STAFFORD RAILWAY
BUILDING SOCIETY

Capital Requirements Directive

Pillar 3 Disclosures

For the Year Ended 31 October 2018

STAFFORD RAILWAY BUILDING SOCIETY

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1. Introduction

1.1. Background

The European Union ('EU') Capital Requirements Directive ('CRD') and Capital Requirements Regulations ('CRR') came into force on 1 January 2014. The CRD and CRR (known collectively as 'CRD IV') seek to ensure that, according to consistent standards, all banks and building societies hold adequate capital to protect their depositors and shareholders. The Basel Committee on Banking Supervision ('BCBS') released a revised version of the Pillar 3 framework in January 2015.

Prudential supervision with regards to capital and liquidity adequacy is overseen in the UK by the Prudential Regulation Authority ('PRA'). The European Banking Authority ('EBA') issued their own guidance in December 2016 to ensure the harmonised and timely implementation of the framework in the EU. The guidance is regarded as good practice, although not mandatory at present, and this document seeks to reflect the guidance in line with building society peers.

CRD IV comprises three main elements or 'Pillars':

- Pillar 1: Minimum capital requirement for credit, market and operational risk, assessed according to a formulaic risk based calculation;
- Pillar 2: Assessment of additional capital requirements following review under the Internal Capital Adequacy Assessment Process ('ICAAP'), approved annually by the Board, and the PRA's Supervisory Review and Evaluation Process ('SREP'); and
- Pillar 3: Disclosure requirements to publish a document describing the risks the Society faces in its normal course of business, alongside a description of the capital held to support the business.

In addition to the assessment of capital requirements under Pillar 1 and 2 above, the Society's overall capital requirement is reviewed periodically by the PRA. The PRA set the minimum amount of capital they consider that the Society should hold.

The Board of Directors can confirm that the Society's current capital position, in its opinion, is sufficient to meet the minimum capital resources requirement and that sufficient capital will continue to meet minimum requirements for its planned future strategy. In addition, risk management arrangements adequately assess and control the principal risks facing the Society and are proportionate in light of the characteristics, size, scale and complexity of the Society.

1.2. Basis, Frequency and Scope of Disclosures

The disclosure requirements in this document are in accordance with the CRR. The Society has no subsidiaries.

The Society has adopted the Standardised Approach for Credit Risk and the Basic Indicator Approach for Operational Risk and seeks to ensure that it protects its members by holding sufficient capital at all times.

The Society's Board has undertaken an assessment of all the key risks facing the Society and has assessed the amount of additional capital under Pillar 2 that it considers necessary to cover these risks. This assessment, undertaken as part of the ICAAP, takes into account the capital requirement under stressed scenarios to ensure the Society is well placed to maintain sufficient capital even during a severe downturn in the markets in which it operates.

The information presented is based on the Society's Annual Report and Accounts as at 31 October 2018, but may differ where regulatory requirements differ from the requirements underlying the Annual Report and Accounts. There is no requirement for the disclosures to be externally audited.

The disclosures do not constitute any form of financial statement and must not be relied upon in making any judgement on the Society.

CRD IV introduced a country-by-country reporting requirement aimed at providing transparency of a financial institution's income and the location of its operations. This is reported at note 25 in the Annual Report and Accounts. The Society's Annual Report and Accounts are published on the Society's website (www.srbs.co.uk).

This document is reviewed annually by the Society's Risk Committee and was approved by the Board at its meeting on 25 February 2019 and is published on the Society's website (www.srbs.co.uk) within six months of the financial year-end, that is, by 30 April 2019.

1.3. Summary of Key Capital Ratios

Key Capital Ratios	2018	2017
Common Equity Tier 1 ('CET1') Ratio	24.42%	23.60%
Total Capital Ratio	24.63%	23.81%
Risk Weighted Assets	£85.98m	£85.55m
Leverage Ratio	8.20%	7.64%

Table 1: Summary of key capital ratios

2. Risk Management Policies and Objectives

The Stafford Railway Building Society is a mutual organisation with no equity shareholders. The principal business objective of the Society is to provide a safe and secure home for members' savings whilst offering secured lending on residential property in order to support home ownership. Mortgage activity is funded by offering traditional retail savings products which are competitive, easy to understand and designed to attract savings from individuals and businesses alike.

Risk management and governance arrangements provide processes for identifying and managing the most significant risks to the Society's objectives. These processes allow the Society to be aware of these risks at an early stage and as far as possible to mitigate them. The ability to properly identify, measure, monitor and report risk is vital in ensuring financial strength, appropriate customer outcomes and the ongoing security of Members' funds.

Risks arise naturally in the course of doing business in the financial services industry. To mitigate these risks to acceptable levels, the Board has put in place a Risk Management Framework ('RMF') which covers all aspects of the Society's operations.

As a part of its day to day operations the Society will raise funds in the retail market. These funds are then invested in other institutions to manage its overall liquidity position and to support the provision of mortgages to retail customers.

