



STAFFORD RAILWAY
BUILDING SOCIETY

Capital Requirements Directive

Pillar 3 Disclosures

For the Year Ended 31 October 2020

<u>Date</u>	<u>Version</u>	<u>Activity</u>	<u>Changes By</u>
30.11.20	1	Annual Review and Update	MND
22.12.20	1	ALCO review	ALCO
20.01.21	2	Challenge by Audit Committee and Second Line of Defence	Second Line / Audit Committee
26.01.21	3	Submission to Board and Board Approval	MND



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1. INTRODUCTION

1.1. Background

On 1 January 2014, the Basel Committee replaced the Basel II Framework with the Capital Requirements Regulation ('CRR') and Capital Requirements Directive ('CRD'), commonly known as the Capital Requirements Directive IV ('CRD IV'), introducing a revised definition of capital resources and additional capital and disclosure requirements. The rules are enforced in the United Kingdom ('UK') by the Prudential Regulation Authority ('PRA').

The aim of this reform was to create further resilience within the banking sector by improving the capability of financial institutions within the sector to absorb shocks generated by financial and / or economic stress. This improved resilience of the banking sector will help to prevent a cascade into the wider economy.

CRD IV comprises three main elements or 'Pillars':

- Pillar 1: Minimum capital requirement for credit, market and operational risk. The Society meets the minimum credit requirements by applying the Standardised Approach to credit risk and the Basic Indicator Approach;
- 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'). This assessment 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; and
- Pillar 3: Disclosure requirements. Where disclosure has been withheld due to materiality, proprietary or confidentiality, as the rules permit, comment is provided as appropriate.

The total amount of capital the Society is required to hold ('Pillar 1 and Pillar 2A') is collectively referred to as its Total Capital Requirement ('TCR'). The TCR is reviewed annually by the PRA, who set the minimum amount of capital they consider that the Society should hold.

1.2. Basis, Frequency and Scope of Disclosures

This document details the Society's Pillar 3 Disclosure as at 31 October 2020, with comparative figures for 31 October 2019 where relevant, and has been prepared to meet the disclosure requirements of the CRR.

The Pillar 3 Disclosure is based upon the Society's audited Annual Report and Accounts for the year ending 31 October 2020, unless otherwise stated. Pillar 3 disclosures are issued on an annual basis and are not subject to external audit, except where they are equivalent to those included within the Annual Report and Accounts.

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

1.3. Location and Verification

These disclosures and the Annual Report and Accounts are published on the Society's website (www.srbs.co.uk).

The Board approved the Society's Pillar 3 Disclosure document at their meeting dated 26 January 2021.

1.4. Scope of Application

The disclosure requirements in this document apply to the Society. The Society has no subsidiaries.

The 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 on page 75 of the Annual Report and Accounts.

1.5. Directors

Confirmation of other directorships held by the Society's Directors' are disclosed in the Annual Business Statement, which is included in 2020 Annual Report and Accounts.

1.6. Key Prudential Metrics

The prudential regulatory metrics that measure the primary risks to which the Society is exposed are summarised in Table 1. These are covered in greater detail throughout the document:

	31 October 2020 £'000	31 October 2019 £'000
Total Available Capital		
Common Equity Tier 1 ('CET1')	22,755	21,896
Tier 1	22,755	21,896
Total Available Capital	22,842	22,073
Risk Weighted Assets ('RWA')	£'000	£'000
Total Risk Weighted Assets	86,807	82,933
Risk Based Capital Ratios as a Percentage of RWA	%	%
Common Equity Tier 1 Ratio	26.21	26.40
Tier 1 Ratio	26.21	26.40
Total Capital Ratio	26.31	26.62
Basel III Leverage Ratio	£'000	£'000
Total Basel III Leverage Ratio Exposure Measure	272,510	263,709
Basel III Leverage Ratio (%)	8.35	8.30
Liquidity Coverage Ratio ('LCR')	£'000	£'000
Total High Quality Liquid Assets ('HQLA')	51,446	53,176
Total Net Cash Outflows	12,837	15,712
Liquidity Coverage Ratio (%)	400.75	338.44
Net Stable Funding Ratio ('NSFR')	£'000	£'000
Total Available Stable Funding	252,326	236,871
Total Required Stable Funding	135,767	128,856
Net Stable Funding Ratio (%)	185.85	183.44

Table 1: Key Prudential Metrics 2020 and 2019

2. RISK MANAGEMENT POLICIES AND OBJECTIVES

2.1 Introduction

The 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.

The Society's cautious approach 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.

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 sector. 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.

2.2 Risk Management Framework

The Society's Board of Directors has ultimate responsibility for developing the RMF. The Society has a Board Risk Appetite Statement, as part of the RMF, which is designed to identify, assess, manage and mitigate the 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 risk strategy. It also oversees and advises the Board on the current risk exposures and future risk strategy. The RMF is reviewed annually by the Risk Committee and then approved by the Board.

The overall RMF was reviewed during the year to ensure that it is demonstrably embedded throughout the Society with allocated First Line ownership, in particular the risks included in the Society's Risk Register, a defined reporting structure to support the Board's Risk Appetite Statement and associated limits, and ultimately the Society's sustainability and viability over the corporate planning five year horizon. Emerging risks are identified by First Line in their periodic reviews of their risks and controls held in the Risk Register.

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

The Society also uses stress testing as a key management tool to gain a better understanding of the resilience of the Society to external and internal shocks. These tests form a key part of the Society's capital and liquidity assessment and are designed to confirm that the Society has sufficient capital and liquid resources to support effective forward-looking strategic plans and to ensure the Society stays within its risk appetite.

