Saffron Building Society

ANNUAL REPORT AND ACCOUNTS 2016

Always there for our Members. Since 1849

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2016 HIGHLIGHTS

The Society's strategy is to deliver long-term value to its Members, strengthening its capital through sustainable financial performance and effective risk management.

PROFIT AFTER TAX

£3.3M
2015

£1.3M
2016

GROSS MORTGAGE LENDING

£127M
2015

£170M
2016

ARREARS RATIO

1.60%
2015

1.53%
2016

TOTAL ASSETS

£1,133M
2015

£1,115M
2016

GROUP RESERVES

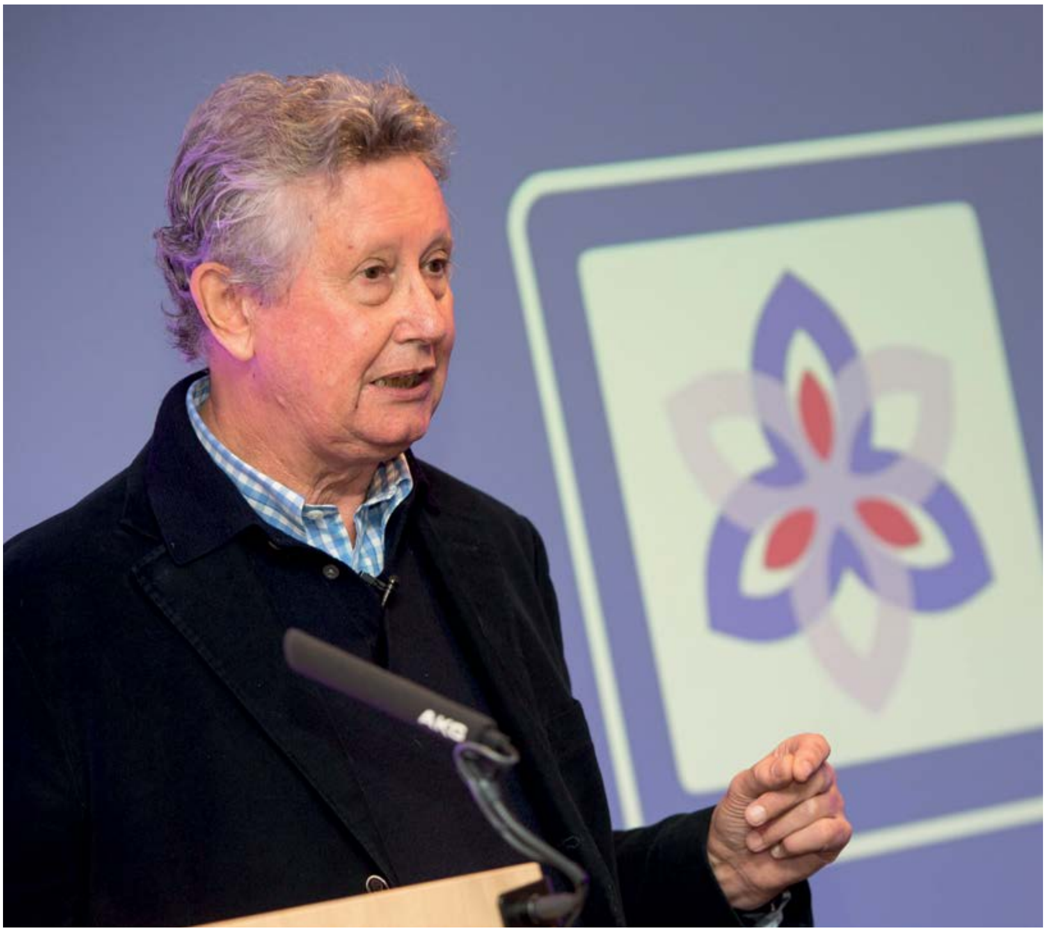
£51.3M
2015

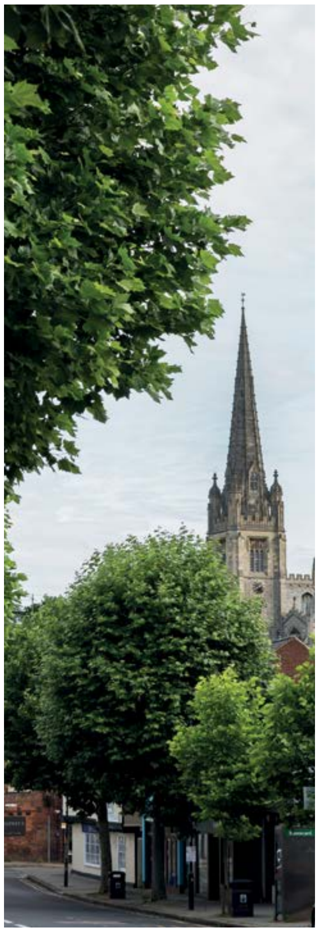
£52.4M
2016

CUSTOMER SATISFACTION FOR 2016

92.9%
Society Overall

99.2%
Branch Satisfaction





CHAIRMAN'S STATEMENT

Geoffrey Dunn

Proud of the Society's progress in 2016

After all the external political and economic shocks of last year, I thought that I would leave others to tell you what is going to happen to the world in 2017, as I am as confused as most people…!

It may not be obvious to you why I think this was such a good year for the Society. After all, this was not the biggest year the Society has had in terms of new mortgage lending, but it was nonetheless pretty impressive, particularly when you learn about the internal developments achieved and which I will explain below. Moreover, there were other external factors which constrained the growth in new lending, not least the uncertainties caused by the EU referendum process and the tax changes announced that impacted buy to let landlords.

Nor was it our most profitable year. But, as we explain in the Strategic Report, after adjusting for a number of one-off items occurring in both years, the underlying business result for 2016 was almost identical to that for 2015, so it was still a decent business result.

But, let me take you back to just over a year ago, September 2015, when inflation was low, the pound was strong, the UK economy was one of the strongest in the G7 and Brexit was a distant glimmer in somebody's eye…

Colin had just assumed his new role as Chief Executive. Darren had just been appointed as his successor, as Chief Financial Officer. Clive had also just joined as our new permanent Chief Risk Officer.

So, half the senior executive team were in completely new roles, albeit supported by three existing members: Sarah (Executive Director responsible for members and customers), Richard (Operations Director) and Antony (IT Director).

Notwithstanding being such a new team, in its first full year together, they have delivered massive progress in so many important areas of your Society, including a step-change in the IT and digital capability of the Society. This project, known internally as Nexus, was incredibly time-consuming and required immense levels of energy, diligence, perseverance, tenacity and sheer determination. At some point or other, every single employee of the Society has

"A year of political and economic uncertainty; a year of progress and change for Saffron."

Geoffrey Dunn, Chairman

been involved and contributed towards the successful outcome, which we anticipate will have concluded about the time of the AGM. With such a large, critical project, there are often extended periods of complete "lock-down" where there can be no change to processes or products. So, to have achieved £170m of new lending was truly impressive. This multi-year project was testing at every turn and the whole Board is proud of the achievement of not only the leadership team but also of every single member of the Saffron staff. It was a great performance. Thank you.

I look forward to being able to update you at the AGM, with further news of our progress.

At the same time, the leadership has conducted in-depth reviews and achieved resolution of a number of important outstanding legacy issues. Most of those legacy problems arose many years ago, long before any member of the current Board had joined the Society. Exploring, analysing, diagnosing and then fixing such issues is often an unglamorous, unrewarding slog, but it is also a slog that must be completed to ensure that the Society can move forward with confidence on a stable footing.

None of this is headline grabbing news, but the Board believes that today every member of the Society can be more confident that your Society is more soundly based, with better controls and appropriate risk mitigation methods.

Looking ahead, I cannot ever remember thinking that the economic and political outlook for the next few years looked so uncertain. I believe that the executive team will continue to refine the costs and structure of the Society to ensure it is fit to meet the current and future needs of its members. This means that the Board needs to be vigilant and robust in ensuring that we continue to challenge but also support the executive team, to ensure that they continue to deliver the right products, with the right service quality, at the right price, to all of our members.

On behalf of the whole Board, I thank every member of our staff for their fantastic performance in 2016.

Geoffrey Dunn, Chairman


Saffron Team Muddy Obstacle Challenge for the Community Fund

CHIEF EXECUTIVE'S REPORT

Colin Field

History will probably judge 2016 as being a year of surprise and change, whether the reference point taken is political, economic or even sporting. However, those of you who have read through our annual report and accounts over recent years will have identified a consistent trend of interest rates continuing to fall even further, exacerbated by the reduction in the Bank of England base rate in August, following the referendum result to leave the EU.

For those seeking to obtain a re-mortgage deal, the low rates have allowed people to obtain lower mortgage rates than at any point in living memory. Whilst being a benefit for some, for those wishing to buy a house for the first time, or for those wishing to take the next step on the housing ladder, this benefit has often been offset by the increases in house prices experienced in recent years.

The low interest rate environment reduced our income by £2m as reductions in mortgage rates were not fully passed on as reductions to our savings rates.

Profit was also impacted by a significant charge to impairment that we have taken in the year. Whilst our underlying impairment performance remains strong, the Society continues to address historical issues within our lending book – one of the legacy issues identified by the Chairman in his report. During 2016, the Society instructed professional revaluations of properties that had been in possession and/or managed by an LPA Receiver of Rents for many years. The result of this revaluation exercise combined with a depressed outlook for property value appreciation following the EU referendum outcome has led us to recognise an impairment charge for 2016 of £2.1m. It is our strategy to dispose of this portfolio over the next three years whilst obtaining the best value possible for our Members to mitigate further potential losses.

On a more positive note, I am pleased to be able to report that controllable expenses fell £1.2m year on year to £14m, the result of savings driven from our IT investments, but also reflecting the Society wide focus on reducing costs.

Whilst the headline movement on profit before tax is significant, the underlying performance of the Society is similar to 2015 and I would like to draw your attention to the analysis in the Strategic Report on page 8 that explains this in detail.

Financial performance is only one measure of how the Society has performed in the year. Our ultimate purpose is to provide great service to our Members and ultimately increase the number of people that we can help as a Society. I am proud to be able to tell you that we continue to excel in this area, with both customer satisfaction and Net Promoter Score measures being maintained at a high level.

The Society has remained highly active in both Mortgage and Savings markets. We were also delighted to receive the award of Best Childrens Saving provider by Moneynet.co.uk and a "highly commended" from Savings Champion.

The Board took the decision to close all independent offline agencies in August 2016. The topic of how much longer the Society should continue to support a loss making service through our Agency partners had been debated at length over many years. In 2016 the increasing regulatory requirement for the Society to have greater supervisory oversight of independent agencies offering our services has made it uneconomic to proceed with the current model. I appreciate that this decision will have impacted a number of you and for those impacted it will not help me saying that the decision was not taken lightly. It is however important that we consider how to best serve our Membership as a whole both now and in the future.

We have continued to invest in our core banking and servicing platforms – a programme of work that I had hoped would be fully completed in 2016. There is still one phase to accomplish, which is now scheduled to complete in April. Once finished, this will enable servicing for all of our accounts in branch, on the telephone and online.

We have also continued to develop our people. This year we launched a direct recruitment approach that has been hugely successful in identifying, on-boarding and embedding new colleagues whilst also reducing recruitment spend. We have also continued to support the professional development of staff, with 22 staff receiving educational accreditations.

I maintain the firm belief that it is the quality of our people that makes the difference for our Members; it is the ongoing development of our people that will help them to develop their careers and allow us to continue to be successful in the future. Already we are seeing the benefit of this investment, with 29 staff taking up internal career opportunities in the year.

Looking forward

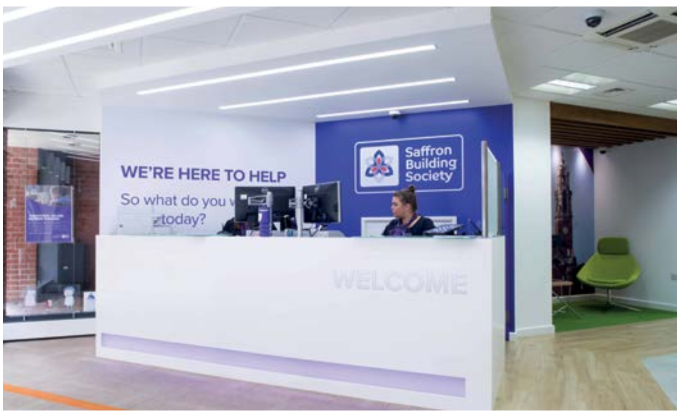
For 2017, it is difficult to predict which direction the economy will turn. Though high level growth forecasts have recently been revised upwards, the consensus view is that inflation is likely to rise, due to the fall in the value of sterling. Manufacturers and retailers have so far absorbed the increases that they have seen to their cost base, but this is unlikely to hold for much longer. As prices start to rise, this will place a greater burden on individuals and families that have not seen their real incomes rise for some considerable time.

Further afield, in Europe, the political and economic environment is also uncertain. 2017 will see Germany, France and Spain go to the polls – whilst on the other side of the Atlantic, the Trump administration has already announced a number of significant changes to US policy.

In the face of continued uncertainty, the strategy for the Society remains clear. For our Mortgage business, we will continue to focus our competitive advantage of individual underwriting and personal service by our experienced staff, to help those people underserved by mainstream lenders. For our savers, we will continue to provide a safe home for their money. Whilst our core strategy is substantially unchanged, we will be seeking to enhance our service, making it even more customer focussed and more efficient, as we embed the benefits that our new IT platform delivers.

What will not change will be our focus on our Members and also on our people and I would like to thank all of our Members and staff for your continued support.

Colin Field, Chief Executive



STRATEGIC REPORT

The Group's business and strategy

The Society's business model remains as straightforward today as it was when first founded in 1849: to provide loans that are secured on residential property funded principally by Members' savings and deposits.

Being a mutual means we put our Members first and we strongly believe in rewarding loyalty through existing customer only interest rates and Members' only products.

Our wide range of savings products include instant access, fixed-term, tax-free and regular savings as well as accounts designed especially for children's savings. Our 'Everyday Situations' range includes a choice of competitive mortgages that are ideal for customers buying a home, wanting to get onto the property ladder or seeking a mortgage for a buy-to-let property. Our 'Special Situations' range can accommodate customers requiring something out of the ordinary: contractors or self-employed, young professionals, those renovating a property or an unusual property type. Whatever the situation, Saffron will take into account individual circumstances, apply common sense and provide a personal, reliable service. Working with our selected partners, we are able to offer financial advice, will writing, annuities, funeral planning, estate planning, inheritance tax planning and financial products.

The Society's vision is to be a strong and growing regionally-focused Building Society. With total assets of £1,115million your Society is amongst the top fifteen of the largest building societies in the UK. It continues to operate from its head office in Saffron Walden, Essex and Customer Service Centre in Little Chesterford together with eleven branches across three counties and one agency. The Society's strategy is to deliver long-term value to its Members, strengthening its capital through sustainable financial performance and effective risk-management.

The core systems and infrastructure of the Society are critical to providing long-term value to members and the Society has invested heavily in upgrading its core mortgage and savings systems and strengthening the resilience of our Information Technology to the ever-present threat from cyber-attack that all businesses face today. These investments are treated as immediate deductions to regulatory capital and therefore impact on reported capital ratios.

Economic environment

The UK Economy has showed some signs of recovery and has grown at a respectable rate over the course of 2016. However, uncertainty returned in the second half of 2016 following the outcome of the EU referendum vote with a slowdown in economic growth widely expected over the short term.

It is too early to state how the EU Referendum will impact on economic growth in the longer term. The decline in sterling will help UK exports whilst potentially contributing to inflationary pressures. The housing market has demonstrated resilience through recent economic uncertainty. Any reduction in demand for housing caused by subdued economic activity will likely be offset by the continuing low-interest rate environment and limited supply of housing stock.

Competition for mortgages has seen average mortgage rates fall to new lows in 2016; conversely conditions remain difficult for savers.

Interest rates have remained at historic lows for a prolonged period, placing continued pressure on the Society's margins.

Key performance indicators

One of the Board's roles is to set the strategy for the Society. The Board manages the Society and oversees delivery of the agreed strategy using an extensive range of performance and control reports, including use of key performance indicators (KPIs).

	2016	2015
PROFITABILITY		
Profit after tax	**£1.3m**	£3.3m
Net interest margin	**1.77%**	1.83%
Management expenses ratio	**1.44%**	1.44%
BALANCE SHEET		
Gross Advances	**£170m**	£127m
Arrears ratio	**1.53%**	1.60%
Total Assets	**£1,115m**	£1,133m
CAPITAL		
CET1 ratio	**10.60%**	10.60%
Regulatory capital	**£52.3m**	£53.5m

These KPIs are covered elsewhere in the Strategic Report. The Board also receives comprehensive information from management and the management committees covering a whole range of measures to assist the Board in assessing: financial performance; delivery against strategic goals; and evidence the Society is operating within risk appetite. Other important qualitative targets considered by the Board include measures covering member satisfaction, staff engagement, conduct and culture.

Financial performance of the business

The Society prepares its financial results under Financial Reporting Standard (FRS) 102, "the Financial Reporting Standard applicable in the UK and Republic of Ireland" and elects to apply the measurement and recognition provisions of IAS39 "Financial instruments: Recognition and measurement (as adopted for use in the EU)".

IAS39 has a material effect on the accounting treatment of financial instruments and leads to greater volatility in the financial results of the Group as it requires certain instruments to be recorded at fair value.

The Chief Executive's report on pages 6 and 7 provides an overview of financial performance for the year and factors affecting the results and should be read alongside this section.

Profitability of the business

The underlying profitability of the business relies on:

- appropriate pricing of mortgage advances;
- vigilance in the underwriting processes to minimise losses;
- careful management of loan accounts to maintain the current low levels of delinquency;
- delivery of effective customer service;
- arranging appropriate funding sources to sustain the business; and
- maintaining control of operating and investment costs.

Profit after tax

Profits are the principal source of new capital available to the Society.

As a mutual, owned by its Members and without external shareholders, any profits are retained within the business contributing to capital strength and providing the platform for future investment in service improvements for Members.

	Group	
	2016 £m	2015 £m
Net interest income	**19.9**	21.4
Other income and charges	**(0.2)**	(0.2)
Administrative expenses	**(14.0)**	(15.3)
Depreciation and amortisation	**(2.2)**	(1.5)
Impairment losses	**(2.1)**	0.3
Other provisions	**(0.2)**	(0.6)
Profit before tax	**1.2**	4.1
Tax	**0.1**	(0.8)
Profit after tax	**1.3**	3.3

Profit after tax of £1.3million compares with £3.3million for 2015, following a significant impairment charge against the Society's Receiver of Rents loans and a charge in respect of items carried at fair value. In both 2015 and 2016 the Society has disposed of Treasury instruments as part of its liquidity and risk management objectives, in turn realising profit.

The statutory results include all these items. Adjusting for the volatility created by these items shows the underlying performance of the Society, which has been stable.

	Group	
	2016 £m	2015 £m
Profit before tax	**1.2**	4.1
Treasury investment gains	**(0.6)**	(1.1)
Impairment charges (releases)	**2.1**	(0.3)
Fair value adjustments	**0.3**	0.1
Profit before tax (adjusted)	**3.0**	2.8

More detailed explanation of financial performance is provided below.

