

**Capital Requirements Directive**

**Pillar 3 Disclosures**

**For the Year Ended 31 October 2023**

Registration Number 206063

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## 1. INTRODUCTION

### 1.1. Purpose

The purpose of this document is to disclose key information regarding The Stafford Railway Building Society's ('the Society') approach to risk management for each type of risk it faces. It also describes the quality and quantity of capital resources and capital requirement that must be maintained at all times with the intention of protecting the interests of Members and other stakeholders.

### 1.2. Background

European standards for capital and liquidity requirements for banks, building societies and related institutions are set out in the Capital Requirements Directive IV ('CRD IV') and the Capital Requirements Regulation ('CRR').

On a national level, prudential supervision with regards to capital and liquidity adequacy is overseen by the Prudential Regulation Authority ('PRA'), and CRD IV is implemented in the PRA Rulebook. CRR on the other hand is directly applicable, without implementation in national legislation.

CRR sets out not only capital requirements, but also specifies what the Society must disclose in regard to its risk management policies, procedures, and performance, including the main risks faced by the Society and the governance of those risks. These disclosure requirements are usually referred to as 'Pillar 3', being the third pillar of the three-pillar approach, which is normally considered for prudential banking regulation.

- Pillar 1: Minimum capital requirement for credit, market and operational risk. The Society meets the minimum credit requirements prescribed for credit and operational risks by adopting the Standardised Approach and the Basic Indicator Approach respectively;
- Pillar 2: Assessment of additional capital requirements following review under the Internal Capital Adequacy Assessment Process ('ICAAP'), approved annually by the Board, and the PRA's Supervisory Review and Evaluation Process ('SREP'); and
- Pillar 3: Disclosure requirements.

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

### 1.3. Basis, Frequency and Scope of Disclosures

The Pillar 3 Disclosure is based upon the Society's audited Annual Report and Accounts for the year ending 31 October 2023, unless otherwise stated. Pillar 3 disclosures are issued on an annual basis and are not subject to external audit, except where they are equivalent to those included within the Annual Report and Accounts.

The Pillar 3 Disclosure is reviewed annually by the Assets and Liabilities Committee ('ALCO') and recommended for Board approval. The Board approved the Pillar 3 Disclosure document on the 9th of February 2024.

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

### 1.4. Scope of Application

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

The CRD IV introduced a country-by-country reporting requirement aimed at providing transparency of a financial institution's income and the location of its operations. This is reported on page 77 of the Annual Report and Accounts.

## 2. RISK MANAGEMENT POLICIES AND OBJECTIVES

### 2.1 Overview

The Board recognises that risk is inherent in being a building society. Whilst risk can never be eliminated entirely, through effective risk management risks can be mitigated to levels aligned to the Board’s risk appetite. The Board has agreed a risk appetite that establishes the amount of risk acceptable to the business in pursuit of its strategy; helping the Society achieve sustainable growth and serving the best interests of delivering fair outcomes for our Members. This is kept under constant review in light of changes in our operating environment.

### 2.2 Risk Management Framework (‘RMF’)

The Board is responsible for establishing procedures to manage risk, oversee the internal control framework and determine the nature and extent of primary risks the Society is willing to take in order to achieve its long-term strategic objectives, ensure operational resilience and make effective risk-based decisions. The Board meets these responsibilities by ensuring an effective RMF is in place, using that framework to promote a risk aware culture that ensures all material risks are identified and mitigated in the pursuit of strategic objectives.

The RMF includes the use of Board approved Risk Appetite Statements (‘RAS’) covering the current and future principal risks faced by the Society with emerging risks being identified by regular risk reviews and the controls held in the Risk Register. Risk management information includes the high-risk items identified in the Risk Register, the Risk Dashboard which reflects the Board’s RAS and are monitored by ALCO, the Risk Committee and the Board at all their meetings. The Risk Register is an intrinsic part of the ICAAP, which requires an assessment of key risks and a quantification of how much capital must be held to mitigate those risks.

Both the RMF and the RAS are reviewed at least annually by the Risk Committee and then approved by the Board.

#### 2.2.1 Risk Culture

An appropriate risk management culture is key in supporting the effective operation of the RMF and to enable informed risk-based decision-making in the Society. The Society encourages risk taking within controlled boundaries where the expected rewards exceed the expected cost of that risk.

The Board has created an environment for colleagues where integrating ownership and accountability, Member interests and respect are at the heart of the Society’s objectives, values and business practices.

#### 2.2.2 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 colleagues 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 in Table 1:

<b>First Line of Defence: Individual Risk Owners</b>	The Individual Risk Owners 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.
<b>Second Line of Defence: Risk &amp; Compliance Functions</b>	The Society’s Risk & Compliance functions are the Second Line of Defence who monitors and reports on risk and compliance to the relevant Committee. This helps to ensure the Society complies with applicable laws and regulations and that policies and procedures are contemporary and operating as intended.
<b>Third Line of Defence: Internal Audit</b>	Internal Audit provide the Third Line of Defence providing the Audit Committee and Board with comprehensive assurance based on a level of independence and objectivity which is not available in the Second Line of Defence.

Table 1: Three Lines of Defence Model

## 2.3 Board Declaration on the Adequacy of Risk Management Arrangements

The Society maintains a three-year Corporate Plan that is approved by the Society's Board and updated on an annual basis and supported by half-yearly forecasted positions. The Corporate Plan details the projections for capital resources over the next three years. In addition, the Society produces an ICAAP document which demonstrates that the Society has undertaken a detailed risk-based assessment of its current and future assets based on the Corporate Plan projections given the nature and scale of its business. The ICAAP stress testing is reviewed by the Risk Committee and recommended for approval to the Board at least annually. The Board then reviews the ICAAP document. In addition, on-going assessments of current and future capital requirements are undertaken monthly and reported to the Board.

The combination of the Corporate Plan and the ICAAP ensures that the Society's capital resources can be expected to be sufficient to support its corporate objectives.

The Board can confirm that the Society's current capital position, in its opinion, is sufficient to meet the minimum capital resources requirement and that sufficient capital will continue to meet minimum requirements for its planned future strategy. The adequacy of the Society's capital position is evidenced by its key metrics, which are listed in Table 2. In addition, risk management arrangements adequately assess, control and monitor principal risks facing the Society and are proportionate in light of the characteristics, size, scale and complexity of the Society.

