



Always there for our Members. Since 1849

ANNUAL MEMBERS' REVIEW 2018





ROYSTON



AGM The Nucleus,
Chesterford
Research Park



SAFFRON WALDEN



HAVERHILL



BISHOP'S STORTFORD



SAWBRIDGEWORTH



GREAT DUNMOW



WARE



BRENTWOOD



HALSTEAD



COLCHESTER



FRINTON-ON-SEA

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

Our AGM will be held at The Nucleus at Chesterford Research Park. There is a large free car park. The main entrance to the park is via the B184, Sat Nav post code is CB10 1TS.

The Nucleus
Chesterford Research Park
Little Chesterford
CB10 1XL



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CHAIRMAN'S STATEMENT

Mutuality has to have a future

This year is the 170th anniversary of the founding of our Society. This milestone means a lot to me, to our staff and to all our members as it demonstrates the importance of mutuality in our highly competitive world. Building societies offer something different, and approach their work in a different way from high street banks and other lenders in the modern financial services industry. It's our aim to be here for our members for another 170 years and continue to help people achieve their aim of owning a house and saving for the future.

The benefits of mutuality

When I graduated from university I bought a house together with three friends. My grandmother helped me with the deposit and I was able to enjoy the benefits and security of setting foot on the property ladder. However, young people trying to buy

their first home nowadays face many more challenges than I did then, and they need our help.

So, in my view if we are to make real progress in helping young people to acquire their own home, it is imperative that all of our members actively support their Building Society to grow and flourish. After all, it is the members that own our Society and by helping to support it, they are helping themselves to get better priced and designed products, better service and they are also helping to ensure that mutuals (ie Building Societies) stay vibrant and active in the financial landscape and do not disappear into the Regulatory undergrowth. You may not know that nearly a quarter of all mortgages are provided by building societies, who lent £70 billion in new mortgages in 2018. Mutuals helped 115,000 people buy their first home last year, that's nearly a third of the total of First Time Buyers. On the other side, almost one fifth of all cash savings are with building societies, who hold over £280 billion in savings balances.

Last year, building societies offered a savings rate above the average rates from the high street banks. During the banking crisis in 2008, many high street lenders withdrew from the mortgage market as they no longer considered it profitable.



GEOFFREY DUNN, CHAIRMAN

CHAIRMAN'S STATEMENT

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At the core of all mutual societies is a desire to remain steadfast to our guiding principle of being here for our customers through thick and thin. Of course we are realists. We need to be profitable so that we can invest for the future, retain our staff and deliver the products and services our customers need now and in the years ahead. However, our long-term aim is to look for ways to help our customers through volatile times.

Our results

The last five years have seen us invest heavily for the future so that our finances, staff and infrastructure are built to generate more success.

The reality though is that we still face many challenges. The CEO report explains the impact of current year adjustments to our capital reserves that we have experienced in 2018, which coupled with the additional capital buffers required by our regulator to be held by us from January 2019, means we must continue to prioritise the building of our capital strength. Political uncertainty has the potential to harm the economy and the impact of Brexit means there could be pressure to raise interest rates if inflation starts to creep up. In addition, we operate in a highly competitive environment, which means we have to be at our best to continue to offer excellent services.

So how are we going to do this?

Our plans

Looking ahead, the Board and the Executive team will work hard to focus on delivering a further strengthened capital position and to ensure that the Society remains not just operationally strong, but also well positioned to participate in future profitable lending opportunities. We aim to steer a steady ship with our eyes fixed on the risks and changes prevalent in the economy. As always, our main aim is to keep serving our members in the best and most effective way we possibly can. One thing though that has changed over the years is the complexity of what people need.

There is no such thing as a standard customer and we recognise that everyone has very different needs and requirements. For example, a self-employed mother in her 40's has very different needs from a young graduate trying to pay off student loans and save for a first home.

That's why we will continue to provide the best possible savings and lending products. Each will be designed to look after the specific needs of people at different stages of their lives. Our investment in technology means that we'll be faster than ever before in providing a service which we believe will continue to improve each year. Quick decisions and efficient online access, for those preferring to use the internet or a

phone, will mean that our servicing is seamless and better than ever.