Income

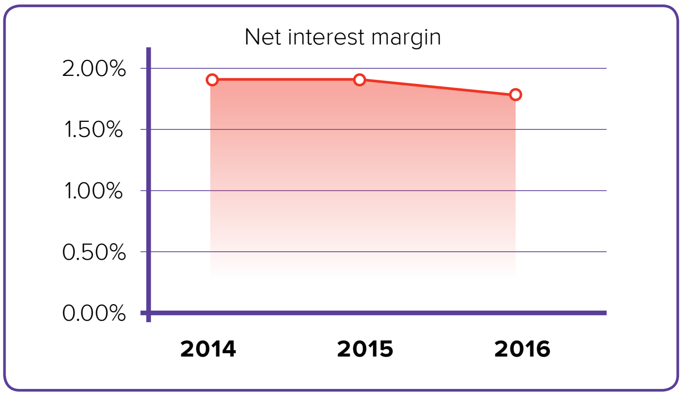
The Group's income is derived from interest, fees and similar charges arising from its investments in loans secured on residential property. It also earns interest on its liquidity portfolio and fees and other income from its third party, specialist, product operation.

Net interest income

Net interest income is the principal component of the Group's income and represents the difference between interest received from Members and the Group's liquidity portfolio and interest paid to Members or other stakeholders providing funding to the Group. The amounts of interest will vary according to both the volume of assets and liabilities and rates of interest that apply. Net interest margin represents net interest income divided by average assets for the year.

The objective is to optimise net interest margin so that we balance the requirement to offer attractive rates for savers and borrowers whilst ensuring sufficient profits are generated to support the Society's capital position.

The net interest margin for the year ended 31 December 2016 was 1.77% (2015: 1.83%).



Net interest margin fell as reduced yields from mortgage assets and liquidity were not fully recovered through lower retail funding costs as the Society sought to protect, as far as possible, our savings Members from the continued low interest rate environment.

STRATEGIC REPORT

Net interest income for the year ended 31 December 2016 of £19.9million compares with £21.4million in 2015 and includes the transfer of a £0.6million gain from reserves on disposal of treasury instruments (2015: £1.1million).

Other income

Fees

Fees receivable consist of certain mortgage-related income together with commissions from sales of insurance and financial planning products and property rental income. Fees payable include bank charges.

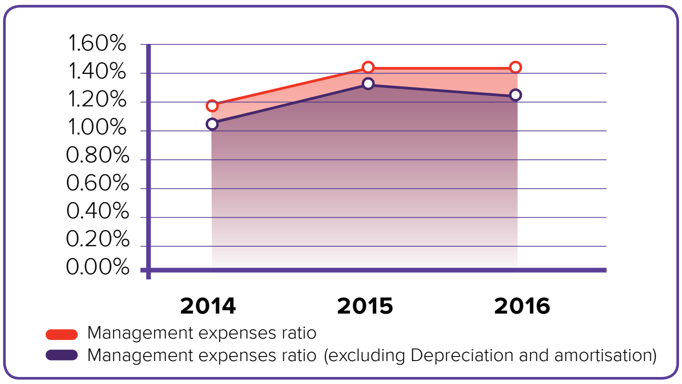
Derivative financial instruments (Derivatives)

Derivatives are used solely for risk management purposes and are an important tool for the Society in managing exposure to changes in interest rates arising from the Group's portfolio of fixed rate mortgages and savings products. Although entirely used for managing risk, not all derivatives are in qualifying hedge accounting relationships. The net expense of £0.5million (2015: expense of £0.1million), analysed below, reflects a combination of hedge ineffectiveness, together with the aggregate of changes in the fair value of derivatives not in qualifying hedge accounting relationships and changes in the fair value of certain assets and liabilities, principally arising from further reductions in long term interest rates and redemption activity in the Group's portfolio of equity release mortgages.

	Group	
	2016 £000s	2015 £000s
Net income/ (expense) from hedge accounting relationships	**(374)**	460
Derivatives not in qualifying hedge accounting relationships	**(6,541)**	1,869
Change in value of assets and liabilities	**6,381**	(2,432)
	(534)	(103)

Management expenses

The Group's management expense ratio expresses group administrative expenses and depreciation and amortisation charges as a percentage of average group assets.



The Board recognise that cost control is critical for the Society to remain competitive and it is a strategic objective of the Society to improve the efficiency of its operations, whilst also ensuring the necessary investment is made to best secure Members' long term interest.

In recent years the Society has made significant investment in technology, principally the transformation project referred to in both the Chairman's Statement and Chief Executive's Report on pages 4 to 7 but also costs necessary to increase IT resilience and to protect the Society from the ever-present risks from cyber-attacks that all businesses face today.

A large part of this technology investment was capitalised and reported on the balance sheet as an intangible asset. This is subsequently amortised through the income statement over a period of between four and seven years. In 2016 the depreciation and amortisation charge increased from £1.5million to almost £2.2million.

Combined with a reduction in overall balance sheet size the management expenses ratio has remained at 1.44% at 31 December 2016 (2015: 1.44%).

However, it is pleasing to report that administrative expenses excluding depreciation and amortisation were, at £14.0million, over £1.2million lower in 2016 than the previous financial year, largely driven by reduced IT costs as the Society starts to benefit from the investment made in prior years.

The measure of management expenses as a proportion of total income deteriorated to 82.2% (2015: 79.2%)

Charges for impairment and provisions

The Group is proud of the arrears performance of its residential mortgage assets, reflecting individual underwriting, clear lending policies and robust credit risk management practices.

The arrears ratios (number of loans >3 months in arrears) as a percentage of the total loan book has improved further to 1.53% at 31 December 2016 (2015: 1.60%)

The Group's overall impairment provisions totalled £2.1million, compared with a release of £0.3million the previous year.

	Group	
	2016 £000s	2015 £000s
Collective impairment charge (release)	**(233)**	(242)
Individual impairment charge (release)	**2,332**	(44)
	2,099	(286)

Growth in house prices coupled with a reduction in mortgage assets contributed to a lower collective provision requirement.

The Group is a Receiver of Rents on 29 properties (2015:35) representing capital balances of £9.0million (2015: £10.4million) and in respect of loans originated before 2009. This portfolio is actively managed and an independent reassessment of the value of the portfolio has resulted in a requirement to increase individual impairment charges by over £2.3million. Four properties were disposed of in the year and it remains the Board's intention to seek orderly disposal of the remaining properties over the next few years.

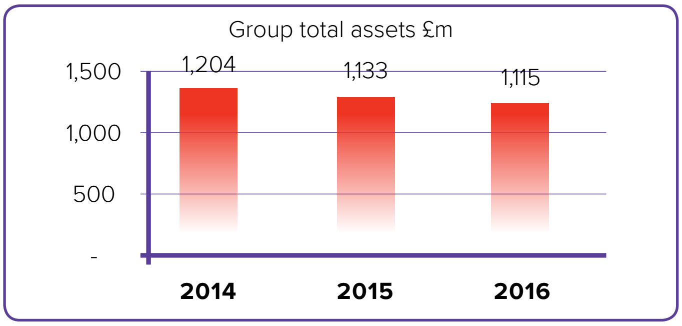
Other provisions

Other provisions comprise amounts set aside to cover obligations under the Financial Services Compensation Scheme (FSCS) Levy. In common with other regulated deposit takers, the Society pays levies to the FSCS to enable the FSCS to meet claims against it. In 2016 the Society was required to set aside a further £0.2million (2015: £0.6million)

Balance sheet

Generation of assets

The Group generates new assets principally through the origination of new mortgage loans secured on residential property. The balance sheet reduced in size to £1,115million at 31 December 2016, compared with £1,133million at 31 December 2015.



Liquid assets

The Group's liquid assets mostly comprise of assets reported on the balance sheet in the form of cash deposits, debt securities and other high quality liquid assets.

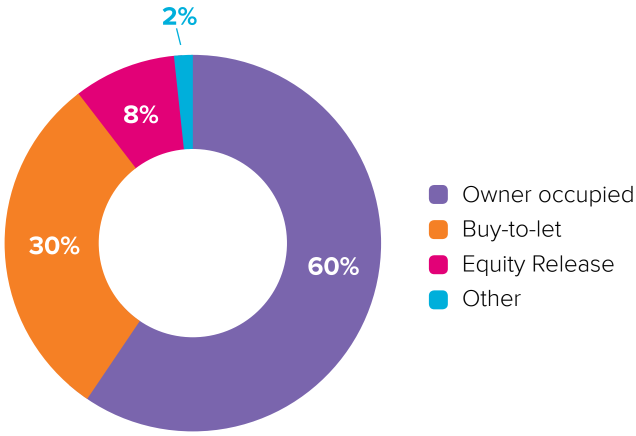
At 31 December 2016 the Group's portfolio of liquid assets comprised of the following:

	Group 2016 £m	Group 2015 £m
Bank of England	**90**	43
Other bank deposits	**31**	40
Non-UK Government debt	**16**	8
Supranational debt	**12**	81
UK Government debt	**62**	34
Bonds and Certificates of Deposit	**5**	27
Other	**11**	9
	227	242

At 31 December 2016 the ratio of liquid assets to shares and deposits stood at 22.4% (2015: 23.4%). A key measure of liquidity under CRD IV is the Liquidity Coverage Ratio (LCR). At 31 December 2016 the Group's LCR was 202%, comfortably above regulatory requirements.

Mortgages

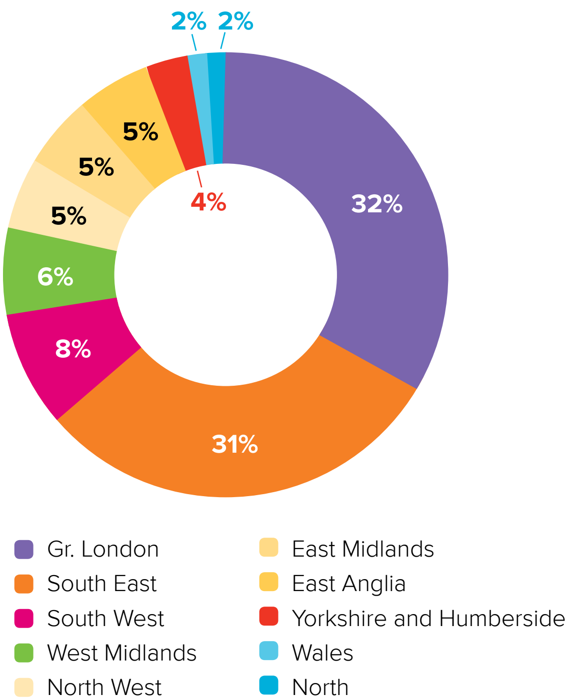
The Group's total portfolio of loans and advances mostly comprise of owner-occupied and buy-to-let mortgages. The Group also has a small portfolio of equity release mortgages and non-residential loans but is not looking to expand these portfolios.



The majority of the Group's lending is sourced from mortgage intermediaries but the Group is also able to directly advise customers when selecting a mortgage and expects this channel to increase in importance in the medium term.

Gross lending of £170million (2015: £127million) did not fully mitigate the impact of mortgage repayments, voluntary redemptions and other movements. As a result, total loans and advances to customers at 31 December 2016 was £862.8million, compared with £869.5million at 31 December 2015.

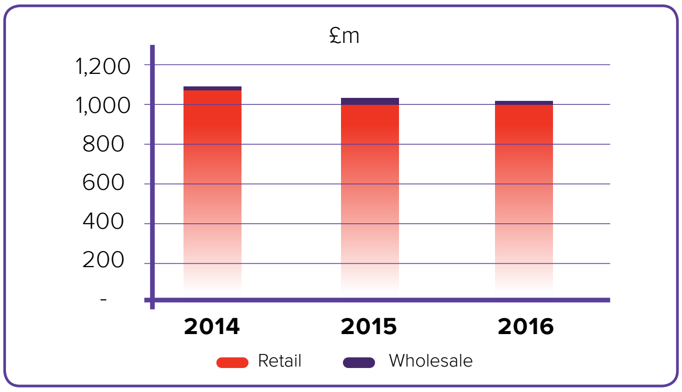
The Group lends throughout England and Wales, although its location in the South East of England leads to an intentional concentration towards London and the South East reflecting our regional heartland.



STRATEGIC REPORT

Funding the business
The Group's main source of funding is retail savings and deposits, supplemented, where appropriate, by corporate savings and deposits (for example, solicitors' client money) and limited use of wholesale facilities.

The Group's funding requirement is determined by a combination of mortgage demand, regulation and risk appetite. As well as holding the appropriate levels of liquidity at all times, it is important for the Group to have access to a diverse source of funding.



Retail funding
Members' deposits remain the most important and predominant source of funding for the Group. The Group strives to offer fair and competitive interest rates at all times, prioritising existing Members over new, but recognises it should not appear in the "best-buy" tables every week.

Over the last twelve months the average rate paid on our share accounts has been 1.22%.

Wholesale funding
In 2015 the Society was granted access to the Funding For Lending Scheme (FLS) providing access to an additional source of liquidity held with the Bank of England. The Society has made a drawdown from this facility in 2016 with significant additional funds still available to the Society.

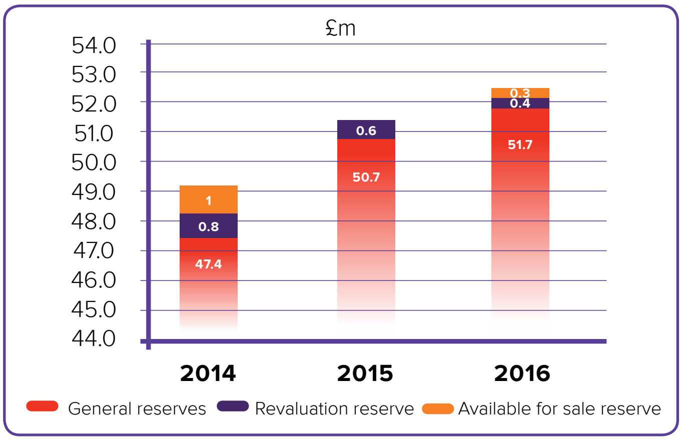
In August 2016 the Bank of England announced the Term Funding Scheme (TFS), which provides cash secured against eligible collateral and has a four year maturity. The Society has no current plans to participate in the TFS but keeps the position under regular review.

Capital
The Board's policy is to continue to grow the capital base to further strengthen the confidence Members and other stakeholders have in the Society as well as support future growth.

Capital consists of general reserves (accumulated profits and losses), the available for sale reserve plus collective provisions for impairment and the revaluation reserve in respect of the Society's freehold properties. The Society also has in issue subordinated liabilities that expire in December 2028.

Under CRD IV intangible assets are deducted from available capital.

As at 31 December 2016, total reserves (before CRD IV deductions) have increased from £51.3million to £52.4million, as shown in the graph below.



After regulatory deductions, the Group's regulatory capital decreased from £53.5million to £52.3million as profit for the year was more than offset by a £2.0million increase in intangible assets and the impact of the pension scheme moving from a £0.6million surplus to a £0.6million deficit position.

The Group's capital requirements are set and monitored by the Prudential Regulatory Authority (PRA) in the form of Internal Capital Guidance (ICG). All the Society's capital ratios remained in excess of regulatory requirements throughout the year. A measure of capital strength commonly reported amongst financial institutions is Common Equity Tier1 (CET1) ratio and, since it comprises group reserves, represents the strongest form of capital. Despite a reduction in available capital, the Society's CET1 ratio was maintained at 10.6% as a lower capital requirement resulting from the reduction in total assets offset the impact of the fall in available capital after regulatory deductions.

Gross capital (which includes Tier 2 capital such as subordinated liabilities) as a percentage of shares and borrowings, increased from 5.9% to 6.2%.

Further details on the capital position, including reconciliation to Group reserves, is provided in Note 28 to the Accounts.

The Society is also required to set out its capital position, risk exposures and risk assessment processes in its Pillar 3 disclosure document. This can be obtained from the Society's website or by writing to the Society Secretary at our Head Office.

Financial Risk Management Objectives and Policies

Risk management framework
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 maximise Member returns and, when issues arise they are managed for the best outcome of the Society and its Members.

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 via:

- Defining its Risk Appetite, which is the level of risk that Saffron is prepared to accept whilst pursuing its business strategy, recognising a range of possible outcomes as the business plan is implemented;
- Detailing the 3 Lines of Defence (3LoD) model and its operation within the Saffron Risk Management Framework;
- Determining the roles and responsibilities of the committees in place to govern risk;
- Identifying those roles responsible for the key risks and how the oversight operated together with the reporting structure to ensure independent oversight of risk decisions;
- Documenting the main risk management processes under its approach of Identify; Evaluate; Mitigate; Report; Manage and Challenge;
- Describing the key risks facing the Society and how they are managed; and
- Listing and explaining where the policies sit in the Saffron hierarchy and how they operate

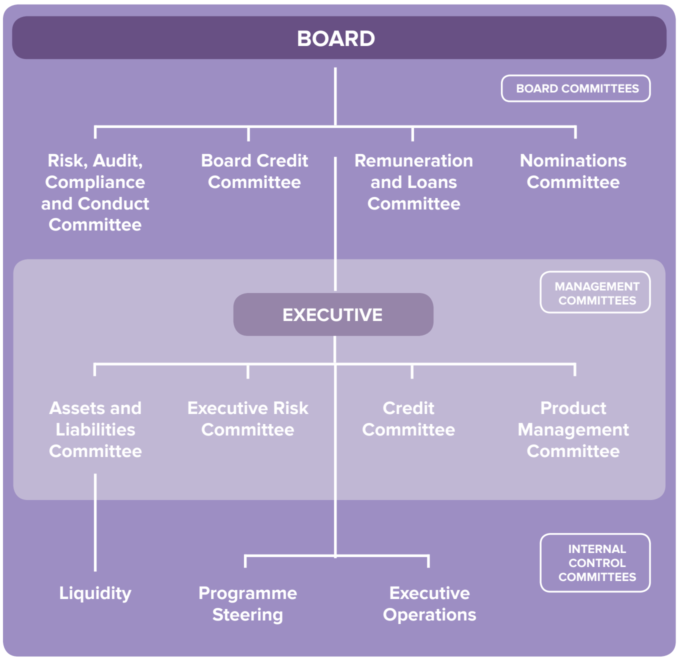
The ERMF is supported by policies and procedures to embed the principles into the business.

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 FRAMEWORK AND GOVERNANCE		
First Line of Defence	Second Line of Defence	Third Line of Defence
The Business	Risk and Compliance	Internal Audit

Risk governance
The oversight and direction of the Board is central to the Group'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.

Further details on the Committees can be found in the Corporate Governance Report on pages 16 to 19.

The Group uses prescribed capital and liquidity adequacy processes to identify and quantify the capital and liquidity risks it faces with the output used to inform the Board's risk appetite and certain policies. Stress testing is undertaken as part of these processes.