The Society undertakes scenario tests to understand and manage the impact of the occurrence of these events and for more severe scenarios has a Recovery Plan that details the options available to the Society should it be adversely impacted a severe stress.

2.2.1 Three Lines of Defence Approach

The Society's RMF is based on a 'Three Lines of Defence' model which is recognised as an industry standard for risk management. This approach ensures that staff are aware of their risk and control responsibilities and

that an effective segregation of duties is in place across the Society. The model is summarised in Table 2 below.

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

Table 2: Three Lines of Defence Model

2.3 Risk Management Organisation and Governance Structure

2.3.1 The Board

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

- Provide leadership and direction with the strategic aim of promoting success within an effective and controlled framework;
- Set the Society’s strategic aims and objectives;
- Ensure sufficient human and financial resource are available to meet the objectives;
- Satisfy itself on the integrity of financial information at the same time ensuring financial controls and risk management systems are robust, reviewed at least annually; and
- Comply with all legal and regulatory requirements that affect the Society.

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

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

As at 31 October 2020, 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 four key Board Committees and reviews the composition of the Committees and their respective Terms of Reference annually to ensure they remain relevant and up to date. The Committee’s Terms of Reference are available on request from the Society’s Secretary and on the Society’s website at www.srbs.co.uk.

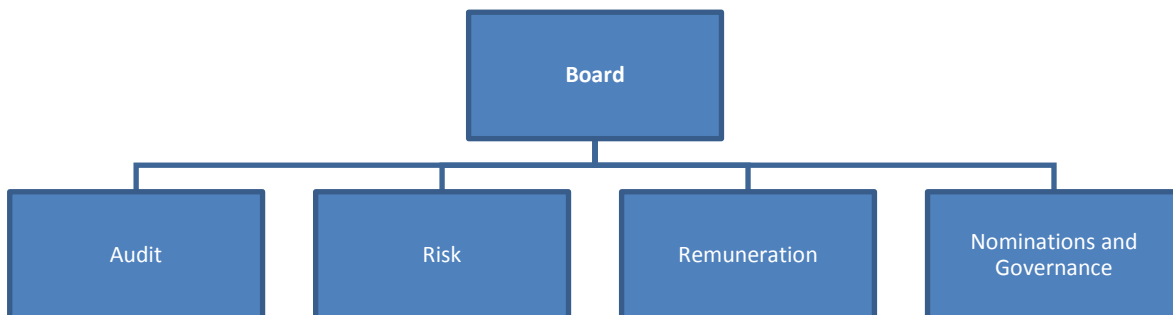


Figure 1: Board and Board Sub-Committee Structure

2.3.2 Audit Committee

The principal functions of the Audit Committee are to:

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

The Audit Committee consists entirely of Non-Executive Directors. In addition, the Executive Directors, representatives from the Society's Finance and Risk and Compliance functions, External Audit and the outsourced Internal Audit attend by invitation.

The Audit Committee meets at least four times a year.

2.3.3 Risk Committee

The principal functions of the Risk Committee are to:

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

The Risk Committee consists of all the Non-Executive Directors and the Deputy Chief Executive and Finance Director.

The Risk Committee meets at least six times a year.

2.3.4 Nominations and Governance Committee

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

The Nominations and Governance Committee consists entirely of Non-Executive Directors.

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

2.3.5 Remuneration Committee

The principal function of the Remuneration Committee is to set the remuneration of the Board Chairman, Executive Directors and other members of the Leadership Team.

The Remuneration Committee consists of all the Non-Executive Directors.

The Remuneration Committee meets at least twice a year.

2.4 Principal Risks

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 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, strategic / business, credit, concentration, interest rate and basis risk, liquidity, operational, conduct and legal / regulatory. The Society has a formal structure for managing these risks including established risk limits, reporting lines, mandates, and other control procedures.

Table 3 sets out the principal risks to which the Society is exposed to:

Principal Risk	Society Risk Summary	Risk Control and Mitigation
<p>Strategic / Business Risk The risks that affect or are created by the Society's business strategy and strategic objectives. Risks arising from changes to the Society's business model and the risk of the Corporate Plan proving appropriate due to macroeconomic, geopolitical, regulatory and other factors.</p>	<p>The Society explores new opportunities to serve its Members in pursuit of sustainable asset growth and accumulation of capital reserves in line with our five year strategy.</p>	<ul style="list-style-type: none"> • Corporate planning process. • Quarterly reforecasts to Board including stress testing. • Ongoing monitoring of key performance indicators and risk appetite measures. • Robust RMF and governance frameworks. • ALCO reviews the potential impact of a negative the bank base rate and reports to the Risk Committee.
<p>Mortgage Credit Risk The risk that mortgagors will fail to meet their obligations as they fall due, which results in a potential loss following enforcement of the loan and realisation of the mortgage security and related additional security.</p>	<p>This is currently driven by a further slowdown in the UK economy leading to higher unemployment and falling house prices which would result in increased arrears and potential impairment losses.</p> <p>The Society's lending book is predominantly secured on residential property. The criteria applied to individual mortgages, and the limits set on different types of lending, are designed to reduce to a minimum the probability of any loss from lending.</p>	<ul style="list-style-type: none"> • All mortgage loans are manually underwritten according to a Board approved Lending Policy and supporting criteria. • The performance of the loan portfolio is monitored closely by the Credit Committee with action taken to manage the collection and recovery process. • All portfolios are subject to periodic stress testing to ensure they remain within the quantified risk appetite of the Board.
<p>Counterparty Credit Risk The risk that market counterparties will fail to meet their obligations as they fall due and subsequently default resulting in a loss.</p>	<p>Prudential regulation requires that regulatory liquidity is held in high quality liquid assets reducing risk exposure.</p> <p>Due to a range of prudential regulatory reforms, the health of the UK Banking System has improved however the risk of counterparty default remains.</p>	<ul style="list-style-type: none"> • ALCO is responsible for monitoring treasury counterparty risk whilst the Board approves changes to treasury counterparties (including exposure limits) and Treasury Policies (including concentration of liquid assets). • A significant majority of liquidity is invested with the Bank of England's Reserve Account.

