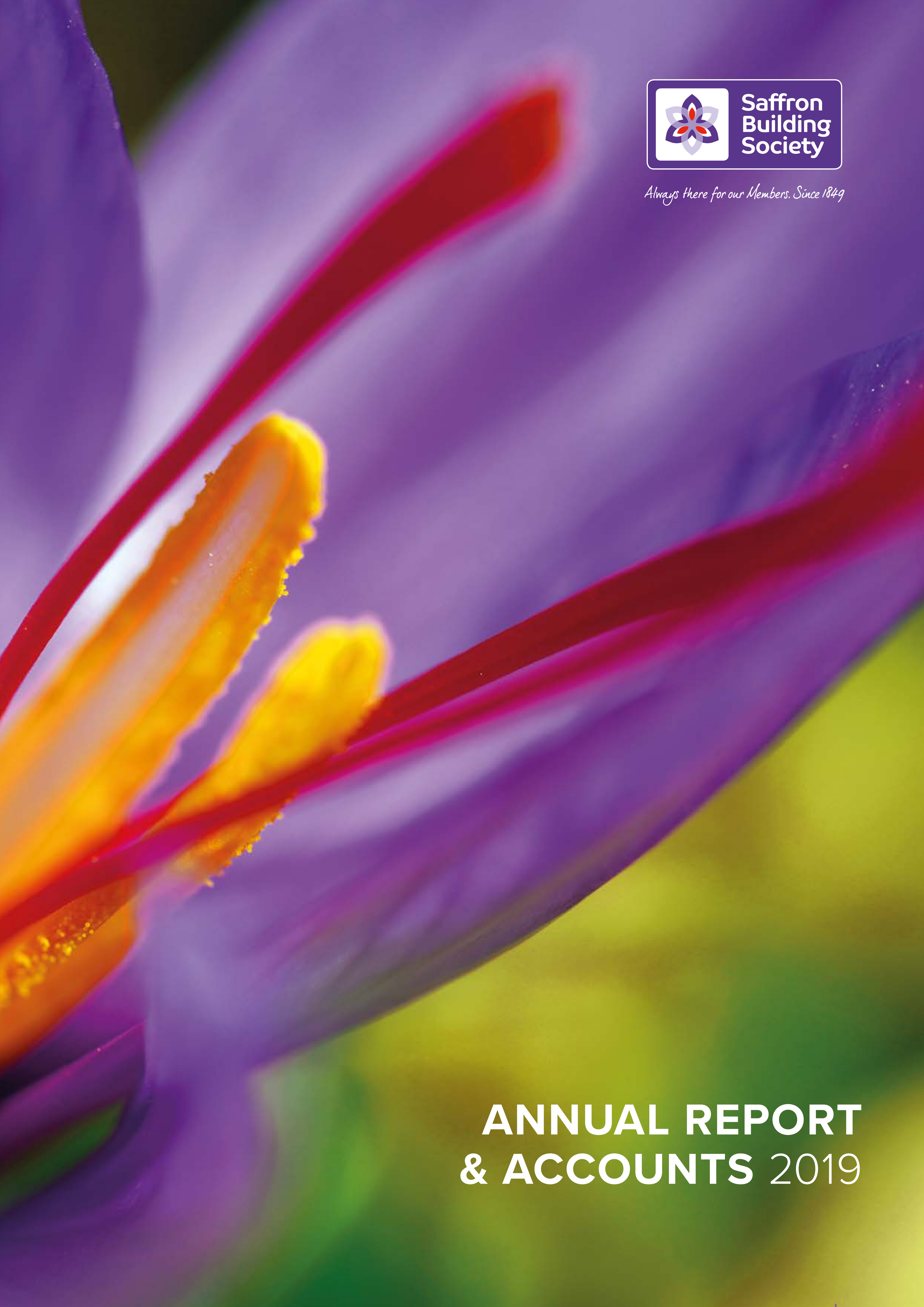
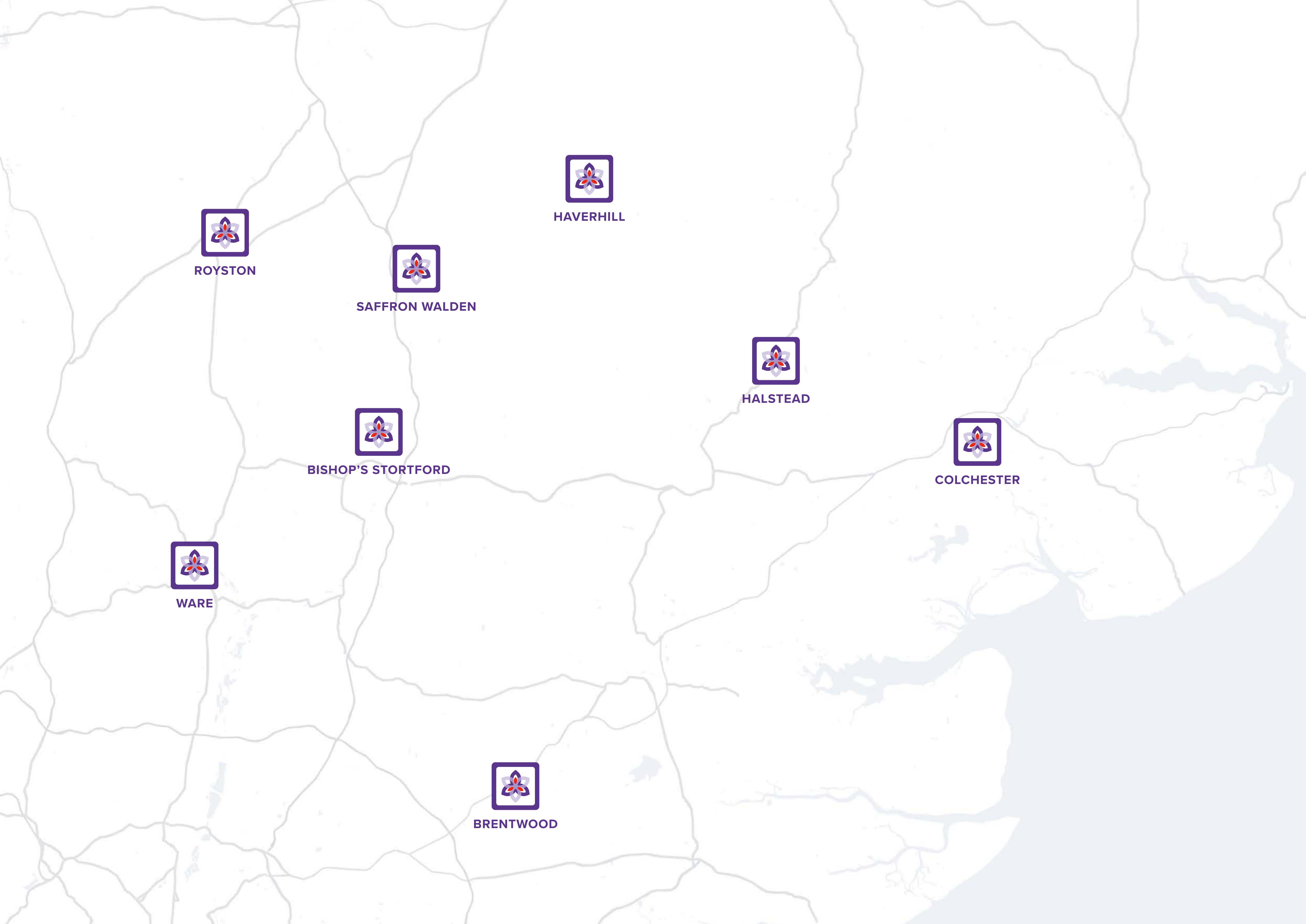


Saffron Building Society

Always there for our Members. Since 1849

ANNUAL REPORT & ACCOUNTS 2019


HAVERHILL
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CHAIRMAN'S STATEMENT
NOTHING HAS CHANGED, BUT EVERYTHING HAS CHANGED

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

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

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

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

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

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

What changes have I seen at Saffron?

Back in 2011, there were a number of properties which the Society had had to take into possession, as a result of historical borrower defaults. Since then, the Society has now substantially managed itself out of this situation, with 11 residential properties and one large commercial property all resolved and sold. Only four Receiver of Rents properties remain on our books today and management intend to dispose of these before the end of 2020. Today, our loan portfolio looks to be of reassuringly higher quality.

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

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

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

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

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

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

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

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

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

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

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

Geoffrey Dunn, Chairman

CHIEF EXECUTIVE'S REPORT

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

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

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

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

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

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

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

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

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

- Moneynet Best Regular Savings Provider (3rd year running)
- Moneynet Best Childrens Provider (4th year running)
- Savings Champion - Best Children's Account Provider - Highly Commended
- Savings Champion - Best Business Easy Access Account Provider - Highly Commended
- Savings Champion - Best Charity Easy Access Account Provider - Highly Commended
- Savings Champion - Best Building Society - Finalist
- Mortgage Finance Gazette – Best Self Build Lender – Highly Commended

Financial Performance

The financial highlights from 2019 are included within the Strategic Report, but I wanted to highlight a number of points.

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

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

Impairment (bad debts) have also been subdued, a reflection of the quality of our loan book, in which arrears are significantly lower than industry averages. The impairment that we have incurred during the year is largely a result of our continued strategy to exit those properties where we had been in possession or acting as receiver of rent for an extended period. At the end of 2019 we now only have four properties where we are in possession or acting as receiver of rent, a significant improvement from 15 at the end of 2018 and 27 the year before.

It is a source of frustration that we are required to restate our accounts for 2018 which has had a negative impact on our carrying capital above regulatory minimum. During the 2018 year end process we identified an error in the model that we had used for a number of years to calculate Effective Interest Rates (EIR). This necessitated a restatement of the 2017 accounts within the report and accounts. During 2019, in order to ensure that this judgment area was fully remediated we migrated to a commercial "off the shelf" EIR model that is used by many other financial institutions in the UK. In completing the migration we have improved the accuracy and completeness of the calculation and this in turn has resulted in a further adjustment to the EIR balance for the 2018 year end that is now recognised in the accounts. The migration of the data to the new model has been thoroughly tested as have the management judgements applied within the model.

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

People

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

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

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

On behalf of the wider Society, I would also like to recognise the contribution of our Chairman, Geoff Dunn, who will be retiring from the Board after the AGM in April. Having worked closely with Geoff since I joined the Society six years ago, I can attest that you will not meet anyone more passionate about the ongoing success of the Society. His steadfast commitment has helped steer the Society through a challenging period and he leaves the Society in a stronger position than when he joined.

Community

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

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

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

As our community programme has continued to develop and grow and with it the work to co-ordinate, we have recognised the importance of the role that the Society can play. To ensure that we continue to develop this engagement we created the role of Community Business Partner and I am delighted that having moved the agenda forward "off the side of her desk", Claire Hunnable has accepted the role in a full time capacity.

Looking Ahead

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

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

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

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

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

Colin Field, Chief Executive Officer

STRATEGIC REPORT

This strategic review sets out our progress against strategy together with an assessment of the environment in which we operate and principal risks we face.

The UK's continued delay in delivering an exit from the EU dominated both the political and economic landscape throughout 2019 with the 31 October deadline being pushed into 2020 and the outcome of the general election having an effect on market confidence.

Demand has continued to be subdued in the housing market, driven by households' concerns about the economic situation throughout the year. Transaction and mortgage approvals figures have been broadly flat for around five years now. House price growth has also moderated across the UK since the EU referendum, and prices have fallen in London and the South East over the past year. Leading indicators of the housing market, including timelier but narrower measures of house prices, suggest UK house price inflation has stabilised just above zero.

The labour market remains tight, with employment at a record high, and unemployment at its lowest since the mid-1970s. Regular pay growth has been stronger than expected, rising to over 3%. CPI inflation is projected to remain below the Bank of England's 2% target for the start of the forecast period, reaching a low point of 1.25% in early 2020 due to caps on energy and water prices, before rising above 2% by the end of the third year, supporting the Bank of England's decision to hold base rate at 0.75% throughout the year.

Although there were no changes to the base rate, the Society made various strategic changes to savings product rates as well as revising the rates on selected 'on sale' mortgage products. This action was taken to manage business flows and maintain margin against the back drop of a highly competitive market environment. The UK mortgage market remains extremely competitive and mortgage rates have fallen during the year as a result.

Projections of market interest rates support the assumption of short term rate stability. Irrespective of changes to market rates, competition for deposits is increasing, driven in part by the requirement for financial institutions to refinance the funding provided by the Bank of England. This action will place pressure on the Society's margins if such increases are not reflected in market rates for mortgages.

The Group's business and strategy

The Society celebrated its 170th birthday in 2019. The financial services landscape has changed dramatically in this time, particularly so in recent years as customers' and members' engagement with financial service businesses have moved to become more demanding of service. The Society's core purpose remains unchanged - helping people to achieve their home-ownership aspirations and providing a secure home for their savings – whilst remaining relevant to today's evolving environment.

The Society has a range of mortgages to meet a wide range of needs, whether a customer wants to move home, is seeking a mortgage for a buy-to-let property or has more complex needs: contractors or self-employed, young professionals, those renovating a property or an unusual property type. In 2019 the range was extended to include, amongst other things, lending in and into retirement. What hasn't changed is the Society's philosophy of considering individual circumstances, applying common sense and providing a personal, reliable service.

Our wide range of savings products include instant access, fixed-term, tax-free and regular savings as well as award-winning accounts designed especially for children's savings. In 2019 the Society launched its mobile banking application allowing members even greater access to their funds and greater control over the management of their finances.

Outside of our core borrowing and savings products we are also able to offer financial advice, annuities, funeral planning, estate planning, inheritance tax planning and financial products including personal loans through a network of selected partner organisations.

A summary of products offered across our network is shown below:

	Channel		
Mortgages	Telephone	Online	In-branch
Residential	•		•
Buy-to-let	•		•
Self-Build	•		•
Development	•		•

	Channel		
Savings	Telephone	Online	In-branch
ISAs	•	•	•
Deposits	•	•	•
Children's accounts	•		•

	Channel		
Other products	Telephone	Online	In-branch
Financial planning	•		•
Protection	•		•

The Society has a wholly-owned trading subsidiary, Crocus Home Loans, which acquired mortgage assets in the financial periods up to 2007. These mortgage balances are in gradual decline naturally through redemption or repayment. No assets were acquired in 2019.

The Group has assets of £1,070 million and operates from its head office in Saffron Walden, Essex and Customer Service Centre in Little Chesterford together with eight branches across three counties, employing 158 colleagues.

As a Mutual organisation, owned by Members, the Society's core strategy is to deliver **long-term value to its Members**, taking a personal approach to assessing individual circumstances whilst providing multi-channel options to suit all Members.

The Board also recognises that the Society should have a positive impact on the communities in which it operates. **Supporting communities** is also core to the Society's strategy and the Society plans to widen its community reach, whether championing financial education, providing support to a broad range of charities via Saffron Community Fund or opening up our branch network for community-related use.

It is not possible to deliver these two core elements of strategy **without long term financial stability**, measured as capital strength. The previous three years has seen the Society reduce its balance sheet size as it has focused on delivering its IT investment programme and in preparation for the phased introduction of CRD IV capital buffer requirements. The Capital Conservation Buffer became fully effective from 1 January 2019 and the Countercyclical Buffer remains set at 1%, which together require the Society to hold Tier 1 capital amounting to over £12.9 million. The Society continues to focus on improving relative capital strength whilst recognising that it must also return to growth to fully deliver on its strategy. This will continue to be achieved through the following:

- Generating capital through appropriate levels of profitability
- Effective liquidity management, arranging appropriate and sustainable funding sources
- Effective customer service
- Careful risk management, including vigilance in underwriting processes
- Investment in technology and processes
- Control operating costs
- Strong and clear set of cultures and values throughout the Society

Individual actions are not always compatible with the attainment of strategic measures in the short-term. Investment in the core systems and infrastructure of the Society is critical to providing long-term value to members and strengthening the Society's overall risk profile. This reduces regulatory capital and therefore impacts on reported capital ratios. The Society's results – and in particular capital generation – have, in recent years, been impacted by adverse changes to the valuation of the Society's portfolio of Lifetime Mortgages. The continued impact on the 2019 financial year is explained later in this Strategic Report.

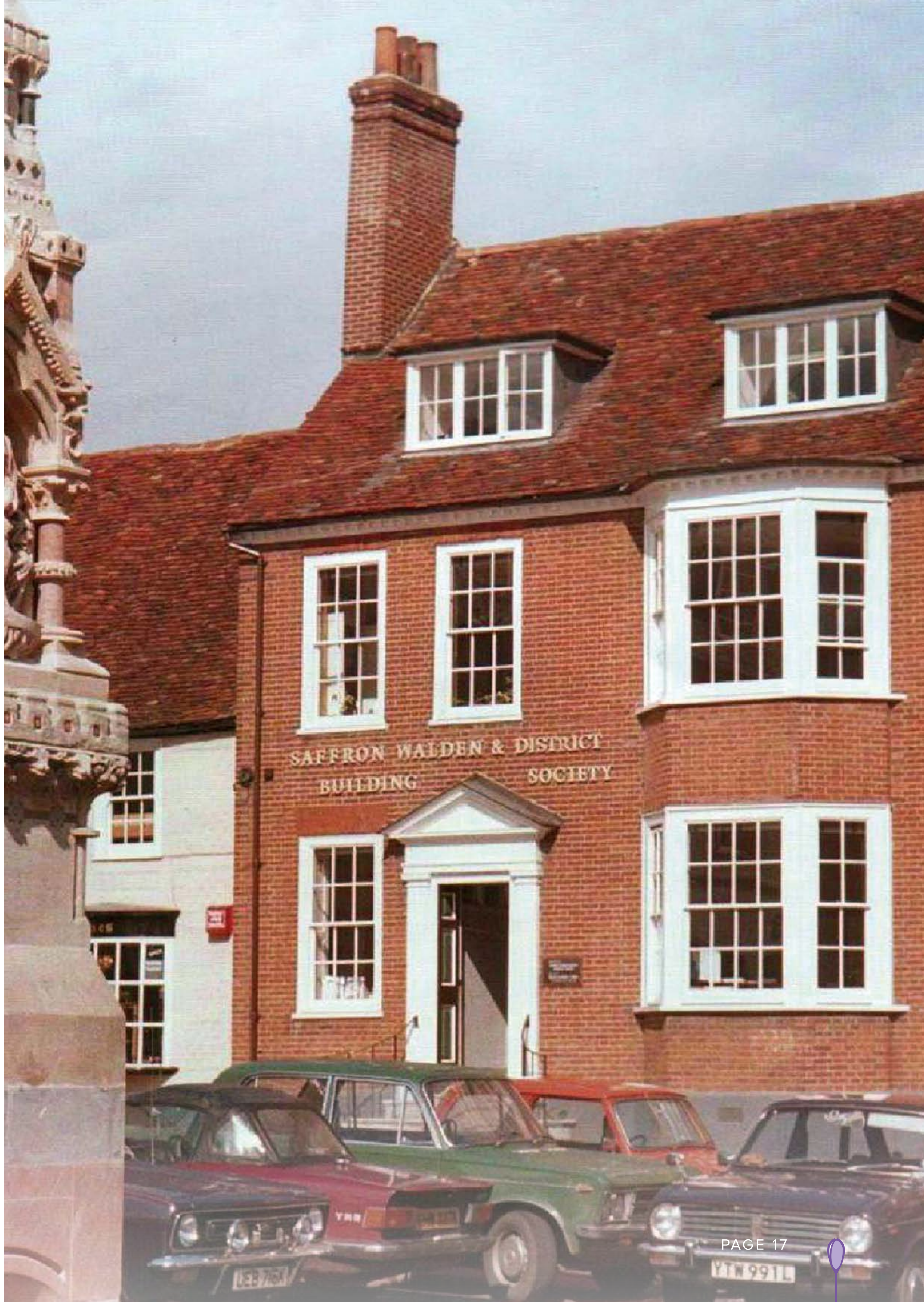
The Board continues to make investment decisions considered to be in the best long term interests of the Society and protection of members' interests, recognising the short term impact on efficiency and performance measures.

