



Always there for our Members. Since 1849

**ANNUAL
MEMBERS' REVIEW
2019**



ROYSTON



SAFFRON WALDEN



HAVERHILL



HALSTEAD



BISHOP'S STORTFORD



COLCHESTER



WARE



BRENTWOOD

We have a number of branches located in Hertfordshire, Suffolk and Essex.



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CHAIRMAN'S STATEMENT

Nothing has changed,
but everything
has changed

This is my last report to you as your Chairman, as I will retire from the Board at the AGM, in line with best practice in Corporate Governance, after nine years on the Board.

That will be your Society's 170th AGM, which is an amazing achievement.

At first glance, it may seem that very little has changed since the founding fathers set-up the original Society: helping its Members to save for their future with a range of products, whilst at the same time offering mortgages to enable Members to acquire their own homes. 170 years later, your Society is still doing just that.

It's one of the key differentiators between mutual societies like Saffron and the high street and recently created challenger banks. You may probably be able to get a marginally better savings rate or a marginally cheaper mortgage from one of the big "names", but whether you will actually get the product you need that matches your specific circumstances is another question. Moreover, from later this year, if we cannot give you the most appropriate mortgage deal, we will find the most appropriate deal for you in the wider market. That's a mutual society doing what is best for its Members.



Looking back over the nine years since I joined Saffron's Board of Directors, I could not have imagined the changes that would be seen in the following years.

In 2011, we thought we were getting past the worst effects of the global financial implosion of 2007/8. Then, we thought that the historically low interest rates would surely and quickly abate to allow a more reasonable return for savers. But, as we now know, due to a number of economic and political factors, rates have barely increased and at the same time regulatory changes have compounded the pressure on historically low savings rates. It has been the longest period of sustained historically low interest rates and, in my view, it heralds some profound implications for the long-term sustainability of all mutual societies.

What changes have I seen at Saffron?

The biggest investment (of both time, expertise, capital and cash) has been the complete renewal and replacement of our systems, processes and technology. Today, whether you go into a branch, or call our contact centre, or go online or use the new Saffron App you will get the information and help that you need. That is a real transformation and it means that now, it is easier than it has ever been to do business with your Society, at any time of the day, or any day of the year.

Over the same period, your Society has been steadily building its capital resources which means your Society is a more secure place.

None of these improvements could or would have happened without the energy, enthusiasm, patience and professionalism of the Society's staff. Over that nine year period, there has been a substantial injection of talent joining our Society and they are making a big difference. All our staff have made these important improvements and we should thank them all. There have been some remarkable landmark employment anniversaries this year I won't embarrass the individuals by naming them or saying just how long, but bravo to them! I am also pleased to be able to report that today we offer better training for our staff, offering support through nationally accredited programmes, professional qualifications and higher education resulting in better career opportunities. We aim to appoint from within wherever possible, although we must continue to ensure that we have the very best talent and skills within the Society.

So, although it looks, feels and behaves like it did in the past, today's Saffron is a stronger, more resilient, robust Society.

Looking ahead, the future for mutuals remains challenging and uncertain.

Today, even the very largest UK Building Societies are finding their net interest margin being very heavily squeezed. This is affecting their profitability, which in turn affects their ability to build their capital base and may therefore possibly affect the long-term sustainability of the mutual sector, as we know it today. Reassuringly, Saffron retains one of the best net interest margins in the sector.

We also have exciting, positive, new developments in the pipeline. There are new savings and mortgage products being developed and on offer. We launched the new Saffron App, which makes the Society one of the very few with such capability. This was an important step forward, if we are to attract and appeal to a younger generation of borrowers and savers. We are about to embark on a complete refresh of our branch network, which we hope you will find both engaging and positive. Furthermore, we are looking at how we might be able to offer much greater reach within our branch network, using a mobile branch.

Given the likely future challenges, it is important that your Board continues to be composed of individuals who bring real depth of expertise and knowledge to the Boardroom and who are prepared to use that knowledge and experience to challenge the Executive team to ensure the very best quality decisions are made and the best outcomes achieved.

So, when we started to search for a new Chair, we did not restrict ourselves to just internal candidates we engaged an external recruitment firm to produce the best possible shortlist of candidates, as well as evaluate our internal candidate. Hence, it is with real pleasure that I can tell you that the recommendation made to the Board was our existing Vice Chairman, Nick Treble. Nick has a wealth of Financial Services expertise spanning more than 30 years, which combined with his knowledge of Saffron gained over the past six years, means he is ideally placed to lead Saffron.

However, I regret to tell you that Liz Kelly will also be stepping down from the Society's Board at the AGM. Liz has been asked to take on a much bigger Executive role at her principal employer and she does not feel that she can continue to commit the time and energy that she would wish to give to the Society, as well as do her "day job", so we will be searching for somebody to replace her. I would like to thank her for her commitment, passion and insight that she has brought to the Board debate and challenge over the past four years.

Finally, I would like to thank YOU all of our members for your unstinting support, please continue to help Saffron to be a better, stronger Society for the future and look forward to its 200th anniversary.



Geoffrey Dunn, Chairman



CHIEF EXECUTIVE'S REPORT

I look back on 2019 as an important transitional and hopefully transformational year for the Society. We made a number of changes to the business that make us better placed to grow and develop. More than that, it is a year in which we have rekindled a spirit of innovation and the energy and commitment to get things done!

In the 2018 Report and Accounts, I explained the issues that required us to put into place a plan to further strengthen our capital resources. I am pleased to report that this plan has been well executed and that through the hard work and commitment of our staff, we are now able to return to growth in 2020.

2019 Highlights

Whilst 2019 was not a year of growth for our Mortgage book in terms of book size, it was one where we made significant improvements to our range of propositions that positions the Society for future success. The Society introduced four new categories of mortgages during the year. Two are designed to help homeowners; Retirement Interest Only to help Members as they seek to move into retirement and Joint Borrower Sole Proprietor to help those Members looking to get onto the property ladder for the first time. Two further offerings have been developed to help buy to let landlords.