STRATEGIC REPORT

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 described below:

Credit risk

Credit risk is the risk that a customer is unwilling or unable to honour its obligations to the Society as they fall due, resulting in an actual or potential loss exposure for the Society. The Society segments credit risk into two categories: Retail; and Treasury. As a primary lender the Group faces credit risk as an inherent component of its lending activities. Adverse changes in the credit quality of the Group's borrowers, a general deterioration in UK economic conditions or adverse changes arising from systemic risks in UK and global financial systems could reduce the recoverability and value of the Group's assets. The Society operates within a credit risk appetite which directs our lending to lower risk / lower return sectors of the mortgage market, both in terms of property location and borrower characteristics and this is monitored carefully and benchmarked against external loss and risk data.

Market risk

Market risk is the risk of any impact on the Society's financial position due to adverse movements in market rates, such as interest rates, house price indices, equity prices, currency or commodity prices. The Society's principal exposure to market risk is interest rate risk.

The Society manages market risk through on-balance sheet matching of assets and liabilities or derivative financial instruments. Following the adoption of FRS102 movements in interest rates and other indices have a direct impact on the value of certain balance sheet items which, in turn, creates volatility in reported earnings.

Liquidity / Funding risk

Liquidity risk is the risk that the Society is unable to make available sufficient resources to meet its current or future financial obligations as they fall due, or is only able to do so at a premium cost. This includes the risk the Society attracts excessive liquidity through poor product management, acting as a drag on financial performance. The Group relies on its access to sources of funding to finance the origination of new business and working capital. If access to funding became restricted, either through market movements or regulatory or Government action, this might result in the scaling back or cessation of new lending. The Group, through its treasury operation, overseen by the Assets and Liabilities Committee, seeks to mitigate this risk by managing the Group's liquidity portfolio and actively seeking alternative sources of finance.

Note 27 to the Accounts, "Financial Instruments" contains additional narrative and numerical information in respect of the Group's approach to the management of credit risk, market risk and liquidity risk.

Operational risk

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, people or systems, or from external events. This definition includes legal risk and environmental risk together with events or circumstances where disaster recovery planning does not work.

The activities of the Group expose it to any operational risks relating to its ability to implement and maintain effective systems to process its transactions with Members and customers. A significant breakdown in IT systems of the Group might adversely impact the ability of the Group to operate its business effectively.

To address these risks, the Head of Operational Risk has put in place risk and control self-assessments (RCSA) covering the operations of the entire Society. RCSAs are reviewed and tested on a regular basis and the results reported to the Executive and Risk, Audit, Compliance and Conduct Committee (RACCC). Any incidents are assessed in terms of potential cost to the Society and the causes identified to improve controls. Additionally the Group's internal audit function (provided externally by PwC) carries out targeted reviews of critical systems and processes to ensure that they are properly designed and operate effectively. The Group has a Business Continuity Plan which is kept under regular review and is designed to ensure that any breakdown in systems would not cause significant disruption to the business.

IT Security / Cyber-crime

Cyber-crime and the security of information held by the Society are a present and growing threat that the Society's systems might be infiltrated allowing the intruder to take control of customer accounts or download sensitive data for personal gain.

During 2017 we will continue our programme of investment in technology, which includes cyber-risk reduction initiatives and further progress towards attainment of Information Security industry standards.

Compliance risk

Compliance risk is the risk of financial loss, reputational damage and or regulatory censure arising from failure to comply with regulatory or legislative requirements.

The market sectors in which the Group operates and the markets from which it receives its funding have been subject to extensive intervention by the UK Government, European Union and other regulatory bodies. To the extent that such actions disadvantage the Group, when compared to other market participants, they represent a risk to the Group. In order to mitigate this risk, the Group has been active in explaining its position to the authorities and works with its professional advisors in this process.

Ultimately there are three risks when it comes to ensuring that we comply with regulations:

a) Failing to identify new or developing regulatory requirements / guidance;

b) Failing to comply with all regulatory requirements; and

c) Failing to identify breaches and take appropriate action.

A dedicated compliance team within the Risk Management function monitor rule compliance through a programme of departmental and thematic reviews and, under the supervision of RACCC, ensures that the Society stays within the various regulatory regimes and provides Executive management and the Board with regular updates on regulatory issues.

Conduct risk

Conduct risk forms a part of compliance risk and is the risk that the Society acts in a way which delivers adverse outcomes for customers and therefore not in accordance with the requirements or principles of Treating Customers Fairly.

Every department in the Society is aware of and responsible for ensuring Members are put first and the highest standards of conduct upheld, with regular training provided to ensure these principles are embedded in the culture of the Society. The Compliance team acts as second line of defence and reports to RACCC on conduct matters.

Business risk

The Group faces competition in all the core markets in which it operates. There is a danger that its profitability and/or market share may be impacted by the actions of its competitors. To mitigate this risk, the Group maintains close relationships with its Members and customers, business introducers and other significant participants in the markets in which it is active as well as participating in sector-wide organisations (for example, the Building Societies Association) and initiatives. This allows market trends to be identified and addressed within the Group's business strategy.

Future outlook and uncertainties

The general economic factors affecting the Group going forward, together with the steps taken by the Group's management to address these issues, are described in the Chairman's Statement and Chief Executive's Report.

The outlook for 2017 remains uncertain on a number of fronts with the terms of the UK's exit from the EU yet to become public and with the low interest rate environment set to continue for longer, despite inflation expected to increase over the course of 2017. The prospect of interest rates remaining low for longer will be disappointing for savers and impact on the Society's ability to generate adequate returns from its free capital. This acts as a constraint to profitability and the Board's strategic objective to grow capital. Margins from mortgage lending are also expected to come under further pressure in 2017, making it increasingly difficult to generate appropriate risk-adjusted returns, ultimately impacting our ability to offer a competitive range of savings products.

As a long-established Building Society Saffron's business model is heavily reliant on the UK housing market. UK house prices remain resilient however, a worsening of the UK market combined with steep or rapid increases in interest rates could impact on mortgage affordability and, in turn, adversely impact our future financial performance. Following on from Stamp Duty changes introduced in 2016, 2017 also sees changes to the tax regime for buy-to-let properties which is likely to have a negative impact on this important market segment.

Throughout these uncertain times, the Society will maintain its approach as a responsible lender and continue to take decisions in the best long term interests of the Society and its Members.

Darren Garner

Chief Financial Officer

On behalf of the Board

3 March 2017

CORPORATE GOVERNANCE REPORT

The Board of Directors is responsible for providing leadership and setting the strategic direction of the Society within a framework of prudent and effective controls which enable risk to be assessed and managed in accordance with the Board's stated risk appetite. This report provides Members with information on the Society's Corporate Governance framework. The Society has regard to the UK Corporate Governance Code to the extent that it is relevant to a Building Society.

LEADERSHIP

The Board

It is the Board's role to set the strategic aims, ensure that the necessary financial and human resources are in place to meet the objectives and review the performance of the Executive team. The Board also puts in place a framework to enable risk to be assessed and managed in accordance with its stated risk appetite. At the end of the year the Board consisted of two Executive Directors, a Chief Executive Officer and six Non-Executive Directors (including a Chairman) whose role is to provide independent challenge.

The Board met seven times in 2016 and has a formal calendar of items for review. The Board retains certain powers for decision-making but also delegates certain responsibilities and powers to Committees which are listed below. The Chairman holds meetings at least twice a year with the Non-Executive Directors without the Executive Directors being present. The Non-Executive Directors meet once a year without the Chairman to review the Chairman's performance.

Roles of the Chairman, Non-Executive Directors and Executive Directors

The Society maintains a clear division of responsibility between the Non-Executive Directors and Executive Directors and these are outlined in job descriptions and a table of delegated powers.

The Chairman

The Chairman is responsible for the leadership of the Board and its effectiveness.

The Chairman sets the governance agenda, standards and expectations for Board Directors and ensures constructive challenge and openness between Non-Executive and Executive Directors. The Chairman and Vice Chairman are elected by the Board on an annual basis.

Non-Executive Directors

Non-Executive Directors constructively challenge and help develop proposals on strategy.

Executive Directors

The Executive Directors are expected to manage the Society under the strategic direction of the Board as a whole.

The Society maintains liability insurance cover for Directors and Officers.

EFFECTIVENESS

Composition of the Board

The names of the directors together with brief biographical details are provided on pages 24 to 26.

The Board has established Committees to consider certain specialist areas in more detail than would be possible at a Board meeting. Each Committee operates within defined terms of reference. Minutes of meetings, evidencing the level and quality of challenge, are formally recorded and proceedings are reported to the full Board by the respective Committee Chairman. The Committees and their summary terms of reference are set out below. The full terms of reference may be obtained through the Society website or on request from the Society Secretary.

Board Committees

Remuneration and Loans Committee

This Committee comprises all the Non-Executive Directors and is chaired by Nick Treble (Non-Executive Director and Vice Chairman). It sets remuneration policy for Directors and reviews and approves remuneration arrangements and service contracts for Executive Directors. The Committee takes responsibility for monitoring compliance with the regulatory Remuneration Code as it applies to Code staff. It also considers and approves loans to Directors or connected persons. The Committee meets at least twice a year to review remuneration and as necessary to approve applications for Directors' loans.

Nominations Committee

This Committee consists of the Senior Independent Director, Neil Holden, who chairs the Committee, the Chairman of the Society, Vice Chairman and Chief Executive Officer. The Committee reviews the balance of Board skills, independence, experience and knowledge, its structure and composition, any new appointments and the performance of Directors. The Committee also ensures that the Society meets its statutory responsibilities in respect of compliance with the Building Societies Act and follows good practice in Corporate Governance, including reviewing the UK Corporate Governance Code. In the appointment of new Directors the Committee focuses on the need for diversity around the Board table and uses a professional search firm or open advertising to encourage applications from a range of candidates.

The Committee considers diversity in the context of experience, background and skills as well as gender and ethnicity.

Risk, Audit, Compliance and Conduct Committee
This Committee comprises nominated Non-Executive Directors, excluding the Chairman, and is chaired by Neil Holden (Non-Executive Director and Senior Independent Director). Members of the Executive are invited to attend as appropriate. The Committee reviews the effectiveness of the Group's systems of internal control and monitors compliance with regulatory requirements and relevant codes of practice. It considers and approves the remit of the risk and compliance management functions and provides input, review and challenge to Executive management's identification and assessment of risks. It provides ongoing monitoring of the risk management framework and ensures that either the Society remains within its risk appetite and tolerances in the various aspects of its business or that management takes appropriate mitigating actions where the risk appetite is being, or appears to be at risk of being breached.

It approves and oversees the delivery of the annual integrated assurance plan comprising the internal audit and risk management and compliance plans. These activities are based on a thorough risk assessment of the full scope of the Group's business activities and in the context of the Board's strategy and risk appetite. It is also responsible for managing the relationship with the external auditor, including appointment, reappointment and removal. All Non-Executive Directors on this Committee have experience that is relevant to the role and at least one member present has recent financial experience.

During 2016 the Committee met seven times to fulfil its responsibilities and, in particular, considered reports for the following:

- the effectiveness of the system of internal control;
- the integrity of the Group's financial statements;
- the plans and activities of internal and external audit, Risk, Compliance and Financial crime teams;
- the effectiveness and independence of internal and external audit and the effectiveness and resourcing of Risk, Compliance and Financial crimes teams;
- the principal risks faced by the Society, together with evidence that the Society is currently operating within risk appetite and will continue to do so based on the outlook for those risks.

Board Credit Committee
The Committee comprises Non-Executive Directors, excluding the Chairman, and is chaired by Nick Treble (Non-Executive Director and Vice Chairman). Members of the Executive are invited to attend as appropriate. The Committee reviews and approves the lending of customer facilities in excess of Credit Committee approval limit on a sole or aggregate basis and counterparty exposure limits in respect of Treasury activities as recommended by the Assets and Liabilities Committee. The Committee meets four times a year and when necessary.

Directors' attendance at meetings 2016:

Name	Board	Risk, Audit, Compliance and Conduct	Remuneration and Loans	Nominations	Board Credit Committee
Number of Meetings held	7	7	4	2	4
J Ashmore	7	7	4	N/A	4
G Barr	7	7	4	N/A	1+
G Dunn	7	7+	3	2	4
C Field	7	7	4*	2	4*
D Garner	7	7	N/A	N/A	4*
N Holden	7	7	4	2	4
S Howe	7	7	N/A	N/A	4*
E Kelly	7	7	4	N/A	2
J Smith **	2	2	1	N/A	1
N Treble	7	7	4	2	4
C Wilson **	3	3	1	N/A	1

*Executive directors attended by invitation

**Retired at 2016 AGM

+Attended on a voluntary basis

The Society has also established three management committees which help the Executive Directors discharge their duties.

Management Committees

Assets and Liabilities Committee
The Committee comprises Executive Directors, the Chief Risk Officer, Head of Commercial Finance and the Treasurer. It recommends treasury and balance sheet risk management strategies, capital requirements in the context of the Society's policy statement concerning liquidity, funding and structural risk management policies. The Committee meets at least eleven times a year and is chaired by the Chief Financial Officer.

Credit Committee
The Committee comprises Executive Directors, the Chief Risk Officer and Head of Credit Risk. The Committee reviews lending propositions and loan performance as well as benchmark and trend data. It reviews and recommends to the Board changes to lending policy or limits. The Committee meets at least eleven times a year and is chaired by the Chief Risk Officer.

CORPORATE GOVERNANCE REPORT

Product Management Committee
The Committee comprises Executive Directors and representatives from Risk, Finance, Product and Service departments. The Committee approves and monitors (in line with the defined principles, strategy and operating plan) all Society products and propositions (new and existing) including mortgage, retail and business savings, third party products and services. The Committee meets at least ten times a year and is chaired by the Chief Customer Officer.

Appointments to the Board
The Nominations Committee leads the process for Board appointments and makes recommendations to the Board. The Board maintains a succession plan and produces a specification for vacancies to be filled.

The Board advertises externally or uses an external search consultancy for candidates for Board appointments. Members can nominate their own candidates for appointment subject to Society rules. The appointment of Directors is based on objective criteria, including the ability to meet the requirements of the regulatory Senior Manager Regime. Board succession planning ensures that the appropriate mix of skills, experience, independence and knowledge of the business is represented on the Board and Committees to enable them to discharge their respective duties and responsibilities effectively. The recruitment of new Non-Executive Directors is delegated to the Nominations Committee, which ensures that Directors are able to commit the time required to effectively fulfil the role, at the time of appointment and on an ongoing basis.

Directors' interests
Directors are required to disclose any relevant external interests that may be considered to conflict with their role at the Society, including any other Directorships that they may hold at recruitment. There is also a formal process which requires Directors to re-affirm their external interests annually. Furthermore at each Board meeting Directors are required to disclose any changes to their external interests. In all cases the Board considers if a Director's ability to act in the best interests of the Society might be compromised. No Director is counted in a quorum in respect of any own conflict situation. Were a business relationship to exist between the Society and a company associated with a Non-Executive Director all dealings would be undertaken at arms-length.

The Board considers that all Non-Executive Directors are independent in character and judgement.

Information and professional development
Board reporting is of a high standard with an annual review of the scope and appropriateness of the information. More detailed reporting is provided to Board Committees and this is also provided to all Board members for information.

Non-Executive Directors attend internal and external training sessions, including Building Societies Association seminars and conferences, and receive copies of industry circulars and regulatory publications to further their knowledge. Training is tracked and records are held centrally. An induction programme is in place for all new Non-Executive Directors to ensure that they can provide effective challenge as soon as possible after appointment. Training and development needs are identified as part of the annual review process undertaken by the Chairman. Non-Executive Directors have access to the Society Secretary and access to independent professional advice at the Society's expense.

Performance evaluation
The Board operates an annual appraisal scheme in which all Directors appraise the performance of each of their colleagues, including the Chairman, with the consolidated results also being used to evaluate any overall weaknesses. The results of the exercise inform the decision to recommend a Director for re-election.

The Board calendar includes a yearly review of Board and Committee effectiveness. An external evaluation is planned for 2017.

Re-election policy
The Directors are subject to election at the first Annual General Meeting (AGM) after their appointment. A Non-Executive Director will normally serve for two terms of three years, with a maximum of three terms if there has been a significant change in role. The Nominations Committee reviews the performance of Directors before recommending them to stand for re-election. This includes a review of an individual's performance, and also considers if it is appropriate, to ensure the Board remains fresh and vigorous.

The Chairman, Geoffrey Dunn has served six years on the Board and became Chairman in 2014. The Vice Chairman, Nick Treble was elected at the 2015 AGM with the Senior Independent Director, Neil Holden and Gary Barr. Each has served three years on the Board. Liz Kelly and Jenny Ashmore were elected at the 2016 AGM, each has served two years on the Board. Geoffrey Dunn, last elected by Members in 2014, is seeking re-election at the 2017 AGM. Neil Holden and Nick Treble who have each taken on new roles within the Board of Senior Independent Director and Vice Chairman respectively will also seek re-election in 2017. Details setting out why they are deemed to be suitable for election have been included with the Notice of Annual General Meeting issued to all Members in the AGM mailing documentation.

Accountability and Audit

Financial and business reporting
The Directors' responsibilities for financial reporting are described in the Statement of Directors' Responsibilities on page 22.

Risk management and internal control
The Board is responsible for determining the risk appetite it is willing to take in achieving its strategic objectives and it reviews the processes and procedures to ensure sound risk management and internal control systems are in place. Senior management are responsible for designing systems to identify and control risk and ensure the Board is sighted on risk management through a quarterly review programme which is open to challenge. Our internal auditor, PwC, provides independent assurance to the Risk, Audit, Compliance and Conduct Committee (RACCC) that appropriate procedures are in place and are being followed. The Board receives a detailed update from the RACCC Chairman at each Board meeting on the effectiveness of systems and controls in particular highlighting changes to the principal risks or breaches of risk appetite. The Board has satisfied itself that a strong culture of compliance operates and that the systems are effective and appropriate given the nature of the business activity undertaken.

Further details on principal risks and uncertainties can be found in the Strategic Report on pages 14 to 15.

Audit
The appointment or re-appointment of external auditors is recommended by RACCC and confirmed by the Board. The Society is recommending to Members at the forthcoming AGM that Deloitte LLP be re-appointed as Auditors.

Non audit services totalling £11,000 have been provided by Deloitte in the year. For each assignment the independence of the auditor is considered. At no point has the auditor been involved in management functions, decision making or assuring the adequacy of internal controls or reporting.

Remuneration

The Directors' Remuneration Report on page 20 details the Board position on the UK Corporate Governance Code principles related to remuneration issues.

Member engagement

As a mutual the Society does not have shareholders but is responsible to its Members.

In 2016 informal Member group meetings were hosted by the Executive Directors to meet with and gauge the views of Members on issues that affect them. Considerable work has been undertaken to extend communication with Members through customer surveys and the Members' panel. Non-Executive Directors spend time in the branches and the Contact Centre on an annual basis to help them understand the Member perspective.

Constructive use of the Annual General Meeting (AGM)
Details of the AGM are mailed to all Members who are encouraged to attend or to vote on resolutions. Prepaid envelopes are included to enable Members to appoint a proxy to vote on their behalf if they are unable to attend. The proxy form provides the opportunity to formally abstain from resolutions should the member so wish. Information on voting is published on the Society website after the AGM. As a further encouragement to vote the Society will be donating 20p to charity for every vote cast. Voting is made easier with an online voting option. At the AGM the Chairman calls for a poll on all resolutions so that all proxy votes are recorded. A separate resolution is proposed on each issue including adoption of the Report and Accounts.