The Society's prudent nature ensures that it maintains a low exposure to risk, thereby maintaining public confidence and allowing for the achievement of its corporate objectives and long term success.

2.1. Risk Governance Structure

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

In principle, each of the Board Committees fulfil a similar role, in that, operating under a Board delegated mandate, they provide a forum for the direction and challenge of Management whilst monitoring business

performance and risk exposures. Each of the Board Committees comprises Non-Executive Directors with other attendees being drawn from the Executive and Senior Management. Full details of the Society's Board and Committee structure are contained within the Corporate Governance Report.

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

The Risk Management Framework Policy is reviewed annually by the Risk Committee and then approved by the Board.

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

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

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

Identification, monitoring and review of principal risks to which the Society is exposed to is monitored through the following Committee structure.

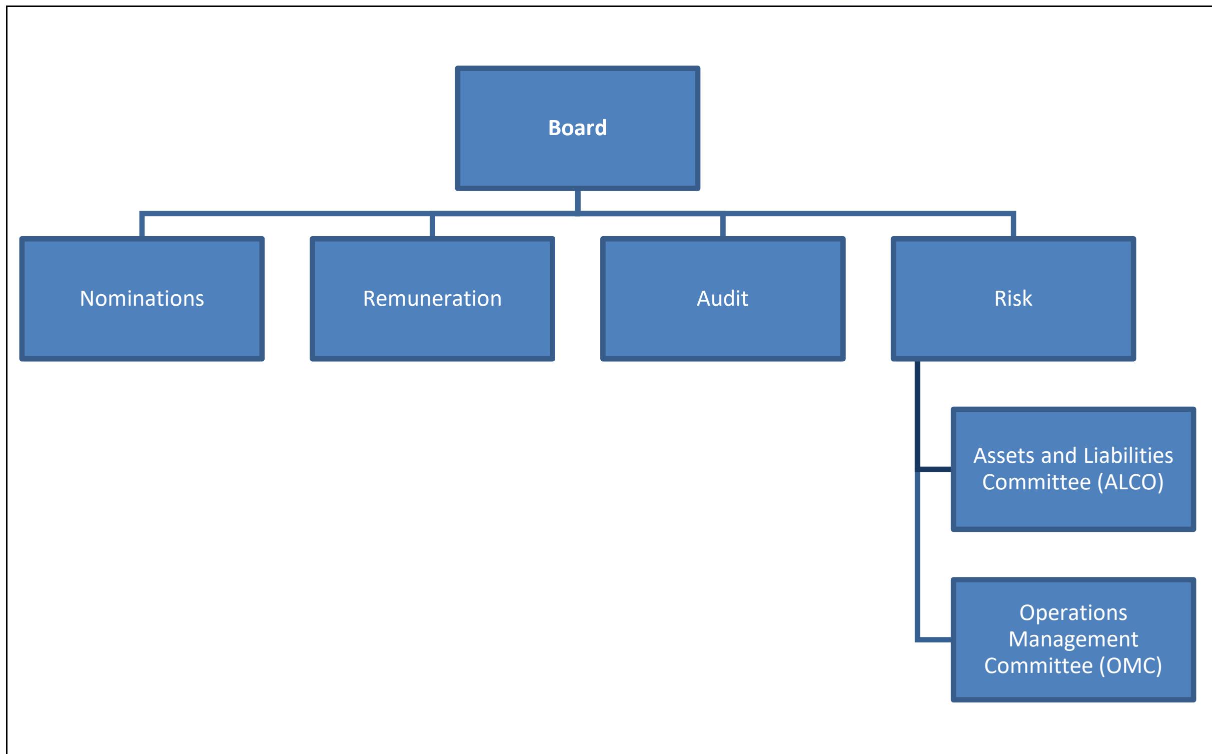

Figure 1: Society Committee Structure

2.1.1. The Board

The Board comprises two Executive Directors and six Non-Executive Directors and meets eleven times a year. The Board of Directors comprises professional and business people from a variety of backgrounds. It is recognised that an appropriate mix of skills and diversity is required on the Board, but that this must be balanced with increasing pressure to have sector and risk management experience to satisfy Regulatory requirements. It is also recognised that to obtain this mix, the Society has to look beyond its local area, although maintaining links with the local community is very important.

The Board is responsible for setting the overall Risk Strategy and approving the design and implementation of risk management approaches, including the Risk Management Framework Policy and the Risk Appetite Statements and metrics that underpin them. It delegates authority for cascading the setting and approval of the more granular risk limits and tolerances to the Chief Executive. Using the output of the semi-annual certification process, to approve the effectiveness of the Risk Management Framework with support from Audit Committee reports on internal audit and Second Line risk-based review programmes. Reviewing and challenging Board Risk Committee reports on the effectiveness of the Risk Management Framework and systems.

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

2.1.2. Audit Committee

The Committee considers all matters of an audit and compliance nature applying to the Society, including internal controls, compliance reports, scope and content of internal and external audit work, financial reporting and other relevant systems and controls requirements. It validates the financial statements of the Society. The Chairman of Audit Committee discharges a role of Whistleblowing Champion providing the Board with an annual report on whistleblowing arrangements within the Society.