<p>Concentration Risk The risk of concentration in one product type, geographical concentration and over-exposure to single borrowers, investors or counterparties.</p>	<p>The Society provides a range of retail products and variable rate mortgages 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.</p>	<ul style="list-style-type: none"> • The Society has no dependency on any one form of introduction for mortgages and there is no concentration risk in the type of property held as security. • As part of our stress testing, we quantified and provided capital for a severe economic downturn which for whatever reason affected only our core operating area. The Society accepts that Stafford and Staffordshire are its core areas and have stress tested the impact of this.
<p>Interest Rate Risk and Basis Risk The adverse impact on the Society's future cash flows arising from changes in interest rates including:</p> <ul style="list-style-type: none"> • Economic Value ('NPV') – The risk to the capital value of the Society as a result of changes in interest rates. • Earnings Risk ('NII') – The risk to profitability of the Society as a result of changes in interest rates. • Basis Risk – The risk to profitability arising from non-parallel movement in net exposures to different interest rate bases. • Optionality – The risk to profit arising from provision of embedded optionality in products such as early prepayment or access with or without penalty. 	<p>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.</p> <p>The Society's main exposure to interest rates arises from its investment in Government Gilts and Certificates of Deposit with other financial institutions where the contractual interest rate is fixed.</p>	<ul style="list-style-type: none"> • 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. • Interest rate risk and basis risk are managed within a Board approved Interest Rate and Structural Risk Policy with clear quantifiable risk appetite limits. • Exposure is stressed monthly by ALCO to ensure it is managed in compliance with Policy. • The Society does not utilise derivatives so is not exposed to optionality risk.
<p>Liquidity Risk The risk that the Society, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations when they fall due, or can secure them only at excessive cost.</p>	<p>The primary liquidity risks arise from the nature of the retail deposit base and its maturity profile and the extent to which customers would seek to withdraw funds in response to a loss of confidence in the ability of the Society to meet its obligations as they fall due.</p> <p>The Society holds a buffer of high quality liquid assets such as deposits in a Bank of England Reserve Account as part of regulatory requirements.</p>	<ul style="list-style-type: none"> • ALCO monitors monthly forecasting of cash flow requirements. • ALCO reviews monthly stress testing performed to ensure obligations can be met in both business as usual and stressed conditions. • Liquidity is monitored daily by the Executive and the Leadership Team.
<p>Operational Risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The scope of operational risks includes legal and regulatory, financial crime (including fraud), business</p>	<p>The principal operational risks facing the Society are change management, fraud, information technology and cyber and operational resilience, management of third party suppliers, provision of inappropriate advice to consumers, non-compliance with regulation, key</p>	<ul style="list-style-type: none"> • Risks and controls are reviewed periodically with a report on the significant operational risks to the Board Risk Committee and are reviewed monthly by the Operational Management Committee ('OMC').

<p>continuity, information technology (including cyber-risk), people and resources, process and conduct.</p> <p>Execution of information technology change is a key driver of Operational Resilience risk and can impact on systems availability and the ability to deliver services to customers to the level desired.</p>	<p>person risk and business interruption.</p>	<ul style="list-style-type: none"> The independent Risk and Compliance function monitors risks, compliance with legislation and the impact of new requirements. This is periodically reviewed by the Regulations and Compliance Management Committee ('RCMC'). This is overseen by the Audit Committee.
<p>Conduct Risk This is the risk that the Society does not treat its Members fairly and of inappropriate or unsatisfactory consumer outcomes.</p>	<p>The Society pays due regard to the interests of its customers and to treat them fairly at all times. These principles are firmly embedded within the Society's culture. This ethos has manifested itself into working practices throughout the Society.</p>	<ul style="list-style-type: none"> The risk is monitored by the Audit Committee and the Board. In addition, the Risk Committee reviews and challenges the conduct risk management information. The Board reviews the Conduct Risk Policy annually and receives conduct risk monitoring information monthly.
<p>Legal and Regulatory Risk The risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK or EU legal and regulatory requirements.</p>	<p>The Society has implemented robust controls to ensure compliance with the intent and spirit of relevant laws and regulation.</p>	<ul style="list-style-type: none"> The independent Risk and Compliance function monitors risks, compliance with legislation and the impact of new requirements. This is periodically reviewed by the RCMC. This is overseen by the Audit Committee.