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). The KPIs adopted throughout 2019, with comparison against 2018 are presented in the table below together with explanatory comment.

	2019	Restated 2018
Trading performance		
Gross mortgage advances	£135.2m	£165.0m
Total mortgage balances	£828.7m	£859.9m
Shares and deposit balances	£895.0m	£853.3m
People experience		
Engagement	71%	69%
Member experience		
Net promoter score	+62.8	+59.4
Customer satisfaction	86.4%	86.9%
Financial sustainability		
Profit before tax	£3,061k	£589k
Net interest margin	1.92%	2.02%
Management expenses ratio	1.57%	1.63%
Common equity Tier 1 ratio	12.9%	11.1%
Liquidity coverage ratio	248%	208%

Measure	Explanation	2019 performance	Trend compared with 2018
Gross mortgage advances	Our lending policy and underwriting criteria are designed to ensure lending is responsible and affordable. Each year the Board sets a target level of new lending in line with risk appetite, anticipated demand for the Society's lending products and as part of broader capital management strategy. In line with a Board approved capital improvement plan a lower target for mortgage advances was pursued in 2019.	Total advances of £135.2m achieved target	Declining
Total mortgage balances	The total size of the Society's mortgage assets. The Society needs to maintain sufficient balances of quality mortgage assets to meet demand from members and generate sufficient income, balanced with associated capital requirements. The targeted level of mortgage assets set out in the capital improvement plan was achieved.	Mortgage asset on plan	Declining
Shares and deposit balances	The Society remains almost entirely funded by retail shares and deposits and must remain competitive, delivering long term value to members, to ensure it attracts and retains the appropriate level of funding to support its lending activities and broader liquidity management strategy. Despite the closure of three branches in the year the Society was successful in growing retail balances.	Growth of £27.9m above expected plan	Improving
Engagement	The Board strives to make Saffron a great place to work with high levels of staff engagement, motivation and commitment. Regular surveys of all employees measures multiple aspects of employee satisfaction as well as overall engagement. There is no specific target set for this measure as the Society strives for as high as score as possible and act on results and findings	71%	Improving
Net promoter score	This is a measure of how likely our members are to recommend the Society to others. It represents the difference between the number of members who would recommend the Society (promoters) minus those that would not recommend the Society (detractors). The Society sets extremely high standards for this measure. A score in excess of 50 is widely regarded in Industry as exceptional.	An average score of 62.8 was achieved across the year, meeting target	Improving
Customer satisfaction	The Society seeks always to look after its members through the delivery of good value products and services and consistently good service. Customers visiting the branches or transacting online are requested to provide feedback on their experience with the Society. This measure distils the results of surveys conducted throughout the year. There is no specific target set for this measure as the Society strives for as high as score as possible and act on results and findings.	Score of 86.4%	Stable
Profit before tax	This represents the amount earned by the Society after taking into account all expenses and provisions excluding taxation. Profits are the principal source of capital for the Society. Profits in the year were impacted by a combination of a reduced net interest margin (see below) and continued fair value charges against the Society's portfolio of equity release mortgages	Profit before tax of £3.1m is ahead of target	Improving
Net interest margin	This represents the difference between interest received by the Society from its mortgages and other loans less interest paid on its deposits and other borrowings. This needs to be sufficiently high to generate a profit whilst providing consistent, competitive and fair rates to members. Margin declined in 2019 due to further reductions in rates achieved on mortgage balances and reduced mortgage balances.	Operated within target range throughout the year	Declining
Management expenses ratio	Management expenses comprise both administrative expenses and charges for depreciation and amortisation and represent the costs of running the Society's business. This ratio measures the proportion that these costs bear to the mean average total assets of the Society and is an indicator of efficiency. The Society operates with a high ratio compared with peers and reflects previous periods of significant investment made by the Society combined with a reduction in overall balance sheet size. The ratio improved in 2019 due to a combination of asset growth and cost reduction and the Board expects this ratio to continue to improve.	Did not achieve target management expenses ratio	Improving



Measure	Explanation	2019 performance	Trend compared with 2018
Common equity Tier 1 ratio	Growing the Society's capital strength relative to its size is a key element of the Board's strategy. Common Equity capital is the highest quality capital available and, for the Society, comprises accumulated profits held in reserves. This ratio represents the relationship between Common Equity capital total assets, weighted by the level of risk they carry. The Board targets improvements in this ratio even as the Society grows. Successful execution of the capital improvement plan has seen an improvement in this ratio together with growth in overall balance sheet size.	12.9%	Improving
Liquidity coverage ratio	It is important to maintain appropriate levels of liquidity. This ratio represents the regulatory measure of liquidity adequacy and is one measure of liquidity. Liquidity is maintained throughout the year at levels necessary to significantly exceed regulatory requirements and our own stress tests. The Society operated significantly ahead of requirements throughout the year.	Ahead of target range	Improving

The Board also receives – directly and through Board committees - comprehensive quantitative and qualitative information from management and the management committees this covers a whole range of measures to assist the Board in assessing financial performance, delivery against strategic goals, evidence the Society is operating within risk appetite, 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)".

The Chief Executive's report on pages 8 to 11 also contains information on the Society's financial performance for the year and factors affecting the results and should be read alongside this section.

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 continued investment in service improvements for Members.

Overview of Income Statement

	Group		
£millions	2019	Restated 2018	Restated 2017
Net interest income	20.2	20.7	22.6
Other income and charges	(0.3)	(3.3)	(0.6)
Administrative expenses	(13.9)	(14.1)	(13.9)
Depreciation and amortisation	(2.5)	(2.6)	(2.8)
Impairment losses	(0.3)	(0.1)	(0.4)
Other provisions	(0.1)	-	(0.1)
Profit before tax	**3.1**	**0.6**	**4.8**
Tax	(0.6)	(0.4)	(0.2)
Profit after tax	**2.5**	**0.2**	**4.6**

More detailed explanation of financial performance is provided below.

Income

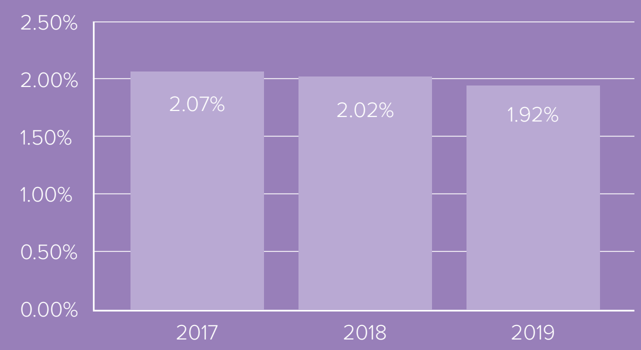
The Group's income is derived from interest, fees and similar charges arising from its investments in loans secured on residential property. It also earns interest on its liquidity portfolio, rental income from its investment properties and fees and other income from third parties with whom the Society partners and acts as introducer.

Net interest income

The net interest margin for the year ended 31 December 2019 was 1.92% (2018: Restated 2.02%).

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.

Net interest income also includes the annual impact of any product-related fees (income and expense) that fall to be accounted for within the Effective Interest Rate methodology.



Net Interest Margin

The Society has seen its margin compressed in 2019, impacted by a combination of intense competition for deposits and a continued reduction in market rates achievable for mortgages.

At the start of 2019, the prospects and implied path of market interest rates suggested gradual and limited increases; however, political uncertainty and other factors saw this forward view soften. The Bank of England made no changes to Base Rate in 2019, having made the previous change (an increase to 0.75%) in August 2018. Despite no changes to Base Rate, competition for high quality mortgage business remained intense throughout the year with continued downward pressure on mortgage rates the blended rate achieved for new lending was 12bps lower than that achieved in 2018. The impact on margin was, in part, limited due to the short term strategy to improve the Society's capital position through its measured approach to lending – achieving gross mortgage advances of £135million compared with £165million in 2018 - and targeted approach to retention of existing balances at appropriate rates.

This approach resulted in overall mortgage assets decreasing from £859.9million to £828.7million. Interest receivable increased slightly to the minor improvement being the timing of the introduction of new mortgages in 2018, with a full years benefit now achieved. With a reduction in the mortgage book from our development loans close to the financial year and the strategic decision to withdraw some retention products towards the year end to achieve the Society's capital improvement plan.

For our savings members, the Society always strives to achieve an appropriate balance between rewarding savers with competitive and sustainable interest rates across a range of products with specific features whilst balancing activity to match with the broader funding need of the Society. The average rate paid on our share accounts across the financial year ended 31 December 2019 was 0.98%, compared with 0.90% for 2018 and amounted to an additional £2.56m of interest being paid to Members.

Overall net interest income for the year ended 31 December 2019 reduced to £20.2million (2018: £20.7million).

Other income

Fees

Fees receivable consist of mortgage-related income not accounted for under the Effective Interest Rate (EIR) accounting policy together with commissions from sales of insurance and financial planning products. Fees payable include other (non-EIR) mortgage-related costs and bank charges.

Other operating income

Other operating income principally comprises of rental income from the Society's investment properties, together with any movements in the fair value of those properties. The properties were professionally valued on an open market value basis in October 2019 and decreased in value by £113,815 (2018: increased by £55,000) which also captures the movements on 3 branches closed in the year which were moved into the investment property portfolio.

Net fair value movements

This income category comprises income from the use of 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 (2018: expense of £3.6million), 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 the Group's portfolio of equity release mortgages.

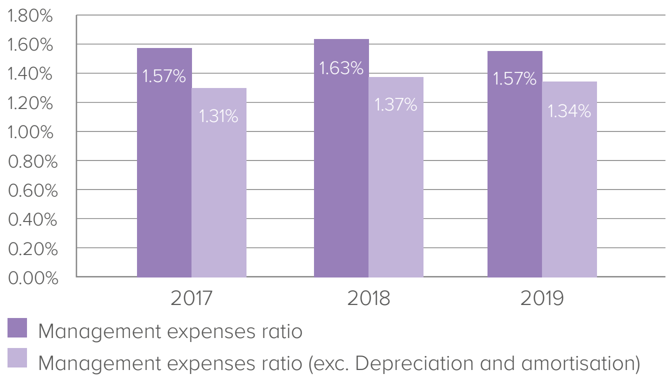
The Group has continued to adopt the Black-Scholes model for valuing the equity release mortgage portfolio. The Black-Scholes model is a mathematical model used to price an option contract and is commonly used to fair value equity release mortgage portfolios among other financial instruments. In order to arrive at a valuation, the model requires assumptions for long term house price inflation and house price volatility together with actuarial factors such as mortality rates and the long term cost of funds. Actual redemption activity of the portfolio also impacts the valuation. Outcomes can be volatile and have significant impact on the reported financial performance of the Group. The carrying value of the asset in the year has increased by a total of £2.1million and accounts for the majority of the net fair value movements (2018: £3.4million reduction).

	Group		
£000s	2019	2018	2017
Net income from hedge accounting differences	(324)	135	59
Fair value movement in derivatives not in qualifying hedge accounting relationships	(4,579)	2,104	691
Change in fair value of assets and liabilities not in qualifying hedge accounting relationships	4,411	(5,838)	(1,389)
	(492)	(3,599)	(639)

Administrative expenses

Administrative expenses comprise of staff costs together with all other costs and overheads necessary for the Group to function. Together with depreciation and amortisation charges they comprise the total operating costs for the Group.

Control of operating costs forms a part of the broader strategic objective to grow the relative capital position but must be balanced with the conflicting objective to continue to invest in the Society to improve services to Members and meet regulatory and legal requirements. Administrative expenses of £13.9million compare with £14.1million in 2018. Further charges for depreciation and amortisation of £2.5million (2018: £2.6million) principally reflect the continued amortisation of the Society's IT investment completed in 2017. The Group's management expenses ratio expresses total group administrative expenses as a percentage of average group assets and has been presented both inclusive of and excluding charges for depreciation and amortisation. Administrative expenses for 2019 also include £0.3m of restructuring costs associated with the closure of three of the Society's branches and a broader Society-wide restructure resulting in a reduction of 23 roles.



Other operating charges

Other operating charges for the year ended 31 December 2019 of £67k (2018: £112k) comprise administrative expenses incurred by the Society's closed defined benefit pension scheme but borne by the Society.

In 2018 provision of £56k was made for the estimated additional liability arising through Guaranteed Minimum Pensions equalisation, following a UK ruling impacting all defined benefit pensions schemes. No further charge has been made in 2019.

Charges for impairment and provisions

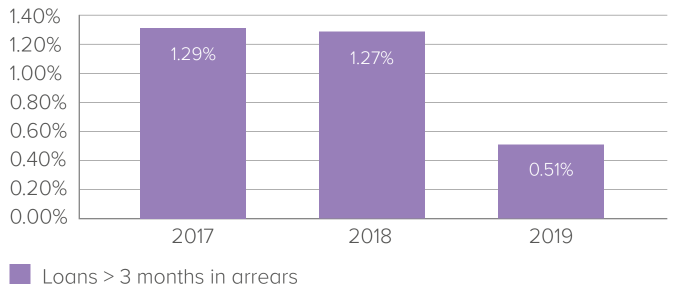
The Group's management have been focused on improving the position of its back book, through the disposal of the legacy underperforming receiver of rents book coupled with the individual underwriting offered, clear lending policies and robust credit risk management practices. The Group continued to experience low levels of arrears throughout 2019.

Impairment charges	Group		
£000s	2019	2018	2017
Collective impairment charge	(59)	31	65
Individual impairment charge	393	108	291
Total	334	139	356

The Group is a Receiver of Rents on 4 properties (2018:15) representing capital balances of £1.3million (2018: £7.0million) and all in respect of loans originated before 2009. In line with the Board's objective to seek an orderly disposal of properties in this portfolio the Society appointed a new LPA Receiver in 2018 to manage the portfolio and assist the Society in selecting exit strategies for each individual property. A further 12 properties were disposed of in the year ended 31 December 2019 including the largest property within the portfolio (realising 2.4 million loss, materially provided for in prior years accounts). Disposal of the remaining properties are planned for in 2020.

This portfolio is reviewed each year and assessment made of the carrying value and expected future cash flows. This assessment contributed to a requirement to make an additional impairment charge of £0.4million.

The arrears ratios (number of loans >3 months in arrears) as a percentage of the total loan book has significantly improved to 0.51% at 31 December 2019 (2018: 1.27%), principally following the disposal activity described above. Further information on the quality of the Group's loan portfolio, including information on loan forbearance activities can be found in Note 29 to the accounts.



Provisions for liabilities

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. During 2018 the FSCS repaid final amounts due to HM Treasury following the previous failures of Bradford and Bingley and Dunfermline Building Society and the Society received its final invoice for its share of interest and capital costs. The Society has recognised a charge of £0.1million in respect of the Scheme year ending March 2020 (2018: £0.1million for Scheme year ended March 2019).

Dilapidations

Provisions for dilapidations represent expected costs on the Society's leasehold properties, based on third party estimates. The Society exited one of its leasehold properties during the year and incurred restoration costs in excess of amounts previously provided. A review of amounts provided in respect of remaining leasehold properties resulted in an additional charge of £0.1million being made.

Taxation

The statutory rate of corporation tax has been 19% since 1 April 2017, giving an effective tax rate for the year ended 31 December 2019 of 19% (2018: 19%). The Group had corporation tax charges in the year ended 31 December 2019 of £543,000 (2018 restated: £386,000). The taxable profits have been used to offset the deferred tax asset, which was generated through the losses carried forwards from both the adjustments made in the previous financial period and the successful R&D claim accepted in 2018. The remaining deferred tax asset is expected to be fully offset against future taxable profits in the next 12 months. A reconciliation of the effective rate to the statutory rate of taxation is provided in Note 9 to the Accounts.

Overview of Statement of financial position

The Group generates new assets principally through the origination of new mortgage loans secured on residential property. Total assets increased to £1,070million at 31 December 2019, compared with £1,034million at 31 December 2018.

	Group		
£millions	2019	Restated 2018	Restated 2017
Liquid assets	225.2	152.5	154.5
Loans and advances to customers	828.7	859.9	837.1
Fixed and other assets	16.3	21.7	24.5
Total assets	**1,070.2**	**1,034.1**	**1,016.1**
Shares	813.2	784.0	802.3
Borrowings	161.4	162.6	121.5
Other liabilities	30.8	26.0	30.9
Subordinated liabilities	10.3	10.3	10.3
Total liabilities	**1,015.7**	**982.9**	**965.0**
Reserves	54.5	51.2	51.1
Total liabilities and reserves	**1,070.2**	**1,034.1**	**1,016.1**

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. The Group holds liquid assets to ensure it is able to always meet its obligations as they fall due. The type and volume of liquid assets held is determined by the Board's risk appetite and regulatory requirements, including the outcome from periodic stress testing of liquidity requirements.

At 31 December 2019 the Group's portfolio of liquid assets totalled £225.2million (2018: £152.5million) and comprised of the following:

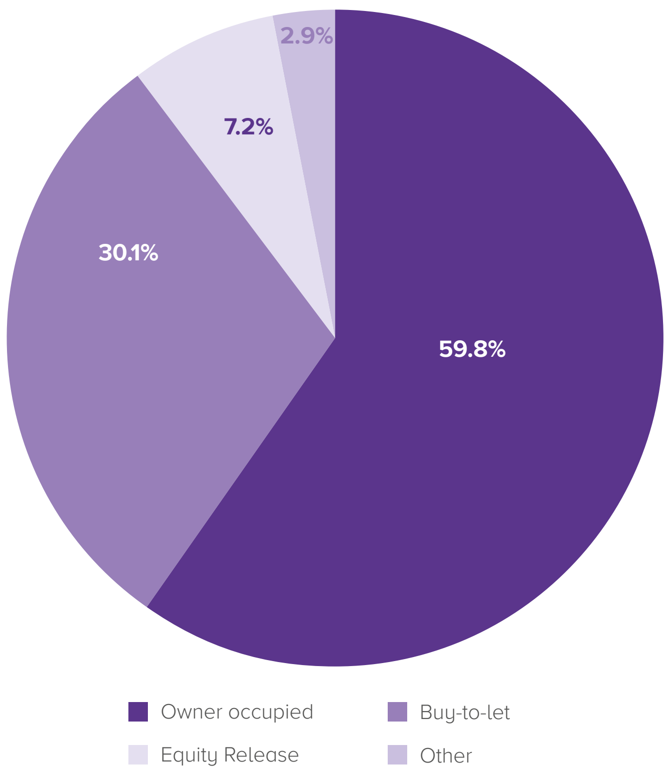
	Group		
£millions	2019	2018	2017
Bank of England	87	49	58
UK Goverment debt	71	43	13
Other bank deposits	35	27	29
Non-UK Goverment debt	-	-	15
Supranational debt	32	33	39
	225	**152**	**154**

At 31 December 2019 the ratio of liquid assets to shares and deposits stood at 23.1% (2018: 16.1%). A key measure of liquidity under CRD IV is the Liquidity Coverage Ratio (LCR), which ensures that the Group could survive a short term, severe, but plausible liquidity stress. At 31 December 2019 the Group's LCR was 248% (2018: 208%), above the regulatory minimum of 100%. The Group also monitors the longer term stability of its funding, and hence liquidity, through the Net Stable Funding Ratio (NSFR). At 31 December 2019 the Group's NSFR was 138% (2018: 146%), above the regulatory minimum of 100%.

