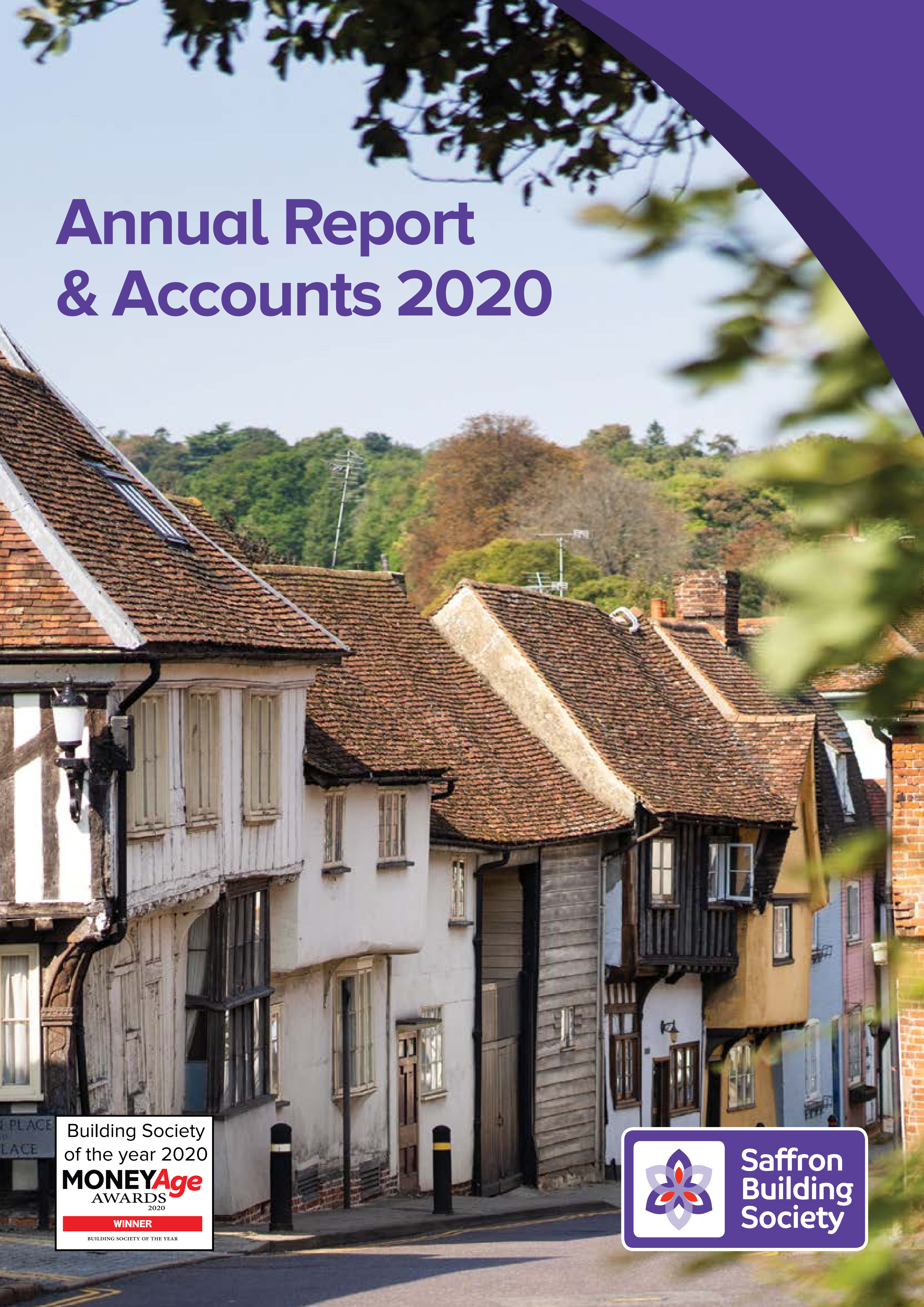
Annual Report & Accounts 2020



Building Society of the year 2020
MONEYAge AWARDS 2020
WINNER
BUILDING SOCIETY OF THE YEAR

Saffron Building Society

Contents

Chairman's Statement

A YEAR OF CHALLENGE FOR ALL OF US

This is my first report to you as Chairman, following the retirement of Geoffrey Dunn who served on your Board for nine years, and as Chairman for most of that period. Geoff provided outstanding leadership for the Board and it is unfortunate that we were not able to acknowledge in person his service at the 170th AGM last year.

Sadly this year's AGM will have to be held virtually again and that is perhaps the story of the last 12 months. COVID-19 has been the dominant theme in all our lives and, before commenting on the impact on your Society, it is worth reflecting on the terrible loss of life, serious illness and intolerable strain placed on the NHS and other key workers that this pandemic has imposed. Naturally, the thoughts of all of us are with those friends, colleagues and fellow citizens who have lost loved ones or have been seriously impacted.

Remarkably, the Saffron Building Society succeeded in moving to 'working from home' fairly seamlessly. Of course, our branches remained open, with amended opening hours, as we continued to serve Members, many of whom value face to face contact in managing their financial affairs. Overall the level of operational losses (a measure of the operational control effectiveness closely monitored by management and the Board) fell to the lowest level for the last five years, despite the disruption caused by COVID-19 and the many transactions the Society processes each year. The Board would like to thank all of our colleagues for successfully managing through this period of disruption with good humour, despite the upheaval that working from home has entailed or the challenge of remaining in front line roles serving our customers in the branches.

From a governance perspective your Board has continued to operate as normal, although we have all had to undertake a crash course in the etiquette of virtual meetings. It is difficult to predict how long we will continue to have to work with these restrictions but our assumption is that it may be late summer before we are able to meet in person again. Hopefully the rollout of the vaccination programme will continue at pace and the pandemic will be brought to an end.

The vision of the Saffron Building Society is "For our Members and community to have unmatched understanding and control of their finances, achieving money happiness." So it is very pleasing to report that your Society has lent a record £253m to customers seeking to acquire a place to live of their choice and we provided a safe home for over £80m of new Member deposits in 2020.

