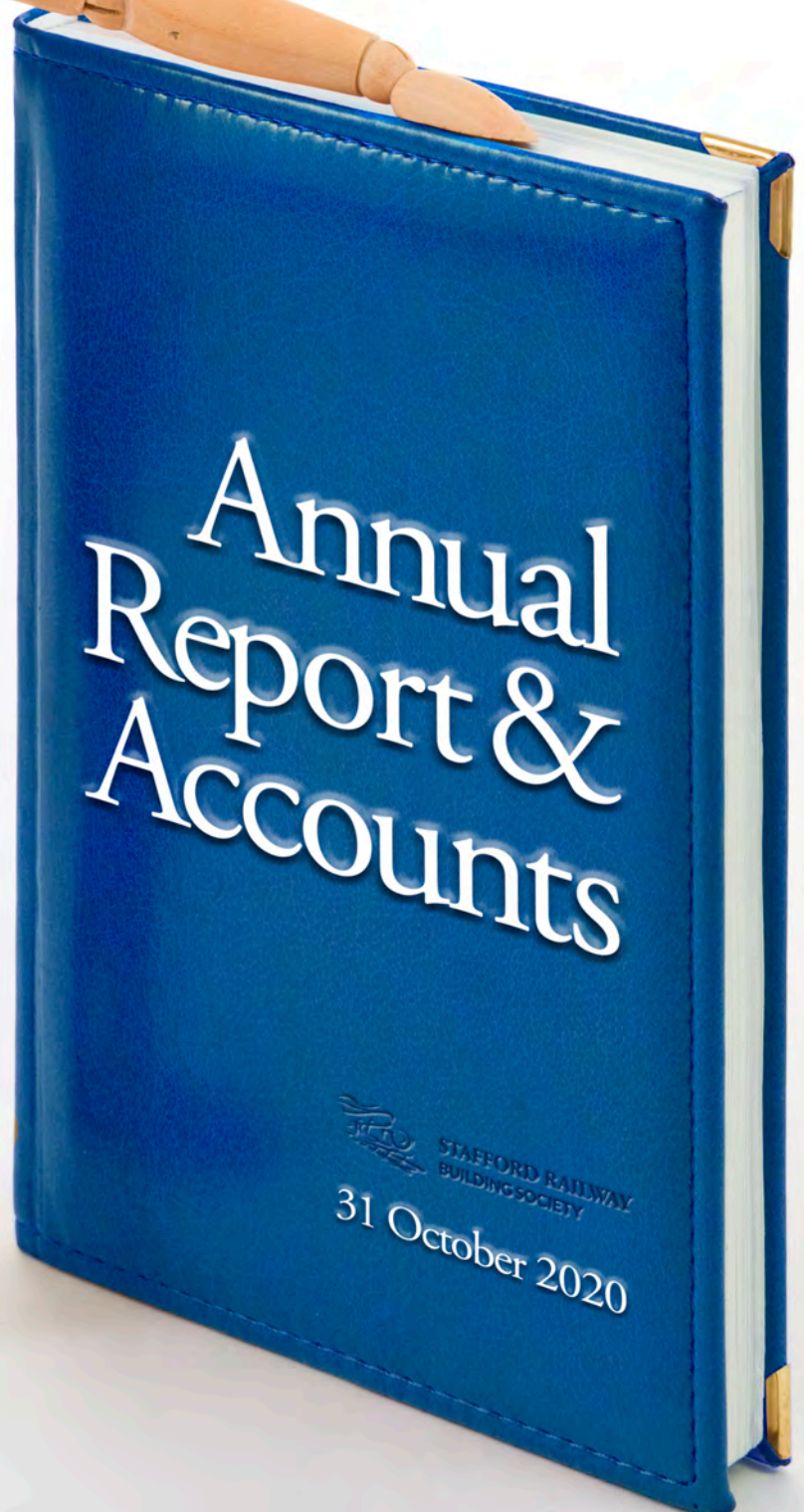




**STAFFORD RAILWAY**  
**BUILDING SOCIETY**



# Annual Report & Accounts

 STAFFORD RAILWAY  
BUILDING SOCIETY

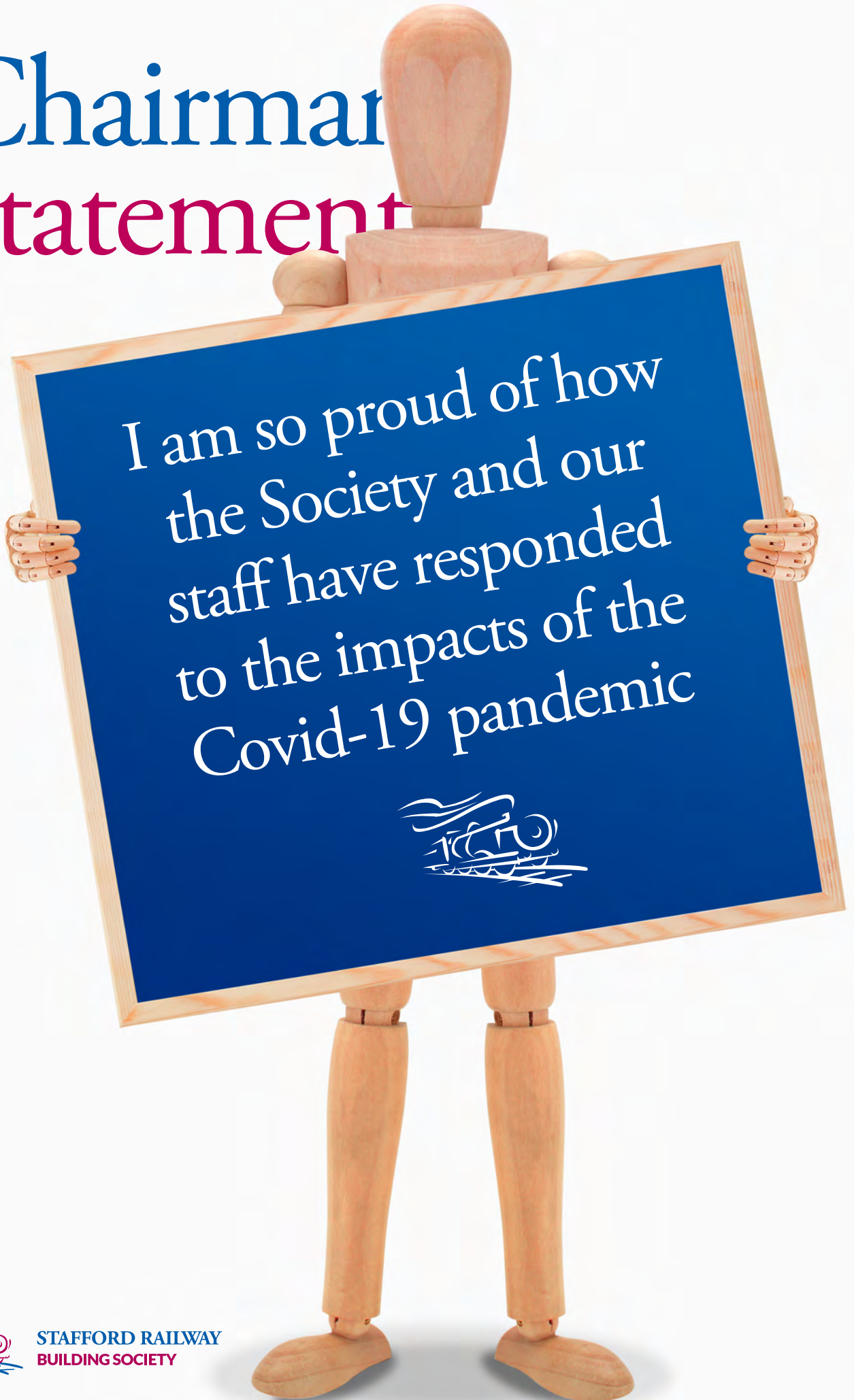
31 October 2020

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# Chairman Statement



I am so proud of how  
the Society and our  
staff have responded  
to the impacts of the  
Covid-19 pandemic



## 4 Chairman's Statement

I am so proud of how the Society and our staff have responded to the unprecedented social and economic challenges we have all faced given the impacts of the Covid-19 pandemic, and the adjustments to the ways we live and changes to how we work or had to adapt.

Your Society remained open to serve you the Members throughout the first lockdown, providing essential access to savings and mortgage products, adapting to new approaches of working from home and within the office, protecting our staff and membership alike.

I am pleased to report, we have been able to maintain solid growth on both sides of the balance sheet. We have provided Members with a greater choice of retail savings having introduced a range of 'Notice' accounts that have been positively received having attracted new Members to the Society. Our mortgage range has equally been enhanced with further focus on specific product areas with more exciting developments to be launched in the forthcoming year.

We have demonstrated a continued period of steady performance across the Society, with a reported profit after tax of £0.85m (2019: £0.86m) added to the Society's reserves which are £22.76m (2019: £21.90m). Despite difficult market conditions, retail savings balances have grown to £245.91m (2019: £237.12m), liquidity stands at £70.73m (2019: £71.03m) and mortgage balances at £197.70m (2019: £187.61m).

In February, Nick Sandy stood down from the Board having served 9 years with the Society, culminating in his position as Vice Chairman. I thank Nick for his service to the Society and wish him well in his retirement in Wales. Whilst in March, we welcomed Mary Kerr to the Board who has already made a great contribution to the discussions surrounding our response to the pandemic and the continued development of the Society.

I would like to thank my fellow Board members for their commitment and support throughout the year.

On behalf of the Board, I also wish to thank the membership for the trust placed in the Society during these difficult times. It has been of great regret I have not been able to meet you in the branch because of the restrictions.

It is with sadness that this will be my last Chairman's Statement as I am stepping down from the Board at the Annual General Meeting ('AGM') after completing over 6 years and assisting in the transition of modernising your Society.

Finally, in what has been an unprecedented year, I wish to express my thanks to the staff of the Society, for their hard work, dedication, commitment and professionalism in serving the Society and you, the membership during 2020.

**Colin C Lloyd**  
Chairman  
5 January 2021

# 5 Reports



# 6 Chief Executive's Report

The 2020 calendar year has been dominated by the impact of the Covid-19 global pandemic. The impact on your Society has been a financial year of two halves. The first six months saw continued progress in line with our three year transitional period of development and investment in the business. I am pleased to report that whilst in the second six months the impact of the pandemic and its accompanying restrictions have recalibrated our ambitions and priorities, we have continued to make good progress across the Society. This is reflected in both improvements in operational efficiencies and in attaining our desired balanced performance of considered growth, with appropriate profitability to fuel continued investment in delivering the annual results. Building a sustainable Society remains our goal and we can confirm the core elements of growth in mortgages, growth in savings, growth in total assets and growth in capital retained were all achieved. The balanced performance across the business I believe endorses our ethos of developing a sustainable Society for the longer term.

## Covid-19 Impact

I am proud to state that, as an essential business, your Society remained open throughout the necessary lockdown periods. We supported our mortgage Members with unprecedented levels of Temporary Payment Holiday requests in line with Governmental guidelines, and have continued to provide the tailored and understanding response of a relationship-led local building society. To ensure we have adequate financial buffers in the current uncertain times, we have fully appraised our mortgage book and are satisfied with the levels of our impairment provisions. Building on the strong and financially stable position, the Society has made good progress in the following areas:

## Membership

A key aim is to stimulate an increase in membership. This has been achieved. The launching of new products - Regular Saver and Notice accounts - has proved attractive. Saving membership has increased by opening 23% more accounts in the year (2020: 1,125 and 2019: 917). We remain very keen to develop an integrated on-line savings proposition. Covid-19 has seen this develop as an absolute priority and you can anticipate development in this area in the near future.

## Mortgage Origination

I am pleased to report continued growth in the mortgage book. Our expert led, manual approach to our underwriting standards ensures we understand the personal circumstances behind each mortgage application. Growth during the initial lockdown tapered, as time to achieve completion lengthened and as we applied appropriate caution to the developing economics. In the final quarter, the mortgage pipeline has been reinvigorated and we are well positioned to see continued growth moving forward. Gross mortgage lending of £37.56m (H1: £22.79m & H2: £14.77m) (2019: £47.62m) represents a good performance. Particularly pleasing has been our levels of retention which

have continued to reflect the strength of our relationship driven model. This has contributed to our mortgage book increasing to £197.70m (2019: £187.61m). The growth in business has primarily been driven by our relationships with the intermediary network, which was in line with our expectations. We have also developed key products to service the local Members, particularly during the pandemic, most notable being a 90% loan to value ('LTV') for Heartland<sup>1</sup> Members. We anticipate further growth in 2021.

