

DIRECTORS' REPORT  
ACCOUNTS AND ANNUAL  
BUSINESS STATEMENT  
31 OCTOBER 2005

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**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 OCTOBER 2005**

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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<sup>st</sup> October 2005.

**BUSINESS OBJECTIVES AND ACTIVITIES**

The principal purpose of the Society has continued to be the raising of funds from members for the purpose of making advances for the purchase and improvement of residential property.

The objective is to encourage thrift and home ownership together with a high standard of service, whilst at the same time offering competitive interest rates to both investing and borrowing members.

**REVIEW OF THE BUSINESS FOR 2004-2005**

The Society has had another successful year. Confidence in the Society by our investing members has increased total shares by £11.4m to £99.8m and we have lent £26.9m on mortgages bringing total balances to £96.8m.

Overall growth of the Society was 10.4% and profit after tax increased to £547,000, which has enabled the Society to keep our financial ratios stable.

In what has been a difficult and competitive year, these results are impressive. The Society was also recognised by the "What Mortgage" magazine in its annual awards and again achieved the title "Lender of the Year" for the lowest cost of borrowing over ten years.

**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 14 days of receipt of invoice.

**EVENTS SINCE THE YEAR END**

The directors consider that there has been no event since the end of the financial year having a significant effect on the position of the Society.

**FUTURE DEVELOPMENTS**

The Directors will maintain 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.

## **DIRECTORS' REPORT (CONTINUED)**

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### **LOANS AND ADVANCES TO CUSTOMERS**

During the year the Society lent £26.860m to borrowers. Of this £23.183m was advanced on 296 new mortgages and £3.677m on 142 further advances. Advances secured on residential property and other loans increased during the year to £96.848m. At 31<sup>st</sup> October 2005 there was one mortgage account 12 months or more in arrears. The total amount of arrears in this case was £0.002m and the capital balance was £0.03m.

### **CAPITAL**

At 31<sup>st</sup> October 2005 free capital amounted to £7.092m or 6.49% of total share and deposit liabilities and gross capital amounted to £7.781m or 7.12% of total share and deposit liabilities.

Gross capital represents the total reserves as shown in the balance sheet. Free capital represents gross capital and general provisions for bad and doubtful debts less fixed assets.

### **STAFF**

The Directors appreciate the efforts of all the staff in promoting the prosperity and efficiency of the Society's operations.

### **DIRECTORS**

The following persons were directors of the Society during the year.

Barbara Ainger, OBE BA FCIH	Chairman
Philip J. W. Evans, DL FRICS	Vice Chairman
W. Arthur Bailey, FCA	
Peter R. Godwin, MRICS	
A. Benson Greatrex, BSc MBA	
Michael R. Heenan, BSc FCA	Chief Executive and Secretary
Ian A. Henderson, Dip Arch RIBA	
Robert Madders	
Susan J. Whiting BA ACA ATII	Deputy Chief Executive

The directors who retire by rotation in accordance with rule 26(1) are A. Benson Greatrex, Philip J. W. Evans and Peter R. Godwin who offer themselves for re-election.

### **AUDITOR**

In accordance with Section 77 of the Building Societies Act 1986 a resolution for the re-appointment of KPMG Audit Plc as auditor is to be proposed at the Annual General Meeting.

On behalf of the Board of Directors  
Barbara Ainger  
Chairman  
19 December 2005

## **DIRECTORS' REMUNERATION REPORT**

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### **Directors' Remuneration**

The purpose of this report is to inform members of The Stafford Railway about our policy on the remuneration of Executive and Non-Executive Directors.

### **The Remuneration Committee**

The committee comprising of all the Non-Executive Directors meet at least once a year to review the performance of and recommend the remuneration for the Executive Directors.

### **Policy for Executive Directors**

The Society has a contract with Messrs. Dean Statham, Chartered Accountants, for the services of the Chief Executive and the Deputy Chief Executive which contains provision for termination upon 12 months written notice by either party.

- **Basic Fee** – The method of calculation of the base fee is specified in the contract with Messrs Dean Statham dated 1<sup>st</sup> June 2001.
- **Bonus** – The bonus is assessed by the Remuneration Committee and is based on corporate performance targets both financial and non-financial. Bonus payments are payable annually, are not guaranteed and are reviewed each year.
- **Pension** – There are no provisions within the contract for any pension arrangements for the Executive Directors and no pension payments are made.
- **Other Benefits** – There are no provisions within the contract for any other benefits for the Executive Directors and no such benefits are provided.

