



STAFFORD RAILWAY
BUILDING SOCIETY

Capital Requirements Directive

Pillar 3 Disclosures

For the Year Ended 31 October 2019

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1. OVERVIEW

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.

Capital Requirements Directive 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 Prudential Regulation Authority'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 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. Where disclosure has been withheld due to materiality, proprietary or confidentiality, as the rules permit, comment is provided as appropriate.

In addition to the assessment of capital requirements under Pillar 1 and 2A above, the Society's Total Capital Requirement ('TCR') is reviewed periodically by the Prudential Regulation Authority. The Prudential Regulation Authority set the minimum amount of capital they consider that the Society should hold (see Section 4.3).

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.

1.2. Basis, Frequency and Scope of Disclosures

This document details the Society's Pillar 3 Disclosure as at 31 October 2019, with comparative figures for 31 October 2018 where relevant, and has been prepared to meet the disclosure requirements of the Capital Requirements Directive IV.

The Pillar 3 Disclosure is based upon the Society's Annual Report and Accounts for the year ending 31 October 2019, unless otherwise stated. Pillar 3 disclosures are issued on an annual basis following publication of the Annual Report and Accounts in accordance with regulatory guidelines.

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 28 January 2020. There is no requirement for the disclosures to be externally audited; however, some of the information within the disclosures also appears in the Society's audited Annual Report and Accounts as at 31 October 2019.

1.4. Scope of Application

The disclosure requirements in this document apply to Stafford Railway Building Society. The Society has no subsidiaries.

The Capital Requirements Directive 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 in note 24 in 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 2019 Annual Report and Accounts.

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. Mortgage activity is funded by offering traditional retail savings products which are competitive, easy to understand and designed to attract savings from individuals and businesses alike. The Society does not have any fixed rate savings or mortgage products, only variable.

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 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 risk management framework is designed to enable the Board to proactively identify, measure, manage, monitor, report and control risks to support the achievement of the Society's Strategy and to ensure fair outcomes for Members.

The Board has implemented a clearly defined risk management framework built on:

- A risk-focused governance structure;
- Risk appetites;
- Policy and risk limits;
- Risk identification, monitoring and reporting processes; and
- An effective internal control framework.

The Society's Board of Directors has ultimate responsibility for developing an appropriate risk and control framework. The Society has developed a Board risk appetite statement and risk management framework that is designed to identify, assess, manage and mitigate risks that may influence the delivery of the Society's strategic objectives and has delegated powers to the Risk Committee to advise the Board on the overall risk appetite, tolerance, and strategy. It also oversees and advises the Board on the current risk exposures and future risk strategy. The risk management framework is reviewed annually by the Risk Committee and then approved by the Board.

The overall risk management framework was reviewed during the year to ensure that it is embedded throughout the Society with allocated ownership and defined reporting structure to support the Boards risk appetite statements and associated limits, and ultimately the Society's sustainability and viability over the corporate planning five year horizon.

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 of their meetings. The Risk Register is an intrinsic part of the Internal Capital Adequacy Assessment 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 Team at Leadership Team meetings. The Head of Risk and Compliance 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 controls are communicated to the Leadership Team¹ who enact those decision and reflect them in the risk documentation, policies and operational procedures and train appropriate staff.

2.2.1 Three Lines of Defence Approach

The Society risk management framework 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 responsibilities and that an effective segregation of duties is in place across the Society. The model is summarised in Table 1 below.

First Line of Defence: Leadership Team	The First Line of Defence is embedded within the Leadership Team relevant to their operational responsibilities. All risks are identified and recorded on the Risk Register, together a gross and net risk assessment, key controls and an assessment as to control effectiveness.
Second Line of Defence: Risk & Compliance Team	The Second Line of Defence lies with the Risk & Compliance Team who are responsible for challenging of risks, policies and controls. This Team is operationally independent from the Leadership Team and can therefore uphold the principles and policies of the Society. They provide oversight of the First Line of Defence and independently report to the Risk and Audit Committees.
Third Line of Defence: Internal & External Auditors	The Third Line of Defence is provided through independent assurance activities mainly from the Society’s Internal Auditors Deloitte LLP. On an annual basis and thereafter on a rolling basis, the Society’s Internal Auditor undertakes a programme of risk-based audits. The plan covers aspects of both First and Second Lines of Defence. Each audit examines the Society’s control environment, tests that controls are robust, and that they work effectively in accordance with the Society’s policies and procedures, and wider laws and regulations. Additionally, the audits will review the Society’s relevant records and reports for accuracy and reliability. The Audit Committee approve the annual Internal Audit plan and receive regular updates on the progress made against the plan and the results of each audit visit.

