31 October 2016

Annual Report & Accounts

STAFFORD RAILWAY
BUILDING SOCIETY

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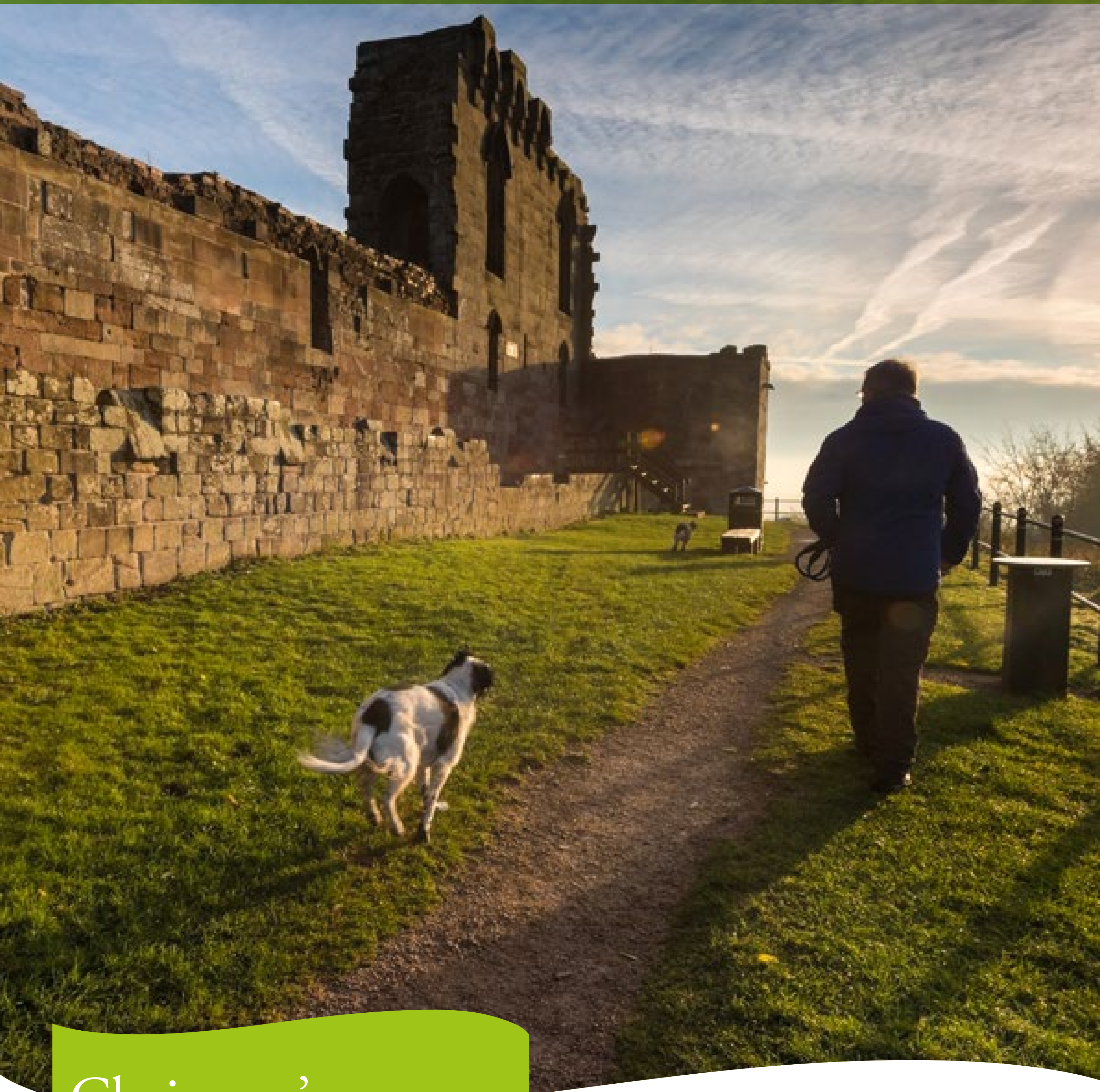


Chairman's Statement

"The referendum on Britain's membership of the European Union and the changes in political leaders on both sides of the Atlantic remind us not only that change is inevitable, but also that the future is unpredictable."

Chairman's Statement

In a year as eventful as 2016, it has been more important than ever for the Stafford Railway Building Society to hold true to its core values, and to continue to provide the services that its members need, whatever the economic or political climate. Those values are simplicity, service and security, and the way we adhere to them is explained more fully in our Strategic Report within this document.

The referendum on Britain's membership of the European Union and the changes in political leaders on both sides of the Atlantic remind us not only that change is inevitable, but also that the future is unpredictable. Nevertheless, every day the Society's members demonstrate two enduring characteristics; a desire to own their own homes and a readiness to save for the things they really want in life. These are the purposes for which the Society was established almost 140 years ago, and we anticipate that they will remain at the heart of the Society's activities and objectives for many years to come.

As a mutual organisation, the Society has no shareholders and therefore any surpluses it makes can and should be used for the benefit of its members, those who save with us and borrow from us. Few anticipated that over the last year interest rates would fall even lower, with the Bank of England cutting its base rate to 0.25% in August. In this difficult environment your Board of Directors at the Society take great care to ensure fairness is achieved between the needs of all our members, borrowers and savers, whilst maintaining a prudent level of reserves to ensure the ongoing stability of the Society.

Turning to the Board of Directors, the Society follows best practice in Corporate Governance in a way that is proportionate and appropriate for a Building Society. One aspect of this is to regularly refresh the composition of the Board's Non-Executive Directors to ensure ongoing independence and to update skills and experience. At the last Annual General Meeting our members elected Mrs Karen McCormick and Mr Gary Crowe to the Board as Non-Executives, and I am delighted with the contribution that they make. However, at this point I would like to pay tribute to all my fellow Board members, not least Mr Brett Phillips who resigned during the year due to external commitments. In his role on the Board including as Chair of the Audit Committee, he provided the Society with excellent service.

The Society has also recently announced the commencement of a process of succession planning for our current Chief Executive and Finance Director which will take place over the next 18 months. We are very grateful for the contribution that Susan and Jeremy make, and we are committed to working together to ensure a smooth transition to their successors.

Finally, on behalf of the Society's Board and staff, I would like to thank all our members for their continued support.

James W Dean
Chairman

Reports

"We continue to operate the same personal approach to our mortgage lending that ensures that borrowers enter into the mortgage that is right for them."

Chief Executive's Report

I'm pleased to present a strong set of results for the Society in a year that has certainly seen its share of challenges.

Business overview

Quite apart from changes in the political landscape, at the start of the year few predicted a reduction in the Bank of England's base rate to 0.25% from its already record low position. Another measure announced at the same time as the base rate cut, the Term Funding Scheme, will also contribute to dampening down interest rates, regardless of whether or not this Society participates in it. The Term Funding Scheme offers lenders access to low cost funding to encourage them to reduce the interest rates they charge on loans to households and businesses.

Consequently, it has been necessary to make further gradual reductions in the rates paid to savers over the year. Last year we took a view that we would restrict access to some of our accounts in preference to reducing rates further, acknowledging the loyalty of those who were already members. From a review of the market it is clear that others are taking a similar view, with longer standing members benefitting from better rates than new applicants in a reversal of a practice that was the cause of some complaint just a few years ago. During this year, we had to increase restrictions on access to our savings accounts, but the demand for them is a hugely positive sign that what we offer has enduring appeal and is right for our members.

It was also necessary to reflect changes in the mortgage market by reducing our already low Standard Variable Rate (SVR), which applies to the majority of our residential mortgages. However, perhaps the most significant development of the year was the introduction of a small range of mortgages that offered borrowers purchasing a home discounts off the SVR in exchange for a tie-in for three years. In designing these products care was taken to retain the features of simplicity and fairness to members that characterise the original mortgage product used so successfully by our members over many years. And, of course, we continue to operate the same personal approach to our mortgage lending that ensures that borrowers enter into the mortgage that is right for them.

With these challenges, the Society's Board planned for only steady growth and a lower but satisfactory level of profits for the year to 31 October 2016. This was acceptable given that the Society's capital ratios, more fully explained in the Pillar 3 ICAAP document on our website, are more than adequate for the type of activities that we undertake. This meant that it was not necessary to aim to achieve profits that were high in relation to our growth. The Board's targets were achieved, with growth in total assets of 2.32% and profit before tax of £1.37million.

Systems and resilience

The Society is part way through a comprehensive strategy to improve its IT systems, covering those that relate to members' accounts, products and services as well as internal systems. The result will be improved resilience, that is, resistance to system failure or damage, from whatever cause, and improved flexibility and efficiency in responding to business needs such as product changes or new products. Ultimately, these changes will benefit members as we are better able to respond to feedback and safeguard their assets and data. As we have seen from the media, the largest organisations can fall prey to attacks on their systems and we are not complacent in this respect. The bulk of the cost of this work will be incurred in the next financial year, but is fully costed out and affordable within that year's planned expenses.

The Senior Managers Regime

In the past year, the Society completed all its responsibilities under the Senior Managers Regime, the new supervisory approach from the Prudential Regulation Authority ('PRA') and new conduct rules introduced by the Financial Conduct Authority. These new measures apply to all UK banks and building societies and give additional protection to stakeholders by, amongst other requirements, ensuring that institutions clearly assign key responsibilities to individual Directors and managers, underlining their personal responsibility for the security and safety of the Society. Whilst this Regime was born out of the banking crisis and the perceived evasion of accountability by some senior figures in banking, the Society has approached the necessary changes to policy and procedure with diligence and commitment. I do consider however that the impulse behind these measures, that is accountability and responsibility for one's actions and good conduct, is one that we at the Society have always aspired to.