### **Policy for Non-Executive Directors**

The remuneration of all Non-Executive Directors is reviewed annually by the Board as a whole. 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.

Full details of Directors' Remuneration for the financial year ended 31<sup>st</sup> October 2005 can be found in Note 7 to the accounts.

Barbara Ainger  
Chairman of Remuneration Committee  
19 December 2005

## **CORPORATE GOVERNANCE**

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### **Corporate Governance**

The Board provides leadership and direction with the strategic aim of promoting success with an effective and control framework.

The Stafford Railway complies with the Code of Governance for Building Societies as issued by the Financial Services Authority with the Interim Prudential Source Book for Building Societies.

The Directors are committed to best practice in Corporate Governance and have also considered the Combined Code on Corporate Governance, which applies to listed companies. The Building Societies Association has provided guidance on this Combined Code and the Board has reviewed the requirements and, where appropriate to the Society, adopted them.

### **The Board**

The Board consists of two executive directors and seven non-executive directors who provide the appropriate mix of skills and professional expertise required.

The offices of Chairman and Chief Executive are distinct and held by different people.

The Board considers that all its non-executive directors are independent and free of any relationship which could prejudice their use of independent judgement. Within this, the Board has considered the individual performance of any director whose service exceeds nine years and unequivocally agreed that they be considered independent. The Board has appointed Mr A. B. Greatrex (our longest serving director) as Senior Independent Director.

All directors are subject to annual performance and evaluation review by the Chairman. The Chairman is reviewed by the Senior Independent Director and that review considered annually by the non-executive directors without the Chairman present.

All directors must meet the test of fitness and propriety as laid down by the FSA as 'Approved Persons' to fulfill their Controlled Functions as directors.

The Society's rules require all directors to submit themselves for election by the members at the first opportunity after their appointment and for re-election every three years.

All directors have access to the advice of the Secretary and, if necessary, are able to take independent professional advice at the Society's expense.

The Board has the following board committees.

A Remuneration Committee comprising all of the non-executive directors under the chairmanship of Barbara Ainger (Chairman of the Board). This committee meets at least once per year to consider the remuneration and other terms of service of the executive directors.

## **CORPORATE GOVERNANCE**

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An Audit Committee consisting entirely of non-executive directors under the chairmanship of W. Arthur Bailey which meets four times per year. Representatives of the external auditors are invited to attend all these meetings. Other members of the committee are Ian A. Henderson and A. Benson Greatrex.

An Assets and Liabilities Committee consisting entirely of non-executive directors under the chairmanship of Robert Madders meets quarterly throughout the year. The other members of the committee are Barbara Ainger, Philip J.W. Evans and Peter R. Godwin.

Proceedings of all Committees are formally minuted and minutes are subsequently considered by the full Board.

## **DIRECTORS' RESPONSIBILITIES**

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### **Directors' responsibilities for preparing the annual accounts**

The following statement, which should be read in conjunction with the statement of the auditors' responsibilities on page 9, is made by the directors to explain their responsibilities in relation to the preparation of the annual accounts, annual business statement and directors' report.

The directors are required by the Building Societies Act 1986 (the Act) to prepare, for each financial year, annual accounts which give a true and fair view:

- of the state of the affairs of the Society as at the end of the financial year;
- of the income and expenditure of the Society for the financial year.

In preparing those accounts, the directors are required to:

- select appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Society will continue in business.

In addition to the 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 accounting records, 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 Financial Services Authority under the Financial Services and Markets Act 2000.

The directors have general responsibility for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Going Concern**

The directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

## AUDITORS' REPORT

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### **Independent Auditors' Report to the members of The Stafford Railway Building Society**

We have audited the annual accounts on pages 11 to 23. We have examined the annual business statement (other than the details of directors and officers upon which we are not required to report) and the directors' report on page 24 to 26 and pages 3 to 4 respectively.