## Products

Our ability to deliver new mortgage and savings products ensured they are contemporised and meet the needs of our Members. We remain committed to developing our retention products (where during the year we have achieved an 80% retention rate) together with an expansion into inter-generational products, as we seek to embrace a younger demographic.

## Information Technology ('IT')

We have continued to invest significant time and money into improving our IT infrastructure. When the pandemic began, almost overnight we were able to continue to operate with 75% of staff homeworking. This, coupled with improved electronic payment and card payment capability, ensured we could continue to service our Members. The pandemic has further increased the pace of change amongst our Members. From the onset of the lockdown during the spring season, we and our Members advanced five to ten years in our digital behaviour - across all groups and all ages - necessity once again proving to be the mother of invention. Six months into the pandemic, hardly anyone feels intimidated making on-line purchases or performing their financial transactions over their laptop or mobile phone. In conjunction with the relaunched website we shall be seeking to adapt to the digital demands. On-line Savings is the priority.

<sup>1</sup>Heartland consists of the ST14 to ST21 and certain WS postcodes.



## 7 Staff and Working Environment

We have not participated in the Government Furlough Scheme, ensuring all our staff remained on full pay. The Society continues to invest in staff, particularly in the Mortgage Team, and this is designed to ensure we are a business capable of sustainable growth. We are pleased to report that the staff survey, taken in Quarter 3, evidenced continued high levels of staff satisfaction, understanding of the transitional activities your Society is undertaking and challenges of the pandemic. This, coupled with the very high Member satisfaction scores, provides great confidence for continued future growth.

We shall continue to monitor our Covid-19 risk assessment to ensure we protect our staff and Members to the highest practical standard.

### Community

We remain committed to supporting the local community, by means of donations, sponsorship and our Affinity programme with local organisations. Planned activities by necessity have had to be deferred and we shall seek to recommence our active involvement as soon as it is safe to do so.

We have continued our sponsorship of both the Stafford 10k and Stafford Half Marathon, for which we are sponsors until 2021, maintaining our support of local events within Stafford town centre.

We are delighted to be a party to the Military Covenant supporting the local Beacon Barracks.

### The Future

The last six months, in both a macro and micro environment have been dramatic to say the least. Only as far back as mid-February, few of us could have imagined what we have experienced over the last six months.

As a non-systemic building society, we in the Society are never going to be the cause of any economic turmoil, but it is a key strength of the Society to remain financially strong, supportive of our staff, members and community led, demonstrated as follows:

- Our mortgage impairments are adequate to cover current mortgage credit risk defaults;
- Our cost income ratio remains in line with expectation;
- Our capital position has continued to strengthen;
- Our funding has also remained strong as depositors have remained loyal and reinforced their trust in our brand; and
- Our considered inward investment in the continuous improvement and sustainability of your Society.

There are no doubts of the forward uncertainty of the economic situation. However, I remain confident in our ability to withstand the turbulence ahead. I also remain very aware that Members expectations have changed. It is truer than ever that standing still means rapidly moving backwards. We must ensure the changes we embrace are good and positive change. We must caution against change for changes sake!

We shall remain true to our key values of Simplicity, Service, and Security, which have contributed to the success the Society has enjoyed and continues to enjoy. This will not change.

To achieve this in the year ahead, I have confidence that our staff will continue with their committed approach to the business of the Society, motivated by the achievements of the past year. In 2020 more than any year I consider the commitment of our staff to have been exceptional for which they deserve special thanks.

I would like to reiterate my thanks to our Members, for the trust you have in the Society. Our future priority will be to match, or indeed exceed, your expectations, continuing our vision of a people-led business that embraces new technologies, whilst maintaining traditional individual service for our Members. I would also like to express my thanks to Colin Lloyd for his support as Chairman and I wish him well in his retirement.

Although the economic environment is uncertain, may I reassure you that your Society remains with careful management, well positioned not only to withstand the current turbulence but to continue to develop and grow in the years ahead.

### Michael R Smith

Chief Executive  
5 January 2021

# 8 Strategic Report

The Directors are pleased to present their Annual Report, together with the Society's Accounts and Annual Business Statement for the year ended 31 October 2020.

## Business Strategy and Objectives

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

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

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

- *Simplicity and Availability*

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

- *Service*

Having trust and respect for the individual, Member and employee. Ensuring 'point of contact service' is available both locally and digitally for the benefit of all Members and employees, across a diversified demographic; and

- *Security*

Governance in ensuring a self-sustaining prudent, financially and technologically resilient Society, in an environment of long-term people development.

## Business Review and Key Performance Indicators

The Board is satisfied with the Society's positive performance during the year. This is demonstrated by the 5.38% growth in mortgages (2019: 8.93%), 3.74% in total assets (2019: 2.18%), solely funded by the 3.70% (2019: 2.01%) growth in retail funding. The reported retained profit for the year of £0.85m (2019: £0.86m) has further strengthened the Society's overall capital reserves which have grown by 3.92% (2019: 4.31%).

This positive performance is all the more creditable given the ongoing challenges and impact of the Covid-19 pandemic together with uncertainty regarding Brexit negotiations and potential contraction of UK economic growth.



## 9 Key Performance Indicators

The Board use a number of key performance indicators to monitor the actual and future performance and position of the Society. These are included to allow Members a greater insight and understanding of the Society's performance.

	2020	2019	2018
Net interest margin (% of mean total assets)	1.68%	1.73%	1.63%
Management expenses (% of mean total assets)	1.28%	1.32%	1.24%
Cost income ratio	76.20%	75.69%	76.66%
Profit after taxation	£0.85m	£0.86m	£0.80m
Profit after taxation (% of mean total assets)	0.32%	0.34%	0.31%
Total assets growth	3.74%	2.18%	(3.44)%
Gross mortgage advances	£37.56m	£47.62m	£34.70m
Mortgage assets growth	5.38%	8.93%	0.96%
Liquid assets (% of shares and amounts owed to other customers)	28.76%	29.95%	34.83%
Shares and amounts owed to other customers growth	3.70%	2.01%	(3.96)%
Capital growth	3.92%	4.31%	3.98%
Gross capital (% of shares and amounts owed to other customers)	9.25%	9.23%	9.03%
Total reserves	£22.76m	£21.90m	£20.99m

Key Performance Indicators: Three years to 31 October 2020

### Profitability

The Society seeks to make sufficient profits in order to invest in and grow the business for the benefit of its current and future Members. Profit after tax for the year of £0.85m (2019: £0.86m) was transferred to reserves, further enhancing the Society's capital strength. Profit after tax of £0.85m expressed as a percentage of the average of total assets at the beginning and end of the financial year was 0.32% (2019: 0.34%). The Board is satisfied with the reported level of profitability, particularly given the unprecedented social and economic environment that beset the UK during the year.

A summary of the Statement of Comprehensive Income is as follows:

	2020 £'000	2019 £'000	2018 £'000
Total net income	4,429	4,472	4,198
Management expenses	(3,245)	(3,269)	(3,143)
Depreciation	(130)	(116)	(75)
Operating profit before impairment losses and provisions	1,054	1,087	980
Loan impairment provisions	-	(22)	(6)
Provisions for liabilities – FSCS	-	-	28
<b>Profit before tax</b>	<b>1,054</b>	<b>1,065</b>	<b>1,002</b>
Taxation	(209)	(204)	(198)
<b>Profit after tax</b>	<b>845</b>	<b>861</b>	<b>804</b>

Summary Statement of Comprehensive Income: Three years to 31 October 2020

## 10 *Total net income*

Total net income of £4.43m (2019: £4.47m) represents total interest receivable from mortgages and liquid assets less total interest payable on retail savings and fees and other operating income. The net interest margin of 1.68% (2019: 1.73%) expresses net interest income as a percentage of the average of total assets at the beginning and end of the financial year.

Both net interest income and margin have reduced during the year, predominantly as a result of the cumulative 0.65% fall in the Bank of England's Base Rate, which at 31 October 2020 stood at 0.10%. In response to the reductions in Base Rate the Society continued to manage the margin by balancing the risks, rewards and value both to borrowing and retail Members.

### *Management expenses and depreciation*

Management expenses and depreciation of £3.38m (2019: £3.39m) represent the Society's administrative expenses and represent the costs of running the organisation. The £0.01m reduction was a result of ensuring the Society achieved demonstrable value for all areas of expenditure.

The management expenses ratio of 1.28% (2019: 1.32%) represents the total of these expenses as a percentage of the average of total assets at the beginning and end of the financial year.

The Board consider the cost income ratio, which represents the aggregate of administrative expenses and depreciation expressed as a percentage of total income less other operating charges, to be a key measure in its assessment of returning 'value for money' which is a key ongoing financial objective. During the year the reported cost income ratio at 76.20% has increased on the 75.69% reported in the prior year indicating that total income has decreased to a greater extent than the Society's cost base.

### *Total assets*

Total assets have increased by 3.74% (2019: 2.18%) to £269.31m (2019: £259.61m). This was solely funded by the growth in retail shares.

### Statement of Financial Position at 31 October 2020

	2020 £'000	2019 £'000	2018 £'000
Liquid assets	70,728	71,026	80,961
Loans and advances to customers	197,695	187,609	172,228
Tangible fixed and intangible assets	759	855	763
Other debtors	130	124	124
<b>Total assets</b>	<b>269,312</b>	<b>259,614</b>	<b>254,076</b>
Shares and amounts owed to other customers	245,907	237,122	232,450
Other liabilities, accruals and provisions	650	596	634
Reserves attributable to Members of the Society	22,755	21,896	20,992
<b>Total reserves and liabilities</b>	<b>269,312</b>	<b>259,614</b>	<b>254,076</b>

Summary Statement of Financial Position: Three years to 31 October 2020

## 11 *Loans and advances to customers*

The Board is particularly pleased to report that given the subdued housing market since the pandemic outbreak mortgage balances have increased by £10.09m to £197.70m (2019: £187.61m). Total mortgage advances in the year of £37.56m were £10.06m below that achieved during 2019 of £47.62m. This equated to 5.38% mortgage assets growth in the year (2019: 8.93%). Similarly mortgage redemptions of £18.29m were £4.45m below the £22.74m reported for 2019.

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

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

Overall arrears levels have remained at low levels despite the difficulties some Members may have experienced from the onset of the pandemic. This reflects the Society's robust underwriting approach which stress-tests future borrower affordability. As at 31 October 2020, the Society had 2 (2019: nil) mortgage accounts 12 months or more in arrears. There were 3 additional mortgage accounts over 3 months in arrears (2019: 10).

The Society proactively contacts all borrowers whose mortgage accounts have gone into arrears to enable a mutually acceptable action-plan to return the account to a fully performing status. Despite the Society's best efforts to help borrowers in such circumstances there are occasions when properties are repossessed. As at 31 October 2020 the Society had no properties in possession (2019: nil).

In support of the Government's Temporary Payment Holiday Scheme the Society dedicated internal staffing resource to support borrowers who, experiencing financial difficulty as a direct result of the pandemic, applied for assistance. As at 31 October 2020 there were 3 cases under a Temporary Payment Holiday.

In certain circumstances the Society uses forbearance measures to assist those borrowers who are experiencing financial difficulty, for example, agreeing a temporary transfer to interest only payment in order to reduce the borrower's financial pressures. At all times an individual assessment is made to ensure forbearance is in the best interests of both the borrower and the Society. It is expected that the borrowers will resume normal payments once they are able. The Society's Credit Committee, chaired by the Chief Executive, assesses the impact of forbearance and monitors whether there is a possibility of loss, in which case an impairment provision is made in accordance with the Society's policies. As at 31 October 2020, there were 28 (2019: 17) accounts under forbearance measures. A total of 3 (2019: nil) individual impairment provisions were required in those cases where the Society's model indicated a potential shortfall in collateral compared to the outstanding balance.

### *Liquidity*

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

Total liquid assets as at 31 October 2020 amounted to £70.73m (2019: £71.03m), representing 28.76% (2019: 29.95%) of total shares and amounts owed to other customers. Total liquid assets include £51.40m deposited in the Bank of England Reserve Account, which is classed as a high quality liquid asset and qualifies for the Society's liquidity buffer.