A dotted reporting line exists directly between the Chairman of the Audit Committee and the Risk and Compliance Manager.

2.1.3. Risk Committee

The Risk Committee is mandated to monitor and review the consolidated risk picture across the Society. It is responsible for the on-going development and maintenance of Internal Liquidity Adequacy Assessment Process ('ILAAP') and the ICAAP as well as Risk Management Framework. The Committee also provide support and challenge for development of strategic plan and adequate testing strategy. The Risk Committee receives at each meeting standing reports on the Risk Register along with detailed risk management information ('MI') that enables it to track performance against the risk appetite.

A dotted line reporting exists directly between the Chairman of the Risk Committee and the Risk and Compliance Manager.

2.1.4. 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 the Deputy Chief Executive and Finance Director and reports to the Risk Committee. Other members of staff and Non-Executive Directors attend as required. The Committee is responsible for ensuring that the Society's treasury risks (liquidity, treasury counterparty risk, interest rate risk in the banking book) are managed and mitigated in line with the Board's risk appetite and related policies. The Committee also ensures that all (non-treasury) lending undertaken by the Society is in line with the Board's risk appetite. The Committee reviews ongoing management information and is responsible for recommending changes to the Lending Policy for Board approval.

The Committee reports and escalates breaches to the Risk Committee.

2.1.5. Operations Management Committee ('OMC')

The Operational Management Committee ('OMC') is responsible for organising and co-ordinating the day-to-day management of the Society, including financial crime, operational risk, conduct risk and information technology ('IT'), in line with the Board's risk appetite, business plan, and overall strategic direction. Detailed management information enables this Committee to track any changes in performance and standards. This Committee escalates breaches to the Risk Committee.

2.1.6. Remuneration Committee

The Remuneration Committee is responsible for designing and implementing the reward structure of the Society. The Committee ensures that effective risk management is a key component of remuneration and incentive structures.

Membership is restricted to Non-Executive Directors only.

2.1.7. Nominations Committee

The Nominations Committee is chaired by the Chairman of the Board. It also comprises the Vice Chairman and the Senior Independent Director. It identifies and recommends to the Board candidates for nomination as Directors and considers Board succession planning. It meets when there is an appropriate vacancy to fill but in any case at least once a year to review the skills mix of the Board and succession planning.

2.2. Three Lines of Defence

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

1. First line of defence – Operational Risk Management.

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

2. Second line of defence – Risk and Compliance Function.

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

3. Third line of defence – Internal Audit and External Audit.

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

External audit is independent and provided by KPMG LLP with a reporting line direct to the Audit Committee.

Line of defence	Responsibility	Oversight
First	Senior Management Team	Chief Executive and Deputy Chief Executive Finance Director
Second	Risk and Compliance Manager, Money Laundering Reporting Officer ('MLRO')	Risk Committee, Remuneration and Nomination Committee
Third	Internal Audit (outsourced) External Audit	Audit Committee, Board

Table 2: Three Lines of Defence

2.3. Principal Policies by Category of Risk

As building societies operate within a highly competitive financial services market, many of the risks arise simply from competing within such an environment. The Society, like all businesses, faces a number of risks and uncertainties and seeks to actively manage these risks. The Society has an overall cautious approach to risk, which helps to maintain member confidence particularly in difficult market conditions. The identification of risk and management of risk is a high priority and is integral to strategy and operations.

The principal business and financial risks to which the Society is exposed to are, credit, concentration, strategic, liquidity, market and interest rate risk, operational, regulatory and conduct. The Society has a formal structure for managing these risks including established risk limits, reporting lines, mandates and other control procedures.

2.4. Credit Risk

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

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

The Society's Lending Policy details the limits set on the Society's lending operations. The Society's lending book is predominantly secured on residential property. The criteria applied to individual mortgages, and the

limits set on different types of mortgages, are designed to reduce to a minimum the probability of any loss from lending.

Counterparty and country limits mean that there is little concentration of treasury assets. The institutions that the Society invests in are highly rated (Fitch at least A-) or, in the case of Building Societies, are subject to a financial review and the asset types and limits have been agreed with the Regulator as compatible with their guidance to the Society under the Supervisory Statement ('SS') 20/15 - Supervising Building Societies' Treasury and Lending Activities. The limits are monitored through the weekly liquidity report.

2.5. Concentration Risk

Concentration risk is the risk posed to a financial institution by any single or group of exposures which have the potential to produce losses large enough to threaten the ability of the institution to continue operating as a going concern.

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

Although the Society has only a small range of mortgage products, which are predominantly secured on residential property wholly within the UK, this concentration is of low risk because of the inherent nature of the assets and the controls in place as detailed in the Lending Policy.

The limit on exposure to an individual borrower or a group of connected counterparties is 10% of capital (£2.1million). The Society has no "large exposure" defined by the Building Societies Regulatory Rule Book ('BSOCS') as exceeding 10% of capital as at 31 October 2018.