We took the decision to close three of our branches in July. This was not an easy decision and was one that I appreciate disappointed a number of Members. As I explained at the last AGM, it is necessary for us to balance the money that we spend and invest across all of the service channels that our Members expect. Having a strong branch network is vital for the success of the Society, being the centre point of the relationship that we have with Members. Despite the branch closures, we were able to grow our savings branch balances during the year.

“
Our vision as a Society is to help everyone to be confident to manage their finances. We will continue to focus on helping people to achieve the home that they aspire to and in supporting people to realise their financial goals, through provision of competitive savings products and access to financial advice through our partnership with third party providers.
 ”

We recognise that to continue to be relevant to our Member base, we must offer a broader range of solutions and even better service through the channels we offer.

This year, we extended our third party relationship with Co-op, with Key Retirement and reinvigorated our existing partnership with Dignity. We launched Saffron Rewards: a benefit of Membership, where all Members and staff can achieve meaningful discounts across a range of products and services. We also launched our mobile app, being only the fifth Building Society in the UK to do so.

Behind the scenes, we have improved the efficiency of our service, by introducing “Saffron One Best Way” across our Branches and also our back office and processing teams. This program has been designed to ensure that all our people are working in the most consistent and efficient manner, to offer better service to our Members.

We consistently manage the levels of service provided to our Members and also their likelihood to recommend and I am again delighted to see that we have continued to see further improvement in both of these scores. In addition to the feedback that you provide us, we have again received recognition from external industry sources.

- Moneynet Best Regular Savings Provider (3rd year running)
- Moneynet Best Childrens Provider (4th year running)
- Savings Champion - Best Children's Account Provider - Highly Commended

- Savings Champion - Best Business Easy Access Account Provider - Highly Commended
- Savings Champion - Best Charity Easy Access Account Provider - Highly Commended
- Savings Champion - Best Building Society- Finalist
- Mortgage Finance Gazette - Best Self Build Lender - Highly Commended

2019 Performance

The financial details from 2019 can be found in our Annual Report and Accounts if you want to review our performance more closely. I wanted to highlight a number of points.

Net interest income has reduced year on year due to the highly competitive mortgage and savings markets. Market wide savings rates have been increasing, driven by the activity of banks and building societies looking to refinance the funding provided by the Bank of England in response to the financial crisis in 2008. Mortgage rates continue to be driven down due to fierce competition, with more financial institutions chasing demand from a market which is generally static. The impact on the Society has been to reduce net interest margin by 10bps.

We continue to work hard to control our costs which at a headline level have remained broadly flat for the second year in succession.

Impairment (bad debts) have also been subdued, a reflection of the quality of our loan book, in which arrears are

significantly lower than industry averages. The impairment that we have incurred during the year is largely a result of our continued strategy to exit those properties where we had been in possession or acting as receiver of rent for an extended period. At the end of 2019 we now only have four properties where we are in possession or acting as receiver of rent, a significant improvement from 16 at the end of 2018 and 27 the year before.

It is a source of frustration that we are required to restate our accounts for 2018 which has had a negative impact on our carrying capital above regulatory minimum. During the 2018 year end process we identified an error in the model that we had used for a number of years to calculate Effective Interest Rates (EIR). During 2019 we have migrated to a commercial EIR model that is used by many financial institutions in the UK. In completing the migration we have improved the accuracy of the calculation and this in turn has resulted in the adjustment to the EIR balance that we are now recognising in the accounts.

We continue to manage a portfolio of equity release mortgages. Although this portfolio is relatively small in comparison to our broader portfolio, the accounting treatment of this book does represent a volatile risk to earnings. In 2018, we revised the basis of calculation to better align with the methodologies applied across the industry and this in turn led to the Society recognising a charge to income of £3.7m. During the current year we have continued to apply this methodology which has led to a small charge to income of £0.1m.



People

At Saffron, we recognise that the primary point of difference between us and our competition is the capabilities and character of our people. Over recent years, we have concentrated our efforts in developing our people. We have been able to fill in excess of 70% of our roles through promotion from within and we have a number of senior roles filled by individuals that have worked their way through the Society having joined from school or college. We remain firmly committed to this strategy and during 2019 our learning and development team achieved accreditation as an Institute of Leadership and Management certified training centre. 25 members of our staff benefited from personal coaching.

The Society also benefits from the knowledge, skills and experience of staff that have been with the Society for many years and in 2019 we recognised a number of staff who were celebrating notable milestones at the Society. Their stories are outlined in this review.

Darren Garner our Chief Financial Officer left the Society in November 2019. Darren has been an invaluable support to me over the past four years and I would like to thank him for the significant contribution he has made to the Society and to wish him the best for the future. Our Financial Controller Maurice Mills has been appointed as interim Chief Financial Officer until our new CFO joins in June.

On behalf of the wider Society, I would also like to recognise the contribution of our Chairman, Geoff Dunn, who will be retiring from the Board after the AGM in April. Having worked closely with Geoff since I joined the Society six years ago, I can attest that you will not meet any

one more passionate about the ongoing success of the Society. His steadfast commitment has helped steer the Society through a challenging period and he leaves the Society in a stronger position than when he joined.

Community

A further Society goal is to make a lasting impact in communities in which we have a presence, and I am delighted that we have not only maintained but expanded the support we have provided in 2019.

We have delivered financial education to over 800 secondary school students through the continued partnership with Wizeup, a not for profit entity. Our community choir continues to provide an opportunity for everyone to join and sing, irrespective of their previous experience and our community fund supports good causes in our heartland areas, awarding £16,000 to charity.