Table 3: Principal Risks

Table 4 sets out the non-principal risks / uncertainties to which the Society is exposed to:

Non-Principal Risk / Uncertainty	Society Risk Summary	Risk Control and Mitigation
<p>Covid-19 Covid-19 represents a generational disruption to life in the UK, with the true and lasting impact to the UK and global economy not yet fully known.</p>	<p>An increase in UK unemployment caused by the pandemic and the loss of income for those who are self-employed may affect borrowers' capability to make repayments. Other consequences, such as the impact on suppliers and the potential loss of key staff have been considered.</p>	<ul style="list-style-type: none"> Corporate planning process. Quarterly reforecasts to Board including stress testing. Ongoing monitoring of key performance indicators and risk appetite measures. Robust RMF and governance frameworks.
<p>Brexit Risk The UK left the EU on 31 January 2020. The transition finishes on 31 December 2020 with exit negotiations continuing to this point.</p>	<p>Failure to reach an agreement will result in the UK and EU trading on World Trade Organisation terms. Risks include political instability, disruption to financial markets and a general economic downturn impacting the Society's business model.</p>	<ul style="list-style-type: none"> The Society has modelled the potential impacts of a disorderly Brexit in its ICAAP having regard to the Bank of England's published EU Withdrawal Scenario. The Society maintains adequate capital and liquidity resources to absorb the potential adverse impacts of Brexit.
<p>Climate Change The Society has identified two primary elements of climate change risk:</p> <ul style="list-style-type: none"> Physical Risk: 	<p>The Society is increasingly cognisant of these risks in both its approach to credit management and strategy and will continue to refine its approach to the management of these risks.</p>	<ul style="list-style-type: none"> The Society has modelled the potential impacts of climate change in its ICAAP and set aside a Pillar 2A add-on for this. The Society maintains adequate capital resources to absorb the



<p>Primary drivers on the Society include increased risk of flooding, subsidence and coastal erosion impacting on the value of, and longer term ability to insure mortgaged properties resulting in increased risk of financial loss; and</p> <ul style="list-style-type: none">• Transition Risk: Risks arising from the process of adjustment towards a low carbon economy. Changes in policy, technology and sentiment could prompt a reassessment of the value of a large range of assets and create credit exposures for banks and other lenders as costs and opportunities become apparent.		<p>potential adverse impacts of climate change.</p>
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Table 4: Non-Principal Risks

3. CAPITAL RESOURCES

As at 31 October 2020 the Society complied with its capital requirements as defined by the PRA. The total capital resources of the Society calculated under Pillar 1 CRD IV and were £22.84m comprising Tier 1 capital of £22.76m and Tier 2 capital of £0.08m. Full details are provided in Table 5.

Capital Resources	31 October 2020 £'000	31 October 2019 £'000
Tier 1 Capital		
General Reserves	22,742	21,897
Available-For-Sale Reserve	13	(1)
Total Tier 1 Capital (CET1)	22,755	21,896
Tier 2 Capital		
Collective Impairment Provision	87	177
Total Tier 2 Capital	87	177
Total Capital Resources	22,842	22,073
Risk Weighted Assets	86,807	82,933
Capital Ratios and Buffers	%	%
Capital Ratios:		
CET1 Ratio – regulatory minimum 4.5%	26.21	26.40
Tier 1 Ratio – regulatory minimum 6%	26.21	26.40
Total Capital Ratio – regulatory minimum 8%	26.31	26.62
Capital Buffers:		
CET1 Ratio requirement	4.50	4.50
Capital Conservation buffer requirement	2.50	2.50
Countercyclical buffer requirement	0.00	1.00
Total CET1 Capital and Buffer Requirements	7.00	8.00

Table 5: Capital Resources, Capital Ratios and CRD IV Buffers 2020 and 2019

Tier 1 Capital:

These are the cumulative general reserves of the Society, externally verified, and represent an accumulation of post-tax profits 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 £128k) are not allowable as Tier 2 capital.

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

4. CAPITAL ADEQUACY

4.1 Capital Management

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. 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 for operational risk.

4.2 Capital Requirements

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 6. For operational risk the risk weighted average value is calculated by applying 15% to the Society's average net income over the previous three years:

Standardised Exposure Class	Exposure £000	Risk Weighted Assets £'000	2020 Capital Required £'000
Liquidity Exposures			
Cash	55	-	-
Central Government and Bank of England Institutions	51,398	-	-
	19,275	6,829	546
Total Liquidity Exposures	70,728	6,829	546
Loans and Advances to Customers:			
Residential – non-arrears	195,995	68,609	5,489
Residential – past due	231	231	18
Non-residential – non-arrears	1,431	766	61
Non-residential – past due	71	71	6
Forward Commitments – Off Balance Sheet	2,983	1,044	84
Total Loans and Advances to Customers	200,711	70,721	5,658
Other Exposures:			
Fixed and Other Assets	1,071	1,071	86
Total Other Exposures	1,071	1,071	86
Credit Risk – Pillar 1 Capital Requirement	272,510	78,621	6,290
Operational Risk - Capital Requirement	-	8,186	655
Total Pillar 1 Capital Requirement	-	86,807	6,945
Total Capital Resources as per Table 5	-	-	22,842
Excess of Capital over Total Pillar 1 Capital Requirement	-	-	15,897

Table 6: Pillar 1 Capital Resource Requirements 2020

As the Society currently has £15.897m of total 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.