Society Rules
A copy of the rules is available on the Society's website **www.saffronbs.co.uk**, or may be obtained by a Member on request to the Secretary.

Saffron Building Society,
Saffron House,
1a Market Street,
Saffron Walden,
Essex,
CB10 1HX.

DIRECTORS' REMUNERATION REPORT (UNAUDITED)

The Board has an established Remuneration and Loans Committee which comprises all the Non-Executive Directors. It reviews and approves remuneration policy and packages for Executive Directors and considers and approves loans to Directors or connected persons. This report explains how the Society voluntarily complies with the principles relating to remuneration in the UK Corporate Governance Code as well as meeting the requirements of the regulator's Remuneration Code.

Remuneration and Loans Committee

The Committee is chaired by Nick Treble (Non-Executive Director and Vice Chairman) and is responsible for recommending to the Board the overall remuneration policy and actual levels of remuneration for Executive Directors. The Committee also ensures compliance with the regulator's Remuneration Code. In reaching remuneration decisions the Committee reviews and takes into account benchmark data from the Building Societies Association remuneration survey.

Executive Directors' remuneration
The Board's policy is to set remuneration levels to attract and retain high quality Executive Directors. The Society operates in a competitive environment, from a sector as well as a geographic 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 risk profile.

The main components of the remuneration package that applied for 2016 performance for Executive Directors were:

Basic salary
Basic salaries for Executive Directors take into account the following principal factors:

- Job content and responsibilities;
- Individual performance, assessed annually; and
- Remuneration levels for similar positions in the financial services sector.

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

There is an annual appraisal scheme for Executive Directors which incorporates an annual review process. The results of this exercise help to inform salary award.

Bonus
The scheme in place at Saffron is the 'One Business Scheme'. This scheme is designed so that all staff can contribute to, and are rewarded for, the success of the Society.

The One Business Scheme has three elements:

1. Our Contribution

2. My Contribution

3. Long-Term Performance (available to Code Staff)

Elements 1 and 2 are open to all Saffron permanent staff under the banner of the 'One Business Scheme'. Payments made under 'Our' or 'My' Contribution are not subject to deferral.

In practice:
1. The Our Contribution element is based on achievement of Saffron's performance goals which may change from year to year. Achievement of these performance goals is reflected in a payment of a flat rate sum, which is payable to all staff. The amount payable is dependent on the performance of the business and ranges from £0 to £1,500 per individual, regardless of position.

2. The My Contribution element is based on an individual's contribution against their agreed performance objectives. Performance against these objectives is reviewed via an individual's appraisal. Assuming that the individual's objectives have been fully met, the My Contribution bonus element is calculated on a percentage of basic salary from 5% to 20%, dependent on the appraisal rating.

3. The Long-Term Performance element is open to Code staff. The scheme allows for a payment to be made of up to 20% of basic salary, paid subject to achievement of core objectives and paid on a part deferred basis. Having achieved these core objectives an accrual will be made. The deferral element of 50% is spread over 2 years with 50% payable in 2018 and 50% payable in 2019.

The Society bonus scheme is non-contractual and in relation to any long-term performance element the Remuneration Committee can decide at any time to withdraw or amend the terms on which it is based. This may include a mid-year review of performance targets if unforeseen circumstances come to light which undermine the integrity of, or intention behind the scheme. If the scheme is terminated for any reason the long-term performance bonus awards already granted will continue to be payable in accordance with normal scheme rules until all entitlement to payment has been exhausted.

In the event of non-achievement of targets, by either the Society or an individual Director, the long-term performance element will not be accrued for that year and where it is considered appropriate may also result in the reduction of the bonus already vested from previous years but not yet paid. This will also be the case in the event of misstatement, misconduct and non-performance by an individual.

All payments under the bonus scheme are non-pensionable. For the avoidance of doubt the regulator's Remuneration Code applies to all Executive Directors' remuneration and the scheme is designed to meet these requirements. In the event of any conflict between this scheme and the Code, the Code requirements will prevail.

Pensions
The Executive Directors are included in the Society's Group Personal Pension Plan which offers benefits to staff irrespective of seniority. The current employer contribution for Directors is 13.5% of basic salary.

Other benefits
The Executives Directors are also eligible for either a fully expensed lease vehicle, and fuel card, or an alternative cash allowance (made through payroll), income protection, life assurance and private medical insurance. The lease vehicle arrangement, and fuel card, will be phased out for Executive Directors by the end of 2017 and replaced with a cash allowance. The Society has no share option scheme and none of the Executive Directors have any beneficial interest in (or any rights to subscribe for) shares in any subsidiary undertaking. Executive Directors are not entitled to salaries or fees from subsidiary directorships. There is in existence a non-contractual redundancy payment scheme which could provide an enhanced redundancy payment of up to a maximum of 40 weeks salary. This scheme applies to all Executive Directors and staff and could be withdrawn without notice. Any payment would be at the sole discretion of the Board (in the case of Executive Directors) and if it exceeded the statutory redundancy entitlement, would be the only payment made. If it was not approved, then there would still be an entitlement to the statutory redundancy payment.

Service contracts
All Executive Directors are employed on a permanent service contract. Details are included in the Annual Business Statement on page 65.

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 further up to a maximum of three years if the Non-Executive Director takes on a significant new role, for example that of Chairman or Vice Chairman during this period.

Executive Directors' Personal Development
In order to facilitate the personal development of an Executive Director, it is Board policy that an Executive Director will be permitted to undertake a Non-Executive role with another non-competing organisation. Any Executive Director wishing to undertake such a role whilst employed by the Society will need in principle approval from the Chief Executive (or in the case of the Chief Executive, in principle approval from the Chairman). Approval is required from the Nominations Committee following submission of a full proposal. Any fees derived from the Non-Executive role will be paid directly to the Society Community Fund. Executive Directors' will not benefit financially in any way from this arrangement.

Non-Executive Directors' fees
The Chairman and Chief Executive review the level of fees for Non-Executive Directors each year, taking into account data on fees paid in the mutual financial services sector, levels of responsibility, time commitments and the recommendations of the Chief Executive. Recommendations are referred to the full Board for approval. When reviewing fees payable to Non-Executive Directors for 2016, reference has been made to the increasing level of time commitment and complexity associated with the role as well as benchmarking among peer group Building Societies and other similar financial services sector organisations. Fees for Non-Executive Directors were unchanged in 2016 and last increased in 2014, having remained at a fixed level since 2011.

There are no bonus schemes or other deferred benefits for Non-Executive Directors and they are not entitled to any pension from the Group.

Analysis of Directors' remuneration
The total remuneration of each Director is analysed in Note 7 of the Accounts.

This report is published with the aim of giving Members an insight into how the decisions around Directors' remuneration are taken. A resolution will be put forward at the Annual General Meeting inviting Members to vote on the report on Directors' remuneration. The vote is advisory and the Board will take into account Members' views in determining future policy.

DIRECTORS' REPORT

The Directors submit their Report prepared in the context of the UK Corporate Governance Code and in accordance with the requirements of the Building Societies Act.

The Directors' Report should be read in conjunction with the Chairman's Statement, Chief Executive's Report and Strategic Report on pages 4 to 15.

Information presented in other sections

Certain information required to be included in a Director's report can be found in the other sections of the Annual Report and Accounts as described below. All of the information presented in these sections is incorporated by reference into this Directors' report and is deemed to form part of this report:

Business objectives and activities	Strategic Report (pages 8 to 15)
Business review and future developments	
Principal Risks and Uncertainties	
Financial risk management objectives and policies and risk exposures	Strategic Report Note 27 to the Accounts

Results

Group reported profit before tax for the year was £1.2million (2015: £4.1million). The Group profit after tax transferred to general reserves was £1.3million (2015: £3.3million).

Capital

Group gross capital at 31 December 2016 was £62.7million (2015: £61.6million) being 6.2% of total shares and borrowings (2015: 5.9%). Free capital at the same date was £44.4million (2015: £46.1million) and 4.4% of total shares and borrowings (2015: 4.4%). An explanation of these ratios can be found in the Annual Business Statement on page 65.

Mortgage arrears

At Group level at 31 December 2016 there were no properties (2015: one) where payments were 12 months or more in arrears. At 31 December 2016, the Group held 17 properties (2015: 21) in possession.

Supplier payment policy

The Group will discharge suppliers' invoices within agreed terms when they fully conform to the terms and conditions of the purchase.

Charitable and political donations

During the year the Society made donations totalling £12,438 (2015: £14,100) in support of charities and organisations. No contributions were made for political purposes (2015: nil).

Directors' responsibilities in respect of the Annual Report, Annual Business Statement, Directors' report and annual accounts

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 and the Group at the end of the financial year;
- income and expenditure of the Society and the Group for the financial year;
- details of Directors' emoluments in accordance with Part VIII of the Act and regulations made under it.

In preparing these 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 the applicable UK accounting standards have been followed, subject to any material departures discussed and explained in the accounts;
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the Group 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 and its subsidiaries.

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for:

- ensuring the Society and subsidiary undertakings keep accounting records in accordance with the Act;
- taking 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 Conduct Authority under the Financial Services and Markets Act 2000;
- safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

As well as our branch and agency network the Society operates a comprehensive website www.saffronbs.co.uk. The maintenance and integrity of this site is the responsibility of the Directors. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

In preparing the Group's Annual Report and Accounts the Directors must carry out an appropriate assessment of going concern to satisfy themselves that it is reasonable to adopt the going concern basis, taking into account all available information about the future and factors likely to affect its future development, performance, position, liquidity and capital structure. The activities of the Group, its current operations and those factors likely to affect its future results and development, together with a description of its financial position and funding position are described in the Chairman's Statement, Chief Executive's Report and Strategic Report. The Strategic Report also describes the principal risks and uncertainties affecting the Group and the steps taken to mitigate these risks. Additional risk information can also be found in Note 27 to the Accounts, "Financial Instruments". The Group meets its day-to-day liquidity requirements through managing both its retail and wholesale funding sources and is required to maintain a sufficient buffer over minimum regulatory capital requirements in order to continue to be authorised to carry on its business. The Group also has a formal process of budgeting, reporting and review, which is used to ensure the adequacy of resources available to the Group to meet its business objectives. This process covers (amongst other things) the economic backdrop to the Group's activities, prospects for the mortgage market, the future path of interest rates, the Group's profitability and available liquid and capital resources. Scenarios are also prepared under stressed but plausible operating conditions in order to consider the effect on the Group's business, financial position, capital and liquidity. After making the necessary enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in business for the foreseeable future. Accordingly, the going concern basis continues to be adopted in preparing the Annual Report and Accounts.

Viability

The Directors also have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period to December 2020 subject to unforeseen external stresses, most notably, but not limited to, the macro-economic environment, competitive environment and regulatory developments. The Directors have no reason to believe the Society will not be viable over a longer period but, given inherent uncertainties, have selected the period to December 2020 as this is based on the Society's approved corporate plan and stress testing scenarios set out in the Society's ICAAP document.

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:

Executive Directors

C H Field (Chief Executive Officer)
D L Garner (Chief Financial Officer)
S A Howe (Chief Customer Officer)

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
J E Smith (Retired April 2016)
C R L Wilson (Retired April 2016)

Being eligible, G R Dunn, N J Treble and N J Holden will stand for election.

Biographies of the Directors appear at pages 24 to 26.

None of the Directors hold any shares in, or debentures of, any associated body of the Society.

Auditor

A resolution to re-appoint Deloitte LLP as auditor to the Group will be proposed at the Annual General Meeting.

Events since the year end

The Directors consider there has been no event since the end of the financial year which would have a significant effect on the position of the Group.

Geoffrey Dunn (Chairman)

On behalf of the Board

Date: 3 March 2017

DIRECTORS' BIOGRAPHIES

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.

GEOFFREY DUNN, Chairman

Geoff lives in Suffolk and has more than 40 years' experience of financial management, in financial services, and IT services. After Manchester Business School, he joined 3i plc and later worked in Corporate Finance at the merchant bank, S G Warburg. Subsequently, he was Deputy Treasurer of GKN plc, before he joined Midland Bank and became Head of Finance & Planning of Midland Bank International. Later, he became Group Finance Director of the global financial broker, Exco International plc. A move to Brussels followed as Chief Financial Officer (CFO) of SWIFT – the inter-bank messaging co-operative and network provider and then as CFO of the global telecoms operator, Global One. He returned to the UK as Group FD of Xansa, the FTSE listed IT company. In the decade before joining Saffron, Geoff undertook a number of major interim and financial restructuring roles including: Finance Director of the Bank of England and also CFO of Northern Rock plc for the reconstruction and split of Northern Rock in 2009. He was also a Non-Executive Director of Citadele Banka, a Latvian bank that suffered a similar fate to Northern Rock.

He is a Fellow of the Association of Corporate Treasurers. Geoff joined the Board in May 2011 and was appointed Chairman of the Society in May 2014.

JENNY ASHMORE*, Non-Executive Director

Jenny is a marketing and commercial leader with over 25 years of 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 (CMO) 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: Chair of Girlguiding Trading Services Ltd, Trustee for The Challenge Network, Non-Executive Director of Commonwealth Games England and AHI Group Ltd.

Jenny joined the Board in 2015 and sits on the Remuneration and Loans Committee, and Risk, Audit, Compliance and Conduct Committee ('RACCC').

*Married name Zaremba

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 2000 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 has also served as a Governor at Bedfordshire University, is a Governor of the Lantern School Ely, is the Honorary Secretary at Cambridge Rugby Club and has sat on several industry advisory boards.

Gary joined the board in 2014 and sits on the Remuneration and Loans Committee and RACCC.

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 in 2013. Prior to joining Saffron, Colin has had held a number of senior finance positions with Barclays, Caudwell Group and Willis Group having previously qualified with PriceWaterhouseCoopers. Colin is a Chartered Accountant (FCA) and lives in North Essex.

DARREN GARNER, Chief Financial Officer

Darren joined the Society as Chief Financial Officer in September 2015. Darren qualified as an accountant over 20 years ago and is a Fellow member of the Association of Chartered Certified Accountants. In his role as CFO, Darren chairs the Assets and Liabilities Committee (ALCO).

Darren has spent most of his career within the financial services industry, including senior finance roles with Abbey National Group, ING Direct and, more recently, as Group Finance Director for a Midlands-based building society. Immediately prior to joining the Society he was Group Finance Director and Executive Board member at the Chartered Insurance Institute, a company incorporated by Royal Charter.

NEIL HOLDEN, Non-Executive Director

Neil Holden 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 several non-executive directorships together with advisory work for other clients. Neil is a Non-Executive Director of Bank of London and The Middle East plc (Chairman of Remuneration Committee), Non-Executive Director of Integrated Financial Arrangements Limited (Chairman of Audit Committee and Remuneration Committee) and of Stanbic International Insurance Limited. He also advises financial services clients on risk and governance through Calmindon Limited.

As Chair of Saffron's RACCC, Neil's role is to utilise both his and Committee members' skills and experience, working with the executive team, to ensure that the robust assurance, risk management and control processes of the Society remain strong and relevant to Saffron's strategy, developing needs and regulatory obligations. Neil also chairs the Nominations Committee and is a member of the Remuneration and Loans Committee.

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

DIRECTORS' BIOGRAPHIES

SARAH HOWE, Chief Customer Officer

Sarah joined the Society as Chief Marketing Officer in March 2013. Sarah has almost 30 years' experience in a range of high profile marketing roles inside and outside financial services. Prior to joining the Society she was the Marketing Director for over 50s insurance intermediary brands RIAS and Castle Cover, both part of the Ageas Group. In this role she developed a multi-brand strategy and marketing integration plan following Ageas' purchase of Castle Cover Limited. Sarah also worked at Bupa for 11 years during which time she was appointed to the role of Chief Marketing Officer for the UK Insurance Division, leading the delivery of member focused product solutions, communication strategies and membership loyalty programmes. Sarah began her marketing career in the Home Shopping retail sector.

Sarah was appointed to the Board in May 2014 and Chairs the Product Management Committee. Sarah lives in Essex.

LIZ KELLY, Non-Executive Director

Liz is an experienced strategic leader specialising in running legal, compliance and secretariat functions in financial services. After qualifying as a solicitor at Clifford Chance, she practised commercial law for six years following which she held a number of executive roles in industry leading legal and secretariat functions. She has extensive experience in financial services having worked at Nationwide Building Society for 13 years. For seven years she was the Group General Counsel at Nationwide where she was responsible for advising the Board and Executive Committee on all legal, compliance and secretariat issues (including the merger with Portman Building Society and the acquisition of parts of the Dunfermline Building Society). During this period she led a team of 150 professionals, developing and delivering a five year strategy which included implementing a transformation programme and initiating some innovative people development and efficiency programmes.

Liz joined the Board in May 2015 and is a member of Remuneration and Loans Committee and RACCC.

NICK TREBLE, Non-Executive Director

Nick has over 30 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 & 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 April 2014 and was appointed Vice Chairman in May 2016. He chairs the Board Credit Committee and the Remuneration and Loans Committee; he is a member of RACCC and the Nominations Committee. He is a Member of the Association of Corporate Treasurers.