The Society conducts an Internal Liquidity Adequacy Assessment ('ILAAP') at least annually. This enables the Board to identify the potential liquidity-related risks and risk drivers it may face under both normal and stressed conditions. The level of liquidity held at 31 October 2020 is significantly in excess of the Board's internal assessment of minimum requirements.

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

- Liquidity Coverage Ratio ('LCR') which measures unencumbered high quality liquid assets as a percentage of net cash outflows over a 30 day stress period. The LCR is reported monthly and as at 31 October 2020 was 400.75% (2019: 338.44%); and
- Net Stable Funding Ratio ('NSFR') measures the stability of the Society's funding beyond 30 days. The NSFR is reported quarterly and as at 31 October 2020 was 185.85% (2019: 183.44%).

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

## 12 *Shares and amounts due to other customers*

Shares and amounts due to other customers' balances at 31 October 2020 were £245.91m (2019: £237.12m), an increase of £8.79m or 2.01% on the previous year.

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

The reported 3.70% increase in the overall savings balances was due to the proactive promotion of the Society's existing product range, together with the introduction of new retail products, including a Regular Saver and a range of Notice accounts, which were favourably received by both existing and new customers.

Looking forward it is the Board's intention to further widen the retail product portfolio thereby offering a greater choice of products to existing and new Members.

The strengthening of the retail base during the year was achieved at a time when interest rates were at historically low levels. In line with its strategy the Society focuses on operating fairly, with simple product design, attractive

terms and conditions and delivering long-term Member value. Current interest rates are benchmarked to the marketplace to monitor trends, and most importantly, ensure our Members remain at the heart of any decisions that we make.

### *Reserves*

Total reserves as at 31 October 2020 amounted to £22.76m (2019: £21.90m), with the gross capital ratio of 9.25% (2019: 9.23%) and free capital ratio of 8.98% (2019: 8.95%).

Included in total reserves is the Available-For-Sale Reserve ('AFS') which represents any unrealised gains or losses on Liquid Assets accounted for at fair value at the balance sheet date. At 31 October 2020 the AFS reserve was £13k (2019: £(1k)).

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

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

### **Total Capital and Risk Weighted Assets**

	<b>2020</b>	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Tier 1 capital	22,755	21,896	20,992
Tier 2 capital	87	177	187
<b>Total capital</b>	<b>22,842</b>	<b>22,073</b>	<b>21,179</b>
Risk weighted assets:			
Liquid assets	6,829	6,058	10,546
Loans and advances to customers	69,677	66,390	60,805
Other assets	1,071	1,246	1,131
Mortgage commitments	1,044	1,358	6,034
Operational risk	8,186	7,881	7,462
<b>Total</b>	<b>86,807</b>	<b>82,933</b>	<b>85,978</b>

*Total Capital and Risk Weighted Assets: Three years to 31 October 2020*

### **Capital Ratios**

	<b>2020</b>	<b>2019</b>	<b>2018</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Common equity tier 1	26.21	26.40	24.42
Gross capital ratio	9.25	9.23	9.03
Leverage ratio	8.35	8.30	8.20

*Capital Ratios: Three years to 31 October 2020*

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

As at 31 October 2020 the CET1 ratio was 26.21% (2019: 26.40 %) and the leverage ratio was 8.35% (2019: 8.30%). Tier 1 capital was £22.76m (2019: £21.90m) and tier 2 capital £0.08m (2019: £0.17m), providing total Capital Resources of £22.84m (2019: £22.07m).

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

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

## Risk Management Report

### *Risk Governance and Strategy*

The Society's Board of Directors has ultimate responsibility for developing an appropriate risk and control framework. The Society has 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 Board 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.

Membership of the Board Risk Committee comprises all the Non-Executive Directors and the Deputy Chief Executive and Finance Director.

### *Risk Management Framework*

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

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

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

## 14 **Three Lines of Defence Approach**

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

First Line of Defence: 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 lies 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.

## 15 **Stress Testing**

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

### **Principal Risks and Uncertainties**

During the year to 31 October 2020, the main uncertainties the Society faced are summarised below:

#### *Covid-19 Pandemic*

The outbreak of the Covid-19 virus was declared a pandemic on 11 March 2020. In response to the pandemic, in an effort to prevent the virus spreading, Governments around the world have imposed restrictions including travel restrictions, quarantines and facility closures. These measures are expected to have a severe negative impact on the United Kingdom economy and the Bank of England has cut its Base Rate to the lowest ever level of 0.10% in response. The United Kingdom Government introduced the Furlough and Job Support Schemes to help prevent unemployment in this crisis and required mortgage lenders to offer a three month Temporary Mortgage Payment Holiday if borrowers requested it. An increase in United Kingdom unemployment caused by the pandemic and the loss of income for those who are self-employed may affect borrowers' capacity to make mortgage repayments. Other consequences, such as the impact on suppliers and the potential loss of key staff have been considered.

#### *Competition*

As competition in the mortgage market increases, there is a risk that interest yields will be further compressed resulting in deterioration in the risk reward relationship in established lending markets. As some markets become less attractive, this may prompt the Society to increase or decrease its appetite for particular types of lending in existing markets and extend into new forms of lending secured on residential property in order to strike an appropriate balance between return and capital at risk. Whilst this process is a continuing feature of the lending market, the compression of yields at this level of interest rates and level of competition makes the degree of disruption more broad based than usual. The driver for this is a second order effect of increased supply in the mainstream United Kingdom mortgage market from ring-fenced banks driving other lenders, both large and small, into areas of the mortgage market supplied by the Society. The change in lending mix will need to be managed carefully to avoid a dip in lending and increased liquidity impacting on the Net Interest Margin and restricting the scope to deliver profit.

#### *Cost Growth*

The Society has already, and will continue to make, the necessary investment in people and information technology to sustain the business in the future. The Directors will continue to monitor closely the impact of both forecast and adverse variances in cost growth and Net Interest Margin compression on both the solvency and leverage and refine the strategy to ensure continued sustainability of the business model.

## 16 *Economic Environment*

The Society is not immune from the impact of changes in the economic environment within which it operates. The United Kingdom left the European Union on 31 January 2020 and entered into a transition period until 31 December 2020, during which the United Kingdom remained within the European Union customs union and single market. Until the nature of the trading relationship with the European Union becomes clear, this introduces a significant degree of uncertainty around the outlook for the United Kingdom economy. As the principal focus of the Society is domestic within the United Kingdom, it remains exposed to the broader economic uncertainties on its funding and lending activities. This uncertainty will continue, both in the period leading up to, and after, the point at which the United Kingdom leaves the European Union and could manifest itself in a number of ways from variations in Gross Domestic Product, sterling exchange rates, interest rates, unemployment and house prices. Through the process of business, capital and liquidity planning, including stress testing of adverse economic scenarios to date, the Directors are satisfied that the Society has more than sufficient capital and liquidity resources. In terms of the impact of market volatility on accounting estimates, the Directors' are satisfied that disclosures in Note 1.10 to the Accounts provide a sufficient indication of the impact of variations in this respect. This will be carefully monitored over the coming weeks and months.

### *Low Interest Rates*

A building society model performs less well in a low interest rate environment. This is because the return on unremunerated capital is reduced as the average return on total assets decreases. In addition, as the Net Interest Margin compresses, the larger the cost base of the society, the greater the pressure on trading profitability. Despite the low interest rate environment since 2009 and the pandemic-driven reduction in interest rates to 0.10% in March 2020, the Society's business model has proven its resilience. The outlook for interest rates remains unclear with the risk of further reductions in rates in the event anticipated Gross Domestic Product growth is not sustained. Further ahead, modest tightening may be necessary in the event the economy recovers broadly in line with current projections.

There has been Bank of England commentary on the possibility of a negative Bank Base Rate. The Society has undertaken scenario analysis on the profitability impact should the Bank Base Rate fall to (0.10)% and (0.25)%. This is monitored monthly by the Assets and Liabilities Committee ('ALCO').

### *Climate Change*

The risks to the Society arising from climate change are recognised in terms of both Physical and Transition risks.

Physical risks arise from a number of factors, most notably extreme weather events and longer-term shifts in the climate. Primary drivers of Physical risks 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.

Transition risks arise from a number of factors, most notably changes in policy and regulation, shifting sentiment and societal preference and emergence of disruptive technology and business models arising from the process of adjustment to a low carbon economy. The most immediate driver of Transition risk relates to regulation, such as increased energy efficiency standards on mortgaged properties in the buy to let portfolio requiring significant investment by borrowers to meet standards impacting on the viability of the property as an investment, resulting in increased arrears and impairment losses. The Society is increasingly cognisant of these risks in both its approach to credit risk management and strategy and will continue to refine its approach to the management of these risks.

### *Transition from LIBOR to SONIA*

The Society does not utilise derivatives in its financial risk management and as a result, the transitional impact will be negligible.

In addition to the uncertainties outlined above, the following table provides a summary of the principal risks the Society faces including a Society risk summary and a summary of how the risks are controlled and mitigated.



Principal Risk	Society Risk Summary	Risk Control and Mitigation
<p><i>Mortgage Credit Risk</i> The risk that mortgagors will fail to meet their obligations as they fall due, which results in a potential loss following enforcement of the loan and realisation of the mortgage security and related additional security.</p>	<p>This is currently driven by a further slowdown in the United Kingdom 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"> <li>• All mortgage loans are manually underwritten according to a Board approved Lending Policy and supporting criteria.</li> <li>• The performance of the loan portfolio is monitored closely by the Credit Committee with action taken to manage the collection and recovery process.</li> <li>• All portfolios are subject to periodic stress testing to ensure they remain within the quantified risk appetite of the Board.</li> </ul>
<p><i>Counterparty Credit Risk</i> The risk that market counterparties will fail to meet their obligations as they fall due and subsequently default resulting in a loss.</p>	<p>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 United Kingdom Banking System has improved however the risk of counterparty default remains.</p>	<ul style="list-style-type: none"> <li>• 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).</li> <li>• A significant majority of liquidity is invested with the Bank of England's Reserve Account.</li> </ul>
<p><i>Interest Rate Risk and Basis Risk</i> The adverse impact on the Society's future cash flows arising from changes in interest rates including:</p> <ul style="list-style-type: none"> <li>• Economic Value ('NPV') – The risk to the capital value of the Society as a result of changes in interest rates.</li> <li>• Earnings Risk ('NII') – The risk to profitability of the Society as a result of changes in interest rates.</li> <li>• Basis Risk – The risk to profitability arising from non-parallel movement in net exposures to different interest rate bases.</li> <li>• Optionality – The risk to profit arising from provision of embedded optionality in products such as early prepayment or access with or without penalty.</li> </ul>	<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"> <li>• 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.</li> <li>• Interest rate risk and basis risk are managed within a Board approved Interest Rate and Structural Risk Policy with clear quantifiable risk appetite limits.</li> <li>• Exposure is stressed monthly by ALCO to ensure it is managed in compliance with Policy.</li> <li>• The Society does not utilise derivatives so is not exposed to optionality risk.</li> </ul>

Principal Risk	Society Risk Summary	Risk Control and Mitigation
<p><i>Liquidity Risk</i> 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 proportion of Society shares and borrowings which comes from shareholding Members / retail depositors is 95% (2019: 95%) representing over 118% (2019: 120%) of mortgage loans. When taking reserves as a source of funding, in addition to funding from shareholding Members and retail depositors, this ratio rises to 130% (2019: 131%).</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>	<ul style="list-style-type: none"> <li>• ALCO monitors monthly forecasting of cash flow requirements.</li> <li>• ALCO reviews monthly stress testing performed to ensure obligations can be met in both business as usual and stressed conditions.</li> <li>• Liquidity is monitored daily by the Executive and the Leadership Team.</li> <li>• 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.</li> </ul>
<p><i>Operational Risk</i> The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The scope of operational risks includes legal and regulatory, financial crime (including fraud), business continuity, information technology (including cyber-risk), people and resources, process and conduct.</p> <p>Execution of information technology change is a key driver of Operational Resilience risk and can impact on systems availability and the ability to deliver services to customers to the level desired.</p>	<p>The principal operational risks facing the Society are change management, fraud, information technology and cyber and operational resilience, management of third party suppliers, provision of inappropriate advice to consumers, non-compliance with regulation, key person risk and business interruption.</p>	<ul style="list-style-type: none"> <li>• 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').</li> <li>• 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').</li> </ul>

The outlook for the coming year is heavily dependent on the impact of the Covid-19 pandemic which has already led to a reduction in interest rates and increased unemployment. The expected impact of the Covid-19 pandemic has been factored into recent reforecasts and the next iteration of the Corporate Plan.