The team

During the year, we have further bolstered the existing team with appointments in the areas of the banking hall, compliance and administration. These appointments have been made in order to help us to continue to offer the best possible service to members whilst engaging on the improvements to our systems and controls as noted previously. The whole team continues to demonstrate in their everyday work their observance of the Society's values of simplicity, service and security, and I am truly grateful to them for their loyalty and commitment.

The true measure of our success is the opinion of our members. We collect feedback from members in many forms, and at various points of their interactions with us. However, in 2016 we conducted our main members' survey, which is open to all members to contribute to. I'm delighted to say that 99% of respondents were happy with our overall service. This is appreciated all the more given the low interest rate environment that has resulted in a reduction in investment income for our saving members.

Community and member engagement

Our latest Newsletter, containing articles about some of our many activities involving members and local organisations and charities, will be on our website and mailed to members with their voting forms in January. We continue to support our local hospice, Katharine House, as the main sponsor of their annual 10k run at Shugborough Hall.

The future

Looking forward, in our plans for the short and medium term, we do not underestimate the challenges presented by the low interest rate environment, which we expect to continue for some years. These include lower returns on the Society's treasury assets, continuing competition for mortgages and continued downward pressure on savers' rates. We also do not underestimate the extra risks presented by the United Kingdom's decision to leave the European Union, but this will be a slow process that the Society will prepare for carefully and respond to as the full implications unfold. The way the Society is run means it has good levels of capital and a low-cost base relative to its asset size. Together with our dedicated and capable staff, we are well placed to achieve our goals for the coming years.

Susan J Whiting
Chief Executive

Strategic Report

Business Review

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

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

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

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

The Society also has the following secondary purposes:

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

The financial results were affected by the low interest rate environment to the extent that demand for our savings products was high but competition in the mortgage market resulted in a reduction in the Society's mortgage assets. The Society took the view that it would revise its mortgage offering but would in no way compromise on its current prudent lending policies and criteria. The combined effect of high savings levels and reduced mortgage lending is that levels of liquidity remain high. The Society has taken steps during the year to reduce Treasury Counterparty exposure limits and increase levels of high quality liquid assets such as UK Government-issued securities.

Key Performance Indicators

The main Key Performance Indicators (KPIs) that are used by the Board to monitor the performance of the Society are detailed below. 2016 is the first year in which the Society is required to report under Financial Reporting Standard 102 ('FRS 102'), with an effective date of transition of 1 November 2014. As permitted under this accounting framework, the Society has also chosen to adopt International Accounting Standard 39 ('IAS 39'). The 2015 comparatives have been adjusted accordingly and details of the impact of these standards are set out in the full annual accounts. The financial impact is not significant, although the standards have resulted in a number of new disclosures.

	2016	2015
Net interest margin	1.42%	1.50%
Management expenses as a % of mean total assets	0.88%	0.72%
Profit after taxation	£1.09m	£1.56m
Profit for the year as a % of mean total assets	0.41%	0.59%
Gross mortgage lending	£27.7m	£32.1m
Growth in mortgage assets	(4.02%)	1.13%
Shares and deposits balance	£251.5m	£246.1m
Gross capital as a % of shares and borrowings	7.76%	7.51%
Free capital as a % of shares and borrowings	7.69%	7.43%
Liquid assets as a % of shares and borrowings	39.35%	34.78%
Total assets	£271.5m	£265.3m

Net interest margin

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

Management expenses as a % of mean total assets

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

Profit for the financial year

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

Profit for the year as a % of mean total assets

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

Gross mortgage lending

Conservative lending ensures long-term security of the business.

Growth in mortgage assets

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

Shares and deposits balance

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

Gross capital as a % of shares and borrowings

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

Free capital as a % of shares and borrowings

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

Liquid assets as a % of shares and borrowing

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

Total assets

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

Statement of Comprehensive Income overview

	2016 £000	**2015** £000
Total net income	3,800	3,957
Administrative expenses	(2,332)	(1,856)
Depreciation and amortisation	(40)	(44)
Operating profit before impairment losses and provisions	1,428	2,057
Impairment losses on loans and advances	3	35
Provisions for liabilities – FSCS	(58)	(126)
Profit before tax	**1,373**	**1,966**

Net interest margin

The Society's net interest margin reflects the surplus that remains after deducting the Society's funding costs in the form of interest paid to retail and commercial savers from its interest income, which comprises mortgage interest and interest earned on the Society's investments. The slight reduction in margin reflects lower returns on liquid assets; lower rates paid to savers were balanced with lower rates charged to borrowing members.

Administrative expenses

Additional expense was incurred this year on additional staff, IT systems, compliance and Society information and literature. Consequently, the management expenses ratio for the year rose to 0.88% (2015: 0.72%). The management expenses ratio expresses management expenses as a percentage of average total assets. The Society continually reviews its management expenses in order to support its ability to offer competitive rates to both savers and borrowers. However, at the current time it is necessary to invest in improvements to systems and processes in order to improve quality, safety and efficiency for members.

Financial Services Compensation Scheme levy

The net profit reported takes account of a provision charge of £0.058m (2015: £0.126m) in respect of the above levy, which is fully explained in Note 20 on page 43 of the accounts.

Statement of Financial Position

	2016 £000	2015 £000
Liquid assets	98,965	85,589
Loans and advances to customers	171,969	179,165
Tangible fixed assets	464	489
Deferred tax and other debtors	94	91
Total assets	**271,492**	**265,334**
Shares and amounts owed to other customers	251,507	246,113
Other liabilities, accruals and provisions	460	728
Reserves attributable to members of the Society	19,525	18,493
Total reserves and liabilities	**271,492**	**265,334**

Liquidity

The Society maintains sufficient liquidity to ensure that it meets liabilities as they fall due. The liquid assets comprising cash, bank balances and authorised investments amounted to £99.0m (2015: £85.6m), representing 39.35% (2015: 34.78%) of total shares and deposit liabilities as at 31 October 2016.

Loans and advances to customers

During the year, the Society lent £27.7m (2015: £32.1m) to borrowers. Total advances secured on residential property and other loans reduced during the year to £172.0m (2015: £179.2m).

The Society identifies borrowers whose mortgage accounts have gone into arrears and consults with them about the reason for the arrears and in order to draw up a plan of action to bring the accounts up to date. Despite the Society's best efforts to help borrowers in such circumstances there are occasions when properties have to be repossessed and sold, sometimes at a loss to the Society.

When potential losses are envisaged the Society makes impairment adjustments to cover such circumstances. During the year, the Society took possession of no properties (2015: no possessions).

At 31 October 2016, there were no mortgage accounts 12 months or more in arrears (2015: nil) and only three mortgage accounts over three months in arrears (2015: two).

In certain circumstances the Society uses forbearance measures to assist those borrowers who are experiencing financial difficulty, for example, agreeing a temporary transfer to interest only payment in order to reduce the borrower's financial pressures. In each case an individual assessment is made to ensure forbearance is in the best interests of both the borrower and the Society. It is expected that the borrowers will resume normal payments once they are able. The Society's Assets and Liabilities Committee assesses the impact of forbearance and monitors whether there is a possibility of loss, in which case provision is made in accordance with the Society's policies. As at 31 October 2016, there were seven accounts under forbearance measures and £0.003m of individual impairments required. Impairments decreased in the year as only a small number of borrowers experienced difficulties in meeting their mortgage commitments.

Shares and other investors

Shares and other investors' balances at 31 October 2016 were £251.5m (2015: £246.1m), an increase of £5.4m or 2.2% on the previous year. Our ability to retain members with our range of simple and straightforward products indicates that our savers' rates remained competitive in a low interest rate environment.

Total assets

Growth in total assets is a measure of our success in our core markets of mortgages and savings, however our targets for the year were set for low growth given the challenges of the competitive mortgage market and in fact mortgage balances decreased by 4.02%. The total assets of the Society at the end of the financial year amounted to £271.49m (2015: £265.33m), an increase of £6.16m or 2.32%.

Net profit and reserves

An appropriate level of profit is required to reinvest in the business and to maintain the capital required to satisfy regulatory requirements and protect investors. The net profit for the year after taxation, which amounted to £1.09m (2015: £1.56m), has been added to the General Reserve; which now totals £19.52m (2015: £18.49m). Included in reserves is an amount of £0.21m (2015: £0.79m) in respect of an available-for-sale reserve. This is an account established as a result of IAS 39, and represents the unrealised net gains on Treasury Assets determined as 'available-for-sale'.