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.

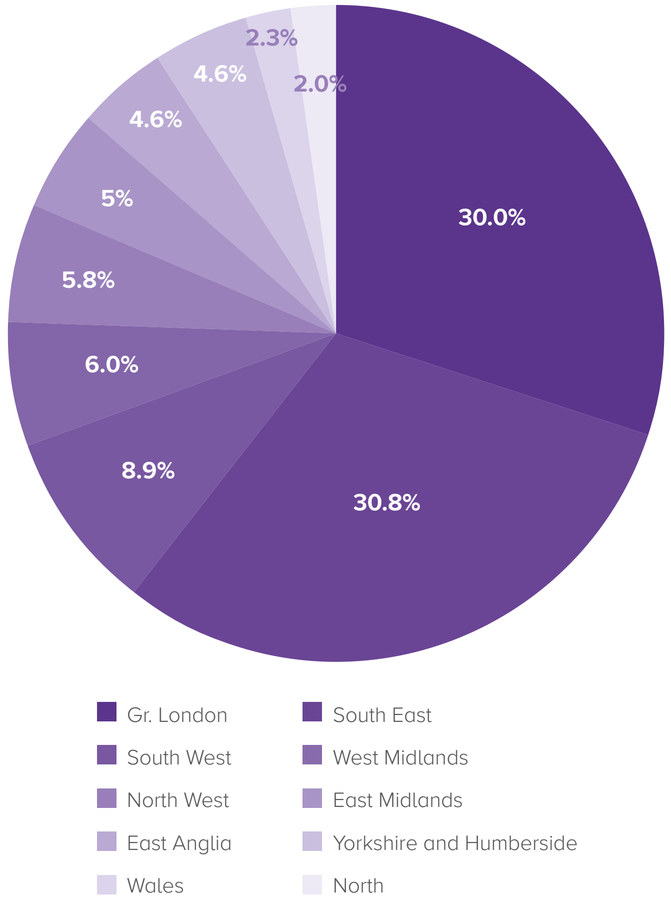
Lending Type



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. The Society recorded gross lending of £135.2million in the year ended 31 December 2019 (2018: £165million). Stated after the impact of mortgage repayments, voluntary redemptions and other movements, total loans and advances to customers (net of impairment) at 31 December 2019 was £828.7million, compared with £859.9million at 31 December 2018.

The Group lends throughout England and Wales and its exposures are geographically spread across the regions, although its location in the South East of England leads to an intentional concentration towards London and the South East reflecting our regional heartland. There has been no significant change in mortgage concentration in 2019.

Geographical Dispersion

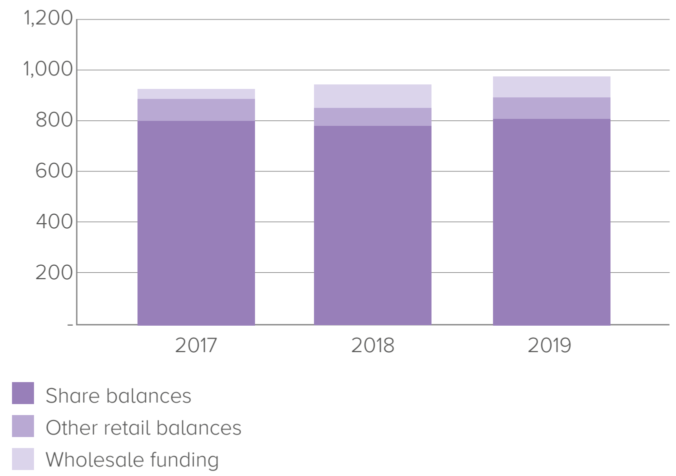


Funding the business

It is important that the Group has access to an appropriately diverse range of funding sources for risk management purposes. Retail funding, provided by Members' savings, remains the most important element of the Group's funding, supplemented, where appropriate, by corporate savings and deposits and limited use of wholesale facilities. The Group is also a participant in the Bank of England's Sterling Monetary Framework.

The Society has also signed a statement of commitment to adhere to the principles of good market practice published within the UK Money Market Code, produced by the Bank of England's Money Market Committee.

The Group's funding requirement is determined by a combination of mortgage demand, regulatory requirements and risk appetite.



Retail funding

The Society 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. The Society also has to balance the levels of retail inflows it attracts with the Society's overall liquidity position and mortgage funding requirements. During the year ended 31 December 2018 the Society experienced a net outflow of shares and other deposit balances of almost £35million as the increase in net mortgage balances of £24m was more than covered by the Society's drawdown from the TFS. During the year ended 31 December 2019, despite the closure of three of the Society's branches, the Society has increased its share and other deposit balances by £41.7million, ending the year with balances of £895.0million (2018: £853.3million).

Wholesale funding

The Society remains an active participant of the Bank of England's Sterling Monetary Framework (SMF), accessing the Funding For Lending Scheme (FLS) and more recently the Term Funding Scheme (TFS). As at 31 December 2019 the Society held no amounts of FLS funding (2018: £25million), having fully repaid the liability earlier than its contractual maturity of Quarter 1 2020, and £40.7million (2018: £40.7million) of TFS funding. TFS closed to future drawdown in February 2018 and is due for repayment between the last financial quarter of 2021 and the first financial quarter of 2022. The Society also accesses shorter (six months duration) funding through the Bank of England's Index-Linked Term Repo (ILTR) facility which supports further funding diversification. Outside of SMF funding, other wholesale funding is obtained from a diverse range of counterparties, typically other financial institutions and local authorities and typically for periods of up to two years in duration.

Asset encumbrance

The Group uses certain assets as collateral to support the raising of secured funding under the terms of the Bank of England's SMF. Collateral, entirely in the form of cash deposits, is also used to support financial derivative contracts entered into by the Society as part of its management of interest rate risk. As at 31 December 2019, 23.49% of the Group's assets were encumbered (2018: 15.49%) representing £218.2million of residential mortgage assets (2018: £134.6million) and £33.2million of other assets (2018: £25.6million).

Pensions

The Society operates a defined benefit pension scheme (the Scheme) that was closed to staff joining the Society after 4 August 2003 and to future accrual from 1 January 2008. The Scheme is funded based on triennial actuarial valuations, the most recent being 30 April 2017 but is subject to annual valuation for the purposes of inclusion in the financial statements. The Society was not required to make any contribution to the Scheme in 2019 (2018: nil).

At the 31 December 2019 the Scheme is shown as a pension asset of £403,000 (2018: asset of £76,000). Further details on the Scheme can be found in note 28 to the Accounts.

Capital

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 Group also has in issue subordinated liabilities that expire in January 2028. Capital regulations require intangible assets and pension scheme surpluses to be deducted from available capital. The Group holds capital to protect its Members from the effect of shocks or stresses, whether to the economy, the financial sector as a whole or the Society specifically.

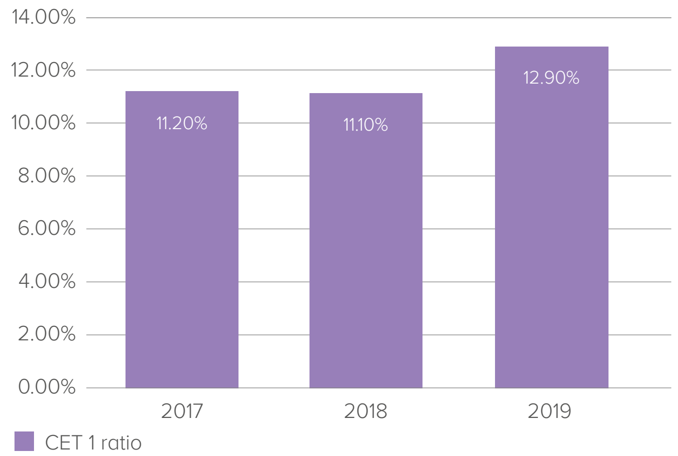
The Group's capital requirements are set and monitored by the Prudential Regulation Authority (PRA).

At the start of 2019 the Board implemented a programme of management actions aimed at strengthening the capital position through various measures, including cost reduction and balance sheet management. The execution of the plan was a key focus throughout 2019 and resulted in an increase in absolute and relative levels of capital.

After regulatory deductions, the Group's regulatory capital increased from £53.1million to £57.9million as a result of the reported profit after tax together with further reduction in the level of intangible assets. Further details on the capital position, including reconciliation to Group reserves, is provided in Note 30 to the Accounts.

A measure of capital strength commonly reported amongst financial institutions is the Common Equity Tier 1 (CET1) ratio. This ratio represents the relationship between our strongest form of capital (accumulated profits held in reserves) and our assets, weighted by the level of risk they carry.

CET1 ratio



Despite growth in total assets, the Group's CET1 ratio increased from 11.1% at 31 December 2018 to 12.9% at 31 December 2019, driven by a combination of higher levels of capital measured against a reduction in risk-weighted assets. Gross capital (which includes Tier 2 capital such as subordinated liabilities) as a percentage of shares and borrowings, increased from 6.4% to 6.6%.

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.

LIBOR transition

In April 2017, the regulatory body reviewing LIBOR; the Risk Free Rate Working Group recommended that LIBOR should no longer be used as a market reference rate.

Historically, the Society has used LIBOR to hedge the risks associated with having medium to long term fixed rate instruments on its balance sheet. The Society has also had LIBOR-based treasury instruments in its liquidity portfolio and, through Crocus Home Loans Limited, the Group also has had a small pool of mortgages which have their rates based on LIBOR.

It has been announced that by 2021 LIBOR will cease to exist and in response the Society has formed a LIBOR Transition Committee which has been working to move the Society away from using LIBOR. At the end of December 2019, the Society has 60 LIBOR based interest rate swaps (used to hedge the risks associated with having medium to long term fixed rate instruments on its balance sheet) with a notional value of £199m which will mature after the LIBOR cessation at the end of 2021. The Society also has 19 LIBOR based mortgages with an outstanding balance of £1.7m which will contractually be on LIBOR after the end of 2021.

At the end of December 2019, the Society no longer has any LIBOR-based treasury instruments in its liquidity portfolio and now bases all new fixed rate hedging on SONIA rather than LIBOR. Through the LIBOR Transition Committee, the Society is also liaising with Crocus Home Loans Limited customers in order to help them transition their rates away from LIBOR prior to LIBOR cessation.

The LIBOR Transition Committee is now working through the latest published developments from the Risk Free Rate Working Group and the market as a whole to move its LIBOR interest rate swaps portfolio to a new benchmark rate before the end of 2021, with a standard transition for all existing LIBOR swap expected to be announced in the first half of 2020. The Society is an early adopter of the Hedge Effectiveness transitional provisions as set out in the Financial Reporting Council's publication Amendments to FRS102: Interest rate benchmark reform, to ensure it can continue to apply hedge effectiveness throughout the transition period.

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 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 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 management committee members comprising from the Executive and appropriate members of senior management. The Committees forming part of the Risk Management framework comprise of:

Committee	Chaired by
Board committees	
Audit Committee	Non-Executive Director
Board Risk Committee	Non-Executive Director
Management Committees	
Assets and Liabilities Committee	Chief Financial Officer
Executive Risk Committee	Chief Risk Officer
Credit Committee	Chief Risk Officer
Product Management Committee	Chief Commercial Officer

Further details on the Committees can be found in the Corporate Governance Report on pages 32 to 37.

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.

Stress testing

Stress testing is a risk management tool used by the Group to understand the impact of severe but plausible scenarios on its business model. The Group uses a prescribed Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) to identify and quantify the capital and liquidity risks it faces. Stress testing is undertaken as part of these processes with the combined output used to inform the Board's risk appetite, policies, together with management actions and contingency plans.

In addition, the PRA carries out an assessment of the Society and may issue revised capital or liquidity guidance specifying minimum capital and liquidity levels based on their assessment of the risks faced by the Group, including under stress.

Recovery and Resolution plans

It is a requirement for all Banks and Building Societies to construct plans that detect possible failure and minimise the consequences of failure should it occur. The Society maintains a Board-approved Recovery Plan and a separate Resolution Plan that outlines a menu of options the Society could credibly take to recover from a Society-specific or market-wide stress. The Resolution plan contains prescribed information necessary for the Bank of England to establish an orderly resolution of the Society in the event that recovery cannot be achieved. The Recovery Plan and Resolution Plan documents are updated at least annually.

Operational resilience

Against an ever changing technological back drop, it is imperative that Building Societies continue to invest in their systems, providers and cyber security. The Group have continued its investment in its core systems and cyber security throughout 2019 to stay commercially competitive and more importantly, to protect its members from the ever increasing risk of cyber-crime.

The Society has continued to focus on operational capabilities, enhancing processes and controls to ensure the Society aligns with the ever moving regulatory environment through the investment in people and continued governance oversight.

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

Description:

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.

Mitigation:

The Society operates within a credit risk appetite which directs 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

Description:

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 (HPI), equity prices, currency or commodity prices. The principal exposures faced by the Society in terms of market risk are significant repayment or product switches within the Society mortgage portfolio which have an additional downside impact on the carrying value of the Effective Interest Rate (EIR) fair value asset attached to the mortgage asset. A further risk is the impact to the equity release mortgage book of movements in the long term discount rate, HPI downturn and volatility in the house prices which have a significant impact on the fair value of the equity release mortgage asset, along with repayment risk attached to redemption of the underlying mortgage asset.

Mitigation:

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 that cannot be completely mitigated. These balances are monitored on an ongoing basis with action taken when required.

Liquidity / Funding risk

Description:
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.

Mitigation:
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 29 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

Description:
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.

Mitigation:
To address these risks, the Head of Operational Risk maintains department-specific 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 Board Risk Committee. Any incidents and near misses 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

Description:
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 access sensitive data for personal gain.

Mitigation:
The Society continues to invest in the maintenance and development of technology, which includes cyber-risk reduction initiatives and further progress towards attainment of Information Security industry standards.

Compliance risk

Description:
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.

Mitigation:
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, reporting to the CRO, monitor rule compliance through a programme of departmental and thematic reviews and, under the supervision of the Board Risk Committee, 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

Description:
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.

Mitigation:
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 the Board Risk Committee on conduct matters.

Business risk

Description:
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.

Mitigation:
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

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

Capital buffers
Under European Law, building societies are required to hold a minimum amount of capital to protect the Members' funds and remain solvent in the form of severe economic stresses. In addition to these minimum requirements, further buffers have been introduced to ensure that Members' interests are protected even in the most adverse scenarios. On 1 January 2019 the Capital Conservation buffer increased to its maximum level of 2.50% of risk-weighted assets. The countercyclical buffer (CCyB) remained at 1% of risk-weighted assets throughout 2019. The CCyB can be used by the financial regulators to adjust the resilience of the banking system to the changing scale of risks expected to be faced. As such it may be increased up to a maximum of 2.5%. The CCyB is scheduled to be increased by 1.0% in December 2020 which would require the Society to hold additional capital of approximately £4million for regulatory purposes.

Basel III Reforms
In December 2017 the Bank for International Settlements' Basel Committee on Banking Supervision published its report "Basel III: Finalising Post-crisis reforms". The document sets out the Committee's finalisation of the Basel III framework. The revisions to the framework seek to restore credibility in the calculation of risk-weighted assets and improve the comparability of capital ratios. Revisions include changes to the standardised approach for credit risk, introducing a more granular approach to risk weights and are expected to take effect from 1 January 2022. Moving to the revised framework would require the Society to hold additional £0.9million of capital for regulatory purposes, based on amounts held at the end of 2019.

Cessation of Libor
The interest rate benchmark LIBOR is expected to cease at the end of 2021 with a regulatory requirement for all firms to transition to alternative rates before this date. The Society's exposures to LIBOR comprise exposures related to interest rate derivatives transacted for hedge accounting purposes and a small portfolio of mortgages within its Crocus Home Loans subsidiary. The Society has established a working group from across the business, reporting into the Assets and Liabilities Committee, to monitor industry, regulatory and accounting related developments and oversee the transition. The replacement of LIBOR with the approved replacement reference rate is expected to have a marginally negative impact for the Society.

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

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

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

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

Competition
The activities of challenger banks and FinTech firms, as well as the rapidly accelerating digital transformation within direct competitors, continues to gather momentum, further serving to pressure margins. Consumer expectations influenced from other sectors and increasingly within financial services, further increase the risk of the Society losing relevance amongst savers and home buyers. Digitalisation of the business in order to respond to market conditions may create a need to further enhance risk management capabilities across a number of risk categories. The cost of delivering the level of change necessary to keep pace with rapidly changing technology may also prove unsustainable and require investment choices which may not fully meet customer expectations.

Financial performance

The economic conditions facing the Society into 2020 remain uncertain however, the Society continues to consider itself well positioned to navigate the risks associated with such uncertainty because of the diligence that has been applied in the areas of mortgage underwriting and broader financial risk and treasury management.

Mortgage arrears and impairment remain well controlled with the low levels of impairment recognised in the year principally relating to further disposal of legacy assets within the Receiver of Rents Portfolio, rather than recently underwritten mortgages. Balance sheet and treasury management remains a core area of focus as it is critical for the Society to optimise the levels of liquidity balanced with diverse sources of suitable funding.

Notwithstanding the continued focus on financial and risk management the Society faces a number of other risks and uncertainties from its business operations that could materially impact on its financial position.

Credit risk: Economic conditions, and prospects, impact on the performance of the Society's mortgage assets, as does political uncertainty. Improving unemployment typically reduces arrears levels and defaults whereas rising interest rates can create affordability issues. Full consideration is given to these risks in the Society's underwriting processes with loan affordability demonstrated at much higher rates than the product applied for. The Society monitors the performance of its mortgage assets very closely with a range of qualitative metrics regularly reported to Board. The Society also operates an arrears and repossessions policy focusing on proactive engagement with borrowers facing difficulty meeting their mortgage payment obligations. The Society does exercise forbearance in certain circumstances. These are reported in Note 29, "Financial instruments".

Funding costs: A consequence of continued economic uncertainty is the risk to future cost of funding necessary to support the Society's lending activities and liquidity position, coupled with a continuation of low interest rates which continue to constrain margins. The Society is a participant in the Bank of England's Sterling Monetary Framework and has a £40.7million liability under the Term Funding Scheme (TFS), repayable between the last financial quarter of 2021 and first financial quarter of 2022. The Society's plans take account of the repayment profile and seek to steadily grow other funding to replace TFS funding in an orderly and controlled manner. A significant number of other deposit taking institutions also obtained TFS funding, many with an earlier repayment profile. As a consequence of this scheme being no longer available market rates for retail deposits are expected to continue increasing as institutions plan to refinance away from TFS. An increase in Base Rate or market rates would place further pressure on funding costs. Political uncertainty further adds to this risk.

Lifetime mortgages: There are risks and uncertainties in respect of the Group's portfolio of Lifetime Mortgages that could impact on financial performance. A reduction in house prices or increase in life expectancy could result in some mortgages suffering losses as a result of the no-negative equity guarantee feature of the product. Lifetime mortgages are held at fair value, which incorporates the impact of such losses.