However, our goal is not just about growth and we recognise that some of our customers have particular circumstances and will be better served by a mortgage from a different provider to the Saffron Building Society. To assist those customers we launched Saffron Mortgage Finders in 2020 to help find the best product for their needs and Colin will talk a little about that initiative in the following pages.

During 2020 the Society and its Members have faced the ongoing challenge of very low interest rates with the official Bank of England base rate being reduced from 0.75% to 0.1% in March in response to the pandemic. Although low official interest rates have reduced the cost of credit in the economy, it has reduced deposit income that is so important to many of our Members. The scale of the government support for the economy has been enormous with one commentator suggesting that the cost of the various types of support is 26% of UK GDP vs 1.5% in the 2008 Global Financial Crisis. Unwinding this level of exceptional government support for the economy will undoubtedly result in bumps in the road on the way to recovery and some economists forecast higher unemployment and higher inflation as the support is withdrawn.

Over the past few years management have strengthened the risk management capability of your Society under the guidance of the Chief Risk Officer Rajeev Marwaha. Close attention is being paid to any emerging evidence of increasing credit risk but the Society continues to maintain its credit standards for all new lending. At this stage we are not seeing evidence of any material credit problems emerging in our loan book.

We have also strengthened the Board following the retirement of Liz Kelly and Geoff Dunn, and the departure of our former Chief Financial Officer. Trevor Slater has joined the board as CFO and brings extensive experience in financial services, most recently as Finance Director of the Ipswich Building Society. David Rendell has joined the Board as a non-executive director and Chair of the Board Risk Committee. David is an experienced non-executive director following a long career in financial services, most recently with GE Capital. Robin Litten joins the Board as a non-executive director. Robin also has very extensive experience in financial services having retired in 2019 as CFO of the Leeds Building Society.

Above all we are a community business: we are a community of staff and Members, we proudly support a number of community activities that Colin has highlighted in the CEO report, and we will always be an ethical community that provides financial services in a manner we hope you can be proud of.

Of course, we are proud to have won the Building Society of the Year award from MoneyAge in 2020 but what is most important to us is the feedback of our Members. In that respect the Board encourages Members to submit questions about any aspect of your Society using the method outlined within your voting communication for the Board to address in the AGM. We have always valued Member engagement throughout the year and particularly at the AGM. So even though this year's AGM will have to be held virtually, we encourage you to participate as far as possible in this environment.

We live in "interesting times". COVID-19 has pushed Brexit out of the headlines, although we are still working through a way to continue to assist ex-pats living in the EU who wish to buy UK property, as the position is now more complex. Also, the impact on our members and their livelihoods of as a result of the new EU trading rules will take time to fully cascade through the economy. The role out of the vaccine and an adjustment to a post Brexit economy will ultimately return our country to a version of normality...and the sooner the better!

On behalf of the Board I would like to thank all of the staff at Saffron Building Society for their continued efforts to support our Members during the pandemic. May I also thank the Members who have supported their Society through 2020 and we hope that you stay safe and healthy during the pandemic and beyond this difficult period.

Nick Treble, Chairman

Chief Executive's Report

2020 was an extraordinary year. The dominant reason for this has been the COVID-19 crisis that has maligned the country and continues to cast a shadow over people's lives in 2021. The virus has been damaging for public health, our routine way of life and for the wider economy. At the time of writing, with the vaccine being distributed across the country, there are reasons for optimism, but it is certain that COVID-19 will continue to impact our way of life over much of 2021 and beyond as the country recovers from its health and economic impact.

Operational and People Impact of the COVID-19 crisis

As the crisis unfolded in March, the Society adapted from operating eight branches and two central locations to instead become a business operating from a multitude of premises including spare rooms, kitchen tables and home offices. Our branches continued to stay open for Members throughout this challenging period where many would have needed us most, incorporating measures to ensure that we could serve customers in as safe a way as possible. Our processes were reviewed and changed. All face to face meetings were replaced by customer reviews being conducted on the phone.

Our branch environment was adapted to be COVID-19 secure, reinforcing distancing measures for customers and implementing Perspex barriers between customers and staff.

To accommodate this required huge effort from our IT, Facilities, Change and People teams as we distributed equipment, revised our systems and connectivity and adapted policies, procedures, and processes to support and protect our people.

Whilst the physical and process adjustment for our branch, office and home workers was a major challenge, just as great a challenge has been the support put in place for our people. Health and safety has been our highest priority throughout the crisis and we have put measures in place to help our people to work effectively and efficiently whilst also giving them the confidence that they would be looked after in the eventuality that they were taken ill or had to self-isolate. All of our operational processes continued to function effectively and we were able to respond well to the needs of customers, whether to help them to secure their home or in helping Members that needed support through the pandemic. Throughout the crisis we continued to recruit and develop our staff; supported our staff on the front line and maintained the operational rigour expected of the Society.

I am immensely proud of all of our staff during one of the most challenging years. I am also delighted that despite

the challenges and difficulties faced, the level of staff engagement, measured by our "Peakon" monitoring tool increased from a score of 7 at the start of the year to 8 by the end of the year – clear evidence of the Society coming together during the crisis.

Business Performance

In my report last year, I signalled that following a period of consolidation to improve its capital strength, the Society was ready to return to a growth trajectory. I now can confirm that the Society has made good progress and has achieved significant growth in both savings and the mortgage book.

Savings balances increased by £80m year on year and the Society enjoyed the strongest year of lending in its history, delivering £253m of new lending, which resulted in the total mortgage book increasing 13.8% year on year.

The total assets of the Society increased 12.8% year on year with the Societies total assets now over £1.2bn. The increase in the growth in the Society's assets is only one part of the growth strategy achieved in the year.

The Society launched Saffron Mortgage Finders, a new business that offers whole of market mortgage advice to Members free of charge, helping Members and Members' families to buy their own homes and providing a further benefit of Membership.

It has been heartening to see the Society return to growth, in terms of assets, deposits and new propositions, but the whole Society was delighted to receive the award of Best Building Society in the MoneyAge Awards. This achievement recognises the huge commitment and energy of our staff over recent years.