This report is made solely to the Society's members, as a body, in accordance with Section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report, the annual business statement and, as described on page 8, the annual accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the annual accounts give a true and fair view and are properly prepared in accordance with the Building Societies Act 1986 and regulations made under it. We also report to you our opinion as to whether certain information in the annual business statement gives a true representation of the matters in respect of which it is given, whether the information in the directors' report is consistent with the accounting records and the annual accounts and whether the annual accounts, the annual business statement and the directors' report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

We also report to you if, in our opinion, the annual accounts are not in agreement with the accounting records or if we have not received all the information and explanations that we require for our audit.

We read the other information accompanying the annual accounts, the annual business statement and the directors' report and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the annual accounts, annual business statement and directors' report.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the annual accounts and the annual business statement. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the annual accounts, and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the annual accounts.

**AUDITORS' REPORT (CONTINUED)**

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**Opinion**

In our opinion:

- a) the annual accounts give a true and fair view of the state of affairs of the Society as at 31<sup>st</sup> October 2005 and of the income and expenditure of the Society for the year then ended;
- b) 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;
- c) the information given in the directors' report is consistent with the accounting records and the annual accounts; and
- d) the annual accounts, the annual business statement and the directors' report have each been prepared in accordance with the applicable requirements of Part VIII of the Building Societies Act 1986 and regulations made under it.

KPMG Audit Plc,  
Chartered Accountants,  
Registered Auditor,  
St James' Square,  
Manchester.  
M2 6DS

19 December, 2005

**INCOME & EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 31 OCTOBER 2005**

Notes	Continuing Operations 2005 £000	Continuing Operations 2004 £000
2 Interest receivable and similar income	6,227	5,080
3 Interest payable and similar charges	(4,421)	(3,395)
<b>Net Interest Receivable</b>	<b>1,806</b>	<b>1,685</b>
Fees and commissions receivable	28	29
Fees and commissions payable	(23)	(23)
Other operating income	31	31
<b>Total Income</b>	<b>1,842</b>	<b>1,722</b>
5 Administrative expenses	(961)	(902)
Depreciation and amortisation	(38)	(45)
4 Other operating charges	(72)	(82)
	771	693
10 Provisions for bad and doubtful debts	(10)	(6)
<b>Profit on ordinary activities before tax</b>	<b>761</b>	<b>687</b>
8 Tax on profit on ordinary activities	(214)	(189)
17 <b>Profit for the financial year</b>	<b>547</b>	<b>498</b>

There have been no recognised gains or losses other than the profit for the year.

Profit on ordinary activities before tax represents operating profit as defined by FRS3, Reporting Financial Performance.

The notes on pages 14 to 23 form part of these accounts.

**BALANCE SHEET AS AT 31 OCTOBER 2005**

		2005	2005	2004	2004
		£000	£000	£000	£000
Notes					
	Assets				
9	Liquid assets				
	Cash in hand and balances with the Bank of England		21		83
	Loans and advances to credit institutions		3,126		1,670
	Debt securities		17,135		16,519
			<u>20,282</u>		<u>18,272</u>
11	Loans and advances to customers				
	Loans fully secured on residential property	89,837		81,367	
	Loans fully secured on land	<u>7,011</u>		<u>6,348</u>	
			96,848		87,715
12	Tangible fixed assets		803		813
16	Other assets		22		19
	Prepayments and accrued income		17		24
	Total assets		<u>117,972</u>		<u>106,843</u>
	Liabilities				
13	Shares	99,757		88,400	
14	Amounts owed to other customers	<u>9,533</u>		<u>10,470</u>	
			109,290		98,870
15	Other liabilities		742		609
	Accruals and deferred income		159		130
17	Reserves				
	General reserves		7,781		7,234
	Total liabilities		<u>117,972</u>		<u>106,843</u>

Approved by the Board of Directors on 19 December 2005

Barbara Ainger	Chairman
Peter R. Godwin	Director
Michael R. Heenan	Chief Executive

The notes on pages 14 to 23 form part of these accounts

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 OCTOBER 2005**

	2005	2004
	£000	£000
Net cash inflow from operating activities	2,164	299
Taxation	(214)	(169)
Capital expenditure and financial investment		
Purchase of debt securities	(19,000)	(27,347)
Proceeds from disposal of debt securities	18,472	26,592
Purchase of tangible fixed assets	(28)	(5)
Increase / (Decrease) in cash	1,394	(630)