Table 1: Three Lines of Defence Model

2.3 Risk Management Organisation and Governance Structure

2.3.1 The Board

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

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 the Leadership Team 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 the Leadership Team.

¹ The Heads of Departments and the Executive Team constitute the Leadership Team.

In line with the Society’s Rules as at 31 October 2019 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 as shown by Figure 1 together with summaries of the terms of reference. Full details are available from the Secretary or can be found on the website at www.srbs.co.uk.

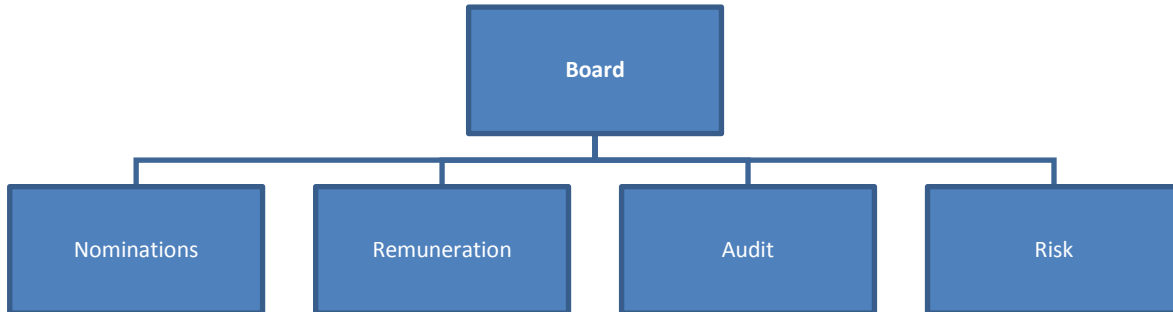


Figure 1: Board and Board Sub-Committee Structure

2.3.2 Audit Committee

This Committee consists entirely of Non-Executive Directors under the chairmanship of Gary Crowe (appointed 21st March 2019) and previously chaired by Colin Lloyd. It meets at least four times per year. Membership of the Committee were Karen McCormick, Nicholas Sandy and James Dean (with effect from 21st March 2019), as well as attendees from the Society Executive and Risk and Compliance functions together with the Society’s internal and external auditors. Members of the Audit Committee have experience of the sector, with at least one member having recent and relevant financial and audit experience. The Committee considers all matters of an audit and compliance nature applying to the Society, including internal controls, compliance reports, scope and content of internal and external audit work, financial reporting and other relevant systems and controls requirements. It validates the financial statements and market disclosures of the Society.

A dotted reporting line exists directly between the Chair of the Audit Committee and the Head of Risk and Compliance.

2.3.3 Risk Committee

The Risk Committee is chaired by David Grant (appointed 21st March 2019) and previously chaired by Gary Crowe. It meets six times or at least quarterly during the year and advises the Board on the overall risk appetite, tolerance and strategy and reviews the risk management framework and policies. With effect from 21st March 2019 the membership of the Committee was widened to include all Non-Executive Directors, (previously Gary Crowe (‘Chair’), James Dean and David Grant) and the Deputy Chief Executive and Finance Director. In particular, the Committee monitors and reviews the consolidated risk picture across the Society. It is responsible for the ongoing development and maintenance of the Internal Liquidity Adequacy Assessment Process, Internal Capital Adequacy Assessment Process and Recovery Plan as well as the risk management framework. It also provides support and challenge for the development of the strategic plan and adequate stress testing strategy. The Committee receives standing reports on the risk register along with detailed risk management information that enables it to track performance against the risk appetite.

A dotted reporting line exists directly between the Chair of the Risk Committee and the Head of Risk and Compliance.

2.3.4 Nominations Committee

The Nominations Committee is chaired by Colin Lloyd (appointed 21st March 2019), and previously chaired by James Dean. It also comprises Karen McCormick (‘Vice Chairman’) and James Dean (‘Senior Independent Director’). The Committee leads 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 pipeline for succession.