The future

While the government has a huge role to play in fixing the housing crisis, Saffron Building Society aims to continue its tradition of innovation and being among the best at supporting those who want to own a house and save for their family's future.

Things are very competitive at the moment so we need to respond more

quickly and continue to develop our technology. We want to be pioneers, and offer increasing standards of service. But our principles will not change and we will always try to work in a straightforward and compassionate way. While it's not easy to get it right all of the time, and sometimes we have to make some tough decisions, that's how we try to serve our members. We will also maintain the focus on delivering sustainable profitability that will help to build our capital strength.

I believe mutuality is more important than ever before and that we must cherish what it provides. However, to do that we must continue to use building societies and cultivate their values. If we all look after our mutual societies then they will continue to look after us.

Everyone at Saffron Building Society would like to thank you for your continued support. We aim to build on 170 years of success and continue to serve you for many years to come.



Geoffrey Dunn, Chairman

CHIEF EXECUTIVE'S REPORT

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Your Society is 170 years old!

2019 is the the 170th anniversary of the Society's founding. While we are celebrating the service we have provided and the challenges we have overcome, our focus for the future will continue to be ensuring our long term success.

During 2018, we continued to see improvement in the likelihood of our customers to recommend us to others. We also continue to make progress in the development of our staff, again seeing approximately 80% of open roles recruited from within. It is vital for the success of your Society that we make continued progress in these areas because it is by providing excellent and trusted service that we will serve our Members needs and indeed grow as a Society.

Here for our Members

One of our key challenges is the role of branches in serving our Members. Our branches play an important role for many Members and we are rightly proud of the service that we offer. However, we are increasingly seeing that both current Members and new customers are asking for more ways to find information and to open accounts. It is possible to access accounts on the internet, but we need to make further improvements to both our website and mobile phone capability to remain competitive in the

future. Our challenge is to meet the needs of all our Members at a cost that we can afford. Although much has changed over the last 170 years, some of the challenges faced by Members have remained stubbornly familiar. The original purpose of a Building Society and the mutual movement was to help Members to own their own homes. In recent years the number of businesses lending to customers has increased significantly, but the challenge of home ownership remains as significant today as it has ever been.

We aim to support potential homeowners by taking an individual approach to each mortgage application that we receive. In 2018, we focused significantly on helping first time buyers, who struggle to get onto the housing ladder. We completed 199 first time buyer mortgages, representing 30% of all mortgages written by Saffron in 2018. In addition to supporting first time buyers, we supported 70 customers who wanted to build their own home and small property developers looking to build homes for sale.

People

At the end of the year, we said goodbye to two members of the Executive team, Sarah Howe, our Chief Customer Officer and Clive Moore, our Chief Risk Officer. We are delighted that our Head of Credit,



COLIN FIELD, CEO

Raj Marwaha, has been appointed as our new Chief Risk Officer, whilst Simon Taylor, a highly experienced business leader has joined us on an interim basis to support us until we find a permanent replacement for Sarah. I would like to thank both Sarah and Clive for the contribution they have made to the Society and wish them the very best for the future.

I am very proud of our people and the commitment, dedication and enthusiasm they show to both our Members and the Society.

2018 Performance

The financial details from 2018 can be found in our Annual Report and Accounts if you want to review our performance more closely. However, I'd like to make reference to some important headlines.

As your CEO I have explained the need for your Society to improve its profitability to enable it to meet the increasing capital demands imposed by regulation. In common with our experience over recent years, our underlying performance in 2018 has

CHIEF EXECUTIVE'S REPORT

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been good. The mortgage book returned to growth for the first time since 2014, impairment remained under control and our expenses remained at the same level. It is therefore especially disappointing that I have to report two matters that have impacted the Society this year. During the audit, an error was uncovered in the measurement of our Effective Interest Rate (EIR) Asset that required a negative adjustment of £2.2m to reserves. This issue relates to our adoption of a new accounting standard FRS102 back in 2015. The 2017 accounts have been restated to reflect this issue.

For the 2018 year, we have adopted a new technique for fair value measurement of our legacy portfolio of equity release mortgages. The new valuation technique is in line with market practice and takes into account the potential volatility in the lifetime book. The total charge to the income statement relating to the equity release book was £3.7m in the year, of which this change contributed £2.8m.