The difference between the Society's total credit risk exposure per Table 6 of £272.510m and the total assets recognised in the Statement of Financial Position of £269.312m in the Annual Report and Accounts for the year ended 31 October 2020 is detailed in Table 7:

Reconciliation of Total Credit Risk Exposure and Society's Statement of Financial Position	£'000
Total Credit Risk Exposure	272,510
Less: Individual and Collective Impairment Provisions	(215)
Less: Forward Commitments	(2,983)
Total Assets Recognised in the Statement of Financial Position	269,312

Table 7: Total Credit Risk Exposure and Total Asset Reconciliation 31 October 2020

4.3 Capital Buffers

The Society is required under the CRR to hold additional capital for the capital buffers set out in Table 8:

Capital Conservation Buffer	Additional capital buffer to absorb losses in periods of economic and financial stress. Buffer based on firm's risk weighted assets and has been phased in between 2016 and 2019. The buffer requirement for 2018 was 1.875%, increasing to 2.50% from 1 January 2019.
Countercyclical Buffer	Set by the Bank of England's Financial Policy Committee ('FPC') within a range of 0% to 2.50% to ensure financial institutions build up capital in favourable economic conditions and which can be utilised in economic downturns. Increased from 0.50% to 1.00% from 28 November 2018 and to 2.00% on 16 December 2019. In response to the Covid-19 pandemic, on 11 March 2020, the FPC set the rate at 0.00% with immediate effect.

Table 8: CRD IV Buffers

5. REMUNERATION AND MATERIAL RISK TAKERS

The Society complies with the principles in the UK Corporate Governance Code 2018 ('the Code') relating to remuneration as far as they are applicable to a mutual organisation of the Society's size. The Society has adopted a Remuneration Policy which describes how the Society has complied with the requirements of both the supervisory statements issued by the PRA and the Financial Conduct Authority ('FCA') relating to remuneration and the Code. Full details of the Society's Remuneration Policy and details of Executive Directors' emoluments for 2020 and comparatives for 2019 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 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 determined 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 and set at a maximum of 20% for the Chief Executive and 15% for the Deputy Chief Executive and Finance Director.

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

5.1. Remuneration Code Staff

Remuneration Code staff are defined by the 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, 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 2020 is shown in Table 9:

Remuneration Analysis	Number	Fixed Remuneration £'000	Variable Remuneration £'000	Total Remuneration £'000
Non-Executive Directors	6	148	-	148
Executive Directors	2	321	48	369
Leadership Team	10	435	-	435
Certified Staff	7	218	-	218
Total	25	1,122	48	1,170

Table 9: Remuneration Analysis 31 October 2020

Fixed Remuneration for Executive Directors, Leadership Team and Certified Staff includes basic salary and pension contributions paid by the Society. Variable Remuneration comprises bonus payments made during the year. In terms of the Non-Executive Directors' fixed remuneration, they receive fees paid by the Society but do not receive pension contributions.

6. CREDIT RISK – LOANS AND ADVANCES

For a building society, mortgage credit risk is most likely to arise through the inability of borrowers to repay their mortgage commitments. The Society has no appetite for material credit losses. This is controlled through credit quality standards and strict underwriting rules. The Society operates throughout England and Wales. It has no exposure to properties internationally.

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 are 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 both the Product Development and Credit Committees to ensure that it remains in line with the stated risk appetite of the Society. All mortgage applications are manually underwritten 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.

6.1. Maturity, Loan to Value and Geographical Analysis

The maturity of loans and advances to customers from the date of the balance sheet is shown in Table 10. The table was compiled on the assumption that all loans are held to their contractual maturity date.

Maturity of Loans and Advances to Customers	2020 £'000
On call and at short notice (one month or less)	134
In not more than three months	171
In more than three months but not more than one year	422
In more than one year but not more than five years	10,114
In more than five years	186,887
Total Gross Mortgages	197,728

Table 10: Maturity Loans and Advances to Customers 2020

An analysis of the Society's indexed LTV profile is shown in Table 11:

Loan to Value Profile	2020 £'000	%
Less than 50%	112,509	56.9
50 – 70%	70,898	35.8
70 – 90%	14,178	7.2
90 – 100%	143	0.1
More than 100%	-	-
Total Gross Mortgages	197,728	100.0

Table 11: Loan to Value Profile 2020

During the year to 31 October 2020, the Society experienced £nil losses on mortgages (2019: £nil).

An individual impairment provision of £128k on fully secured residential property ('FSRP') was held at 31 October 2020 covering four residential properties as well as a collective impairment provision of £87k. For capital purposes, the collective impairment provision is regarded as Tier 2 capital.

The Society's current Board approved Lending Policy 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 2020. The average loan to value of the residential mortgage book was 31.3% as at 31 October 2020.

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 2020 are set out in Table 12:

Region	Residential		Non-Residential		Total £'000
	Performing £'000	Past Due £'000	Performing £'000	Past Due £'000	
Stafford ST16 – ST18	28,039	-	1,248	-	29,287
Rest of Staffordshire	26,896	38	183	71	27,188
Scotland	77	-	-	-	77
Wales	7,357	-	-	-	7,357
Rest of UK	133,626	193	-	-	133,819
Total Gross Mortgages	195,995	231	1,431	71	197,728

Table 12: Past Dues by Geographical Area 2020

6.2. Reconciliation of Loans and Advances to Customers

Table 13 provides a reconciliation of the above table to 'Loans and Advances to Customers' in the Annual Report and Accounts 2020:

Reconciliation of Loans and Advances to Customers	2020 £'000
Loans and Advances to Customers per Annual Report and Accounts	197,695
Add: Individual and Collective Impairment Provisions	215
Less: EIR Prepayment included in Other Assets	(182)
Society Accounting Value of Loans and Advances to Customers	197,728
Total Residential Exposures for Capital Adequacy Purposes (as per Table 12)	196,226
Total Non-Residential Exposures for Capital Adequacy Purposes (as per Table 12)	1,502
Society Capital Adequacy Value of Loans and Advances to Customers	197,728
Adjustments to reflect different reporting requirements and timing differences	-
Reconciled Value of Loans and Advances to Customers	197,728

Table 13: Reconciliation of Loans and Advances to Customers 2020

6.3. Individual and Collective Impairment Provisions

The Society's accounting policy in relation to the impairment provisions for loans and advances is stated in full in Note 1, Accounting Policies, to the Annual Report and Accounts 2020.