Pension Scheme obligations: The Society has an obligation to fund the Saffron Building Society Pension Scheme (the "Scheme"). The Scheme is closed to future accrual and has been closed to new employees since August 2003 however, the obligation still gives rise to a risk that the Society will be called upon to provide additional funding should the Scheme's liabilities exceed its assets. The funding obligation is based upon regular triennial actuarial valuations, the most recent being 30 April 2017 in which the Scheme was in surplus of £1.2m. The Scheme is also subject to annual valuation for FRS102 purposes and was reported in the financial statements for the year ended 31 December 2019 at a surplus of £0.4m (2018: surplus of £0.1m).

Geoffrey Dunn
Chairman
On behalf of the Board
4 March 2020

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 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. A revised UK Corporate Governance Code was issued by the Financial Reporting Council in July 2018 and applies to accounting periods beginning on or after 1 January 2019 and therefore applies to these Report and Accounts. The Society's regulators, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) also require the Board to have regard for the Code.

The Directors are aware of their duties to act in the way which they consider, in good faith, would be most likely to promote the success of the Society for the benefit of its Members as a whole.

Although Section 172 of the Companies Act doesn't apply to building societies, Principle D and Provision 5, which are new for the July 2018 version of the Corporate Governance Code, apply similar provisions, such as the need for firms to engage with stakeholders, take account of their interests and describe how they have done so.

Engagement with our colleagues includes various activities to invite opinions, questions and ideas for example regular 'Town Halls', Annual Conference where the Chairman is in attendance, and informal 'Coffee and Chat' sessions with Executives. Our Non-Executive Directors have a programme of visits to our branches and various departments throughout the year. We have engaged with a new third party supplier to send a regular engagement survey to all staff; a collation of views will be discussed at Board. We are working to ensure communication within the Society is of a high standard and our Internal Communication Panel is driving this initiative. We monitor engagement with our other suppliers and stakeholders via the Supplier Management Group which has an overview of these relationships.

Leadership

The role of the Board

It is the Board's role to set the strategic direction for the Society, ensure that the necessary financial and human resources are in place to meet them and review the performance of the Executive team. The Board also maintains a framework to enable risk to be assessed and managed in accordance with its risk appetite.

At the end of the year the Board consisted of one Executive Director, the Chief Executive Officer and six Non-Executive Directors (including a Chairman).

Our Chief Financial Officer resigned from the Board on 28 November 2019. Our Group Financial Controller has been appointed as Chief Financial Officer on an interim basis. The Board have appointed a new Chief Financial Officer who will join the Society in 2020. The Nominations Committee maintain a succession plan for Executives and Non-Executive Directors.

The Board met 10 times in 2019 including a session dedicated to strategy 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 inter alia 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 and oversee executive performance. The Board consider all Non-Executive Directors to be independent.

Executive Directors

The Board delegates the implementation of the strategy and the day-to-day management of the Group to the Leadership Team which is led by the Chief Executive Officer.

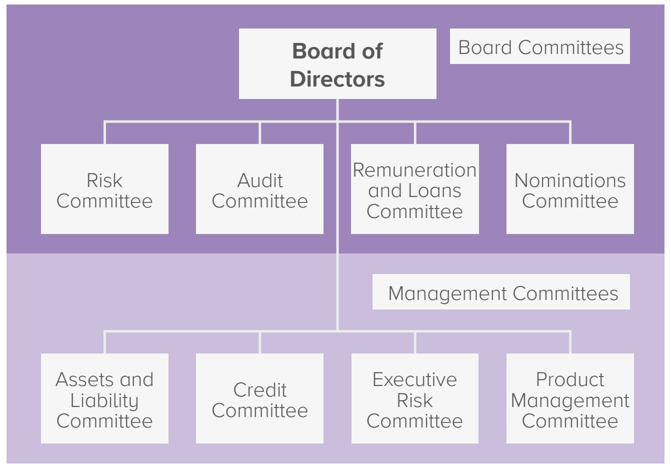
Effectiveness

Composition of the board

The names of the directors together with brief biographical details are provided on pages 46 to 49. The Board has established Committees to consider certain specialist areas in more detail than would be appropriate 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 Chairperson. The Committees and their summary terms of reference are set out below. The full terms of reference may be obtained on request from the Society Secretary. The governance structure of the Society is shown below.

Board Committees

As referred to above, certain matters are delegated by the Board to Board Committees. Details of the Board Committees are given here.



Remuneration and Loans Committee

The Board has established the Remuneration and Loans Committee which comprises all the Non- Executive Directors and is chaired by Jenny Ashmore. 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 Material Risk Takers under the Senior Manager Regime. 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. The Committee makes an annual report to Members which can be found on page 38.

Nominations Committee

The Board has established the Nominations Committee which 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 giving due consideration to relevant laws, regulation and codes; in particular to be responsible for adherence to 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 is cognisant of 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.

Audit Committee *

The Audit Committee (AC) is a committee of the Board and comprises nominated Non-Executive Directors, excluding the Chairman, and is chaired by Neil Holden (Senior Independent Director). Members of the Executive and senior management are invited to attend as appropriate.

Internal audit services are currently provided to the Society by PwC under the terms of a specific engagement. Under the Committee's terms of reference, it has responsibility to approve the terms of engagement, appointment, reappointment or dismissal of the internal auditors. It is also responsible for managing the relationship with the external auditor, including an annual review of auditor effectiveness and their 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. In considering the integrity of the Group's financial statements AC reviews at least annually the acceptability of accounting policies and quarterly, the significant financial judgements. The external auditor, BDO, has also considered the appropriateness of the accounting policies and judgements made by management.

Revenue recognition using the effective interest rate (EIR) method
The Group recognises mortgage income on an effective interest rate basis, which includes the deferral of related fees and commissions paid and received. During the year the Society have moved to an EIR software tool to ensure accuracy of the EIR modelling. Throughout the testing and implementation stages of the new model, AC received papers on the progress and have provided challenge on the changes in basis of estimation within the new modelling tool. During the course of the year it was identified that the curve profiling model was assuming a longer loan life than was appropriate. Correction of this assumption has led to the restatement of the prior year results, explained more fully in note 1. AC has reviewed the changes to correct this issue in detail and adequate explanations to AC's challenges were received. AC are satisfied that the prior year adjustment has been appropriately applied within the financial statements.

Valuation of Lifetime Mortgages and associated swap
The Group has a portfolio of Lifetime Mortgages that are accounted for at fair value through profit and loss to prevent an accounting mismatch with the associated swap which is also accounted at fair value. Changes in the fair value of the mortgages and associated swap are reported within other income and can give rise to significant volatility in reported income. The fair value of the mortgages is determined using discounted cash flow techniques and the use of actuarial tables to estimate redemptions. Cash flows are discounted using a discount rate with a number of constituent components requiring management judgement. This is explained in the Strategic Report on pages 13 to 30. After reviewing these and other reports presented by management, and after discussion with the Group's auditors, AC is satisfied that the financial statements appropriately address the critical judgement areas and that the significant assumptions used for determining the value of assets and liabilities have been subject to appropriate scrutiny, challenge and are sufficiently robust.

Fair, balanced and understandable
Taken in its entirety, AC is satisfied that the Annual Report and Accounts are fair, balanced and understandable.

During 2019 the AC met 4 times to fulfil their responsibilities and in particular considered reports for the following:
- the plans and activities of internal and external audit;
- the effectiveness and independence of internal and external audit;
- the integrity of the Group's financial statements;
- procedures for preventing and detecting financial crime.

Risk Committee *
The Risk Committee (RC) is a committee of the Board and comprises nominated Non-Executive Directors, excluding the Chairman and is chaired by Nick Treble (Vice Chairman). Members of the Executive and senior management are invited to attend as appropriate.

The Risk Committee also focusses on compliance and conduct risk to ensure a balanced and proportionate approach is taken to the key risks. The Committee reviews the effectiveness of the relevant Group 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 overarching and specific risk management frameworks 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.

Loan loss provisioning
The Risk Committee monitor the performance of the Group's loan book throughout the year and review the methodologies and assumptions used by management to determine the level of impairment provision required. RC reviewed the approaches used and key assumptions adopted and agreed with the overall level of provisioning held. Following recommendation and approval from RC, AC concluded the assumptions used to support management's judgement as to the adequacy of impairment provision were appropriate.

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.

During 2019 the RC met 4 times to fulfil their responsibilities and in particular considered reports for the following:
- the effectiveness of the system of internal control;
- the plans and activities of risk and compliance and conduct teams and the effectiveness and resourcing of those team;
- 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;
- approval and review of Credit Risk in excess of Credit Committee approval.

**The Risk and Audit Committees were previously a combined committee. This committee met 3 times before being separated into two in April 2019.*

Directors' attendance 2019

Name	Board	Risk & Audit Committee	Audit Committee	Remuneration & Loans Committee	Nominations Committee	Risk Committee
Number of meetings held	**10**	**3**	**4**	**3**	**2**	**4**
J Ashmore	10	3	4	3	2	4
G Barr	10	3	4	3	2	4
G Dunn	9	3+	3+	3	2	3+
C Field	10	3*	4*	3*	2	4*
D Garner *	8	1*	3*	n/a	n/a	3*
N Holden	10	3	4	3	2	4
E Kelly	9	2	3	3	2	3
N Treble	10	3	4	3	2	4

*Executive directors attended by invitation (D.Garner resigned as a director on 28 November 2019)
+Attended on a voluntary basis

The Society has also established four 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 and the Chief Risk Officer. 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.

Executive Risk Committee
The Committee comprises Executive Directors and representatives from Risk and Compliance. Representatives from other departments may also attend by invitation. The Committee considers information regarding all principal risks faced by the Society as documented in the Enterprise Risk Management Framework (ERMF) to consider, review and challenge how existing risks in the business are being controlled and mitigated in accordance with stated risk appetite and consider new and emerging risks. The Committee provides regular reports and recommendations, where appropriate, to RC. The Committee meets at least ten times per year and is chaired by the Chief Risk Officer.

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 Commercial 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 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.

Diversity
The Board gives consideration to all aspects of diversity when reviewing the composition of the Board and in identifying suitable candidates for the position of Director. We recognise the importance of having a diverse Board and workforce generally, not least because this reflects the make-up of the Membership and the community at large.

The Board is committed to developing an inclusive culture and undertakes appropriate training to support this policy.

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 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.

Induction and Development
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. Board effectiveness is under constant review. The Board calendar includes a formal annual review of Board and Committee effectiveness.

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 was re-elected by Members in 2017. He became Chairman in 2014 and is due to retire at the 2020 AGM. The Vice Chairman, Nick Treble and the Senior Independent Director, Neil Holden were re-elected at the 2017 AGM. Each has served five years on the Board. Liz Kelly is due to retire at the 2020 AGM. Jenny Ashmore was elected at the 2016 AGM; and has served four years on the Board. All Directors will be eligible for re-election at the 2020 AGM and 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 voting Members.

Accountability and Audit

Financial and business reporting
The Directors' responsibilities for financial reporting are described in the Statement of Directors' Responsibilities on pages 42 to 43.

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 AC and the RC that appropriate procedures are in place and are being followed. The Board receives a detailed update from the RC 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 risk appetite, culture, risk management frameworks, together with information on principal risks and uncertainties can be found in the Strategic Report on pages 13 to 30.

Audit engagement
The appointment or re-appointment of external auditors is recommended by AC and confirmed by the Board who appointed BDO LLP for the period ended 31 December 2019. The Society last tendered for external audit services in 2019 resulting in the appointment of the new auditor, BDO LLP. AC conducts an annual assessment of auditor effectiveness and considers whether an audit tender is in the best interests of the Society.

Auditor independence
AC assesses annually the qualification, expertise, resources, independence and objectivity of the external auditor and conducts a review of auditor effectiveness. There is periodic rotation of the audit partner responsible for the audit engagement and each year the external audit firm confirms to AC that it considers itself to be independent as defined by the rules of the Institute of Chartered Accountants in England and Wales.

AC also maintains a formal policy governing the engagement of the external auditor for non-audit services. The policy is designed to ensure that the provision of such services does not impact on the external auditor's independence or objectivity. The policy is reviewed annually by AC and is in accordance with EU regulations on the provision of non-audit services. Under the policy appointment of the external auditor for non-audit services can only be made with the appropriate authority of AC. The external auditor may also only provide such services where these do not conflict with their statutory responsibilities and ethical guidance. AC reviews a schedule of fees paid to the external auditor for non-audit services. During the year there have been no non-audit services provided by BDO LLP in respect of assurance services.

Remuneration
The Directors' Remuneration Report on pages 38 to 41 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 2019 informal Member group meetings were hosted by the Executive Directors to meet with and gauge the views of Members on issues that affect them.

Members are invited to complete surveys via 'Service Tick' which is a customer survey tool and this feedback is taken into consideration to improve service levels.

Non-Executive Directors spend time in the branches and operational departments to help them understand the Member perspective.

Annual General Meeting (AGM)
At the AGM, the Chief Executive and Chief Finance Officer give presentations on the previous year's trading, financial performance and on future plans. The meeting provides an opportunity for Members to question the Chairman, Chief Executive and other directors on the resolutions to be proposed at the meeting and on any other aspect of the Society's business.

Details of the AGM are sent to all Members eligible to vote who are encouraged to attend or to vote on resolutions. Members can vote online, by post or by attendance. 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. 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

The Board has an established Remuneration and Loans Committee which comprises all the Non-Executive Directors. This report illustrates how the Society has regard to the principles set out in the UK Corporate Governance Code relating to Directors' remuneration.

Remuneration and Loans Committee
The Committee is chaired by Jenny Ashmore (Non-Executive Director) and is responsible for:

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

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

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

Most elements of remuneration are reviewed annually and take into account market conditions, local employment competition and Society financial performance. We use external market data to determine appropriate pay levels and our intention is to remunerate at median level which is the wage 'in the middle'. Our last external market review was carried out in January 2018 and will take place again in 2021 We meet the statutory National Minimum Wage and the voluntary Real Living Wage requirements.

Remuneration packages are made up of basic salary, core benefits, pension contribution, bonus and other benefits. There are elements of both individual recognition and organisational performance in our bonus payments. Our scheme is discretionary, subject to a review at least annually and paid out only when affordable.

Market Position

External benchmarking in 2018 showed we are behind median levels in some roles. We made pay awards to move us closer to this in 2019 and our aim is to be at median level by 2021.

CEO Comparison

Ratio of CEO basic pay to average 5:1
Ratio of CEO basic pay to lowest paid 10:1

Society Average Pay Awards of 3.2% (5.65% 2018)
Society Average Bonus Awards of 0% (7.13% 2018)

National Minimum Wage

All staff are paid (at least) the National Living Wage. We pay (at least) the Real Living Wage of £9.00p.h.

Equality of Pay

Due to the size of the Society, we fall below the publication threshold for gender pay. However the Remuneration Committee reviewed gender pay and were satisfied that there is no gender pay gap.

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 newly appointed Executives / Executive Directors from 1 December 2018 the employer contribution is 8.5% of basic salary	None of the Executive Directors are members of the (closed) final salary scheme
Bonus	Reward in the form of a bonus payment is linked to appropriate risk management, financial performance, capital management, quality customer service, operational fitness and people engagement. Organisational measures are reviewed by the Remuneration and Loans Committee each year For the 2019 performance year, 40% of bonus earned will be deferred over 3 years, payable in 2021, 2022 and 2023	Earned on an annual basis and is determined by a combination of organisational and individual performance.
Other benefits	Cash allowance (in lieu of a lease vehicle) of 10% of basic salary paid monthly through payroll. Income protection, death in service, private medical insurance and enhanced annual leave	Considered typical for the Sector

There is also an enhanced redundancy scheme. The scheme, which is non-contractual, could provide a maximum of 52 weeks' salary and is based on length of service. The scheme may be changed or withdrawn at any time.

When determining Executive Director remuneration the Remuneration and Loans Committee also take into account the wider Society pay and bonus approaches

Remuneration decisions in 2019

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

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

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

Non-Executive Directors' fees

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

Executive Directors' personal development

In order to facilitate the personal development of an Executive Director, it is Board policy that an Executive Director may undertake a Non-Executive role with a non-competing organisation. In principle approval is required from the Chief Executive (and 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 are paid directly to the Society Community Fund. Executive Directors' will not benefit financially in any way from this arrangement.

Service contracts

All Executive Directors are employed on a permanent service contract. Details are included in the Annual Business Statement on page 95.

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.

Analysis of Directors' remuneration for 2019

The total remuneration of each Director is analysed and presented in Note 8 to the Accounts.

Approval
This report was approved by the Remuneration and Loans Committee and signed on its behalf by:

J Ashmore
Chair of the Remuneration and Loans Committee

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 13 to 30.

Information presented in other sections
Certain information required to be included in a Directors' report can be found in the other sections of the Annual Report and Accounts as described below. All of the information to be 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 (page 14)
Business review and future developments	Strategic Report (page 29)
Principal risks and uncertainties	Strategic Report (pages 27 to 29)
Financial risk management objectives and policies and risk exposures	Strategic Report (page 25)
Disclosure requirements under CRDIV country by country reporting	Note 32 to the Accounts

Results
Group reported profit before tax for the year ended 31 December 2019 was £3.1million (2018: restated £0.6million).

The Group profit after tax transferred to general reserves was £2.5million (2018: restated £0.2million).

Capital
Group gross capital at 31 December 2019 was £63.9million (2018: restated £60.9million) being 6.6% of total shares and borrowings (2018: restated 6.4%). Free capital at the same date was £50.4million (2018: restated £45.6million) and 5.2% of total shares and borrowings (2018: restated 4.8%). An explanation of these ratios can be found in the Annual Business Statement on page 94.

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

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

As well as our branch network the Society operates a 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.

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

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.

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 like 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 29 to the financial statements, "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.

As a result of the capital improvement plan implemented throughout 2019 the level of excess capital that the Society holds above the regulatory minimum has increased. The continuing economic uncertainty facing the UK means the Society will continue to closely monitor the excess capital levels to maintain a sufficient level. These factors together with the economic uncertainty facing the UK has meant that the Society has undertaken a cost review exercise which is designed to improve profit and therefore capital in order to carry sufficient capital in the future to manage any uncertainty.

Management are also looking to position their future product offerings to continue to attract and control the volume and net interest margins in line with the Group's internal risk appetite.

Based on the above, together with available market information and the Director's knowledge and experience of the Group and markets in which it operates, after making the necessary enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in business for at least twelve months from the date of signing the accounts. Accordingly, the going concern basis continues to be adopted in preparing the Annual Report and Accounts.

Viability statement

In addition to the annual financial planning process to consider going concern, the Society undertakes an annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP).

For the purposes of the viability statement, the Directors have determined the period to December 2022 to be the most appropriate period to consider as this is based on the Society's approved corporate plan and stress testing scenarios set out in the Society's ICAAP document and, as such, represents the longest period over which the Board considers that it can form a reasonable view over the possible economic environment and drivers of Group performance.

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.

The ICAAP stress tests ensure the Group's future capital position and capital generation is sufficient to withstand stresses should operating conditions deteriorate. The stress tests incorporate annual assumptions published by the Bank of England that reflect a significant economic downturn. The capital is set aside and held in the form of buffers. The ILAAP stress tests ensure the Group holds adequate levels of liquid assets, of the required quality, to meet liquidity needs over a predetermined period to allow sufficient time for mitigating actions to recover the Group back to business as usual levels of liquidity. These stress tests incorporate the financing of the Society's FLS and TLS funding.

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.

Based on the assessment described above, the Directors have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the period to December 2022 subject to unforeseen external stresses, most notably, but not limited to, the macro-economic environment, competitive environment and regulatory developments.