Capital (Basel III/CRD IV basis)

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

	2016 £000	2015 £000
Tier 1 capital	19,525	18,493
Tier 2 capital	273	275
Total capital	**19,798**	**18,768**
Risk weighted assets:		
Liquid assets	21,189	22,307
Loans and advances to customers	61,220	63,769
Other assets	558	678
Operational risk	7,122	6,579
Total	**90,089**	**93,333**
Capital ratios:	%	%
Core tier 1	21.98	20.11
Gross capital ratio	7.76	7.51
Leverage ratio	7.06	6.83

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

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

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

Principal risks

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

Risk management approach

The Society has developed a risk management framework that is designed to identify, assess, manage and mitigate risks that may influence the delivery of the Society's strategic objectives. The Board is ultimately responsible for the risk management process and defines, through its risk appetite statements, the acceptable levels of risk exposure that should be taken in the delivery of the Society's strategic objectives. The Board ensures through its sub-committees that appropriate policies, procedures and processes are implemented across the business to control and monitor the risk exposures that arise from the Society's operations. As part of the Capital Requirements Directive (CRD), the Society has assessed the adequacy of its capital resources, and the Society's Pillar 3 disclosures, which are a requirement of the CRD, together with the disclosures to comply with the requirements of Article 89 of the Capital Requirements Directive IV (CRD IV), are provided on the Society's website, or are available from the Society's Secretary. The principal risks and uncertainties to which the Society is exposed are set out below.

Credit risk

Credit risk is the risk that members or Treasury counterparties may not meet their financial obligations to the Society as they fall due. This risk is most likely to arise in the potential inability of customers to make repayments on their mortgage, or of Treasury counterparties to repay their loan commitments. The Assets and Liabilities Committee is responsible for monitoring the arrears profile and Treasury Counterparty risk, whilst the Board approves changes to counterparties and Treasury or lending policy.

Mortgage credit risk is managed through the Society's underwriting process, which seeks to ensure that borrowers only assume a debt that they can afford to repay. All mortgage applications are rigorously assessed with reference to the Society's lending policy. No matter how prudent lending is, however, some members can get into financial difficulties. In such circumstances the Society is highly proactive in providing support, which can include working with them to clear arrears, making arrangements, or forbearance. This may involve a temporary transfer of the mortgage to interest only terms or the agreement of a payment plan.

Liquidity risk

Liquidity risk is the risk that the Society is not able to meet its financial obligations as they fall due, or can only do so at excessive cost. The Society's Board-approved liquidity policy is to maintain sufficient liquid resources to cover cash flow requirements and fluctuations in funding, to maintain full public confidence in the solvency of the Society and to meet its financial obligations. This is achieved by maintaining a prudent level of liquid assets and through management control of the growth of the business. The Society holds a buffer of high quality liquid assets such as UK Treasury Bills and Government securities as part of regulatory requirements.

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

Interest rate risk

Interest rate risk is the risk that the income and expenditure arising from the Society's assets and liabilities may change adversely as a result of changes in interest rates. One particular type of interest rate risk is basis risk, which is the risk that assets and liabilities linked to different variable indices (such as Base rate or LIBOR) may not move in accordance with each other. The Society is exposed to movements in interest rates and manages this exposure on a continuous basis, within limits set by the Board. The interest rate sensitivity of the Society is set out in Note 22 on page 43.

Operational risk

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

Conduct risk

This is the risk that the Society does not treat its members (customers) fairly and of inappropriate or unsatisfactory consumer outcomes. The Board fully embraces the principles set out by the Financial Conduct Authority (FCA) and good conduct is a concept that is firmly embedded within the Society's culture, its corporate objectives and its policies and procedures. Conduct risk outcomes are monitored on a monthly basis by the Society's Operational Management Committee and the conduct risk policy is approved by the Board.

Risks arising from the result of the United Kingdom's referendum on leaving the European Union

The full implications of the referendum result are still being assessed and there are divergent views on the effect it will have on the UK economy in the longer term. However, in the short term there has clearly been an impact on exchange rates, which has no direct effect on the Society as all of its assets and liabilities are denominated in sterling. Potentially the decision to leave the European Union could impact negatively on the UK economy, affecting other risks such as credit risk and interest rate risk, which have been described further above.

Other risks and uncertainties

The Board has recognised other risks that may be relevant to the Society, namely reputational risk, business risk, concentration risk and regulatory risk.

Reputational and business risk are managed by adherence to high levels of conduct in our service, reviewing our performance in the context of the environment and market in which we operate, and by adhering to low-risk strategy and policies.

Within the confines of the Society's restricted range of products, concentration risk is addressed by setting geographical and other limits and ensuring that any assets of the Society are of high inherent quality.

Regulatory risk arises because of the volume and complexity of regulatory change and associated cost. The Society monitors its capacity to comply with regulation and allocates additional resource as required. This is overseen by the Audit Committee.

Financial risk management objectives and policies

The Society has a formal structure for managing financial risk. This risk is closely monitored and controlled by the Board, supported by the Audit and Risk Committees. In addition, the Assets and Liabilities Committee actively measures and manages financial risks. Further explanation can be found in Note 22 on page 43.

On behalf of the Board of Directors
James W Dean
Chairman
23 December 2016

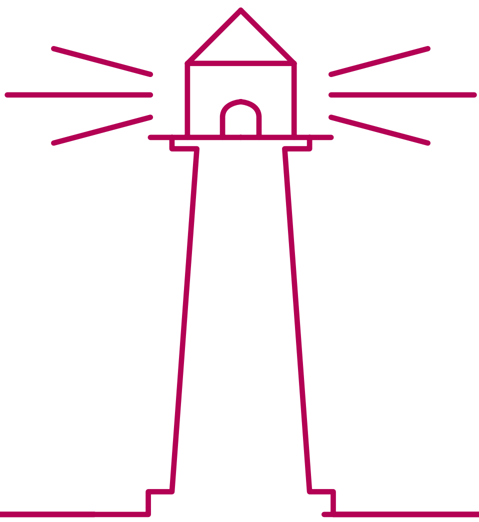
Directors' Report for the year ended 31 October 2016

The Directors have pleasure in presenting their annual report, together with the annual accounts and annual business statement of the Society for the year ended 31 October 2016.

Business objectives and activities

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

As a mutual organisation, we aim only to earn sufficient profits to enable us to prudently achieve our main purposes, as described above under the Strategic Report. We are pleased to report that we have achieved a profit after tax of £1.09million which contributes to a healthy level of capital and supports the financial stability of the Society.



Directors

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

James W Dean, FCA	Chairman
David J Gage, MBE DL ACIB	Vice Chairman
Gary C D Crowe, Chartered Banker, FCIM CAifs ACIB MCIBS	
Jeremy G Hodgkiss, FCA CF MSI	Finance Director and Deputy Chief Executive
Colin C Lloyd, ACIB	
Karen E McCormick, ACIS PIIA	
Brett W J Phillips, BSc ACA	Retired 31 August 2016
Nicholas H J Sandy, MRICS	
Susan J Whiting, BA ACA CTA	Chief Executive and Secretary

The Directors who retire by rotation in accordance with rule 26(1) of the Society rules are Jeremy Hodgkiss and Colin Lloyd who offer themselves for re-election at the forthcoming Annual General Meeting.

The Directors wish to place on record their appreciation of the services of Brett Phillips who retired during the year due to external commitments.

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

James W Dean

Chairman

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

David J Gage MBE DL

Deputy Chairman

David is a former Corporate Banking Director. As well as his role as Deputy Lieutenant of Staffordshire, he is Chair of the Board of Governors and Pro Chancellor at Staffordshire University. Additionally, David is a trustee of The Friends of Staffordshire & West Midlands (North) Army Cadet Force Trust and a member of Lichfield Cathedral Council and Lichfield Cathedral Investment Committee. David is Chair of the Risk Committee.

Gary C D Crowe

Non-Executive Director

Gary is a Management Consultant and Chartered Banker with over 30 years' experience in retail and commercial financial services. Gary was most recently Managing Consultant at PA Consulting Group, an international management consultancy firm. He specialised in advising and supporting financial services businesses across the UK.

Jeremy G Hodgkiss

Finance Director and Deputy Chief Executive

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

Colin C Lloyd

Non-Executive Director

Colin has 40 years of experience within the financial services industry. He brings to the Society a wealth of recent and relevant industry and sector experience. Colin, an Associate of the Chartered Institute of Bankers, is also a Rotarian and Trustee and Treasurer of Aquabox, a charity providing water filtration equipment and humanitarian aid to disaster zones worldwide. Colin is Chair of Audit Committee.

Karen E McCormick

Non-Executive Director

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

Nicholas H J Sandy

Senior Independent Director

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

Susan J Whiting

Chief Executive

Susan was appointed Chief Executive on 4 January 2011, having been Deputy Chief Executive for the Society since 2004. Susan is a qualified chartered accountant, a member of the Institute of Taxation and has advised many local businesses and organisations.

Creditor payment policy

The Society's continuing policy concerning the payment of its trade creditors is to pay invoices within the agreed terms of credit once suppliers have discharged their contractual obligations. Amounts due to relevant creditors of the Society are paid on average within 14 days of receipt of invoice (2015: 14 days).

Charitable and political donations

During the year, the Society made donations of £6,835 (2015: £5,246) to charities. No contributions were made for political purposes. The Society sponsors, and its staff commit their time to, a range of local charitable and community causes.

Staff

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

The Society in the community

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

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

Events since the year end

The Directors consider that there has been no event since the end of the financial year that has a significant effect on the position of the Society.

Going concern

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

Auditor

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

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

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

Future developments

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

On behalf of the Board of Directors
James W Dean
Chairman
23 December 2016

Corporate Governance Report

The Directors of the Society are committed to best practice in corporate governance. As a mutual organisation we are not required to fully comply with the UK Corporate Governance Code (September 2014) but we have regard to the Code when developing our own corporate and governance arrangements, as required by our regulators the PRA and FCA. The Board supports the principles of the Code and has had regard to them in preparing this report.