Total Available Capital	31 October 2023 £'000	31 October 2022 £'000
Common Equity Tier 1 ('CET1')	26,457	24,792
Tier 1	26,457	24,792
Total Available Capital	26,782	25,036
<b>Risk Weighted Assets ('RWA')</b>	<b>£'000</b>	<b>£'000</b>
Total Risk Weighted Assets	97,507	91,298
<b>Risk Based Capital Ratios as a Percentage of RWA</b>	<b>%</b>	<b>%</b>
Common Equity Tier 1 Ratio	27.13	27.16
Total Capital Ratio	27.47	27.42
<b>Basel III Leverage Ratio</b>	<b>£'000</b>	<b>£'000</b>
Total Basel III Leverage Ratio Exposure Measure	313,296	295,144
Basel III Leverage Ratio (%)	8.44	8.39
<b>Liquidity Coverage Ratio ('LCR')</b>	<b>£'000</b>	<b>£'000</b>
Total High Quality Liquid Assets ('HQLA')	68,619	68,108
Total Net Cash Outflows	12,675	12,279
Liquidity Coverage Ratio (%)	541.37	554.67
<b>Net Stable Funding Ratio ('NSFR')</b>	<b>£'000</b>	<b>£'000</b>
Total Available Stable Funding	289,266	274,142
Total Required Stable Funding	152,151	142,111
Net Stable Funding Ratio (%)	190.12	192.91

Table 2: Key Prudential Metrics as at 31 October 2023 and 2022

## 2.4 Risk Management Organisation and Governance Structure

### 2.4.1 The Board

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

- Provide leadership of the Society within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Society's strategic aims and ensures that the necessary financial and human resources are in place for the organisation to meet its statutory objectives. It also reviews management performance. The Board sets the Society's behavioural standards, and ensures the Society's obligations to its members and others are understood and met;
- Commit to complying with the best practice in corporate governance but where it believes that there is a justifiable reason to depart from the Code then it will do so and follow the 'comply and explain approach.' The Terms of Reference document Board responsibilities, authority, organisation, and

composition. The Terms of Reference have been aligned to the Code, Rules of the Society and Regulatory requirements;

- Ensure sufficient human and financial resource are available to meet the objectives; and
- 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.

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

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

As at 31 October 2023, the Board consisted of two Executive Directors and six Non-Executive Directors who provide the appropriate mix of skills and professional expertise required.

Table 3 refers to all Directorships held by the Board as at 31 October 2023:

Name	Occupation	Other Directorships
Joanne Hindle Chair	Non-Executive Director	Bank of London and The Middle East La Serenissima Co-op Funeral Plans Limited
David J Grant Senior Independent Director	Company Director and Consultant	BLAKK Limited Stonebridge Mortgage Solutions Limited
Gary C D Crowe	Management Consultant	University Hospitals of North Midlands NHS Trust The Dudley Group of Hospitals NHS Foundation Trust
Mary A Kerr	Non-Executive Director	Lawes Property Trust
Alison Tattersall	Non-Executive and Director and Trustee	The People’s Dispensary for Sick Animals
Ian A Craig	Non-Executive and Director and Trustee	Southport & Ormskirk Hospital NHS Trust Willowbrook Hospice, St Helens The Brain Charity, Liverpool
Steven Jones	Chief Executive	Newcastle and Stafford Colleges Group The Staffordshire Yeomanry Museum Trust
Christopher I Reid	Finance Director	-

Table 3: Board Directorships as at 31 October 2023

The Board has five key Board Committees (figure 1). The Board reviews the composition of the Committees and their Terms of Reference annually to ensure they remain relevant and up to date. The 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).

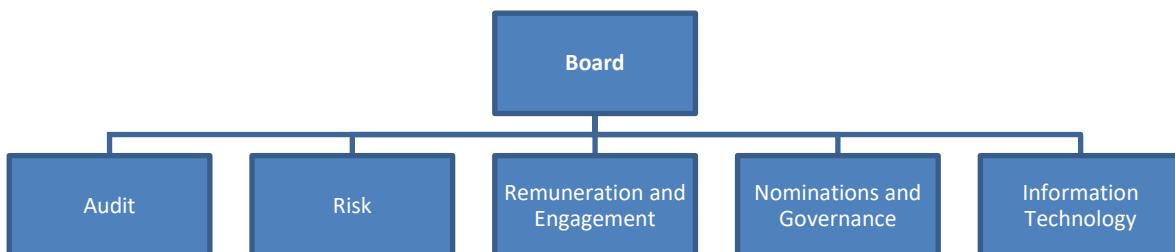


Figure 1: Board and Board Sub-Committee Structure

#### **2.4.2 Audit Committee**

The principal functions of the Audit Committee are to:

- Consider all matters of an audit and compliance nature applying to the Society, including internal controls and financial reporting;
- Be responsible for the Integrated Assurance Framework incorporating Second and Third Lines of Defence;
- 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 C D Crowe (Chair), Mary A Kerr and Ian A Craig. In addition, the Executive Directors, representatives from the Society's Finance and Risk and Compliance functions, External Audit and the outsourced Internal Audit attend by invitation.

The Audit Committee meets at least four times a year.

#### **2.4.3 Risk Committee**

The principal functions of the Risk Committee are to:

- Advise the Board on the Society's overall risk appetite, tolerance and strategy and the principal and emerging risks the Society is willing to take in order to achieve its long-term strategic objectives. This includes the oversight of both conduct and prudential risk appetites and the Society's approach to operational resilience and climate risk;
- Advise the Board on the likelihood and impact of principal risks materialising, and the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact;
- Advise the Board on the risk aspects of proposed changes to strategy and strategic transactions, including the impact of any such decisions on the Society's risk appetite;
- Identify, assesses, and monitors emerging risks to the Society;
- Ensure the Society's risk management structure is adequately resourced and effective; and
- Reviews and recommends to the Board the Society's and monitors its effectiveness.

The Risk Committee consists entirely of Non-Executive Directors. The following Non-Executive Directors served during the year: David J Grant (Chair), Joanne Hindle, Gary C D Crowe and Alison Tattersall. In addition, the Executive Directors and representatives from the Society's Risk function attend by invitation.

The Risk Committee meets at least four times a year.

#### **2.4.4 Nominations and Governance Committee**

The principal functions of the Nominations and Governance Committee are to:

The Nominations and Governance Committee consists of Joanne Hindle (Chair), David J Grant (Senior Independent Director), Mary A Kerr and Steven Jones (Chief Executive Officer).