Whilst the mortgage growth in the year has been good, 2020 has been another challenging year for Savings Members, who have experienced further reductions in interest rates across all product areas. Once again, the Society has sought to be fair to both savings and mortgage Members, by addressing the reduction in income received with changes to rates payable to saving Members. This is difficult balance to strike and particularly so due to the significant negative impact that rate reductions had on the financial performance of the Society. The overall financial outcome for the Society was influenced by management's decision to cushion savers from the full impact of base rate reductions.

Financial performance

The financial highlights from 2020 are included within the Strategic Report, but I wanted to highlight a number of points.

Whilst the fundamental trading performance of the business has been solid and indeed our performance on costs and in managing bad debt has improved year on year, these factors are overshadowed by a sequence of largely one off issues resulting from lower market interest rates and has resulted in a loss of £3.8m for the financial year.

At a headline level, net interest income reduced by £4.5m, a consequence of a number of factors that I will address in turn.

The reduction in base rate from 0.75% to 0.1% was as unwelcome as it was unanticipated. Firstly, the Society took action to respond to the reduction in rates by reducing both savings rates and SVR on mortgage accounts. The Society staggered the impact to savers to cushion the deterioration as the interest rate environment stabilised and this created a short term negative impact to income. The position later normalised as the second reduction was implemented.

The second area of deterioration related to the interest flows on the interest rate derivative contracts that are used to hedge interest rate exposure to changes in interest rates. At the start of the year, the Society had £349m of such contracts that had been originated in line with the prevailing market interest rate view at the time. The interest received under the derivatives reduced by around the same 65 basis point reduction in base rate. Ordinarily, a material movement in derivative earnings is offset by changing rates to savers, but with rates being so low, this was not possible with saving rates reaching a floor in many cases. Fixed rate savings are gradually maturing off higher rates which has now started to flow through to monthly earnings and significantly improves the outlook over the coming year.

The third material area to impact on net interest margin has been the £1.6m reduction in the Effective Interest Rate asset. The principle of EIR is to reflect the anticipated income and costs associated with a mortgage asset evenly across the time that it is anticipated to be held by the Society. During 2020, two factors impacted the future anticipated returns from mortgage assets and as a consequence the EIR asset held. Firstly the reduction in SVR means that future SVR earning are anticipated to be lower and secondly a change in the estimated behavioural life of the mortgages. In total this resulted in a reduction of £1.6m which management do not expect to be repeated in future periods.

Over recent years reports, I have consistently referenced the negative impact that the relatively small legacy portfolio of £40m equity release Mortgages has had on the financial performance of the Society. This has again resulted in a charge to the Income Statement of £2.8m in the period which is discussed further in the Strategic Report on page 18.

The reduction on Net Interest Income has been significant in the year, but if I am to take some comfort from the result, it is that the reductions are likely to be one off in nature, with forecasted income for 2021 returning to levels experienced in the prior year, supported by the growth in mortgage lending experienced in 2020.

I am pleased with the consistent progress that we have made in controlling our expenses, which reduced 9%. We continue to focus on making the Society more efficient and making the money that we spend work harder for Members and our People.

Despite the impact of COVID-19 and the subsequent impact on the economy, Impairment remains benign for now, but we anticipate that this position will worsen over 2021.

Community

One of our core goals is to improve the wellbeing of our wider community. With this in mind, our partnerships and community activities have continued to develop throughout 2020.

At the beginning of the year Saffron Community Fund awarded £13,600 to five different charities, and whilst COVID-19 has prevented us meeting the charities in person as we normally would do, we have been in contact and know the funding received has been vital. The restrictions put in place by the pandemic have restricted the physical meeting of the Saffron Community Choir, but they have continued to meet virtually through video conference. Prior to the lockdown taking hold, Saffron Community Choir and Friends performed a Love concert raising over £6000 for Addenbrookes Charitable Trust (Oncology) and East Anglian Children's Hospice and they look forward to the time when they will again be able to sing together.

Our branches have continued their fundraising throughout the year. NHS Heroes have been at the centre of the majority of our fundraisers and in total our people have raised over £800 and provided toiletries to hospitals. The end of this year saw our Hertfordshire based branches partnering with Small Acts of Kindness by distributing "Warm in Winter" gift bags to our elderly customers.

The Society has also supported a number of local clubs and societies that will positively impact the lives of local people. We made a significant donation of £10,000 to Saffron Walden Community Football 3G pitch, which will, when complete, benefit over 800 junior players. In September we became official sponsors of Saffron Walden Town Football Club, building on a relationship that has been in place over the last few years and is an essential local amenity that has been hard hit by COVID-19 restrictions. We look forward to seeing grass roots football return as soon as is safe to do so. Our partnership with WizeUp Financial Education has continued although many sessions were unable to be held in schools as initially planned, we still pledged our funds to help build and provide online learning and Zoom workshops. Our staff have continued to share their expertise with secondary schools in our heartland by participating in mock interviews, career coaching and enterprise days.

This has been an exceptionally difficult time for all communities and we are very proud of the positive impact that we have had. For 2021, we will seek to further improve this impact. We have launched an initiative that will provide volunteering opportunities to our staff and we have other plans in place to provide more support to help both Members and our community to improve their financial wellbeing.

Looking ahead

Whilst it is likely that life will resemble something like normal at some point in 2021, it is also likely that restrictions will continue through a significant part of the year. We will continue to prioritise the health and safety of our people and Members, whilst also maintaining service.