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

The Pillar 1 credit risk calculation assumes a diversified firm; therefore, additional capital is required where the Society is exposed to concentration risk.

2.6. Strategic Risk

Strategic risk is the risk that the Society fails to execute its strategic plan or fails to effectively execute elements of its strategic plan due to poor planning or changes in the strategic environment.

The Society maintains sufficient capital of a pre-requisite quantity and quality to cover both business as usual and future risks in plausible stressed scenarios, whilst maintaining market confidence.

Strategic risk is managed through regular review and development of key performance indicators, management oversight and an embedded corporate governance framework.

Strategic risk includes:

2.6.1 Business Risk

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

2.6.2 Pension Obligation Risk

Pension obligation risk is the risk to the Society caused by its contractual or other liabilities to or with respect to a pension scheme (whether established for its employees or those of a related company or otherwise) or

the risk that the Society will make payments or other contributions to or with respect to a pension scheme because of a moral obligation or because the Society considers that it needs to do so for some other reason.

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

2.7. 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 Liquidity Policy, approved by the Board, 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 including UK Treasury Bills, Government Securities and deposits in a Bank of England Reserve Account as part of regulatory requirements. The Society's approach to liquidity risk is documented in the Society's Internal Liquidity Adequacy Assessment Process ('ILAAP').

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

Liquidity is monitored daily by the Executive and senior management, reviewed at Assets and Liabilities Committee ('ALCO') meetings, and included in the Management Information for Board meetings.

2.8. Interest Rate Risk, Basis and Market Risk

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

Basis and market risk is the risk of an impact on economic value due to pricing assets and liabilities according to different interest rate bases. The Society's basis risk arises from assets and liabilities being linked to different interest rate types including fixed, tracker and administered.

A basis risk analysis is prepared monthly and reviewed by Assets and Liabilities Committee ('ALCO'). New products and treasury activities are assessed by Assets and Liabilities Committee ('ALCO') taking into account their impact on the Society's basis risk exposure.

The Society does not undertake any hedging in line with its approach to treasury management.

2.9. Operational Risk

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

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

The Society provides a range of variable rate mortgage and investment products. The Society does not provide any other financial products and it has appropriate controls in place with respect to mortgage advice.

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

2.10. Regulatory Risk

Regulatory risk is the risk that the volume and complexity of regulatory issues may impact the Society's ability to compete and grow, or result in fines, public censure or restitution costs because of a failure to understand, interpret and comply with UK and EU regulatory requirements.

The Society will maintain good regulatory relations and systems and controls to ensure that all regulatory expectations are met and reported on within agreed and mandated timeframes.

The Society has an internal compliance function to monitor compliance with existing legislation, the implementation of controls and the impact of new requirements. This is overseen by the Audit Committee.

2.11. Conduct Risk

Conduct risk is the risk that the Society does not treat its members (customers) fairly and of inappropriate or unsatisfactory consumer outcomes. The Board acknowledges the requirement to fully embrace the Financial Conduct Authority ('FCA')'s Principle 6, namely to ensure that the Society pays due regard to the interests of its customers and to treat them fairly at all times.

The Society's conduct will be maintained at a high standard and will aim to achieve desired outcomes to its members.

These principles are firmly embedded within the Society's culture. This ethos has manifested itself into working practices throughout the Society.

The Audit Committee and the Board monitor the risk. In addition, the Risk Committee reviews and challenges the conduct risk management information. The Board reviews the Conduct Risk Policy annually and receives conduct risk monitoring information monthly.

3. Capital Resources

During the year ended 31 October 2018, the Society complied with all of the externally imposed capital requirements as laid down by the PRA. During 2018, the Society has continued to comply with the EU Capital Requirements Regulation and Directive (Basel III) as amended by the PRA. Under the current PRA definitions, the Society's capital is structured as follows:

Capital Resources	As at 31 October 2018 £'000	As At 31 October 2017 £'000
Tier 1 Capital		
General reserves	21,036	20,232
Other reserves	(44)	(43)
Total Tier 1 Capital	**20,992**	**20,189**
Tier 2 Capital		
Collective impairment allowance	187	179
Total Tier 2 Capital	**187**	**179**
Total Capital Resources	**21,179**	**20,368**

Table 3: Capital Resources

Reserves are only eligible to be treated as capital once the Annual Accounts have been independently assessed by the Society's auditors; therefore the Society's capital is only updated annually following the financial year-end.

Tier 1 Capital:
These are the cumulative general reserves of the Society, externally verified, and represent an accumulation of after-tax profits of the Society and the available-for-sale reserve.

Tier 2 Capital:
This is the collective impairment provision of the Society which represents expected losses arising from the Society's portfolio of secured advances. Individual impairment provisions (currently £6k) are not allowable as Tier 2 capital.

The Society does not hold any alternative Tier 1 instruments nor have any Tier 3 capital resources.