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

#### **2.4.5 Remuneration and Engagement Committee**

The principal function of the Remuneration and Engagement Committee are to:

- Review and make recommendations to the Board in respect of the remuneration of the Board Chair and Executive Directors, together with oversight of Senior Management and wider Society remuneration, to ensure the alignment of incentives and rewards with the values of the Society; and
- Review the broader people strategy, respecting that people are one of the Society's most valuable resources, to drive and deliver the right culture throughout the Society. This covers all areas of the people strategy to effectively deliver the Corporate Plan, including for example colleague engagement, performance management and training.

The Remuneration and Engagement Committee consists entirely of Non-Executive Directors. The following Non-Executive Directors served during the year: Mary A Kerr (Chair until 25 September 2023), David J Grant (Senior Independent Director), and Alison Tattersall (Chair from 25 September 2023).

The Remuneration and Engagement Committee meets at least annually.

#### **2.4.6 IT Committee**

The principal functions of the IT Committee are:

- Providing oversight and advice to the Board in respect of IT strategy, IT investment, IT architecture, IT operating model effectiveness, delivery performance and resilience controls (including IT elements of cyber risk); and
- Advising and supporting the Chief Executive and the Executive team on all aspects of technology operations and investment.

The IT Committee consists of Non-Executive Directors and the Chief Executive. The following Non-Executive Directors served during the year: Ian A Craig (Chair), David J Grant and Alison Tattersall with the Chief Operating Officer and IT Team attending via invitation.

The IT Committee meets at least six times a year.



## 2.5 Principal Risks

The Society's exposure to current and emerging risks is closely tracked through the formal risk governance structure. The Society keeps the risks under close observation through risk reporting and measuring of performance against key risk indicators. The Society conducts regular horizon scanning to identify any new or emerging risks which could impact delivery of the Board's strategy. The most significant risks to the Society's strategy are detailed in Table 4, together with the actions being taken to mitigate those risks.

Principal Risk	Society Approach	Risk Control and Mitigation
<p><b>Strategy Risk</b> The risks that affect or are created by the Society's business strategy and strategic objectives. Risks arising from changes to the Society's business model and the risk of the Plan proving inappropriate due to macroeconomic, geopolitical, regulatory or other factors.</p>	<p>Maintain earnings stability over the Society's three-year planning horizon to accumulate sustainable asset growth and capital reserves.</p>	<ul style="list-style-type: none"> <li>• Business planning process.</li> <li>• Periodic strategic updates to Board.</li> <li>• Ongoing monitoring of Key Performance Indicators and risk appetite measures.</li> <li>• Investment in underlying processes, systems and people to support new business developments.</li> <li>• Business planning stress testing.</li> <li>• Robust risk management and corporate governance frameworks.</li> </ul>
<p><b>Credit Risk Mortgage:</b> 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><b>Counterparty:</b> The risk that market counterparties will fail to meet their obligations as they fall due and subsequently default resulting in a loss.</p>	<p>A prudent lending approach to mortgage customers and treasury counterparties to minimise default rates and impact on earnings or capital whilst generating an appropriate level of return reflecting the risk.</p> <p>Money is only lent to customers who meet the Society's affordability requirements.</p>	<ul style="list-style-type: none"> <li>• Board approved risk appetite and risk limits.</li> <li>• Board approved Responsible Lending Policy.</li> <li>• Board approved Treasury and Treasury Counterparty Policies.</li> <li>• Robust underwriting criteria.</li> <li>• Mortgage loans are manually underwritten.</li> <li>• Affordability stresses.</li> <li>• Counterparty and exposure limits and ALCO reviews.</li> <li>• Stress testing.</li> <li>• Credit Committee oversight for mortgage lending risk and financial soundness risk (including market risk).</li> <li>• Capital planning as part of the Society's ICAAP.</li> </ul>
<p><b>Financial Soundness Risk</b> The risk that insufficient funds are available to meet financial obligations as they fall due and / or, insufficient capital resources, resulting in the inability to support business activities, as well as the inability to meet liquidity and capital regulatory requirements.</p>	<p><b>Liquidity</b> Maintain sufficient liquid resources above Board-approved treasury financial minimums to give Members confidence on the Society's ability to meet its obligations.</p> <p><b>Capital</b> Utilise capital effectively to support current and future business initiatives, including stressed losses that arise as a result of plausible but extreme scenarios and to meet regulatory requirements.</p>	<ul style="list-style-type: none"> <li>• Board approved risk appetite and risk limits.</li> <li>• Maintaining appropriate levels of High-Quality Liquid Assets.</li> <li>• Liquidity is monitored daily by the Leadership Team.</li> <li>• Board approved Treasury and Treasury Counterparty Policies.</li> <li>• Liquidity planning as part of the Society's Internal Liquidity Adequacy Assessment Process ('ILAAP').</li> <li>• Capital planning as part of the Society's ICAAP</li> <li>• Stress testing.</li> <li>• ALCO oversight.</li> <li>• Board approved Recovery Plan.</li> </ul>