Further details of the Society's RMF, principal risks and risk exposures can be found in the Pillar 3 Report available on the Society's website at [www.srbs.co.uk](http://www.srbs.co.uk).

*On behalf of the Board*

**Colin C Lloyd**  
Chairman  
5 January 2021

# 19 Directors' Report – for the year ended 31 October 2020

The Directors have pleasure in presenting their Annual Report, together with the Annual Accounts and Annual Business Statement of the Society for the year ended 31 October 2020.

## **Business Objectives and Activities**

The Society, which was founded in 1877, is an independent building society based in Stafford, financed by and run for the benefit of its Members. The Board remains unanimous in its belief that the mutual form is the most appropriate and beneficial when the interests of all existing and potential Members are taken into account. The Directors are committed wholeheartedly to maintaining the Society's success by concentrating its efforts upon traditional building society business and offering a high standard of service to its investing and borrowing Members.

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

## **Business Review**

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

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

## **Applying the United Kingdom Corporate Governance Code**

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

## **Compliance and Regulation**

The Society is regulated by both the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA'). We fully support and accept the need for, and the responsibilities associated with, regulatory compliance.

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

## 20 Directors

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

### Non-Executive Directors

Colin C Lloyd, ACIB (Chairman)  
 Karen E McCormick, ACIS PIIA (Vice Chairman)  
 James W Dean, FCA (Senior Independent Director)  
 Gary C D Crowe, FCIM CAifs ACIB MCIBS  
 David J Grant, MBA FCIB FISMM FRSA  
 Nicholas H J Sandy, MRICS (retired 26 February 2020)  
 Mary A Kerr, MA Oxon MBA DipM MIOD  
 (appointed 24 March 2020)

### Executive Directors

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

The tenure of office for the Board is as follows.

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

Director Tenure as at 31 October 2020

Having regard to the United Kingdom Corporate Governance Code 2018, all Directors will retire and being eligible will seek re-election at the AGM.

## Equality and Diversity

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

The gender breakdown is detailed in the following table.

Role	Male (number)	Female (number)	Total (number)	Male %	Female %	Total %
Board	4	2	6	66.7	33.3	100.0
Leadership Team	4	6	10	40.0	60.0	100.0
Staff	6	20	26	23.1	76.9	100.0
<b>Total</b>	<b>14</b>	<b>28</b>	<b>42</b>	<b>33.3</b>	<b>66.7</b>	<b>100.0</b>

Gender Breakdown as at 31 October 2020

## 21 **Creditor Payment Policy**

The Society's continuing policy concerning the payment of its trade creditors is to pay invoices within the agreed terms of credit once suppliers have discharged their contractual obligations. Amounts due to relevant creditors of the Society are paid on average within 11 days of receipt of invoice (2019: 11 days).

### **Charitable and Political Donations**

During the year the Society made donations of £13,121 (2019: £14,335) to charities. No contributions were made for political purposes. The Society sponsors, and its staff commit their time to, a range of local charitable and community causes.

### **Staff**

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

### **The Society in the Community**

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

The Society actively pursues environmentally friendly initiatives with the aim of mitigating the environmental impact of the business it undertakes. Members can play their part by registering to receive future AGM packs on-line.

### **Events since the Year End**

The Directors consider that there has been no event since the end of the financial year that has a significant effect on the position of the Society. However, both the Society and the Directors will continually monitor the ongoing developments regarding the Covid-19 pandemic, in particular the results of the second lockdown and potential vaccine, and the impact of Brexit deal talks and adapt strategy accordingly.

### **Going Concern**

The Directors have prepared forecasts of the Society's capital position, financial position and liquidity for the period ending twelve months from the date of approval of these Financial Statements. The Directors have also prepared forecasts to consider the effect on the Society's business, financial position, capital and liquidity of operating under stressed, but plausible, operating conditions including a severe economic downturn arising from the Covid-19 pandemic and leaving the European Union without an agreed deal.

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

### **External Auditors**

The Society's External Auditors, PwC, who were appointed at the 2020 AGM, have expressed their willingness to continue in office and, in accordance with Section 77 of the Building Societies Act 1986, a resolution to this effect will be proposed at the 2021 AGM.

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

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

### **Capital Adequacy**

As part of the Capital Requirements Directive, the Society has assessed the adequacy of its capital resources, which are detailed in its Pillar 3 disclosures document, that are provided on the Society's website, or are available from the Society's Secretary.

*On behalf of the Board*

**Colin C Lloyd**

Chairman

5 January 2021

# 22 Corporate Governance Report

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

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

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

## The Board

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

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

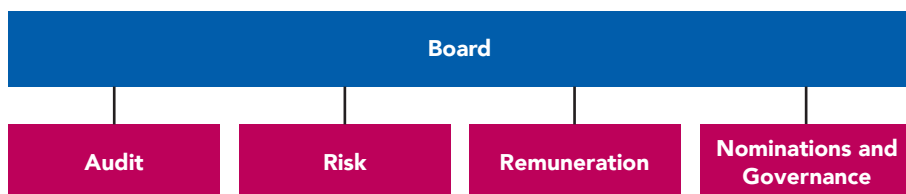
- Ensure sufficient human and financial resource are available to meet the objectives;
- Satisfy itself on the integrity of financial information at the same time ensuring financial controls and risk management systems are robust, reviewed at least annually; and
- Comply with all legal and regulatory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

The Board meets 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 the Committee's Terms of Reference annually to ensure they remain relevant and up to date. The Committee's Terms of Reference are available on request from the Society's Secretary and on the Society's website at [www.srbs.co.uk](http://www.srbs.co.uk).



## 23 *Audit Committee*

The principal functions of the Audit Committee are to:

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

The Audit Committee consists entirely of Non-Executive Directors. The following Non-Executive Directors served during the year: Gary Crowe (Chairman), Karen McCormick, James Dean, Nicholas Sandy (retired 26 February 2020), Mary Kerr (from 24 March 2020). In addition, the Executive Directors, representatives from the Society's Finance and Risk and Compliance functions, External Audit and the outsourced Internal Audit attend by invitation.

The Audit Committee meets at least four times a year.

### *Risk Committee*

The principal functions of the Risk Committee are to:

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

The Risk Committee consists of all the Non-Executive Directors and the Deputy Chief Executive and Finance Director and is chaired by David Grant.

The Risk Committee meets at least six times a year.

### *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 following Non-Executive Directors served during the year: Colin Lloyd (Chairman), Karen McCormick (Vice Chairman) and James Dean (Senior Independent Director).

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

### *Remuneration Committee*

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

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

The Remuneration Committee consists of all the Non-Executive Directors, and is chaired by Karen McCormick.

The Remuneration Committee meets at least twice a year.

## 24 Attendance at the Board and Committee meetings

All Committee meetings are formally minuted with the minutes being reviewed at the next Board meeting. Attendance of members of the Board and Committees at meetings for the year to 31 October 2020 is as follows:

Name	Board	Remuneration	Audit	Risk	Nominations and Governance
Colin C Lloyd	11/(11)	4/(4)	*	9/(9)	4/(4)
Karen E McCormick	10/(11)	2/(4)	2/(4)	7/(9)	3/(4)
James W Dean	11/(11)	4/(4)	4/(4)	8/(9)	5/(5)
Gary C D Crowe	11/(11)	4/(4)	4/(4)	9/(9)	*
David J Grant	11/(11)	4/(4)	*	9/(9)	*
Nicholas H J Sandy (retired 26 February 2020)	3/(3)	1/(1)	1/(1)	2/(3)	*
Mary A Kerr (appointed 24 March 2020)	8/(8)	3/(3)	2/(2)	5/(6)	*
Michael R Smith	11/(11)	*	*	*	*
Steven Jones	11/(11)	*	*	9/(9)	*

*Board Committee Attendances: Year ended 31 October 2020. (Figures in brackets represent maximum possible attendance) and \*Denotes not a member of the Committee.*



## 25 Application of the Code

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

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

### 1. Board Leadership and Company Purpose

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

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

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

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

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

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

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

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

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

During the year, a refresh of reporting to the Board was completed with the enhancement of a Society Dashboard detailing key indicators and reformatting reporting templates from key areas of the business.

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

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

The Board reports formally to its Members at the AGM of the Society each year. In usual circumstances all Members are invited to attend and may pose questions on the Annual Report and Accounts, the Auditors Report as well as the general business of the Society. However, due to the Covid-19 pandemic, the Board expects that this year's AGM may not be open to members of the public. In these circumstances arrangements will be made for Members to ask questions if required in advance of the AGM. Members are also given voting rights on key decisions, as required by the Society's Rules. Voting by post / on-line / in branch (the latter as a last resort this year) or by representative is provided for where a Member cannot attend in person, with voting overseen by an independent scrutineer.

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

Members' views are sought via a range of questionnaires.

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

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

The Board is satisfied that its human resources policies are consistent with ensuring the long-term success of the Society. For instance, it rewards staff by reference to prevailing market rates for the Society's locality and does not have any form of bonus schemes that might encourage unethical practices or otherwise target sales of its products by incentives.

The Society has an established speak up ('Whistleblowing Policy') designed to support our values and ensure employees can raise concerns without fear of suffering retribution or victimisation, providing a transparent and confidential process for dealing with concerns.

## 2. Division of Responsibilities

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

The Chairman is responsible for leadership of the Board and the Chairman must be satisfied that the Board is properly advised at all times. Their performance is subject to annual review, conducted by the Society's Senior Independent Director, but involving all other members of the Board. The annual fee payable for the Chairman's role is determined by the Board's Remuneration Committee, which the Chairman does not attend. Approval to hold the position of Chairman is required under SMCR, given jointly by the PRA and FCA.

The Chairman is considered independent at the time of appointment but because of a closer working relationship with the Chief Executive, may not be considered so throughout their tenure. Nonetheless, the Board expects a candidate for the position of Chairman to be able to demonstrate that they are capable of exercising objective judgement, that they can promote a culture of openness and debate at all times and be able to ensure the Board maintains an independent view of the performance of the Chief Executive.

It is expected that a Chairman would normally only act in that capacity for a maximum period of nine years (whether as Chair or taking into account any initial period as an independent Non-Executive Director before being elected to become Chairman) after which they are expected to retire. The Society's Chairman may not be involved in the appointment of their successor.

The Chairman conducts an annual review of the performance of members of the Board, save for the Deputy Chief Executive and Financial Director who is a direct report to the Chief Executive, who is responsible to conduct his performance review.

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

At 31 October 2020, the Board comprised six Non-Executive and two Executive Directors providing a balance of skills appropriate to the requirements of the business.

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

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

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

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

Where Directors have other significant commitments, these are set out in the Annual Business Statement on pages 80 to 82 under section 3, Information Relating to Directors.

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

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

### 3. Division of Responsibilities

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

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

The Society values diversity and reflects this within policy. In making appointments, the Board will seek to achieve a diversity and balance of skills, with independence and experience being key determinants, where selection of the most suitable candidate is paramount. For these reasons it does not have a measurable diversity objective.

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

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

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

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

The Society complies with this by a detailed evaluation of its effectiveness, tested against a range of criteria which explore all aspects of its purpose. The requirement to ensure each Director is annually appraised (including the Chairman) is referred to in the responses to principles F and K.

The Board is of the view that all Directors contribute effectively and are considered suitable for election/re-election (where appropriate) at the 2021 AGM.

### 4. Audit, Risk and Internal Control

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

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

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

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

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

The responsibility of the Directors in respect of preparation of the Annual Accounts, accounting records and internal controls and the statement that the Society's accounts are prepared on a going concern basis, are set out on pages 19 to 21 in the Directors' Report. The Chief Executive's Review on pages 6 to 7 and the Strategic Report on pages 8 to 18 provides Members with a detailed review of the position of the Society and its future prospects.

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

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

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

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

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

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

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

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

#### 5. Remuneration

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

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

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

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

The Society reserves the right to introduce incentive arrangements for all personnel and/or the Chief Executive's performance at some time in the future (linked to strategy and long-term sustainability) but has not chosen to do so historically, reflecting a desire not to drive inappropriate behaviours. Any future bonus scheme would have to reflect regulatory expectations and may include provision for forfeiture and clawback in certain circumstances.

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

Remuneration is determined, or considered, as appropriate, by the Remuneration Committee in accordance with its Terms of Reference, and notified or recommended to the Board as necessary. The Chairman of that Committee reports upon its activities on pages 32 and 34 of this report. The Chair of the Remuneration Committee and the Chief Executive determine the Non-Executive Directors fees and personnel who are not part of the Executive and not a Director, by voting on proposals brought forward by the Remuneration Committee.