Perhaps most impressive still is the work that our people do for charities and good causes. In 2019, our people have got muddy, colourful, jumped out of planes, ran and cycled enough miles to get us to Scotland and back, raising over £7,926 for over 15 different charities. There have been so many examples of how our people have shone in community activities this year including working at schools, educating and entertaining, providing gifts and care packages to the elderly and food collections for the essential local food banks.

As our community programme has continued to develop and grow and with it the work to co-ordinate, we have recognised the importance of the role that the Society can play. To ensure that we continue to develop this engagement we created the role of Community Business

Partner and I am delighted that having moved the agenda forward "off the side of her desk", Claire Hunnable has accepted the role in a full time capacity.

Claire became a Director of Saffron BID (Saffron Walden Business Improvement District) in 2018. BID invests in and delivers projects to improve the local trading environment, drive down business costs and raise the area's profile. Working with the BID has provided the opportunity to work alongside local businesses, local authorities and other stakeholders, providing invaluable insight into our town and an essential understanding of local issues and needs. The BID business strap line is Attract, Engage & Thrive, echoing the Society's community strategy.

Looking Ahead

Economic conditions are likely to remain difficult and we anticipate that the interest rate environment will remain at a low level similar to that experienced over the last decade. We also expect that the fierce competition in the mortgage market will persist and that this will continue to depress net interest margins.

We will continue to focus our energies in ensuring that your Society remains relevant to current and future Members, you, your family and your community. Having expanded retail savings balances in 2019, we want to grow these further in 2020 to support our increased lending plans. We will achieve this growth through our retail network which we are now looking to expand.

“We remain true to our goal of helping people to be confident about their financial health.”

We work hard to try to find a way to say yes to providing Saffron mortgages to customers. Where there are better value mortgages available we plan to launch a service for Members that will find the best solution. More information will be available in branch, and online in 2020.

I am optimistic that the progress we have made this year has set us in good stead for the future and will provide our people with the confidence that we can continue to develop the services we offer; and continue to improve the benefits associated with Membership to you, our Members.



Colin Field, Chief Executive Officer





Christian Draper Head of Partnerships and Properties

Like any business it's important to be progressive, forward looking and relevant to remain successful. In Christian's 15 years at Saffron Building Society every role he has undertaken has involved just that.

Christian comments: "There's no better way to learn about a business than working on the front line. Assisting customers in branch enabled that and fast tracked my Saffron familiarisation. The experience I gained has been invaluable in the future roles I have undertaken."

Christian's other main focus will be managing a project to locate and establish a new headquarters for Saffron Building Society in a single site.

Christian adds: "Currently our head office staff are located on two different sites, as part of our branch in the centre of Saffron Walden and at Little Chesterford. We are looking for one site where everyone can be together which can only be a good thing with regard to communication, convenience and economy of scale."

“

As we celebrate our 170th AGM, I am proud to be involved in this project and who knows, the location could be our home for the next 170 years!

”





Justin Curtis

Commercial Analyst

If you have one of Saffron's many mortgage or savings accounts the chances are Justin has been involved in its development.

As a commercial analyst, a position he has held at Saffron for the last seventeen years, Justin and his colleagues evaluate data from which our product experts design our acclaimed savings and mortgage range.

Justin may have an important job understanding and explaining financial data, but he also has another key role within building society life – involvement with the Saffron Community Choir. Started as a way of engaging with the Members and staff of the Society, the Saffron Building Society Community Choir has grown into a strong and happy group of all ages. The choir encourages singers of any ability to come along and join in the fun.

“

The choir forms part of the Society's community engagement programme and we're delighted to give something back to the local area through our music making. We have raised funds for some really good causes along the way too!

”





Rachel Warwick

Product Manager

In a year when the World Wide Web was invented, the Berlin Wall came down and the very first episode of The Simpsons was aired, Rachel was recruited to the Saffron Building Society team. She joined for 3 years and is still here 30 years on!

Rachel is now a product manager involved in the life cycle of a savings product from concept to delivery. This involves work with focus groups to discover what customers want; building the best savings product to meet their needs; bringing it to market; promoting the new product then monitoring its performance.

“

Each CEO over the last 30 years has brought a different style to running the business relevant to the time but throughout it has always remained a friendly place to work, Saffron value their staff. The aspects I've enjoyed most have been helping to create Saffron's award winning Children's Regular Savings account – encouraging young people to get into the savings habit and increasing financial education so the merits of saving are better understood.

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The Saffron Summer Event



A very colourful half-marathon



Raffle winner for Macmillan coffee morning at Ware



24 hours of fasting at Bishop's Stortford for Food Bank

“ We are committed to supporting and investing in our local communities. ”

CLAIRE HUNNABLE, COMMUNITY BUSINESS PARTNER



The Man Cave hold their first meeting at Colchester



Miss Moneyspots celebrates Red Nose Day



Crucial Crew Bishop's Stortford



135 miles from Kent to Belgium for Royal British Legion Industries



Haverhill celebrate 50 years!



NOTICE OF ANNUAL GENERAL MEETING 2020

The 170th Annual General Meeting of the Members of the Saffron Building Society will be held on Wednesday 29 April 2020 at Saffron House, 1a Market Street, Saffron Walden, Essex CB10 1HX at 4pm for the following purposes:

Ordinary Resolutions

1. To receive the Directors' report, the annual accounts, the annual business statement and the Auditor's report thereon for the year ending 31 December 2019.
2. To consider, and if thought fit, pass an ordinary resolution to re-appoint BDO LLP as Auditors, to hold office until the conclusion of the next Annual General Meeting.
3. To approve the Directors' remuneration report for the year ending 31 December 2019.