Movements in the Society's impairment provisions during the year-ended 31 October 2020 are set out in Table 14.

Impairment Provisions	Loans FSRP		Loans FSOL		Total £'000
	Individual £'000	Collective £'000	Individual £'000	Collective £'000	
Balance at 1 November 2019	38	177	-	-	215
Charge/(credit) for the year	90	(90)	-	-	-
Balance at 31 October 2020	128	87	-	-	215

Table 14: Impairment Provisions 31 October 2020

For capital adequacy purposes, collective impairment provisions are regarded as Tier 2 capital as detailed in Table 5.

No individual impairment provisions have been utilised to adjust downwards the value of risk weighted assets in the capital adequacy calculations as detailed in Table 6.

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 defaulting, the time taken to complete the sale of properties in possession and the eventual loss incurred in the event of forced sale discount, including realisation costs. They are updated as the Board considers appropriate to reflect both current and future circumstances. In exercising its judgement, the Board consider a number of scenarios, incorporating a range of the key variables noted. The scenarios include, for example geographical concentration and type of lending / market segment.

The average probability of default used in the collective impairment model is 7.75%. A 2.5% increase in the outcome of probability of default would result in an increase in the collective impairment provision of £27,000. A more aggressive stress based on a 5% increase would result in an increase of £54,000. The forced sale discount used in the collective impairment model is in a range of 27.5% to 40.0% based on the key

mortgage segment. A 5% increase in the forced sale discount would result in an increase in the collective impairment provision of £122,000. Conversely a 5% decrease would result in a decrease in the collective impairment provision of £53,000.

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

7. 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 counterparty limits are defined in the Board approved Treasury Counterparty 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 Short and Long-Term Ratings. No counterparty is included on the list unless it satisfies, as a minimum, a Short-Term rating of F1 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. Limits are also set for diversification in terms of issuance and sector.

Exposure to counterparty credit risk is derived from the investment in banks and building societies the Society makes for liquidity purposes. Treasury exposures are assigned risk weightings determined by both residual maturity and Credit Quality Step ('CQS'). Fitch's credit ratings are mapped to each CQS to determine the risk weighting applied to each exposure. The mapping is set out in Table 15.

CQS	Ratings	Central Bank and Governments Risk Weighting ('RW')	< = 3 Months Residual Maturity		> 3 Months Residual Maturity	
			Rated Credit Institutions RW	Unrated Credit Institutions RW	Rated Credit Institutions RW	Unrated Credit Institutions RW
1	AAA to AA-	0%	20%	20%	20%	20%
2	A+ to A-	20%	20%	20%	50%	20%

Table 15: Liquidity Risk Weightings Defined in the CRR

7.1. 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 Board approved Treasury 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 Policy, the Society only invests funds in British Government Securities, banking institutions and building societies that satisfy the Board's Fitch quality rating. 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 treasury brokers.

New limits and counterparties are considered by 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 profiles of Treasury assets as at 31 October 2020 are shown in Table 16:

Fitch Ratings	Maturity of Treasury Investment			Total £'000
	< 3 months £'000	3 months to 1 year £'000	>1 year £'000	
Banks: AAA to AA-	1	-	-	1
Banks: A+ to A-	9,362	9,912	-	19,274
Building Societies	55	-	-	55
Treasury Bills	-	-	-	-
British Government Securities	-	-	-	-
Bank of England	51,398	-	-	51,398
Total	60,816	9,912	-	70,728

Table 16: Maturity of Treasury Investments 2020

Nil provisions for loss relating to counterparty risk are held by the Society as at 31 October 2020 (2019: £nil).

8. 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 element being interest rate risk.

The Society only transacts with products in sterling so is not directly affected by currency risk.

Repricing risk is monitored using assessments such as gap analysis and economic value movements. The results of these assessments are reviewed against agreed limits which are set out in the Board approved Interest Rate and Structural Risk Policy. Exposures against these limits are monitored on a monthly basis and reported to ALCO.

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 all mortgage and savings products on administered rates in line with its Prudential Sourcebook limits, while liquidity is typically of short duration (held within a twelve month duration).

The Society's main exposure to interest rates arises from its investment in fixed interest yielding instruments, for example, 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 economic value stress test measures the effect of a parallel shift in interest rates of up to 2%. The Board has set a limit on the effect that a 2% parallel shift in interest rates can have on the Society's capital. Capital is provided accordingly under Pillar 2 within the ICAAP.

Table 17 shows the sensitivity to this measurement (in terms of economic value):

£'000	31 October 2020		31 October 2019	
	+2%	-2%	+2%	-2%
Economic Value	(135)	139	(195)	201

Table 17: Change in Economic Value 2020 and 2019

Table 18 summarises the impacts to net interest income resulting from 1% change in interest rates (over a twelve month horizon):

£'000	31 October 2020		31 October 2019	
	+1%	-1%	+1%	-1%
Maximum for the period	211	69	303	100
Minimum for the period	201	68	290	98

Table 18: Change in Net Interest Income 2020 and 2019

The Society also runs, on a monthly basis, the six interest rate shock scenarios set out by the European Banking Authority ('EBA') in its publication 'Guidelines on the Management of Interest Rate Risk arising from Non-Trading Activities – Annex III'. This reported to ALCO.