It meets when there is an appropriate vacancy to fill and at least twice a year to review the skills mix of the Board and succession policy.

2.3.5 Remuneration Committee

The Remuneration Committee is chaired by Karen McCormick and is attended by all Non–Executive Directors. The Committee have delegated responsibility for determining the policy for Executive Director remuneration and setting remuneration for the Board Chairman, Executive Directors and other members of the Leadership Team.

In addition to its terms of reference relating to Directors, it approves the remuneration of the Head of Risk and Compliance.

2.4 Risk Strategy

The Society continues to focus on the needs of savers and borrowers and a key part the risk culture is to put the interests of current and future Members, as a whole, first. The Society, within its risk appetite statements, has defined a range of quantitative and qualitative risk measures and limits which it is prepared to operate. These measures and limits are designed to ensure that the Society delivers acceptable returns and generates capital to support delivery of the Corporate Plan.

The Society's performance against these risk measures and operational limits, supported by a wide range of additional key risk indicators, is reviewed regularly by the Society's Leadership Team and the Risk Committee. 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 developed a Recovery Plan that details the options available to the Society should it be adversely impacted a severe stress.

2.5 Risk Appetite

The Society has set risk appetite statements for each principal risk type, and each sub type for operational risk. The statements relating to capital, liquidity and funding risk are based on survival of stresses and the stress testing is an integral part of the planning process to ensure the Society has sufficient capital and liquidity to carry out its strategic objectives. The Corporate Plan, as approved by the Board, is aligned with the risk appetite. Risk appetite statements for each of the principal risk categories, and sub-categories are reviewed annually and are approved by the Board.

2.6 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 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

- The use of forecasting and stress testing models. These help in the development of business strategy;
- The production of key risk information and indicators to measure and monitor performance; and
- The monitoring and control of risks by management, and by the Board and its Committees.

The principal risks to which the Society is exposed include the following:

2.6.1 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 means the risk that a borrower will not repay their mortgage, or that a financial institution will not repay funds invested by the Society in that institution. The Assets and Liabilities Committee 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, including forbearance to clear arrears.

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 lending, 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 counterparties that the Society invests in are highly rated by external rating agencies. Building Societies are subject to a financial review and the treasury instrument and overall exposure limits are set by the Board and monitored by the Assets and Liabilities Committee.

2.6.2 Concentration risk

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

The Society provides a range of variable rate mortgages and investment products, which are predominantly secured on residential property wholly within the United Kingdom, this concentration is of low risk because of the inherent nature of the assets and the controls in place as detailed in the Lending Policy.

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

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

2.6.3 Strategic risk

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

Strategic risk is managed through regular review and development of key performance indicators, management oversight and an embedded corporate governance framework. This includes Recovery and Resolution plans. Stress Testing is undertaken on an annual basis to assess the impact on the Society's Corporate Plan.

2.6.4 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.

2.6.5 Liquidity risk

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

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

Liquidity is monitored daily by the Executive and Leadership Team, and is reviewed by both the Assets and Liabilities Committee and the Board.

2.6.6 Interest rate risk and basis 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 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 a number of treasury instruments that where the contractual interest rate is either fixed or tracks the Bank Base Rate.

Interest rate and basis risk exposures are reviewed by the Assets and Liabilities Committee.

The interest rate sensitivity exposure of the Society is set out in note 20 of the accounts.

2.6.7 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 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 Risk Register which is reviewed by the Risk Committee, Internal Audit and the Board.

2.6.8 Regulatory risk

This is the risk that the volume and complexity of regulatory issues may impact the Society's ability to compete and grow, or result in fines, public censure or restitution costs because of a failure to understand, interpret and comply with United Kingdom and European Union ('EU') regulatory requirements. The Society has an internal compliance function to monitor compliance with existing legislation, the implementation of controls and the impact of new requirements. This is overseen by the Audit Committee.

2.6.9 Conduct risk

This is the risk that the Society does not treat its Members fairly and of inappropriate or unsatisfactory consumer outcomes. The Board acknowledges the requirement to fully embrace the Financial Conduct Authority ('FCA')'s Principle 6, namely to ensure that the Society pays due regard to the interests of its customers and to treat them fairly at all times. These principles are firmly embedded within the Society's culture. This ethos has manifested itself into working practices throughout the Society.