Re-election of Directors

4. To consider, and if thought fit, re-elect Directors:

To re-elect Jennifer Ashmore
To re-elect Gary Barr
To re-elect Colin Field
To re-elect Neil Holden
To re-elect Nick Treble

By order of the Board

Helena Manley, Society Secretary,
Saffron Building Society, Saffron House,
1a Market Street, Saffron Walden,
CB10 1HX
4 March 2020

Notes

1. These notes form part of the Notice of Meeting.
2. Under the Society's rules, a Member entitled to attend the meeting and vote may appoint one proxy to attend and vote on his/her behalf. You may appoint the Chairman of the meeting or anyone else as your proxy, and your proxy does not have to be a Member of the Society. Your proxy may vote for you at the meeting but only on a poll. A poll is a formal vote (which includes all valid proxies).
3. You may instruct your proxy how to vote at the meeting. Please read the instructions on the Proxy Voting Form.
4. The voting date is Wednesday 29 April 2020 if voting in person and 24 April 2020 if voting by proxy.
5. In order to attend and vote at the meeting, or to appoint a proxy, you must qualify either as a shareholding Member or as a borrowing Member (please refer to the voting conditions on the Proxy Voting Form).

6. In addition, you can only vote once as a Member, irrespective of:

(a) the number of accounts you hold and whether you hold accounts in different capacities (for example, on your own behalf and as a trustee), and

(b) whether you qualify to vote as a shareholding Member and as a borrowing Member.

7. Members attending the meeting will be requested to produce their passbooks or other evidence of membership in order to obtain admission. If you are appointing a proxy to attend the meeting and vote on your behalf, please ensure that your proxy brings an appropriate form of identification to the meeting.

If you appoint a proxy to vote on your behalf and your proxy does not attend the meeting, your vote will not be counted.

Approval of the Directors' Remuneration Report

As a building society, the Society is not required to prepare an annual report on Directors' remuneration or required to propose a resolution for its approval in the same way that a listed company is required to do. However, as in previous years and in line with best practice, the Society is proposing an Ordinary Resolution to approve the Directors' Remuneration Report for the financial year ended 31 December 2019. The summary Directors' Remuneration Report is on pages 42 to 45. The vote of this Resolution will be treated as advisory only and Directors' entitlement to remuneration is not conditional on this Resolution being passed.



DIRECTORS SEEKING RE-ELECTION IN 2020

The Board of the Saffron Building Society is made up of Executive and Non-Executive Directors. The role of the Executive Directors is to deal with the day-to-day running of the Society, while Non-Executive Directors, who are from a range of different specialist areas, bring an outside perspective to the management of the Society and also represent the views of the Membership.

At the 2020 Annual General Meeting (AGM) the following Directors will stand for re-election. Your Board strongly endorses the appointment of these individuals and recommends you vote in their favour at the AGM. Each Board member has their own skills, attributes and experience and the Board as a whole has the requisite balance of complementary skills and experience needed to direct and manage the affairs of the Society.



COLIN FIELD

Chief Executive Officer

Colin joined the Society in 2013. He was promoted to the role of Chief Executive Officer in September 2015 having previously been the Society Chief Financial Officer. He was appointed to the Board in May 2014, having joined Saffron as Group Financial Controller. Prior to joining Saffron, Colin has held a number of senior finance positions with Barclays, Caudwell Group and Willis Group having previously qualified with PwC. Colin is a Chartered Accountant (FCA) and lives in North Essex.



JENNY ASHMORE*

Non-Executive Director

Jenny is a marketing and commercial leader with over 25 years' experience spanning consumer goods, media and oil/utilities. Jenny studied Chemistry and later an MBA, leading to an early career in sales and marketing with British Gas and Shell Oil. She has served as a senior Commercial Leader and Chief Marketing Officer in Procter & Gamble, Mars, Yell Group and SSE.

She now consults across business and charitable sectors with a focus on marketing strategy, innovative propositions and the implications of digital marketing on sales, products and customer service. She also holds a breadth of Non-Executive roles including Non-Executive Director of Commonwealth Games England

Jenny joined the Board in 2015 and Chairs the Remuneration and Loans Committee.- She is a member of the Risk Committee and Audit Committee.

*Married name Zaremba



NICK TREBLE

Non-Executive Director

Nick has over 35 years' experience in financial services, working primarily in the areas of treasury, capital markets, risk management, retail and commercial banking. Most recently he was CEO of AIB Group (UK) plc (2009 to 2012), a retail and commercial bank operating in Great Britain as Allied Irish Bank GB and in Northern Ireland as First Trust Bank. Previously he was AIB plc Group Chief Risk Officer (2008) and Group Treasurer (2001 to 2008). From 1982 to 2001 he held a number of technical and managerial roles in treasury, asset and liability management, funding and trading for AIB plc. Nick retired from AIB in December 2012.

Nick is a Non-Executive Director of Bank Leumi (UK) plc, of Eskmuir Property Group and a Trustee for a major family settlement.

Nick joined the Board in March 2014 and was appointed Vice Chairman in May 2016. He chairs the Risk Committee and is a member of the Audit Committee and the Nominations Committee. He is a Member of the Association of Corporate Treasurers. He is Chair designate and will become Chair following Geoff Dunn's retirement in April 2020.





NEIL HOLDEN

Non-Executive Director

Neil is a Chartered Accountant with 30 years' experience in financial services. After qualifying with Thomson McLintock & Co (now KPMG) he held a number of executive roles in financial services mainly in financial control and risk management with JP Morgan, Hambros Bank, Westdeutsche Landesbank and Standard Bank Group. After leaving Standard Bank in 2006 Neil set up his own risk and governance advisory business consisting of non-executive directorships and advisory work for other clients. Neil is a non-executive director of IntegraFin Holdings plc, Stanbic International Insurance Limited, Sberbank CIB (UK) Limited, and AlbaCo Limited and chairs various Board Committees in these companies. Neil chairs the Audit Committee and the Nominations Committee. He is a member of the Risk Committee and Remuneration and Loans Committee.

Neil joined the Board in March 2014 and was appointed Senior Independent Director in March 2016.