Our people

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

Business associates

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

Directors

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

Executive Directors

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

* Resigned as a Director 28 November 2019

Non-Executive Directors

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

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

Biographies of the Directors appear at pages 46 to 49. None of the Directors hold any shares in, or debentures of, any associated body of the Society.

Auditor

A resolution to re-appoint BDO 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 material effect on the financial position of the Group as disclosed in the Annual Accounts.

Geoffrey Dunn
Chairman
On behalf of the Board 4 March 2020

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 pic 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 (ie Finance Director) 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 sc – the global 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. Subsequently, he was also appointed as a Non-Executive Director of Citadele Banka, the Latvian bank that had suffered a similar fate to Northern Rock, to help support their recovery programme. He was also 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. Geoff is due to retire at the 2020 AGM.

JENNY ASHMORE*

Non-Executive Director

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

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

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

*Married name Zaremba

GARY BARR

Non-Executive Director

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

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

COLIN FIELD

Chief Executive Officer

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

NEIL HOLDEN

Non-Executive Director

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

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

LIZ KELLY

Non-Executive Director

Liz is an experienced strategic leader specialising in running legal, compliance and secretarial 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 the Audit Committee and the Risk Committee. Liz is due to retire at the 2020 AGM.

NICK TREBLE

Non-Executive Director

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

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

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

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

Opinion
We have audited the financial statements of Saffron Building Society (the 'Society') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise of the Group and Society Income Statement, the Group and Society Statement of Comprehensive Income, the Group and Society Statement of Financial Position, the Group and Society Statements of Changes in Members' Interests, the Group Cash flow and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and Society's affairs as at 31 December 2019 and of the Group's and Society's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How we addressed the key audit matter in our audit
Revenue recognition The Group's mortgage interest income is recognised on an effective interest rate ("EIR") method in accordance with the requirements of IAS 39. This method involves adjusting fee and interest income to ensure it complies with the EIR method. The models used to achieve this are complex and reliant on the completeness and accuracy of input data. Significant management judgement is also required to determine the expected cash flows for Society's loans and advances within these models. Error within the EIR models itself or bias in key assumptions applied could result in the material misstatement of revenue. Revenue recognition is therefore a fraud risk area. The key assumption in the EIR models is the expected behavioural life redemption profiles of the mortgages due to the impact on timing and quantum of expected future cash flows. During the year a new EIR model software was used, replacing the in house spreadsheet model. The Corporate Governance report on page 34 refers to the risk around the Society's revenue recognition. Management's associated accounting policies are detailed on page 63 with detail about judgements in applying accounting policies and critical accounting estimates on page 65.	We obtained an understanding of the design and implementation of key controls in the revenue recognition process and performed a walk-through test to confirm our understanding of the Group's processes for recognising revenue using the EIR method, including the key data flows. We assessed whether the revenue recognition policies adopted by the Group are in accordance with requirements of IAS 39. This included assessment of the types of fees being spread within the effective interest rate models. We evaluated management's implementation of a new EIR model software for the 2019 period by testing a sample of individual loans to assess how the Group's model calculates EIR adjustments for the varying loans types that make up the Group's loans and advances to customers. We assessed the completeness and accuracy of data and key model inputs feeding into the EIR model by agreeing samples back to the system or source documents. We challenged the loan behavioural life run-off curves used by management based on the Society's historical data and the shape of their behavioural life curves. We challenged management on the number of years of historic data that was being used for the behavioural life assumption considering the trends in more recent data of customer behaviour. Key observations: During the audit we identified that some data used in the re-assessment of behavioural life assumptions both in the current and previous years that was unsuitable. The resulting behavioural life redemption profiles implemented in Group's effective interest rate model had led to the EIR adjustments to be misstatement in the current and prior periods. The resulting misstatement has been corrected by management and a prior period adjustment has been recognised. This resulted in a £2.3m reduction in loan receivables as at 31 December 2018. Refer to Note 1 on page 62 for further details. We concluded that the EIR net asset and interest income recognised are appropriate following the correction of the misstatement.

Key Audit Matter	How we addressed the key audit matter in our audit
Impairment losses on loans and advances (excluding life time mortgages) As disclosed in Note 13, the Group holds £1.0m of impairment provisions at year-end (2018: £3.9m). This comprises a specific provision of £0.7m (2018: £3.5m) and a collective provision of £0.3m (2018: £0.4m). The Group accounts for the impairment of loans and advances to customers (excluding lifetime mortgages) using an incurred loss model. In accordance with the recognition and measurement criteria of IAS 39, management has calculated two types of provisions. (i) A specific provision is calculated for loans where there is an observable loss event. (ii) A collective provision is recognised for loans which are impaired as at the year end date and whilst not specifically identified as such are known from experience to be present in any portfolio of loans. Estimating an appropriate loan loss provision requires significant judgement in determining the value and timing of future cash flows. In particular, the assumptions related to the cash flows expected to be received from the sale of property have the most significant impact on the valuation of provision. The Corporate Governance Report on page 34 refers to the risk around loan loss provisioning. Management's associated accounting policies are detailed on page 64 with detail about judgements in applying accounting policies and critical accounting estimates on page 65.	We obtained an understanding of the design and implementation of key controls in the impairment provisioning process and performed a walk-through test to confirm our understanding. This included data flows and procedures for identifying customers in arrears. Based on our assessment the only control we relied on was the system control that identifies loans in arrears. We tested the operating effectiveness of this control. We assessed the specific and collective provision methodology compared to the requirements of IAS 39. Our testing on specific provisions included selecting a sample of loans and checking the collateral valuation to the external valuations obtained by management. We tested the discount rate applied to the collateral valuations based on past actual discounts where collateral was sold. We also tested the population of loans to gain comfort that all loans that meet the criteria for a specific provision have been included for specific provisioning. For the collective provision we tested the appropriateness of the key assumptions within this model such as impairment triggers, indexed property valuations, and probability of defaults through a combination of, independent recalculations and agreeing inputs to external data sources where applicable. We tested the completeness and accuracy of key model inputs by agreeing them back on a sample basis to underlying source data. We performed sensitivity analysis on the discount applied to the indexed collateral valuations and to the level of segmentation in the model. We reconciled the loan balances in the models to test whether the relevant loan populations were being considered for impairment. Key observations: We noted no exceptions through performing these procedures.

Key Audit Matter	How we addressed the key audit matter in our audit
Valuation of lifetime mortgages As disclosed in Note 29, the Group holds a portfolio of lifetime mortgages at a fair value of £61.0m (2018: £58.8m). Management has elected to account for the lifetime mortgage portfolio at fair value through profit or loss in order to prevent an accounting measurement mismatch which would exist if the mortgage portfolio were accounted for at amortised cost and the associated swap was accounted for at fair value, creating potential income statement volatility. The valuation of the lifetime mortgage portfolio is a complex exercise, which requires a discounted cash flow technique. The determination of the discount rate requires a significant level of judgement, and the overall portfolio valuation is highly sensitive to the discount rate assumption. In addition to the fair valuation of the lifetime mortgage portfolio, there is a No Negative Equity Guarantee ("NNEG") included in the fair value of the portfolio. This requires a significant degree of management judgement in the selection of the valuation model and key assumptions, including discount rate, mortality rates, prepayment rates, future long term house price index ("HPI") and HPI volatility expectations. We identified this as a potential area for fraud given there could be potential management bias in the assumptions. The Corporate Governance Report on page 34 refers to the valuation risk of the lifetime mortgages portfolio. Management's associated accounting policies are detailed on page 64 with detail about judgements in applying accounting policies and critical accounting estimates on page 65.	We obtained an understanding of the design and implementation of key controls in the valuation of lifetime mortgages process and performed a walk-through test to confirm our understanding. We engaged our internal valuation experts who reviewed and recalculated the Group's mortgage pool and NNEG valuation model using the experts' assumptions and compared this to the results produced by the Group. We challenged the discount rate used by management by estimating an acceptable range of the discount rate based on a top down approach using observable market data. We tested the variables used by management in their bottom up build of the discount rate by obtaining support from management or external support. We considered whether the NNEG valuation model was appropriate and tested the key inputs and assumptions. We compared the mortality rates to actuarial tables and the HPI and HPI volatility assumptions to our independent estimate derived from observable market data. We tested the completeness and accuracy of key model data inputs by agreeing them back to underlying source data. Key observations: We noted no exceptions through performing these procedures.

Our application of materiality
We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the audit and in forming our opinion. Materiality is assessed on both quantitative and qualitative grounds. We applied the following to the Group:

Materiality	£371,000
Performance materiality	£241,000
Reporting threshold	£7,000

We consider materiality to be the magnitude by which misstatements, individually or taken together, could reasonably be expected to influence the economic decisions of the users of the financial statements. We determined the materiality for the Group financial statements as a whole to be £371,000, which was set at 0.75% of Tier 1 Capital. This provides a basis for determining the nature and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures.

We determined that Tier 1 capital was the most appropriate benchmark as regulatory stability is considered to be a main driver for the Society as well as the purpose of the Society which is to optimise rather than maximise profits.

We determined materiality for the Society to be £283,000 which represents 5% of net assets.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

The application of materiality at the individual account or balance level is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment together with our assessment of the Group's and the Society's overall control environment, our judgement was that overall performance materiality for both the Group and the Society should be 65% of materiality.

We agreed with the Audit Committee that we would report all individual audit differences in excess of £7,000 to the Audit Committee and any other differences that, in our view, warranted reporting on qualitative grounds.

We identified components within the Group and the component materiality was set between £203,000 and £283,000.

An overview of the scope of our audit
Our audit approach was developed by obtaining an understanding of the Group and the Society's activities and the overall control environment. Based on this understanding, we assessed those aspects of the Group's and the Society's transactions and balances which were most likely to give risk to a material misstatement.

The Group is made up of the Society and its wholly owned subsidiaries. The significant components are the Society and Crocus Home Loans Limited, with the remaining subsidiaries all being dormant companies. These two components were subject to full scope audits and were audited by the Group audit team. The Society and Crocus Home Loans Limited account for 100% of the Group's net assets, 100% of the Group's revenue and 100% of the Group's profit before tax.

Capability of the audit to detect irregularities, including fraud
We gained an understanding of the legal and regulatory framework applicable to the Society and the industry in which it operates and considered the risk of acts by the Society which would be contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with the Building Societies Act 1986, Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") regulations, pension legislation, tax legislation.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We considered compliance with this framework through discussions with the Audit Committee and performed audit procedures on these areas as considered necessary. Our procedures involved enquiry with the management, internal audit, Audit Committee, Risk Committee, and the board, review of the reporting to the Directors with respect to compliance with laws and regulation, review of board meeting minutes and review of legal correspondence.

There are inherent limitations in an audit of financial statements and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report & accounts, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Building Societies Act 1986
In our opinion, based on the work undertaken in the course of the audit:

- 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 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.

In the light of the knowledge and understanding of the Society and their environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Group and the Society; or
- the Group and Society's financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013
In our opinion the information given on page 93 for the financial year ended 31 December 2019 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address
Following the recommendation of the Audit Committee, we were appointed by the Board of directors on 19 June 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the year ended 31 December 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Society and we remain independent of the Group and the Society in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report
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 and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

THE ACCOUNTS

Income Statement
for the year ended 31 December 2019

	Notes	2019 (£000) Group	2019 (£000) Society	Restated 2018 (£000) Group	Restated 2018 (£000) Society
Interest receivable and similar income	3	30,132	29,531	29,733	29,154
Interest payable and similar charges	4	(9,958)	(9,958)	(9,018)	(9,018)
Net interest income		**20,174**	**19,573**	**20,715**	**20,136**
Fees and commissions receivable		939	974	718	725
Fees and commissions payable		(638)	(615)	(595)	(571)
Other operating income	16,28	39	39	239	239
Net fair value movements	5	(492)	234	(3,599)	(1,317)
Total net income		**20,022**	**20,205**	**17,478**	**19,212**
Administrative expenses	6	(13,913)	(13,913)	(14,062)	(14,062)
Depreciation and amortisation	15,17	(2,482)	(2,482)	(2,621)	(2,621)
Other operating charges	28	(67)	(67)	(112)	(112)
Operating profit before impairment losses and provisions		**3,560**	**3,743**	**683**	**2,417**
Income from investments		-	-	-	100
Impairment losses on loans and advances	13	(334)	(328)	(139)	(114)
Provisions for liabilities	27	(136)	(136)	45	45
Operating profit		**3,090**	**3,279**	**589**	**2,448**
Loss/Profit on disposal of property, plant and equipment		(29)	(29)	-	-
Profit before tax		**3,061**	**3,250**	**589**	**2,448**
Tax	9	(543)	(569)	(386)	(623)
Profit for the financial year		**2,518**	**2,681**	**203**	**1,825**

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 2019

	Notes	2019 (£000) Group	2019 (£000) Society	Restated 2018 (£000) Group	Restated 2018 (£000) Society
Profit for the financial year		2,518	2,681	203	1,825
Available for sale reserve					
-Valuation gains/(losses) taken to reserves	24	504	504	(124)	(124)
-Amount transferred to income statement	24	(386)	(386)	15	15
Net actuarial gain/(loss) recognised in the defined benefit pension scheme	28	394	394	(19)	(19)
Unrealised gain on revaluation of property, plant and equipment		388	388	-	-
Tax relating to components of other comprehensive income	9	(37)	(37)	(49)	(49)
Total comprehensive income for the year		**3,381**	**3,544**	**26**	**1,648**

Group
Statement of financial position
for the year ended 31 December 2019

	Notes	2019 (£000) Group	Restated Dec 2018 (£000) Group	Restated 1 Jan 2018 (£000) Group
Assets				
Liquid assets				
-Cash in hand and balances with the Bank of England		86,653	49,819	59,197
-Loans and advances to credit institutions	10	36,452	26,309	28,722
-Debt securities	10	102,055	76,362	66,593
Derivative financial instruments	11	219	3,092	2,817
Loans and advances to customers	12	828,741	859,943	837,064
Total liquid assets		**1,054,120**	**1,015,525**	**994,393**
Investment properties	16	3,070	2,840	2,785
Property, plant and equipment	15	4,400	4,586	4,743
Intangible assets	17	6,363	8,230	10,020
Other assets	18	1,379	1,429	1,295
Current tax asset		168	350	1,014
Deferred tax asset	23	286	1,057	1,669
Pension asset	28	403	76	207
Total assets		**1,070,189**	**1,034,093**	**1,016,126**
Liabilities				
Shares	19	813,214	784,034	802,289
Amounts owed to credit institutions	20	79,571	93,341	35,706
Amounts owed to other customers		81,826	69,278	85,833
Derivative financial instruments	11	27,913	23,385	27,312
Other liabilities	21	2,052	1,745	2,544
Provision for liabilities	27	244	167	248
Deferred tax liability	23	571	724	802
Subordinated liabilities	22	10,268	10,270	10,268
Total liabilities		**1,015,659**	**982,944**	**965,002**
Reserves				
General reserves		53,747	50,892	50,709
Available for sale reserve	24	15	(123)	35
Revaluation reserve	25	768	380	380
Total reserves and liabilities		**1,070,189**	**1,034,093**	**1,016,126**

These accounts were approved by the Board of Directors on 4 March 2020 and were signed on its behalf by:

G R Dunn
(Chairman)

C H Field
(Chief Executive Officer)

N J Holden
(Director)

Society
Statement of financial position
for the year ended 31 December 2019

	Notes	2019 (£000) Society	Restated Dec 2018 (£000) Society	Restated 1 Jan 2018 (£000) Society
Assets				
Liquid assets				
-Cash in hand and balances with the Bank of England		86,653	49,819	59,197
-Loans and advances to credit institutions	10	36,451	25,939	28,146
-Debt securities	10	102,055	76,362	66,593
Derivative financial instruments	11	219	3,092	2,817
Loans and advances to customers	12	787,829	817,822	790,220
Total liquid assets		**1,013,207**	**973,034**	**946,973**
Investments in subsidiary undertakings	14	41,100	42,471	45,657
Investment properties	16	3,070	2,840	2,785
Property, plant and equipment	15	4,400	4,586	4,743
Intangible assets	17	6,363	8,230	10,020
Other assets	18	1,379	1,429	1,294
Current tax asset		130	330	902
Deferred tax asset	23	14	793	1,660
Pension asset	28	403	76	207
Total assets		**1,070,066**	**1,033,789**	**1,014,241**
Liabilities				
Shares	19	813,214	784,034	802,289
Amounts owed to credit institutions	20	79,571	93,341	35,706
Amounts owed to other customers		81,826	69,278	85,833
Derivative financial instruments	11	27,913	23,385	27,312
Other liabilities	21	2,029	1,704	2,544
Provision for liabilities	27	244	167	248
Deferred tax liability	23	571	724	802
Subordinated liabilities	22	10,268	10,270	10,268
Total liabilities		**1,015,636**	**982,903**	**965,002**
Reserves				
General reserves		53,647	50,629	48,824
Available for sale reserve	24	15	(123)	35
Revaluation reserve	25	768	380	380
Total reserves and liabilities		**1,070,066**	**1,033,789**	**1,014,241**

These accounts were approved by the Board of Directors on 4 March 2020 and were signed on its behalf by:

G R Dunn
(Chairman)

C H Field
(Chief Executive Officer)

N J Holden
(Director)

Statement of changes in Members' interests

Group 2019

	Notes	General reserve (£000)	Available for sale reserve (£000)	Revaluation reserve (£000)	Total (£000)
Balance as at 1 January 2019		53,010	(123)	380	53,267
Net effect of prior year adjustment	1	(2,118)	-	-	(2,118)
Restated Balance as at 1 January 2019		50,892	(123)	380	51,149
Profit for the financial year		2,518	-	-	2,518
Other comprehensive income for the year		337	138	388	863
Total comprehensive income for the year		2,855	138	388	3,381
Balance as at 31 December 2019		**53,747**	**15**	**768**	**54,530**

Group 2018

	Notes	General reserve	Available for sale reserve	Revaluation reserve	Total
Balance as at 1 January 2018		51,764	35	380	52,179
Net effect of prior year adjustment	1	(1,056)	-	-	(1,056)
Restated Balance as at 1 January 2018		50,708	35	380	51,123
Profit for the financial year		203	-	-	203
Other comprehensive loss for the year		(19)	(158)	-	(177)
Total comprehensive income/(loss) for the year		184	(158)	-	26
Balance as at 31 December 2018		**50,892**	**(123)**	**380**	**51,149**

Society 2019

	Notes	General reserve	Available for sale reserve	Revaluation reserve	Total
Balance as at 1 January 2019		52,675	(123)	380	52,932
Net effect of prior year adjustment	1	(2,046)	-	-	(2,046)
Restated Balance as at 1 January 2019		50,629	(123)	380	50,886
Profit for the financial year		2,681	-	-	2,681
Other comprehensive income for the year		337	138	388	863
Total comprehensive income for the year		3,018	138	388	3,544
Balance as at 31 December 2019		**53,647**	**15**	**768**	**54,430**

Society 2018

	Notes	General reserve	Available for sale reserve	Revaluation reserve	Total
Balance as at 1 January 2018		49,879	35	380	50,294
Net effect of prior year adjustment	1	(1,056)	-	-	(1,056)
Restated Balance as at 1 January 2018		48,823	35	380	49,238
Profit for the financial year		1,825	-	-	1,825
Other comprehensive loss for the year		(19)	(158)		(177)
Total comprehensive income/(loss) for the year		1,806	(158)	-	1,648
Balance as at 31 December 2018		**50,629**	**(123)**	**380**	**50,886**

Group cash flow statements
for the year ended 31 December 2019

	Notes	2019 (£000) Group	Restated 2018 (£000) Group
Cash flows from operating activities			
Profit before tax		3,061	589
Interest on subordinated liabilities	22	632	632
Gains on disposal of debt securities	10	(556)	(158)
Net fair value movements	5	5,465	(3,599)
Loss on disposal of property, plant and equipment		29	-
Depreciation and amortisation	15,17	2,481	2,622
Increase in impairment of loans and advances	13	334	139
Decrease in loans and advances to credit institutions		(6,507)	1,219
Decrease/(increase) in loans and advances to customers		30,869	(23,694)
Decrease in prepayments, accrued income and other assets		223	177
Increase/(Decrease) in shares		29,266	(10,027)
Increase in amounts owed to credit institutions		(11,914)	57,542
Decrease in amounts owed to other customers		12,552	(16,558)
Increase/(Decrease) in accruals, deferred income and other liabilities		585	(8,750)
Net tax received/(paid)		182	495
Net cash inflow from operating activities		**66,702**	**629**
Cash flows from investing activities			
Purchase of debt securities		(85.482)	(66,110)
Disposal of debt securities		60,293	56,217
Purchase of property, plant and equipment		(251)	(349)
Purchase of intangible fixed assets		(160)	(326)
Net cash used in investing activities		**(25,600)**	**(10,568)**
Cash flows from financing activities			
Interest on subordinated liabilities		(632)	(632)
Net increase/(decrease) in cash and cash equivalents		**40,470**	**(10,571)**
Cash and cash equivalents at beginning of the year		**50,549**	**61,120**
Cash and cash equivalents at end of the year (2)		**91,019**	**50,549**

Notes:
1) All cash flows are stated inclusive of VAT where applicable.
2) Cash and cash equivalents comprise cash in hand £86,653,000 (2018: £49,819,000) and loans and advances to credit institutions repayable on call and short notice of £4,366,000 (2018: £730,000).