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

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

**Colin C Lloyd**  
Chairman  
5 January 2021

## 29 Audit Committee Report

The Audit Committee forms part of the Society's corporate governance framework to which the Board has delegated oversight of financial reporting, internal controls, Internal Audit ('Deloitte') and External Audit ('PwC'). The Committee consists of four independent Non-Executive Directors. Members of the Audit Committee have experience of the sector, with at least one member having recent and relevant financial and audit experience. This report provides an overview of the Committee's work and details how it has discharged its responsibilities during the year.

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

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

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

The composition of the Committee is detailed within the Corporate Governance section of this report on page 23. The Executive Directors', representatives from the Society's Finance and Risk and Compliance functions and Internal and External Audit attend by invitation.

### Key areas reviewed during 2020

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

#### 1. Financial Reporting

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

- The quality and acceptability of accounting policies and practices;
- The clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements including advising the Board on whether the Annual Report and Accounts, when taken as a whole are fair, balanced and understandable and provide information sufficient for Members to assess the Society's performance, business model and strategy; and
- The material areas in which significant judgements have been applied.

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

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

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

The Committee considers that the 2020 Annual Report and Accounts are fair, balanced and understandable. The Committee undertook this by satisfying itself that there was a robust process of review and challenge to ensure balance and consistency.

The Committee considers that it has properly discharged its responsibilities in relation to financial reporting of the 2020 Annual Report and Accounts.

The Committee has identified no material uncertainties as to the Society's ability to continue to adopt the going concern basis of accounting over the coming period.

## 2. Internal Audit

The Committee is responsible for monitoring internal audit activities and effectiveness and ensuring that sufficient resources are in place. In common with other building societies of its size and structure, the Society outsources this role to an independent firm of accountants with appropriate specialist expertise and resource. The firm currently providing this service is Deloitte LLP.

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

Internal audit findings and thematic issues identified were considered by the Committee, as well as Management's response and the tracking and completion of outstanding actions.

The Committee considers guidance from the Chartered Institute of Internal Auditors entitled 'Effective Internal Audit in the Financial Services Sector' when ensuring that Internal Auditors and the Committee are properly fulfilling their obligations. Deloitte LLP operate in accordance with an Internal Audit Charter.

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

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

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

The Committee is satisfied Deloitte LLP satisfy the required skills and resource to fulfil the role.

## 3. System of Internal Controls

The Board recognises that robust systems of internal control are essential to the achievement of its objectives and the safeguarding of Members' and the Society's assets. Internal control also contributes to the effectiveness and efficiency of operations, helping to ensure the reliability of internal and external reporting and enables compliance with applicable laws and regulations.

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

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

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

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

The information received and considered by the Committee provided reasonable assurance that during 2020 there were no material breaches of control or regulatory standards and that, overall, the Society maintained an adequate internal control framework that met the principles of the Code.

#### 4. External Audit

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

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

The Committee considers the re-appointment of External Audit each year and also assesses their independence on an ongoing basis. External Audit is required to rotate the Audit Partner responsible for the Society's audit at least every five years. The audit in relation to the 2020 results was the first for the current Audit Partner and indeed the firm after they were appointed in February 2020 following a robust selection process.

The Committee approved the fees for audit services for 2020 after a review of the level and nature of the work to be performed and having been satisfied that the fees were appropriate for the scope of work required. The Board assessed their independence as appropriate as no non-audit services were provided during this reporting year.

#### 5. Audit Committee Effectiveness

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

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

**Gary C D Crowe**  
Chair of Audit Committee  
5 January 2021

## 32 Directors' Remuneration Report

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

### The Remuneration Committee

This Committee comprises all the Non-Executive Directors under the chairmanship of Karen McCormick and is responsible for setting remuneration for the Board Chairman, Executive Directors and other members of the Leadership Team. The Chief Executive attends by invitation only and takes no part in the discussion relating to his remuneration. The remuneration of the Chairman is set at a meeting of the Board where the Chairman is not present. The remuneration of all other Non-Executive Directors is set by the Chief Executive and Chairman.

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

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

The Committee meets at least twice a year to consider the remuneration and other terms of service of the Executive Directors.

### Policy for Executive Directors

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

#### Basic Salary

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

#### Incentives

A bonus scheme is determined by the Remuneration Committee and 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.

#### Pensions

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

#### Benefits

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



### Contractual Terms

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

As at 31 October 2020 no notices had been served by any of the parties.

### Policy for Non-Executive Directors

All Non-Executive Directors are remunerated by fees which are reviewed annually and compared with other building societies. The Board Chairman, Chairman of the Audit Committee, Chairman of the Risk Committee, Chairman of the Remuneration Committee and the Senior Independent Director also receive additional payments reflecting the additional duties and responsibilities of their roles.

There are no bonus schemes for Non-Executive Directors and they do not qualify for pension entitlement or other benefits. Non-Executive Directors do not have service contracts but are entitled to claim reimbursement of expenses incurred on behalf of the Society.

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

	2020 £'000	2019 £'000
Non-Executive Directors' fees	148.2	148.2
Executive Directors' remuneration	369.0	355.1
	<b>517.2</b>	<b>503.3</b>

### Non-Executive Directors

	2020 £'000 Fees	2019 £'000 Fees
Colin C Lloyd (Chairman)	31.6	28.9
Karen E McCormick (Vice Chairman)	25.1	23.3
James W Dean (Senior Independent Director)	20.6	25.2
Gary C D Crowe	25.1	25.0
David J Grant	25.1	23.3
Nicholas H J Sandy (to 26 February 2020)	6.9	22.5
Mary A Kerr (from 24 March 2020)	13.8	-
	<b>148.2</b>	<b>148.2</b>

34 **Executive Directors**

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

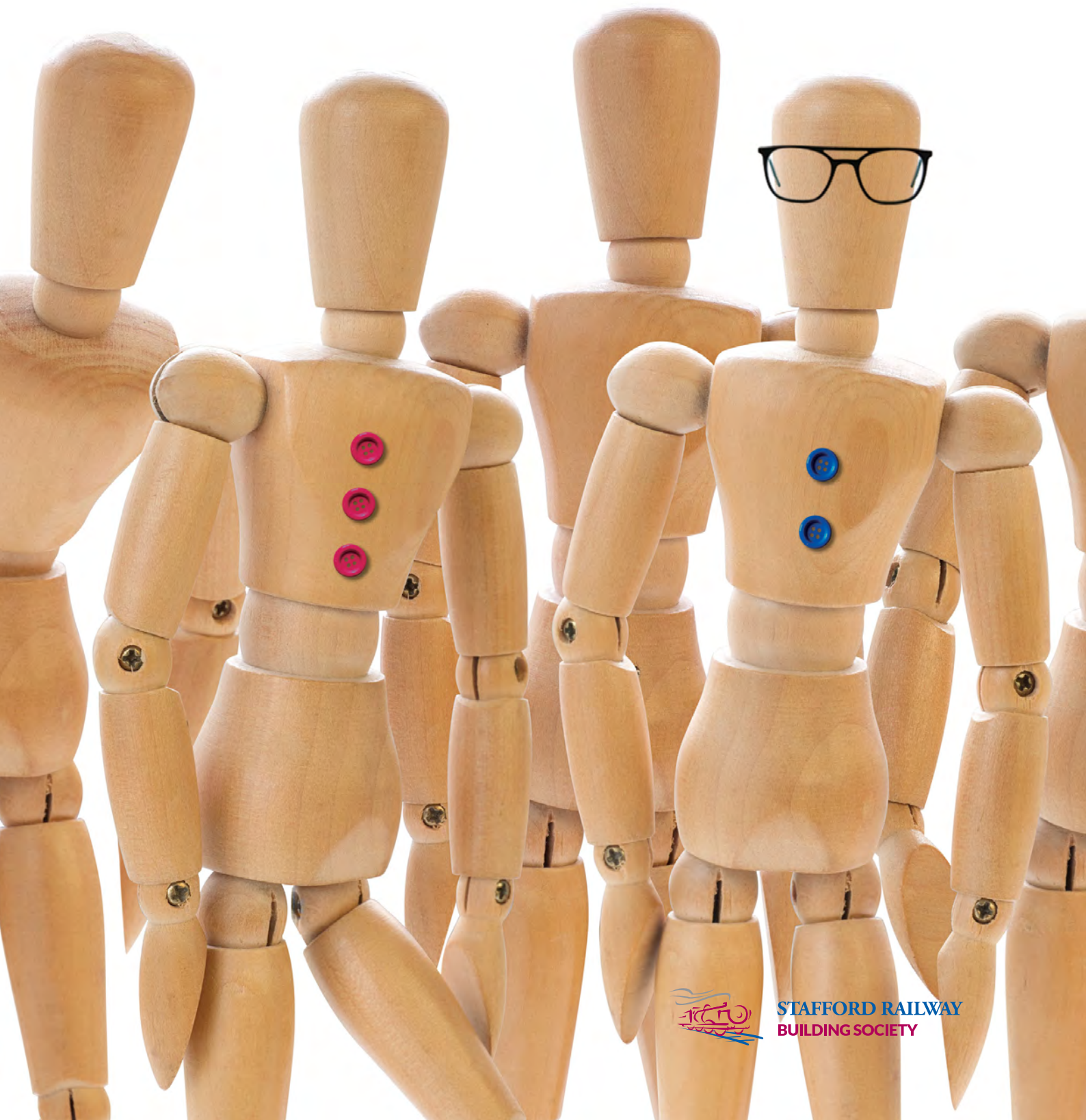
<b>31 October 2019</b>	<b>Salary £'000</b>	<b>Annual Bonus £'000</b>	<b>Pension £'000</b>	<b>Total £'000</b>
Michael R Smith	172.0	25.0	-	197.0
Steven Jones	129.6	15.0	13.5	158.1
	<b>301.6</b>	<b>40.0</b>	<b>13.5</b>	<b>355.1</b>

**Karen E McCormick**

Chair of Remuneration Committee  
5 January 2021

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# Directors' Responsibilities



# 36 Statement of Directors' Responsibilities

## **Directors' Responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors' Report and the Annual Accounts.**

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

The Building Societies Act 1986 (the Act) requires the Directors to prepare Annual Accounts for each financial year. Under that law they have elected to prepare the Annual Accounts in accordance with United Kingdom Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice), including FRS102 The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland.

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

The Directors consider the Annual Report and Accounts to be fair, balanced and understandable and provides the information necessary for Members to assess the Society's position, performance, business model and strategy.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the Annual Accounts;
- Assess the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

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

## **Directors' Responsibilities for Accounting Records and Internal Control**

The Directors are responsible for ensuring that the Society:

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

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

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

On behalf of the Board  
**Colin C Lloyd**  
Chairman  
5 January 2021

# Independent Auditor's Report



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

## ***Report on the audit of the annual accounts***

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### **Opinion**

In our opinion:

- The Stafford Railway Building Society's annual accounts (the "annual accounts") give a true and fair view of the state of the society's affairs as at 31 October 2020 and of the society's income and expenditure and cash flows for the year then ended;
- the society annual accounts have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the annual accounts have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the annual accounts, included within the Annual Report and accounts (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 October 2020; the Statement of Comprehensive Income, the Cash Flow Statement, and the Statement of Changes in Members' Interests for the year then ended; the accounting policies; and the notes to the annual accounts.

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

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### **Basis for opinion**

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

### **Independence**

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

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

We have provided no non-audit services to the society in the period from 1 November 2019 to 31 October 2020.

## 39 Our audit approach

### Overview

#### Materiality

- £227,000 - Society annual accounts
- Based on 1% of reserves

#### Audit scope

- This is our initial audit of the Society following our appointment at the AGM on 26 February 2020;
- We conducted our audit using a single audit team from Manchester; and
- We perform audit procedures over all material account balances and financial information of the Society.

#### Key audit matters

- Incomplete capture of impairment indicators in the allowance for impairment of loans and advances to customers; and
- Impact of Covid-19.

#### The scope of our audit

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

#### Capability of the audit in detecting irregularities, including fraud

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

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

- Review of correspondence with and reports to the regulators.
- Testing significant accounting estimates (see key audit matters below).
- Testing of journal entries which contained unusual account combinations back to corroborating evidence.
- Discussions with management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud.