<p><b>Market Risk / Interest Rate Risk</b> The risk of losses or reduced profitability arising from fluctuations in values of or income from assets or in interest rates.</p>	<p>Minimise potential losses on interest rate and basis risk positions from adverse movement in market rates to ensure they remain within forecast market expectations</p>	<ul style="list-style-type: none"> <li>• Board approved risk appetite and risk limits.</li> <li>• Specialist external treasury advisers used for investing surplus funds.</li> <li>• Stress testing.</li> <li>• ALCO oversight.</li> </ul>
<p><b>Operational Risk</b> The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.</p>	<p>Develop robust processes and controls to optimise resources, increase resilience and reduce the impact of operational risks on the Society's performance.</p> <p>Financial Crime: We do not tolerate operating without the proportionate systems and controls in place designed to detect and prevent Financial Crime and will not knowingly conduct business with individuals or organisations that we either suspect or believe to be engaged in behaviour which supports financial crime. Whilst we recognise we cannot eliminate fraud, we have a zero appetite for any such failures.</p> <p>Cyber Security: To maintain 'best practice' cyber threat detection &amp; prevention tools to minimise the risk of an attack &amp; to recover quickly from any such event.</p>	<ul style="list-style-type: none"> <li>• Board approved risk appetite and risk limits.</li> <li>• Strong and effective internal control environment.</li> <li>• Insurances.</li> <li>• Risk and Compliance Committee ('RCC') oversight.</li> <li>• Continued investment in developing risk management frameworks, policies, systems and processes.</li> <li>• Continuous improvement, learning from internal and external events and responding to findings from Second Line and Third Line reviews.</li> <li>• Investment in our operational resilience including cyber-crime and IT.</li> </ul>
<p><b>Conduct Risk</b> The risk of financial or reputational loss as a result of treating Members unfairly and delivering inappropriate outcomes that lead to Member detriment.</p>	<p>We aim to deliver positive outcomes for Members, maintaining a high degree of Member and public confidence by focusing on the Society's aims and values.</p>	<ul style="list-style-type: none"> <li>• Board approved risk appetite and risk limits.</li> <li>• Board approved Conduct Risk Policy.</li> <li>• Members are placed at the heart of our decision-making, aligned to our Society values.</li> <li>• RCC oversight.</li> <li>• Strong risk management culture.</li> <li>• Vulnerable Customer Standard.</li> </ul>
<p><b>Legal and Regulatory Risk</b> The risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK or EU legal and regulatory requirements.</p>	<p>Maintain robust controls to ensure compliance with the intent and spirit of relevant laws and regulation.</p>	<ul style="list-style-type: none"> <li>• Board approved risk appetite and risk limits.</li> <li>• Regulatory horizon scanning.</li> <li>• Strong compliance culture.</li> <li>• RCC oversight.</li> <li>• Compliance Monitoring Plan.</li> <li>• Open and transparent relationship with all regulatory bodies.</li> </ul>
<p><b>Climate Change</b> The social awareness of the effects of climate change continues to increase and can only be expected to increase in the coming years as the impact on our changing climate is becoming increasingly apparent. The effects of climate change are not risks to the Society, rather, they will impact the Society's primary risk categories.</p> <p>Climate change will cause risks to materialise in two ways:</p>	<p>Ensure the Society develops processes, controls and reporting metrics to assess and manage climate change risk.</p> <p>The climate change elements manifest as increasing credit, market and operational risk for the Society which require effective mitigation and management.</p>	<p>The Society has implemented the requirements of the PRA's SS3/19 and continues to manage the risks associated with climate change as part of our broader ESG strategy.</p> <p>Although outside of its scope, the Society considers the recommendations made by the Task Force on Climate related Financial Disclosures (TCFD), as well as being mindful of increasing expectations on Environmental, Social and Corporate</p>

<p><b>Physical Risk</b> The risk of the Society being impacted by climate and weather related events, such as heatwaves, droughts, floods, storms and sea level rise. These events can potentially result in large financial losses, impairing asset values and the creditworthiness of borrowers and;</p> <p><b>Transition Risk</b> Risks arising from the process of adjustment towards a low-carbon economy. Changes in policy, technology and sentiment could prompt a reassessment of the value of a large range of assets and relates to the risk of loss to the Society if another party fails to meet its obligations or fails to perform them in a timely fashion.</p>		<p>Governance arising from various sources.</p> <p>The potential financial impact of climate change on the Society is considered within our ICAAP. As part of the climate change project, we continue to assess the impacts and potential mitigations for credit, market and operational risks which may transpire. Board training and updates provided to Board and Risk Committee.</p>
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Table 4: Principal Risks

## 2.6 Emerging Risks

Emerging risks are threats or opportunities for which the impact upon the Society cannot yet be reasonably measured or assessed. Timely identification and monitoring of these emerging risks can enable the Society to take appropriate steps to begin to mitigate against the emerging threat or move to position the Society in such a way as to be ready to take advantage of an emerging opportunity.

The Risk and Compliance Committee and Risk Committee receive a summary of emerging risks relevant to their respective responsibilities which includes the current approach to either monitoring or mitigating against the emerging risk. When the risk develops to a state where it can be reliably assessed, it is transitioned into active risk management within the RMF. The Board, Risk Committee and management-level committees also discuss emerging risks and opportunities as a standing agenda item which contribute toward the regular update of the Society’s Risk Register.

### 3. CAPITAL RESOURCES

As at 31 October 2023 the Society complied with its capital requirements as defined by the PRA. The total capital resources of the Society calculated under Pillar 1 CRD IV were £26.78m comprising Tier 1 capital of £26.46m and Tier 2 capital of £0.32m. Full details are provided in Table 5.

Capital Resources	31 October 2023 £'000	31 October 2022 £'000
<b>Tier 1 Capital</b>		
General Reserves	26,459	24,857
Available-For-Sale Reserve	(2)	(65)
<b>Total Tier 1 Capital (CET1)</b>	<b>26,457</b>	<b>24,792</b>
<b>Tier 2 Capital</b>		
Collective Impairment Provision	325	244
<b>Total Tier 2 Capital</b>	<b>325</b>	<b>244</b>
<b>Total Capital Resources</b>	<b>26,782</b>	<b>25,036</b>
<b>Risk Weighted Assets</b>	<b>97,507</b>	<b>91,298</b>
<b>Capital Ratios and Buffers</b>	<b>%</b>	<b>%</b>
<b>Capital Ratios:</b>		
CET1 Ratio – regulatory minimum 4.5%	27.13	27.16
Total Capital Ratio – regulatory minimum 8%	27.47	27.42
<b>Capital Buffers:</b>		
CET1 Ratio requirement	4.50	4.50
Capital Conservation Buffer requirement	2.50	2.50
Countercyclical Buffer requirement	2.00	0.00
<b>Total CET1 Capital and Buffer Requirements</b>	<b>9.00</b>	<b>7.00</b>

Table 5: Capital Resources and Capital Ratios as at 31 October 2023 and 2022

Reconciliation of Accounting and Regulatory Capital Resources	31 October 2023 £'000	31 October 2022 £'000
Accounting Capital Resources – General Reserves	26,457	24,792
Adjusted for:		
Collective Provisions	325	244
<b>Regulatory Capital Resources</b>	<b>26,782</b>	<b>25,036</b>

Table 6: Reconciliation of Accounting and Regulatory Capital Resources as at 31 October 2023 and 2022

#### Tier 1 Capital:

These are the cumulative general reserves of the Society, externally verified, and represent an accumulation of post-tax profits and the available-for-sale reserve.