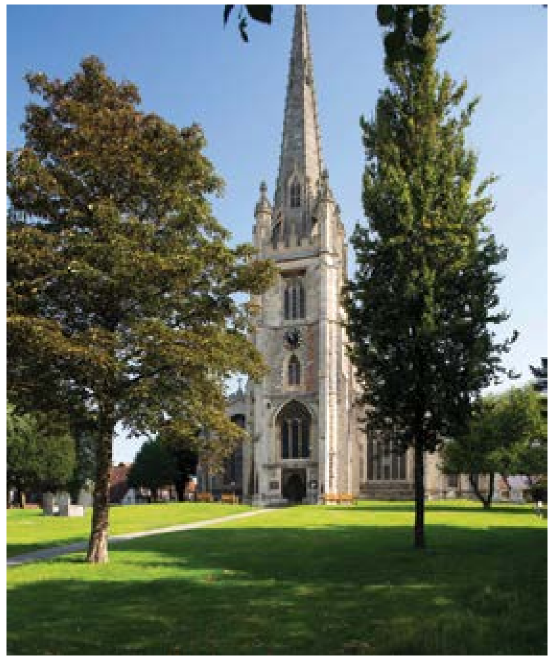
The impact on the UK economy and the finances of our members as a result of the new Brexit trading arrangements has so far been relatively low key compared to various commentator predictions of what a no-deal could have meant. Most areas of the economy are still assessing the long term impact of the agreement, although there are areas more significantly impacted both positively and negatively. We are still assessing how we will deliver new services to prospective members who live in the EU as it is no-longer as straight forward to process as previously. Overall, the impact continues to be monitored, with a relatively minor impact on our performance being experienced to-date.

It is also likely that economic conditions will remain challenging through 2021 into the years beyond. The measures put in place by the government in response to the COVID-19 crisis have protected businesses and employment to a significant extent to date, but it is likely, if not inevitable that these measures will be withdrawn at some point in 2021. At this point, the damage to the economy will become more evident and it is possible that we may see an increase in unemployment, a sluggish economic rebound and potentially a slow down or even reduction in house prices. Facing in to this uncertain environment, the Society is planning to deliver modest growth to its balance sheet size in 2021 through growth in its mortgage asset in order to drive improved profitability, but will remain alert to respond to any economic downturn.

The Society will continue to develop its capability and proposition to Members. In 2021 we are planning to deliver a significant upgrade to our core banking platform, which will help future proof our business. In addition to the systems upgrade, we will continue to work to enhance our people capability; build further on the progress that we have made in supporting our communities and seek to further improve the value that we provide 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 significant impact of the COVID-19 pandemic on the UK and the continued delay in achieving a Brexit deal with the EU dominated both the political and economic landscape throughout 2020, with the imposed lockdowns having a significant effect on unemployment and market confidence.

The national lockdown implemented in March 2020 created a number of challenges for the country as a whole and the impact on the Society was no different. However, significant investment in our IT infrastructure since 2017 allowed the Society to move swiftly into remote working for non-customer facing staff whilst keeping the branches open to offer essential services to our Members, avoiding the need to use the furlough scheme. From a Member perspective, the lockdown also caused a great deal of uncertainty over their employment and the wider impact that this could have on their ability to meet mortgage payments. The Government launched a key initiative, offering mortgage holidays to those concerned about their ability to meet mortgage repayments during the pandemic. A number of Members have taken part in the mortgage holiday scheme since inception, providing them with valuable support during this uncertain time, with 96% of Members using the scheme recommencing payments.

Demand in the housing market has been strong in 2020 with the government providing incentives to boost the housing market, and in particular the stamp duty holiday which extends to 31 March 2021. The desirability of housing with outdoor space has increased as a result of the summer lockdown period and general house price growth has been sustained throughout the year, in spite of earlier widespread predictions of an imminent collapse in prices. Leading economists are however anticipating a fall in UK house prices during 2021 as the government support is withdrawn and unemployment rises further. The labour market has been heavily affected by the pandemic in the year with a number of government schemes in place to help to support struggling businesses and to curb rising unemployment in the UK, which at 5.0% is the highest it has been since 2016.

Regular pay growth has been weaker than expected in 2020 due to the direct and indirect impacts of COVID-19 on the economy; for instance the furlough scheme supported employment levels but saw up to 9.6 million people take temporary pay cuts. As a result, average wages fell from May to July, but recovered to an annual increase of 3.6% by the end of the year. CPI inflation was below the Bank of England 2% target throughout the year, reaching a low point of 0.2% in August, and is expected to remain low through the Group's five year strategic planning period. The Bank of England cut base rate by 0.65% in the year to 0.10% in March 2020 and held at this level for the remainder of the year.

Following the base rate reductions, the Society made reductions to its SVR rate of 0.25%, which was balanced with reductions to savings rates. With many Members holding fixed rate savings products to protect from a rate change, this put pressure on the Society's net interest margin. This has gradually recovered as fixed rate savings products mature and as wholesale and central government funding costs generally reduce. The UK mortgage market remains extremely competitive and mortgage rates have fallen during the year as a result.

Market interest rates and sentiment suggest that the low interest rate environment is likely to remain for the foreseeable future, with increases in Bank of England Base Rate likely to be delayed until the economic recovery from COVID-19 results in inflation rates which apply pressure to the Bank of England's 2% target.

As part of the Bank of England's support throughout the pandemic, additional 4 year collateralised funding was made available to mortgage providers through the Term Funding Scheme with additional incentives for SME's (TFSME). The amount available under the scheme is linked to the growth in lending. The scheme was designed to encourage finance providers to continue to support borrowers throughout the uncertain months which would ensue. This has had an impact on the savings rates in the market, with many being significantly reduced due to the support of the Bank of England central funding, and also due to the general need to protect net interest margin. Earnings on fixed rate mortgages are generally protected by interest rate swaps which convert the fixed interest income into a variable rate (LIBOR or SONIA). These variable rates have fallen significantly during the year, reducing the fair value of these contracts resulting in charges to net interest income.

The Group's business and strategy

The Society has recently adopted a new corporate strategy as illustrated below:

The Society provides a wide range of mortgages to meet a wide range of needs, whether a customer is looking to move home, or seeking a mortgage for a buy-to-let property or with more complex needs such as contractors, self-employed, young professionals, lending in and into retirement, those renovating a property or an unusual property type. It remains the Society's philosophy to consider individual circumstances, apply common sense and provide a personal, reliable service to our customers, both present and future.

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 serviced both in branch and in many cases, online.