Capital Buffers:
Basel III requires the use of common equity capital buffers to ensure that a firm has sufficient loss absorbing capital that provides a financial cushion against difficulties that might arise in times of stress.

These include a Capital Conservation Buffer of up to 2.5% of risk weighted assets and a Counter-Cyclical Buffer of up to 1.0% of risk weighted assets which can be applied by the Regulator when macroeconomic conditions dictate.

As per Table 3, the available Tier 1 capital at 31 October 2018 was £20.992m, and the total risk weighted assets for the Society were £85.978m, leading to a capital requirement at 8.0% of £6.878m.

As the Society currently has £14.301m of capital in excess of minimum capital requirements this is regarded as being more than sufficient to meet any future capital buffer requirements. The Society's five year plan forecasts that the Society's capital position will strengthen over this time period and that Basel III capital requirements will continue to be met with a robust margin.

4. Capital Adequacy

On an annual basis, the Society updates its five-year Corporate Plan, incorporating forecast strategic business growth and capital positions and requirements. This planning cycle is driven by current market and economic conditions and is underpinned by the Society's risk appetite.

The Society's policy is to maintain a strong capital base to maintain member, creditor and market confidence and to sustain future development of the business. The formal ICAAP assists the Society with its management of capital. The Board monitors the Society's capital position monthly 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 the stated risk appetite that aims to maintain capital at a level that equates to or exceeds its minimum capital requirement.

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

In order to produce a detailed capital plan, the ICAAP contains calculations of the capital resources requirement (effectively, the minimum capital requirement) each year using the standardised approach for credit risk and the Basic Indicator Approach (see section 7) for operational risk.

Under the standardised approach for credit risk, the Society applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted asset value as the minimum total capital requirement for credit risk, as detailed in Table 4:

Standardised Exposure Class	Exposure £000	Risk Weighted Assets £'000	2018 Capital Required £'000
Liquidity Exposures			
Cash	82	-	-
Central Government and Bank of England	56,611	-	-
Institutions	24,268	10,546	844
Total Liquidity Exposures	**80,961**	**10,546**	**844**
Loans and Advances to Customers:			
Prime Residential	135,480	47,507	3,801
Buy To Let	29,032	10,161	813
Self-Build	6,974	2,446	196
Commercial	691	691	55
Forward Commitments – Off Balance Sheet	17,240	6,034	482
Total Loans and Advances to Customers	**189,417**	**66,839**	**5,347**
Other Exposures:			
Fixed and other assets	1,131	1,131	90
Total Other Exposures	**1,131**	**1,131**	**90**
Credit Risk – Pillar 1 Capital Requirement	**271,509**	**78,516**	**6,281**
Operational Risk - capital requirement	-	7,462	597
Total Pillar 1 Capital Requirement	**-**	**85,978**	**6,878**
Total Capital Resources as per Table 3	-	-	21,179
Excess of Capital over Total Pillar 1 Capital Requirement	**-**	**-**	**14,301**

Table 4: Pillar 1 Capital Resource Requirements 31 October 2018

The difference between the Society's total credit risk exposure per Table 4 of £271.509m and the total assets recognised in the Statement of Financial Position of £254.076m in the Annual Report and Accounts for the year ended 31 October 2018 is detailed in Table 5:

Reconciliation of Total Credit Risk Exposure and Society's Statement of Financial Position	£'000
Total credit risk exposure	271,509
Less: allowance for impairment	(193)
Less: Forward Commitments	(17,240)
Total Assets Recognised in the Statement of Financial Position	**254,076**

Table 5: Pillar 1 Capital Resource Requirements 31 October 2018

A detailed analysis of the risk weightings is provided in Table 6 below:

Standardised approach – exposure by asset classes and risk weights:	Risk weight %	2018 £'000
Cash	0	82
Central Government and Bank of England	0	56,611
Institutions	20	5,294
Institutions	50	18,974
Prime Residential	35	135,343
Prime Residential	100	137
Buy To Let	35	29,032
Self-Build	35	6,961
Self-Build	75	13
Commercial	100	691
Forward Commitments	35	17,240
Fixed and other assets	100	1,131
Total assets		**271,509**

Table 6: Standardised Approach – Exposure by Asset Classes and Risk weights

5. Credit Risk – Loans and Advances

For a building society, credit risk is most likely to arise through the inability of borrowers to repay their mortgage commitments (mortgage credit risk) or through the failure of a treasury counterparty or country (wholesale credit risk – this is discussed in section 6.1 below)). The Society has no appetite for material credit losses. This is controlled through credit quality standards and strict underwriting rules.

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

The Board's risk appetite is based on:

- The maximum proportion of the total mortgage portfolio that certain loans types can represent;
- Loan-to-value ('LTV') ratios; and
- 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 lending portfolio is monitored by the Operations Management Committee ('OMC') to ensure that it remains in line with the stated risk appetite of the Society. All mortgage applications are manually underwritten individually on a case-by-case basis using experienced staff ensuring that they meet the Lending Policy rules through a full affordability assessment so supporting the risk appetite of the Society.