GARY BARR

Non-Executive Director

Gary is an IT leader with over 25 years' experience in industry including retail, manufacturing, health and services. As IT Director at the National Blood Service (NBS) he led the successful implementation of the award winning Pulse programme which created a single system for managing the blood supply in England, from donor to hospital. After leaving the NBS he joined Welcome Break, the Motorway Services provider, completely refreshing and replacing the business systems. He then went on to lead the IT team at Sodexo UK & Ireland running a variety of systems over 2,000 sites. He started to work for WM Morrisons in 2006, as IT Director where he was key to the launching and leading of the Evolve programme, one of Europe's largest retail IT transformations. After leaving WM Morrisons he joined Dixons Group the electrical retailer as Group IT Director. In 2014 he decided that after 25 years in operational IT management it was time for a change and is pursuing a consulting and a non-executive career. He was a Governor at Bedfordshire University and the Lantern School Ely, and is a Director of Cambridge Rugby Union Football Club.

Gary joined the board in 2014 and sits on the Remuneration and Loans Committee, the Audit Committee and Risk Committee.



SUMMARY DIRECTORS' REPORT

This financial statement is a summary of information contained in the audited Annual Accounts, the Directors' Report and the Annual Business Statement for the year ended 31 December 2019, all of which will be available to Members and depositors free of charge on demand at every office of Saffron Building Society from 26 March 2020 and on the internet at www.saffronbs.co.uk

Approved by the Board of Directors on 4 March 2020 and signed on its behalf by:



GR Dunn (Chairman)



N J Holden (Director)



CH Field (Chief Executive Officer)

Business review

The Society business objectives and activities are outlined in the Chairman's Statement and Chief Executive's Report.

Results for the year

A commentary of the results for the year is included in the Chief Executive's Report.

Profit after tax

Group profit after tax was £2,518k.

Capital

Group gross capital at 31 December 2019 was £63.9million (2018: restated £60.9million) being 6.6% of total shares and borrowings (2018: 6.4%). Free capital at the same date was £50.4million (2018: restated £45.6million) and 5.2% of total shares and borrowings (2018: restated 4.8%).

Mortgage arrears

At Group level at 31 December 2019 there were 6 properties (2018: 6) where payments were 12 months or more in arrears. At 31 December 2019, the Group held 4 properties (2018: 11) in possession.

Charitable and political donations

During the year the Society made donations totalling £16,000 (2018: £20,384) in support of charities and organisations. No contributions were made for political purposes (2018: nil).

Financial risk management objectives and policies

In executing the Group's strategy and in undertaking its routine business and activities, the Group is exposed to a range of risks. The primary goal of risk management is to ensure that the outcome of risk-taking activity is consistent with the Society's strategies and risk appetite and appropriate for the level and type of risks that it takes paying regard to regulatory guidance. It ensures that there is an

appropriate balance between risk and reward in order to optimise Member returns and, when issues arise they are managed for the best outcome of the Society and its Members.

Risk management framework

The Society's Enterprise-wide Risk Management Framework (ERMF) provides the foundation for achieving these goals through:

- articulating the Society's risk management practices and procedures;
- documenting a consistent framework for risk management across the Society;
- establishing minimum standards around key risk management framework issues;
- articulating the Society's risk strategy and enterprise wide risk appetite; and
- directing the approach to risk governance throughout the Society.

The ERMF sets out the Society's method of managing risk and is supported by policies and procedures to embed the principles into the business.

The "Three lines of defence" model

The Society adopts a "three lines of defence" model to enable it to separate risk management activities between:

- those that own and take risk and implement controls (1st line);
- those that oversee, monitor and challenge the first line (2nd line); and
- the audit functions which provide fully independent assurance (3rd line).

Risk governance

The oversight and direction of the Board is central to the Society's risk management framework. The Board exercises governance over risk through a series of Board committees and management structures. Each of the Board committees includes at least two Non-Executive

Directors (one of which chairs), with other committee members drawn from the Executive and appropriate members of senior management.

Risk appetite

The Board defines risk appetite as "the level of risk the Society is prepared to accept whilst pursuing its business strategy as a mutual society set up for the benefit of its Members, recognising a range of possible outcomes as the business plan is implemented". Risk appetite is reflected in qualitative measures set out in the Society's ERMF and in a series of quantitative measures that are reported to the Board at each meeting.

Risk appetite is formally reviewed at least annually but may be revised more frequently to reflect emerging risks, changes to the economic and market environment or for any other reasons considered appropriate.

Risk culture

The Board places significant emphasis on every level of the organisation having an awareness of risk and the importance of effective management of risk. Each department across the organisation is expected to take ownership for the identification and management of risks specific to their areas, with the Board and Management Committees, together with the three lines of defence model ensuring a strong risk culture is embedded throughout the organisation, set by the "tone from the top". As a mutual organisation, exemplary conduct is also expected from everyone in the organisation and conduct is taken into consideration when making decisions on remuneration across all levels of the organisation to ensure incentives do not drive poor customer outcomes.



Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results and also have the ability to threaten its business model, solvency or liquidity. The principal risks that arise from the Group's operations, and which are managed under the risk management framework are: credit; market; liquidity/funding; operational; IT security/cyber-crime; compliance; conduct; general business risks.

Future outlook and uncertainties

Regulatory developments

There are a number of significant future regulatory developments that can be expected to have a material impact on the Society's business model and operations if implemented.

Capital buffers

Under European Law, building societies are required to hold a minimum amount of capital to protect the Members' funds and remain solvent in the form of severe economic stresses. In addition to these minimum requirements, further buffers have been introduced to ensure that Members' interests are protected even in the most adverse scenarios. On 1 January 2019 the Capital Conservation buffer increased to its maximum level of 2.50% of risk-weighted assets. The countercyclical buffer (CCyB) remained at 1% of risk-weighted assets throughout 2019. The CCyB can be used by the financial regulators to adjust the resilience of the banking system to the changing scale of risks expected to be faced. As such it may be increased up to a

maximum of 2.5%. The CCyB is scheduled to be increased by 1.0% in December 2020 which would require the Society to hold additional capital of approximately £4million for regulatory purposes.