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

We have audited the Group and Society financial statements of Saffron Building Society for the year ended 31 December 2016 which comprise the Group and Society Income Statement, the Group and Society Statement of Comprehensive Income, the Group and Society Statement of Changes in Members' Interests, the Group and Society Statement of Financial Position, the Group Cash Flow Statement and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 auditor's 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 or 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Society's affairs as at 31 December 2016 and of the Group's and the Society's income and expenditure for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

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

Opinion on other matters prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 30 to the financial statements for the financial year ended 31 December 2016 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Society; or
- the Society financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

Peter Birch (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Leeds, United Kingdom

3 March 2017

THE ACCOUNTS

Income statement
for the year ended 31 December 2016

	Notes	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Interest receivable and similar income	2	32,623	32,029	37,053	36,333
Interest payable and similar charges	3	(12,706)	(12,706)	(15,665)	(15,665)
Net interest income		19,917	19,323	21,388	20,668
Fees and commissions receivable		549	575	353	378
Fees and commissions payable		(655)	(655)	(581)	(580)
Other operating income	15	449	449	163	155
Net fair value movements	4	(534)	58	(103)	(103)
Total net income		19,726	19,750	21,220	20,518
Administrative expenses	5	(14,022)	(14,022)	(15,264)	(15,234)
Depreciation and amortisation	14,16	(2,138)	(2,138)	(1,532)	(1,532)
Other operating charges	26	(51)	(51)	(51)	(51)
Operating profit before impairment losses and provisions		3,515	3,539	4,373	3,701
Impairment losses on loans and advances	12	(2,099)	(2,088)	286	303
Provisions for liabilities	25	(169)	(169)	(599)	(599)
Operating profit		1,247	1,282	4,060	3,405
(Loss) / Profit on disposal of property, plant and equipment		(16)	(16)	51	51
Profit before tax		1,231	1,266	4,111	3,456
Tax	8	35	28	(859)	(744)
Profit for the financial year		**1,266**	**1,294**	**3,252**	**2,712**

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
for the year ended 31 December 2016

	Notes	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Profit for the financial year		1,266	1,294	3,252	2,712
Available for sale reserve					
- Valuation gains / (losses) taken to reserves	22	1,014	1,014	(262)	(262)
- Amount transferred to income statement	2	(570)	(570)	(1,077)	(1,077)
Net actuarial loss recognised in the defined benefit pension scheme	26	(1,263)	(1,263)	(20)	(20)
Unrealised gain on revaluation of property, plant and equipment		468	468	-	-
Tax relating to components of other comprehensive income		138	138	259	259
Total comprehensive income for the period		1,053	1,081	2,152	1,612

Statement of financial position
as at 31 December 2016

	Notes	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Assets					
Liquid assets					
- Cash in hand and balances with the Bank of England		630	630	890	599
- Loans and advances to credit institutions	9	120,809	120,595	81,894	81,894
- Debt securities	9	106,731	106,731	160,248	160,248
Derivative financial instruments	10	3,036	3,036	1,459	1,459
Loans and advances to customers	11	862,812	809,007	869,499	816,852
		1,094,018	1,039,999	1,113,990	1,061,052
Investments in subsidiary undertakings	13	-	51,563	-	50,288
Investment properties	15	2,680	2,680	-	-
Property, plant and equipment	14	5,254	5,254	7,410	7,410
Intangible assets	16	10,668	10,668	8,664	8,664
Other assets	17	1,917	1,908	2,338	2,338
Pension asset	26	-	-	578	578
Total assets		1,114,537	1,112,072	1,132,980	1,130,330
Liabilities					
Shares	18	903,475	903,475	897,571	897,571
Amounts owed to credit institutions	19	21,586	21,586	22,314	22,314
Amounts owed to other customers		91,486	91,486	120,606	120,606
Derivative financial instruments	10	31,596	31,596	26,674	26,674
Provision for liabilities	25	357	357	508	508
Other liabilities	20	2,753	2,768	3,691	3,549
Pension liability	26	615	615	-	-
Subordinated liabilities	21	10,270	10,270	10,270	10,270
Total liabilities		1,062,138	1,062,153	1,081,634	1,081,492
Reserves					
General reserves		51,678	49,198	50,752	48,244
Available for sale reserve	22	341	341	(33)	(33)
Revaluation reserve	23	380	380	627	627
Total reserves and liabilities		1,114,537	1,112,072	1,132,980	1,130,330

These accounts were approved by the Board of Directors on 3 March 2017 and were signed on its behalf by:

G R Dunn
(Chairman)

C H Field
(Chief Executive Officer)

D L Garner
(Chief Financial Officer)

Statement of changes in Members' interests

Group 2016	Notes	General reserve £000	Available for sale reserve £000	Revaluation reserve £000	Total £000
Balance as at 1 January 2016		50,752	(33)	627	51,346
Profit for the financial year		1,266	-	-	1,266
Other comprehensive income for the year					
Net gains from changes in fair value	22	-	444	-	444
Actuarial losses	26	(1,263)	-	-	(1,263)
Tax relating to components of other comprehensive income		208	(70)	-	138
Transfers		715	-	(715)	-
Valuation gains on property, plant and equipment		-	-	468	468
Balance as at 31 December 2016		51,678	341	380	52,399
Group 2015					
Balance as at 1 January 2015		47,381	1,034	779	49,194
Profit for the financial year		3,252	-	-	3,252
Other comprehensive income for the year					
Net losses from changes in fair value	22	-	(1,339)	-	(1,339)
Actuarial losses	26	(20)	-	-	(20)
Tax relating to components of other comprehensive income		(13)	272	-	259
Transfer of depreciation on revalued assets		49	-	(49)	-
Realised revaluation gains on property, plant and equipment		103	-	(103)	-
Balance as at 31 December 2015		50,752	(33)	627	51,346
Society 2016					
Balance as at 1 January 2016		48,244	(33)	627	48,838
Profit for the financial year		1,294	-	-	1,294
Other comprehensive income for the year					
Net gains from changes in fair value	22	-	444	-	444
Actuarial losses	26	(1,263)	-	-	(1,263)
Tax relating to components of other comprehensive income		208	(70)	-	138
Transfers		715	-	(715)	-
Valuation gains on property, plant and equipment		-	-	468	468
Balance as at 31 December 2016		49,198	341	380	49,919
Society 2015					
Balance as at 1 January 2015		45,413	1,034	779	47,226
Profit for the financial year		2,712	-	-	2,712
Other comprehensive income for the year					
Net losses from changes in fair value	22	-	(1,339)	-	(1,339)
Actuarial losses	26	(20)	-	-	(20)
Tax relating to components of other comprehensive income		(13)	272	-	259
Transfer of depreciation on revalued assets		49	-	(49)	-
Realised revaluation gains on property, plant and equipment		103	-	(103)	-
Balance as at 31 December 2015		48,244	(33)	627	48,838

Group cash flow statements
for the year ended 31 December 2016

	Group 2016 £000	Group 2015 £000
Cash flows from operating activities		
Profit before tax	1,231	4,111
Interest on subordinated liabilities	632	632
Gains on disposal of debt securities	(570)	(1,077)
Net fair value movements	534	103
Loss / (Profit) on disposal of property, plant and equipment	16	(51)
Depreciation and amortisation	2,138	1,532
Increase / (Decrease) in impairment of loans and advances	2,099	(286)
(Increase) / Decrease in loans and advances to credit institutions	(1,926)	1,389
Decrease in loans and advances to customers	9,008	57,041
Decrease in prepayments, accrued income and other assets	497	558
Increase / (Decrease) in shares	6,015	(53,193)
(Decrease) / Increase in amounts owed to credit institutions	(1,733)	2,944
Decrease in amounts owed to other customers	(29,071)	(18,499)
Decrease in accruals, deferred income and other liabilities	(1,720)	(1,639)
Pension contribution	(100)	-
Net tax paid	(436)	(784)
Net cash outflow from operating activities	(13,386)	(7,219)
Cash flows from investing activities		
Purchase of debt securities	(72,379)	(103,717)
Disposal of debt securities	126,910	141,928
Purchase of property, plant and equipment	(126)	(397)
Net cash inflow from sale of property, plant and equipment	-	607
Purchase of intangible fixed assets	(3,639)	(3,207)
Net cash generated from investing activities	50,766	35,214
Cash flows from financing activities		
Interest on subordinated liabilities	(632)	(632)
Net Increase in cash and cash equivalents (2)	36,748	27,363
Cash and cash equivalents at beginning of the year	56,306	28,943
Cash and cash equivalents at end of the year	93,054	56,306

Notes:

1) All cash flows are stated inclusive of VAT where applicable.

2) Cash and cash equivalents comprise cash in hand and balances with the Bank of England and loans and advances to credit institutions repayable on call and short notice.

Notes to the accounts

1. Accounting policies

The significant accounting policies adopted in preparation of these financial statements are set out below.

a) General information and basis of preparation:

Saffron Building Society is a mutual, governed by the Building Society Act 1986. The address of the registered office is given on the back cover of this report. The nature of the Group's operations and its principal activities are set out in the Directors' report on page 22.

The accounts have been prepared and approved by the Directors in accordance with Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102) and the Building Societies (Accounts and Related Provisions) Regulations 1998. In applying FRS102, the Society has elected to apply the recognition and measurement provisions of IAS39 Financial Instruments: Recognition and measurement (as adopted for use in the EU). The accounts have been prepared on the going concern basis as set out in the Statement of Directors' responsibilities on page 22. The preparation of these accounts in conformity with UK GAAP requires management to make judgements and estimates and use assumptions in the application of these policies that affect the values of reported assets, liabilities, income and expenditure. Although these estimates are based on management judgement and best knowledge of the events, actions or amounts, taking into account historical evidence and any other relevant factors, actual results may differ from these estimates. The functional currency of Saffron Building Society is considered to be pounds sterling because that is the currency of the primary economic environment in which the Society operates. The consolidated financial statements are also presented in pounds sterling.

The Society has taken advantage of the exemption in FRS102, which provides that where a company is a member of a group and a Consolidated Cash Flow Statement is published, the Society does not have to prepare a Cash Flow Statement.

b) Basis of consolidation:

The Group accounts consolidate the accounts of the Society and its subsidiary undertakings. In the Society accounts, investments in the subsidiary undertakings are stated at cost less impairment.

c) Interest income and expense:

Interest income and interest expense for all interest bearing financial instruments is recognised in "Interest receivable and similar income" and "Interest payable and similar charges", respectively, using the effective interest rates of the financial assets or financial liabilities to which it relates. The effective interest rate is the rate that discounts the expected future cash flows, over the expected life of the financial instruments, to the net carrying amount. Interest on impaired financial assets is recognised at the effective interest rate, applied to the carrying amount as reduced by any allowance for impairment.

d) Fees and commissions:

Fees and commissions receivable or payable that are an integral element of the effective interest rate of the financial instrument are recognised as an adjustment to the effective interest rate and recorded within "Interest receivable and similar income" and "Interest payable and similar charges". Any other fees and commissions receivable are recognised when the Society has fulfilled all contractual obligations. Fees and commissions payable not included within the effective interest rate are recognised on an accruals basis when the underlying service has been provided.

e) Cash and cash equivalents:

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with an original maturity date of less than three months from acquisition in respect of cash, treasury and other bills and loans and advances to credit institutions.

f) Derivative financial instruments ("derivatives") – hedge accounting:

The Society uses derivatives solely for the purposes of risk management. Derivatives are measured and recorded in the Statement of financial position at fair value and classified as assets when the fair value is positive and as liabilities when the fair value is negative. Fair values are obtained by applying quoted market rates to discounted cash flows. Certain derivatives held for risk management purposes are held as hedging instruments in qualifying hedging relationships. To designate as being in a hedging relationship, the Society formally documents the relationship between the hedging instrument and the hedged item, including the strategy and risk management objective for undertaking the hedge together with a description of the methodology that will be used to determine the effectiveness of the hedging relationship. An assessment is made at the inception of the hedge relationship and on an ongoing basis throughout the hedging relationship to ensure the hedge is, and remains, highly effective in offsetting changes in the fair value of the hedged items during the period for which the hedge is designated. A hedge is considered to be highly effective where the results of the hedge effectiveness testing are within a range of 80% to 125%.

Fair value hedges

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, for example fixed rate mortgages or savings products. Changes in the fair value of the derivatives are immediately recognised in the Income statement together with changes in the fair value of the hedged items attributable to the hedged risk. Hedge accounting is discontinued prospectively if the derivative expires, is sold, terminated or exercised or if the hedge no longer satisfies the criteria for hedge accounting or the hedge designation is revoked. Any cumulative adjustment to the hedged item is amortised to the Income statement over its expected remaining life.

g) Financial assets:

The Group classifies non-derivative financial assets as loans and receivables, available for sale assets or at fair value through profit or loss. No financial assets are classified as held-to-maturity.

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinate payments that are not quoted in an active market. The Group's loans and advances to customers (except for a portfolio of equity release mortgages) are classified as loans and receivables, measured at amortised cost less impairment provisions. Initial costs may include certain upfront costs and fees such as procurement fees or application fees, which are recognised over the expected life of the mortgage assets. Mortgage discounts are also recognised over the expected life of the mortgage assets as part of the effective interest rate. The expected life of the mortgage assets is reviewed at each statement of financial position date with any changes recognised in interest receivable and similar income and reflected in the carrying value of the mortgage assets.

ii) Available for sale

Available for sale assets are non-derivative financial assets which the Group intends to hold for an indefinite amount of time but which may also be sold in response to needs for changes in liquidity or interest rates. The Group's debt securities are classified as available for sale assets, measured at fair value (see also Note 22). Subsequent changes in fair value are recognised through the Statement of comprehensive income until sale or maturity of the assets, following which the cumulative gains or losses are removed from the Statement of other comprehensive income and recycled to the Income statement.

iii) Fair value through profit and loss

All other non-financial derivative assets are measured at fair value with subsequent changes in fair value recognised in the Income statement. The Group's portfolio of equity release mortgages are classified as at fair value with the Directors electing to take the fair value option available under IAS39 on the basis that it prevents an accounting measurement mismatch.

h) Impairment of financial assets not measured at fair value:

i) Loans and receivables

Throughout the year and at each statement of financial position date individual assessments are made of all loans and advances against properties which are in possession or in arrears by more than three months of the outstanding loan balance. Individual impairment provision is made against these loans where, in the opinion of the Directors, it is considered there is evidence of impairment. Such evidence includes significant financial difficulty of the borrower, deterioration in payment status or any other information discovered that suggests a likely loss. If there is such evidence, the amount of loss is calculated as the difference between the asset's carrying amount and the present value of the estimated cash flows discounted at the effective interest rate. In estimating future cash flows, account is taken of expected movements in house prices, any discounts to reflect a forced sale and any anticipated sales costs. For all other loans and advances, collective assessment is also made as to whether there is evidence to suggest the portfolio is likely to be impaired. Collective assessment requires each category of financial asset to be separated into groups of assets with similar credit characteristics and impairment loss calculated by applying expected loss factors based on the Group's experience of default and the effect of movements in house prices less any adjustment for a forced sale value. Any resultant impairment loss is recognised immediately in the Income statement with a corresponding reduction in the value of the financial asset recognised as a provision. The Group uses forbearance measures to assist borrowers who have difficulties in meeting their obligations (see also Note 27). Where the Group considers that a loss may arise in these cases, a charge for impairment will be made in accordance with the above policy.

i) Financial liabilities:

Non-derivative financial liabilities, which includes the Group's share balances and wholesale borrowings, are measured at amortised cost with interest recognised using the effective interest method.

j) Property, plant and equipment:

Freehold properties comprise branches and office buildings, and are stated at revalued amounts, being the fair value, determined by market based evidence, at the date of the valuation less any subsequent accumulated depreciation and subsequent impairment. Full valuations are completed every five years followed by interim valuations three years later. The Directors review the valuations to confirm that they remain appropriate in the intervening years. Increases in valuations of freehold buildings are credited to the Revaluation reserve except where they reverse decreases for the same assets previously recognised in the Income statement, in which case the increase in the valuation is recognised in the Income statement. Decreases in valuations are recognised in the Income statement except where they reverse amounts previously credited to the Revaluation reserve for the same asset, in which case the decrease in valuation is recognised in the Revaluation reserve.

Assets are depreciated over their estimated useful lives as follows:

Freehold premises – 50 years
Short leasehold premises – over the remainder of the lease
Computer equipment – four years
Motor vehicles – six years
Other equipment, fixtures and fittings – 10 years

k) Investment properties:

Investment properties include those portions of freehold land and buildings owned by the Society that are held to achieve rental income, capital appreciation or both. Investment properties are initially recognised at cost and subsequently carried at fair value, determined by independent professional valuers on an open-market value basis. Changes in fair values are recognised in the income statement. The cost of renovations or improvements is capitalised and the cost of maintenance, repairs and minor improvements is recognised in the income statement when incurred. No depreciation is charged on investment properties. On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in the income statement.

Notes to the accounts (continued)

l) Intangible assets:
Purchased software and costs directly attributable to the development of software are capitalised and recognised as Intangible assets where the software is expected to generate future economic benefits and where attributable costs can be reliably measured. Intangible assets are recognised at cost less accumulated amortisation and any impairment charges. Amortisation commences when the software first becomes available for operational use and is charged to the Income statement over the expected useful life of the software, currently between four and seven years. Amortisation periods are reviewed annually to ensure they remain appropriate. The carrying value of Intangible assets is reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying value may not be recoverable with the carrying amount immediately reduced to its recoverable amount where required.

m) Retirement benefits:
The Society operates a final salary pension scheme administered by trustees, the funds of which are separate from those of the Society. The defined benefit scheme is funded by contributions partly from the employees and partly from the Society at rates assessed by independent actuaries. The scheme assets are measured at market value at each Statement of financial position date and liabilities are measured using the projected unit valuation method, discounted using a corporate bond rate. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding interest) are recognised in the Statement of comprehensive income. The Society also operates a stakeholder pension scheme and the Society contributions for this scheme are charged to the Income statement.

n) Operating leases:
Rentals under operating leases are charged to administrative expenses in the Income statement on a straight line basis over the life of the lease.

o) Taxation:
Taxation comprises amounts for current and deferred tax and is recognised in either the Income statement or Statement of comprehensive income to match with the related item(s) and is determined using the rates of taxation substantively enacted at the Statement of financial position date. Current tax represents the expected tax payable on profit adjusted for tax purposes. Deferred tax reflects temporary timing differences between the amounts determined for accounting purposes and amounts determined for taxation purposes. Tax relating to the fair value re-measurement of available for sale assets, which is charged or credited directly to the Statement of comprehensive income, is also charged or credited to the Statement of comprehensive income and subsequently recognised in the Income statement to match with the subsequent recognition of the deferred gain or loss in the Income statement.

p) Critical accounting judgements and key sources of estimation uncertainty:
In applying the Group's accounting policies, the Group is required to make estimates and apply judgements that can have a material effect on the carrying amounts of assets and liabilities. Such estimates and judgements are continually evaluated and are based on historical experience and expectations of future events believed to be reasonable under current circumstances. The key sources of estimation uncertainty are described below:

i) Amortised cost accounting – expected mortgage life
Amortised cost accounting for mortgage assets requires judgements regarding the expected life of the underlying assets. The expected life of mortgage assets is derived using a combination of historical data and management judgement and is reviewed periodically throughout the year and reassessed against actual performance. Any changes to the expected life would alter the timing of recognition of interest receivable and amend the carrying value of loans and advances to customers as stated in the Statement of financial position.

ii) Impairment losses on loans and advances to customers
Impairment losses are calculated using credit risk characteristics, expected cash flows and historical experience. Estimates are made of house price inflation, default rates, time taken to sell properties in possession and the extent of any discounts that may apply and, for buy-to-let advances, the level of rental receipts.

iii) Fair value of derivatives and financial assets
The Society employs a number of techniques in determining the fair value of its derivatives and financial assets.

Available for sale
Measured at fair value using available market prices.

Derivative financial instruments
Calculated by discounted cash flow models using yield curves based on observable market data.

Financial assets at fair value through profit and loss
Estimated on the basis of the results of a discounted cash flow model that makes maximum use of market inputs. The fair value of the Group's portfolio of equity release mortgages are calculated in this way, making appropriate assumptions regarding mortality rates, voluntary early redemptions, future house price inflation and sale discount. Expected cash flows are discounted using a long-term interest rate, derived from quoted interest rates using generally observable market data in similar time bandings to match the expected timings of the cash flows of the mortgages, together with adjustments to reflect the cost of funding, capital, illiquidity and other risks.

iv) Retirement benefits
Significant judgements on areas such as future interest rates, future inflation or mortality rates have to be exercised in estimating the value of the assets and liabilities of the Society's final salary pension scheme. The assumptions used are set out in Note 26 to the accounts. The value of the pension scheme liabilities is most sensitive to the discount rate used.

2. Interest receivable and similar income	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
On loans fully secured on residential property	34,493	32,401	38,918	36,630
On loans to subsidiaries	-	1,498	-	1,568
On other loans	156	156	189	189
On debt securities				
Interest from fixed income securities	94	94	294	294
On other liquid assets				
Interest and other income	1,351	1,351	1,093	1,093
Gains arising on the disposal of financial instruments	570	570	1,077	1,077
Net expense on derivatives	(4,041)	(4,041)	(4,518)	(4,518)
	32,623	32,029	37,053	36,333

Gains arising on the disposal of financial instruments comprise net profits from the sale of treasury instruments.