In 2020, the Society set up a wholly owned subsidiary, Saffron Mortgage Finders Limited, a new open market mortgage advisor to provide responsible advice on mortgages from a wide panel of lenders, to provide Saffron customers with access to products which truly fit their needs.

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	✓		✓

Residential, Buy to Let and Self Build lending is offered via external mortgage brokers and Saffron Mortgage Finders, the Group's mortgage intermedary service.

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

	Channel		
Other products	Telephone	Online	In-branch
Financial planning	✓		✓
Protection	✓		✓
Whole of market mortgage advice	✓		✓

The Society has another wholly-owned trading subsidiary, Crocus Home Loans Limited, 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 2020.

The Group has assets of £1,207million and operates from its head office in Saffron Walden, Essex and Customer Solutions Centre in Little Chesterford together with eight branches across three counties and employs 157 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 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 through the Essex Community Fund or opening up our branch network for community-related use. In a commitment by the Society to its Members and its wider communities, 2020 has seen an increase in focus on green initiatives and products. This has included mortgages allowing retro fit offerings to maximise energy efficiency, savings products where both saver and the Society forfeit interest to give to our environmental charity partner, Conservation Volunteers, the Society's investment in the Green Hub and our own electric van. These all demonstrate the group commitment to the environment with further developments in this area planned in 2021.

It is not possible to deliver these core elements of strategy without long term financial stability, measured as capital strength. The Society continues to focus on improving relative capital strength whilst recognising that it must also continue a growth trajectory 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 of operating costs
- Strong and clear set of cultures and values throughout the Society

The Society's results, and in particular capital generation, have been impacted by adverse changes to the valuation of the Society's portfolio of Lifetime Mortgages in recent years. The continued impact on the 2020 financial year is explained later in the financial performance section of this Strategic Report. Following the Bank of England's decision to release the Countercyclical Buffer, the Society still holds a Capital Conservation Buffer of 2.5% which equates to a capital requirement of £10.2m which is in addition to the Pillar 1 and Pillar 2 regulatory capital requirements.

The Board continues to make investment decisions which are 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 2020, with comparison against 2019 are presented in the table below together with explanatory comment.

	2020	2019
Trading performance		
Gross mortgage advances	£253.2m	£135.2m
Total mortgage balances	£942.8m	£828.7m
Shares and deposit balances	£975.4m	£895.0m
People experience		
Engagement	80%	71%
Member experience		
Net promoter score	+57.9	+62.8
Customer satisfaction	96.1%	86.4%
Financial sustainability		
Profit before tax	(£3,828)	£3,061k
Net interest margin	1.46%	1.92%
Management expenses ratio	1.33%	1.57%
Common equity Tier 1 ratio	11.2%	12.9%
Liquidity coverage ratio	272%	248%

Measure	Explanation	2020 performance	Trend compared with 2019
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 the Society's growth plan, a higher target was set for 2020.	Total advances of £253m exceeded target	Improving
Total mortgage balances	The total size of the Society's mortgage assets. The Society needs to maintain sufficient balances of quality mortgage assets to generate sufficient income, balanced with associated capital requirements. The targeted level of mortgage assets set out in the budget was achieved	Total mortgage assets of £942.8m exceeded plan	Improving
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.	Growth of £80m exceeded plan	Improving
Staff engagement	The board strives to make Saffron a great place to work through our Amazing Employer Brand. Our innovative engagement platform sends bi-monthly surveys to all colleagues to measure real time engagement via key drivers, such as Management Support, Reward, Environment and Strategy. Each driver contributes to the overall engagement score. We are benchmarked against the Financial Services sector.	Score of 8.0 (0.3 above external benchmark).	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 the financial services the financial services industry as exceptional.	An average score of 57.9 was achieved across the year, meeting target	Declining
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 a score as possible and act on results and findings.	Score of 96.1%	Improving
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 the pandemic, resulting from a combination of a reduced net interest margin (see below) and fair value charges from the Society's portfolio of equity release mortgages and derivatives used to hedge fixed rate mortgage and savings products.	Loss before tax of £3.8m behind original budget	Declining
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. The net interest margin declined in 2020 following the base rate reductions, and whilst it is materially behind the budget for the year, there has been a strong recovery in the final quarter.	Net interest margin of 1.46% which is materially less than the original budget.	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 2020 due to a combination of asset growth and cost reduction and the Board expects this ratio to continue to improve due to increased focus in this area.	Achieved target management expenses ratio	Improving

Measure	Explanation	2020 performance	Trend compared with 2019
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 held, divided by the assets which are risk weighted based upon the level of risk that they carry which are prescribed by the Prudential Regulation Authority. The Board targets improvements in this ratio throughout the Society's planned growth strategy. The fall in the period was due to a number of factors, including the significant fall in interest rates, market competition and extended period to complete mortgage pipeline due to the pandemic impact in the early part of the year and finally the growth in the risk weighted assets of £39m towards the end of the year as the mortgage market gathered traction. The risk weighted assets are expected to contribute to improved profitability in future years. Notwithstanding the material charges to the income statement and the shift to balance sheet growth impacting the capital strength, the Society has still retained a capital surplus significantly above regulatory minimum.	11.2%	Declining
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 above regulatory 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 and evidence that the Society is operating within risk appetite.

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 6 to 10 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

£millions	Group		
	2020	**2019**	**2018**
Net interest income	15.7	20.2	20.7
Other income and charges	(0.2)	(0.3)	(3.3)
Administrative expenses	(12.8)	(13.9)	(14.1)
Depreciation and amortisation	(2.4)	(2.5)	(2.6)
Impairment losses	(0.2)	(0.3)	(0.1)
Fair value movements and other operating charges	(3.9)	(0.1)	-
(Loss)/Profit before tax	**(3.8)**	**3.1**	**0.6**
Tax	0.5	(0.6)	(0.4)
(Loss)/Profit after tax	**(3.3)**	**2.5**	**0.2**

The challenges faced by the Society in 2020 are driven by the need to protect the Society's savers in the reducing interest rate environment as a result of the COVID-19 pandemic, which has had a cost to both underlying profitability through margin deterioration and fair value charges which the capital position of the Society. This has been recovered in recent months from the maturity of expensive fixed rate savings, the use of the TFSME scheme and the increased mortgage lending activity where benefits will be demonstrated in future periods.