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

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

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### **Key audit matters**

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

The Society holds an impairment provision of £215,000 (2019: £215,000) to account for impairment losses on mortgage assets which have been incurred. This is split between a collective impairment provision of £87,000 (2019: £177,000) to account for losses where an impairment indicator has not yet been identified and an individual impairment provision of £128,000 (2019: £38,000) to cover losses on loans where impairment indicators have been observed.

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

The individual impairment provision applies further stressed scenarios to individual accounts where the directors have identified indicators of impairment. This includes accounts where the borrower appears to be suffering financial distress for example accounts with a history of arrears or having been offered forbearance arrangements (including payment holidays granted due to Covid-19).

As a result of the assumptions used in the modelling being subject to a high degree of judgement due to previous limited experience of loan losses being incurred and due to the risk of their being unobserved impairments due to the onset of the COVID-19 pandemic, we have determined that this accounting estimate represents a greater area of risk.

The directors' disclosures are given in note 11. Management's associated accounting policies are given on page 52. Management's judgements in the application of the accounting policy and critical estimates is disclosed on page 54. The Audit Committee's consideration of the matter is described on pages 29 to 30.

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### **How our audit addressed the key audit matter**

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

We tested the underlying data used within the calculations to evidence from the underlying customer records. This included obtaining evidence on a sample basis over the charge held by the Society on the underlying collateral, testing the existence of third party independent valuations obtained at loan origination and recalculating the period end collateral valuations using independently sourced price indices.

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

We tested the completeness of the individually assessed provision by selecting a sample of loans under forbearance or arrears and ensuring their inclusion within the provision. We tested the completeness and accuracy of the identification of accounts as having suffered an impairment event through sample testing of high value loan exposures and review of the individual circumstances of the loan. We tested the behaviour of customers who had requested a payment holiday following the onset of Covid-19 to understand whether there are any emerging risks in the portfolio due to the pandemic.

We confirmed that the provision calculations were mathematically accurate. We read the impairment disclosures given by management and re-performed the disclosed sensitivity analysis.

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

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## 41 *Impact of Covid-19*

The Covid-19 pandemic has disrupted financial markets and normal patterns of human behaviour during the year. This is translating into adverse impacts on the UK economy and uncertainty in the UK housing market. In response, the UK Government and the financial services regulators have announced measures to support borrowers and firms alike.

The directors' have specifically considered the impact on the annual accounts as it gives rise to greater levels of uncertainty in the following areas;

- The going concern assessment of the Society, and the Society's longer term financial sustainability; and
- The allowance for impairment of loans and advances to customers (considered within the key audit matter above).

We considered the impact of Covid-19 to be an area of greater risk due to the potential for it to have pervasive implications on the Society.

The directors' disclosures demonstrating how the pandemic gives rise to a principal risk for the Society is given on page 15. Disclosures relating to the appropriateness of the use of the going concern basis of preparation and the considerations made by the directors' when drawing this conclusion is given on page 50.

We discussed the impact of Covid-19 on the Society's annual accounts and operations with the Audit Committee during the year.

We critically assessed the directors' conclusions on their going concern assessment and consideration of the impact of Covid-19 on the annual accounts. We reviewed the impact of management's stress test scenarios and considered the likelihood of successful implementation of management actions to mitigate the impacts. We considered whether the Society would continue to operate above required regulatory capital and liquidity minima during times of stress.

We challenged the reasonableness of the scenarios used by the directors' in their going concern assessment and audited the appropriateness of the assumptions used within their forecasting.

We considered the appropriateness of the disclosures made by the directors' as it relates to the potential impact of Covid-19 on the Society.

Based on our procedures performed and the information arising at the time of the directors' approval of the annual accounts, we have not identified any matters to report with respect to the use of the going concern basis of preparation.

### *How we tailored the audit scope*

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

All of the Society's activities take place in the United Kingdom. The principal activity of the Society is the provision of savings products to individuals to fund secured lending on residential property to support home ownership. 99% of the Society's mortgage book is secured on UK residential property with the remainder secured on UK commercial property. The Society is a stand-alone entity and the accounting records for the Society are maintained at its head office in Stafford.

Audit procedures were performed over all material account balances and financial information of the Society by a single audit team from Manchester. All procedures were conducted remotely due to the Covid-19 outbreak and consequent restrictions imposed by the UK Government. We did not require the involvement of any component auditors.

The audit procedures performed provided us with sufficient audit evidence as a basis for our opinion on the annual accounts as a whole.

### *Materiality*

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

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

<i>Society annual accounts</i>	
Overall materiality	£227,000
<i>How we determined it</i>	1% of reserves.
<i>Rationale for benchmark applied</i>	The Society's principal activity is to provide residential mortgage loans financed by retail savings products. The strategy is not one purely of profit maximisation but to provide a secure place for customer savings in a mutual environment. The soundness of the Society is based on its regulatory capital, which is closely aligned to accounting reserves. As such we consider a benchmark based on reserves to be appropriate.

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

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the annual accounts is not appropriate; or
- the directors have not disclosed in the annual accounts any identified material uncertainties that may cast significant doubt about the society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the annual accounts are authorised for issue.

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

### Reporting on other information

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

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

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

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

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

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the year ended 31 October 2020 is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

## 43 Responsibilities for the annual accounts and the audit

### *Responsibilities of the directors for the annual accounts*

As explained more fully in the Statement of Directors' Responsibilities set out on page 36, the directors are responsible for the preparation of the annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the directors are responsible for assessing the society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the society or to cease operations, or have no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the annual accounts*

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

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

### *Use of this report*

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

## ***Other required reporting***

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### **Building Societies Act 1986 exception reporting**

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

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### **Appointment**

Following the recommendation of the audit committee, we were appointed by the members on 26 February 2020 to audit the annual accounts for the year ended 31 October 2020 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the year ended 31 October 2020.

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

# Statements



# 45 Statement of Comprehensive Income

## – for the year ended 31 October 2020

	Notes	2020 £'000	2019 £'000
Interest receivable and similar income	2	5,945	6,606
Interest payable and similar charges	3	(1,513)	(2,152)
Net interest income		4,432	4,454
Fees and commissions receivable		4	18
Fees and commissions payable		(27)	(27)
Other operating income		20	27
Total net income		4,429	4,472
Administrative expenses	4	(3,245)	(3,269)
Depreciation and amortisation	12	(130)	(116)
Operating profit before impairment losses and provisions		1,054	1,087
Impairment losses on loans and advances	11	-	(22)
<b>Profit before tax</b>		<b>1,054</b>	<b>1,065</b>
Tax expense	7	(209)	(204)
<b>Profit for the financial year</b>		<b>845</b>	<b>861</b>
<b>Other comprehensive income</b>			
Gains in fair value	9	17	52
Taxation on other comprehensive income		(3)	(9)
<b>Total comprehensive income for the year</b>		<b>859</b>	<b>904</b>

Profit for the financial year arises from continuing operations. Both the profit for the financial year and total comprehensive income for the year are attributable to the Members of the Society.

The notes on pages 50 to 75 form an integral part of these Financial Statements.

# 46 Statement of Financial Position

## – at 31 October 2020

	Notes	2020 £'000	2019 £'000
<b>Assets</b>			
Liquid assets			
Cash in hand		55	132
Loans and advances to credit institutions	8	56,741	47,241
Debt securities	9	13,932	23,653
Loans and advances to customers	10	197,695	187,609
Tangible fixed assets	12	759	855
Other debtors	13	130	124
<b>Total assets</b>		<b>269,312</b>	<b>259,614</b>
<b>Liabilities</b>			
Shares	14	233,354	224,701
Amounts owed to other customers	15	12,553	12,421
Other liabilities	16	202	196
Accruals and deferred income		399	361
Deferred tax liability	17	49	39
<b>Total liabilities</b>		<b>246,557</b>	<b>237,718</b>
<b>Reserves</b>			
General reserve		22,742	21,897
Available-for-sale reserve		13	(1)
Total reserves attributable to Members of the Society		22,755	21,896
<b>Total reserves and liabilities</b>		<b>269,312</b>	<b>259,614</b>

These accounts were approved by the Board of Directors on 5 January 2021 and signed on its behalf:

**Colin C Lloyd**  
Chairman

**Michael R Smith**  
Chief Executive

**Steven Jones**  
Deputy Chief Executive  
and Finance Director

The notes on pages 50 to 75 form an integral part of these Financial Statements

## 47 Statement of Changes in Members' Interests

	General reserve	Available -for-sale reserve	Total	General reserve	Available -for-sale reserve	Total
	2020 £'000	2020 £'000	2020 £'000	2019 £'000	2019 £'000	2019 £'000
Balance at 1 November 2019	21,897	(1)	21,896	21,036	(44)	20,992
<b>Total comprehensive income for the period</b>						
Profit for the financial year	845	-	845	861	-	861
Other comprehensive income:						
Gains in fair value	-	17	17	-	52	52
Taxation on other comprehensive income	-	(3)	(3)	-	(9)	(9)
Total comprehensive income for the period	845	14	859	861	43	904
<b>Balance at 31 October 2020</b>	<b>22,742</b>	<b>13</b>	<b>22,755</b>	<b>21,897</b>	<b>(1)</b>	<b>21,896</b>

# Cash Flow Statement

	2020 £'000	2019 £'000
<b>Cash flows from operating activities</b>		
Profit before tax	1,054	1,065
Adjustments for		
Depreciation	130	116
Increase in impairment of loans and advances	-	22
Movement in premium and accrued interest on debt securities	(82)	77
<b>Total</b>	<b>1,102</b>	<b>1,280</b>
<b>Changes in operating assets and liabilities</b>		
(Increase) in prepayments, accrued income and other assets	(6)	-
Increase / (Decrease) in accruals, deferred income and other liabilities	38	(74)
(Increase) in loans and advances to customers	(10,086)	(15,403)
Increase in shares	8,653	6,523
Increase / (Decrease) in amounts owed to other credit institutions and other customers	132	(1,851)
Taxation paid	(196)	(177)
<b>Net cash used by operating activities</b>	<b>(363)</b>	<b>(9,702)</b>
<b>Cash flows from investing activities</b>		
Purchase of debt securities	(20,415)	(23,560)
Maturity of debt securities	30,235	36,784
Purchase of tangible fixed assets	(34)	(208)
<b>Net cash generated by investing activities</b>	<b>9,786</b>	<b>13,016</b>
<b>Net Increase in cash and cash equivalents</b>	<b>9,423</b>	<b>3,314</b>
Cash and cash equivalents at 1 November 2019	47,373	44,059
<b>Cash and cash equivalents at 31 October 2020</b>	<b>56,796</b>	<b>47,373</b>

<b>Reconciliation of Net Debt</b>	2019 £'000	Cash Flow £'000	2020 £'000
Cash and cash equivalents	47,373	9,423	56,796
Shares and amounts owed to other customers	(237,122)	(8,785)	(245,907)
<b>Net Debt</b>	<b>(189,749)</b>	<b>638</b>	<b>(189,111)</b>

2019 Cash Flow Statement has been restated to amend the treatment of deferred tax and gains in fair values on liquid assets.



# Notes to the Accounts



**1. Accounting policies**

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

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

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

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

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

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

**1.1 Measurement convention**

The Annual Accounts are prepared on a going concern basis under the historical convention basis with the exception that the Society has elected to adopt IAS 39 Financial Instruments: Recognition and Measurement which requires the Society to measure its debt securities that it has classified as 'Available-For-Sale' at fair value with interest and amortisation recognised using the effective interest rate method.

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

**1.2 Interest**

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

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

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

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

**1.3 Fees and commission**

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

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

## 51 1.4 Taxation

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

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

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

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

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

### 1.5 Financial instruments

#### Recognition

The Society initially recognises loans and advances to customers, loans and advances to credit institutions and debt securities on the date on which they are originated at fair value. All other financial instruments are recognised on the trade date, which is the date on which the Society becomes a party to the contractual provisions of the instrument.

#### Classification

##### Financial assets

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

- *Loans and receivables*

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

The Society measures its loans and advances at amortised cost less impairments. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The initial value may, if applicable include certain fees which are recognised over the average life of mortgage assets, as noted above.