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 42.

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 under the historical cost convention as modified by the fair value revaluation of financial instruments and fair value of freehold property and investment property.

The accounts have been prepared on the going concern basis as set out in the Director's Report on page 42.

The preparation of these accounts in conformity with FRS102 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 judgements 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) Prior year restatement:
During the audit of the current year financial statements, there was one area identified which required restating in prior periods, details of this adjustment is as follows:

Effective Interest Rate accounting
The Group recognises mortgage income for loans and advances to customers held at amortised cost on an effective interest rate basis. The effective interest rate includes the related fees and commissions received and paid, in accordance with the requirements of IAS 39 Financial Instruments. During the 2018 year end process we identified an error in the model that we had used for a number of years to calculate Effective Interest Rates (EIR). This necessitated a restatement of the 2017 accounts within the 2018 report and accounts.

During the current year, it was identified that the curve profiling model, which is used to determine the length which a loan is expected to remain with the Society for EIR modelling was including a number of loans which were not subject to EIR calculations. It was not appropriate to include these loans.

Also within the profiling, 12 year historical data was used to generate an average run off period. When compared to more recent performance by annual cohort, this was determined to be inaccurate. Had the profiling been conducted by annual cohort in prior periods, management would have assumed a materially shorter run off period.

This adjustment now accurately reflects the asset position at 1 January 2018 with the necessary adjustment made to the income statement in respect of the EIR mortgage interest income and the associated impact on tax.

As this error was made in a reporting period prior to the comparative period, the balance sheet for the period ended 31 December 2017 was restated as follows:

Statement of financial position extract	£000s	Group 2017 As published	Group Correction of prior period error	Group 2017 Restated
Assets	Loans and advances to customers	838,335	(1,271)	837,064
	Deferred tax asset	1,453	216	1,669
	Total assets	1,017,181	(1,055)	1,016,126
Reserves	General reserves	51,764	(1,055)	50,709
	Total reserves and liabilities	1,017,181	(1,055)	1,016,126
	Society			
Assets	Loans and advances to customers	791,491	(1,271)	790,220
	Deferred tax asset	1,444	216	1,660
	Total assets	1,015,296	(1,055)	1,014,241
Reserves	General reserves	49,879	(1,055)	48,824
	Total reserves and liabilities	1,015,296	(1,055)	1,014,241

Restatement of financial statements for the comparative year Income statement	£000s	Group 2018 As published	Group Correction of prior period error	Group 2018 Restated
	Interest receivable and similar income	30,763	(1,030)	29,733
	Net Interest Income	21,745	(1,030)	20,715
	Tax	(353)	(33)	(386)
	Profit for the financial year	1,265	(1,062)	203
	Society			
	Interest receivable and similar income	30,083	(929)	29,154
	Net Interest Income	21,065	(929)	20,136
	Tax	(563)	(60)	(623)
	Profit for the financial year	2,815	(990)	1,825

Statement of financial position extract	£000s	Group 2018 As published	Group Correction of prior period error	Group 2018 Restated
Assets	Loans and advances to customers	862,243	(2,300)	859,943
	Deferred tax asset	874	183	1,057
	Total assets	1,036,210	(2,117)	1,034,093
Reserves	General reserves	53,010	(2,118)	50,892
	Total reserves and liabilities	1,036,210	(2,117)	1,034,093
	Society			
Assets	Loans and advances to customers	820,021	(2,199)	817,822
	Deferred tax asset	637	156	793
	Total assets	1,035,832	(2,043)	1,033,789
Reserves	General reserves	52,675	(2,046)	50,629
	Total reserves and liabilities	1,035,832	(2,043)	1,033,789

d) 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.

e) 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.

f) 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. The cashflow statements have been prepared using the indirect method.

g) 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%.

Cessation of LIBOR
The Society is early adopting the Hedge Effectiveness transitional provisions as set out in the Financial Reporting councils publication Amendments to FRS102; Interest rate benchmark reform to ensure it can continue to apply hedge effectiveness throughout the transition period.

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.

h) 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 (now referred to as Income Statement). 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 arrangement 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 24). 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.

i) Impairment of financial assets not measured at fair value:
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 29). 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.

j) 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.

k) De-recognition of financial instruments:
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

l) 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 three years. 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 on a straight-line basis 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

m) 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.

n) 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 measured 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 on a straight-line basis 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.

o) 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. Re-measurement comprising actuarial gains and losses and the return on scheme assets (excluding interest) are recognised in other comprehensive income. The Society also operates a stakeholder pension scheme and the Society contributions for this scheme are charged to the Income statement.

p) 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.

q) 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 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.

r) Funding for Lending Scheme (FLS) and Term Funding Scheme (TFS):
In order for the Society to access funding from the Government's FLS and TFS it has to pledge mortgage assets as collateral to the Bank of England. As the risk and reward of ownership of the mortgage assets remains with the Society, these assets are retained on its Statement of financial position. The interest receivable on these assets continues to be the Society's and is accounted for as earned on an accruals basis. Treasury bills borrowed under the FLS are not recognised on the Statement of financial position as substantially all the risks and rewards of the ownership remain with the lender. The interest cost of borrowing the treasury bills is accrued in the accounts on a straight line basis over the drawdown period. If treasury bills are lent or sold subject to a commitment to repurchase, the new proceeds received are recognised as cash on the Statement of financial position together with a corresponding liability.

2. 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:

a) Effective interest rate – expected mortgage life:
The calculation of an effective interest rate requires judgements regarding the expected life of the underlying mortgage 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 result in an adjustment to the carrying value of the mortgages, calculated as the present value of the revised cashflows discounted at the original effective interest rate, recognised immediately in the income statement. To demonstrate the volatility of the Effective Interest Rate accounting for the expected mortgage life, we have run two scenarios, one where the mortgages redeem one month sooner and one where the mortgages redeem one month later. The effect of mortgages redeeming one month sooner would have a further charge to the income statement of £25k. In the scenario where the mortgages redeem one month later this results in further income of £195k to the income statement.

b) Impairment losses on loans and advances to customers:

i) Specific Provisions
Specific provisions are calculated by determining the expected cash flows from the loan, including those from the realisation of collateral. Significant judgement is required to determine the timing and amounts of cash flows as well as in determining whether indicators of impairment exist for a particular loan.

ii) Collective Provisions
Collective provisions are calculated using credit modelling techniques. This involves estimation of probabilities of default as well as recoverability and values of collateral leading to significant estimation uncertainty. Probabilities of default are determined using a combination of credit metrics and amounts of arrears and recoverability is based on historical experience. Collateral values are estimated by applying regional HPI indexes to the most recent formal valuation. Sensitivities to the recoverable value of collateral and default probability are as follows.

A 15% downturn in house price would lead to an additional provision for impairment of £779k while an improvement in house price of 15% would lead to a reduction in provision of £283k. If the probability of default on our loan book increased by 25%, our provision would increase by £83k, however if the probability of default decreased by 25%, our provision would fall by £83k.

c) Financial assets at fair value through profit and loss - Equity release mortgages:
Loans and advances to customers include a portfolio of equity release mortgages. All such loans were originated or purchased before 2011 and the Society no longer offers such mortgages. Under the product terms interest is capitalised within the loan balance and becomes repayable on redemption of the loan

through sale of the property. Borrowers are not required to make monthly repayments. The mortgage contract for these loans contains a No Negative Equity Guarantee ("NNEG") clause where the Society cannot pursue a borrower in the event that the proceeds from the sale of the property is less than the contractual loan balance. The NNEG exposes the Society to the risk that the Society may not fully recover expected redemption balances. Estimation uncertainty surrounds the measurement of the NNEG liability since redemptions may not occur for many years in the future.

The fair value of the portfolio of equity release mortgages, which is calculated using an internal variant of the Black Scholes option pricing model, takes into account an explicit provision in respect of the NNEG.

The principal assumptions underlying the valuation include mortality or entry into long-term care, Discount rate and No Negative Equity Guarantee. Further information on these assumptions, together with sensitivity analysis, is provided in Note 29 to the Accounts.

d) 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 28 to the accounts. The value of the pension scheme liabilities is most sensitive to the discount rate used. A 0.1% increase in the discount rate would reduce the defined benefit obligation by £0.2m.

3. Interest receivable and similar income

	2019 (£000)		Restated 2018 (£000)	
	Group	Society	Group	Society
On assets held at amortised cost				
Loans fully secured on residential property	28,045	27,774	28,713	28,400
Loans to subsidiaries	-	1,129	-	1,249
Other liquid assets / cash and short term funds	1,316	1,316	902	902
On available for sale securities				
Liquid assets	-	-	77	77
Gains on disposal	379	379	(15)	(15)
On financial instruments held at fair value through the income statement				
Loans fully secured on residential property	2,523	1,064	2,635	1,120
Derivatives	(2,131)	(2,131)	(2,579)	(2,579)
	30,132	**29,531**	**29,733**	**29,154**

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

4. Interest payable and similar charges

	2019 (£000)		2018 (£000)	
	Group	Society	Group	Society
On liabilities held at amortised cost				
Shares held by individuals	7,814	7,814	7,163	7,163
Subordinated liabilities	632	632	633	633
Deposits and other borrowings	1,475	1,475	1,294	1,294
On financial instruments held at fair value through the income statement				
Derivatives	37	37	(72)	(72)
	9,958	**9,958**	**9,018**	**9,018**

5. Net fair value movements

	2019 (£000)		2018 (£000)	
	Group	Society	Group	Society
Derivatives in designated fair value hedge relationships	(2,388)	(2,388)	900	900
Adjustments to hedged items in fair value hedge accounting relationships	2,064	2,064	(765)	(765)
Derivatives not in designated fair value hedge relationships	(4,579)	(2,686)	2,104	1,097
(Decrease)/increase in fair value of assets and liabilities	4,411	3,244	(5,838)	(2,549)
	(492)	**234**	**(3,599)**	**(1,317)**

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.

6. Administrative expenses

	2019 (£000)		2018 (£000)	
	Group	Society	Group	Society
Staff costs (Note 7)	6,990	6,990	7,286	7,286
Remuneration of auditors:				
- audit of the Society's accounts	211	211	140	140
- audit of the Society's subsidiary pursuant to legislation	24	24	5	5
- assurance related services	5	5	12	12
Operating lease rentals	283	283	268	268
Other administrative expenses	6,400	6,400	6,351	6,351
	13,913	**13,913**	**14,062**	**14,062**

Note: all audit fees are borne by the Society.

7. Staff numbers and costs

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

	2019		2018	
	Group	Society	Group	Society
Principal office	109	109	113	113
Branch offices	49	49	49	49
	158	**158**	**162**	**162**

	2019 (£000)		2018 (£000)	
The aggregate costs of these persons were as follows:	Group	Society	Group	Society
Wages and salaries	5,964	5,964	6,145	6,145
Social security costs	603	603	685	685
Other pension costs (Note 28)	423	423	456	456
	6,990	**6,990**	**7,286**	**7,286**

8. Remuneration of and transactions with Directors

Analysis of Directors' emoluments:	Salary/ fees	Bonus paid (1)	Other benefits (2)	Pension/ Pension allowance	2019 (£000) Total	2018 (£000) Total
Executive						
C H Field	175	-	18	24	**217**	236
S A Howe* (4)	-	-	-	-	**-**	217
D L Garner (3)	183	15	23	20	**241**	203
	358	**15**	**41**	**44**	**458**	656
Non-Executive						
G R Dunn	53	-	-	-	**53**	52
T G Barr	33	-	-	-	**33**	32
N J Treble	43	-	-	-	**43**	42
N J Holden	43	-	-	-	**43**	42
J A Ashmore	33	-	-	-	**33**	32
E Kelly	33	-	-	-	**33**	32
	238	-	-	-	**238**	232
Total 2019	**596**	**15**	**41**	**44**	**696**	-
Total 2018	**722**	**49**	**52**	**65**	**-**	**888**

Notes:

1. There was no bonus paid in 2019 relating to the 2018 performance year. The deferred bonus of £9,563 due to be paid to CH Field in March 2019 was further deferred by one year at his own request.
2. Other benefits is made up of car allowance and private health insurance.
3. D L Garner left the Society's employment on 28th November 2019 and his remuneration includes 3 months pay, car allowance and pension allowance (all in lieu of notice) plus annual leave owing and deferred bonus earned in prior years. Deferred bonus of £11,835 due to be paid to D L Garner in March 2019 was deferred by one year at his own request. Following D L Garner's notice of resignation the Remuneration and Loans Committee approved payment of a deferred bonus to him in November 2019 totalling £14,670 which also includes sums that were deferred until 2020 and 2021.
4. *Mrs Howe resigned as a director on 19 November 2018 and left the Society on 31 December 2018.

Non-Executive Director fees did not increase in 2019.

9. Taxation on profit on ordinary activities

	2019 (£000)		Restated **2018** (£000)	
The tax charge comprises:	Group	Society	Group	Society
Current tax on profit on ordinary activities				
UK corporation tax	-	-	-	-
Adjustments in respect of prior periods	(18)	-	(164)	(165)
Total current tax	**(18)**	**-**	**(164)**	**(165)**
Deferred tax				
Origination and reversal of timing differences	561	569	690	945
Adjustments in respect of prior periods	-	-	(140)	(157)
Effect of tax rate change on opening balance	-	-	-	-
Total deferred tax	**561**	**569**	**550**	**788**
Total tax credit on profit on ordinary activities	**543**	**569**	**386**	**623**
Tax charge recognised in other comprehensive income	37	37	49	49
Total current and deferred tax credit	**580**	**606**	**435**	**672**

The standard rate of Corporation Tax was from 1 April 2017, giving effective tax rates of 19% for the year ended 31 December 2018 and 19.25% for the year ended 31 December 2017. During 2016 a reduction in the corporation tax rates to 17% from 1 April 2020 was substantively enacted into legislation. These changes will reduce the Society's future current tax charges accordingly. 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.

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:

Profit on ordinary activities before tax	3,061	3,250	589	2,448
Tax on profit on ordinary activities at standard UK corporation tax rate of 19% (2018:19%)	581	617	112	465
Effects of:				
Fixed asset differences	35	35	36	36
Non-taxable expense/(income)	26	26	9	(10)
Impact of rate change	-	-	(33)	(61)
Adjustments to tax charge in respect of previous years	(154)	(136)	239	249
Other	55	27	23	(56)
Total tax credit for the period recognised in the income statement	**543**	**569**	**386**	**623**

10. Liquid assets

	2019 (£000)		**2018** (£000)	
	Group	Society	Group	Society
Loans and advances to credit institutions:				
Repayable on call and short notice	4,366	4,365	730	360
Placements with credit institutions	32,086	32,086	25,579	25,579
	36,452	**36,451**	**26,309**	**25,939**

As at 31 December 2019 £31,082k (2018:£25,574k) of cash has been deposited by the Group and Society as collateral against derivative contracts.

	2019 (£000)		**2018** (£000)	
Debt securities:				
Gilts	-	-	22,791	22,791
Treasury bills	70,872	70,872	20,416	20,416
Bonds	31,183	31,183	33,155	33,155
	102,055	**102,055**	**76,362**	**76,362**

The Society has pledged £nil of debt securities with the Bank of England for the Term Funding Scheme and Funding for Lending Scheme (2018:£Nil).

	2019 (£000)
	Group & Society
Movements during the year of debt securities are analysed as follows:	
At 1 January	76,362
Additions	85,482
Disposals	(60,293)
Net gains from changes in fair value recognised in Statement of comprehensive income	504
At 31 December	**102,055**

11. Derivative financial instruments

	Group & Society (£000)		
	Contract/ notional amount	Fair values – Assets	Fair values – Liabilities
As at 31 December 2019			
a) Unmatched derivatives – Interest rate swaps	96,545	100	(26,104)
b) Derivatives designated as fair value hedges – Interest rate swaps	259,500	119	(1,809)
Total recognised derivative assets / (liabilities)	**356,045**	**219**	**(27,913)**
As at 31 December 2018			
a) Unmatched derivatives – Interest rate swaps	52,843	1,905	(22,910)
b) Derivatives designated as fair value hedges – Interest rate swaps	252,500	1,187	(475)
Total recognised derivative assets / (liabilities)	**305,343**	**3,092**	**(23,385)**

Unmatched derivatives include three interest rate swaps with a net notional value of £38.5million (2018:£41.1million) 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 £33million (2018: £5million), which the Society has elected to de-designate from their hedging relationship at December 2019 and a further £19million (2018: Nil) which, at the end of December 2019 have been taken out to hedge mortgages where customer has been offered a mortgage but has not yet completed before the end of the year.

LIBOR Based Instruments

Instrument type	End Before LIBOR Ceasation	End After LIBOR Ceasation
Interest Rate Swaps		
Notional Value (£'000's)	126,000	199,011
Net Fair Value (£'000's)	92	27,719
Number of LIBOR Swaps	31	60
Loans and Advances to Customers		
Value of mortgage Contracts (£'000's)	954	1,699
Number of Mortgage Contracts	5	19

Of the LIBOR Swaps, 82 are in a hedging relationship and 9 are unmatched.

Of those LIBOR swaps which will mature after LIBOR has ceased, 50 are in a hedging relationship and 3 umatched

12. Loans and advances to customers

	2019 (£000)		Restated 2018 (£000)	
	Group	Society	Group	Society
Loans fully secured on residential property				
Held at amortised cost (1)	766,011	757,941	803,541	793,488
Held at fair value through the income statement	60,967	28,122	58,819	26,648
Other loans - loans fully secured on land	1,271	1,271	1,875	1,875
	828,249	787,334	864,235	822,011
Provision for impairment losses on loans and advances (Note 13)	(1,016)	(1,013)	(3,875)	(3,772)
	827,233	786,321	860,360	818,239
Fair value adjustment for hedged risk	1,508	1,508	(417)	(417)
	828,741	**787,829**	**859,943**	**817,822**

Note

(1) The Society has pledged £218.3million of mortgage loan pools with the Bank of England for the Term Funding Scheme and Funding for Lending Scheme (2018:£15million).