Basel III Reforms

In December 2017 the Bank for International Settlements' Basel Committee on Banking Supervision published its report "Basel III: Finalising Post-crisis reforms". The document sets out the Committee's finalisation of the Basel III framework. The revisions to the framework seek to restore credibility in the calculation of risk-weighted assets and improve the comparability of capital ratios. Revisions include changes to the standardised approach for credit risk, introducing a more granular approach to risk weights and are expected to take effect from 1 January 2022. Moving to the revised framework will require the Society to hold an additional £0.9million of capital for regulatory purposes.

Economic conditions

At the time of writing, the effect of the Coronavirus outbreak which is impacting countries across the globe is uncertain. The Society has plans in place to mitigate the operational impact of any further worsening of the outbreak, but the potential impact to the UK economy remains uncertain.

Whilst Brexit has been delivered in January 2020, the outcome of any trade agreements are uncertain. Although the core Society business is UK based, any change to our global trading relationships could have an impact on domestic markets, including the housing market. In addition there are a number of instruments held by the society which are linked to the market which are affected by market movements. The Society continues to monitor this situation.

Both of the core markets that the Society operates in (savings and mortgages) are highly competitive, as more competitors move into niche mortgage markets and pressure grows to attract savings inflow to refinance Bank of England funding, this is likely to place further pressure on the Society's net interest margin.

Notwithstanding the risks factors identified above, the improvement to the Society's capital position against the regulatory capital requirement means that the Society is in a position to grow mortgage and savings balances through 2020 and beyond.

Our people

Once a year the Board reviews employment policies and ensures that they are designed to provide fair and effective employment conditions and equal opportunities. The Whistleblowing policy is accessible to all staff and is regularly monitored. The Society retains its commitment to the development of its staff and the alignment of individual goals to the Society's aims. We would like to thank all our staff for the hard work and support they have given the Society over the last twelve months.

Business associates

We would like to thank our solicitors, auditor and professional advisors for their continued support during the year.

Directors

The following served as Directors of the Society during the year and up to the date of signing the accounts except where indicated:

Executive Directors

C H Field (Chief Executive Officer)
D L Garner (Chief Financial Officer) *

* Resigned as a Director 28 November 2019

Non-Executive Directors

G R Dunn (Chairman)*
N J Treble (Vice Chairman)
J Ashmore
T G Barr
N J Holden (Senior Independent Director)
E Kelly*

* G Dunn and E Kelly are due to retire at the 2020 AGM. Being eligible, all other directors here will stand for re-election.

Biographies of the Directors seeking election appear at pages 26 to 28. None of the Directors hold any shares in, or debentures of, any associated body of the Society.

Auditor

BDO LLP has audited the Group Accounts for 2019. A summary of the information contained in the audited and unqualified accounts* is published here.

The Society is recommending to Members at the forthcoming Annual General Meeting that BDO LLP be reappointed as auditors. A resolution to re-appoint BDO LLP as auditor to the Group will be proposed at the AGM.

Events since the year end

The Directors consider there has been no event since the end of the financial year which would have a material effect on the financial position of the Group as disclosed in the Annual Accounts.



SUMMARY STATEMENT OF FINANCIAL RESULTS

Results for the year	Restated (1a)	
	2019 (£000) Group	2018 (£000) Group
Net interest income	20,174	20,715
Other income and charges	(219)	(3,349)
Administrative expenses and depreciation and amortisation	(16,395)	(16,683)
Operation profit before impairment losses and provisions	3,560	683
Impairment losses on loans and advances	(334)	(139)
Provisions for liabilities	(136)	45
Operating profit	3,090	589
Loss on disposal of property, plant and equipment	(29)	-
Profit before tax	3,061	589
Tax	(543)	(386)
Profit for the financial year	2,518	203

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

Statement of comprehensive income

Profit for the financial year	2,518	203
Available for sale reserve		
- Valuation (losses)/gains taken to reserves	504	(124)
- Amount transferred to income statement	(386)	15
Net actuarial gain/(loss) recognised in the defined benefit pension scheme	394	(19)
Unrealised gain on revaluation of property, plant and equipment	388	-
Tax relating to components of other comprehensive income	(37)	(49)
Total comprehensive income for the period	3,381	26

Financial position at the end of the year	Restated (1a)		Restated (1a)
	31 Dec 2019 (£000) Group	31 Dec 2018 (£000) Group	1 Jan 2018 (£000) Group

Assets

Liquid Assets	225,160	152,490	154,512
Loans and advances to customers	828,741	859,943	837,064
Fixed assets and other assets	16,288	21,660	24,550
Total assets	1,070,189	1,034,093	1,016,126

Assets

Shares	813,214	784,034	802,289
Borrowings	161,397	162,619	121,539
Other liabilities	30,780	26,021	30,906
Subordinated liabilities	10,268	10,270	10,268
Reserves	54,530	51,149	51,124
Total liabilities	1,070,189	1,034,093	1,016,126

Summary of key financial ratios

	2019 %	2018 %
	Group	Group
Gross capital as a percentage of shares and borrowings (Note 1b)	6.6	6.4
Liquid assets as a percentage of shares and borrowings (Note 2)	23.1	16.1
Profit for the year as percentage of mean total assets (Note 3)	0.24	0.02
Management expenses as a percentage of mean total assets (Note 4)	1.57	1.63