Improved control over operating costs have acted to reduce the impact of the market downturn and remains a key area of focus for the Society.

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 freehold properties and fees and other income from its subsidiary and its third parties with whom the Society partners and acts as introducer.

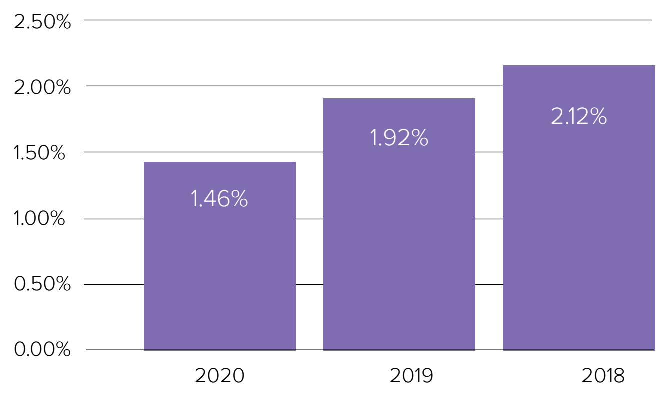
Net interest income

The net interest margin for the year ended 31 December 2020 was 1.46% (2019: 1.92%).

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) which are accounted for under the Effective Interest Rate methodology.

Net Interest Margin



The Society has seen its margin compressed in 2020, with mortgage related earnings reducing significantly following the base rate reductions in the first quarter. The impact of the COVID-19 pandemic resulted in the two cuts to base rate in March 20, first by 0.5% to a base rate of 0.25% with a further cut weeks later by 0.15% to a base rate of 0.10%. This resulted in the Society cutting its Standard Variable Rate (SVR) on its mortgages by 0.25% in April.

Interest receipts for variable rate mortgages were adversely impacted by the fall in the SVR received. Earnings related to the fixed rate book were also impacted by the bank base rate reductions as they are directly related to the associated derivative earnings which were put in place to protect interest income in the event of a rate increase. The expected offset to this impact when rates fall is a reduction in rates to savers and it is the gradual approach to the reduction in savings rates which temporarily impacted margins in the middle part of the year. Also impacted by the competitive rate environment and fall in the SVR rate was the Effective Interest Rate accounting for the fees and interest over the life of a loan. The combination of a reduction in the behavioural life of the loan book and the SVR rate change has impacted the net interest income with a net charge of £1.3m in the year (2019: income of £0.5m). The gradual reduction in rates for savers and the draw-down of low cost TFSME funding has resulted in a recovery of margin in the final quarter to a more sustainable level.

The longer term impact of margin on the overall profitability of the Society has been mitigated by the strategy to increase gross lending above recent levels to maintain profit in a difficult market. This strategy has been successful in limiting the loss seen in the year ended 31 December 2020 and is expected to improve profitability in 2021 and beyond. This approach resulted in overall mortgage assets increasing from £828.7million to £942.8million. Interest receivable reduced to £23.8million (2019: £30.1million) reflecting the lower interest rate in the period.

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 product with specific features whilst balancing activity to match with the broader funding need of the Society. Following the cut to the Base Rate and the cuts made to the Society's SVR, of 0.25%, the difficult decision was made to cut the blended savings rates to manage the margin impact. The average rate to savers has reduced by 0.21% in the year compared to the fall in the Bank of England base rate of 0.65%. With higher fixed rate savings starting to mature, the mortgage book growing and with TFSME draw-downs, the Society has recently been able to increase certain savings rates for the benefit of Members.

Overall net interest income for the year ended 31 December 2020 reduced to £15.7million (2019: £20.2million).

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 mortgage advice through our subsidiary, Saffron Mortgage Finders Limited and sales of insurance and financial planning products through our partner network. Fees payable include other (non-EIR) mortgage-related costs and bank charges.

Other operating income

Other operating income principally comprises rental income from the Society's investment properties, together with any increases in the fair value of those properties.

Net fair value movements

This income category includes 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, and the changes in value of these derivatives flows directly to the income statement. In particular, there are derivatives which hedge the pipeline of new mortgages and any losses on these derivatives prior to draw-down will reverse out over the subsequent lives of those mortgages through the increased margin between the swap and the underlying mortgages. This is typically two to five years and is therefore considered to be a relatively short term timing difference. In addition, the matching of cash flows for the purposes of hedge accounting are not always able to be adequately matched and can create hedging ineffectiveness. These valuation movements will generally reverse over a relatively short period and is therefore largely expected to be timing related.

The equity release mortgage portfolio is fair valued and the fair value movements provide a degree of income statement symmetry with the supporting interest rate derivative valuation movements. However, the Black-Scholes modelling for valuation of the equity release mortgage portfolio includes assumptions such as house price inflation and house price volatility together with actuarial factors such as mortality rates and the long term cost of funds. The supporting derivative value is not impacted by the same elements and is principally impacted by long-term interest rate movements. These different bases of calculation lead to asymmetry through the income statement and in the current year, the fall in value of derivatives was £4.4m, which compared with an increase in mortgage portfolio carrying value of £1.6m resulting in a charge to the income statement of £2.8m. Whilst certain factors in the asymmetry such as early redemptions may not reverse over time, it is anticipated other elements are timing related although the profile of future earnings remains potentially volatile due to the nature of the risks. The equity release portfolio is a historic book with no new originations since 2009 and will continue to reduce over time which will help to reduce the volatility impact to the income statement as it continues to shrink. The risk of volatility is expected to materially reduce over the next 10 years, given the average age of the borrowers being 80 years old.