The Board

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

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

As at 31 October 2016 the Board consisted of two Executive Directors and six Non-Executive Directors who provide the appropriate mix of skills and professional expertise required.

The Board has key Board Committees, the terms of reference of which are summarised below. Full details are available from the Secretary or can be found on the website at srbs.co.uk.

Audit Committee

This Committee consists entirely of Non-Executive Directors under the chairmanship of Colin Lloyd (following the retirement of Brett Phillips), and meets at least four times per year. Other members of the Committee are Karen McCormick and Nicholas Sandy. Representatives from the Society Executive and Compliance functions together with the Society's internal and external auditors also attend Committee meetings by invitation. The Committee considers all matters of an audit and compliance nature applying to the Society, including internal controls, compliance reports, scope and content of internal and external audit work, financial reporting and other relevant prudential requirements.

Risk Committee

The Risk Committee is chaired by David Gage MBE DL. It meets at least quarterly during the year and advises the Board on the overall risk appetite, tolerance and strategy and reviews the risk management framework and policies. The other members of the Committee are James Dean (Chairman of the Board) and Gary Crowe.

Nominations Committee

The Nominations Committee is chaired by the Chairman of the Board, James Dean. It also comprises Nicholas Sandy (Senior Independent Director), David Gage MBE DL (Vice Chairman) and Susan Whiting (Chief Executive). It identifies and recommends to the Board candidates for nomination as Non-Executive Directors and considers Board succession planning. It meets when there is an appropriate vacancy to fill and at least twice a year to review the skills mix of the Board and succession policy.

Remuneration Committee

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

Assets and Liabilities Committee (ALCO)

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

Operations Management Committee (OMC)

Also comprising Executive Directors and members of the management team, and chaired by Susan Whiting, Chief Executive, this Committee meets monthly and monitors conduct and other operational risks. Other members of staff and Non-Executive Directors attend as required. The Committee reports to the Risk Committee.

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

The offices of Chairman and Chief Executive are distinct and held by different people.

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

The Chairman is responsible for setting the Board's agenda and promoting a culture of openness and debate.

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

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

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

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

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

All Non-Executive vacancies are advertised to members and the Nominations Committee make appointments having considered the balance of skills and experience required. All Directors must meet the test of fitness and propriety as laid down by the PRA as Approved Persons to fulfil their Controlled Functions as Directors. The Board is mindful of the Davies Report on diversity and has disclosed information on gender mix in the Directors' Report, previously on page 13.

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

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

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

New Directors receive full and formal induction training and all Directors are provided with ongoing training and professional development to provide continual updating of their skills.

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

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

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

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

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

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

Internal control

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

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

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

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

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

The Board has carried out a robust assessment of the principal risks facing the Society. The Board has assessed the prospects of the Society and has set out the strategy for the next five years from 31 October 2016 within the Society's Corporate Plan, during which time the Society is expected to continue in operation and meet its liabilities as they fall due.

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

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

Communication with members and the Annual General Meeting

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

Twice-yearly member newsletters are produced to ensure that members are kept informed regarding developments at the Society, with reaction and feedback encouraged. Member satisfaction surveys and questionnaires are regularly issued. Communication with members is also conducted via the Society's website.

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

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

Minutes and attendance

All committee meetings are minuted formally with the minutes being considered at the next Board meeting. Attendance of members of the Board and Committees at meetings for the year to 31 October 2016 is as follows:

Name	Remuneration	Audit	Risk	Nominations	ALCO	OMC	Board
James W Dean	2 (2)	-	5 (6)	2 (2)	-	-	10 (11)
David J Gage MBE DL	2 (2)	-	6 (6)	2 (2)	-	-	11 (11)
Gary C D Crowe	-	-	5 (6)	-	-	-	11 (11)
Colin C Lloyd	2 (2)	1 (1)	5 (5)	-	-	-	11 (11)
Karen E McCormick	2 (2)	4 (4)	-	-	-	-	11 (11)
Brett W J Phillips	2 (2)	3 (3)	-	-	-	-	8 (8)
Nicholas H J Sandy	2 (2)	4 (4)	-	2 (2)	-	-	11 (11)
Susan J Whiting	-	-	-	2 (2)	12 (12)	10 (10)	11 (11)
Jeremy G Hodgkiss	-	-	-	-	12 (12)	-	11 (11)

(Figures in brackets represent maximum possible attendance)

On behalf of the Board of Directors
James W Dean
Chairman
23 December 2016

Directors' Remuneration Report

The purpose of this report is to inform members of The Stafford Railway Building Society of our policy on the remuneration of Executive and Non-Executive Directors, and to explain how we comply with the principles in the UK Corporate Governance Code (September 2014) (the Code) relating to remuneration, as far as they are applicable to a mutual organisation of our size. The remuneration policy complies with the relevant elements of the FCA's remuneration code.

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

Policy for Executive Directors

The Society has a contract with Deans (Staffordshire) Limited, Chartered Accountants, for the services of the Chief Executive and Secretary and of the Finance Director and Deputy Chief Executive which contains provision for termination upon 12 months' written notice by either party.

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

Policy for Non-Executive Directors

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

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

The Remuneration Committee

The Committee, which comprises all the Non-Executive Directors, meets at least once a year to review the performance of and recommend the remuneration for the Executive Directors. It is chaired by Karen McCormick. The Committee ensures the Society's compliance with relevant elements of the FCA's remuneration code. The basis of remuneration is consistent with sound and effective risk management and does not encourage excessive risk-taking.

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

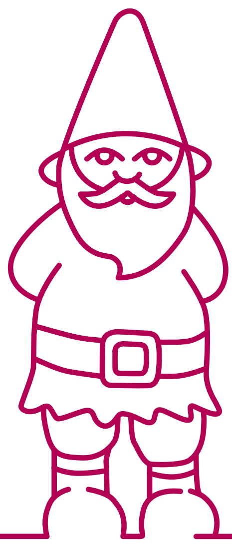
Total emoluments of the Society's Directors are listed below (excluding national insurance):

	2016 £000 Fees	**2015** £000 Fees
Non-Executive Directors		
James W Dean (Chairman)	25.5	23.0
David J Gage MBE DL (Vice Chairman)	19.3	21.0
Gary C D Crowe	14.2	4.7
Colin C Lloyd	14.6	14.0
Karen E McCormick	14.2	4.7
Brett W J Phillips	14.0	16.3
Nicholas H J Sandy	14.2	14.0
Michael R Smith	-	5.5
	116.0	**103.2**

Amounts paid for services of the Chief Executive and Secretary and of the Finance Director and Deputy Chief Executive are as follows (2015 figures were payments for services of the Chief Executive and Secretary and Deputy Chief Executive only):

	2016 £000	**2015** £000
Base fee	230	176
Bonus	17	25
VAT	49	41
	296	**242**

Karen E McCormick
Chairman of the Remuneration Committee
23 December 2016



Statement of Directors' Responsibilities

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

Statement of Directors' Responsibilities

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

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

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

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

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

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

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

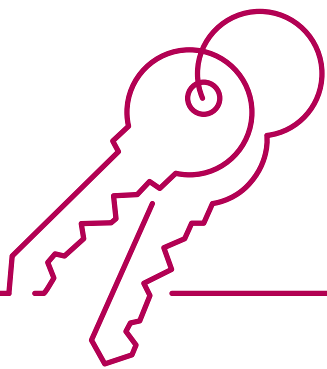
Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Society:

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

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

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



Independent Auditor's Report

"Our responsibility is to audit, and express an opinion on, the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland)."

Independent Auditor's Report to the Members of Stafford Railway Building Society

We have audited the annual accounts of The Stafford Railway Building Society for the year ended 31 October 2016 set out on pages 28 to 57. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Society's members, as a body, in accordance with Section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 23, the Directors are responsible for the preparation of annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the annual accounts

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at: frc.org.uk/auditscopeukprivate

Opinion on annual accounts

In our opinion the annual accounts:

- Give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Society as at 31 October 2016 and of the income and expenditure of the Society for the year then ended; and
- Have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- The Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;
- The information given in the Directors' Report for the financial year for which the financial statements are prepared 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

- Proper accounting records have not been kept by the Society; or
- The annual accounts are not in agreement with the accounting records; or
- We have not received all the information and explanations and access to documents we require for our audit.

John Ellacott (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

23 December 2016

Statements

"Both the profit for the financial year and total Comprehensive Income for the year are attributable to the members of the Society."

Statement of Comprehensive Income for the year ended 31 October 2016

	Notes	**2016** £000	**2015** £000
Interest receivable and similar income	2	6,764	7,179
Interest payable and similar charges	4	(2,964)	(3,221)
Net interest income		3,800	3,958
Fees and commissions receivable	3	17	15
Fees and commissions payable		(43)	(43)
Other operating income		26	27
Total net income		3,800	3,957
Administrative expenses	5	(2,332)	(1,856)
Depreciation	14	(40)	(44)
Operating profit before impairment losses and provisions		1,428	2,057
Impairment losses on loans and advances	13	3	35
Provisions for liabilities	20	(58)	(126)
Profit before tax		1,373	1,966
Tax expense	8	(283)	(410)
Profit for the financial year		**1,090**	**1,556**
Other Comprehensive Income			
Valuation gains/(losses) on available-for-sale investments taken to equity		(41)	(29)
Realised (gains)/losses on available-for-sale investments transferred to income statement		(17)	-
Income tax on other Comprehensive Income	26	-	6
Total Comprehensive Income for the year		**1,032**	**1,533**

Profit for the financial year arises from continuing operations. Both the profit for the financial year and total Comprehensive Income for the year are attributable to the members of the Society.