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

- *Available-for-sale*

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

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

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

- *Financial liabilities*

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

## 52 *Derecognition*

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

### *Measurement*

#### **Amortised cost measurement**

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

#### **Identification and measurement of impairment**

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

Objective evidence that financial assets are impaired includes:

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

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

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

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

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

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

### Forbearance strategies and renegotiated loans

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

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

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

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

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

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

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

#### 1.6 Cash and cash equivalents

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

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

#### 1.7 Tangible fixed assets

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

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

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

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

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

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

## 54 1.8 Employee benefits

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

### 1.9 Provisions

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

### 1.10 Judgements and estimation uncertainties

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

#### Loan impairment

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

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

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

#### Effective interest rate ('EIR')

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

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

A 3 month increase in the life profile of mortgage assets would result in an increase in the value of loans on the Statement of Financial Position by approximately £17,938 (2019: £10,479).

**2. Interest receivable and similar income**

	2020 £'000	2019 £'000
On loans fully secured on residential property	5,561	5,925
On other loans	77	92
On debt securities and other liquid assets	307	589
	<b>5,945</b>	<b>6,606</b>

Included within interest income is £nil (2019: £12,778) in respect of interest income accrued on impaired loans two or more months in arrears.

**3. Interest payable and similar charges**

	2020 £'000	2019 £'000
On shares held by individuals	1,483	2,120
On deposits and other borrowings	30	32
	<b>1,513</b>	<b>2,152</b>

**4. Administrative expenses**

	2020 £'000	2019 £'000
Wages and salaries	1,682	1,667
Social security costs	166	165
Contributions to defined contribution plans	108	110
	<b>1,956</b>	<b>1,942</b>
Other administrative expenses	1,289	1,327
	<b>3,245</b>	<b>3,269</b>

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

	2020 £'000	2019 £'000
For audit work	103	87
For audit-related assurance services	-	-
Other services	-	8
	<b>103</b>	<b>95</b>

### 5. Employee numbers

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

	2020 £'000	2019 £'000
Full time	24	31
Part time	13	11
	<b>37</b>	<b>42</b>

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

### 6. Directors' remunerations

Total remuneration of the Society's Directors for the year was £517,183 (2019: £503,335). Full details are given in the tables within the Directors' Remuneration Report on pages 32 to 34.

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



## 7. Tax expense

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

<b>Analysis of tax charge in the year</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
<i>Current tax</i>		
United Kingdom corporation tax on income for the period	202	196
	<b>202</b>	<b>196</b>
<i>Deferred tax (see note 17)</i>		
Origination and reversal of timing differences	7	8
Total deferred tax	7	8
<b>Total tax</b>	<b>209</b>	<b>204</b>

<b>Factors affecting the current tax charge in the year:</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
Profit on ordinary activities before tax	1,054	1,065
Tax on profit on ordinary activities at United Kingdom standard rate of 19% (2019: 19%)	200	202
Expenses not deductible for tax purposes	4	2
Effect of changes in tax rates	5	-
<b>Current tax charge for the year</b>	<b>209</b>	<b>204</b>

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

## 8. Loans and advances to credit institutions

	<b>2020 £'000</b>	<b>2019 £'000</b>
Repayable on demand	56,741	47,241
<b>Total loans and advances to credit institutions</b>	<b>56,741</b>	<b>47,241</b>
Total loans and advances to credit institutions	56,741	47,241
Cash	55	132
<b>Total cash and cash equivalents</b>	<b>56,796</b>	<b>47,373</b>

58 **9. Debt securities**

	2020 £'000	2019 £'000
Debt securities have remaining maturities as follows:		
In not more than one year	13,932	23,653
In more than one year	-	-
	<b>13,932</b>	<b>23,653</b>
Transferable debt securities comprise:		
Listed on a recognised investment exchange	13,932	19,087
Unlisted	-	4,566
	<b>13,932</b>	<b>23,653</b>
Movements in debt securities during the year are summarised as follows:		
At 1 November 2019	23,653	36,902
Additions	20,415	23,560
Disposals and maturities	(30,235)	(36,784)
Movement in premium and accrued interest	82	(77)
Gains in fair value recognised as other comprehensive income	17	52
<b>At 31 October 2020</b>	<b>13,932</b>	<b>23,653</b>

**10. Loans and advances to customers**

	2020 £'000	2019 £'000
Loans fully secured on residential property	196,193	185,919
Loans fully secured on land	1,502	1,690
	<b>197,695</b>	<b>187,609</b>
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
On call and at short notice	134	157
In not more than three months	171	1
In more than three months but not more than one year	422	419
In more than one year but not more than five years	10,296	8,140
In more than five years	186,887	179,107
	<b>197,910</b>	<b>187,824</b>
Less: allowance for impairment (note 11)	(215)	(215)
	<b>197,695</b>	<b>187,609</b>

The maturity analysis above is based on contractual maturity.

59 **11. Allowance for impairment**

	Loans fully secured on residential property £'000
<b>At 1 November 2019</b>	
Individual impairment	38
Collective impairment	177
	<b>215</b>
<b>Charge/(credit) for the year</b>	
Individual impairment	90
Collective impairment	(90)
	-
<b>At 31 October 2020</b>	
Individual impairment	128
Collective impairment	87
	<b>215</b>

	Loans fully secured on residential property £'000
<b>At 1 November 2018</b>	
Individual impairment	6
Collective impairment	187
	<b>193</b>
<b>Charge/(credit) for the year</b>	
Individual impairment	32
Collective impairment	(10)
	<b>22</b>
<b>At 31 October 2019</b>	
Individual impairment	38
Collective impairment	177
	<b>215</b>

**12. Tangible fixed assets**

	Freehold Land and Buildings £'000	Computer Equipment £'000	Office Equipment /Fixtures & Fittings £'000	Total £'000
<b>Cost</b>				
Balance at 1 November 2019	643	233	830	1,706
Additions	-	16	18	34
Disposals	-	(29)	-	(29)
<b>Balance at 31 October 2020</b>	<b>643</b>	<b>220</b>	<b>848</b>	<b>1,711</b>
<b>Depreciation and impairment</b>				
Balance at 1 November 2019	268	139	444	851
Depreciation charge for the year	16	50	64	130
Disposals	-	(29)	-	(29)
<b>Balance at 31 October 2020</b>	<b>284</b>	<b>160</b>	<b>508</b>	<b>952</b>
<b>Net book value</b>				
At 1 November 2019	375	94	386	855
<b>At 31 October 2020</b>	<b>359</b>	<b>60</b>	<b>340</b>	<b>759</b>

*Land and buildings*

	2020 £'000	2019 £'000
The net book value of land and buildings comprises:		
Freehold	359	375
<b>Net book value of land and buildings occupied for own use</b>	<b>359</b>	<b>375</b>

**13. Other debtors**

	2020 £'000	2019 £'000
Prepayments and accrued income	130	124
	<b>130</b>	<b>124</b>

**14. Shares**

	2020 £'000	2019 £'000
Held by individuals	233,354	224,701
Shares are repayable with remaining maturities from the balance sheet date as follows:		
Repayable on demand	214,166	217,979
In not more than 3 months	19,188	6,722
	<b>233,354</b>	<b>224,701</b>

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

	2020 £'000	2019 £'000
Repayable on demand	12,553	12,421
	<b>12,553</b>	<b>12,421</b>

**16. Other liabilities**

	2020 £'000	2019 £'000
Corporation tax	202	196
	<b>202</b>	<b>196</b>

**17. Deferred tax assets and liabilities**

	Assets 2020 £'000	Assets 2019 £'000	Liabilities 2020 £'000	Liabilities 2019 £'000	Net 2020 £'000	Net 2019 £'000
Excess of capital allowances over depreciation	-	-	53	59	53	59
Effective Interest Rate transitional adjustment	-	-	9	10	9	10
Collective impairment allowance	(16)	(30)	-	-	(16)	(30)
Taxation on other comprehensive income	-	-	3	-	3	-
<b>Deferred tax (assets) / liabilities</b>	<b>(16)</b>	<b>(30)</b>	<b>65</b>	<b>69</b>	<b>49</b>	<b>39</b>

No significant reversal of the deferred tax liability in respect of accelerated capital allowances or collective impairment allowance is expected to occur in the year to 31 October 2021. The Corporation Tax impact of the Effective Interest Rate transitional adjustment is spread over ten years and so deferred tax has been recognised accordingly.

## 18. Employee benefits: Defined contribution plans

During the year, the Society has contributed to the personal pension plans of its staff. The pension charge in relation to these plans for the year was £107,393 (2019: £110,132). Accrued contributions as at 31 October 2020 were £nil (2019: £nil).

## 19. Financial instruments

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

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

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

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

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

Carrying values by category 31 October 2020	Held at amortised cost			Held at fair value	Total £'000
	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Other non -financial assets and liabilities £'000	Available -for-sale £'000	
<b>Financial assets</b>					
Cash in hand	55	-	-	-	55
Loans and advances to credit institutions	56,741	-	-	-	56,741
Debt securities	-	-	-	13,932	13,932
Loans and advances to customers	197,695	-	-	-	197,695
<b>Total financial assets</b>	<b>254,491</b>	<b>-</b>	<b>-</b>	<b>13,932</b>	<b>268,423</b>
Non-financial assets	-	-	889	-	889
<b>Total assets</b>	<b>254,491</b>	<b>-</b>	<b>889</b>	<b>13,932</b>	<b>269,312</b>
<b>Financial liabilities</b>					
Shares	-	233,354	-	-	233,354
Amounts owed to other customers	-	12,553	-	-	12,553
<b>Total financial liabilities</b>	<b>-</b>	<b>245,907</b>	<b>-</b>	<b>-</b>	<b>245,907</b>
Non-financial liabilities	-	-	650	-	650
<b>Total liabilities</b>	<b>-</b>	<b>245,907</b>	<b>650</b>	<b>-</b>	<b>246,557</b>
General and other reserves					22,755
<b>Total reserves and liabilities</b>					<b>269,312</b>

Carrying values by category 31 October 2019	Held at amortised cost			Held at fair value	Total £'000
	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Other non -financial assets and liabilities £'000	Available -for-sale £'000	
<b>Financial assets</b>					
Cash in hand	132	-	-	-	132
Loans and advances to credit institutions	47,241	-	-	-	47,241
Debt securities	-	-	-	23,653	23,653
Loans and advances to customers	187,609	-	-	-	187,609
<b>Total financial assets</b>	<b>234,982</b>	<b>-</b>	<b>-</b>	<b>23,653</b>	<b>258,635</b>
Non-financial assets	-	-	979	-	979
<b>Total assets</b>	<b>234,982</b>	<b>-</b>	<b>979</b>	<b>23,653</b>	<b>259,614</b>
<b>Financial liabilities</b>					
Shares	-	224,701	-	-	224,701
Amounts owed to other customers	-	12,421	-	-	12,421
<b>Total financial liabilities</b>	<b>-</b>	<b>237,122</b>	<b>-</b>	<b>-</b>	<b>237,122</b>
Non-financial liabilities	-	-	596	-	596
<b>Total liabilities</b>	<b>-</b>	<b>237,122</b>	<b>596</b>	<b>-</b>	<b>237,718</b>
General and other reserves					21,896
<b>Total reserves and liabilities</b>					<b>259,614</b>



## 65 Valuation of financial instruments carried at fair value

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

Valuation techniques

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

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

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

31 October 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets</b>				
Available for sale				
Debt securities	13,932	-	-	13,932
<b>31 October 2019</b>				
<b>Financial assets</b>				
Available for sale				
Debt securities	23,653	-	-	23,653

Valuation techniques

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

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

## 66 Credit risk

Credit risk is the risk of loss or delay if a customer or counterparty fails to perform their obligations, such as the timely repayment of a loan or other credit arrangement. The Society has no appetite for material credit losses. This is controlled through credit quality standards, underwriting rules, as well as limits by exposure to counterparty, sector, country and instrument. The Society's maximum credit risk exposure is detailed in the table below:

	2020 £'000	2019 £'000
Loans and advances to credit institutions	56,741	47,241
Debt securities	13,932	23,653
Loans and advances to customers	197,695	187,609
Total statement of financial position exposure	268,368	258,503
Off-balance sheet exposure – mortgage commitments	8,808	12,369
	<b>277,176</b>	<b>270,872</b>

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

### Loans and advances to credit institutions and debt securities

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

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

	2020 £'000	2020 %	2019 £'000	2019 %
<b>Industry sector</b>				
Banks	19,330	27.3	16,692	23.5
Bank of England	51,398	72.7	42,285	59.5
Building Societies	-	-	1,254	1.8
Central Government	-	-	10,795	15.2
<b>Total</b>	<b>70,728</b>	<b>100.0</b>	<b>71,026</b>	<b>100.0</b>

Geographic region	2020 £'000	AA %	A %	BBB %	Other %	2019 £'000
United Kingdom	70,728	72.75	27.25	-	-	71,026
	<b>70,728</b>	<b>72.75</b>	<b>27.25</b>	-	-	<b>71,026</b>

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

There are no impairment charges against any of the Society's liquid assets at 31 October 2020 (2019: nil).