The impact of the EIR error and the change in basis of our equity release mortgage book coupled with the introduction of additional capital buffers required by our regulator on 1 January 2019 has impacted our capital reserves and will impact the ability of the Society to build upon the growth experienced in 2018. We have responded by

initiating a plan that will strengthen our capital reserves through a combination of reducing costs whilst managing the size of the balance sheet. Further explanation of both of these issues is provided in the Report and Accounts which is available in branch and on our website.

We continue to balance the needs of our Mortgage and Savings Members while ensuring that the Society makes sufficient returns to maintain its future viability. During the year, rates payable on savings accounts increased by 0.16% while mortgage rates increased by only 0.03%.

Community

One area in which we take enormous pride is in the positive impact that we make to our local communities and this year I feel that we can be especially proud.

We awarded £18k via our Community fund to eight diverse local charities. Individual and group staff initiatives have raised a further £12.5k for over 20 different charities. Alongside funds raised we have given our time and expertise providing financial education to over 700 year 6 pupils in Hertfordshire, held interview skill workshops at the Uttlesford Careers Fair, helped plant the edible garden with Dig It charity based in Saffron Walden, supported Saffron Walden Town Football Club to secure the ground lease for the next 100 years

and worked with WizeUp, a non-profit organisation delivering financial education and life-skills to Secondary school students in three local high schools, an initiative which we plan to expand in 2019.

One of our success stories in 2018 is the Saffron Community Choir, which is free for anyone to join, irrespective of their singing experience and ability. It has gone from strength to strength, seeing attendance double, in turn requiring a bigger rehearsal venue. In December we were honoured to open for The London Community Gospel Choir at Saffron Hall and joined them for the finale. It was a spectacular and uplifting evening and all the Choir members were thrilled to have been given this opportunity.

Looking Ahead

At the time of writing, both the economic and political environments are uncertain. It is difficult to predict what will happen or its impact, but we are well positioned and have made plans that will help us navigate any uncertainty. Should an economic downturn occur, then we are prepared; we have carried out stress tests that provide us with confidence that we are well set to weather a storm.

Our vision for the Society to be the place that Members trust to help them to manage their financial health throughout their life. To do this, we need to expand our capability and expertise, and forge deeper relationships with our Members.



Colin Field, Chief Executive Officer

In 2019, our priority is to improve our service, improve our capability, and to reduce costs, to make your Society stronger and more resilient, ready for the next 170 years!



Our **business**
is built on two
things – **trust**
and serving
our members

COMMUNITY HIGHLIGHTS 2018



Halstead Branch raising money for St Helena's Hospice

£18,000 of grants were awarded in 2018. Saffron Community Fund is managed by Essex Community Foundation.

**SOUTH EAST ESSEX
ADVOCACY FOR
OLDER PEOPLE**

£5,000

**ESSEX BOYS
& GIRLS CLUB**

£2,500

**COLCHESTER
CITIZENS ADVICE**

£2,500

**LAUGHTER
SPECIALISTS**

£2,000

**ST NICHOLAS
HOSPICE CARE**

£2,000

**REACH COMMUNITY
PROJECTS**

£2,000

THIRST YOUTH CAFE

£1,000

SUPPORT 4 SIGHT

£1,000

HIGHLIGHTS

MAR

Sport
Relief

APR

6-A-Side Football at
Cambridge United

MAY

Crucial Crew
Hertfordshire

JUN

Community
Choir performed
at Saffron Hall

JUL

Dunmow
Branch Tea
Party

SEPT

Macmillan
Coffee Morning

NOV

Children
in Need

DEC

Save the Children
Christmas Jumper
Day



Laughter Specialist
Visit at Broomfield
Hospital



Crucial Crew
Bishops Stortford



Volunteering for Dig It at Bridge End Gardens

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

CLAIRE HUNNABLE, COMMUNITY BUSINESS PARTNER



The Saffron Summer Event



Colchester Branch Raised £918 for Diabetes UK



6 Aside at Cambridge United



Katie Usher from Bishops Stortford Branch Jumped out of a Plane for Mind



Colchester Branch Collected Bras to Recycle



Saffron Building Society Community Choir Singing at Saffron Hall



Haverhill Branch Donated to Children's Services at Addenbrookes

Our members
depend on us
for competitive,
good **quality**
products that
reward loyalty