**Reconciliation of operating profit to net cash flow from operating activities**

Operating profit	761	687
(Increase) in prepayments and accrued income	(81)	(217)
Increase in accruals and deferred income	29	29
Increase in provision for bad and doubtful debts	10	6
Depreciation	38	45
Net cash inflow from trading activities	757	550
Loans and advances made to customers	(26,860)	(28,355)
Loans and advances repaid by customers	17,717	18,319
Net increase in shares	11,357	6,875
Net (Decrease) / Increase in amounts owed to credit institutions and other customers	(937)	2,813
Net (Increase) in other assets	(3)	(5)
Net increase in other liabilities	133	102
	1,407	(251)
Net cash inflow from operating activities	2,164	299

**Reconciliation of cash balances**

	2004	Cash Flow	2005
	£000	£000	£000
Cash in hand and balances with the Bank of England	83	(62)	21
Loans and advances to credit institutions - repayable on demand	1,670	1,456	3,126
	1,753	1,394	3,147

The notes on pages 14 to 23 form part of these accounts.

## NOTES TO THE ACCOUNTS

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### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Society's accounts.

#### ***Basis of preparation***

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards and Building Societies (Accounts and Regulated Provisions) Regulations 1998.

#### ***Liquid assets***

Debt securities are intended for use on a continuing basis in the Society's activities and are classified as financial fixed assets and are stated at cost, adjusted to exclude accrued interest at the date of purchase. Premiums and discounts arising on the purchase of financial fixed assets are amortised over the period to the maturity date of the security. Any amounts so amortised are charged/credited to the income and expenditure account for the relevant financial year. Other liquid assets are stated at the lower of cost and net realisable value.

#### ***Provision for loans and advances***

Provisions are made to reduce the value of loans and advances to the amount which the directors consider is ultimately likely to be received.

Throughout the year and at the year-end individual assessments are made of loans and advances on properties which are in possession, or in arrears by 2.5% or more. Specific provision is made against those loans and advances which are considered to be impaired. In considering the specific provision for impaired loans, account is taken of any discount which may be needed against the value of the property at the balance sheet date to agree a sale including anticipated realisation costs. The directors recognise that not all accounts in arrears will result in possession and apply a factor based on recent experience to reflect this probability when calculating the provision for accounts in arrears.

A general provision is made against all advances to the extent that the Society's experience and general economic climate would indicate that it is prudent for such a provision to be made. Interest in respect of all loans is credited to the income and expenditure account as it becomes receivable, including interest in respect of advances where the property has been taken into possession. The general provision has been increased in line with the growth in the mortgage book. Loans and advances in the balance sheet are shown net of provisions. The charge to the income and expenditure account comprises the increase in the provisions.

#### ***Depreciation***

Depreciation is provided by the Society to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal installments over their estimated useful economic lives as follows:

Freehold buildings	50 years
Computer equipment	3 years
Fixtures and Fittings and Office equipment	5 – 10 years

**NOTES TO THE ACCOUNTS (CONTINUED)**

**Pension costs**

The Society operates a money purchase pension scheme. The Society's contributions are charged against profits in the year in which they are made. The charge to the income & expenditure account for the year is shown in note 6 to the accounts.

**Taxation**

Corporation tax is provided on the profit for the year.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 19, Deferred Tax.

**Incentive Scheme**

The Society offers an incentive to borrowers which consists of a free valuation. These costs are charged to other operating charges in the income and expenditure account as incurred.

	2005	2004
	£000	£000
<b>2 Interest receivable and similar income</b>		
On loans fully secured on residential property	4,903	3,967
On other loans	442	386
On debt securities		
Interest and other income	795	663
Profit net of losses	0	1
On other liquid assets		
Interest and other income	87	63
	6,227	5,080
Total income from fixed income securities was £795,287 (2004: £663,034)		
<b>3 Interest payable and similar charges</b>		
On shares held by individuals	4,030	3,025
On other shares	1	1
On deposits and other borrowings	390	369
	4,421	3,395
<b>4 Operating charges</b>		
Valuation Fees (Mortgage Incentives)	66	82
Solicitor Incentive Scheme	6	0
	72	82
<b>5 Administrative expenses</b>		
Staff Costs (Note 6)	466	423
Other Expenses	495	479
	961	902
Included in other expenses are the following:		
Remuneration of auditors for audit work	30	30
Remuneration of auditors and their associates for non-audit work	0	0