Statement of Financial Position at 31 October 2016

	Notes	2016 £000	2015 £000
Assets			
Liquid assets			
Cash in hand	9	54	48
Treasury bills and similar securities		34,972	10,512
Loans and advances to credit institutions	10	7,423	6,259
Debt securities	11	56,516	68,770
Loans and advances to customers	12	171,969	179,165
Tangible fixed assets	14	464	489
Deferred tax asset	19	27	46
Other debtors	15	67	45
Total assets		**271,492**	**265,334**
Liabilities			
Shares	16	232,404	222,807
Amounts owed to other customers	17	19,103	23,306
Other liabilities	18	52	288
Accruals and deferred income		342	332
Deferred tax liability	19	-	36
Provisions for liabilities	20	66	72
Total liabilities		**251,967**	**246,841**
Reserves			
General reserve		19,504	18,414
Available-for-sale reserve		21	79
Total reserves attributable to members of the Society		19,525	18,493
Total reserves and liabilities		**271,492**	**265,334**

These accounts were approved by the Board of Directors on 23 December 2016 and signed on its behalf:

James W Dean
Chairman

David J Gage MBE DL
Vice Chairman

Susan J Whiting
Chief Executive

Society Statement of Changes in Members' Interests

	2016 General reserve £000	2016 Available-for-sale reserve £000	2016 Total £000	2015 General reserve £000	2015 Available-for-sale reserve £000	2015 Total £000
Balance at 1 November 2015	18,414	79	18,493	16,858	102	16,960
Total Comprehensive Income for the period						
Profit for the financial year	1,090	-	1,090	1,556	-	1,556
Other Comprehensive Income: Valuation gains/(losses) on available-for-sale investments taken to equity	-	(41)	(41)	-	(29)	(29)
Realised (gains)/losses on available-for-sale investments transferred to income statement	-	(17)	(17)	-	-	-
Income tax on other Comprehensive Income	-	-	-	-	6	6
Total Comprehensive Income for the period	19,504	21	19,525	18,414	79	18,493
Balance at 31 October 2016	**19,504**	**21**	**19,525**	**18,414**	**79**	**18,493**

Cash Flow Statements

	Notes	2016 £000	2015 £000
Cash flows from operating activities			
Profit before tax		1,373	1,966
Adjustments for			
Depreciation	14	40	60
Loss on disposal of tangible fixed assets		-	-
Valuation gains/(losses) on available-for-sale investments taken to equity		(41)	(29)
Realised (gains)/losses on available-for-sale investments transferred to income statement		(17)	-
Increase in impairment of loans and advances to customers		(3)	(35)
Total		**1,352**	**1,962**
Changes in operating assets and liabilities			
(Increase) in prepayments, accrued income and other assets		(253)	(119)
(Decrease) in accruals, deferred income and other liabilities		(254)	(209)
Decrease/(increase) in loans and advances to customers		7,196	(1,998)
Increase in shares		9,597	1,193
(Decrease)/Increase in amounts owed to other credit institutions and other customers		(4,203)	1,333
Taxation paid		(298)	(413)
Net cash generated by operating activities		**13,137**	**1,749**
Cash flows from investing activities			
Purchase of debt securities		(122,106)	(95,222)
Disposal of debt securities		110,154	89,366
Purchase of tangible fixed assets	14	(15)	(12)
Disposal of tangible fixed assets	14	-	-
Net cash generated by/(used in) investing activities		**(11,967)**	**(5,868)**
Net increase/(decrease) in cash and cash equivalents		**1,170**	**(4,119)**
Cash and cash equivalents at 1 November 2015	9	6,307	10,426
Cash and cash equivalents at 31 October 2016	9	**7,477**	**6,307**

Notes

"The Society has a formal structure for managing risk, including established risk limits, reporting lines, mandates, credit risk appetite and other control procedures."

Notes

1 Accounting policies

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

In the transition to FRS 102 from the old UK GAAP, the Society has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected the financial position and financial performance of the Society is provided in note 26 on page 53.

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

Judgements made by the Directors, in the application of these accounting policies that have a significant effect on the annual accounts and estimates with a significant risk of material adjustment in the next year are discussed in note 1.10 on page 36.

1.1 Measurement convention

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

1.2 Interest

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

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

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

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

1.3 Fees and commission

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

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

1.4 Taxation

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

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

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

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

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

1.5 Financial instruments

Recognition

The Society initially recognises loans and advances, to customers, loans and advances to credit institutions and debt securities on the date on which they are originated. 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 that are recognised over the average life of mortgage assets, as noted above.

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

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

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

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

Financial liabilities

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

Derecognition

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

Measurement

Amortised cost measurement

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

Identification and measurement of impairment

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

Objective evidence that financial assets are impaired includes:

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

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

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

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

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

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

Forbearance strategies and renegotiated loans

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

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

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

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

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

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

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

1.6 Cash and cash equivalents

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

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

1.7 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Certain items of tangible fixed assets that had been revalued to fair value on or prior to the date of transition to FRS 102, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

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

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

• Buildings	50 years
• Computer equipment	3 years
• Fixtures and fittings	5–10 years

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

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

1.8 Employee benefits

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

1.9 Provisions

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

1.10 Assumptions and estimation uncertainties

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

Loan impairment

In determining whether an impairment loss should be recorded, the Society is required to exercise a degree of judgement. Impairments are calculated as the difference between expected future cash flows and the current outstanding balance, using management's best estimate of propensity to default using all available data. Estimates and assumptions are around the probability of any account going into default, the probability of defaulting accounts progressing to possession, the time taken to complete the sale of properties in possession and the eventual loss incurred in the event of forced sale or write-off. These assumptions are based on observable historical data and updated as management considers appropriate to reflect current circumstances. A 5% increase in the outcome of probability of default or eventual loss incurred would result in an increase in the impairments of £14,000.

Effective interest rate (EIR)

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

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

A 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 £6,000 and a corresponding increase in interest receivable.

2 Interest receivable and similar income

	2016 £000	2015 £000
On loans fully secured on residential property	5,917	6,208
On other loans	143	175
On debt securities	704	760
On other liquid assets	-	36
	6,764	**7,179**

Included within interest income is £9,734 (2015: £17,124) in respect of interest income accrued on impaired loans two or more months in arrears.

3 Fees and commissions receivable

	2016 £000	2015 £000
Rechargeable bank fees	3	4
Insurance commissions	14	11
	17	**15**

4 Interest payable and similar charges

	2016 £000	2015 £000
On shares held by individuals	2,821	3,047
On deposits and other borrowings	143	174
	2,964	**3,221**

5 Administrative expenses

	2016 £000	2015 £000
Wages and salaries	1,076	847
Social security costs	61	46
Contributions to defined contribution plans	52	37
	1,189	**930**
New core IT system migration costs	65	-
Other computer expenses	287	235
Repairs and renewals	94	177
Other administrative expenses	697	514
	2,332	**1,856**

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

	2016 £000	2015 £000
Audit of these annual accounts	44	32
Amounts receivable by the Society's auditor and its associates in respect of:		
Other services	5	5
	49	**37**

6 Employee numbers

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

	2016	2015
Full time	17	16
Part time	15	13
	32	**29**

7 Directors' remuneration

Total remuneration of the Society's Non-Executive Directors for the year was £115,981 (2014: £103,225). Full details are given in the tables within the Directors' Remuneration Report on pages 20 to 21.

The Society has a contract with Deans (Staffordshire) Limited, Chartered Accountants for the services of Chief Executive and Secretary (one Executive), and Deputy Chief Executive and Finance Director (one Executive), payments under which are set out in the Directors' Remuneration Report and totalled £296,776 including VAT. Details of Directors' loans and transactions can be found in note 24 on page 52.