Molly Foks, Senior Customer Consultant, Customer Contact Centre

NOTICE OF ANNUAL GENERAL MEETING 2019

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The 169th Annual General Meeting of the members of the Saffron Building Society will be held on Thursday 25 April 2019 at The Nucleus, Chesterford Research Park, Little Chesterford, CB10 1TS at 4pm for the following purposes:

Ordinary Resolutions

1. To receive the Directors' report, the annual accounts, the annual business statement and the Auditors' report thereon for the year ending 31 December 2018.
2. To consider, and if thought fit, pass an ordinary resolution to re-appoint Deloitte LLP as Auditors, to hold office until the conclusion of the next Annual General Meeting.
3. To approve the Directors' remuneration report for the year ending 31 December 2018.

Re-election of Directors

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

To re-elect Jennifer Ashmore
To re-elect Darren Lee Garner
To re-elect Elizabeth Kelly

By order of the Board

Darren Garner, Society Secretary,
Saffron Building Society, Saffron
House, 1a Market Street, Saffron
Walden, CB10 1HX
13 March 2019

Notes

1. These notes form part of the Notice of Meeting.
2. Under the Society's rules, a member entitled to attend the meeting and vote may appoint one proxy to attend and vote on his/her behalf. You may appoint the Chairman of the meeting or anyone else as your proxy, and your proxy does not have to be a member of the Society. Your proxy may vote for you at the meeting but only on a poll. A poll is a formal vote (which includes all valid proxies).
3. You may instruct your proxy how to vote at the meeting. Please read the instructions on the Proxy Voting Form.
4. The voting date is Thursday 25 April 2019 if voting in person and Thursday 18 April 2019 if voting by proxy.

5. In order to attend and vote at the meeting, or to appoint a proxy, you must qualify either as a shareholding member or as a borrowing member (please refer to the voting conditions on the Proxy Voting Form).
6. In addition, you can only vote once as a member, irrespective of:
 - (a) the number of accounts you hold and whether you hold accounts in different capacities (for example, on your own behalf and as a trustee), and
 - (b) whether you qualify to vote as a shareholding member and as a borrowing member.
7. Members attending the meeting will be requested to produce their passbooks or other evidence of membership in order to obtain admission. If you are appointing a proxy to attend the meeting and vote on your behalf, please ensure that your proxy brings an appropriate form of identification to the meeting.

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

Approval of the Directors' Remuneration Report

As a building society, the Society is not required to prepare an annual report on Directors' remuneration or required to propose a resolution for its approval in the same way that a listed company is required to do. However, as in previous years and in line with best practice, the Society is proposing an Ordinary Resolution to approve the Directors' Remuneration Report for the financial year ended 31 December 2018. The Summary Directors' Remuneration Report is on pages 41 to 43. The vote of this Resolution will be treated as advisory only and Directors' entitlement to remuneration is not conditional on this Resolution being passed.

DIRECTORS SEEKING RE-ELECTION 2019

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The Board of the Saffron Building Society is made up of Executive and Non-Executive Directors. The role of the Executive Directors is to deal with the day-to-day running of the Society, while Non-Executive Directors, who are from a range of different specialist areas, bring an outside perspective to the management of the Society and also represent the views of the Membership. At the 2019 Annual General Meeting (AGM) the following Directors will stand for re-election. Your Board strongly endorses the appointment of these individuals and recommends you vote in their favour at the AGM. Each Board member has their own skills, attributes and experience and the Board as a whole has the requisite balance of complementary skills and experience needed to direct and manage the affairs of the Society.



Jenny Ashmore*
Non-Executive Director

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

She now consults across business and charitable sectors with a focus on marketing strategy, innovative propositions and the implications of digital marketing on sales, products and customer service.

She also holds a breadth of Non-Executive roles including: Trustee for The Challenge Network, Non-Executive Director of Commonwealth Games England and AHL Group Ltd.