**NOTES TO THE ACCOUNTS (CONTINUED)**

<b>6</b>	<b>Staff numbers and costs</b>	<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td colspan="2" style="text-align: center;">2005</td> <td colspan="2" style="text-align: center;">2004</td> </tr> <tr> <td style="text-align: center;">Full</td> <td style="text-align: center;">Part</td> <td style="text-align: center;">Full</td> <td style="text-align: center;">Part</td> </tr> <tr> <td style="text-align: center;">time</td> <td style="text-align: center;">time</td> <td style="text-align: center;">time</td> <td style="text-align: center;">time</td> </tr> </table>	2005		2004		Full	Part	Full	Part	time	time	time	time
2005		2004												
Full	Part	Full	Part											
time	time	time	time											
	The average monthly number of persons employed during the year was	10	6	10	6									
			2005		2004									
			£000		£000									
	The aggregate cost of these persons was as follows:													
	Wages and Salaries		417		373									
	Social security costs		21		23									
	Other pension costs (Note 19)		28		27									
			466		423									
			2005		2004									
			£000		£000									
<b>7</b>	<b>Remuneration of directors</b>													
a)	Remuneration of directors													
	Directors emoluments													
	For services as a director		56.2		56.2									
	For executive services		4.6		4.6									
			60.8		60.8									
	Total emoluments of the Society's directors are listed below:		2005		2004									
			£000		£000									
			Fees		Fees									
	For services as a director													
	B. Ainger (Chairman from 21/03/05)		13.0		9.4									
	P. J. W. Evans (Vice Chairman from 21/03/05)		9.7		12.5									
	W. A. Bailey		7.5		7.0									
	P. R. Godwin		6.5		6.6									
	A.B. Greatrex		6.5		6.2									
	I. A. Henderson		6.5		6.2									
	R. Madders		6.5		6.2									
	R. G. Venables (Retired 26/02/04)		0		2.1									
	M. R. Heenan		2.3		2.3									
	S. A. Morris (Resigned 30/06/04)		0		1.5									
	S. J. Whiting		2.3		0.8									
			60.8		60.8									

**NOTES TO THE ACCOUNTS (CONTINUED)**

7 a) Amounts paid for Services of Chief Executive, Deputy Chief Executive and Secretary are cont'd as follows:

	2005 £000	2004 £000
Base Fee	128	123
Bonus	17	15
VAT	25	24
<b>Total</b>	<b>170</b>	<b>162</b>

b) Directors loans and related party transactions

At 31 October 2005 there were outstanding mortgage loans granted in the ordinary course of business, at the Society's standard variable mortgage rate, to 4 directors and 2 connected person amounting in aggregate to £891,686. 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 with 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 15 days up to and including the day of the annual general meeting.

The Society has a contract with Messrs. Dean Statham, Chartered Accountants, for the services of Chief Executive, Deputy Chief Executive and Secretary. Mr M R Heenan and Mrs S J Whiting are both partners in this firm. During the year there were amounts received from Messrs. Dean Statham for the rent of office accommodation amounting to £28,900 (2004 - £28,900). The Society made payments to Dean Statham for some staff services and some office accommodation amounting to £26,297 (2004 - £25,533). At 31 October 2005 there was an accrual of £32,186 (2004 - £30,894).

	2005 £000	2004 £000
<b>8 Taxation</b>		
a) Analysis of tax charge in the year		
Current tax at 30% (2003 – 30%)	217	196
Over provision of tax in prior years	0	(2)
Current Tax charge	217	194
Deferred Tax	(3)	(5)
Total Deferred Tax	(3)	(5)
Tax on Profit on Ordinary Activities	214	189

Factors affecting the current tax charge in year

The Current tax charge for the period is lower (2004 : lower) than the standard rate of corporation tax in the UK (30%, 2004: 30%). The differences are explained below.