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

8 Tax expense

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

Analysis of tax charge in the year:	2016 £000	2015 £000
Current tax		
UK corporation tax on income for the period	300	397
Deferred tax (see note 19 on page 43)		
Origination and reversal of timing differences	(17)	13
Total deferred tax	(17)	13
Total tax	**283**	**410**

Factors affecting the current tax charge in the year:	2016 £000	2015 £000
Profit on ordinary activities before tax	1,375	1,963
Tax or profit on ordinary activities at UK standard rate of 20.0 % (2015: 20.4%)	275	400
Expenses not deductible for tax purposes	13	10
Accelerated capital allowances and other timing differences	1	(2)
Current tax charge for the year	**289**	**408**

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

9 Cash and cash equivalents

	2016 £000	2015 £000
Cash in hand	54	48
Loans and advances to credit institutions (see note 10)	7,423	6,259
Cash and cash equivalents per cash flow statements	**7,477**	**6,307**

10 Loans and advances to credit institutions

	2016 £000	2015 £000
Repayable on demand	7,423	6,259
Total loans and advances to credit institutions	7,423	6,259
Total included within cash and cash equivalents	**7,423**	**6,259**

11 Debt securities

Debt securities have remaining maturities as follows:	2016 £000	2015 £000
In not more than one year	88,664	71,491
In more than one year	2,824	7,791
	91,488	**79,282**
Transferable debt securities comprise:		
Listed on a recognised investment exchange	6,756	10,923
Unlisted	49,760	57,847
	56,516	**68,770**

Movements in debt securities during the year are summarised as follows:	2016 £000	2015 £000
At 1 November	79,282	73,329
Additions	122,106	95,222
Disposals and maturities	(109,842)	(89,240)
Valuation gains/(losses) on available-for-sale investments taken to equity	(41)	(29)
Realised (gains)/losses on available-for-sale investments transferred to income statement	(17)	-
At 31 October	**91,488**	**79,282**

12 Loans and advances to customers

	2016 £000	2015 £000
Loans fully secured on residential property	169,773	176,542
Loans fully secured on land	2,196	2,623
	171,969	179,165
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
On call and at short notice	403	31
In not more than three months	169	51
In more than three months but not more than one year	683	791
In more than one year but not more than five years	7,658	7,689
In more than five years	163,332	170,882
	172,245	179,444
Less: allowance for impairment (note 13 on the next page)	(276)	(279)
	171,969	**179,165**

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

13 Allowance for impairment

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

	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
Individual provision			
At 1 November 2014			
Individual impairment	28	-	28
Collective impairment	286	-	286
	314	-	314
Charge/(credit) for the year			
Individual impairment	(24)	-	(24)
Collective impairment	(11)	-	(11)
	(35)	-	(35)
At 31 October 2015			
Individual impairment	4	-	4
Collective impairment	275	-	275
	279	-	**279**

14 Tangible fixed assets

	Freehold Land and buildings £000	Computer equipment £000	Office equipment/ fixtures and fittings £000	Total £000
Cost				
Balance at 1 November 2015	643	137	362	1,142
Additions	-	11	4	15
Disposals	-	(1)	-	(1)
Balance at 31 October 2016	**643**	**147**	**366**	**1,156**
Depreciation and impairment				
Balance at 1 November 2015	208	112	333	653
Depreciation charge for the year	15	19	6	40
Disposals	-	(1)	-	(1)
Balance at 31 October 2016	**223**	**130**	**339**	**692**
Net book value				
At 1 November 2015	435	25	29	489
At 31 October 2016	**420**	**17**	**27**	**464**

Land and buildings

The net book value of land and buildings comprises:	**2016** £000	**2015** £000
Freehold	420	435
Net book value of land and buildings occupied for own use	420	218

15 Other debtors

	2016 £000	2015 £000
Deferred tax assets (note 19 on page 43)	27	46
Prepayments and accrued income	67	45
	94	**91**

There are no prepayments and accrued income that are due after one than one year (2015: £nil).

16 Shares

	2016 £000	2015 £000
Held by individuals	232,404	222,807
Shares are repayable with remaining maturities from the balance sheet date as follows:		
Repayable on demand	232,404	222,807

17 Amounts owed to other customers

	2016 £000	2015 £000
Repayable on demand	19,103	23,306

18 Other liabilities

	2016 £000	2015 £000
Income tax	-	217
Corporation tax	52	60
Deferred tax (note 19 on page 43)	-	36
Accruals and deferred income	342	343
	394	**656**

19 Deferred tax assets and liabilities

	Assets 2016 £000	Assets 2015 £000	Liabilities 2016 £000	Liabilities 2015 £000	Net 2016 £000	Net 2015 £000
Excess of capital allowances over depreciation	-	-	6	25	6	25
Effective interest rate transitional adjustment	-	-	19	11	19	11
Collective impairment allowance	(52)	(46)	-	-	(52)	(46)
Deferred tax (assets)/liabilities	**(52)**	(46)	**25**	36	**(27)**	(10)

No significant reversal of the deferred tax liability in respect of accelerated capital allowances or collective impairment allowance is expected to occur in the year to 31 October 2017. The Corporation Tax impact of the effective interest rate transitional adjustment is spread over 10 years and so deferred tax has been recognised accordingly.

20 Provisions for liabilities

	FSCS levy £000	Total £000
Balance at 1 November 2015	72	72
Provisions made during the year	58	58
Provisions used during the year	(64)	(64)
Balance at 31 October 2016	**66**	**66**

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

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

21 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 £52,038 (2015: £37,023). At 31 October 2016, there were no accrued contributions.

22 Financial instruments

A financial instrument is a contract that gives rise to a financial asset or financial liability. The Society is a retailer of financial instruments in the form of mortgage and savings products. The Society may use wholesale financial instruments to invest in liquid assets and raise wholesale funding in order to manage the risks arising from its operations. The Society does not run a trading book.

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

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

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

Financial assets and liabilities are measured on an ongoing basis either at fair value or at amortised cost. Note 1.5 on page 34 'Financial instruments' describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The tables below analyse the Society's assets and liabilities by financial classification:

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

Carrying values by category 31 October 2015	Held at amortised cost			Held at fair value	
	Loans and receivables £000	Financial liabilities at amortised cost £000	Other non-financial assets and liabilities £000	Available-for-sale £000	Total £000
Financial assets					
Cash in hand	48	-	-	-	48
Loans and advances to credit institutions	6,259	-	-	-	6,259
Debt securities	-	-	-	79,282	79,282
Loans and advances to customers	179,165	-	-	-	179,165
Total financial assets	185,472	-	-	79,282	264,754
Non-financial assets	-	-	580	-	580
Total assets	**185,472**	**-**	**580**	**79,282**	**265,334**
Financial liabilities					
Shares	-	222,807	-	-	222,807
Amounts owed to other customers	-	23,306	-	-	23,306
Total financial liabilities	-	246,113	-	-	246,113
Non-financial liabilities	-	-	728	-	728
Total liabilities	**-**	**246,113**	**728**	**-**	**246,841**

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

	Listed on a recognised investment exchange £000	Unlisted £000	Total £000
31 October 2016			
Financial assets			
Available for sale			
Debt securities	6,756	84,732	91,488
31 October 2015			
Financial assets			
Available for sale			
Debt securities	10,923	68,359	79,282

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:

	2016 £000	2015 £000
Loans and advances to credit institutions	7,423	6,259
Debt securities	91,488	79,283
Loans and advances to customers	171,969	179,165
Total statement of financial position exposure	270,880	264,707
Off balance sheet exposure – mortgage commitments	7,887	10,564
	278,767	**275,271**

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

Loans and advances to credit institutions and debt securities

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

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

Industry sector	2016 £000	2016 %	2015 £000	2015 %
Banks	48,149	48.6	47,057	55.0
Building Societies	9,088	9.2	17,097	20.0
Central Government	41,728	42.2	21,435	25.0
Total	**98,965**	**100.0**	**85,589**	**100.0**

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

Loans and advances to customers

Al mortgage loan applications are assessed with reference to the Society's risk appetite and Board approved lending policy.

The Board's risk appetite is based on:

i) The maximum proportion of the total mortgage portfolio that certain loans types can represent;

ii) Loan-to-value (LTV) ratios; and

iii) The arrears level.

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

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

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

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

Industry sector	2016 £000	2016 %	2015 £000	2015 %
Residential mortgages				
Owner occupied	140,979	81.8	143,863	80.2
Buy-to-let	28,438	16.5	32,087	17.9
Commercial mortgages	2,828	1.7	3,494	1.9
Total Gross Mortgages	**172,245**	**100.0**	**179,444**	**100.0**

The Society operates throughout England and Wales.

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

	2016 £000	2015 £000
Stafford ST16–ST18	48,897	52,069
Rest of Staffordshire	19,816	30,202
Rest of UK	103,532	97,173
Total Gross Mortgages	**172,245**	**179,444**

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

LTV ratio	2016 £000	2015 £000
Less than 50%	76,808	75,084
51–70%	58,239	60,335
71–90%	35,345	41,863
91–100%	1,422	2,057
More than 100%	431	105
Total Gross Mortgages	**172,245**	**179,444**
Average LTV	36.0%	38.8%

Credit risk

Credit quality analysis of loans and advances to customers

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

	2016 Loans fully secured on residential property £000	2016 Loans fully secured on land £000	2016 Other loans £000	2015 Loans fully secured on residential property £000	2015 Loans fully secured on land £000	2015 Other loans £000
Neither past due nor impaired	**164,271**	**2,196**	**-**	**171,015**	**2,623**	**-**
Past due but not impaired						
30–60 days	4,408	-	-	3,845	-	-
60–90 days	546	-	-	887	-	-
90–180 days	445	-	-	495	-	-
180 days+	87	-	-	206	-	-
	5,486	**-**	**-**	**5,433**	**-**	
Individually impaired						
Not past due	-	-	-	-	-	-
30–60 days	206	-	-	206	-	-
60–90 days	86	-	-	167	-	-
90–180 days	-	-	-	-	-	-
180 days+	-	-	-	-	-	-
Possession	-	-	-	-	-	-
	292	**-**	**-**	**373**	**-**	**-**
Allowance for impairment						
Individual	(3)	-	-	(4)	-	-
Collective	(273)	-	-	(275)	-	-
Total allowance for impairment	**(276)**	**-**	**-**	**(279)**	**-**	**-**

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 on page 34 to the accounts.

The status 'past due but not impaired' includes any asset where a payment due is received late or missed but no individual provision has been allocated. The amount included is the entire loan amount rather than just the overdue amount.

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

Forbearance

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

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

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

	2016 £000	**2015** £000
Payment plan	97	177
Transfers to interest only	404	602
	501	**779**

These represent a total of seven accounts in forbearance at 31 October 2016 (2015: 10). These accounts are shown on the previous page as impaired.

