021 £'000	2020 £'000
Payment plan	183	329
Transfers to interest only	598	2,697
	781	3,026

These represent a total of 8 accounts in forbearance at 31 October 2021 (2020: 28). These accounts are shown above as impaired.

Four individual impairments in respect of cases in forbearance have been recognised (2020: 3).

Liquidity risk

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

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

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

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

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

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

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

Stress tests are performed monthly and reported to ALCO to confirm that the Policy remains appropriate. The Society's liquid resources comprise high quality liquid assets, which consists of the Bank of England Reserve Account and can include Gilts and Treasury Bills. As at 31 October 2021 the ratio of liquid assets to shares and amounts owed to other customers was 35.08% compared to 28.76% at 31 October 2020.

The Society maintains a Contingency Funding Plan (integrated within the RP) 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.

72 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 2021	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	223,213	38,115	-	-	-	261,328
Amounts owed to other customers	13,696	-	-	-	-	13,696
	236,909	38,115	-	-	-	275,024
Other liabilities	-	521	241	-	-	762
Total financial liabilities	236,909	38,636	241	-	-	275,786

31 October 2020	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	214,166	19,205	-	-	-	233,371
Amounts owed to other customers	12,553	-	-	-	-	12,553
	226,719	19,205	-	-	-	245,924
Other liabilities	-	448	202	-	-	650
Total financial liabilities	226,719	19,653	202	-	-	246,574

73 Market risk

Market risk is the risk that the value of, or income arising from, the Society's assets and liabilities changes as a result of changes in market prices, the principal elements being interest rate risk, foreign currency risk and equity risk.

The Society only deals with products in sterling so is not directly affected by currency risk. The Society's products are also only interest orientated products so are not exposed to other pricing risks.

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

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

	100bp parallel increase £'000	100bp parallel decrease £'000	50bp increase after 1 year £'000	50bp decrease after 1 year £'000
Sensitivity of projected net interest income				
At 31 October 2021				
Average for the period	363	121	242	242
Maximum for the period	372	122	246	246
Minimum for the period	354	120	238	238
At 31 October 2020				
Average for the period	206	69	137	137
Maximum for the period	211	69	139	139
Minimum for the period	201	68	135	135

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

74 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 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 Total Capital Requirements.

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

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

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

The Society's capital requirements are set and monitored by the PRA. During 2021 the Society has continued to comply with the European Union 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); and
- **Tier 2 capital:** which includes collective impairment provision.

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

There were no reported breaches of capital requirements during the year. There have been no material changes in the Society's management of capital during the year. The Society's regulatory position as at 31 October 2021 under the Standardised Approach (unaudited) was as follows:

	2021 £'000	2020 £'000
Tier 1 Capital		
General reserves	23,656	22,755
Tier 2 Capital		
Collective provision	90	87
Total Regulatory Capital	23,746	22,842

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

20. Commitments

There were no contractual commitments to purchase tangible fixed assets at the year-end (2020: none) for the Society.

21. Related parties

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

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

At 31 October 2021 there were no outstanding mortgage loans granted in the ordinary course of business (2020: one Director in aggregate to £142,274).

Directors' and connected parties hold savings balances with the Society; all accounts have the same terms and conditions as available to Members of the Society. The savings balances are not detailed in the register unlike loans and transactions above, due to their sensitive nature. The aggregate amount of all savings balances at 31 October 2021 was £103,896 (2020: £113,641).

22. 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. However, both the Society and the Directors will continually monitor the ongoing developments regarding the Covid-19 pandemic, in particular the consequences of new variants, the results of the vaccine and adapt strategy accordingly.

Country-by-Country Reporting

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

As a mutual organisation, the Society's primary focus is 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 2021

The Society's Annual Report and Accounts report:

- Total operating income was £4.56m (2020: £4.43m). Total operating income is defined as net interest income plus fees and commissions receivable (net of fees and commissions payable);
- Profit before tax was £1.18m (2020: £1.05m) all of which arising from United Kingdom based activity;
- The average number of Society full time equivalent employees was 33 (2020: 33) all of which were employed in the United Kingdom;
- Corporation tax of £0.20m was paid in the year and is all within the United Kingdom tax jurisdiction; and.
- No public subsidies were received in the year.