The Society's second line Risk and Compliance function undertakes periodic reviews of the Society's lending process and the results of the reviews are reported to the Audit Committee.

The Society operates throughout England and Wales. It has no exposure to properties internationally.

The maturity of loans and advances to customers from the date of the balance sheet is shown in Table 7. The table was compiled on the assumption that all loans are held to their contractual maturity date.

Maturity of Loans and Advances to Customers	2018 £'000
On call and at short notice	540
In not more than three months	223
In more than three months but not more than one year	410
In more than one year but not more than five years	7,754
In more than five years	163,494
Total gross mortgages	172,421
Less: allowance for impairment	(193)
Total Net Mortgages	**172,228**

Table 7: Maturity Loans and Advances to Customers

An analysis of the Society's indexed LTV profile is shown in Table 8 below:

LTV Profile	2018 £'000	%
Less than 50%	110,997	64.4
51 – 70%	50,782	29.4
71 – 90%	10,642	6.2
91 – 100%	-	-
More than 100%	-	-
Total Gross Mortgages	**172,421**	**100.0**

Table 8: LTV Profile

During the year to 31 October 2018, the Society experienced £nil losses on mortgages (2017: £nil).

An individual impairment provision of £6k on fully secured residential property ('FSRP') was held at 31 October 2018 covering two residential properties as well as a collective impairment provision of £187k. For capital purposes, the collective impairment provision is regarded as Tier 2 capital.

The Society's current Lending Policy is in accordance with its risk appetite, which has been established by the Board, and has produced an inherently low risk mortgage book. The Society has strong management controls over arrears with no losses arising from default leading to possession in the year to 31 October 2018. The average loan to value of the residential mortgage book was 32.2% as at 31 October 2018.

An analysis of the Society's 'past due' loans by geographical area, which are loans more than 90 days in arrears, as at 31 October 2018 is set out in Table 9 below:

Region	Residential loans		Commercial loans		
	Past due £'m	Performing £'m	Past due £'m	Performing £'m	Total £'m
Stafford ST16 – ST18	0.3	35.4	-	1.5	37.2
Rest of Staffordshire	-	25.8	-	0.6	26.4
Scotland	-	0.1	-	-	0.1
Wales	-	4.4	-	-	4.4
Rest of UK	0.3	103.7	-	0.3	104.3
Total Gross Mortgages	**0.6**	**169.4**	**-**	**2.4**	**172.4**

Table 9: Past Dues by Geographical Area

Table 10 provides a reconciliation of the above table to "Loans and Advances to Customers" in the Annual Report and Accounts 2018:

Reconciliation of Loans and Advances to Customers	£'m
Loans and advances to customers per Annual Report and Accounts	172.2
Add back: collective mortgage provision	0.2
Society accounting value of loans and advances to customers	**172.4**
Total residential exposures for capital adequacy purposes (as per Table 9 above)	170.0
Total non-residential exposures for capital adequacy purposes (as per Table 9 above)	2.4
Society capital adequacy value of loans and advances to customers	**172.4**
Adjustments to reflect different reporting requirements and timing differences	-
Reconciled value of loans and advances to customers	**172.4**

Table 10: Reconciliation of Loans and Advances to Customers 31 October 2018

The Society's allowance for impairment is set out in Table 11 below:

	Loans fully secured on Residential Property		Loans fully secured on Land		
	Individual	Collective	Individual	Collective	Total
	£'000	£'000	£'000	£'000	£'000
Balance at 1 November 2017	13	179	-	-	192
Charge/(credit) for the year	(7)	8	-	-	1
Balance at 31 October 2018	**6**	**187**	**-**	**-**	**193**

Table 11: Allowances for Impairment

Provisions on residential and commercial mortgages are made to reduce the value of loans and advances to the amount that is considered likely to be ultimately recoverable in the event of the relevant property held as security being sold in possession by the Society.

The Society considers evidence of impairment for loans and advances at both an individual 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.

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 the 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 using provisions.

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.

In exercising its judgement, the Board consider a number of scenarios, incorporating a range of the key variables noted. The scenarios include, for example geographical concentration and borrower age profile.

The probability of default used in the scenarios ranges from 4% to 10%. A 2.5% increase in the outcome of probability of default would result in an increase in the collective impairment of £59,000. Conversely a 2.5% decrease would result in a decrease in the collective impairment of £52,000. A more aggressive stress based on a 5% increase would result in an increase of £120,000, and a 5% decrease would result in a decrease of £102,000.

6. Credit Risk – Liquidity

For a building society, liquidity credit risk is most likely to arise through the failure of a treasury counterparty or country (wholesale credit risk). The Society has no appetite for material credit losses. This is controlled through credit quality standards as well as limits by exposure to counterparty, sector, country and instrument.

The Society is also exposed to credit risk through its treasury operations. This risk arises from counterparties who may be unable to repay loans and other financial instruments that the Society holds as part of its liquidity portfolio.