SUMMARY STATEMENT OF FINANCIAL RESULTS

Notes

- 1a. The Group identified a misstatement that resulted in a prior period adjustment:
The Group recognises mortgage income for loans and advances to customers held at amortised cost on an effective interest rate basis. The effective interest rate includes the related fees and commissions received and paid, in accordance with the requirements of IAS 39 Financial Instruments. During the 2018 year end process we identified an error in the model that we had used for a number of years to calculate Effective Interest Rates (EIR). This necessitated a restatement of the 2017 accounts within the 2018 report and accounts.
- During the current year, it was identified that the curve profiling model, which is used to determine the length which a loan is expected to remain with the Society for EIR modelling was including a number of loans which were not subject to EIR calculations. It was not appropriate to include these loans.
- Also within the profiling, 12 year historical data was used to generate an average run off period. When compared to more recent performance by annual cohort, this was determined to be inaccurate. Had the profiling been conducted by annual cohort in prior periods, management would have assumed a materially shorter run off period.
- This adjustment now accurately reflects the asset position at 1 January 2018 with the necessary adjustment made to the income statement in respect of the EIR mortgage interest income and the associated impact on tax.
- 1b. The gross capital ratio measures the proportion that capital bears to shares and borrowings. Gross capital constitutes the reserves and subordinated liabilities shown in the Statement of Financial Position and includes the profits accumulated since the Society's formation. Capital provides a financial cushion against possible adverse market conditions in the future and therefore protects Members.
2. The liquid assets ratio measures the proportion of the Group's shares and borrowings which are held in the form of cash, short term deposits and securities which can be readily converted into cash. Liquid assets are maintained at a level which enables the Group to meet requests from Members for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.
3. This ratio measures the proportion which profit after taxation for the year bears to the average balance of the total assets for the year. The ratio is similar to a Group's return on assets. The Group needs to make a reasonable profit each year in order to maintain its capital ratios at a suitable level to protect Members.
4. The ratio of management expenses as a percentage of average total assets measure the proportion which administrative expenses (including depreciation and amortisation) bear to the average balance of total assets during the year.

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS AND DEPOSITORS OF SAFFRON BUILDING SOCIETY

Opinion

We have examined the summary statement of financial results of Saffron Building Society ('the Society') for the year ended 31 December 2019 which comprises the Results for the year, the Statement of Comprehensive Income and Financial Position at the end of the year, together with the summary Directors' report.

On the basis of the work performed, as described below, in our opinion the summary statement of financial results is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2019 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Basis for Opinion

Our examination of the summary statement of financial results consisted primarily of:

- Agreeing the amounts and disclosures included in the summary statement of financial results to the corresponding items within the full annual accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2019, including consideration of whether, in our opinion, the information in the summary statement of financial results has been summarised

in a manner which is not consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for that year;

- Checking that the format and content of the summary statement of financial results is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2019.

We also read the other information contained in the Annual Members' Review and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Our report on the Society's full annual accounts is unqualified and describes the basis of our opinions on those annual accounts, the Annual Business Statement and Directors' Report.



Directors' Responsibilities

The directors are responsible for preparing the summary statement of financial results within the Annual Members' Review, in accordance with applicable United Kingdom law.

Auditor's Responsibilities

Our responsibility is to report to you our opinion on the consistency of the summary statement of financial results within the Annual Members' Review with the full annual accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

The purpose of our work and to whom we owe our responsibilities

This auditor's statement is made solely to the Society's members, as a body, and to the Society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in such a statement 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 and the Society's depositors as a body, for our work, for this statement, or for the opinions we have formed.

**Ariel Grosberg (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
4 March 2020**

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).





Sally Cameron

Data Protection Officer

Sally is one of Saffron's longest serving employees with 40 years of service under her belt. During this time she has undertaken many roles and brings a wealth of experience to her working day as she supports the teams that serve the Society's customers.

She joined the Saffron team as an Office Junior straight from school in 1979 and in 2017 Sally became a qualified Business Continuity Planner and in 2018 went on to become Saffron's certified data protection officer. Sally now works on supporting the Data Protection & GDPR activities within the Society and works with all teams in ensuring business continuity remains uninterrupted.

Sally reflects: "Throughout my career, some things at Saffron have changed dramatically whilst other aspects have stayed much the same. With regard to changes - I've been constantly encouraged to learn and progress within the organisation and to refresh my skills set. The thought of taking exams recently was daunting. I've now gained fresh and relevant skills, all of which have taken me into emerging and progressive areas of the business."

“

What has remained constant over the last 4 decades has been Saffron's primary goal – putting the customer first and serving them in the best way possible. Increased regulation has changed the way we do this but the ethos has remained the same.

”



SUMMARY DIRECTORS' REMUNERATION REPORT (UNAUDITED)

This report is a summary version of the Directors' Remuneration Report for the year ended 31 December 2019. It is published with the aim of giving Members an insight into how decisions around Directors' remuneration are taken. A resolution will be put forward at the Annual General Meeting inviting Members to vote on the Report. The vote is advisory and the Board will take into account Members' view in determining future policy.

Remuneration and Loans Committee

The Board has an established Remuneration and Loans Committee which comprises all the Non-Executive Directors. The Committee is chaired by Jenny Ashmore (Non-Executive Director) and is responsible for:

- Recommending to the Board the Society's remuneration policy;
- Remuneration packages for the Executive Directors;
- Approving loans to directors or connected persons;
- Ensuring compliance with the Regulator's Remuneration Code and having regard to the UK Corporate Governance Code;
- Reviewing at least annually, the Remuneration Policy Statement (which outlines the Society's remuneration approach) to ensure clarity and appropriate risk assessment.

In reaching remuneration decisions the Committee reviews and takes into account benchmark data from the Building Societies Association remuneration survey. The Committee may from time to time review Society wide remuneration principles (other than those directly affecting Executive Directors) providing appropriate oversight to

the Executive Team. Executive Directors are not involved in deciding their own levels of remuneration.

General remuneration principles

The principal aim of our Remuneration policy is to ensure the remuneration of our people is fair, reflects individual performance and competence and is competitive within the local financial services market. Our principles aim to attract, motivate, reward and retain people with appropriate skills and behavioural competencies, as well as promote and encourage the right behaviours to align with the Society's conduct, culture and risk management practices, avoiding incentives which could encourage inappropriate risk taking and detriment to our members.