#### Tier 2 Capital:

This is the collective impairment provision of the Society which represents expected losses arising from the Society's portfolio of secured advances. Individual impairment provisions (currently £306k) are not allowable as Tier 2 capital.

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

## 4. CAPITAL ADEQUACY

### 4.1 Capital Management

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

The Society's policy is to maintain a strong capital base to maintain member, creditor and market confidence and to sustain future development of the business. The formal ICAAP assists the Society with its management of capital. The Board monitors the Society's capital position regularly to assess whether adequate capital is held to mitigate the risks it faces in the course of its business activities. The Society's actual and expected capital position is reviewed against the stated risk appetite that aims to maintain capital at a level that equates to or exceeds its minimum capital requirement. In order to produce a detailed capital plan, the ICAAP contains calculations of the capital resources requirement (effectively, the minimum capital requirement) each year using the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk.

### 4.2 Capital Requirements

Under the Standardised Approach for credit risk, the Society applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted asset value as the minimum total capital requirement for credit risk, as detailed in Table 7. For operational risk the risk weighted average value is calculated by applying 15% to the Society's average net income over the previous three years:

Standardised Exposure Class	Exposure £000	Risk Weighted Assets £'000	2023 Capital Required £'000
<b>Liquidity Exposures</b>			
Cash	65	-	-
Central Government and Bank of England Institutions	68,917	-	-
	14,986	5,450	436
<b>Total Liquidity Exposures</b>	<b>83,968</b>	<b>5,450</b>	<b>436</b>
<b>Loans and Advances to Customers:</b>			
Residential – non-arrears	222,958	78,166	6,253
Residential – past due	671	671	54
Non-residential – non-arrears	208	208	17
Forward Commitments – Off Balance Sheet	4,983	1,745	140
<b>Total Loans and Advances to Customers</b>	<b>228,820</b>	<b>80,790</b>	<b>6,464</b>
<b>Other Exposures:</b>			
Fixed and Other Assets	814	814	65
<b>Total Other Exposures</b>	<b>814</b>	<b>814</b>	<b>65</b>
<b>Credit Risk – Pillar 1 Capital Requirement</b>	<b>313,602</b>	<b>87,054</b>	<b>6,965</b>
Operational Risk - Capital Requirement	-	10,453	836
<b>Total Pillar 1 Capital Requirement</b>	<b>-</b>	<b>97,507</b>	<b>7,801</b>
Total Capital Resources as per Table 6	-	-	26,782
<b>Excess of Capital over Total Pillar 1 Capital Requirement</b>	<b>-</b>	<b>-</b>	<b>18,981</b>

Table 7: Pillar 1 Capital Resource Requirements as at 31 October 2023

As the Society currently has £18.98m of total capital in excess of minimum capital requirements this is regarded as being more than sufficient to meet any future capital buffer requirements. The Society's three year Plan forecasts that the Society's capital position will remain well in excess of minimum capital requirements over this time period and that Basel III capital requirements will continue to be met with a robust margin.

The difference between the Society's total credit risk exposure per Table 7 of £313.60m and the total assets recognised in the Statement of Financial Position of £307.99m in the Annual Report and Accounts for the year ended 31 October 2023 is detailed in Table 8:

Reconciliation of Total Credit Risk Exposure and Society's Statement of Financial Position	£'000
Total Credit Risk Exposure	313,602
Less: Individual and Collective Impairment Provisions	(631)
Less: Forward Commitments	(4,983)
<b>Total Assets Recognised in the Statement of Financial Position</b>	<b>307,988</b>

Table 8: Total Credit Risk Exposure and Total Asset Reconciliation as at 31 October 2023.

### 4.3 Capital Buffers

The Society is required under the CRR to hold additional capital for the capital buffers set out in Table 9:

<b>Capital Conservation Buffer</b>	The Capital Conservation Buffer is intended to ensure that firms build up buffers of capital outside any periods of stress and is designed to avoid breaches of minimum capital requirements. This capital buffer can then be drawn upon in times when losses are incurred. The buffer requirement as at 31 October 2023 was 2.50% of RWA.
<b>Countercyclical Buffer</b>	The Countercyclical Capital Buffer also aims to ensure firms avoid breaching minimum capital requirements and varies depending on jurisdiction. The Countercyclical Capital Buffer requirement as at 31 October 2023 was 2.00%.

Table 9: CRD IV Buffers

Table 10 details the capital requirement for both buffers:

Capital Buffers	RWA £'000	Capital £'000
Capital Conservation Buffer (2.5%)		2,438
Countercyclical Buffer (2.0%)	97,507	1,950
<b>Total Buffer Requirement</b>	<b>97,507</b>	<b>4,388</b>

Table 10: CRD IV Buffer Requirement

The TCR which consists of the Total Pillar 1 Capital Requirement, the Capital Conservation Buffer and the Countercyclical Buffer is £12.19m, compared to the Total Capital Resources of £26.78m as set out in Table 6, results in surplus capital amount of £14.59m.

## 5. CREDIT RISK – LOANS AND ADVANCES

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

All mortgage loan applications are assessed with reference to the Board's risk appetite and Board approved Lending Policy. The Board's risk appetite is based on:

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

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

The lending portfolio is monitored by the Credit Committee to ensure that it remains in line with the stated risk appetite of the Board. All mortgage applications are manually underwritten on a case-by-case basis using experienced staff ensuring that they meet the Lending Policy rules through a full affordability assessment so supporting the risk appetite of the Society. The Society's Second Line Risk and Compliance function undertakes periodic reviews of the Society's lending process and the results of the reviews are reported to the Audit Committee.

## 5.1 Maturity, Loan to Value and Geographical Analysis

The maturity of loans and advances to customers from the date of the balance sheet is shown in Table 11. The table was compiled on the assumption that all loans are held to their contractual maturity date.

<b>Maturity of Loans and Advances to Customers</b>	<b>2023 £'000</b>	<b>%</b>
On call and at short notice (one month or less)	547	0.25
In not more than three months	3	0.00
In more than three months but not more than one year	457	0.20
In more than one year but not more than five years	12,769	5.70
In more than five years	210,061	93.85
<b>Total Gross Mortgages</b>	<b>223,837</b>	<b>100.00</b>

Table 11: Maturity Loans and Advances to Customers as at 31 October 2023

An analysis of the Society's indexed LTV profile is shown in Table 12:

<b>Loan to Value Profile</b>	<b>2023 £'000</b>	<b>%</b>
Less than 50%	131,507	58.75
50 – 70%	69,349	30.98
71 – 90%	22,576	10.09
91 – 100%	405	0.18
<b>Total Gross Mortgages</b>	<b>223,837</b>	<b>100.00</b>

Table 12: Loan to Value Profile as at 31 October 2023

During the year to 31 October 2023, the Society experienced £nil losses on mortgages (2022: £nil).