3. Interest payable and similar charges	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
On shares held by individuals	11,148	11,148	13,432	13,432
On subordinated liabilities	632	632	632	632
Net expense on derivatives	97	97	266	266
On deposits and other borrowings	829	829	1,335	1,335
	12,706	12,706	15,665	15,665

4. Net fair value movements	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Derivatives in designated fair value hedge relationships	685	685	1,801	1,801
Adjustments to hedged items in fair value hedge accounting relationships	(1,059)	(1,059)	(1,341)	(1,341)
Derivatives not in designated fair value hedge relationships	(6,541)	(2,439)	1,869	1,869
Increase/(Decrease) in fair value of assets and liabilities	6,381	2,871	(2,432)	(2,432)
	(534)	58	(103)	(103)

The net losses from derivative financial instruments represents the net fair value movement on derivative instruments that are matching risk exposure on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges. The movement is primarily due to timing differences in income recognition between derivative instruments and the hedged assets or liabilities. Amounts reported as changes in the fair value of assets and liabilities principally comprise movements in the fair value of the Group's portfolio of equity release mortgages. Derivatives are held to match the risk exposure of these assets but are not held in a qualifying hedge accounting relationship.

Notes to the accounts (continued)

5. Administrative expenses

	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Staff costs (Note 6)	7,627	7,627	7,398	7,398
Remuneration of auditors:				
- audit of the Society's accounts	76	76	76	76
- audit of the Society's subsidiary pursuant to legislation	5	5	8	8
- all other services	11	11	68	68
Operating lease rentals	237	237	296	296
Other administrative expenses	6,066	6,066	7,418	7,388
	14,022	14,022	15,264	15,234

Note: all audit fees are borne by the Society.

6. Staff numbers and costs

The average number of persons employed by the Society (including the Executive Directors) during the year was:

	Group 2016	Society 2016	Group 2015	Society 2015
Principal office	122	122	117	117
Branch offices	56	56	58	58
	178	178	175	175

The aggregate costs of these persons were as follows:	£000	£000	£000	£000
Wages and salaries	6,644	6,644	6,554	6,554
Social security costs	580	580	545	545
Other pension costs (Note 26)	403	403	299	299
	7,627	7,627	7,398	7,398

7. Remuneration of and transactions with Directors

Analysis of Directors' emoluments:	Salary/ fees £000	Bonus paid (1) £000	Other benefits (2) £000	Pension /Pension allowance £000	2016 Total £000	2015 Total £000
Executive						
C H Field	170	26	48	23	**267**	232
S A Howe	150	23	16	20	**209**	226
D L Garner (from 14/09/15)	150	5	28	20	**203**	54
	470	**54**	**92**	**63**	**679**	512
Non-Executive						
G R Dunn	48	-	-	-	**48**	48
J E Smith (to 20/04/16)	13	-	-	-	**13**	38
C R L Wilson (to 20/04/16)	10	-	-	-	**10**	30
T G Barr	30	-	-	-	**30**	30
N J Treble	35	-	-	-	**35**	30
N J Holden	38	-	-	-	**38**	38
J A Ashmore (from 01/05/15)	30	-	-	-	**30**	20
E Kelly (from 01/05/15)	30	-	-	-	**30**	20
	234	-	-	-	**234**	254
Total 2016	**704**	**54**	**92**	**63**	**913**	**-**
Total 2015(3)	614	66	40	46	**-**	766

Notes:
1) Bonus paid in 2016 was earned and accrued in 2015 and £16k of bonus earned remains deferred to be paid in 2018 subject to the approval of the Remuneration and Loans Committee. The bonus arrangements for Executive Directors are explained in full in the Directors' Remuneration Report.

2) Other benefits for C H Field and D L Garner include amounts agreed for relocation expenses.

3) Excludes £321,000 (including VAT) paid to the interim Chief Executive Officer, Mike Kirsch, for his services from 1/1/15 to 27/08/15

Notes to the accounts (continued)

8. Taxation on profit on ordinary activities

The tax charge comprises

	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Current tax on profit on ordinary activities				
UK corporation tax	255	255	832	702
Adjustments in respect of prior periods	(338)	(329)	37	57
Total current tax	(83)	(74)	869	759
Deferred tax				
Origination and reversal of timing differences	(28)	(30)	36	31
Adjustments in respect of prior periods	106	106	12	12
Effect of tax rate change on opening balance	(30)	(30)	(58)	(58)
Total deferred tax	48	46	(10)	(15)
Total tax (credit)/charge on profit on ordinary activities	(35)	(28)	859	744
Tax recognised in other comprehensive income	(138)	(138)	(259)	(259)
Total current and deferred tax (credit)/charge	(173)	(166)	600	485

The standard rate of Corporation Tax was 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015, giving effective tax rates of 20.25% for the year ended 31 December 2015 and 20% for the year ended 31 December 2016. During 2015 and 2016 reduction in the corporation tax rates to 19% from 1 April 2017 and 17% from 1 April 2020 were substantively enacted into legislation. All deferred tax balances have been recognised at 17%, being the rate enacted at the balance sheet date at which the balances are materially expected to reverse.

Note:
1) Tax adjustments in respect of prior years in 2016 relate to Research and Development tax credit claims in respect of the year ended 31 December 2014 and non-taxable income relates to fair value movements on investment properties which result in a chargeable gain or loss only on disposal of the property.

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Group profit on ordinary activities before tax	1,231	1,266	4,111	3,456
Tax on profit on ordinary activities at standard UK corporation tax rate of 20% (2015: 20.25%)	246	253	832	700
Effects of:				
Fixed asset differences	28	28	24	24
Non-taxable income	(55)	(55)	-	-
Impact of rate change	(30)	(30)	(58)	(58)
Adjustments to tax charge in respect of previous years	(232)	(223)	49	69
Other	8	(1)	12	9
Total tax charge for the period recognised in the income statement	(35)	(28)	859	744

9. Liquid assets

	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Loans and advances to credit institutions:				
Repayable on call and short notice	92,424	92,210	55,426	55,426
Placements with credit institutions	28,385	28,385	26,468	26,468
	120,809	120,595	81,894	81,894

As at 31 December 2016 £28,380k (2015: £25,720k) of cash has been deposited by the Group and Society as collateral against derivative contracts.

	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Debt securities:				
Gilts	10,992	10,992	4,084	4,084
Certificates of deposit	-	-	21,101	21,101
Money market funds	10,162	10,162	10,068	10,068
Treasury bills	15,998	15,998	44,956	44,956
Bonds	69,579	69,579	80,039	80,039
	106,731	106,731	160,248	160,248

	Group & Society 2016 £000
Movements during the year of debt securities are analysed as follows:	
At 1 January	160,248
Additions	72,379
Disposals	(126,910)
Net gains from changes in fair value recognised in Statement of comprehensive income	1,014
At 31 December	106,731

Notes to the accounts (continued)

10. Derivative financial instruments

	Group & Society		
	Contract/ notional amount £000	Fair values – Assets £000	Fair values – Liabilities £000
As at 31 December 2016			
a) Unmatched derivatives – Interest rate swaps	128,534	2,287	(29,272)
b) Derivatives designated as fair value hedges – Interest rate swaps	149,500	749	(2,324)
Total recognised derivative assets / (liabilities)	278,034	3,036	(31,596)
As at 31 December 2015			
a) Unmatched derivatives – Interest rate swaps	69,100	1,183	(24,164)
b) Derivatives designated as fair value hedges – Interest rate swaps	258,500	276	(2,510)
Total recognised derivative assets / (liabilities)	327,600	1,459	(26,674)

Unmatched derivatives include an interest rate swap with a notional value of £45.1 million designed to protect the Society against the interest rate risk presented by its portfolio of equity release mortgages. This swap is structured within upper and lower bands and is designed to reflect the projected balances of the portfolio, incorporating underlying assumptions on property values and prepayments and actuarial assumptions on mortality.

Unmatched derivatives also include interest rate swaps with a total notional value of £62 million, which the Society has elected to de-designate from their hedging relationship at December 2016.

11. Loans and advances to customers

	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Loans fully secured on residential property	861,932	808,059	866,129	813,425
Other loans - loans fully secured on land	2,926	2,926	3,258	3,258
	864,858	810,985	869,387	816,683
Provision for impairment losses on loans and advances (Note 12)	(3,977)	(3,909)	(2,186)	(2,129)
	860,881	807,076	867,201	814,554
Fair value adjustment for hedged risk	1,931	1,931	2,298	2,298
	862,812	809,007	869,499	816,852

The Society has pledged £137.3million of mortgage loan pools with the Bank of England for the Funding for Lending Scheme (2015: £129.3million).

12. Impairment losses on loans and advances

	Individual £000	Collective £000	Total £000
Group			
At 1 January 2016	1,644	542	2,186
Charge / (credit) for the year	2,332	(233)	2,099
Amounts utilised in the period	(308)	-	(308)
At 31 December 2016	3,668	309	3,977

Society			
At 1 January 2016	1,608	521	2,129
Charge / (credit) for the year	2,302	(214)	2,088
Amounts utilised in the period	(308)	-	(308)
At 31 December 2016	3,602	307	3,909

13. Investments in subsidiary undertakings

	Society 2016 £000	Society 2015 £000
Shares in subsidiary undertakings	86	86
Loans to subsidiary undertakings	51,477	50,202
	51,563	50,288

Movement during the year of loans to subsidiary undertakings:

Cost		
At 1 January	50,202	54,268
Repayments received	(2,826)	(4,066)
Loans advanced	4,101	-
At 31 December	51,477	50,202

The Society holds 100% of the ordinary share capital of Crocus Home Loans Limited, for the purpose of secured lending on residential property. The share capital authorised and issued is £1,000.

The following 100% owned subsidiaries were not carrying on business at the end of the financial year:

	Share Capital
Saffron Independent Financial Advisers Limited	£85,000
Saffron Walden Investment Services Limited	£2
Saffron Walden Property Developments Limited	£2
Saffron Walden Property Sales Limited	£2

All subsidiary undertakings are registered in England and Wales and operate within the United Kingdom.

Notes to the accounts (continued)

14. Property, plant and equipment

	Group & Society			
	Land and buildings freehold £000	Land and buildings short leasehold £000	Equipment, fixtures, fittings and vehicles £000	Total £000
Cost or valuation				
At 1 January 2016	6,595	1,190	3,916	11,701
Additions	13	-	113	126
Disposals	-	-	(1,290)	(1,290)
Revaluation	250	-	-	250
Transfers to investment property	(2,431)	-	-	(2,431)
At 31 December 2016	4,427	1,190	2,739	8,356
Depreciation				
At 1 January 2016	979	272	3,040	4,291
Charged in year	101	113	289	503
Disposals	-	-	(1,274)	(1,274)
Revaluation	(418)	-	-	(418)
At 31 December 2016	662	385	2,055	3,102
Net book value				
At 31 December 2016	3,765	805	684	5,254
At 31 December 2015	5,616	918	876	7,410

Freehold Land and Buildings are held at valuation and were professionally valued by Derrick Wade Waters, Chartered Surveyors, on an existing use basis as at 31 December 2016. This valuation was £3,765,000 compared to a net book value of £3,385,000.

The net book value of non-depreciable land held by the Society for its own activities is as follows:

	Group & Society	
	2016 £000	2015 £000
Freehold	1,469	1,469

15. Investment properties

	Group & Society £000
At 1 January 2016	-
Transfer from property, plant and equipment	2,431
Revaluation gain	249
At 31 December 2016	2,680

Investment properties are held at valuation and were professionally valued by Derrick Wade Waters, Chartered Surveyors, on an open market value basis as at 31 December 2016. The property rental income earned, all of which is leased out under operating leases, amounted to £200k and has been recognised within other operating income.

16. Intangible assets

	Group & Society £000
Cost	
At 1 January 2016	10,698
Additions	3,639
Disposals	(84)
At 31 December 2016	14,253
Amortisation	
At 1 January 2016	2,034
Charged in year	1,635
Disposals	(84)
At 31 December 2016	3,585
Net book value	
At 31 December 2016	10,668
At 31 December 2015	8,664

Intangible assets at 31 December 2016 comprise the costs of investment in new mortgages and savings platforms to meet the future needs of the Society and include £2,069,000 (2015: £3,767,000) of assets in the course of construction. Amortisation is charged against these assets when they become ready for use by the business over estimated useful lives of between four and seven years.

17. Other assets

	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Other assets	302	302	874	874
Prepayments and accrued income	1,402	1,402	1,464	1,464
Corporation tax	213	204	-	-
	1,917	1,908	2,338	2,338

18. Shares

	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Held by individuals	903,284	903,284	897,983	897,983
Fair value adjustment for hedged risk	191	191	(412)	(412)
	903,475	903,475	897,571	897,571

Notes to the accounts (continued)

19. Amounts owed to credit institutions

	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Amounts owed to credit institutions	19,340	19,340	21,073	21,073
Fair value adjustment	2,246	2,246	1,241	1,241
	21,586	21,586	22,314	22,314

20. Other liabilities

	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Income tax	-	-	550	550
Corporation tax	-	-	309	179
Deferred tax	351	365	442	458
Other creditors	983	983	1,177	1,177
Other accruals	1,419	1,420	1,213	1,185
	2,753	2,768	3,691	3,549
The elements of deferred taxation are as follows:				
Fixed asset timing differences	416	416	429	429
Short-term timing differences	(110)	(96)	(11)	5
Capital gains	23	23	24	24
Other	22	22	-	-
Deferred taxation liability	351	365	442	458
The amounts provided are the full potential liabilities.				
At 1 January 2016	442	458		
Deferred tax movement for the year	(91)	(93)		
At 31 December 2016	351	365		

21. Subordinated liabilities

	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Fixed Rate 6.32% Subordinated Debt 2028	10,270	10,270	10,270	10,270

The Society entered into a subordinated liabilities issue during 2003. The issue is for £10,000,000 denominated in sterling, and the loan is repayable at maturity. The rights of repayment of the holders of this issue are subordinated to the claims of all depositors, all creditors and Members holding shares in the Society, as regards the principal of their shares and interest due to them.

22. Available for sale reserve

	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Reserve at start of the year	(33)	(33)	1,034	1,034
Realised gains	(570)	(570)	(1,077)	(1,077)
Net changes in fair value	1,014	1,014	(262)	(262)
Tax relating to components of other comprehensive income	(70)	(70)	272	272
Reserve at end of the year	341	341	(33)	(33)

23. Revaluation reserve

	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Revaluation reserve at start of the year	627	627	779	779
Realised valuation gain on property, plant and equipment	-	-	(103)	(103)
Unrealised valuation gains on property, plant and equipment	468	468	-	-
Transfer to general reserve	(715)	(715)	-	-
Transfer of depreciation on revalued assets	-	-	(49)	(49)
Revaluation reserve at end of the year	380	380	627	627

24. Financial commitments

a) Total future minimum lease payments under non-cancellable operating leases are as follows:

	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Not later than one year	38	38	25	25
Later than one year and not later than five years	146	146	294	294
Later than five years	1,752	1,752	1,994	1,994

b) At 31 December 2016, the Group had capital commitments of nil (2015: nil) which were contracted but not provided for.

25. Provisions for liabilities

	Group & Society		
	Financial Services Compensation Scheme Levy £000	Dilapidations £000	Total £000
2016			
At 1 January 2016	341	167	508
Charge for the year	169	-	169
Provision utilised	(305)	(15)	(320)
At 31 December 2016	205	152	357
2015			
At 1 January 2015	413	167	580
Charge for the year	599	-	599
Provision utilised	(671)	-	(671)
At 31 December 2015	341	167	508

Notes to the accounts (continued)

25. Provisions for liabilities (continued)

Financial Services Compensation Scheme Levy

In common with other regulated UK deposit takers the Society pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. During 2008 and 2009 claims were triggered against the FSCS in relation to a number of financial institutions including Bradford & Bingley plc, Kaupthing Singer & Friedlander, Heritable Bank plc, Landsbanki hf and Dunfermline Building Society. The FSCS meets these claims by way of loans received from HM Treasury and has in turn acquired rights in the realisation of the assets of the banks. The FSCS is liable to pay interest on these loans, and may have a further liability if there are insufficient funds from the realisation of the assets of the bank to fully repay these loans. The term of these loans was interest only for the first three years, with the FSCS recovering the interest cost, together with its own ongoing management expenses, through annual management levies on its members. The initial three year term expired in September 2011, and under the renegotiated terms the interest rate was reset from 12 month Libor +30bps to 12m Libor +100bps. By virtue of it holding deposits protected under the FSCS scheme at 31 December 2015, the Society has an obligation to pay levies in respect of the interest cost for 2016/17. From 2013, the FSCS had also started to repay the principal of the Treasury loans and a final levy was raised in 2015/16 for the capital shortfall for these loans, so that they were fully repaid by March 2016.

Dilapidations

Provision for dilapidations represents expected costs on the Society’s leasehold properties, based on third party estimates, of the restoration costs for each of the properties.
The amount can be further analysed between:

	£000
Principal offices	52
Branch offices	100

26. Group pensions

Defined contribution scheme

The amounts charged to the Income and Expenditure Account in respect of contributions to the Group's defined contribution stakeholder pension scheme represents the contribution payable in the year. The amounts paid into the scheme amounted to £402,549 (2015: £299,000).

Defined benefit scheme

The Society operates a defined benefit pension scheme covering its longer serving employees. The scheme closed to staff who joined the Society after 4 August 2003 and closed to future accrual from 1 January 2008. Members who remain employed by the Society retain a link to pensionable salary. The assets of the scheme are held in a managed fund independent of the Society's finances.

The funding of the scheme is based upon regular triennial actuarial valuations, the most recent being as at 30 April 2014. The principal assumptions relate to the rate of return on investments, then assumed to be 5.4% (2011: 5.8%) per annum for the pre-retirement period and 4.0% (2011: 5.1%) for the post-retirement period. The rate of increase in salaries was assumed to be 3.6% (2011: 4.0%) per annum.

At the date of the latest actuarial valuation, the market value of the assets was £10,741,000 (2011: £8,229,000) which was sufficient to cover 101% (2011: 99%) of the value of the benefits that had accrued to members at that date plus a reserve for future expenses of £725,000.

As at 31 December 2016 the scheme is shown in the Statement of financial position as a pension liability. Based on an actuarial valuation, consistent with the methods prescribed in accounting standard FRS102, a net deficit on the Society scheme has been identified as follows:

26. Group pensions (continued)

Main assumptions

	Date of fund valuation	
	31 December 2016	31 December 2015
Rate of increase in salaries	2.3%	2.1%
Rate of increase in pensions in payment	3.2%	3.0%
Rate of increase in pensions in payment after 05.04.05	2.3%	2.3%
Discount rate	2.6%	3.8%
RPI inflation assumptions	3.3%	3.1%
CPI inflation assumptions	2.3%	2.1%

These assumptions used by the actuary are the best estimates, chosen from a range of possible assumptions which may not be borne out in practice.