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

2.6.10 Brexit risk

This is the risk of adverse implications arising from the significant uncertainty regarding the future relationship between the United Kingdom and the European Union. As a solely United Kingdom focused organisation, the Society has no direct exposure to the European Union. However, the wider United Kingdom economic implications and operational impacts of Brexit have been considered and are summarised below:

The Board believe that the implications of a 'No Deal' Brexit are difficult to quantify; however, there is a likelihood of recession leading to unemployment and subsequent reduction in the capacity of customers to repay their mortgages. The Board would also expect house price reduction and therefore potential negative equity for customers and therefore losses for the Society should those customers be unable / unwilling to repay their mortgage. The Board had focused on this potential downside when performing stress tests (whilst having regard to the Bank of England's published European Union Withdrawal Scenarios) on possible outcomes and is reassured that the Society has sufficient capital buffers to withstand this worst case Brexit scenario.

The Board also considered other implications of Brexit and can confirm that treasury assets are all invested in the United Kingdom and staff are all United Kingdom residents. Although the Society has some exposure to suppliers with European Union parent companies the Board consider the risks to be controlled and that the operational resilience of the organisation to be sufficiently risk-mitigated against the adverse impacts arising from Brexit outcomes.

The Assets and Liabilities Committee and Risk Committee monitors the Society's capital position within Internal Capital Adequacy Assessment Process regularly and the Risk Committee reports its assessment of these results to the Board.

2.6.11 Pension obligation risk

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 Key Prudential Metrics

The prudential regulatory metrics that measure the primary risks to which the Society is exposed are summarised in Table 2. These are covered in greater detail throughout the document:

	31 October 2019	31 October 2018
	£'000	£'000
Total Available Capital		
Common Equity Tier 1 ('CET1')	21,896	20,992
Tier 1	21,896	20,992
Total Available Capital	22,073	21,179
Risk Weighted Assets ('RWA')	£'000	£'000
Total Risk Weighted Assets	82,933	85,978
Risk Based Capital Ratios as a Percentage of RWA	%	%
Common Equity Tier 1 Ratio	26.40	24.42
Tier 1 Ratio	26.40	24.42
Total Capital Ratio	26.62	24.63
Additional CET1 Buffer Requirements as a Percentage of RWA	%	%
Capital Conservation Buffer Requirement	2.50	1.875
Countercyclical Buffer	1.00	0.50
Total Capital available to meet the Buffers	26.62	24.63
Basel III Leverage Ratio	£'000	£'000
Total Basel III Leverage Ratio Exposure Measure	263,708	255,993
Basel III Leverage Ratio (%)	8.30	8.20
Liquidity Coverage Ratio ('LCR')	£'000	£'000
Total High Quality Liquid Assets ('HQLA')	53,176	56,652
Net Liquidity Outflow	15,712	17,898
Liquidity Coverage Ratio (%)	338.44	316.53
Net Stable Funding Ratio ('NSFR')	£'000	£'000
Total Available Stable Funding	236,871	236,382
Total Required Stable Funding	128,856	124,804
Net Stable Funding Ratio (%)	183.44	189.40

Table 2: Key Prudential Metrics 2019 and 2018

3. CAPITAL RESOURCES

From 1 January 2014, the Basel III regulations, more commonly known as Capital Requirements Directive IV, has become part of European law. One of the objectives of the regulation is to improve the banking sector's ability to absorb shocks arising from financial and / or economic stress. This is achieved through increasing both the quality and quantity of regulatory capital firms will be required to hold. The Society meets this requirement by maintaining an appropriate level of retained profits as the Society does not issue capital instruments, Table 3 shows the Society's capital resources as at 31 October 2019 on a Capital Requirements Directive IV basis.

Capital Requirements Directive IV Basis	31 October 2019	31 October 2018
Common Equity Tier 1 Capital	£'000	£'000
General Reserves	21,897	21,036
Available-For-Sale Reserve	(1)	(44)
Total CET1 Capital	21,896	20,992
Tier 2 Capital	£'000	£'000
Collective Provision	177	187
Total Tier 2 Capital	177	187
Total Capital	22,073	21,179
Risk Weighted Assets	£'000	£'000
Credit Risk	75,052	78,516
Operational Risk	7,881	7,462
Total Risk Weighted Assets	82,933	85,978
Capital Ratios and Buffers	%	%
Capital Ratios:		
Common Equity Tier 1 Ratio – regulatory minimum 4.5%	26.40	24.42
Tier 1 Ratio – regulatory minimum 6%	26.40	24.42
Total Capital Ratio – regulatory minimum 8%	26.62	24.63
Buffers:		
Common Equity Tier 1 Ratio requirement	4.50	4.50
Capital Conservation buffer requirement	2.50	1.88
Countercyclical buffer requirement	1.00	0.50
CET1 requirement plus Capital Conservation and Countercyclical buffer requirements	8.00	6.88

Table 3: Capital Resources, Capital Ratios and Capital Requirements Directive IV Buffers 2019 and 2018

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, the available-for-sale reserve less intangibles.