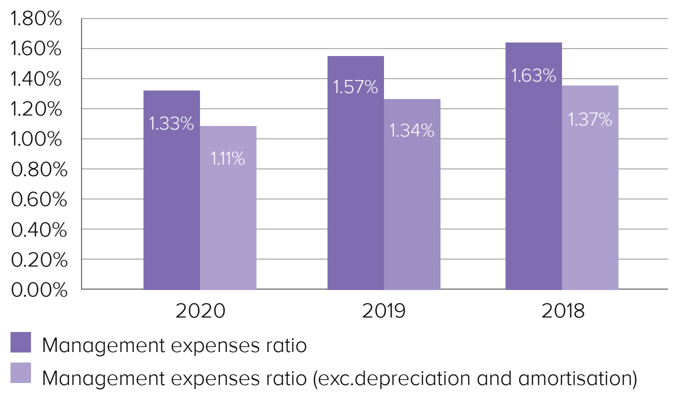
Notwithstanding the significant charges to the income statement, which have a direct impact on the Society's capital position, a surplus of £11.2m above the Society's Total Capital Requirement (TCR) plus regulatory buffers was achieved at the 31 December 2020, which is expected to continue to grow in 2021.

Administrative expenses

Administrative expenses comprise of staff costs and 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 Society's 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 £ 12.7million compare with £13.9million in 2019. Further charges for depreciation and amortisation of £2.4million (2019: £2.5million) 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 the 2019 comparative period also include £0.3m of restructuring costs associated with the closure of three of the Society's branches and a broader Society-wide restructure.



Other operating charges

Other operating charges for the year ended 31 December 2020 of £525k (2019: £67k) comprise administrative expenses incurred by the Society's closed defined benefit pension scheme but borne by the Society of £60k (2019: £67k). Also included this year are specific incurred costs to protect our staff and visiting Members during the pandemic. Whilst the business has been adversely impacted in various ways from inefficient working practices to detrimental interest rate movements, this category of cost includes the direct cost of making the workplace COVID safe £65k (2019:£nil).

The Society's investment properties were professionally valued on an open market value basis in October 2020 and decreased in value by £400k (2019: £114k).

Charges for impairment and provisions

The collective impairment charge has increased in the period, driven by the increased risk associated with the effect of COVID-19 on our borrowers. We helped 630 Members by granting payment holidays at the start of the pandemic, although many of these customers have since been able to recommence payments leaving 24 customers on payment holidays at the end of December. With the backdrop of an uncertain housing market, which is currently buoyant as a direct result of the stamp duty holiday support from the government and is not anticipated to continue once this scheme ends, management has taken a prudent view of how this may impact those customers currently showing signs of stress and thus leading to additional collective provision.

The individual impairment charge in the year is much reduced with few instances of specific provision being required.

The following charges have been taken to the income statement following a thorough review of the mortgage book, with a particular emphasis on those parts of the book which have exhibited signs of stress in the recent past.

Impairment charges		**Group**	
£000s	2020	2019	2018
Collective impairment charge	170	(59)	31
Individual impairment charge	24	393	108
Total	194	334	139

The Group is a Receiver of Rents on 3 properties (2019:4) representing capital balances of £0.9million (2019: £1.3million). Two further properties were disposed of in the year ended 31 December 2020 and one new property was added. Disposal of the remaining properties is planned for in 2021.

The arrears ratios (number of loans >3 months in arrears) as a percentage of the total loan book has worsened to 0.72% at 31 December 2020 (2019: 0.51%), 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 28 to the Accounts.

Taxation

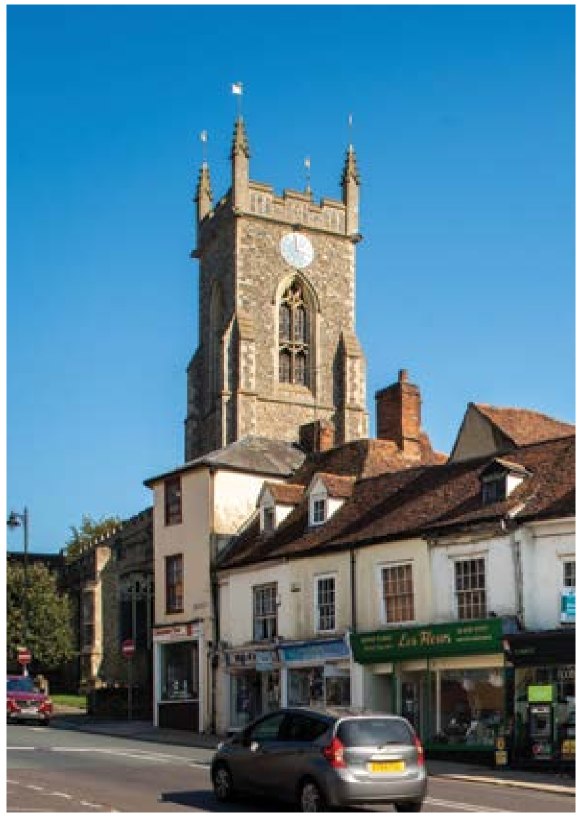
The statutory rate of corporation tax has been 19% since 1 April 2017, giving an effective tax rate for both the current and prior period of 19%.

The Group had corporation tax credits in respect of trading losses in the year ended 31 December 2020 of £543k (2019: Tax charge of £543k). The taxable losses have increased the Society's deferred tax asset, which was generated through the losses carried forwards from both the adjustments made in previous financial periods 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 24 months. A reconciliation of the effective rate to the statutory rate of taxation is provided in Note 8 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 £1,207million at 31 December 2020, compared with £1,070million at 31 December 2019.