**NOTES TO THE ACCOUNTS (CONTINUED)**

8 cont'd	2005 £000	2004 £000
b) Profit on ordinary activities before tax	761	687
Tax on profit on ordinary activities at UK standard rate	228	206
Expenses not deductible for tax purposes	6	6
Capital allowances in excess of qualifying depreciation	(1)	2
Increases in other timing differences	4	3
Marginal relief	(20)	(21)
Prior year adjustments	0	(2)
Current tax charge for year	217	194
<b>9 Liquid Assets</b>		
a) Repayable from the date of the balance sheet in the ordinary course of business as follows:		
Loans and advances to credit institutions		
Repayable on demand	3,126	1,670
Debt securities		
Accrued interest	534	446
In not more than one year	13,504	11,855
In more than one year	3,097	4,218
	17,135	16,519
b) Analysis of debt securities		
Transferable debt securities		
Listed	4,203	4,319
Unlisted	12,932	12,200
	17,135	16,519
Market value of listed debt securities	4,087	4,171
c) Transferable securities held as financial fixed assets		
Maturity value	16,500	15,855
Unamortised premium	101	218
	16,601	16,073
Accrued interest	534	446
	17,135	16,519

All debt securities are held with the intention of use on a continuing basis in the Society's activities and are classified as financial fixed assets.

Movements during the year of transferable securities held as financial fixed assets are analysed as follows:

**NOTES TO THE ACCOUNTS (CONTINUED)**

9 c) cont'd	<b>Cost</b>	£000
	At 1 <sup>st</sup> November 2004	16,264
	Additions	19,000
	Disposals	<u>(18,355)</u>
	At 31 <sup>st</sup> October 2005	<u>16,909</u>
	Provision for diminution in value	
	At 1 <sup>st</sup> November 2004	191
	Amounts charged for the year	117
	On disposals	<u>0</u>
	At 31 <sup>st</sup> October 2005	<u>308</u>
	Net Book Value	
	At 31 <sup>st</sup> October 2005	<u>16,601</u>
	At 31 <sup>st</sup> October 2004	<u>16,073</u>

**10 Provisions**

	Loans fully secured on Residential Property		Loans fully secured on Land		Total £000
	Specific £000	General £000	Specific £000	General £000	
Balance at 1 <sup>st</sup> November 2004	0	94	0	10	104
Charge for the year	<u>0</u>	<u>10</u>	<u>0</u>	<u>0</u>	<u>10</u>
Balances at 31 <sup>st</sup> October 2005	<u>0</u>	<u>104</u>	<u>0</u>	<u>10</u>	<u>114</u>

**11 Loans and Advances to customers – Maturity Analysis**

The maturity of loans and advances to customers, from the date of the balance sheet is as follows:

	2005 £000	2004 £000
On call and at short notice	225	206
In not more than three months	431	383
In more than three months but not more than one year	2,015	1,851
In more than one year but not more than five years	10,387	9,675
In more than five years	<u>83,904</u>	<u>75,704</u>
	96,962	87,819
Less provisions	<u>(114)</u>	<u>(104)</u>
	<u>96,848</u>	<u>87,715</u>

**NOTES TO THE ACCOUNTS (CONTINUED)**

**12 Tangible Fixed Assets**

	Freehold Premises	Computer Equipment	Office Equipment, Fixtures & Fittings	Total
	£000	£000	£000	£000
Cost at 1 November 2004	756	70	293	1,119
Additions	0	3	25	28
Disposals	0	(2)	0	(2)
At 31 <sup>st</sup> October 2005	756	71	318	1,145
Depreciation				
At 1 <sup>st</sup> November 2004	41	59	206	306
Charged in year	16	9	13	38
W/o on Disposals	0	(2)	0	(2)
At 31 <sup>st</sup> October 2005	57	66	219	342
Net Book Value				
At 31 <sup>st</sup> October 2005	699	5	99	803
At 31 <sup>st</sup> October 2004	715	11	87	813

The Society occupies the freehold premises to an amount of £349,500 (2004 - £357,500) of the net book value.