13. Impairment losses on loans and advances

	(£000)		
	Individual	Collective	Total
Group			
At 1 January 2019	3,486	389	3,875
Charge for the year	393	(59)	334
Amounts utilised in the period	(3,194)	1	(3,193)
At 31 December 2019	**685**	**331**	**1,016**
Society			
At 1 January 2019	3,390	382	3,772
Charge for the year	383	(55)	328
Amounts utilised in the period	(3,088)	1	(3,087)
At 31 December 2019	**685**	**328**	**1,013**

14. Investments in subsidiary undertakings

	2019 (£000) Society	2018 (£000) Society
Shares in subsidiary undertakings	86	86
Loans to subsidiary undertakings	41,014	42,385
	41,100	**42,471**
Movement during the year of loans to subsidiary undertakings:		
Cost		
At 1 January	42,385	45,571
Repayments received	(4,453)	(4,588)
Loans advanced	3,082	1,402
At 31 December	**41,014**	**42,385**

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.

15. Property, plant and equipment

	Group & Society (£000)			
	Land and buildings freehold	Land and buildings short leasehold	Equipment, fixtures, fittings and vehicles	Total
Cost or valuation				
At 1 January 2019	4,427	1,190	3,105	8,722
Additions	-	-	251	251
Disposals	-	(23)	(105)	(128)
Revaluation	388	-	-	388
Transfer to investment properties	(494)	-	-	(494)
At 31 December 2019	**4,321**	**1,167**	**3,251**	**8,739**
Depreciation				
At 1 January 2019	997	609	2,530	4,136
Charged in year	151	112	191	454
Disposals	-	(23)	(78)	(101)
Transfer to investment properties	(150)	-	-	(150)
At 31 December 2019	**998**	**698**	**2,643**	**4,339**
Net book value				
At 31 December 2019	**3,323**	**469**	**608**	**4,400**
At 31 December 2018	3,430	581	575	4,586

Freehold Land and Buildings are held at valuation and were professionally valued by Derrick Wade Waters, Chartered Surveyors, on a fair value basis as at 31 October 2019 based upon the open market value of the properties at that time. This valuation was £3,345,000 compared to a net book value of £3,022,000. Had these assets been carried at historic cost, the net book value at 31 December 2019 would be £2,180,415 (2018:£2,475,000).

Land and buildings freehold includes non-depreciable land held by the Society for its own activities with a net book value of £652,500 (2018:£735,000).

16. Investment properties

	2019 (£000) Group & Society
At 1 January 2019	2,840
Transfer from property, plant and equipment	344
Revaluation loss	(114)
At 31 December 2019	**3,070**

Investment properties are generally offices and retail premises ancillary to the Society's branches and head office and are not used by the Society. Investment properties are held at valuation and were professionally valued by Derrick Wade Waters, Chartered Surveyors, on an open market value basis based on a multiple of yield achievable as at 31 October 2019. The property rental income earned, all of which is leased out under operating leases, amounted to £153k (2018:£185k) and has been recognised within other operating income.

The total future minimum lease payments due to the Society under non-cancellable operating leases are as follows:	Group £000s 2019	2018
Not later than one year	155	185
Later than one year and not later than five years	500	493
Later than five years	350	337

17. Intangible assets

	(£000) Group & Society
Cost	
At 1 January 2019	16,160
Additions	160
Disposals	-
At 31 December 2019	**16,320**
Amortisation	
At 1 January 2019	7,930
Charged in year	2,027
Disposals	-
At 31 December 2019	**9,957**
Net book value	
At 31 December 2019	**6,363**
At 31 December 2018	8,230

Intangible assets at 31 December 2019 comprise the costs of investment in new mortgages and savings platforms to meet the future needs of the Society and include nil (2018:£296,115) 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.

18. Other assets

	2019 (£000) Group	2019 (£000) Society	2018 (£000) Group	2018 (£000) Society
Other assets	54	54	16	16
Prepayments and accrued income	1,325	1,325	1,413	1,413
	1,379	**1,379**	**1,429**	**1,429**

19. Shares

	2019 (£000)		2018 (£000)	
	Group	Society	Group	Society
Held by individuals	813,277	813,277	784,021	784,021
Fair value adjustment for hedged risk	(63)	(63)	13	13
	813,214	**813,214**	**784,034**	**784,034**

20. Amounts owed to credit institutions

	2019 (£000)		2018 (£000)	
	Group	Society	Group	Society
Amounts owed to credit institutions	79,571	79,571	91,483	91,483
Embedded derivative	-	-	1,858	1,858
	79,571	**79,571**	**93,341**	**93,341**

21. Other liabilities

	2019 (£000)		Restated 2018 (£000)	
	Group	Society	Group	Society
Corporation tax	-	-	17	-
Social Security	157	157	196	196
Other creditors	744	744	825	825
Other accruals	1,151	1,128	707	683
	2,052	**2,029**	**1,745**	**1,704**

22. Subordinated liabilities

	2019 (£000)		2018 (£000)	
	Group	Society	Group	Society
Fixed Rate 6.32% Subordinated Debt 2028	10,268	10,268	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.

23. Deferred taxation assets and liabilities

	2019 (£000)		Restated 2018 (£000)	
	Group	Society	Group	Society
Deferred tax assets				
Balance 1 January	1,057	793	1,669	1,660
Tax value of losses carried forward	(771)	(779)	(612)	(867)
Balance 31 December	**286**	**14**	**1,057**	**793**
Deferred taxation liabilities				
Balance 1 January	724	724	802	802
Income statement credit	(116)	(116)	(127)	(127)
Charge recognised directly in equity	(37)	(37)	49	49
Fixed asset timing differences	576	576	792	792
Other timing differences	(28)	(28)	(22)	(22)
Capital gains	23	23	-	-
Other	-	-	(46)	(46)
Liability at 31 December	**571**	**571**	**724**	**724**

During 2015 and 2016 reductions in the corporation tax rates to 19% from 1 April 2017 and 17% from 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.

24. Available for sale reserve

	2019 (£000)		2018 (£000)	
	Group	Society	Group	Society
Reserve at start of the year	(123)	(123)	35	35
Realised gains	(386)	(386)	15	15
Net changes in fair value	504	504	(124)	(124)
Tax relating to components of other comprehensive income	20	20	(49)	(49)
Reserve at end of the year	**15**	**15**	**(123)**	**(123)**

25. Revaluation reserve

	2019 (£000)		2018 (£000)	
	Group	Society	Group	Society
Revaluation reserve at start of the year	380	380	380	380
Unrealised valuation gains on property, plant and equipment	388	388	-	-
Revaluation reserve at end of the year	**768**	**768**	**380**	**380**

26. Financial commitments

	2019 (£000)		2018 (£000)	
	Group	Society	Group	Society

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

	Group	Society	Group	Society
Not later than one year	339	339	234	234
Later than one year and not later than five years	986	986	803	803
Later than five years	13	13	115	115

27. Provisions for liabilities

	Group & Society (£000)		
	Financial Services Compensation Scheme Levy	Dilapidations	Total
2019			
At 1 January 2019	15	152	167
Charge for the year	-	136	136
Provision utilised	(15)	(44)	(59)
At 31 December 2019	**-**	**244**	**244**
2018			
At 1 January 2018	96	152	248
Charge for the year	(45)	-	(45)
Provision utilised	(36)	-	(36)
At 31 December 2018	**15**	**152**	**167**

27. 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. Levies are typically charged to the Society on an annual basis. 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. By virtue of it holding deposits protected under the FSCS scheme at 31 December 2017, the Society had an obligation to pay levies in respect of the interest cost for 2017/18. This was settled during 2018 at an amount lower than provided.

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	100
Branch offices	144

These costs will be incurred when the Society vacates the premises.

28. Group pensions

Defined contribution scheme

The amounts charged to the Income statement 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 £423,000 (2018: Restated £456,000).

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 2017. The principal assumptions relate to the rate of return on investments, then assumed to be 3.8% (2014: 5.4%) per annum for the pre-retirement period and 3.8% (2014: 4.0%) for the post-retirement period. The rate of increase in salaries was assumed to be 2.9% (2014: 3.6%) per annum. At the date of the latest actuarial valuation, the market value of the assets was £13,351,000 (2014: £10,741,000) which was sufficient to cover 110% (2014: 101%) of the value of the benefits that had accrued to Members at that date plus a reserve for future expenses of £992,000 (2014: £725,000).

As at 31 December 2019 the scheme is shown in the Statement of financial position as a pension asset of £403,000 (2018 asset of £76,000) before allowance for deferred tax. Based on an actuarial valuation, consistent with the methods prescribed in accounting standard FRS102, a net surplus on the Society scheme has been identified as follows:

Future funding obligation

The actuarial valuation of the scheme revealed a funding surplus of £1.2million. As the scheme was in surplus no contributions are required by the Society. The Society expects to make no payments to the scheme during the financial year ending 31 December 2020.

28. Group pensions (continued)

	Date of fund valuation	
	31 December 2019	31 December 2018
Main assumptions		
Rate of increase in salaries	1.9%	2.2%
Rate of increase in pensions in payment	2.7%	3.1%
Rate of increase in pensions in payment after 05.04.05	2.1%	2.3%
Discount rate	2.0%	2.8%
RPI inflation assumptions	2.7%	3.2%
CPI inflation assumptions	1.9%	2.2%

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.

	(£000)		
Reconciliation of scheme's assets and defined benefit obligation:	Assets	Defined benefit obligation	Total
At 1 January 2019	13,484	(13,408)	76
Benefits paid	(321)	321	-
Administration expenses	(68)	-	(68)
Net interest income/(expense)	373	(372)	1
Re-measurement gains			
- Actuarial gain	-	(1,054)	(1,054)
- Return on assets excluding interest income	1,448	-	1,448
At 31 December 2019	**14,916**	**(14,513)**	**403**

The scheme liabilities were valued in accordance with the guidelines set out in Section 28 of FRS102 using a discount rate of 2.0% per annum, which is derived from the yields available on high quality sterling corporate bonds at durations appropriate to the duration of liabilities.

Fair value of the assets of the Scheme	**2019** (£000)	**2018** (£000)
Equities and other growth assets	10,115	9,216
DCF	1,062	-
Liability Driven Investments	2,895	3,401
Cash	30	26
Annuities	814	841
	14,916	**13,484**

Demographic assumptions	**31 December 2019**	**31 December 2018**
Mortality (Pre-retirement)	Nil deaths	Nil deaths
Mortality (Post-retirement)	S2PA CMI2018	S2PA CMI2017

	31 December 2019		**31 December 2018**	
Life expectancies (in years)	Males	Females	Males	Females
For an individual aged 65 in 2019	21.5	23.4	21.9	23.8
At age 65 for an individual aged 45 in 2019	22.8	24.9	23.3	25.4

28. Group pensions (continued)

Analysis of other pension costs charged in arriving at operating profit: Analysis of amounts included in other operating charges	2019 (£000)	2018 (£000)
Administration expenses	(68)	(60)
	(68)	**(60)**
Analysis of amounts included in pension finance income		
Net interest (expense)/income	1	4
	1	**4**
Analysis of amount recognised in the Statement of comprehensive income		
Actual return on assets less interest	1,448	(624)
Actuarial (loss)/gain on defined benefit obligation	(1,054)	605
Total actuarial gain/(loss) recognised in the Statement of comprehensive income	**394**	**(19)**

29. 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 Committee (RC).

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.

29. Financial instruments (continued)

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

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

The fair value of derivative financial instruments held at 31 December 2019 is shown in Note 11.

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:

29. Financial instruments (continued)

Carrying values by category as at 31 December 2019	Group (£000)							
	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	Nonfinancial assets and liabilities	Total
Financial assets								
Cash in hand	-	86,653	-	-	-	-	-	86,653
Loans and advances to credit institutions	36,452	-	-	-	-	-	-	36,452
Debt securities	-	-	102,055	-	-	-	-	102,055
Derivative financial instruments	-	-	-	-	119	100	-	219
Loans and advances to customers	767,774	-	-	60,967	-	-	-	828,741
Other assets	-	-	-	-	-	-	16,069	16,069
	804,226	**86,653**	**102,055**	**60,967**	**119**	**100**	**16,069**	**1,070,189**
Financial liabilities								
Shares	-	813,214	-	-	-	-	-	813,214
Amounts owed to credit institutions	-	79,571	-	-	-	-	-	79,571
Amounts owed to other customers	-	81,826	-	-	-	-	-	81,826
Derivative financial instruments	-	-	-	-	1,809	26,104	-	27,913
Provisions for liabilities	-	-	-	-	-	-	244	244
Other liabilities	-	-	-	-	-	-	2,623	2,623
Subordinated liabilities	-	10,268	-	-	-	-	-	10,268
	-	**984,879**	**-**	**-**	**1,809**	**26,104**	**2,867**	**1,015,659**
Financial assets Carrying values by category as at 31 December 2018 (Restated)								
Cash in hand	-	49,819	-	-	-	-	-	49,819
Loans and advances to credit institutions	26,309	-	-	-	-	-	-	26,309
Debt securities	-	-	76,362	-	-	-	-	76,362
Derivative financial instruments	-	-	-	-	1,187	1,905	-	3,092
Loans and advances to customers	801,123	-	-	58,820	-	-	-	859,943
Other assets	-	-	-	-	-	-	18,568	18,568
	827,432	**49,819**	**76,362**	**58,820**	**1,187**	**1,905**	**18,568**	**1,034,093**
Financial liabilities								
Shares	-	784,034	-	-	-	-	-	784,034
Amounts owed to credit institutions	-	91,483	-	1,858	-	-	-	93,341
Amounts owed to other customers	-	69,278	-	-	-	-	-	69,278
Derivative financial instruments	-	-	-	-	475	22,910	-	23,385
Provisions for liabilities	-	-	-	-	-	-	167	167
Other liabilities	-	-	-	-	-	-	2,469	2,469
Subordinated liabilities	-	10,270	-	-	-	-	-	10,270
	-	**955,065**	**-**	**1,858**	**475**	**22,910**	**2,636**	**982,944**

There have been no reclassifications during the year.

29. Financial instruments (continued)

Carrying values by category as at 31 December 2019	Society (£000)							
	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	Nonfinancial assets and liabilities	Total
Financial assets								
Cash in hand	-	86,653	-	-	-	-	-	86,653
Loans and advances to credit institutions	36,451	-	-	-	-	-	-	36,451
Debt securities	-	-	102,055	-	-	-	-	102,055
Derivative financial instruments	-	-	-	-	119	100	-	219
Loans and advances to customers	759,707	-	-	28,122	-	-	-	787,829
Investments in subsidiary undertakings	41,100	-	-	-	-	-	-	41,100
Other assets	-	-	-	-	-	-	15,759	15,759
	837,258	**86,653**	**102,055**	**28,122**	**119**	**100**	**15,759**	**1,070,066**
Financial liabilities								
Shares	-	813,214	-	-	-	-	-	813,214
Amounts owed to credit institutions	-	79,571	-	-	-	-	-	79,571
Amounts owed to other customers	-	81,826	-	-	-	-	-	81,826
Derivative financial instruments	-	-	-	-	1,809	26,104	-	27,913
Provisions for liabilities	-	-	-	-	-	-	244	244
Other liabilities	-	-	-	-	-	-	2,600	2,600
Subordinated liabilities	-	10,268	-	-	-	-	-	10,268
	-	**984,879**	**-**	**-**	**1,809**	**26,104**	**2,844**	**1,015,636**
Financial assets Carrying values by category as at 31 December 2018 (Restated)								
Cash in hand	-	49,819	-	-	-	-	-	49,819
Loans and advances to credit institutions	25,939	-	-	-	-	-	-	25,939
Debt securities	-	-	76,362	-	-	-	-	76,362
Derivative financial instruments	-	-	-	-	1,187	1,905	-	3,092
Loans and advances to customers	791,174	-	-	26,648	-	-	-	817,822
Investments in subsidiary undertakings	42,471	-	-	-	-	-	-	42,471
Other assets	-	-	-	-	-	-	18,284	18,284
	859,584	**49,819**	**76,362**	**26,648**	**1,187**	**1,905**	**18,284**	**1,033,789**

29. Financial instruments (continued)

	Society (£000)							
	Held at amortised cost		Held at fair value					
Carrying values by category as at 31 December 2018 (Restated)	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	Nonfinancial assets and liabilities	Total
Financial liabilities								
Shares	-	784,034	-	-	-	-	-	784,034
Amounts owed to credit institutions	-	91,483	-	1,858	-	-	-	93,341
Amounts owed to other customers	-	69,278	-	-	-	-	-	69,278
Derivative financial instruments	-	-	-	-	475	22,910	-	23,385
Provisions for liabilities	-	-	-	-	-	-	167	167
Other liabilities	-	-	-	-	-	-	2,428	2,428
Subordinated liabilities	-	10,270	-	-	-	-	-	10,270
	-	**955,065**	**-**	**1,858**	**475**	**22,910**	**2,595**	**982,903**

There have been no reclassifications during the year.

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

Level 3 – included within Loans and advances to customers is the Group's portfolio of equity release mortgages which are accounted for at fair value and is calculated using an internal variant of the Black Scholes option pricing model. The key assumptions used as part of the valuation calculation include:

Mortality or Entry into Long Term Care

This is based on the expected death or entry into long term care of the customer or longest surviving customer for a joint borrowing. Mortality assumptions have been adjusted with reference to the CMI 2019 mortality improvement projection model from the S2XPA base tables.

Early Repayments

There is limited market information around these assumptions and therefore they have been derived from the Group's own experience of the product.

Discount Rate

The discount rate applied to the mortgage cash flows is 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 cash flows of the mortgages, together with an adjustment to reflect the cost of funding, illiquidity and other risks.
Any variables not explicitly modelled are also captured within these other risks. The discount rate used at 31 December 2019 was 2.45% (2018:3.11%). The Group has determined, based on observable market rates that the discount rate has a range between 2.17% and 5.23% given the characteristics of the lifetime mortgage portfolio.

No-Negative Equity Guarantee (NNEG)

The key assumptions used to derive the value of the no-negative equity guarantee include house price inflation and volatility. The Group uses a variant of the Black-Scholes options pricing model. House price inflation is derived by reference to historical HPI data with an under-performance assumption. The property growth and volatility assumed at 31 December 2019 were 4% and 8% respectively. The value of the no-negative equity guarantee as at 31 December 2019 was £2.5m (2018:£3.5m).

Interest rate swaps

Level 2 – Except for the swap hedging the Group's portfolio of equity release mortgages, 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.

Level 3 – A counterparty valuation is used for the swap hedging the group's portfolio of equity release mortgages, derived from their internal modelling techniques. The Society corroborates the counterparty valuations provided through its own internal calculations.