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 £38k) 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 Internal Capital Adequacy Assessment Process 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 Internal Capital Adequacy Assessment Process 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 ('BIA') 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 4:

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	2019 Capital Required £'000	2018 Capital Required £'000
Liquidity Exposures				
Cash	132	-	-	-
Central Government and Bank of England Institutions	53,080 17,815	- 6,058	- 485	- 844
Total Liquidity Exposures	71,027	6,058	485	844
Loans and Advances to Customers:				
Prime Residential	145,822	51,381	4,110	3,801
Buy To Let	35,808	12,533	1,003	813
Self-Build	5,307	1,858	149	196
Commercial	618	618	49	55
Forward Commitments – Off Balance Sheet	3,880	1,358	109	482
Total Loans and Advances to Customers	191,435	67,748	5,420	5,347
Other Exposures:				
Fixed and other assets	1,246	1,246	100	90
Total Other Exposures	1,246	1,246	100	90
Credit Risk – Pillar 1 Capital Requirement	263,708	75,052	6,005	6,281
Operational Risk - capital requirement	-	7,881	630	597
Total Pillar 1 Capital Requirement	-	82,933	6,635	6,878
Total Capital Resources as per Table 3	-	-	22,073	21,179
Excess of Capital over Total Pillar 1 Capital Requirement	-	-	15,438	14,301

Table 4: Pillar 1 Capital Resource Requirements 2019 and 2018

As the Society currently has £15.438m 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 4 of £263.708m and the total assets recognised in the Statement of Financial Position of £259.614m in the Annual Report and Accounts for the year ended 31 October 2019 is detailed in Table 5:

Reconciliation of Total Credit Risk Exposure and Society's Statement of Financial Position	£'000
Total credit risk exposure	263,708
Add: intangible asset	-
Less: allowance for impairment	(214)
Less: Forward Commitments	(3,880)
Total Assets Recognised in the Statement of Financial Position	259,614

Table 5: Pillar 1 Capital Resource Requirements 31 October 2019

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

Standardised approach – exposure by asset classes and risk weights:	Risk weight %	2019 £'000
Cash	0	132
Central Government and Bank of England	0	53,080
Institutions	20	9,500
Institutions	50	8,315
Prime Residential	35	145,293
Prime Residential	100	529
Buy To Let	35	35,808
Self-Build	35	5,307
Commercial	100	618
Forward Commitments	35	3,880
Fixed and other assets	100	1,246
Total assets		263,708

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

4.3 Capital Buffers

The Society is required under the Capital Requirements Regulation to hold additional capital for the capital buffers set out in Table 7:

Capital Conservation Buffer	Additional capital buffer to absorb losses in periods of economic and financial stress. Buffer based on firm's risk weighted assets. This buffer 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 within a range of 0% to 2.50%. To ensure financial institutions build up capital in favourable economic conditions, which can be utilised in economic downturns. Increased from 0.50% to 1.00% from 28 November 2018.

Table 7: Capital Requirements Directive IV Buffers

The total amount of capital the Society is required to hold against the assets held ('Pillar 1 and Pillar 2A') is collectively referred to as its Total Capital Requirement. At 31 October 2019, the Society's Total Capital Requirement was set at 8.00% of risk weighted assets as advised by the Prudential Regulation Authority.

5. REMUNERATION AND MATERIAL RISK TAKERS

The Society complies with the principles in the United Kingdom 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 Financial Conduct Authority's Remuneration Code.

Full details of the Society's Remuneration Policy and details of Executive Directors' emoluments for 2019 and comparatives for 2018 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 Head of Risk and Compliance (and Money Laundering Reporting Officer) 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. 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.