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

*Married name Zaremba



Darren Garner Chief Financial Officer

Darren joined the Society as Chief Financial Officer (CFO) 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.

In July 2017 Darren was appointed a Trustee of the Royal Surgical Aid Society, a UK charity supporting carers of people with dementia.



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. Liz chairs the Compliance and Conduct subcommittee of RACCC.

We are **proud**
of our place in
Members'
communities



Morgan Brewer, Financial Accounts Assistant helping with Crucial Crew

SUMMARY DIRECTORS' REPORT

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This financial statement is a summary of information contained in the audited Annual Accounts, the Directors' Report and the Annual Business Statement for the year ended 31 December 2018, all of which will be available to Members and depositors free of charge on demand at every office of Saffron Building Society from 25 March 2019 and on the internet at www.saffronbs.co.uk

Approved by the Board of Directors on 13 March 2019 and signed on its behalf by:



GR Dunn (Chairman)



N J Holden (Director)



CH Field (Chief Executive Officer)

Business Review

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

Results for the year

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

Profit after tax

Group profit after tax was £1,265k.

Capital

Group gross capital at 31 December 2018 was £63.0million (2017 restated: £61.8million) being 6.7% of total shares and borrowings (2017 restated: 6.7%). Free capital at the same date was £47.8million (2017 restated: £44.7million) and 5.0% of total shares and borrowings (2017 restated: 4.8%).

Mortgage arrears

At Group level at 31 December 2018 there were no properties (2017: none) where payments were 12 months or more in arrears. At 31 December 2018, the Group held 11 properties (2017: 12) in possession.

Charitable and political donations

During the year the Society made donations totalling £20,384 (2017: £13,175) in support of charities and organisations. No contributions were made for political purposes (2017: nil).

Financial Risk Management Objectives and Policies

In executing the Group's strategy and in undertaking its routine business and activities, the Group is exposed to a range of risks. The primary goal of risk management is to ensure that the outcome of risk-taking activity is

consistent with the Society's strategies and risk appetite and appropriate for the level and type of risks that it takes paying regard to regulatory guidance. It ensures that there is an appropriate balance between risk and reward in order to optimise Member returns and, when issues arise they are managed for the best outcome of the Society and its Members.

Risk management framework

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

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

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

The "Three lines of defence" model

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

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

Risk governance

The oversight and direction of the Board is central to the Society's risk management framework. The Board exercises governance over risk through a series of Board committees and management structures. Each of the Board committees includes at least two Non-Executive Directors (one of which chairs), with other committee members drawn from the Executive and appropriate members of senior management.

SUMMARY DIRECTORS' REPORT

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Risk Appetite

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

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

Risk culture

The Board places significant emphasis on every level of the organisation having an awareness of risk and the importance of effective management of risk. Each department across the organisation is expected to take ownership for the identification and management of risks specific to their areas, with the Board and Management Committees, together with the three lines of defence model ensuring a strong risk culture is embedded throughout the organisation, set by the “tone from the top”. As a mutual organisation, exemplary conduct is also expected

from everyone in the organisation and conduct is taken into consideration when making decisions on remuneration across all levels of the organisation to ensure incentives do not drive poor customer outcomes.

Principal risks and uncertainties

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

Future outlook and uncertainties

Regulatory developments

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

Capital buffers

Under European law, building societies are required to hold a minimum amount of capital to protect the members' funds and remain solvent in the event of severe economic stresses. In addition to these minimum requirements, further buffers have been introduced to ensure that members' interests are protected even in the most adverse scenarios. In 2019, these buffers have been increased by 0.5% and consist of a capital conservation buffer set at 2.5% of risk weighted assets and a countercyclical buffer (CCyB) at 1%. The CCyB can be used by the financial regulators to adjust the resilience of the banking system to the changing scale of risks expected to be faced. As such, it may be increased up to a maximum of 2.5%. A 0.5% increase in a buffer would require the Group to hold approximately £2m of further capital for regulatory purposes.