An individual impairment provision of £306k on fully secured residential property ('FSRP') was held at 31 October 2023 as well as a collective impairment provision of £325k

The Society's current Board approved Lending Policy has produced an inherently low risk mortgage book. The Society has strong management controls over arrears with no losses arising from default leading to possession in the year to 31 October 2023. The average loan to value of the residential mortgage book was 32.21% as at 31 October 2023.

An analysis of the Society's 'past due' loans by geographical area, which are loans more than 90 days in arrears, as at 31 October 2023 is set out in Table 13:

<b>Region</b>	<b>Residential</b>		<b>Non-Residential</b>		<b>Total £'000</b>
	<b>Performing £'000</b>	<b>Past Due £'000</b>	<b>Performing £'000</b>	<b>Past Due £'000</b>	
Stafford ST16-ST18	20,042	150	34	-	20,226
Rest of Staffordshire	23,547	83	174	-	23,804
Rest of UK	179,369	438	-	-	179,807
<b>Total Gross Mortgages</b>	<b>222,958</b>	<b>671</b>	<b>208</b>	<b>-</b>	<b>223,837</b>

Table 13: Past Due by Geographical Area as at 31 October 2023



## 5.2 Reconciliation of Loans and Advances to Customers

Table 14 provides a reconciliation of the above table to 'Loans and Advances to Customers' in the Annual Report and Accounts 2023:

Reconciliation of Loans and Advances to Customers	2023 £'000
Loans and Advances to Customers per Annual Report and Accounts	223,206
Add: Individual and Collective Impairment Provisions	631
<b>Society Accounting Value of Loans and Advances to Customers</b>	<b>223,837</b>
Total Residential Exposures for Capital Adequacy Purposes (as per Table 13)	223,629
Total Non-Residential Exposures for Capital Adequacy Purposes (as per Table 13)	208
<b>Society Capital Adequacy Value of Loans and Advances to Customers</b>	<b>223,837</b>
Adjustments to reflect different reporting requirements and timing differences	-
<b>Reconciled Value of Loans and Advances to Customers</b>	<b>223,837</b>

Table 14: Reconciliation of Loans and Advances to Customers as at 31 October 2023

## 5.3 Individual and Collective Impairment Provisions

The Society's accounting policy in relation to the impairment provisions for loans and advances is stated in full in Note 1, Accounting Policies, to the Annual Report and Accounts 2023.

Movements in the Society's impairment provisions during the year-ended 31 October 2023 are set out in Table 15.

Impairment Provisions	Loans FSRP		Loans FSOL		Total £'000
	Individual £'000	Collective £'000	Individual £'000	Collective £'000	
Balance at 1 November 2022	226	244	-	-	470
Charge for the year	80	81	-	-	161
<b>Balance at 31 October 2023</b>	<b>306</b>	<b>325</b>	<b>-</b>	<b>-</b>	<b>631</b>

Table 15: Impairment Provisions as at 31 October 2023

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

No individual impairment provisions have been utilised to adjust downwards the value of risk weighted assets in the capital adequacy calculations as detailed in Table 7.

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

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

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

Where certain emerging impairment characteristics are considered significant but not assessed as part of the impairment calculation, the Board may elect to apply an overlay to the impairment provision. The amount of impairment loss is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised using provisions.

In determining whether an impairment loss should be recorded, the Society is required to exercise a degree of judgement. Impairments are calculated as the difference between expected future cash flows and the current outstanding balance, using management's best estimate of propensity to default using all available data. Estimates and assumptions are around the probability of any account defaulting, the time taken to



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

## 6. CREDIT RISK – LIQUIDITY

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

The counterparty limits are defined in the Board approved Treasury Counterparty Policy which uses Fitch ratings agency as its External Credit Assessment Institution ('ECAI'). Exposure limits for individual banks on the Society's list of authorised counterparties are set taking into account Fitch's Short and Long-Term Ratings. No counterparty is included on the list unless it satisfies, as a minimum, a Short-Term rating of F1 and a Long-Term rating of A-. In addition to the use of Fitch ratings, market intelligence is used in assessing counterparty risk, in recognition that there may be a delay between a counterparty being in difficulty and this being reflected in a downgrading of its Fitch rating. Limits are also set for diversification in terms of issuance and sector.

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

### 6.1 Wholesale Credit Risk

The purpose of the Society's ILAAP is to ensure that the Society has sufficient liquidity to meet its obligation as they fall due. The Society's Board approved Treasury Policy is to ensure that the Society can obtain the best possible return whilst operating within prudent limits in respect of counterparties.

In accordance with its Treasury Counterparty Policy, the Society only invests funds in British Government Securities, banking institutions and building societies that satisfy the Board's Fitch quality rating. Once a counterparty attains a rating of A-, with a negative outlook, management action is taken to reduce the exposure in that counterparty. The assets are managed with advice from external treasury brokers.

New limits and counterparties are considered by ALCO before presenting recommendations to the Risk Committee for challenge and the Board for approval. The credit risk appetite for liquid assets is defined by: the minimum counterparty credit rating; the permissible instruments; the maximum percentage of total liquid assets held at each credit risk level; and the investment term. ALCO monitors exposures to counterparties and countries and ensures the Society is operating within its Board approved limits at its monthly meetings. The Board regularly reviews the Society's exposure by sector.

The maturity and credit profiles of Treasury assets as at 31 October 2023 are shown in Table 16:

Fitch Ratings	Maturity of Treasury Investment			Total £'000
	< 3 months £'000	3 months to 1 year £'000	>1 year £'000	
Banks: A+ to A-	6,874	8,177	-	15,051
Building Societies	-	-	-	-
Bank of England	68,917	-	-	68,917
<b>Total</b>	<b>75,791</b>	<b>8,177</b>	<b>-</b>	<b>83,968</b>

Table 16: Maturity of Treasury Investments as at 31 October 2023

Nil provisions for loss relating to counterparty risk are held by the Society as at 31 October 2023 (2022: £nil).