Most elements of remuneration are reviewed annually and take into account market conditions, local employment competition and Society financial performance. We use external market data to determine appropriate pay levels and our intention is to remunerate at median level which is the wage 'in the middle'. Our last external market review was carried out in January 2018. We meet the statutory National Minimum Wage and the voluntary Real Living Wage requirements.

Executive Directors' remuneration

Executive Directors' remuneration must fairly reflect responsibilities, expertise, experience and performance whilst being competitive enough to attract, motivate, reward and retain high quality Executive Directors. The Society continues to operate in a competitive environment, from a sector as well as a geographical perspective. Performance at a high level is expected, with rewards directly linked to appropriate risk management, financial performance, quality customer service and individual excellence. Executive Directors are designated as "Code Staff" under the Regulator's Remuneration Code due to their material impact on the Society's risk profile.

The remuneration package for Executive Directors is made up of the following components:

Component	Level	Basis
Basic salary	Salary level decisions are recommended to the Remuneration and Loans Committee	Based on job content, responsibilities and remuneration levels for similar positions in financial services
Pension	Pension contribution is 13.5% of basic salary paid monthly into a group personal pension plan unless otherwise requested to be payable as a cash alternative. For new Executives and Executive Directors from 1 December 2018 the employer contribution is 8.5% of basic salary.	None of the Executive Directors are members of the (closed) final salary scheme.
Bonus	Reward in the form of a bonus payment is linked to appropriate risk management, financial performance, capital management, quality customer service, operational fitness and people engagement. Organisational measures are reviewed by the Remuneration and Loans Committee each year. For the 2019 performance year, 40% of bonus earned will be deferred over 3 years, payable in 2021, 2022 and 2023.	Earned on an annual basis and is determined by a combination of organisational and individual performance.
Other benefits	Cash allowance (in lieu of a lease vehicle) of 10% of basic salary paid monthly through payroll. Income protection, death in service, private medical insurance and enhanced annual leave	Considered typical for the Sector



Remuneration decisions in 2019

Pay awards, if made, generally apply from 1 April each year. In respect of the period commencing 1 April 2019, the annual pay review process itself saw basic salaries for all Executives held at current level as recommended by the Chief Executive Officer and agreed by the Board. As no bonus was earned in the 2018 performance year there were no payments made to Executive Directors in 2019. The Executive Directors also elected to further defer payments due to them in 2019 which were earned in prior years.

There were no other changes to the other benefits or pension contributions for Executive Directors in 2019. From 1 December 2018 in accordance with the remuneration guidance set out in the UK Corporate Governance Code, the employer pension contribution for new Executive Directors (and other new Executives) was reduced to 8.5% per annum in line with other staff.

The Chief Executive Officer updated all colleagues on the decisions around pay and bonus for 2019 including outcomes for the Executive Directors.

Service contracts

All Executive Directors are employed on a permanent service contract. As at 31 December 2019, Colin Field had a service contract with the Society which could be terminated by either party giving six months' notice.

Non-Executive Directors are appointed by letter for a three year period and are generally expected to serve a second three year term. Appointment can be extended for a further three years if taking on a significant new role, for example Chairman or Vice Chairman.

Non-Executive Directors' fees

The Chief Executive Officer and Chairman review the level of fees paid to Non-Executive Directors each year. They take into account data on fees paid in similar positions in the mutual financial services sector as well as time commitments and levels of responsibility. Recommendations are made by the Chief Executive Officer to the full board for approval. In 2019 there was no increase to Non-Executive Directors' fees. There are no bonus schemes or other benefits for Non-Executive Directors and they are not entitled to any pension from the Group.

Analysis of Directors' emoluments:					2019	2018
	Salary/fees	Bonus paid (1)	Other benefits	Pension/Pension allowance	(£000)	(£000)
Executive						
C H Field	175	-	18	24	217	236
S A Howe*	-	-	-	-	-	217
D L Garner**	183	15	23	20	241	203
	358	15	41	44	458	656
Non-Executive						
G R Dunn	53	-	-	-	53	52
T G Barr	33	-	-	-	33	32
N J Treble	43	-	-	-	43	42
N J Holden	43	-	-	-	43	42
J A Ashmore	33	-	-	-	33	32
E Kelly	33	-	-	-	33	32
	238	-	-	-	238	232
Total 2019	596	15	41	44	696	-
Total 2018	722	49	52	65	-	888

Notes:

1) The bonus arrangements for Executive Directors are explained in full in the Directors' Remuneration Report.

*Mrs Howe resigned as a Director on 19 November 2018 and left the Society on 31 December 2018.

**Mr Garner resigned as a Director on 28 November 2019.





Karen Mepham

Senior Mortgage Underwriter

Celebrating our 170th anniversary in 2019 got Karen thinking on a personal level too; in 2019 Karen celebrated 35 years working for the society so has her own milestone to reflect upon. Questions that have sprung to mind for Karen are: How have building societies changed; what is their future and why has she stayed with Saffron for so long?

Karen comments “Saffron Building Society, where I have spent most of my working life, is based in the Essex market town of Saffron Walden having been established in 1849 by the Reverend John Marten. Interestingly he was Minister of the Hill Street Baptist Church and Manager of the local gas company as well as the Society’s founder. From these humble beginnings Saffron has successfully grown to manage assets of over £1 billion through its intermediary and direct operations”.

Karen adds “Saffron has always maintained a personal touch – looking at the individual in detail and finding a mortgage that meets their needs is what we’ve always been about. From a job satisfaction perspective it gives us great pleasure to meet a customer, find out more about them and work together as they look to purchase their dream home”.

“

Our ability to keep that personal touch whilst introducing modern technology to support customer service, combined with innovative, competitive products will bring the sector ongoing success – I look forward to being part of that journey.

”





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