Basel III Reforms

In December 2017 the Bank for International Settlements' Basel Committee on Banking Supervision published its report "Basel III: Finalising Post-crisis reforms". The document sets out the Committee's finalisation of the Basel III framework. The revisions to the framework seek to restore credibility in the calculation of risk-weighted assets and improve

the comparability of capital ratios. Revisions include changes to the standardised approach for credit risk, introducing a more granular approach to risk weights and are expected to take effect from 1 January 2022. Moving to the revised framework will require the Society to hold additional capital for regulatory purposes.

Economic outlook

The defining issue for 2019 remains Brexit, more specifically the market, economic and political turbulence that it may cause. Against this backdrop, the Society is taking a cautious approach to mortgage activity until such time as the path ahead becomes clearer. It remains ever more important for the Society to see through short-term volatility and position itself for the long-term. In this respect we have continued to invest in our People, IT infrastructure and Community to ensure we have a Society that is fit for purpose for our current and prospective members whilst retaining our mutual values.

SUMMARY DIRECTORS' REPORT

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Our people

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

Business associates

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

Directors

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

Executive Directors

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

*Resigned as a Director
19 November 2018

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

Being eligible, D L Garner, J Ashmore and E Kelly will stand for re-election.

Biographies of the Directors seeking election appear at pages 24 to 25. None of the Directors hold any shares in, or debentures of, any associated body of the Society.

Auditor

Deloitte LLP has acted for the Society throughout 2018 and has audited the Group Accounts for 2018. A summary of the information contained in the audited accounts is published here.

The Society is recommending to Members at the forthcoming Annual General Meeting that Deloitte LLP be reappointed as auditors. Under EU audit reform legislation, the Society will be required to change its external auditor for its 2023 year end. A resolution to re-appoint Deloitte LLP as auditor to the Group will be proposed at the AGM.

Events since the year end

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



We
communicate
clearly
and offer
uncomplicated
products and
services

SUMMARY STATEMENT OF FINANCIAL RESULTS

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Results for the year

	2018 (£000)	2017 (£000) Restated (1a)
	Group	Group
Net interest income	21,745	22,053
Other income and charges	(3,350)	(606)
Administrative expenses and depreciation and amortisation	(16,683)	(16,689)
Operation profit before impairment losses and provisions	1,712	4,758
Impairment losses on loans and advances	(139)	(356)
Provisions for liabilities	45	(76)
Operating profit	1,618	4,326
Loss on disposal of property, plant and equipment	-	-
Profit before tax	1,618	4,326
Tax	(353)	(82)
Profit for the financial year	1,265	4,244

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

Statement of comprehensive income

Profit for the financial year	1,265	4,244
Available for sale reserve		
- Valuation (losses)/gains taken to reserves	(124)	(100)
- Amount transferred to income statement	15	(185)
Net actuarial gain/(loss) recognised in the defined benefit pension scheme	(19)	901
Unrealised gain on revaluation of property, plant and equipment	-	-
Tax relating to components of other comprehensive income	(49)	(167)
Total comprehensive income for the period	1,088	4,693

Financial position at the end of the year

	31 Dec 2018 (£000)	Restated (1a) 31 Dec 2017 (£000)	Restated (1a) 1 Jan 2017 (£000)
	Group	Group	
Assets			
Liquid Assets	152,490	154,512	228,170
Loans and advances to customers	862,243	838,335	855,634
Fixed assets and other assets	21,477	24,334	25,629
Total assets	1,036,210	1,017,181	1,109,433
Assets			
Shares	784,034	802,289	903,475
Borrowings	162,619	121,539	112,881
Other liabilities	26,020	30,906	35,321
Subordinated liabilities	10,270	10,268	10,270
Reserves	53,267	52,179	47,486
Total liabilities	1,036,210	1,017,181	1,109,433

Summary of key financial ratios

	2018 %	Restated (1a) 2017 %
	Group	Group
Gross capital as a percentage of shares and borrowings (Note 1b)	6.7	6.7
Liquid assets as a percentage of shares and borrowings (Note 2)	16.1	16.7
Profit for the year as percentage of mean total assets (Note 3)	0.12	0.40
Management expenses as a percentage of mean total assets (Note 4)	1.62	1.57

SUMMARY STATEMENT OF FINANCIAL RESULTS 38

Notes

- 1a. The Group identified two misstatements that resulted in prior period adjustments:

*The group recognises mortgage income for loans and advances to customers held at amortised cost on an effective interest rate (EIR) basis. The effective interest rate includes the related fees and commissions received and paid, in accordance with the requirements of IAS 39 Financial Instruments. During the year it was identified that the EIR model implemented in 2015 on adoption to FRS 102 contained a modelling error. This resulted in an inaccurate EIR calculation which was not in accordance with IAS 39 requirements. The EIR model was re-developed in accordance with IAS 39 requirements and as a result an asset and corresponding revenue adjustment have been made in relation to prior periods for these loans and advances.