<b>13 Shares</b>	2005 £000	2004 £000
Held by individuals	99,741	88,385
Other shares	16	15
	99,757	88,400

Shares are repayable from the date of the balance sheet in the ordinary course of business as follows:

Repayable on demand	99,757	88,314
In not more than 3 months	0	86
	99,757	88,400

**14 Amounts owed to other customers**

Amounts owed to other customers are repayable from the date of the balance sheet in the ordinary course of business as follows:

	2005 £000	2004 £000
Accrued interest	11	11
Repayable on demand	8,411	8,539
Interest not more than three months	1,111	991
Interest more than three month but not more than one year	0	929
	9,533	10,470

**NOTES TO THE ACCOUNTS (CONTINUED)**

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<b>15</b>	<b>Other Liabilities</b>	2005 £000	2004 £000
	Other liabilities due within 1 year comprise:		
	Corporation tax	217	197
	Income tax	525	412
		742	609

<b>16</b>	<b>Other Assets</b>		
	a) Other assets comprises:		
	Deferred tax	22	19
	b) Deferred tax		
	At 1 <sup>st</sup> November 2004	19	14
	Amount credited to Income and Expenditure Account during year	3	5
	At 31 <sup>st</sup> October 2005	22	19
	Deferred tax has been provided in full at 30% as follows:		
	Excess of capital allowances over depreciation	(12)	(12)
	General Mortgage Loss Provisions	34	31
		22	19

<b>17</b>	<b>Reserves</b>		
	General Reserves	£000	
	At 1 <sup>st</sup> November 2004	7,234	
	Profit for the financial year	547	
	At 31 <sup>st</sup> October 2005	7,781	

**18 Guarantees and other Financial commitments**

Financial Services Compensation Scheme

The Society has a contingent liability in respect of contributions to the Financial Services Compensation Scheme provided for under the Financial Services and Markets Act 2000.

**19 Pension Scheme**

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 £28,202 (2004 - £26,482). At 31<sup>st</sup> October 2005 there were no accrued contributions.

**NOTES TO THE ACCOUNTS (CONTINUED)**

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**20 Financial Instruments**

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability of another entity. The Society is a retailer of financial instruments in the form of mortgage and savings products, and also uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and manage the risks arising from its operations.

The Society does not use financial derivatives.

**Liquidity Risks**

The Society's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to maintain full public confidence in the solvency of the Society and to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through wholesale funding facilities and through management control of the growth of the business

**NOTES TO THE ACCOUNTS (CONTINUED)**

20 **Interest Rate Risk**  
cont'd

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 following table details the repricing exposures. Items are allocated to time bands by reference to the maturity date. The interest rate sensitivity of the Society at 31<sup>st</sup> October 2005 was (see table below)

	Not more than 3 months	More than 3 mths but no more than 6 months	More than 6 months but not more than one year	More than 1 year but not more than five years	Non interest bearing	Total
<u>31<sup>st</sup> October 2005</u>	£000	£000	£000	£000	£000	£000
<b>Assets</b>						
Liquid assets	11,630	2,000	3,000	3,097	555	20,282
Loans fully secured on residential property	89,837					89,837
Other loans	7,011					7,011
Tangible fixed assets					803	803
Other assets					39	39
	<u>108,478</u>	<u>2,000</u>	<u>3,000</u>	<u>3,097</u>	<u>1,397</u>	<u>117,972</u>
<b>Liabilities</b>						
Shares	99,757					99,757
Deposits and other borrowings	9,522				11	9,533
Other liabilities					901	901
Reserves					7,781	7,781
	<u>109,279</u>				<u>8,693</u>	<u>117,972</u>
Interest rate sensitivity gap	<u>(801)</u>	<u>2,000</u>	<u>3,000</u>	<u>3,097</u>	<u>(7,296)</u>	<u>0</u>
<u>31<sup>st</sup> October 2004</u>	£000	£000	£000	£000	£000	£000
<b>Assets</b>						
Liquid assets	4,587	5,000	4,000	4,218	467	18,272
Loans fully secured on residential property	81,367					81,367
Other loans	6,348					6,348
Tangible fixed assets					813	813
Other assets					43	43
	<u>92,302</u>	<u>5,000</u>	<u>4,000</u>	<u>4,218</u>	<u>1,323</u>	<u>106,843</u>
<b>Liabilities</b>						
Shares	88,400					88,400
Deposits and other borrowings	9,530	929			11	10,470
Other liabilities					739	739
Reserves					7,234	7,234
	<u>97,930</u>	<u>929</u>	<u>0</u>	<u>0</u>	<u>7,984</u>	<u>106,843</u>
Interest rate sensitivity gap	<u>(5,628)</u>	<u>4,071</u>	<u>4,000</u>	<u>4,218</u>	<u>(6,661)</u>	<u>0</u>