5.1. Remuneration Code Staff

Code staff are defined by the Financial Conduct Authority 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 Head of Risk and Compliance, 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 Prudential Regulation Authority Handbook. These staff are now identified as 'Material Risk Takers' under Capital Requirements Directive 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 2019 is shown in Table 8:

	Number	Fixed Remuneration £'000	Variable Remuneration £'000	Total Remuneration £'000	Special Payments £'000	Deferred Remuneration £'000
Non-Executive Directors	6	148	-	148	-	-
Executive Directors	2	355	-	355	-	-
Other Remuneration Code staff	8	454	-	454	-	-

Table 8: Remuneration Analysis 31 October 2019

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.

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.

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 9. The table was compiled on the assumption that all loans are held to their contractual maturity date.

Maturity of Loans and Advances to Customers	2019 £'000	2018 £'000
On call and at short notice (one month or less)	157	540
In not more than three months	1	223
In more than three months but not more than one year	419	410
In more than one year but not more than five years	8,140	7,754
In more than five years	179,106	163,494
Total gross mortgages	187,823	172,421
Less: allowance for impairment	(214)	(193)
Total Net Mortgages	187,609	172,228

Table 9: Maturity Loans and Advances to Customers 2019 and 2018

An analysis of the Society's indexed LTV profile is shown in Table 10 below:

Loan to Value Profile	2019 £'000	%	2018 £'000	%
Less than 50%	104,529	55.7	110,997	64.4
50 – 70%	63,025	33.5	50,782	29.4
70 – 90%	20,269	10.8	10,642	6.2
90 – 100%	-	-	-	-
More than 100%	-	-	-	-
Total Gross Mortgages	187,823	100.0	172,421	100.0

Table 10: Loan to Value Profile 2019 and 2018

During the year to 31 October 2019, the Society experienced £nil losses on mortgages (2018: £nil).

An individual impairment provision of £37k on fully secured residential property ('FSRP') was held at 31 October 2019 covering four residential properties as well as a collective impairment provision of £177k. 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 30.9% as at 31 October 2019.

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 2019 and 2018 are set out in Table 11 and 12 below:

Region	Residential loans		Commercial loans		Total £'m
	Past due	Performing	Past due	Performing	
	£'m	£'m	£'m	£'m	
Stafford ST16 – ST18	-	32.6	-	1.3	33.9
Rest of Staffordshire	0.2	28.3	-	0.3	28.8
Scotland	-	0.2	-	-	0.2
Wales	-	4.5	-	-	4.5
Rest of United Kingdom	0.3	120.0	-	0.1	120.4
Total Gross Mortgages	0.5	185.6	-	1.7	187.8

Table 11: Past Dues by Geographical Area 2019

Region	Residential loans		Commercial loans		Total £'m
	Past due	Performing	Past due	Performing	
	£'m	£'m	£'m	£'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 United Kingdom	0.3	103.7	-	0.3	104.3
Total Gross Mortgages	0.6	169.4	-	2.4	172.4

Table 12: Past Dues by Geographical Area 2018

Table 13 provides a reconciliation of the above table to 'Loans and Advances to Customers' in the Annual Report and Accounts 2019:

Reconciliation of Loans and Advances to Customers	2019 £'m	2018 £'m
Loans and advances to customers per Annual Report and Accounts	187.6	172.2
Add back: collective mortgage provision	0.2	0.2
Society accounting value of loans and advances to customers	187.8	172.4
Total residential exposures for capital adequacy purposes (as per Table 12 above)	186.1	170.0
Total non-residential exposures for capital adequacy purposes (as per Table 12 above)	1.7	2.4
Society capital adequacy value of loans and advances to customers	187.8	172.4
Adjustments to reflect different reporting requirements and timing differences	-	-
Reconciled value of loans and advances to customers	187.8	172.4

Table 13: Reconciliation of Loans and Advances to Customers 2019 and 2018

The Society's allowance for impairment as at 31 October 2019 and 2018 are set out in Tables 14 and 15.

Allowance for Impairment	Loans fully secured on Residential Property		Loans fully secured on Land		Total £'000
	Individual	Collective	Individual	Collective	
	£'000	£'000	£'000	£'000	
Balance at 1 November 2018	6	187	-	-	193
Charge/(credit) for the year	31	(10)	-	-	21
Balance at 31 October 2019	37	177	-	-	214

Table 14: Allowances for Impairment 2019

Allowance for Impairment	Loans fully secured on Residential Property		Loans fully secured on Land		Total £'000
	Individual	Collective	Individual	Collective	
	£'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 15: Allowances for Impairment 2018

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 type of lending / market segment.