Loans and advances to customers

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

The Board's Risk Appetite is based on:

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

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

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

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

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

	2020 £'000	2020 %	2019 £'000	2019 %
<b>Industry sector</b>				
Residential mortgages				
Owner occupied	157,908	79.8	151,216	80.5
Buy-to-let	38,041	19.2	34,431	18.3
Commercial mortgages	1,961	1.0	2,177	1.2
<b>Total Gross Mortgages</b>	<b>197,910</b>	<b>100.0</b>	<b>187,824</b>	<b>100.0</b>

The Society operates throughout England and Wales.

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

	2020 £'000	2019 £'000
Stafford ST16-ST18	29,312	33,877
Rest of Staffordshire	27,214	28,831
Rest of United Kingdom	141,384	125,116
<b>Total Gross Mortgages</b>	<b>197,910</b>	<b>187,824</b>

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

	2020 £'000	2019 £'000
<b>LTV ratio</b>		
Less than 50%	112,691	104,530
51 – 70%	70,898	63,025
71 – 90%	14,178	20,269
91 – 100%	143	-
More than 100%	-	-
<b>Total Gross Mortgages</b>	<b>197,910</b>	<b>187,824</b>
<b>Average Loan To Value</b>	<b>32.7%</b>	<b>33.0%</b>

## 69 Credit risk

### Credit quality analysis of loans and advances to customers

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

	Loans fully secured on residential property	2020 Loans fully secured on land	Total loans	Loans fully secured on residential property	2019 Loans fully secured on land	Total loans
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Neither past due nor impaired</b>	<b>193,629</b>	<b>1,431</b>	<b>195,060</b>	<b>180,122</b>	<b>1,620</b>	<b>181,742</b>
<b>Past due but not impaired</b>						
0 – 60 days	1,724	-	1,724	4,722	-	4,722
60 – 90 days	-	-	-	171	70	241
90 – 180 days	97	71	168	308	-	308
180 days+	134	-	134	167	-	167
	<b>1,955</b>	<b>71</b>	<b>2,026</b>	<b>5,368</b>	<b>70</b>	<b>5,438</b>
<b>Individually impaired</b>						
0 – 60 days	824	-	824	575	-	575
60 – 90 days	-	-	-	69	-	69
90 – 180 days	-	-	-	-	-	-
180 days+	-	-	-	-	-	-
Possession	-	-	-	-	-	-
	<b>824</b>	<b>-</b>	<b>824</b>	<b>644</b>	<b>-</b>	<b>644</b>
<b>Total gross mortgages</b>	<b>196,408</b>	<b>1,502</b>	<b>197,910</b>	<b>186,134</b>	<b>1,690</b>	<b>187,824</b>
<b>Allowance for impairment</b>						
Individual	(128)	-	(128)	(38)	-	(38)
Collective	(87)	-	(87)	(177)	-	(177)
<b>Total allowance for impairment</b>	<b>(215)</b>	<b>-</b>	<b>(215)</b>	<b>(215)</b>	<b>-</b>	<b>(215)</b>

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

The status 'past due but not impaired' includes any asset where a payment due is received late or missed but no individual provision has been allocated. The amount included is the entire loan amount rather than just the overdue amount. The status also includes cases in forbearance measures, which as at 31 October 2020 totalled £3.03m (2019: £1.20m).

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

### Forbearance

The Society has various forbearance options to support Members who may find themselves in financial difficulty. These include payment plans, capitalisations, term extensions, temporary transfer to interest only and reduced payment concessions.

All forbearance arrangements are formally discussed with the Member and reviewed prior to acceptance of the forbearance arrangement. By offering Members in financial difficulty the option of forbearance the Society potentially exposes itself to an increased level of risk through prolonging the period of non-contractual payment and/or potentially placing the Member into a detrimental position at the end of the forbearance period.

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

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

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Payment plan	329	239
Transfers to interest only	2,697	963
	<b>3,026</b>	<b>1,202</b>

These represent a total of 28 accounts in forbearance at 31 October 2020 (2019: 17). These accounts are shown above as impaired.

Three individual impairments in respect of cases in forbearance have been recognised (2019: nil).

#### *Liquidity risk*

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

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

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

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

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

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

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

The stress tests are performed monthly and reported to ALCO to confirm that the Policy remains appropriate. The Society's liquid resources comprise high quality liquid assets, including Gilts and Treasury Bills. As at 31 October 2020 the ratio of liquid assets to shares and amounts owed to other customers was 28.76% compared to 29.95% at 31 October 2019.

The Society maintains a Contingency Funding Plan (held within the RP) to ensure that it has so far as possible, sufficient liquid financial resources to meet liabilities as they fall due under each of the scenarios.

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

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

31 October 2020	On demand £'000	Not more than three months £'000	More than three months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Total £'000
<b>Financial Liabilities</b>						
Shares	214,166	19,205	-	-	-	233,371
Amounts owed to other customers	12,553	-	-	-	-	12,553
	<b>226,719</b>	<b>19,205</b>	-	-	-	<b>245,924</b>
Other liabilities	-	448	202	-	-	650
<b>Total financial liabilities</b>	<b>226,719</b>	<b>19,653</b>	<b>202</b>	-	-	<b>246,574</b>

31 October 2019	On demand £'000	Not more than three months £'000	More than three months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Total £'000
<b>Financial Liabilities</b>						
Shares	217,979	6,735	-	-	-	224,714
Amounts owed to other customers	12,421	-	-	-	-	12,421
	<b>230,400</b>	<b>6,735</b>	-	-	-	<b>237,135</b>
Other liabilities	-	400	196	-	-	596
<b>Total financial liabilities</b>	<b>230,400</b>	<b>7,135</b>	<b>196</b>	-	-	<b>237,731</b>



## 73 Market risk

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

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

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

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

	100bp parallel increase £'000	100bp parallel decrease £'000	50bp increase after 1 year £'000	50bp decrease after 1 year £'000
<b>Sensitivity of projected net interest income</b>				
<b>At 31 October 2020</b>				
Average for the period	206	69	137	137
Maximum for the period	211	69	139	139
Minimum for the period	201	68	135	135
<b>At 31 October 2019</b>				
Average for the period	297	99	198	198
Maximum for the period	303	100	201	201
Minimum for the period	290	98	195	195

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

## 74 Capital

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

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

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

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

The Society's capital requirements are set and monitored by the PRA. During 2020 the Society has continued to comply with the European Union Capital Requirements Regulation and Directive ('Basel III') as amended by the PRA.

Regulatory capital is analysed into two tiers:

- **Tier 1 capital:** which comprised retained earnings, revaluation reserve less intangibles (where applicable); and
- **Tier 2 capital:** which includes collective impairment provision.

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

There were no reported breaches of capital requirements during the year. There have been no material changes in the Society's management of capital during the year. The Society's regulatory position as at 31 October 2020 under the Standardised Approach was as follows:

	2020 £'000	2019 £'000
<b>Tier 1 Capital</b>		
General reserves	22,755	21,896
<b>Tier 2 Capital</b>		
Collective provision	87	177
<b>Total Regulatory Capital</b>	<b>22,842</b>	<b>22,073</b>

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

## 20. Commitments

Contractual commitments to purchase tangible fixed assets at the year-end were £nil (2019: £nil) for the Society.

## 21. Related parties

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

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

At 31 October 2020 there were outstanding mortgage loans granted in the ordinary course of business at the Society's standard variable mortgage rate to one Director in aggregate of £142,274 (2019: one Director in aggregate to £151,689).

Directors' and connected parties hold savings balances with the Society; all accounts have the same terms and conditions as available to Members of the Society. The savings balances are not detailed in the register unlike loans and transactions above, due to their sensitive nature. The aggregate amount of all savings balances at 31 October 2020 was £113,641 (2019: £152,447).

During the year Mr D Grant received £1,800 in respect of professional services provided to the Society.

## 22. Subsequent events

The Directors consider that there has been no event since the end of the financial year that has a significant effect on the position of the Society. However, both the Society and the Directors will continually monitor the ongoing developments regarding the Covid-19 pandemic, in particular the results of the second lockdown and potential vaccine, and the impact of Brexit deal talks and adapt strategy accordingly.

## 76 **Country-by-Country Reporting**

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

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

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

### **For the year ended 31 October 2020**

The Society's Annual Accounts report:

- Total operating income was £4.43m (2019: £4.47m). Total operating income is defined as net interest income plus fees and commissions receivable (net of fees and commissions payable);
- Profit before tax was £1.05m (2019: £1.06m) all of which arising from United Kingdom based activity;
- The average number of Society full time equivalent employees was 33 (2019: 37) all of which were employed in the United Kingdom;
- Corporation tax of £0.20m was paid in the year and is all within the United Kingdom tax jurisdiction; and
- No public subsidies were received in the year.

Note 1 to the 2020 Annual Report and Accounts details the basis of preparation relating to going concern and accounting policies.

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

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

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### **Opinion**

In our opinion, The Stafford Railway Building Society's country-by-country information for the year ended 31 October 2020 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 October 2020 in the Country-by-Country Report.

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### **Basis for opinion**

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

#### *Independence*

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

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### **Emphasis of matter - Basis of preparation**

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

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### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is not appropriate; or
- the directors have not disclosed in the country-by-country information any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the country-by-country information is authorised for issue.

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

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

### *Responsibilities of the directors for the country-by-country information*

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation note and accounting policies note to the country-by-country information, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this country-by-country information.

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

### *Use of this report*

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

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester  
5 January 2021

# Annual Business Statement



# 80 Annual Business Statement

## – for the year ended 31 October 2020

### 1. Statutory Percentages

	31 Oct 2020 %	Statutory Limit
Proportion of business assets not in the form of loans fully secured on residential property (the 'Lending limit')	0.82	25
Proportion of shares and deposits not in the form of shares held by individuals (the 'Funding limit')	5.10	50

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

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

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

### 2. Other Percentages

	31 Oct 2020 %	31 Oct 2019 %
Gross capital as a percentage of share and deposit liabilities	9.25	9.23
Free capital as a percentage of share and deposit liabilities	8.98	8.95
Liquid assets as a percentage of share and deposit liabilities	28.76	29.95
Cost income ratio represents the aggregate of administration expenses and depreciation expressed as a percentage of total income less other operating charges	76.20	75.69
As a percentage of mean assets		
Profit after taxation	0.32	0.34
Management expenses	1.28	1.32

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

- Shares and deposits represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.
- Gross capital represents the general reserves including the available-for-sale reserve.
- Free capital represents the aggregate of gross capital and collective loan loss impairment less tangible fixed assets.
- Mean total assets represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- Liquid assets represent the total cash in hand, treasury bills, loans and advances to credit institutions and debt securities.
- Management expenses represent the aggregate of recurring administrative expenses, depreciation and amortisation.



### 3. Information relating to the Directors at 31 October 2020

Name	Occupation and Date of Appointment	Other Directorships
Colin C Lloyd Chairman	Principal Consultant 21.07.14	Community Sports Trust Aquabox
Karen E McCormick Vice Chairman	Consultant / Independent Director 20.07.15	Mottram Hall Farm Management Company Limited Karen McCormick Associates Limited Currency Matters Limited Bank and Clients PLC
James W Dean Senior Independent Director	Chartered Accountant 20.08.12	Notemega Limited Seale Hill Management Company Rathbone Brothers PLC Rathbone Investment Management Limited School Governor (Reigate Grammar School – limited by guarantee) RJ Young Properties (Stafford) Limited
Gary C D Crowe	Management Consultant 20.07.15	University Hospitals of North Midlands NHS Trust The Dudley Group of Hospitals NHS Foundation Trust
David J Grant	Company Director and Consultant 22.05.17	BLAKK Limited Kingston Unity Friendly Society Limited Protosun Benefits Limited
Mary A Kerr	Non-Executive Director 24.03.20	Regent's University, London Lawes Property Trust
Michael R Smith	Chief Executive 09.10.17	-
Steven Jones	Deputy Chief Executive and Finance Director 06.06.18	Newcastle and Stafford Colleges Group

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

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

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

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



**STAFFORD RAILWAY  
BUILDING SOCIETY**

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