**ANNUAL BUSINESS STATEMENT  
FOR THE YEAR ENDED 31 OCTOBER 2005**

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	Percentage at 31 Oct 2005	Statutory Limit
<b>1 Statutory Percentages</b>		
Proportion of business assets not in the form of loans fully secured on residential property (the "Lending limit").	7.28%	25%
Proportion of shares and deposits not in the form of shares held by individuals (the "Funding limit")	8.74%	50%
<p>The percentages are calculated in accordance with, and the statutory limits are those prescribed by, section 6 and 7 of the Building Societies Act 1986 as amended by the Building Societies Act 1997.</p> <p>Business assets are the total assets of the Society as shown in the balance sheet plus provision for bad and doubtful debts, less fixed assets and liquid assets.</p> <p>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 provision for bad and doubtful debts.</p>		
<b>2 Other percentages</b>	31 Oct 2005 %	31 Oct 2004 %
Gross capital as a percentage of share and deposit liabilities	7.12	7.32
Free capital as a percentage of share and deposit liabilities	6.49	6.60
Liquid assets as a percentage of share and deposit liabilities	18.56	18.48
As a percentage of mean assets		
Profit after taxation	0.50	0.49
Management expenses	0.89	0.93

**ANNUAL BUSINESS STATEMENT (CONTINUED)**

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

- Shares and deposits represent the total of shares and amounts owed to other customers
- 'Gross capital' represents the general reserves.
- 'Free capital' represents the aggregate of gross capital and general mortgage loss provisions for bad and doubtful debts less tangible fixed assets.
- 'Mean total assets' represent 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 and balances with the Bank of England, loans and advances to credit institutions and debt securities.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

**ANNUAL BUSINESS STATEMENT (CONTINUED)**

**3. Information relating to the Directors at 31 October 2005**

<b>Name &amp; Date of Birth</b>	<b>Occupation &amp; Date of Appointment</b>	<b>Other Directorships</b>
Barbara Ainger Chairman 13.07.46	Consultant 15.10.01	The Building Exploratory Limited
Philip J.W. Evans Vice-Chairman 24.11.46	Chartered Surveyor 09.08.88	Harpfield Estate Limited Partnership Assuring A Safer Staffordshire Ltd Staffordshire Environmental Fund Limited Staffordshire Blind Limited
W. Arthur Bailey 12.08.43	Chartered Accountant 24.04.03	University Hospital of North Staffordshire NHS Trust Wilde Sinclair International Limited Ice Cool International Limited Bright Light Venture Limited North Staffordshire Risk Capital Fund PLC European Football Scouting Limited
Peter R. Godwin 04.01.47	Chartered Quantity Surveyor 12.08.85	Sandy & Co (Contractors) Limited A. J. Godwin & Sons Limited
A. Benson Greatrex 28.05.52	Company Director 28.01.80	Greatrex Limited The Inglewood Investment Co. Limited Valley Flying Company Limited ISE Estates Limited
*Michael R. Heenan 27.02.51	Chartered Accountant 01.11.89	North Staffordshire Chamber of Commerce and Industry The Inglewood Investment Co. Limited Staffordshire Business Support Limited B-Solve Limited Staffordshire Chamber Services Limited
Ian A. Henderson 17.03.49	Architect 16.09.91	Horsley Huber Architects Limited
Robert Madders 13.08.43	Farmer 01.11.94	Stafford Showground Limited
** Susan J Whiting 09.01.64	Chartered Accountant 01.07.04	None

\* Chief Executive and Secretary

\*\* Deputy Chief Executive

Documents may be served on the above directors care of The Stafford Railway Building Society,  
4 Market Square, Stafford, ST16 2JH.

Service None of the non-executive directors has a service contract.

Contracts: The Society has a service agreement with Messrs. Dean Statham commencing 1<sup>st</sup> June  
2001 for the services of Chief Executive, Deputy Chief Executive and Secretary which  
contains provision for termination upon 12 months written notice by either party.