The probability of default used in the collective impairment model is 5%. A 2.5% increase in the outcome of probability of default would result in an increase in the collective impairment provision of £78,000. A more aggressive stress based on a 5% increase would result in an increase of £162,000.

The forced sale discount used in the collective impairment model 32%. A 5% increase in the forced sale discount would result in an increase in the collective impairment provision of £129,000. Conversely a 5% decrease would result in a decrease in the collective impairment provision of £95,000.

The realisation period used in the scenarios varied between 12 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 £16,000.

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 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 Long Term Ratings. No bank or building society is included on the list unless it has, as a minimum, and a Short and 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.

7.1. Wholesale Credit Risk

The purpose of the Society's Internal Liquidity Adequacy Assessment Process is to ensure that the Society has sufficient liquidity to meet its obligation as they fall due.

The Society's 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 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 Assets and Liabilities Committee 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. Assets and Liabilities Committee 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 2019 and 2018 are shown in Tables 16 and 17:

Fitch Ratings	Maturity of Treasury Investment			
	< 3 months £'000	3 months to 1 year £'000	>1 year £'000	Total £'000
Banks: AAA to AA-	4,950	-	-	4,950
Banks: A+ to A-	4,550	7,060	-	11,610
Building Societies	132	1,255	-	1,387
Treasury Bills	-	6,228	-	6,228
British Government Securities	-	4,567	-	4,567
Bank of England	42,285	-	-	42,285
Total	51,917	19,110	-	71,027

Table 16: Maturity of Treasury Investments 2019

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 17: Maturity of Treasury Investments 2018

No provisions for loss relating to counterparty risk are held by the Society as at 31 October 2019 (2018: £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 elements being interest rate risk, foreign currency risk and equity 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 Structural Risk Policy which is approved by the Board. Exposures against these limits are monitored on a monthly basis and reported to the Assets and Liabilities Committee.

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 (held within a twelve month 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.

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 Internal Capital Adequacy Assessment Process.

Table 18 shows the sensitivity to this measurement (in terms of economic value):

£'000	31 October 2019		31 October 2018	
	+2%	-2%	+2%	-2%
Economic Value	(195)	201	(509)	531

Table 18: Change in Economic Value 2019 and 2018

Table 19 below summarises the impacts to net interest income resulting from 1% change in interest rates (over a twelve month horizon):

£'000	31 October 2019		31 October 2018	
	+1%	-1%	+1%	-1%
Maximum for the period	303	100	805	262
Minimum for the period	290	98	754	257

Table 19: Change in Net Interest Income 2019 and 2018

9. OPERATIONAL RISK

The Society has adopted the Basic Indicator Approach for operational risk. Under the Basic Indicator Approach, 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.

The ORCR as at 31 October 2019 and 2018 are set out in Tables 20 and 21 below:

Financial Year End 31 October 2019*	Average	2019	2018	2017
	£'000	£'000	£'000	£'000
Net Interest Income	4,208	4,454	4,226	3,943
Net fees	(4)	18	(28)	(2)
Relevant Indicator	4,204	4,472	4,198	3,941
ORCR (15%)	630			
RWA Equivalent	7,881			

Table 20: Pillar 1 Operational Risk Requirement 2019

Financial Year End 31 October 2018	Average	2018	2017	2016
	£'000	£'000	£'000	£'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 21: Pillar 1 Operational Risk Requirement 2018

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 22 to 24 detail the Society's leverage ratio of 8.30% as at 31 October 2019 (2018: 8.20%):

LRSum: Reconciliation of leverage ratio exposures to the financial statements	2019 £'000	2018 £'000
Total assets as per the financial statements	259,614	254,076
Adjustments for off balance sheet items	3,880	1,724
Adjustment for impairment provisions	214	193
Leverage ratio exposure	263,708	255,993

Table 22: Leverage Ratio 31 October 2019: Reconciliation of Leverage Ratio Exposures to the Financial Statements: LRSum