Reconciliation of scheme's assets and defined benefit obligation:	Assets £000	Defined benefit obligation £000	Total £000
At 1 January 2016	12,104	(11,526)	578
Benefits paid	(282)	282	-
Employer's contribution	100	-	100
Administration expenses	(51)	-	(51)
Net interest cost	455	(434)	21
Re-measurement gains / (losses)			
- Actuarial gain	-	(2,836)	(2,836)
- Return on assets excluding interest income	1,573	-	1,573
At 31 December 2016	**13,899**	**(14,514)**	**(615)**

The scheme liabilities were valued in accordance with the guidelines set out in Section 28 of FRS102 using a discount rate of 2.6% per annum, which is derived from the yields available on high quality sterling corporate bonds at durations appropriate to the duration of liabilities.

Demographic assumptions	31 December 2016	31 December 2015
Mortality (Pre-retirement)	Nil deaths	Nil deaths
Mortality (Post-retirement)	S2PAcmi	S2PAcmi

Notes to the accounts (continued)

26. Group pensions (continued)

Analysis of other pension costs charged in arriving at operating profit:
Analysis of amounts included in other operating charges

	2016 £000	2015 £000
Administration expenses	(51)	(51)
	(51)	**(51)**

Analysis of amounts included in pension finance income

Net interest	21	15
	21	**15**

Analysis of amount recognised in the Statement of comprehensive income

Actual return/(loss) on assets less interest	1,573	(386)
Actuarial (losses)/gains on defined benefit obligation	(2,836)	542
Total actuarial (loss)/gain recognised in the Statement of comprehensive income	**(1,263)**	**156**

27. 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 Group is a retailer of financial instruments in the form of mortgage and savings products and uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and manage risks arising from its operations.

The Group has a formal structure for managing risk, including establishing risk appetite, risk limits, reporting lines, mandates, policies and other control procedures. This structure is reviewed regularly by the Assets and Liabilities Committee (ALCO), which is charged with the responsibility for managing and controlling the Statement of financial position and the use of financial instruments for risk management purposes. Further oversight of risk management is provided by the Risk, Audit, Compliance and Conduct Committee (RACCC).

Instruments used for risk management purposes include derivative financial instruments (derivatives), which are contracts or agreements whose value is derived from one or more of underlying price, rate or index inherent in the contract or agreement, such as interest rates.

Derivatives are only used by the Society in accordance with the Building Societies Act 1986 (as amended by the Building Societies Act 1997) to reduce the risk of loss arising from changes in interest rates or other factors specified in the legislation.

Derivatives are not used in trading activity or for speculative purposes.

The Group reduces its exposure to interest rate risk applying fair value hedging techniques, as follows:

Activity	Risk	Fair value
Fixed rate mortgage	Increase in interest rates	Group pays fixed, receives variable
Fixed rate savings bond	Decrease in interest rates	Group receives fixed, pays variable

The fair value of derivative financial instruments held at 31 December 2016 is shown in Note 10.

27. Financial instruments (continued)

The table below provides a summary of the terms and conditions of the Group's financial instruments and description of respective accounting policies.

Financial instrument	Terms and conditions	Accounting policy
Loans and advances to credit institutions	Fixed or LIBOR linked interest rate Fixed term Short to medium term maturity	Loans and receivables at amortised cost Accounted for at settlement date
Debt securities	Fixed or LIBOR linked interest rate Fixed term Short to medium term maturity	Available-for-sale at fair value through other comprehensive income Accounted for at settlement date
Loans and advances to customers	Secured on residential property or land Standard contractual term of 25 years Fixed or variable rate interest	Loans and receivables at amortised cost* Accounted for at settlement date
Shares	Fixed or variable term Fixed or variable interest rates	Amortised cost Accounted for at settlement date
Amounts owed to credit institutions	Fixed or LIBOR linked interest rate; FTSE linked return Fixed term Short to medium term maturity	Fair value through profit and loss or at amortised cost Accounted for at settlement date
Amounts owed to other customers	Fixed or variable interest rate Fixed or variable term Short to medium term maturity	Amortised cost Accounted for at settlement date
Subordinated liabilities	Fixed interest rate Fixed term	Amortised cost Accounted for at settlement date
Derivative financial instruments	Fixed interest received/paid converted to variable interest paid/received Based on notional value of the derivative	Fair value through profit and loss Accounted for at trade date

* Excluding portfolio of equity release mortgages accounted for at fair value through profit and loss.

Note 1 : 'Accounting Policies' describes how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. Financial assets and liabilities are measured on an ongoing basis either at fair value or at amortised cost. The following tables analyse the Group's assets and liabilities by financial classification:

Notes to the accounts (continued)

27. Financial instruments (continued)

Carrying values by category as at 31 December 2016

	Group							
	Held at amortised cost		Held at fair value					
	Loans and receivables	Financial assets and liabilities at amortised cost	Available-for-sale	Financial assets and liabilities	Derivatives designated as fair value hedges	Unmatched derivatives	Non-financial assets and liabilities	Total
Financial assets	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cash in hand	-	630	-	-	-	-	-	630
Loans and advances to credit institutions	120,809	-	-	-	-	-	-	120,809
Debt securities	-	-	106,731	-	-	-	-	106,731
Derivative financial instruments	-	-	-	-	749	2,287	-	3,036
Loans and advances to customers	791,523	-	-	71,289	-	-	-	862,812
Other assets	-	-	-	-	-	-	20,519	20,519
	912,332	**630**	**106,731**	**71,289**	**749**	**2,287**	**20,519**	**1,114,537**
Financial liabilities								
Shares	-	903,475	-	-	-	-	-	903,475
Amounts owed to credit institutions	-	3,924	-	17,662	-	-	-	21,586
Amounts owed to other customers	-	91,486	-	-	-	-	-	91,486
Derivative financial instruments	-	-	-	-	2,324	29,272	-	31,596
Provisions for liabilities	-	-	-	-	-	-	357	357
Other liabilities	-	-	-	-	-	-	3,368	3,368
Subordinated liabilities	-	10,270	-	-	-	-	-	10,270
	-	**1,009,155**	**-**	**17,662**	**2,324**	**29,272**	**3,725**	**1,062,138**

Carrying values by category as at 31 December 2015

Financial assets								
Cash in hand	-	890	-	-	-	-	-	890
Loans and advances to credit institutions	81,894	-	-	-	-	-	-	81,894
Debt securities	-	-	160,248	-	-	-	-	160,248
Derivative financial instruments	-	-	-	-	276	1,183	-	1,459
Loans and advances to customers	804,448	-	-	65,051	-	-	-	869,499
Other assets	-	-	-	-	-	-	18,990	18,990
	886,342	**890**	**160,248**	**65,051**	**276**	**1,183**	**18,990**	**1,132,980**
Financial liabilities								
Shares	-	897,571	-	-	-	-	-	897,571
Amounts owed to credit institutions	-	5,530	-	16,784	-	-	-	22,314
Amounts owed to other customers	-	120,606	-	-	-	-	-	120,606
Derivative financial instruments	-	-	-	-	2,510	24,164	-	26,674
Provisions for liabilities	-	-	-	-	-	-	508	508
Other liabilities	-	-	-	-	-	-	3,691	3,691
Subordinated liabilities	-	10,270	-	-	-	-	-	10,270
	-	**1,033,977**	**-**	**16,784**	**2,510**	**24,164**	**4,199**	**1,081,634**

There have been no reclassifications during the year.

27. Financial instruments (continued)

Carrying values by category as at 31 December 2016

	Society							
	Held at amortised cost		Held at fair value					
	Loans and receivables	Financial assets and liabilities at amortised cost	Available-for-sale	Financial assets and liabilities	Derivatives designated as fair value hedges	Unmatched derivatives	Non-financial assets and liabilities	Total
Financial assets	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cash in hand	-	630	-	-	-	-	-	630
Loans and advances to credit institutions	120,595		-	-	-	-	-	120,595
Debt securities	-	-	106,731	-	-	-	-	106,731
Derivative financial instruments	-	-	-	-	749	2,287	-	3,036
Loans and advances to customers	778,615	-	-	30,392	-	-	-	809,007
Investments in subsidiary undertakings	51,563	-	-	-	-	-	-	51,563
Other assets	-	-	-	-	-	-	20,510	20,510
	950,773	**630**	**106,731**	**30,392**	**749**	**2,287**	**20,510**	**1,112,072**

Financial liabilities

Shares	-	903,475	-	-	-	-	-	903,475
Amounts owed to credit institutions	-	3,924	-	17,662	-	-	-	21,586
Amounts owed to other customers	-	91,486	-	-	-	-	-	91,486
Derivative financial instruments	-	-	-	-	2,324	29,272	-	31,596
Provisions for liabilities	-	-	-	-	-	-	357	357
Other liabilities	-	-	-	-	-	-	3,383	3,383
Subordinated liabilities	-	10,270	-	-	-	-	-	10,270
	-	**1,009,155**	**-**	**17,662**	**2,324**	**29,272**	**3,740**	**1,062,153**

Carrying values by category as at 31 December 2015

Financial assets

Cash in hand	-	599	-	-	-	-	-	599
Loans and advances to credit institutions	81,894	-	-	-	-	-	-	81,894
Debt securities	-	-	160,248	-	-	-	-	160,248
Derivative financial instruments	-	-	-	-	276	1,183	-	1,459
Loans and advances to customers	790,383	-	-	26,469	-	-	-	816,852
Investments in subsidiary undertakings	50,288	-	-	-	-	-	-	50,288
Other assets	-	-	-	-	-	-	18,990	18,990
	922,565	**599**	**160,248**	**26,469**	**276**	**1,183**	**18,990**	**1,130,330**

Financial liabilities

Shares	-	897,571	-	-	-	-	-	897,571
Amounts owed to credit institutions	-	5,530	-	16,784	-	-	-	22,314
Amounts owed to other customers	-	120,606	-	-	-	-	-	120,606
Derivative financial instruments	-	-	-	-	2,510	24,164	-	26,674
Provisions for liabilities	-	-	-	-	-	-	508	508
Other liabilities	-	-	-	-	-	-	3,549	3,549
Subordinated liabilities	-	10,270	-	-	-	-	-	10,270
	-	**1,033,977**	**-**	**16,784**	**2,510**	**24,164**	**4,057**	**1,081,492**

There have been no reclassifications during the year.

Notes to the accounts (continued)

27. Financial instruments (continued)

Fair value hierarchy classification

Valuation techniques

The following is a description of the determination of fair value for financial instruments which are accounted for at fair value using valuation techniques. The fair value hierarchy set out in FRS102 splits the source of input when deriving fair values into three levels, as follows:

- **Level 1** – quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2** – inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly
- **Level 3** – inputs for the asset or liability that are not based on observable market data

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

Debt securities

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

Loans fully secured on residential property – included within Loans and advances to customers is the Group's portfolio of equity release mortgages which are accounted for at fair value using the 'present value' method. Expected future principal (redemption) cash flows are derived by making appropriate assumptions regarding mortality rates and voluntary early redemptions together with assumptions on future house price inflation and sale discount.

The expected future cash flows are then discounted using a rate determined using a long-term interest rate, derived from quoted interest rates using generally observable market data in similar time bandings to match the expected timings of the cash flows of the mortgages, together with adjustments to reflect the cost of funding, capital, illiquidity and other risks.

Interest rate swaps – the valuation of interest rate swaps is also based on the 'present value' method. Expected interest cash flows are discounted using the prevailing SONIA yield curves. The SONIA yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the interest cash flows and maturities of the instruments. All swaps are collateralised and therefore no adjustment is required for credit risk in the fair value of derivatives.

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

As at 31 December 2016 Financial assets	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Debt securities	106,731	-	-	106,731
Loans fully secured on residential property	-	-	71,289	71,289
Derivative financial instruments	-	3,036	-	3,036
	106,731	3,036	71,289	181,056
Financial liabilities				
Amounts owed to credit institutions	-	17,662	-	17,662
Derivative financial instruments	-	2,324	29,272	31,596
	-	19,986	29,272	49,258

27. Financial instruments (continued)

As at 31 December 2015

Financial assets	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Debt securities	160,248	-	-	160,248
Loans fully secured on residential property	-	-	65,051	65,051
Derivative financial instruments	-	1,459	-	1,459
	160,248	1,459	65,051	226,758

Financial liabilities

Amounts owed to credit institutions	-	16,784	-	16,784
Derivative financial instruments	-	2,510	24,164	26,674
	-	19,294	24,164	43,458

Amounts stated are for Group and Society except for loans fully secured on residential property which includes £40,862,785 (2015: £38,582,370) held within the Society's subsidiary Crocus Home Loans.

Credit Risk

Credit risk refers to the potential risk that arises from customers (or counterparties) failing to meet their obligations as they fall due. Credit risk arises primarily from loans to our retail customers, loans to our commercial mortgage customers and from liquid assets. The Credit Committee is responsible for reviewing the Group's lending policy and monitoring the exposures in accordance with this policy, including exposures to individual counterparties and sector concentration. The Credit Committee recommends lending policy for approval by the Board Credit Committee. ALCO is responsible for recommending limits on treasury counterparties, country exposures and types of financial instruments for approval by the Board Credit Committee. The Group's maximum credit risk exposure is shown below:

	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Cash in hand	630	630	890	599
Loans and advances to credit institutions	120,809	120,595	81,894	81,894
Debt securities	106,731	106,731	160,248	160,248
Derivative financial instruments	3,036	3,036	1,459	1,459
Loans and advances to customers	862,812	809,007	869,499	816,852
	1,094,018	1,039,999	1,113,990	1,061,052

Loans and advances to credit institutions and Debt securities

ALCO is responsible for recommending limits that the Board approves by sector, country, instrument type and individual counterparty. Compliance against these limits is monitored daily by the Society's Treasury team and reviewed monthly by ALCO. Changes to counterparties or individual limits are made by ALCO according to strict criteria and ratified by the Board. Any changes in the credit risk ratings of counterparties are reported at ALCO and action taken where appropriate.

Notes to the accounts (continued)

27. Financial instruments (continued)

The Group's treasury asset concentration is shown in the table below:	2016 £000	2015 £000
Central banks	36,348	107,163
Multinational development banks	12,207	73,778
Central Government	167,615	49,083
Other	11,370	12,118
	227,540	**242,142**

Concentration by credit grading	2016 £000	2015 £000
AAA	22,369	98,857
AA	200,803	108,092
A	3,160	33,813
BB	-	368
Unrated	1,208	1,012
Total	**227,540**	**242,142**

Loans and advances to customers

The table below shows information on the Group's loans and advances to customers by geographical concentration:	2016 %	2015 %
Greater London	32	33
South East	31	30
South West	8	8
East Anglia	5	6
West Midlands	6	5
East Midlands	5	5
North West	5	5
Yorkshire & Humberside	4	4
Wales	2	2
North	2	2

The following table analysis the loan to value (LTV) of the mortgage portfolio	2016 %	2015 %
0% - 50%	39	34
50.01% - 75%	43	47
75.01% - 80%	6	7
80.01% - 85%	4	6
85.01% - 90%	2	3
90.01% -95%	3	1
>95%	3	2

The table below shows information on the Group's loans and advances to customers by payment due status:

Not impaired	2016 £000	2015 £000
Neither past due nor impaired	835,471	843,551
Up to three months overdue but not impaired	14,578	12,425
Over three months but not impaired	3,563	2,236
Possessions / receiver of rents	808	3,906
Impaired		
Up to three months overdue	-	-
Between three and six months overdue	-	140
Between six and twelve months overdue	96	231
Possessions / receiver of rents	8,296	7,010
	862,812	**869,499**

27. Financial instruments (continued)

Value of collateral held: Indexed	2016 £000	2015 £000
Neither past due nor impaired	1,969,256	1,840,603
Either past due or impaired	57,711	46,301
	2,026,967	**1,886,904**

Forbearance

Forbearance is where the Group enters into an arrangement with a borrower(s) when they have financial or other difficulties in meeting their obligations under the terms of their mortgage. Where appropriate for customers' needs, the Group applies a policy of forbearance and may grant a concession to borrowers. This may be applied where actual or apparent financial stress of the customer is deemed short term with a potential to be recovered. Incurred losses on forbearance cases are covered by existing provisions. The Group will always try to work with borrowers to achieve the best outcome for both parties in these circumstances and to this end its policy on forbearance has three basic principles:

- the borrower's best interests and establishing a payment plan with the borrower which is practical in the terms of the borrower's circumstances and their ability to pay but which meets the needs of both parties;
- that the Group will continue to work with the borrower to bring the mortgage back onto sustainable terms within a time frame appropriate to their circumstances, and,
- the Group will only initiate repossession proceedings when all other reasonable attempts to resolve the problem have failed.

The principal forbearance tools used are interest-only concessions and arrangements to repay arrears over a period which is practical in terms of the circumstances of the borrower. The majority of borrowers who require assistance are aided by one or other of these methods. The table below gives details of the loans subject to interest-only concessions and arrangements at 31 December 2016.

	Interest only		Arrangements	
2016	Account balances £000	Number of accounts	Account balances £000	Number of accounts
Society	-	-	1,026	11
Crocus Home Loans	-	-	920	9
Group total	**-**	**-**	**1,946**	**20**
2015				
Society	1,295	10	2,184	17
Crocus Home Loans	433	2	1,340	17
Group total	**1,728**	**12**	**3,524**	**34**

Other forbearance measures offered by the Group include a change to the date of payment each month, payment holidays, permanent change to mortgage type, mortgage term extensions and capitalisation of mortgage arrears. Capitalisation of mortgage arrears is only offered where all other forbearance options have been exhausted and only when it is the right option for the customer. The Group policy, after obtaining the customer's consent, is to capitalise arrears once the customer has made at least six consecutive contractual monthly mortgage repayments following the instance of non-payment. The types of forbearance offered during the year are detailed below:

	Number of accounts 2016	Number of accounts 2015
Capitalisations	1	-
Payment holidays	-	5
Mortgage term extensions	2	38
Interest rate concessions	1	-
	4	**43**

Notes to the accounts (continued)

27. Financial instruments (continued)

During the year ended 31 December 2016, no new properties were taken into possession by the Society (2015: four) or by Crocus Home Loans (2015: one).

At the end of 2016 the Society had 17 properties in possession representing capital balances of £2.2m which is 0.30% of the total Society book (2015: 0.26%). Compared to 2015 the number of cases reduced from 21 and the capital balances reduced by £0.2m.

The Group also engages a Receiver of Rents to manage properties on behalf of the customer, where the customer is unable to do so effectively. Where this occurs, interest concessions might be applied, including interest waivers.

At the end of 2016 the Group was a Receiver of Rents on 29 properties (2015: 35) representing capital balances of £9.0m (2015: £10.4m), which is 1.08% of the total Group book (2015: 1.30%). Of these properties 16 were also in possession (2015: 16), included in the values for possession cases specified above, representing capital balances of £2.1m (2015: £1.9m). This portfolio of Receiver of Rent portfolios is reviewed on an ongoing basis to ensure that potential losses to the Society are managed and mitigated. Not withstanding the active management of the portfolio, at 31 December 2016 provisions of £3.7m were maintained (2015: £1.6m).

Liquidity Risk

The Group's liquidity policy is to maintain sufficient assets in liquid form at all times to ensure that the Group can meet all its liabilities as they fall due and also meet all regulatory liquidity requirements.