*IAS 39 requires that when a financial instrument exists which has terms that are both not clearly closely related in economic substance and meet the conditions of a derivative financial instrument that this is split out from the host contract and recognised separately as an embedded derivative at fair value through profit or loss. The Society had entered into structured deposit products with customers that met the separation requirement and it was found that the derivative embedded into this contract had not been appropriately split out resulting in a misstatement in the value of these derivatives and a corresponding misstatement in the values of the host contracts.

As a result of the two prior period adjustments described above a deferred tax asset has arisen in 2017 which has also been restated.

The adjustments above now accurately reflects the net asset position at 1 January 2017 with the necessary adjustments made to the income statement. For further detail on the numeric changes made, please see the Annual Report and Accounts 2018, available on our website.

- 1b. The gross capital ratio measures the proportion that capital bears to shares and borrowings. Gross capital constitutes the reserves and subordinated liabilities shown in the Statement of financial position and includes the profits accumulated since the Society's formation. Capital provides a financial cushion against possible adverse market conditions in the future and therefore protects Members.
2. The liquid assets ratio measures the proportion of the Group's shares and borrowings which are held in the form of cash, short term deposits and securities which can be readily converted into cash. Liquid assets are maintained at a level which enables the Group to meet requests from Members for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.
3. This ratio measures the proportion which profit after taxation for the year bears to the average balance of the total assets for the year. The ratio is similar to a Group's return on assets. The Group needs to make a reasonable profit each year in order to maintain its capital ratios at a suitable level to protect Members.
4. The ratio of management expenses as a percentage of average total assets measure the proportion which administrative expenses (including depreciation and amortisation) bear to the average balance of total assets during the year.

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

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We have examined the summary financial statement for the year ended 31 December 2018 which comprises the Results for the year, the Statement of Comprehensive Income and Financial Position at the end of the year, together with the summary Directors' report.

This report is made solely to the Society's members, as a body, in accordance with section 76(5) of the Building Societies Act 1986. Our 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 and the Society's members as a body, for our audit work, for this report, for our audit report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the Annual Members Review (which includes the Results for the year, the Statement of Comprehensive Income and Financial Position), in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Annual Members Review with the full Annual Report and Accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of Section 76

of the Building Societies Act 1986 and regulations made under it.

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

We conducted our work in accordance with Bulletin 2008/3 "The auditor's statement on the summary financial statement in the United Kingdom" issued by the Auditing Practices Board. Our report on the Group and Society's full Annual Accounts describes the basis of our audit opinion on those financial statements.

Opinion on summary financial statement

In our opinion the summary financial statement is consistent with the full Annual Report and Accounts, the Annual Business Statement and Directors' Report of Saffron Building Society for the year ended 31 December 2018 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

The logo for Deloitte LLP, featuring the word "Deloitte" in a stylized script font followed by "LLP" in a bold, sans-serif font.

**Deloitte LLP, Statutory Auditor,
London, United Kingdom
13 March 2019**

SUMMARY DIRECTORS' REMUNERATION REPORT (UNAUDITED)

This report is a summary version of the Directors' Remuneration Report for the year ended 31 December 2018. It is published with the aim of giving Members an insight into how decisions around Directors' remuneration are taken. A resolution will be put forward at the Annual General Meeting inviting Members to vote on the Report. The vote is advisory and the Board will take into account Members' view in determining future policy.

Remunerations and Loans Committee

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

- Recommending to the Board the Society's remuneration policy;
- Remuneration packages for the Executive Directors;
- Approving loans to directors or connected persons; and
- Ensuring compliance with the Regulator's Remuneration Code and having regard to the UK Corporate Governance Code.