Total individual impairments of £3,342 were required (2015: £3,709).

Liquidity risk

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

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

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

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

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

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

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

The stress tests are performed periodically and reported to ALCO to confirm that the liquidity policy remains appropriate. The Society's liquid resources comprise high quality liquid assets, including gilts and treasury bills. At the end of year, the ratio of liquid assets to shares and deposits was 39.35% compared to 34.78% at 31 October 2015.

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

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

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

31 October 2016	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Financial liabilities						
Shares	232,404	-	-	-	-	232,404
Amounts owed to other customers	19,103	-	-	-	-	19,103
	251,507	-	-	-	-	251,507
Other liabilities		460				460
Total financial liabilities	**251,507**	**460**	**-**	**-**	**-**	**251,967**

31 October 2015	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	222,807	-	-	-	-	222,807
Amounts owed to other customers	23,306	-	-	-	-	23,306
	246,113	-	-	-	-	246,113
Other liabilities		728				728
Total financial liabilities	**246,113**	**728**	**-**	**-**	**-**	**246,841**

Market risk

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

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

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

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

Society

Sensitivity of projected net interest income	**100bp parallel increase** £000	**100bp parallel decrease** £000	**50bp increase after one year** £000	**50bp decrease after one year** £000
At 31 October 2016				
Average for the period	974	324	811	486
Maximum for the period	1,001	327	830	493
Minimum for the period	946	321	792	479
At 31 October 2015				
Average for the period	1,184	394	846	732
Maximum for the period	1,219	398	865	745
Minimum for the period	1,148	390	827	718

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

Capital

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

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

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

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

The Society's capital requirements are set and monitored by the PRA. During 2016 the Society has continued to comply with the European Union (EU) Capital Requirements Regulation and Directive (Basel III) as amended by the PRA.

Regulatory capital is analysed into two tiers:

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

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

There were no reported breaches of capital requirements during the year. There have been no material changes in the Society's management of capital during the year. The Society's regulatory position as at 31 October 2016 under the standardised approach was as follows:

	2016 £000	**2015** £000
Tier 1 Capital		
General reserves	19,525	18,493
Tier 2 Capital		
Collective provision	273	275
Total Regulatory Capital	**19,798**	**18,768**

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

23 Commitments

Capital commitments

Contractual commitments to purchase tangible fixed assets at the year-end were £114,000 (2015: £nil) for the Society.

24 Related parties

Related parties are identified as key management personnel, being the Executive Directors and Non-Executive Directors who are responsible for ensuring that the Society meets its strategic and operational objectives. In the normal course of business, key management personnel, and their close family members, transacted with the Society. The balances of transactions with key management personnel and their close family members are disclosed below, excluding balances on share accounts which Directors are required to have. The Society's duty of confidentiality to its members precludes disclosure of these details.

As required under Section 68 of the Building Societies Act 1986, a register is maintained at the Head Office of the Society that shows details of all loans, transactions and arrangements between the Society and its Directors and connected persons. A statement, for the current financial year, of the appropriate details contained in the register will be available for inspection at the Head Office for a period of 15 days up to and including the day of the Annual General Meeting.

Susan Whiting and Jeremy Hodgkiss are Directors and shareholders of Deans (Staffordshire) Limited. During the year, Deans (Staffordshire) Limited paid the Society rent for office accommodation amounting to £25,100 (2015: £25,100). The Society made payments to Deans (Staffordshire) Limited for some staff services and some office accommodation and facilities amounting to £48,000 (2015: £48,000). Amounts in respect of additional services are not included in Directors' emoluments. At 31 October 2016, there was an accrual of £52,000 (2015: £44,801) relating to Executive Directors' fees and annual bonus.

At 31 October 2016 there were outstanding mortgage loans granted in the ordinary course of business at the Society's standard variable mortgage rate to one Director in aggregate to £3,392 (2015: three Directors and one connected person amounting in aggregate to £157,718).

25 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.

26 Explanation of transition to FRS 102 from old UK GAAP

As stated in note 1 on pages 33 to 37, these are the Society's first annual accounts prepared in accordance with FRS 102.

The accounting policies set out in note 1 on pages 33 to 37 have been applied in preparing the annual accounts for the year ended 31 October 2016 and the comparative information presented in these annual accounts for the year ended 31 October 2015.

In preparing their FRS 102 balance sheet, the Society has adjusted amounts reported previously in annual accounts prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 102 has affected the Society's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity

	Note	1 November 2014 Adopted UK GAAP £000	1 November 2014 Effect of transition to FRS 102 £000	1 November 2014 FRS 102 £000	31 October 2015 Adopted UK GAAP £000	31 October 2015 Effect of transition to FRS 102 £000	31 October 2015 FRS 102 £000
Assets							
Liquid assets							
Cash in hand		58	-	58	48	-	48
Loans and advances to credit institutions		10,368	-	10,368	6,259	-	6,259
Debt securities	1	73,205	109	73,314	79,203	80	79,283
Loans and advances to customers	2/3	177,129	3	177,132	179,130	35	179,165
Tangible fixed assets	5	634	(113)	521	602	(113)	489
Deferred tax		-	31	31	-	46	46
Other debtors		69	(31)	38	75	(31)	44
Total assets		**261,463**	**(1)**	**261,462**	**265,317**	**17**	**265,334**
Liabilities							
Shares		221,614	-	221,614	222,807	-	222,807
Amounts owed to other customers		21,957	-	21,957	23,306	-	23,306
Other liabilities	4	641	-	641	288	-	288
Accruals and deferred income		195	-	195	343	-	343
Deferred tax liability	4	-	8	8	-	25	25
Provisions for liabilities		87	-	87	72	-	72
Total liabilities		**244,494**	**8**	**244,502**	**246,816**	**25**	**246,841**
Reserves							
General reserves		16,969	(111)	16,858	18,501	(87)	18,414
Available-for-sale reserves		-	102	102	-	79	79
Total reserves attributable to members of the Society		16,969	(9)	16,960	18,501	(8)	18,493
Total reserves and liabilities		**261,463**	**(1)**	**261,462**	**265,317**	**17**	**265,334**

Notes to the reconciliation of equity

Explanation of transition to FRS 102 from old UKGAAP

1. Debt securities

On transition to FRS 102, and specifically under the recognition and measurement provisions of IAS 39, the classification of the portfolio of debt securities held by the Society has changed based on the nature of the instruments. The debt securities held by the Society are not held for trading purposes but are held for prudential purposes such as the management of liquidity risk.

From time to time the Society may need to maintain the pool so that it is at appropriate levels. For these reasons the Society has classified the assets as 'available-for-sale' in accordance with IAS 39.

Available-for-sale assets are held at fair value with movements in the fair value being recognised through other comprehensive income.

As with the other adjustments, the change in measurement of the debt securities has been applied retrospectively. The fair value of the debt instruments are based on quoted market prices. For the year ended 31 October 2015 the adjustment in fair value resulted in the recognition of a net unrealised gain of £80,000 within equity (1 November 2014: net unrealised gains of £109,000).

2. Effective interest rate

From 1 November 2014, any financial instruments not fair valued will be amortised using the effective interest ('EIR') method of amortisation. The change in measurement of such instruments has been applied retrospectively, and primarily affects the loans and advances issued by the Society. The application of effective interest results in the recognition income/expenses evenly and proportionally over the life of the underlying financial instrument, ensuring the income/expenses are recognised in the period to which it relates. In practice this involves a number of individual adjustments to the carrying value of the loan book, such as i) deferment of the net expenses incurred on origination of the loans (for those still deemed to be amortising on transition) and, ii) reclassification of certain fee income and expenses as interest income.

For the year ended 31 October 2015 the EIR adjustments resulted in an increase to equity of £95,000 (1 November 2014: cumulative EIR adjustments increase in equity was £76,000).

3. Provisions for loans and advances to customers

Following the transition to FRS 102 the recognition of impairment losses has changed. In summary, the concept of a 'general provision' has been removed and replaced by a collective impairment. The concept of a 'suspended interest' provision ceases to be applied, with the provisions relating to this element of impairment instead forming part of the wider specific impairment provision.

These changes have been applied retrospectively. The Society considers evidence of impairment for loans and advances at both a specific asset and a collective level with all individually significant loans and advances 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.

For the year ended 31 October 2015 the Society made a cumulative adjustment, increasing the total impairment provision by £60,000, thereby increasing equity by the same amount (1 November 2014: cumulative increase of £73,000).

4. Deferred tax

The adjustments detailed above, both to the profit and loss reserve and on the creation of the available-for-sale reserve, has given rise to timing adjustments at the point of transition. The deferred tax relating to these adjustments is treated in one of two ways, depending on the nature of the timing adjustment, which is either: i) reversed in full during the current financial year and, ii) reversed on a straight line basis over a 10 year period beginning in the current financial year. For the year ended 31 October 2015 a net adjustment of £10,000 was recognised for deferred tax (2014: £8,000).

5. Freehold property

On transition to FRS102 the Society revalued its freehold property to its fair value. This valuation was performed on 21 September 2016 by an independent third party, Millar Sandy Commercial Property Consultants in accordance with RICS Valuation Standards. The fair value of the freehold property was deemed to be £450,000 as at 1 November 2014 and this has been brought into the accounts on the basis of deemed cost under FRS 102 and has resulted in a write down to the freehold property of £113,000.