Note 1 to the 2021 Annual Report and Accounts details the basis of preparation relating to going concern and accounting policies.

Independent auditors' report to the directors of The Stafford Railway Building Society

Report on the audit of the country-by-country information

Opinion

In our opinion, The Stafford Railway Building Society's country-by-country information for the year ended 31 October 2021 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 October 2021 in the Country-by-Country Report.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the society in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to the basis of preparation note of the country-by-country information which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the society's ability to continue as a going concern for a period of at least twelve months from the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the society's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Responsibilities for the country-by-country information and the audit

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this country-by-country information.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the society/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles such as those governed by the Prudential Regulation Authority, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries to increase revenue or reduce expenditure and management bias in accounting estimates. Audit procedures performed included:

- Review of correspondence with regulators
- Testing of significant accounting estimates (See key audit matter below)
- Testing of journals entries with unusual account combinations back to corroborating evidence
- Discussions with management in relation to known or suspected incidents of fraud

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

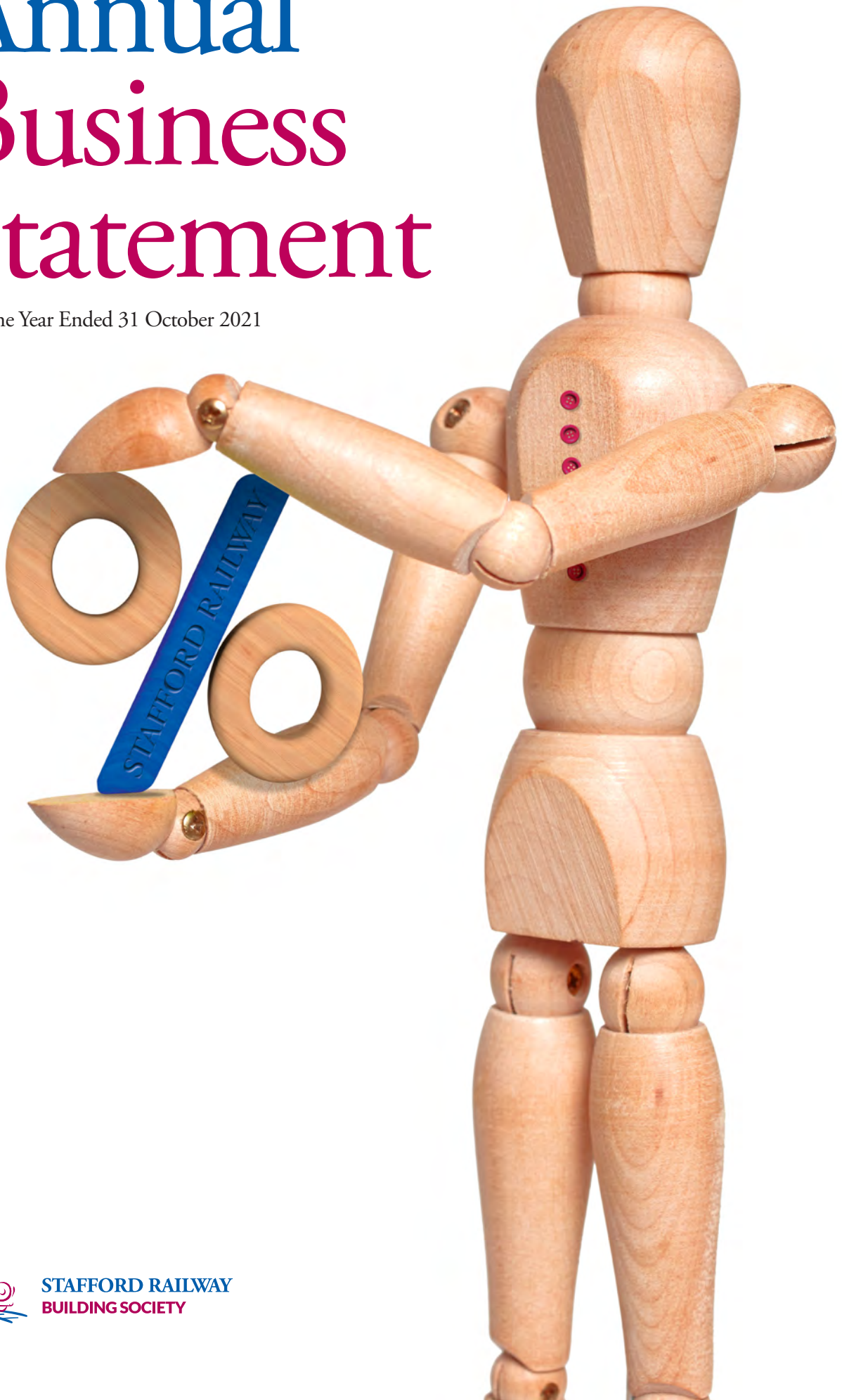
Use of this report

This report, including the opinion, has been prepared for and only for the society's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
20 December 2021

Annual Business Statement

For The Year Ended 31 October 2021



79 Annual Business Statement

– for the year ended 31 October 2021

1. Statutory Percentages

	31 Oct 2021 %	Statutory Limit
Proportion of business assets not in the form of loans fully secured on residential property (the 'Lending limit')	0.31	25
Proportion of shares and deposits not in the form of shares held by individuals (the 'Funding limit')	4.98	50

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, sections 6 and 7 of the Building Societies Act 1986 as amended by the Building Societies Act 1997.

Business assets are the total assets of the Society as shown in the balance sheet plus collective loan loss impairment less fixed assets and liquid assets.