The counterparty limits are defined in the Treasury Counterparty Risk Policy which uses Fitch ratings agency as its External Credit Assessment Institution ('ECAI'). Exposure limits for individual banks on the Society's list of authorised counterparties are set taking into account Fitch's Long Term Ratings. No bank or building society is included on the list unless it has, as a minimum, and a Long Term rating of A-. In addition to the use of Fitch ratings, market intelligence is used in assessing counterparty risk, in recognition that there may be a delay between a counterparty being in difficulty and this being reflected in a downgrading of its Fitch rating. A process is in place to reduce counterparty exposure limits, or to remove counterparties from the approved list, immediately without reference to the Board, but counterparties cannot be added without Board approval. Limits are also set for diversification in terms of issuance and sector.

6.1. Wholesale Credit Risk

The purpose of the Society's ILAAP is to ensure that the Society has sufficient liquidity to meet its obligation as they fall due.

The Society's Treasury Risk Policy is to ensure that the Society can obtain the best possible return whilst operating within prudent limits in respect of counterparties.

In accordance with its Treasury Counterparty Risk Policy, the Society only invests funds in British Government Securities, banking institutions and building societies rated at least A- as assigned by the credit rating agency, Fitch. Once a counterparty attains a rating of A, with a negative outlook, management action is taken to reduce the exposure in that counterparty. The assets are managed with advice from external fund managers.

New limits and counterparties are considered by the ALCO before presenting recommendations to the Risk Committee for challenge and the Board for approval. 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. ALCO monitors exposures to counterparties and countries and ensures the Society is operating within its Board approved limits at its monthly meetings. The Board reviews the Society's exposure by sector on a monthly basis.

The maturity and credit profile of Treasury assets at 31 October 2018 is shown in Table 12:

Fitch Ratings	Maturity of Treasury Investment			
	< 3 months £'000	3 months to 1 year £'000	>1 year £'000	Total £'000
Banks: AAA to AA-	4,366	-	-	4,366
Banks: A+ to A-	5	9,041	4,559	13,605
Building Societies	1,005	4,126	1,248	6,379
Treasury Bills	3,995	2,741	-	6,736
British Government Securities	-	5,566	4,621	10,187
Bank of England	39,688	-	-	39,688
Total	**49,059**	**21,474**	**10,428**	**80,961**

Table 12: Maturity of treasury Investments

No provisions for loss relating to counterparty risk are held by the Society as at 31 October 2018.

7. Operational Risk

The Society has adopted the Basic Indicator Approach ('BIA') for Operational Risk. Under the BIA, a Pillar 1 operational risk capital requirement ('ORCR') is calculated at 15% average over three years of the sum of the elements listed below:

1. Interest receivable and similar income; less
2. Interest payable and similar charges;
3. Commissions / fees receivable; less
4. Commissions / fees payable.

Financial Year End 31 October	Average £'000	2018 £'000	2017 £'000	2016 £'000
Net Interest Income	3,990	4,226	3,943	3,801
Net fees	(11)	(29)	(2)	(1)
Relevant Indicator	3,979	4,197	3,941	3,800
ORCR (15%)	597			
RWA Equivalent	7,462			

Table 13: Operational Risk Pillar 1 31 October 2018

8. Asset Encumbrance

The Society has not pledged any part of its loan book as collateral with the Bank of England and the Society does not use derivatives that supports the management of interest rate risk.

As a result, the Society does not possess any encumbered assets.

9. Leverage Ratio

The leverage ratio has two objectives: first to limit the risk of excessive leverage by constraining the building up of leverage in the banking sector during economic upswings and second to act as a simple instrument that offers a safeguard against the risks associated with the risk models underpinning risk weighted assets. The ratio is defined as the Capital Measure divided by the Exposure Measure, with the ratio expressed as a percentage.

The Capital Measure for the leverage ratio is Tier 1 capital as defined in section 3. The Exposure Measure consists of both on and off balance sheet exposures, with the latter being introduced in January 2014 when the Basel Committee on Banking Supervision published a revised methodology for calculating the leverage

ratio. The revised paper requires off balance sheet items to be converted into credit exposure equivalents by using credit conversion factors.

Tables 14 to 16 detail the Society's leverage ratio of 8.20% as at 31 October 2018:

Table LRSum: Reconciliation of leverage ratio exposures to the financial statements	2018 £'000
Total assets as per the financial statements	254,076
Adjustments for off balance sheet items	1,724
Adjustment for impairment provisions	193
Leverage ratio exposure	**255,993**

Table 14: Leverage ratio 31 October 2018: LRSum

Table LRSpl: Split-up of on-balance sheet exposures (excluding derivatives and SFT)	2018 £'000
Secured by Mortgages on Immovable Property	172,177
Sovereign	56,611
Institutions	24,350
Other exposures (e.g. equity, securitisations, and other non-credit obligations assets)	1,131
Total on-balance sheet exposures	**254,269**