9. 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% of the three year average of the Society's net interest income and its net non-interest income:

The ORCR as at 31 October 2020 is set out in Table 19:

Financial Year End 31 October 2020	Average £'000	2020 £'000	2019 £'000	2018 £'000
Net Interest Income	4,370	4,432	4,454	4,226
Net Non-Interest Income	(4)	(3)	18	(28)
Relevant Indicator	4,366	4,429	4,472	4,198
ORCR (15%)	655			
RWA Equivalent	8,186			

Table 19: Pillar 1 Operational Risk Requirement 2020

10. 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 20 to 22 detail the Society's leverage ratio of 8.35% as at 31 October 2020 (2019: 8.30%):

LRSum: Reconciliation of Leverage Ratio Exposures to the Financial Statements	2020 £'000	2019 £'000
Total Assets as per the Financial Statements	269,312	259,614
Adjustments for Off Balance Sheet Items: Forward commitments	2,983	3,880
Adjustment for Impairment Provisions	215	215
Leverage Ratio Exposure	272,510	263,709

Table 20: Leverage Ratio 31 October 2020: Reconciliation of Leverage Ratio Exposures to the Financial Statements: LRSum

LRSpl: Analysis of On-Balance Sheet Exposures (excluding derivatives and SFT)	2020 £'000	2019 £'000
Secured by Mortgages on Immovable Property	197,728	187,555
Sovereign	51,398	53,081
Institutions	19,330	17,947
Other Exposures (e.g. equity, securitisations, and other non-credit obligations assets)	1,071	1,246
Total On-Balance Sheet Exposures	269,527	259,829

Table 21: Leverage Ratio 31 October 2020: Analysis of On-Balance Sheet Exposures: LRSpl

LRComm: Leverage Ratio Common Disclosure	2020 £'000	2019 £'000
On-Balance Sheet Items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	269,527	259,829
Assets Amounts deducted in determining Tier 1 Capital	(215)	(215)
Total On-Balance Sheet Exposures (excluding derivatives, SFTs and fiduciary assets)	269,312	259,614
Total Off-Balance Sheet Exposures	2,983	3,880
Tier 1 Capital	22,755	21,896
Total Exposures	272,510	263,709
Leverage Ratio (%)	8.35%	8.30%

Table 22: Leverage Ratio 31 October 2020: Common Disclosure: LRComm

11. LIQUIDITY AND FUNDING RISK

The Society manages liquidity risk by holding an appropriate amount and composition of liquid assets in terms of high quality liquid assets and other marketable assets, to:

- Meet obligations as they fall due (sufficient to meet adverse cash flows under stressed conditions);
- Smooth out the effect of maturity mismatches; and
- Maintain public confidence in a stressed environment.

The Society's liquidity is sourced solely from retail funding. Table 23 summarises the liquid asset levels in relation to the underlying funding, which is a primary metric used by the Society to assess liquidity risks.

Liquid Asset Level	31 October 2020 £'000	31 October 2019 £'000
Total Liquid Assets	70,728	71,027
Total Funding	245,907	237,122
Liquid Asset (%)	28.76	29.95

Table 23: Liquidity as a Percentage of Shares, Deposits and Liabilities 2020 and 2019

Monitoring of the Liquidity and Funding Policy is performed regularly as set out in the Board approved risk appetite and policy statements. Compliance with this policy is reported on a monthly basis to ALCO.

The Society manages funding risk by maintaining a diverse funding base and ensures compliance with applicable regulatory requirements. This in turn determines the overall level of liquidity to be maintained. The Society's ILAAP is reviewed annually and approved by the Board. The ILAAP forms a central part of the Society's risk management and includes stress testing which analyses a range of severe yet plausible scenarios to confirm that the Society holds an adequate amount of available liquidity.

The Society has also documented within its Recovery Plan metrics that would indicate an emerging market-wide or Society specific stress event. The Plan includes a range of options available to the Society in the event of such a stress, such as contingency funding plans, to ensure an adequate level of liquidity is maintained.

The liquidity coverage ratio 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 to be held. The measure is designed to ensure that all credit institutions have sufficient available high quality liquid assets to meet a stressed net cash outflow over a thirty day horizon. The measure must be greater than the 100% threshold as defined in the CRR. The liquidity coverage ratio is monitored on a monthly basis against the Board's risk appetite. Table 24 details the Society's quarterly liquidity coverage ratio for the twelve month period to 31 October 2020:

Liquidity Coverage Ratio	31 January 2020 £'000	30 April 2020 £'000	31 July 2020 £'000	31 October 2020 £'000
Liquidity buffer	57,321	50,070	50,353	51,446
Total Net Cash Outflows	12,314	12,507	14,788	12,838
LCR %	465.49%	400.34%	340.49%	400.75%

Table 24: Liquidity Coverage Ratio 31 October 2020

The average liquidity coverage ratio for the financial year ending 31 October 2020 was 368.75% (2019: 323.95%).

The Society also calculates the Net Stable Funding Ratio on a monthly basis using the latest available guidance, which was 185.85% for the year (2019: 183.44%) above the minimum regulatory requirement of 100%. Table 25 details the Society's quarterly net stable funding ratio for the twelve month period to 31 October 2020:

Net Stable Funding Ratio	31 January 2020 £'000	30 April 2020 £'000	31 July 2020 £'000	31 October 2020 £'000
Available Stable Funding	247,594	251,622	250,770	252,326
Required Stable Funding	131,242	137,683	136,206	135,767
NSFR %	188.65%	182.75%	184.11%	185.85%

Table 25: Liquidity Coverage Ratio 31 October 2020

The average net stable funding ratio for the financial year ending 31 October 2020 was 185.62% (2019: 187.09%).