## 7. OPERATIONAL RISK

The Society has adopted the Basic Indicator Approach ('BIA') for operational risk. Under the BIA, a Pillar 1 Operational Risk Capital Requirement ('ORCR') is calculated at 15% of the three year average of the Society's net interest income and its net non-interest income:

The ORCR as at 31 October 2023 is set out in Table 17:

Financial Year End 31 October 2023	Average £'000	2023 £'000	2022 £'000	2021 £'000
Net Interest Income	5,557	6,554	5,562	4,554
Net Non-Interest Income	18	40	8	6
Relevant Indicator	5,575	6,594	5,570	4,560
ORCR (15%)	836			
RWA Equivalent	10,453			

Table 17: Pillar 1 Operational Risk Requirement as at 31 October 2023

## 8. MARKET RISK AND INTEREST RATE RISK IN THE BANKING BOOK ('IRRBB')

### 8.1 Interest Rate Risk in the Banking Book ('IRRBB')

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

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

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

IRRBB is the impact on economic value due to movements in interest rates and arises from mismatches of the re-pricing or maturity of assets and liabilities as interest rates change. The Society has a relatively simple treasury structure, with all mortgage and savings products on administered rates in line with its Prudential Sourcebook limits, while liquidity is typically of short duration (held within a twelve month duration).

The Society's main exposure to interest rates arises from its investment in fixed interest yielding instruments, for example, Certificates of Deposit with other financial institutions.

The Society uses specialist external treasury advisers for investing surplus funds and has a good spread of maturity of its invested monies to manage this risk effectively.

The economic value stress test measures the effect of a parallel shift in interest rates of up to 2%. The Board has set a limit on the effect that a 2% parallel shift in interest rates can have on the Society's capital. Capital is provided accordingly under Pillar 2 within the ICAAP.

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

£'000	31 October 2023		31 October 2022	
	+2%	-2%	+2%	-2%
Economic Value	134	137	201	207

Table 18: Change in Economic Value as at 31 October 2023 and 2022

## 8.2 Basis Risk

Basis risk results from imperfect hedging across each interest rate basis. The Society's banking book basis consists of administered, fixed, Bank Base Rate and non-interest bearing assets or liabilities.

Basis risk is managed through the setting of limits upon the maximum negative impact that the movement between interest bases will have. It is modelled by analysing the historical spread between each rate basis, where market rates are available, such as Bank Base Rate. Where such information is not available, such as administered and fixed assets or liabilities, it is instead driven by internal assumptions.

The Basis Risk appetite limit is the sum of the positive net absolute interest bearing assets and interest bearing liabilities expressed as a percentage of total assets subject to a maximum of 70%.

Basis risk is also mitigated by employing limits on both the overall basis risk mismatch and the exposure to each type of basis risk. The position is reported to ALCO monthly for review with the respective limits reviewed annually as part of the Board approved Interest Rate and Structural Risk Management Policy.

The Society's exposure to each interest rate basis is as follows:

- Bank of England Base Rate: Bank of England facilities in the form of the reserve account;
- Fixed rates: Fixed rate mortgages and treasury investments;
- Administered: Mortgages and savings whereby the Society is able to change the interest rate receivable / payable on its products; and
- Other: Non-interest bearing assets such as bank and cash.

## 9. ASSET ENCUMBRANCE

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

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

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

## 10. LEVERAGE RATIO

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

The Capital Measure for the leverage ratio is Tier 1 capital as defined in Section 3. The Exposure Measure consists of both on and off balance sheet exposures, with the latter being introduced in January 2014 when the Basel Committee on Banking Supervision published a revised methodology for calculating the leverage ratio. The revised paper requires off-balance sheet items to be converted into credit exposure equivalents by using credit conversion factors.

Tables 19 to 21 detail the Society's leverage ratio of 8.44% as at 31 October 2023 (2022: 8.39%):

<b>LRSum: Reconciliation of Leverage Ratio Exposures to the Financial Statements</b>	<b>2023 £'000</b>	<b>2022 £'000</b>
Total Assets as per the Financial Statements	307,988	291,535
Adjustments for Off Balance Sheet Items: Forward commitments	4,983	3,365
Adjustment for Impairment Provisions	325	244
<b>Leverage Ratio Exposure</b>	<b>313,296</b>	<b>295,144</b>

Table 19: Leverage Ratio as at 31 October 2023: Reconciliation of Leverage Ratio Exposures to the Financial Statements: LRSum

<b>LRSpI: Analysis of On-Balance Sheet Exposures (excluding derivatives and SFT)</b>	<b>2023 £'000</b>	<b>2022 £'000</b>
Secured by Mortgages on Immovable Property	223,837	202,727
Sovereign	68,917	68,226
Institutions	14,986	20,231
Other Exposures (e.g. equity, securitisations, and other non-credit obligations assets)	879	821
<b>Total On-Balance Sheet Exposures</b>	<b>308,619</b>	<b>292,005</b>

Table 20: Leverage Ratio as at 31 October 2023: Analysis of On-Balance Sheet Exposures: LRSpI

<b>LRComm: Leverage Ratio Common Disclosure</b>	<b>2023 £'000</b>	<b>2022 £'000</b>
<b>On-Balance Sheet Items</b> (excluding derivatives, SFTs and fiduciary assets, but including collateral)	308,619	292,005
Assets Amounts deducted in determining Tier 1 Capital	(325)	(226)
<b>Total On-Balance Sheet Exposures (excluding derivatives, SFTs and fiduciary assets)</b>	<b>308,294</b>	<b>291,779</b>
<b>Total Off-Balance Sheet Exposures</b>	<b>4,983</b>	<b>3,365</b>
Tier 1 Capital	26,457	24,792
Total Exposures	313,296	295,144
<b>Leverage Ratio (%)</b>	<b>8.44%</b>	<b>8.39%</b>

Table 21: Leverage Ratio as at 31 October 2023: Common Disclosure: LRComm

## 11. LIQUIDITY AND FUNDING RISK

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

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

The Society's liquidity is sourced solely from retail funding. Table 22 summarises the liquid asset levels in relation to the underlying funding, which is a primary metric used by the Society to assess liquidity risks.