6. FSCS levy

IFRIC 21 came in to force in June 2014 and has resulted in clarification of the 'trigger date' used by the Society to calculate the forward looking period over which it should provide for the levy. The revised trigger remains in the same financial year for the Society and therefore no adjustments were required.

Reconciliation of profit for the year ended 31 October 2015

	Note	Adopted IFRS/UK GAAP £000	Effect of transition to FRS 102 £000	FRS 102 £000
Interest receivable and similar income	1	7,203	(24)	7,179
Interest payable and similar charges		(3,221)	-	(3,221)
Net interest income		3,982	(24)	3,958
Fee and commissions receivable		15	-	15
Fees and commissions payable		(43)	-	(43)
Other Income		27	-	27
Total net income		3,981	(24)	3,957
Administrative expenses		(1,856)	-	(1,856)
Depreciation and amortisation		(44)	-	(44)
Other operating charges	1	(43)	43	-
Operating profit before impairment losses and provisions		2,038	19	2,057
Impairment losses on loans and advances	3	22	13	35
Provisions for liabilities – FSCS levy	6	(126)	-	(126)
Profit before tax		1,934	32	1,966
Tax expense	4	(402)	(8)	(410)
Profit for the financial year		**1,532**	**24**	**1,556**
Other Comprehensive Income				
Valuation gains/losses on available-for-sale investments taken to equity	1	-	(29)	(29)
Income tax on other Comprehensive Income	4	-	6	6
Total Comprehensive Income for the year		**1,532**	**1**	**1,533**

27 Country by Country Reporting

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

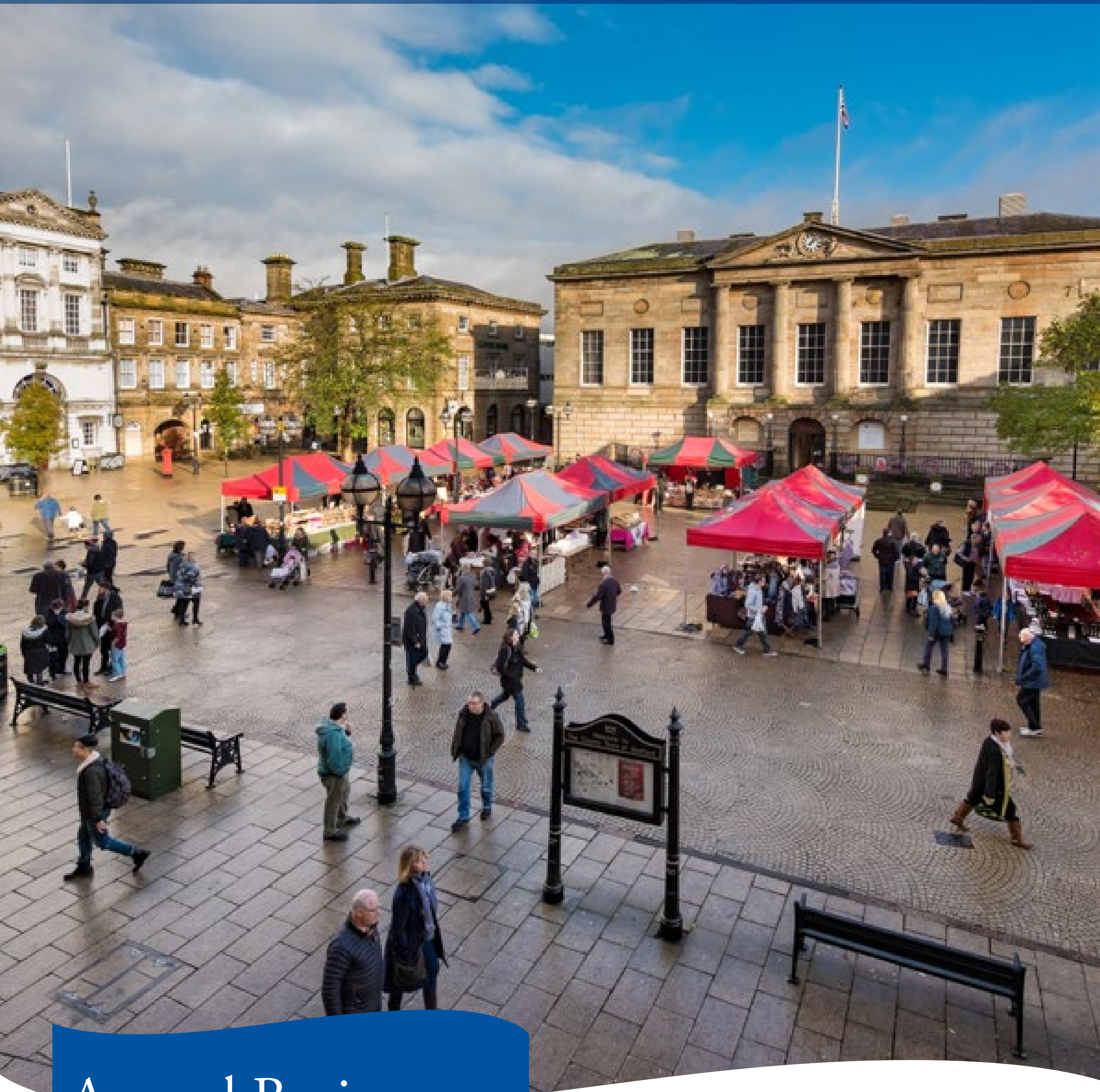
As a mutual organisation, the Society's primary focus is its members and it aims to provide mortgage and savings products supported by excellent customer service.

Details of the principal activities are detailed in note 1 on pages 33 to 37 to the Annual Report and Accounts.

For the year ended 31 October 2016:

The Society's Annual Accounts report:

- Total operating income was £3.8m (2015: £4.0m). Total operating income is defined as net interest income plus fees and commissions receivable (net of fees and commissions payable);
- Profit before tax was £1.4m (2015: £2.0m) all of which arising from UK based activity;
- The average number of Society full time equivalent employees was 26 (2015: 21) all of which were employed in the UK;
- Corporation tax of £0.3m was paid in the year and is all within the UK tax jurisdiction; and
- No public subsidies were received in the year.



Annual Business Statement

"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."

Annual Business Statement for the year ended 31 October 2016

1 Statutory Percentages

	Percentage as at 31 October 2016 %	Statutory Limit %
Proportion of business assets not in the form of loans fully secured on residential property (the 'Lending limit')	1.3	25
Proportion of shares and deposits not in the form of shares held by individuals (the 'Funding limit')	7.6	50

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

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

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

2 Other percentages

	31 October 2016 %	31 October 2015 %
Gross capital as a percentage of share and deposit liabilities	7.76	7.51
Free capital as a percentage of share and deposit liabilities	7.69	7.43
Liquid assets as a percentage of share and deposit liabilities	39.35	34.78
As a percentage of mean assets:		
Profit after taxation	0.41	0.59
Management expenses	0.88	0.72

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

- **'Share and deposit'** represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.
- **'Gross capital'** represents the general reserves.
- **'Free capital'** represents the aggregate of gross capital and collective loan loss impairment less tangible fixed assets.
- **'Mean 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 administrative expenses, depreciation and amortisation.

3 Information relating to the Directors at 31 October 2016

Name and Date of Birth	Occupation and Date of Appointment	Other Directorships
James W Dean Chairman 11.11.57	Chartered Accountant 20.08.12	Liverpool Victoria Friendly Society Notemega Limited Seale Hill Management Company Rathbone Brothers PLC Rathbone Investment Management Limited School Governor (Reigate Grammar School – limited by guarantee) RJ Young Properties Limited
David J Gage MBE DL Vice Chairman 01.03.47	Company Director 01.06.07	Staffordshire University Lichfield City Centre Development Board Lichfield Cathedral Investment Committee Lichfield Cathedral Council Trustee of Friends West Midlands (North Sector) Army Cadet Force Trust
Gary C D Crowe 18.01.67	Management Consultant 20.07.15	Staffordshire and Stoke-on-Trent Partnership NHS Trust Independent Governor, Staffordshire University
Colin C Lloyd 08.02.56	Principal Consultant 21.07.14	CCGL Limited Community Sports Trust Aquabox
****Jeremy G Hodgkiss** 06.12.71	Chartered Accountant 15.11.10	Deans (Staffordshire) Limited Dean Statham Staffordshire Limited Deans Wealth Management Limited Mid-Trent Multi Academy Trust Limited
Karen E McCormick 26.02.56	Consultant 20.07.15	Mottram Hall Farm Karen McCormick Associates
Nicholas H J Sandy 18.11.57	Chartered Surveyor 20.12.10	Nicolsons The Estate Agents Limited Grey Geese Property Services Limited
***Susan J Whiting** 09.01.64	Chartered Accountant 01.07.04	Deans (Staffordshire) Limited

*Chief Executive and Secretary
**Deputy Chief Executive (Finance Director from 1 November 2015)

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

Service Contracts: None of the Non-Executive Directors has a service contract.

The Society has a service agreement with Deans (Staffordshire) Limited for the services of Chief Executive, Deputy Chief Executive, Finance Director and Secretary which contains provisions for termination upon 12 months' written notice by either party.

STAFFORD RAILWAY
BUILDING SOCIETY

Member of the Building Societies Association
Established 1877

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