12. ASSET ENCUMBRANCE

Under the Basel Framework encumbered assets are defined as assets that the Society is restricted or prevented from liquidating, selling, transferring or assigning, due to regulatory, contractual or other limitations.

Article 100 of the CRR requires institutions to report to the competent authorities the level of all forms of 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.

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 at Stafford Railway Building Society, 4 Market Square, Stafford ST16 2JH.

14. GLOSSARY

Arrears	A customer is in arrears when they are behind in meeting their contractual obligations with the result that an outstanding loan payment is overdue. The value of the arrears is the value of any payments that have been missed.
Basel II	Basel II is the second of the Basel accords, issued by the Basel Committee on Banking Supervision, which defines the methods by which firms should calculate their regulatory capital requirements to retain sufficient capital to protect the financial system against unexpected losses. Basel II became law in the EU Capital Requirements Directive, and was implemented in the UK via the PRA/FCA Handbook.
Basel III	Basel III became effective in the UK on 1 January 2014 through CRD IV and sets out the details of strengthened global regulatory standards on bank capital adequacy and liquidity.
Capital Requirements Directive ('CRD IV')	CRD IV is the European legislation which came into force from 1 January 2014 to implement Basel III. It is made up of the CRR and the CRD, outlining the capital requirements framework and introduced liquidity requirements, which regulators use when supervising firms.
Common Equity Tier 1 capital ('CET1')	CET1 capital consists of internally generated capital generated from retained profits, other reserves less intangible assets and other regulatory deductions. CET1 capital is fully loss absorbing.
Common Equity Tier 1 Ratio	CET1 capital as a percentage of risk weighted assets.
Counterparty Credit Risk	Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.
Credit Quality Steps	A credit quality assessment scale as set out in CRR Articles 111 -141 (Risk weights under the Standardised Approach to credit risk).
Credit Risk	This is the risk that a customer or counterparty fails to meet their contractual obligations.
Derivative Financial Instruments	A derivative financial instrument is a contract between two parties whose value is based on an underlying price or index rate it is linked to, such as interest rates, exchange rates or stock market indices. The Society uses derivative financial instruments to hedge its exposure to interest rates.
External Credit Assessment Institution ('ECAI')	An ECAI (e.g. Moody's, Standard and Poor's, Fitch) is an institution that assigns credit ratings to issuers of certain types of debt obligations as well as the debt instruments themselves.
Fair Value	Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Financial Conduct Authority ('FCA')	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms.
Impairment	The term impairment is usually associated with a long-lived asset that has a fair market value less than the historical cost (or book value) of the asset.
Impaired Loans	Loans where there is objective evidence that an impairment event has occurred, meaning that the Society does not expect to collect all the contractual cash flows or expect to collect them later than they are contractually due. Impaired loans are defined as those which are more than three months in arrears or in possession. However, other indicators of impairment may result in provisioning for losses.

Interest Rate Risk	The risk of loss of income from movements in interest rates in severe but plausible market rate movements.
Internal Capital Adequacy Assessment Process ('ICAAP')	The Society's own assessment of the levels of capital that it needs to hold in respect of its regulatory capital requirements for risks it faces under a business as usual scenario including stress events.
Individual Liquidity Adequacy Assessment Process ('ILAAP')	The Society's own assessment of the liquidity resources it requires in order to remain within the risk tolerances it has set. This will include an evaluation of potential stresses based on multiple market environments.
Institutions	Treasury assets with financial institutions such as banks and building societies.
Leverage Ratio	The ratio of Tier 1 capital divided by the total exposures which includes on and off balance sheet items.
Loan to Value ('LTV')	LTV expresses the amount of a mortgage as a percentage of the value of the property.
Minimum Capital Requirement	The minimum amount of regulatory capital that a financial institution must hold to meet the Basel III Pillar 1 requirements for credit, market and operational risk.
Operational Risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.
Past Due Items	Loans which are 90 days or more in arrears.
Permanent Interest Bearing Shares ('PBIS')	Unsecured, deferred shares of the Society that are a form of Additional Tier 1 capital. PIBS rank behind the claims of all depositors, payables and investing members of the Society. PIBS are also known as subscribed capital.
Provisions	Amounts set aside to cover incurred losses associated with credit risks.
Prudential Regulation Authority ('PRA')	The statutory body responsible for the prudential supervision of banks, building societies, insurers and small number of significant investment firms in the UK. The PRA is a subsidiary of the Bank of England.
Risk Appetite	The articulation of the level of risk that the Society is willing to accept (or not accept) in order to safeguard the interests of the Society's members whilst achieving business objectives.
Risk Weighted Assets ('RWA')	The value of assets, after adjustment, under the relevant Basel III capital rules to reflect the degree of risk they represent.
Secured by Mortgages on Residential Property	Residential mortgages where LTV is less than or equal to 80%.
Secured by Mortgages on Commercial Real Estate	Secured business lending which is only made available to Small and Medium sized Enterprises.
Standardised Approach	The basic method used to calculate capital requirements for credit risk. In this approach the risk weighting used in the capital calculation are determined by specified percentages.

Tier 1 Capital	A component of regulatory capital, it comprises CET1 and AT1.
Tier 2 Capital	Comprises the collective impairment allowance (for exposures treated on a Standardised basis), less certain regulatory deductions.
Tier 1 Ratio	Tier 1 capital as a percentage of risk weighted assets.