Liquid Asset Level	31 October 2023 £'000	31 October 2022 £'000
Total Liquid Assets	83,968	88,457
Total Funding	280,675	265,827
Liquid Asset (%)	29.92	33.28

Table 22: Liquidity as a Percentage of Shares, Deposits and Liabilities as at 31 October 2023 and 2022

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

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

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

The Liquidity Coverage Ratio was introduced as part of the CRD IV framework with its aim to improve short-term resilience of the liquidity risk profile of firms by requiring a buffer of high quality liquid assets to be held. The measure is designed to ensure that all credit institutions have sufficient available high quality liquid assets to meet a stressed net cash outflow over a thirty day horizon. The measure must be greater than the 100% threshold as defined in the CRR. The liquidity coverage ratio is monitored on a monthly basis against the Board's risk appetite. Table 23 details the Society's quarterly liquidity coverage ratio during the twelve month period to 31 October 2023:

Liquidity Coverage Ratio	31 January 2023 £'000	30 April 2023 £'000	31 July 2023 £'000	31 October 2023 £'000
Liquidity buffer	67,294	59,351	59,985	68,619
Total Net Cash Outflows	15,265	11,809	13,436	12,675
<b>LCR %</b>	<b>440.85%</b>	<b>502.61%</b>	<b>446.46%</b>	<b>541.37%</b>

Table 23: Quarterly Liquidity Coverage Ratio for the year to 31 October 2023

The average liquidity coverage ratio for the financial year ending 31 October 2023 was 483.27% (2022: 577.79%).

The Society also calculates the Net Stable Funding Ratio on a monthly basis using the latest available guidance, which as at 31 October 2023 was 190.12% (31 October 2022: 192.91%), above the minimum regulatory requirement of 100%.

## 12. REMUNERATION AND MATERIAL RISK TAKERS

The Society complies with the principles in the UK Corporate Governance Code 2018 ('the Code') relating to remuneration as far as they are applicable to a mutual organisation of the Society's size. The Society has adopted a Remuneration Policy which describes how the Society has complied with the requirements of both the supervisory statements issued by the PRA and the FCA relating to remuneration and the Code. Full details of the Society's Remuneration Policy and details of Executive Directors' emoluments for 2023 and comparatives for 2022 are set out in the Directors' Remuneration Report to the Annual Report and Accounts, available on the Society's website, which should be read in conjunction with this report.

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

Remuneration of Executive Directors is recommended to the Board by the Remuneration and Engagement Committee. In reviewing and recommending remuneration, the Committee takes account of fees, salaries and other benefits provided to Directors of comparable institutions. Non-Executive Directors are paid fixed fees only.

A bonus is paid to the Executive Directors. The bonus is recommended to Board by the Remuneration and Engagement Committee and is based on a range of financial and non-financial corporate performance objectives including appropriate risk management objectives. Bonus payments are payable annually and set at a maximum of 20% for the Chief Executive and a maximum of 15% for the Finance Director appointed in the year.

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

### 12.1 Remuneration Code Staff

Remuneration Code staff are defined by the FCA as ‘staff that have a material impact on the firm’s risk profile; this includes staff that perform significant influence functions, senior managers and risk takers’. The Board has determined that Non-Executive Directors, Executive Directors, other key management and staff whose duties require them to have a relevant qualification fall within the definition of Remuneration Code staff under SYSC 19D of the PRA Handbook. These staff are now identified as ‘Material Risk Takers’ under CRD IV.

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

Aggregate information on Remuneration Code Staff during the years ending 31 October 2023 is shown in Table 24:

Remuneration Analysis	Number	Fixed Remuneration £'000	Variable Remuneration £'000	Total Remuneration £'000
Non-Executive Directors	6	211	-	211
Executive Directors	2	338	48	386
Certified Staff	16	885	11	895
<b>Total</b>	<b>24</b>	<b>1,434</b>	<b>59</b>	<b>1,492</b>

Table 24: Remuneration Analysis as at 31 October 2023

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

## 13. CONCLUSION

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

If a user of this document requires further explanation on the disclosures given, application should be made in writing to the Chief Executive at Stafford Railway Building Society, 4 Market Square, Stafford ST16 2JH.

## 14. GLOSSARY

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

<b>Individual Liquidity Adequacy Assessment Process ('ILAAP')</b>	The Society's own assessment of the liquidity resources it requires in order to remain within the risk tolerances it has set. This will include an evaluation of potential stresses based on multiple market environments.
<b>Institutions</b>	Treasury assets with financial institutions such as banks and building societies.
<b>Leverage Ratio</b>	The ratio of Tier 1 capital divided by the total exposures which includes on and off balance sheet items.
<b>Loan to Value ('LTV')</b>	LTV expresses the amount of a mortgage as a percentage of the value of the property.
<b>Minimum Capital Requirement</b>	The minimum amount of regulatory capital that a financial institution must hold to meet the Basel III Pillar 1 requirements for credit, market and operational risk.
<b>Operational Risk</b>	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.
<b>Past Due Items</b>	Loans which are 90 days or more in arrears.
<b>Permanent Interest Bearing Shares ('PBIS')</b>	Unsecured, deferred shares of the Society that are a form of Additional Tier 1 capital. PIBS rank behind the claims of all depositors, payables and investing members of the Society. PIBS are also known as subscribed capital.
<b>Provisions</b>	Amounts set aside to cover incurred losses associated with credit risks.
<b>Prudential Regulation Authority ('PRA')</b>	The statutory body responsible for the prudential supervision of banks, building societies, insurers and small number of significant investment firms in the UK. The PRA is a subsidiary of the Bank of England.
<b>Risk Appetite</b>	The articulation of the level of risk that the Society is willing to accept (or not accept) in order to safeguard the interests of the Society's members whilst achieving business objectives.
<b>Risk Weighted Assets ('RWA')</b>	The value of assets, after adjustment, under the relevant Basel III capital rules to reflect the degree of risk they represent.
<b>Secured Mortgages by Residential Property</b>	Residential mortgages where LTV is less than or equal to 80%.
<b>Secured Mortgages by Commercial Real Estate</b>	Secured business lending which is only made available to Small and Medium sized Enterprises.
<b>Standardised Approach</b>	The basic method used to calculate capital requirements for credit risk. In this approach the risk weighting used in the capital calculation are determined by specified percentages.
<b>Tier 1 Capital</b>	A component of regulatory capital, it comprises CET1 and AT1.
<b>Tier 2 Capital</b>	Comprises the collective impairment allowance (for exposures treated on a Standardised basis), less certain regulatory deductions.
<b>Tier 1 Ratio</b>	Tier 1 capital as a percentage of risk weighted assets.