Loans fully secured on residential property are the amount of the principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the balance sheet plus collective loan loss impairment.

2. Other Percentages

	31 Oct 2021 %	31 Oct 2020 %
Gross capital as a percentage of share and deposit liabilities	8.60	9.25
Free capital as a percentage of share and deposit liabilities	8.39	8.98
Liquid assets as a percentage of share and deposit liabilities	35.08	28.76
Cost / income ratio represents the aggregate of administration expenses and depreciation expressed as a percentage of total income less other operating charges	74.54	76.20
As a percentage of mean assets		
Profit for the financial year	0.33	0.32
Management expenses	1.20	1.28

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.

3. Information relating to the Directors at 31 October 2021

Name	Occupation and Date of Appointment	Other Directorships
Joanne Hindle Chair	Non-Executive Director 24.03.21	Shepherds Friendly Society Bank of London and Middle East La Serenissima
James W Dean Senior Independent Director	Chartered Accountant 20.08.12	Notemega Limited Seale Hill Management Company Ltd Rathbone Brothers PLC Rathbone Investment Management Ltd School Governor (Reigate Grammar School – limited by guarantee) RJ Young Properties (Stafford) Ltd Inigo Ltd Inigo Managing Agent Ltd
Gary C D Crowe	Management Consultant 20.07.15	University Hospitals of North Midlands NHS Trust The Dudley Group of Hospitals NHS Foundation Trust
David J Grant	Company Director and Consultant 22.05.17	BLAKK Limited The Independent Order of Oddfellows – Manchester Unity Friendly Society Stonebridge Mortgage Solutions Ltd
Mary A Kerr	Non-Executive Director 24.03.20	Lawes Property Trust
Michael R Smith	Chief Executive 09.10.17	-
Steven Jones	Deputy Chief Executive and Finance Director 06.06.18	Newcastle and Stafford Colleges Group

Documents may be served on the above Directors c/o PwC LLP, No.1 Spinningfields, 1 Hardman Square, Manchester M3 3EB.

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

Name	Occupation	Directorships
C.J.Bennett BA (Hons), FMAAT	Head of Accounts	-
S.A.Brundrett CeMap	Head of Mortgage Service and Underwriting	-
V.Cartwright BA (Hons), MCIBS	Head of Branch	-
M.N.Davies BA (Hons), FCCA, AMCT	Head of Risk	-
R.Dulson BA (Hons), CeMap, Assoc. CIPD	Head of Operations and Human Resources	-
H.M.Hamilton	Head of Information Technology	-
R.I.Hassall BSc (Hons), CeMap	Head of Product Strategy and Communications	Shavington Academy
L.E.Lawton BA (Hons), CeMap	Head of Mortgage Sales	-
A.B. Morrey CeMap, FPC2	Head of Compliance	-

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



**STAFFORD RAILWAY
BUILDING SOCIETY**

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

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