The Group manages this risk on a continuous basis through ALCO and by ensuring compliance with the Liquidity and Financial Risk Management Policies approved by the Board. In practice this results in the Group holding a significant amount of highly liquid assets, mainly UK gilts, Treasury bills, multilateral development bank securities and deposits with the Bank of England, which are eligible to meet its required liquidity buffer set by the regulator. The Society also holds a separate pool of such assets for use as collateral with derivative counterparties. In addition the Group maintains deposits placed on call or overnight with the Bank of England and major banks to meet its operational needs without drawing on its buffer requirements. The table on the opposite page analyses the Group's assets and liabilities into relevant maturity groupings, based on the remaining period to contractual maturity at the statement of financial position date. This is not representative of the Group's management of liquidity. Loans and advances to customers rarely run their full course. The actual repayment profile is likely to be significantly different from that shown in the analysis. For example most mortgages have a contractual maturity of around 25 years but are generally repaid much sooner. Conversely, retail deposits repayable on demand generally remain on balance sheet much longer.

27. Financial instruments (continued)

Group residual maturity as at 31 December 2016

Financial assets	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Cash in hand	630	-	-	-	-	630
Loans and advances to credit institutions	120,218	591	-	-	-	120,809
Debt securities	10,162	19,054	64,548	2,786	10,181	106,731
	131,010	19,645	64,548	2,786	10,181	228,170
Derivative financial instruments	-	-	1,020	2,016	-	3,036
Loans and advances to customers	-	9,581	25,742	131,178	696,311	862,812
Other assets	-	1,920	46	4,362	14,191	20,519
	131,010	**31,146**	**91,356**	**140,342**	**720,683**	**1,114,537**

Financial liabilities and reserves						
Shares	610,091	60,159	185,878	47,347	-	903,475
Amounts owed to credit institutions	2,427	1,513	8,037	9,609	-	21,586
Amounts owed to other customers	84,858	1,702	4,926	-	-	91,486
Derivative financial instruments	-	175	-	2,371	29,050	31,596
Provisions for liabilities	-	-	205	71	81	357
Other liabilities	-	3,368	-	-	-	3,368
Subordinated liabilities	-	270	-	-	10,000	10,270
Reserves	-	-	-	-	52,399	52,399
	697,376	**67,187**	**199,046**	**59,398**	**91,530**	**1,114,537**
Net liquidity gap	**(566,366)**	**(36,041)**	**(107,690)**	**80,944**	**629,153**	**-**

Notes to the accounts (continued)

27. Financial instruments (continued)

Group residual maturity as at 31 December 2015

Financial assets	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Cash in hand	890	-	-	-	-	890
Loans and advances to credit institutions	80,820	1,074	-	-	-	81,894
Debt securities	10,068	42,825	72,704	23,006	11,645	160,248
	91,778	43,899	72,704	23,006	11,645	243,032
Derivative financial instruments	-	-	-	1,459	-	1,459
Loans and advances to customers	-	12,345	27,121	117,724	712,309	869,499
Other assets	-	5	2,420	2,541	14,024	18,990
	91,778	**56,249**	**102,245**	**144,730**	**737,978**	**1,132,980**

Financial liabilities and reserves						
Shares	584,436	41,951	157,887	113,297	-	897,571
Amounts owed to credit institutions	-	5,620	-	16,694	-	22,314
Amounts owed to other customers	111,532	3,454	5,620	-	-	120,606
Derivative financial instruments	-	54	543	1,967	24,110	26,674
Provisions for liabilities	-	-	341	33	134	508
Other liabilities	-	2,940	309	-	442	3,691
Subordinated liabilities	-	270	-	-	10,000	10,270
Reserves	-	-	-	-	51,346	51,346
	695,968	**54,289**	**164,700**	**131,991**	**86,032**	**1,132,980**
Net liquidity gap	**(604,190)**	**1,960**	**(62,455)**	**12,739**	**651,946**	**-**

27. Financial instruments (continued)

The following is an analysis of gross contractual cash flows payable under financial liabilities:

Group & Society As at 31 December 2016	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Shares	607,313	61,837	189,580	51,576	-	910,306
Amounts owed to credit institutions	2,410	1,515	7,728	8,819	-	20,472
Amounts owed to other customers	85,357	1,715	4,963	-	-	92,035
Derivative financial instruments	-	1,034	2,170	8,969	24,402	36,575
Subordinated liabilities	-	319	313	2,528	14,111	17,271
Total liabilities	**695,080**	**66,420**	**204,754**	**71,892**	**38,513**	**1,076,659**

Group & Society
As at 31 December 2015

Shares	578,892	42,798	161,035	119,084	-	901,809
Amounts owed to credit institutions	90	5,552	-	16,694	-	22,336
Amounts owed to other customers	120,526	3,505	5,678	-	-	129,709
Derivative financial instruments	-	1,269	2,822	7,673	22,025	33,789
Subordinated liabilities	-	319	313	2,528	14,743	17,903
Total liabilities	**699,508**	**53,443**	**169,848**	**145,979**	**36,768**	**1,105,546**

The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the statement of financial position date.

Market Risk

Market risk is the risk of changes to the Society's financial condition caused by market interest rates or early redemption of assets. The Society is exposed to market risk in the form of changes (or potential changes) in the general level of interest rates, changes in the relationship between short and long-term interest rates and divergence of interest rates for different balance sheet elements (basis risk). The Society has adopted the 'Matched' approach to interest rate risk, as defined by the PRA, which aims to undertake the hedging of individual transactions within an overall strategy for structural hedging, based on a detailed analysis of the statement of financial position. This analysis is then used to enable the positioning of the Group's statement of financial position to take advantage of a particular interest rate view.

The management of interest rate risk is based on a full statement of financial position gap analysis. The statement of financial position is subjected to a stress test of a 2% rise in interest rates on a weekly basis and the results are reported to the monthly ALCO meeting. In addition management reviews interest rate basis risk, including under stressed scenarios. Both sets of results are measured against the risk appetite for market risk which is currently set at a maximum of 4% of capital. These are in turn reviewed monthly by the ALCO and reported to the Board Risk Committee.

Notes to the accounts (continued)

27. Financial instruments (continued)

The table below summarises the Group's exposure to interest rate risk. Included in the table are Group assets and liabilities, including derivative financial instruments which are principally used to reduce exposure to interest rate risk, categorised by repricing date.

As at 31 December 2016 Financial assets	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Non-interest bearing £000	Total £000
Cash in hand	630	-	-	-	-	630
Loans and advances to credit institutions	120,218	591	-	-	-	120,809
Debt securities	29,209	64,425	2,771	10,035	291	106,731
Derivative financial instruments	-	-	-	-	3,036	3,036
Loans and advances to customers	629,596	4,199	154,389	44,363	30,265	862,812
Other assets	-	-	-	-	20,519	20,519
Total Financial assets	**779,653**	**69,215**	**157,160**	**54,398**	**54,111**	**1,114,537**
Financial liabilities and reserves						
Shares	670,059	185,878	47,347	-	191	903,475
Amounts owed to credit institutions	3,925	7,170	8,246	-	2,245	21,586
Amounts owed to other customers	91,486	-	-	-	-	91,486
Derivative financial instruments	-	-	-	-	31,596	31,596
Provisions for liabilities	-	-	-	-	357	357
Other liabilities	-	-	-	-	3,368	3,368
Subordinated liabilities	-	-	-	10,000	270	10,270
Reserves	-	-	-	-	52,399	52,399
Total Financial liabilities and reserves	**765,470**	**193,048**	**55,593**	**10,000**	**90,426**	**1,114,537**
Impact of derivative instruments	116,234	36,154	(107,254)	(45,134)	-	-
Interest rate sensitivity gap	130,417	(87,679)	(5,687)	(736)	(36,315)	-
Sensitivity to profit and reserves:						
Parallel shift of + 1%	(141)	418	(208)	20	-	89
Parallel shift of + 2%	(283)	836	(416)	39	-	176

27. Financial instruments (continued)

As at 31 December 2015 Financial assets	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Non-interest bearing £000	Total £000
Cash in hand	890	-	-	-	-	890
Loans and advances to credit institutions	81,894	-	-	-	-	81,894
Debt securities	58,906	72,704	16,993	11,645	-	160,248
Derivative financial instruments	-	-	-	-	1,459	1,459
Loans and advances to customers	567,111	83,186	149,502	45,277	24,423	869,499
Other assets	-	-	-	-	18,990	18,990
Total Financial assets	**708,801**	**155,890**	**166,495**	**56,922**	**44,872**	**1,132,980**

Financial liabilities and reserves

Shares	626,420	157,893	113,670	-	(412)	897,571
Amounts owed to credit institutions	5,620	-	15,453	-	1,241	22,314
Amounts owed to other customers	120,606	-	-	-	-	120,606
Derivative financial instruments	-	-	-	-	26,674	26,674
Provisions for liabilities	-	-	-	-	508	508
Other liabilities	-	-	-	-	3,691	3,691
Subordinated liabilities	-	-	-	10,000	270	10,270
Reserves	-	-	-	-	51,346	51,346
Total Financial liabilities and reserves	**752,646**	**157,893**	**129,123**	**10,000**	**83,318**	**1,132,980**
Impact of derivative instruments	187,664	(78,000)	(61,047)	(48,617)	-	-
Interest rate sensitivity gap	143,819	(80,003)	(23,675)	(1,695)	(38,446)	-
Sensitivity to profit and reserves:						
Parallel shift of + 1%	(247)	322	22	129	-	226
Parallel shift of + 2%	(494)	644	45	257	-	452

At 31 December 2016, the Group had £45m (2015: £49m) of swaps designed to protect the Society against the interest rate risk presented by its equity release portfolio. These swaps are structured within upper and lower bands and are designed to reflect the projected balances of the portfolio contained, incorporating underlying assumptions on property values, prepayments and actuarial assessments on mortality.

All financial assets and liabilities are presented on a gross basis in the statement of financial position as the Society does not have both an enforceable right to set off and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Society has entered into Credit Support Annexes (CSAs) for its derivative instruments which typically provide for the exchange of collateral on a daily basis to mitigate net mark to market credit exposure.

Notes to the accounts (continued)

27. Financial instruments (continued)

The following table shows the impact on derivative financial instruments and repurchase agreements after collateral:

2016 Financial assets	Gross amounts* £000	Financial collateral** £000	Net amounts £000
- Derivative financial instruments	3,036	(2,350)	686
Total Financial assets	**3,036**	**(2,350)**	**686**
Financial liabilities			
- Derivative financial instruments	31,596	(28,380)	3,216
Total Financial liabilities	**31,596**	**(28,380)**	**3,216**
2015 Financial assets			
- Derivative financial instruments	1,459	310	1,769
Total Financial assets	**1,459**	**310**	**1,769**
Financial liabilities			
- Derivative financial instruments	26,674	(25,410)	1,264
Total Financial liabilities	**26,674**	**(25,410)**	**1,264**

*As reported in the Statement of financial position.
** Financial collateral disclosed is limited to the amount of the related financial asset and liability.

28. Capital

The Board's policy is to continue to grow its capital base to further strengthen the confidence members and other stakeholders have in the Society as well as support future growth. The Group's capital requirements are set and monitored by the Prudential Regulatory Authority (PRA) in the form of Internal Capital Guidance (ICG). The Society operates a formal Internal Capital Adequacy Assessment Process (ICAAP) to determine and demonstrate how these requirements are met. The ICAAP also sets out the framework for the Society's internal governance and oversight of its risk and capital management policies and is used to assist with the management of capital and risk exposures. The Society's actual and forecasted capital positions are reviewed against a risk appetite that requires capital to be maintained at a specific minimum level above the agreed ICG. There were no reported breaches of capital requirements during the year. There have been no material changes to the Society's management of capital in the year.

The table below reconciles the Group's reserves to its total capital position:	Notes	2016 £000	2015 £000
General reserves		51,678	50,752
Available for sale reserve	22	341	(33)
Revaluation reserve	23	380	627
Deductions for intangible assets	16	(10,668)	(8,664)
Total Common Equity Tier 1 Capital		41,731	42,682
Collective impairment losses	12	309	542
Subordinated liabilities	21	10,270	10,270
Total Tier 2 Capital		10,579	10,812
Total regulatory capital		52,310	53,494
Risk weighted assets		394,486	403,722
Capital ratios			
Common equity tier 1 ratio		10.6%	10.6%
Total capital ratio		13.3%	13.3%
Leverage ratio		3.7%	3.7%

29. Related party transactions

a) Subsidiary, parent and ultimate controlling party

The Group is controlled by the Saffron Building Society, the ultimate parent, which is registered in England and Wales. Note 13 contains details of subsidiary undertakings and of any loans to subsidiary undertakings.

b) Key management compensation

The Directors of the Society are considered to be the Key Management Personnel, as defined by FRS102.

Total compensation for key management personnel for the year ended 31 December 2016 was £913,000 (2015: £766,000). Further information on compensation for key management personnel can be found in Note 7 and in the Directors' Remuneration Report.

c) Transactions between key management personnel and their connected persons

Shares and deposits	2016 Number of key management personnel and their connected persons	Amounts £000	2015 Number of key management personnel and their connected persons	Amounts £000
Balance at 1 January	13	300	9	322
Net movements in the year	n/a	(134)	n /a	(22)
Balance at 31 December	13	166	13	300

Amounts deposited by key management personnel and their connected persons earn interest at the same commercial rates and terms and conditions as applicable to all other employees and Members of the Society.

d) Directors' loans and transactions

At 31 December 2016, there were no outstanding mortgage loans granted in the ordinary course of business to Directors and their connected persons.

Notes to the accounts (continued)

30. Country-by-country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 introduced reporting obligations for institutions within the scope of the European Union's Capital Requirements Directive (CRD IV).

Article 89 of CRD IV requires credit institutions and investment firms in the EU to disclose annually, specifying, by Member State and by third country in which it has an establishment, the following information on a consolidated basis for the year ended 31 December 2016:

Name, nature of activities and geographical location: The Society has five subsidiaries and operates only in the United Kingdom. The Society is a Credit institution whose principal activities are deposit taking and mortgage lending

Average number of employees: As disclosed in note 6 to the accounts

Annual turnover: Equivalent to total net income and, along with profit before tax, is as disclosed in the income statement on page 28

Corporation tax paid: As disclosed in the cash flow statement on page 31

Public subsidies: There were none received in the year

ANNUAL BUSINESS STATEMENT

for the year ended 31 December 2016

1. Statutory percentages

	Ratio at 31 December 2016	Statutory limit
	%	%
Lending limit	1.4	25
Funding limit	11.1	50

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The lending limit measures the proportion of business assets other than in the form of loans fully secured on residential property. Business assets are the Total assets of the Group plus Impairment losses on loans and advances less Liquid assets, Investment properties, Property, plant and equipment and Intangible assets.

The funding limit measures the proportion of shares, deposits and debt securities not in the form of shares held by individuals.

The statutory limits are prescribed in Building Society legislation and ensure that the principal purpose of a Building Society is that of making loans which are secured on residential property and are funded substantially by its Members.

2. Other percentages

	Ratio at 31 December 2016	Ratio at 31 December 2015
	%	%
As a percentage of shares and borrowings:		
Gross capital	6.2	5.9
Free capital	4.4	4.4
Liquid assets	22.4	23.4
As a percentage of mean total assets:		
Profit after taxation	0.11	0.28
Management expenses	1.44	1.44

The above percentages have been prepared from the Group accounts:

'Shares and borrowings' represent the total of Shares, Amounts owed to credit institutions and Amounts owed to other customers, in each case including accrued interest and fair value adjustments.

'Gross capital' represents the aggregate of General reserves, Available for sale reserve, Revaluation reserve and Subordinated liabilities.

'Free capital' represents the aggregate of Gross capital and collective impairment losses on loans and advances less Investment properties, Property, plant and equipment and Intangible assets.

'Liquid assets' represent the total of Cash in hand and balances with the Bank of England, Loans and advances to credit institutions and Debt securities.

'Mean total assets' represent the average of Total assets at the beginning and the end of the financial year.

'Management expenses' represent the sum of Administrative expenses plus Depreciation and amortisation shown in the Income statement.

ANNUAL BUSINESS STATEMENT

for the year ended 31 December 2016

3. Information relating to the Directors and other officers as at 31 December 2016

Name of Director	Date of Birth	Date of Appointment	Occupation	Other Directorships
J Ashmore	16.1.1971	19.5.2015	Director	Crocus Home Loans Ltd Girl Guides Trading Services Ltd The Challenge Network Commonwealth Games England AHI Group Jazz-works Ltd Fitness Over Fifty Ltd
T G Barr	22.11.1962	10.04.2014	Director	Crocus Home Loans Ltd IT Range Ltd Cambridge Rugby Union Football Club Ltd (Honorary Secretary)
G R Dunn	10.07.1949	26.05.2011	Director	Crocus Home Loans Ltd
C H Field	24.11.1973	1.05.2014	Chief Executive Officer	Crocus Home Loans Ltd
D L Garner	29.9.1971	14.9.2015	Chief Financial Officer	Crocus Home Loans Ltd
N J Holden	7.12.1959	27.03.2014	Director	Crocus Home Loans Ltd BLME Holdings plc Bank of London & The Middle East plc IntegraFin Holdings Ltd Integrated Financial Arrangements Ltd Integralife UK Ltd Stanbic International Insurance Ltd Calmindon Ltd
S A Howe	28.05.1965	1.05.2014	Chief Customer Officer	Crocus Home Loans Ltd
E Kelly	14.8.1965	19.5.2015	Director	Crocus Home Loans Ltd MHS (Holdings) Ltd St James's Place Corporate Secretary Ltd St James's Place Investments plc SJPC Corporate Investments Ltd St James's Place International Assurance Ltd Willsher Consulting Ltd
N J Treble	24.08.1959	27.03.2014	Director	Crocus Home Loans Ltd Batesons Consulting Ltd Eskmuir Group: Eskmuir Properties Ltd Eskmuir Investments Ltd Eskmuir Securities Ltd Eskmuir (Thayer Street 1) Ltd Eskmuir (Thayer Street 2) Ltd Bank Leumi (UK) plc Trustee – Sir Kirby Laing Principal and Residual Trusts

Documents may be served on the above named Directors at the following address:
Deloitte LLP, Four Brindleyplace, Birmingham, B1 2HZ

Other Officers	Occupation
R J Barrett	Operations Director and Society Secretary
A Bush	IT Director
C Moore	Chief Risk Officer

4. Directors' service contracts

As at 31 December 2016, C H Field, D L Garner and S A Howe had service contracts with the Society which could be terminated by either party giving six months' notice.

OUR VALUES

GENUINE

Our business is built on two things – trust and serving our Members, not shareholders.

APPROACHABLE

We are friendly and proud of our place in Members' communities.

STRAIGHTFORWARD

We always communicate clearly and offer uncomplicated products and services.

CONSISTENT

Our Members depend on us for competitive, good quality products and services that meet their needs and reward their loyalty.

PROACTIVE

By anticipating future developments and Member needs, we not only future-proof our business, but can take action to minimise negative consequences, seize opportunities and improve our Members' experience.

Saffron Building Society

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