29. Financial instruments (continued)

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:

	(£000)			
As at 31 December 2019 **Financial assets**	Level 1	Level 2	Level 3	Total
Debt securities	102,055	-	-	102,055
Loans fully secured on residential property	-	-	60,967	60,967
Derivative financial instruments	-	219	-	219
	102,055	**219**	**60,967**	**163,241**
Financial liabilities				
Amounts owed to credit institutions	-	-	-	-
Derivative financial instruments	-	1,809	26,104	27,913
	-	**1,809**	**26,104**	**27,913**

	(£000)			
As at 31 December 2018 **Financial assets**	Level 1	Level 2	Level 3	Total
Debt securities	76,362	-	-	76,362
Loans fully secured on residential property	-	-	58,820	58,820
Derivative financial instruments	-	3,092	-	3,092
	76,362	**3,092**	**58,820**	**138,274**
Financial liabilities				
Amounts owed to credit institutions	-	1,858	-	1,858
Derivative financial instruments	-	475	22,910	23,385
	-	**2,333**	**22,910**	**25,243**

Amounts stated are for Group and Society except for loans fully secured on residential property which includes £32,845,301 (2018:£32,171,583) held within the Society's subsidiary Crocus Home Loans.

Reconciliation of opening and closing balances of Level 3 assets:	**2019** (£000)	**2018** (£000)
At 1 January	**58,820**	65,905
Amounts taken to income statement - Interest rolled up - Fair value losses	 **2,526** **3,040**	 2,634 (5,872)
Redemptions	**(3,419)**	(3,847)
At 31 December	**60,967**	58,820

Changes to the assumptions used to determine fair value of level 3 assets could give rise to significant valuation changes. The table below shows the range of values used for those significant inputs together with an estimate of the impact on profit before tax arising from changing the assumptions from those used at 31 December 2019.

Sensitivity Analysis
Changes to the assumptions used to determine fair value of lifetime mortgage assets could give rise to valuation changes.

The table below demonstrates the sensitivity to changes in assumptions as at 31 December 2019 with an estimate of the impact on profit before tax.

Input	**Sensitivity**		**Profit Impact (£m)**	
Discount rate	-0.25%	+0.25%	2.0	-1.9
HPI Growth	+0.5%	-0.5%	0.7	-0.9
HPI Volatility	-1.0%	+1.0%	0.4	-0.5
Collateral Values	+5.0%	-5.0%	0.5	-0.6

The analysis has been prepared for a change in each variable with other assumptions remaining constant. In reality, such an occurrence is unlikely due to correlation between the assumptions and other factors. It should also be note that these sensitivities are non-linear and larger or smaller impacts cannot be precisely interpolated or extrapolated from these results. The sensitivity factors take into consideration that the Group's assets and liabilities are actively managed and may vary at the time that any actual market movement occurs. In addition, the Society has an interest rate swap that protects the Society against the interest rate risk presented by the portfolio which will mitigate some of the sensitivities to movements in interest rates disclosed above.

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:

	2019 (£000)		**2018** (£000) (Restated)	
	Group	Society	Group	Society
Cash in hand	86,653	86,653	49,819	49,819
Loans and advances to credit institutions	36,452	36,451	26,309	25,939
Debt securities	102,055	102,055	76,362	76,362
Derivative financial instruments	219	219	3,092	3,092
Loans and advances to customers	828,741	787,829	859,943	817,822
	1,054,120	**1,013,207**	**1,015,525**	**973,034**
Lending commitments (off balance sheet)	57,376	57,376	41,196	41,196
Maximum credit exposure	**1,111,496**	**1,070,583**	**1,056,721**	**1,014,230**

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.

The Group's treasury asset concentration is shown in the table below:	**2019** (£000)	**2018** (£000)
Central banks	36,453	26,309
Multinational development banks	31,181	33,155
Central Government	70,872	43,207
Other	-	-
	138,506	**102,671**

Concentration by credit grading	**2019** (£000)	**2018** (£000)
AAA	31,183	33,156
AA	97,701	65,805
A	9,624	3,710
Unrated	-	-
Total	**138,508**	**102,671**

Loans and advances to customers The table below shows information on the Group's loans and advances to customers by geographical concentration:	**2019** %	**2018** %
Greater London	30	30
South East	31	31
South West	9	9
East Anglia	5	5
West Midlands	6	5
East Midlands	5	5
North West	6	6
Yorkshire & Humberside	4	5
Wales	2	2
North	2	2

The following table analyses the loan to value (LTV) of the mortgage portfolio	**2019** %	**2018** %
0% - 50%	24	39
50.01% - 75%	35	41
75.01% - 80%	13	6
80.01% - 85%	7	3
85.01% - 90%	6	5
90.01% -95%	13	4
>95%	2	2

29. Financial instruments (continued)

Not impaired	2019 (£000)	Restated 2018 (£000)
Neither past due nor impaired	810,429	834,654
Up to three months overdue but not impaired	15,108	18,245
Over three months but not impaired	2,930	3,887
Possessions / receiver of rents	-	161
Impaired		
Up to three months overdue	-	-
Between three and six months overdue	-	-
Between six and twelve months overdue	-	-
Possessions / receiver of rents	1,290	6,871
	829,757	**863,818**

Value of collateral held: Indexed	2019 (£000)	2018 (£000)
Neither past due nor impaired	1,824,651	1,908,069
Either past due or impaired	44,418	39,373
	1,869,069	**1,947,442**

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 2019.

	Interest only		Arrangements	
2019	Account balances £000	Number of accounts	Account balances £000	Number of accounts
Society	122	1	1,717	14
Crocus Home Loans	-	-	630	4
Group total	**122**	**1**	**2,347**	**18**
2018				
Society	143	1	2,183	18
Crocus Home Loans	42	1	671	5
Group total	**185**	**2**	**2,854**	**23**

29. Financial instruments (continued)

Other forbearance measures offered by the Group include a change to the date of payment each month, reduced payment concessions, 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:

	2019 Number of accounts	2018 Number of accounts
Capitalisations	1	-
Payment holidays	2	6
Mortgage term extensions	4	1
Interest rate concessions	-	1
	7	**8**

During the year ended 31 December 2019, 5 new properties were taken into possession by the Society or by Crocus Home Loans. 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. A Receiver of Rent was appointed on 3 new properties during the year.

At the end of 2019 the Group had no properties in possession and 4 properties with a Receiver of Rents appointed (2018: 15) representing capital balances of £1.3m (2018: £7.0m), which is 0.16% of the total Group book (2018: 0.8%)

This portfolio of possession and Receiver of Rent properties is reviewed on an ongoing basis to ensure that potential losses to the Society are managed and mitigated. Notwithstanding the active management of the portfolio, at 31 December 2019 provisions of £1.0m were maintained (2018:£3.9m).

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 below 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.

29. Financial instruments (continued)

Financial assets	Group residual maturity as at 31 December 2019 (£000)					
	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
Cash in hand	86,653	-	-	-	-	86,653
Loans and advances to credit institutions	36,452	-	-	-	-	36,452
Debt securities	-	29,609	57,415	15,031	-	102,055
	123,105	29,609	57,415	15,031	-	225,160
Derivative financial instruments	-	88	23	82	26	219
Loans and advances to customers	-	7,198	38,713	125,326	657,504	828,741
Other assets	2,728	148	1,350	8,081	3,762	16,069
	125,833	37,043	97,501	148,520	661,292	1,070,189
Financial liabilities and reserves						
Shares	544,222	29,480	197,261	42,251	-	813,214
Amounts owed to credit institutions	-	3,022	25,740	50,809	-	79,571
Amounts owed to other customers	75,481	53	2,485	3,807	-	81,826
Derivative financial instruments	-	-	26	1,755	26,132	27,913
Provisions for liabilities	-	-	15	-	229	244
Other liabilities	-	2,327	296	-	-	2,623
Subordinated liabilities	-	268	-	-	10,000	10,268
Reserves	-	-	-	-	54,530	54,530
	619,703	35,150	225,823	98,622	90,891	1,070,189
Net liquidity gap	(493,870)	1,893	(128,322)	49,898	570,401	-

Financial assets	Group residual maturity as at 31 December 2018 (£000) (Restated)					
	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
Cash in hand	49,819	-	-	-	-	49,819
Loans and advances to credit institutions	25,575	734	-	-	-	26,309
Debt securities	-	6,705	38,488	22,590	8,579	76,362
	75,394	7,439	38,488	22,590	8,579	152,490
Derivative financial instruments	-	1,106	843	1,143	-	3,092
Loans and advances to customers	-	5,988	10,332	168,575	675,048	859,943
Other assets	2,681	1,497	827	8,312	5,251	18,568
	78,075	16,030	50,490	200,620	688,878	1,034,093

29. Financial instruments (continued)

Financial assets	Group residual maturity as at 31 December 2018 (£000) (Restated)					
	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
Financial liabilities and reserves						
Shares	572,110	45,376	124,747	41,801	-	784,034
Amounts owed to credit institutions	-	22,219	26,121	45,001	-	93,341
Amounts owed to other customers	68,458	37	733	50	-	69,278
Derivative financial instruments	-	4	245	155	22,981	23,385
Provisions for liabilities	-	-	15	-	152	167
Other liabilities	-	1,695	165	-	609	2,469
Subordinated liabilities	-	270	-	-	10,000	10,270
Reserves	-	-	-	-	51,149	51,149
	640,568	69,601	152,026	87,007	84,891	1,034,093
Net liquidity gap	(562,493)	(53,571)	(101,536)	113,613	603,987	-

The following is an analysis of gross contractual cash flows payable under financial liabilities:	Group & Society as at 31 December 2019 (£000)					
	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
Shares	542,307	29,916	200,452	43,381	-	816,056
Amounts owed to credit institutions	-	3,030	25,912	52,414	-	81,356
Amounts owed to other customers	75,404	53	2,541	3,896	-	81,894
Derivative financial instruments	-	520	1,717	7,928	20,109	30,274
Subordinated liabilities	-	319	313	2,528	12,215	15,375
Total liabilities	617,711	33,838	230,935	110,147	32,324	1,024,955

	Group & Society as at 31 December 2018 (£000)					
Shares	571,200	46,311	126,111	43,000	-	786,622
Amounts owed to credit institutions	-	21,562	24,905	46,169	-	92,636
Amounts owed to other customers	65,162	39	742	52	-	65,995
Derivative financial instruments	-	233	1,032	5,308	18,844	25,417
Subordinated liabilities	-	319	313	2,528	12,847	16,007
Total liabilities	636,362	68,464	153,103	97,057	31,691	986,677

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.

29. Financial instruments (continued)

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.

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 Risk Committee.

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 2019 (£000)					
Financial assets	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Non- interest bearing	Total
Cash in hand	86,653	-	-	-	-	86,653
Loans and advances to credit institutions	36,452	-	-	-	-	36,452
Debt securities	39,170	57,421	5,464	-	-	102,055
Derivative financial instruments	-	-	-	-	219	219
Loans and advances to customers	456,192	62,674	242,719	42,384	24,772	828,741
Other assets	-	-	-	-	16,069	16,069
Total Financial assets	**618,467**	**120,095**	**248,183**	**42,384**	**41,060**	**1,070,189**
Financial liabilities and reserves						
Shares	567,420	199,736	46,058	-	-	813,214
Amounts owed to credit institutions	58,832	20,739	-	-	-	79,571
Amounts owed to other customers	81,826	-	-	-	-	81,826
Derivative financial instruments	-	-	-	-	27,913	27,913
Provisions for liabilities	-	-	-	-	244	244
Other liabilities	-	-	-	-	2,623	2,623
Subordinated liabilities	-	-	-	10,000	268	10,268
Reserves	-	-	-	-	54,530	54,530
Total Financial liabilities and reserves	**708,078**	**220,475**	**46,058**	**10,000**	**85,578**	**1,070,189**
Impact of derivative instruments	262,513	(27,326)	(196,737)	(38,450)	-	-
Interest rate sensitivity gap	**172,902**	**(127,706)**	**5,388**	**(6,066)**	**(44,518)**	**-**
Sensitivity to profit and reserves:						
Parallel shift of + 1%	(391)	868	(531)	462	-	408
Parallel shift of + 2%	(782)	1,736	(1,060)	924	-	818

29. Financial instruments (continued)

	As at 31 December 2018 (£000) (Restated)					
Financial assets	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
Cash in hand	49,819	-	-	-	-	49,819
Loans and advances to credit institutions	25,575	734	-	-	-	26,309
Debt securities	12,672	38,467	16,569	8,654	-	76,362
Derivative financial instruments	-	-	-	-	3,092	3,092
Loans and advances to customers	484,082	57,266	250,831	51,703	16,061	859,943
Other assets	-	-	-	-	18,568	18,568
Total Financial assets	**572,148**	**96,467**	**267,400**	**60,357**	**37,721**	**1,034,093**
Financial liabilities and reserves						
Shares	616,228	125,951	41,855	-	-	784,034
Amounts owed to credit institutions	64,849	27,487	1,005	-	-	93,341
Amounts owed to other customers	69,278	-	-	-	-	69,278
Derivative financial instruments	-	-	-	-	23,385	23,385
Provisions for liabilities	-	-	-	-	167	167
Other liabilities	-	-	-	-	2,469	2,469
Subordinated liabilities	-	-	-	10,000	270	10,270
Reserves	-	-	-	-	51,149	51,149
Total Financial liabilities and reserves	**750,355**	**153,438**	**42,860**	**10,000**	**77,440**	**1,034,093**
Impact of derivative instruments	280,082	(37,404)	(192,235)	(50,443)	-	-
Interest rate sensitivity gap	**101,875**	**(94,375)**	**32,305**	**(86)**	**(39,719)**	**-**
Sensitivity to profit and reserves:						
Parallel shift of + 1%	(391)	531	(1,034)	111	-	(783)
Parallel shift of + 2%	(585)	1,063	(2,067)	221	-	(1,368)

At 31 December 2019, the Group had three interest rate swaps with a net a notional value of £38.5m (2018:£41.1m) designed to protect the Society against the interest rate risk presented by its equity release mortgages. This swap is structured within upper and lower bands and is designed to reflect the projected balances of the portfolio contained, incorporating underlying assumptions on property values and 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.

29. Financial instruments (continued)

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

	(£000)		
2019 Financial assets	Gross amounts*	Financial collateral**	Net amounts
- Derivative financial instruments	219	-	219
Total Financial assets	**219**	**-**	**219**
Financial liabilities			
- Derivative financial instruments	27,913	(33,156)	(5,243)
Total Financial assets	**27,913**	**(33,156)**	**(5,243)**
2018 Financial assets			
- Derivative financial instruments	3,092	(1,900)	1,192
Total Financial assets	**3,092**	**(1,900)**	**1,192**
Financial liabilities			
- Derivative financial instruments	23,385	(24,840)	(1,455)
Total Financial assets	**23,385**	**(24,840)**	**(1,455)**

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

30. 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 Regulation 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	**2019** (£000)	**Restated 2018** (£000)
General reserves		53,747	50,892
Available for sale reserve	24	15	(123)
Revaluation reserve	25	768	380
Pension fund adjustments[1]		(403)	(76)
Prudent valuation adjustment		(190)	(161)
Deductions for intangible assets[2]	17	(6,363)	(8,230)
Total Common Equity Tier 1 Capital		**47,574**	**42,682**
Collective impairment losses	13	331	389
Subordinated liabilities	22	10,000	10,000
Total Tier 2 Capital		**10,331**	**10,389**
Total regulatory capital		57,905	53,071
Risk weighted assets (UNAUDITED)		369,011	383,629
Capital ratios (UNAUDITED)			
Common equity tier 1 ratio		12.9%	11.1%
Total capital ratio		15.7%	13.8%
Leverage ratio		4.4%	4.1%

30. Capital (continued)

Notes:

(1) CRD IV does not permit a pension fund deficit to be added back to regulatory capital but requires a surplus, net of any deferred tax liabilities, to be deducted from Tier 1 capital.

(2) CRD IV regulations requires intangible fixed assets, net of any deferred tax liabilities, to be deducted from Tier 1 capital.

A detailed analysis of the Group's capital position and disclosures is provided in the Group's Pillar 3 Disclosures for 2018 which are available on our website.

31. Related party transactions

a) Subsidiary, parent and ultimate controlling party

The Group is controlled by the Saffron Building Society, the ultimate parent and ultimate controlling party, which is registered in England and Wales. Note 14 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 2019 was £695,740. (2018:£888,000).
Further information on compensation for key management personnel can be found in Note 8 and in the Directors' Remuneration Report.

c) Transactions between key management personnel and their connected persons

	2019		**2018**	
Shares and deposits	Number of key management personnel	Amounts £000	Number of key management personnel	Amounts £000
Balance at 1 January	9	67	9	96
Net movements in the year	(1)	(6)	-	(29)
Balance at 31 December	8	61	9	67

	2019		**2018**	
	Number of connected persons	Amounts £000	Number of connected persons	Amounts £000
Balance at 1 January	1	-	1	-
Net movements in the year	-	-	-	-
Balance at 31 December	1	-	1	-

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 2019, there were no outstanding mortgage loans granted in the ordinary course of business to Directors and their connected persons.

32. 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 2019:

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.

Total number of employees: The total number of employees of the Society at December 2019 was 153.

Annual turnover: Equivalent to total net income and, along with profit before tax, is as disclosed in the income statement on page 56.

Corporation tax paid: As disclosed in the cash flow statement on page 60.

Public subsidies: There were none received in the year.

ANNUAL BUSINESS STATEMENT for the year ended 31 December 2019

1. Statutory percentages	Ratio at 31 December 2019	Statutory limit
	%	%
Lending limit	0.6	25
Funding limit	16.6	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 2019	Ratio at 31 December 2018
	%	%
As a percentage of shares and borrowings:		
Gross capital	6.6	6.4
Free capital	5.2	4.8
Liquid assets	23.1	16.1
As a percentage of mean total assets:		
Profit after taxation	0.24	0.02
Management expenses	1.57	1.63

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.

3. Information relating to the Directors and other officers as at 31 December 2019

Name of Director	Date of Birth	Date of Appointment	Occupation	Other Directorships
Jenny Ashmore	16.1.1971	19.5.2015	Director	Crocus Home Loans Limited The Challenge Network Commonwealth Games England Jazz-works Limited
T Gary Barr	22.11.1962	10.04.2014	Director	Crocus Home Loans Limited IT Range Limited Cambridge Rugby Union Football Club Limited
Geoffrey R Dunn	10.07.1949	26.05.2011	Director	Crocus Home Loans Ltd
Colin H Field	24.11.1973	1.05.2014	Chief Executive Officer	Crocus Home Loans Ltd
Darren L Garner*	29.9.1971	14.9.2015	Chief Financial Officer	
Neil J Holden	7.12.1959	27.03.2014	Director	Crocus Home Loans Limited IntegraFin Holdings plc Integrated Financial Arrangements Limited Integralife UK Limited Stanbic International Insurance Limited AlbaCo Limited Sberbank CIB (UK) Limited
Liz Kelly	14.8.1965	19.5.2015	Director	St James' Place Corporate Secretary Limited MHS (Holdings) LimitedCirenco Limited St James's Place International Assurance Limited Willsher Consulting Limited Crocus Homes Loans Limited
Nick J Treble	24.08.1959	27.03.2014	Director	Batesons Consulting Limited Bank Leumi (UK) plc Cambridge and Counties Bank Limited Eskmuir Group Crocus Home Loans Limited

*D L Garner left the society on 28 November 2019.

Documents may be served on the above named Directors at the following address:
Saffron Building Society, Saffron House, 1a Market Street, Saffron Walden, CB10 1HX

Other Officers	Occupation
A Bush	IT Director
R Marwaha	Chief Risk Officer
H Manley	Society Secretary
M Mills	Interim Chief Financial Officer

4. Directors' service contracts

As at 31 December 2019, C H Field had a service contract with the Society which could be terminated by either party giving six months' notice.

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