Table 15: Leverage ratio 31 October 2018: LRSpl

Table LRCom: Leverage ratio common disclosure	2018 £'000
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	254,269
Assets amounts deducted in determining Tier 1 capital	(193)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	254,076
Replacement cost associated with all derivative transactions	-
Add-on amounts for PFE associated with all derivative transactions	-
Total derivative exposures	**-**
Total off-balance sheet exposures	**1,724**
Tier 1 capital	20,992
Total exposures	255,993
Leverage ratio	**8.20%**

Table 16: Leverage ratio 31 October 2018: LRCom

10. Liquidity Coverage Ratio ('LCR')

The LCR was introduced as part of the CRD IV framework with its aim to improve short-term resilience of the liquidity risk profile of firms by requiring a buffer of High Quality Liquid Assets ('HQLA') to be held. The measure is designed to ensure that all credit institutions have sufficient available HQLA to meet a stressed net cash outflows over a 30 day horizon. The measure must be greater than the 100% threshold as defined in the CRR.

Table 17 details the Society's quarterly LCR for the twelve month period ending 31 October 2018:

LCR	31-Jan-18 £'000	30-Apr-18 £'000	31-Jul-18 £'000	31-Oct-18 £'000
Liquidity buffer	59,968	57,634	56,553	56,652
Total Net Cash Outflows	17,298	15,652	9,862	17,898
LCR %	**346.68%**	**368.22%**	**573.44%**	**316.53%**

Table 17: Liquidity Coverage Ratio 31 October 2018

11. Market Risk and Interest Rate Risk in the Banking Book ('IRRBB')

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.

IRRBB is the impact on economic value due to movements in interest rates and arises from mismatches of the re-pricing or maturity of assets and liabilities as interest rates change. The Society has a relatively simple treasury structure, with the majority of mortgages and all savings products currently on administered rates, while liquidity is typically of short duration. As a result, interest rate risk for the Society is significantly less than for other 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.

12. Remuneration and Material Risk Takers

The Society complies with the principles in the UK Corporate Governance Code 2016 relating to remuneration as far as they are applicable to a mutual organisation of the Society's size. The Remuneration Policy complies with the relevant elements of the FCA's Remuneration Code.

Full details of the Society's Remuneration Policy and details of Executive Directors' emoluments for 2018 and comparatives for 2017 are set out in the Directors' Remuneration Report to the Annual Report and Accounts, available on the Society's website, which should be read in conjunction with this report.

The Society's objective in setting remuneration policies is to ensure that they are in line with its business strategy, risk appetite and long-term objectives, and that remuneration is set at a level that retains and attracts staff of the appropriate calibre.

Remuneration of Executive Directors and the Risk and Compliance Manager (and MLRO) is determined by the Remuneration Committee, which consists of all the Non-Executive Directors. In setting remuneration, the Committee takes account of fees, salaries and other benefits provided to Directors and to other senior management of comparable institutions. Non-Executive Directors are paid fixed fees only.

A bonus is paid to the Executive Directors. The bonus is assessed by the Remuneration Committee and is based on a range of financial and non-financial corporate performance objectives including appropriate risk management objectives. Bonus payments are payable annually. In respect of the financial years ended 31 October 2018 and 2019, the Deputy Chief Executive and Finance Director has a minimum guaranteed element.

No Executive Director holds a contract with a notice period of more than twelve months.

12.1. Remuneration Code Staff

Code staff are defined by the Financial Conduct Authority (FCA) as "staff that have a material impact on the firm's risk profile; this includes staff that perform significant influence functions, senior managers and risk takers".

The Board has determined that Non-Executive Directors, Executive Directors, the Risk and Compliance Manager, the MLRO other key management and staff whose duties require them to have a relevant

qualification fall within the definition of Remuneration Code staff under SYSC 19D of the PRA Handbook. These staff are now identified as "Material Risk Takers" under CRD IV.

Information concerning the mandate of the Remuneration Committee and the decision-making process it uses in determining remuneration policy is contained within the terms of reference which are available on the Society's website.

Aggregate information on Remuneration Code Staff during the years ending 31 October 2018 is shown in Table 18:

	2018			
	Number	**Fixed Remuneration £'000**	**Variable Remuneration £'000**	**Total Remuneration £'000**
Non-Executive Directors	6	136	-	136
Executive Directors	4	419	59	478
Other Remuneration Code staff	6	335	-	335

Table 18: Remuneration Analysis 31 October 2018

Fixed Remuneration for Other Remuneration Code Staff includes pension contributions paid by the Society. No other benefits are paid and Directors do not receive pension contributions from the Society.

13. Conclusion

This disclosure document has been prepared in accordance with regulatory requirements as interpreted by the Society based on its size and complexity, and is updated on an annual basis following the publication of the Annual Report and Accounts.

In the event that a user of this document requires further explanation on the disclosures given, application should be made in writing to the Chief Executive or the Deputy Chief Executive and Finance Director at Stafford Railway Building Society, 4 Market Square, Stafford ST16 2JH.