LRSpl: Analysis of on-balance sheet exposures (excluding derivatives and SFT)	2019 £'000	2018 £'000
Secured by Mortgages on Immovable Property	187,555	172,177
Sovereign	53,080	56,611
Institutions	17,947	24,350
Other exposures (e.g. equity, securitisations, and other non-credit obligations assets)	1,246	1,131
Total on-balance sheet exposures	259,828	254,269

Table 23: Leverage Ratio 31 October 2019: Analysis of On-Balance Sheet Exposures: LRSpl

LRComm: Leverage ratio common disclosure	2019 £'000	2018 £'000
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	259,828	254,269
Assets amounts deducted in determining Tier 1 capital	(214)	(193)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	259,614	254,076
Total off-balance sheet exposures	3,880	1,724
Tier 1 capital	21,896	20,992
Total exposures	263,708	255,993
Leverage ratio	8.30%	8.20%

Table 24: Leverage Ratio 31 October 2019: Common Disclosure: LRComm

11. LIQUIDITY AND FUNDING RISK

The Society manages liquidity risk by holding an appropriate amount and composition of liquid 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 profile is to plan to hold sufficient liquid assets to be able to meet a severe but plausible stress and still meet the minimum regulatory liquidity level. The initial liquidity is held in high quality liquid assets however the Society also holds secondary liquidity in other marketable assets. The liquidity profile depends on sources and uses of liquidity. The primary funding source is retail funding of which an appropriate proportion is held as high quality liquid assets or secondary liquidity. Table 25 below 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 2019	31 October 2018
	£'000	£'000
Total Liquid Assets	71,027	80,961
Total Funding	237,122	232,450
Liquid Asset (%)	29.95	34.83

Table 25: Liquidity as a Percentage of Shares, Deposits and Liabilities 2019 and 2018

The monitoring of the Liquidity and Funding Policy is performed regularly as set out in the Board approved risk appetite and policy statements. Compliance with these policies is reported on a monthly basis to Assets and Liabilities Committee.

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 Internal Liquidity Adequacy Assessment Process is reviewed annually and approved by the Board. The Internal Liquidity Adequacy Assessment Process 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. Liquidity maturity analysis in the form of 'GAP' analysis is also performed as part of the Internal Liquidity Adequacy Assessment Process, which are also included within the Annual Report and Accounts.

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 Capital Requirements Directive 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 Capital Requirements Regulation. The liquidity coverage ratio is monitored on a monthly basis against the Board's risk appetite. Table 26 below details the Society's quarterly liquidity coverage ratio for the twelve month period to 31 October 2019:

Liquidity Coverage Ratio	31 January 2019	30 April 2019	31 July 2019	31 October 2019
	£'000	£'000	£'000	£'000
Liquidity buffer	53,936	53,322	50,063	53,176
Total Net Cash Outflows	17,842	18,341	17,672	15,712
LCR %	302.30	290.73	283.29	338.44

Table 26: Liquidity Coverage Ratio 31 October 2019

The average liquidity coverage ratio for the financial year ending 31 October 2019 was 323.95%.

The Society also calculates the Net Stable Funding Ratio on a monthly basis using the latest available guidance, which was 183.44% for the year (2018: 189.40%) above the minimum regulatory requirement of 100%. Table 27 below details the Society's quarterly net stable funding ratio for the twelve month period to 31 October 2019:

Net Stable Funding Ratio	31 January 2019 £'000	30 April 2019 £'000	31 July 2019 £'000	31 October 2019 £'000
Available Stable Funding	236,740	236,785	236,719	236,371
Required Stable Funding	126,573	125,549	128,200	128,256
NSFR %	187.04	188.60	184.34	183.44

Table 27: Liquidity Coverage Ratio 31 October 2019

The average net stable funding ratio for the financial year ending 31 October 2019 was 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 Capital Requirements Regulation 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.
Additional Tier 1 Capital (AT1)	Capital that meets certain rules under CRD IV and which comprises the Society's PIBS but only under the transitional provisions.
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 UEU 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 Capital Requirements Regulation (CRR) and the Capital Requirements Directive (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	Common Equity Tier 1 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.
Debt Securities	Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.
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 (ILAA)	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.
Multilateral Development Banks	Treasury assets with Multilateral Development banks. These are also known as supranational institutions.
Operational Risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.
Other Items	Other assets not included in other definitions.
Past Due Items	Loans which are 90 days or more in arrears.
Permanent Interest Bearing Shares (PIBS)	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.