In reaching remuneration decisions the Committee reviews and takes into account benchmark data from the Building Societies Association remuneration survey. The Committee may from time to time review Society wide remuneration principles (other than those directly affecting Executive Directors) providing appropriate oversight to the Executive Team. Executive Directors are not involved in deciding their own levels of remuneration.

General remuneration principles

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

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

Executive Directors' remuneration

Executive Directors' remuneration must fairly reflect responsibilities, expertise, experience and performance whilst being competitive enough to attract, motivate, reward and retain high quality Executive Directors. The Society continues to operate in a competitive environment, from a sector as well as a 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's risk profile.

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

Component	Level	Basis
Basic salary	Salary level decisions are recommended to the Remuneration and Loans Committee	Based on job content, responsibilities and remuneration levels for similar positions in financial services
Pension	Pension contribution is 13.5% of basic salary paid monthly into a group personal pension plan unless otherwise requested to be payable as a cash alternative. For new Executives and Executive Directors from 1/12/18 the contribution is 8.5%	None of the Executive Directors are members of the (closed) final salary scheme
Bonus	Reward in the form of a bonus payment is linked to appropriate risk management, financial performance, capital management, quality customer service, operational fitness and people engagement. Organisational measures are reviewed by the Remuneration and Loans Committee each year. For the 2018 performance year, no bonus was awarded	Earned on an annual basis and is determined by a combination of organisational and individual performance. For the 2018 performance year, deferral applies to individual amounts in excess of £5,000
Other benefits	Cash allowance (in lieu of a lease vehicle) of 10% of basic salary paid monthly through payroll. Income protection, death in service, private medical insurance and enhanced annual leave	Considered typical for the Sector

SUMMARY DIRECTORS' REMUNERATION REPORT (UNAUDITED)

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Remuneration decisions in 2018

Pay awards, if made, generally apply from 1 April each year. In respect of the period commencing 1 April 2018, the annual pay review process itself saw basic salaries for the Chief Financial Officer and Chief Customer Officer held at current level as recommended by the Chief Executive Officer and agreed by the Board. The Chief Executive Officer received a 2.94% increase, the first change to basic salary since 2015, recommended by the Chairman and agreed by the Board. Bonus payments awarded to the Executive Directors and paid in 2018 related to performance for the financial year ended 31 December 2017. These totalled £43,625 (averaging 8.9% of basic pay) and were awarded based on overall contribution to Society performance and individual merit. Of this, £21,398 is deferred for payment until 2019. Deferred bonuses due from previous years totalling £20,333, were also paid.

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

Service contracts

All Executive Directors are employed on a permanent service contract. As at 31 December 2018, Colin Field and Darren Garner had service contracts with the Society which could be terminated by either party giving six months' notice.

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

Non-Executive Directors' fees

The Chief Executive Officer and Chairman review the level of fees paid to Non-Executive Directors each year. They take into account data on fees paid in similar positions in the mutual financial services sector as well as time commitments and levels of responsibility. Recommendations are made by the Chief Executive Officer to the full board for approval. In 2018 the fees increased for the first time since 2014. There are no bonus schemes or other benefits for Non-Executive Directors and they are not entitled to any pension from the Group.

					2018 (£000)	2017 (£000)
Analysis of Directors' emoluments:	Salary/ fees	Bonus paid (1)	Other benefits	Pension/ Pension allowance	Total	Total
Executive						
C H Field	174	20	18	24	236	231
S A Howe*	158	21	17	21	217	210
D L Garner	158	8	17	20	203	219
	490	49	52	65	656	660
Non-Executive						
G R Dunn	52				52	48
T G Barr	32				32	30
N J Treble	42				42	38
N J Holden	42				42	38
J A Ashmore	32				32	30
E Kelly	32				32	30
	232				232	214
Total 2018	722	49	52	65	888	-
Total 2017	696	64	50	64	-	874

Notes:

1) Bonus paid in 2018 comprises £26k earned and accrued in 2017 plus £15k payment of bonus deferred from 2016 and £8k of previously deferred bonus to Mrs Howe on leaving. A further £21k of bonus earned remains deferred to be paid in 2019 and £3k in each of 2020 and 2021 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.

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



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