	Group		
£millions	2020	2019	2018
Liquid assets	251.0	225.2	152.5
Loans and advances to customers	942.8	828.7	859.9
Fixed and other assets	13.3	16.3	21.7
Total assets	**1,207.1**	**1,070.2**	**1,034.1**
Shares	894.0	813.2	784.0
Borrowings	212.7	161.4	162.6
Other liabilities	39.9	30.8	26.0
Subordinated liabilities	10.3	10.3	10.3
Total liabilities	**1,156.9**	**1,015.7**	**982.9**
Reserves	50.2	54.5	51.2
Total liabilities and reserves	**1,207.1**	**1,070.2**	**1,034.1**



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 2020 the Group's portfolio of liquid assets totalled £251.0million (2019: £225.2million) and comprised of the following:

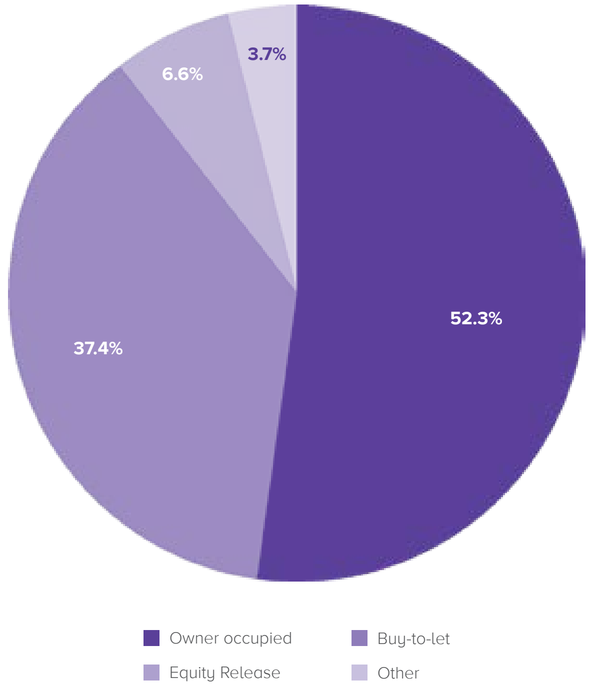
	Group	
£millions	2020	2019
Bank of England	155	87
UK Goverment debt	-	71
Other bank deposits	45	35
Non-UK Goverment debt	-	-
Supranational debt	51	32
	251	**225**

At 31 December 2020 the ratio of liquid assets to shares and deposits stood at 22.7% (2019: 23.1%). 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 2020 the Group's LCR was 272% (2019: 248%), 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 2020 the Group's NSFR was 128% (2019: 138%), above the regulatory minimum of 100%.

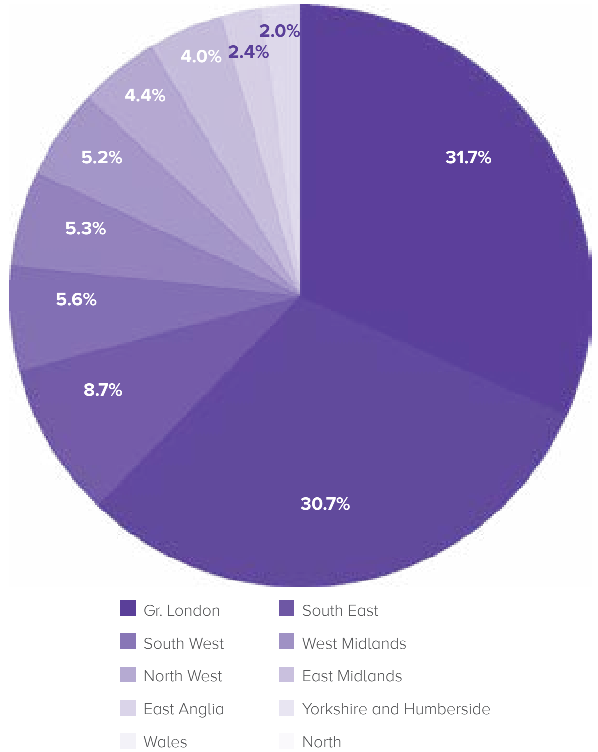
Mortgages

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 non-residential loans, which the Group is planning to expand in the medium term and a small portfolio of legacy equity release mortgages which will mature away and will not be replaced.



During the year, the Group has moved exclusively to lending through mortgage intermediaries. The Society recorded gross lending of £253.2million in the year ended 31 December 2020 (2019: £135.2million). Stated after the impact of mortgage repayments, voluntary redemptions and other movements, total loans and advances to customers (net of impairment) at 31 December 2020 was £942.8million, compared with £828.7million at 31 December 2019.

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 2020.

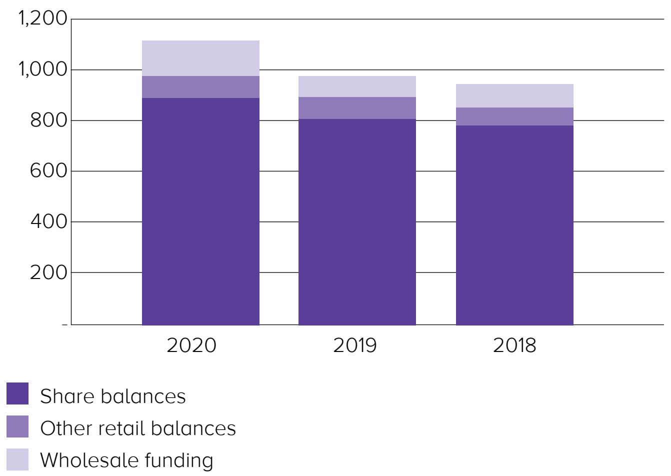


Funding the business

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, remain 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, the rate cuts in the market and the need for the Society to balance the rates offered on its savings products with the yields available on the mortgage products, resulted in the Society making some cuts to savings rates throughout the year. In spite of this difficult balance of retaining benefit for our savings Members and balancing the margins needed to achieve required levels of financial performance, the Society experienced a net inflow of shares and other deposit balances of over £80million, ending the year with balances of £975.4million (2019: £895.0million). The remaining increase in net mortgage balances of £34m was more than covered by the Society's drawdown from the new TFSME scheme.

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), the Term Funding Scheme (TFS) and more recently, bought about due to the pandemic, Term Funding Scheme with additional incentives for SMEs (TFSME). As at 31 December 2020 the Society held no amounts of FLS (2019: Nil) or TFS funding (2019: £40.7million), having early repaid the TFS funding in the period. TFSME is new 4 year funding offered by the Bank of England to support new mortgage lending throughout the pandemic, allowing financial institutions to draw this based upon the mortgage book size and increased lending volumes. As at 31 December 2020 the Society has drawn £95.5million against this scheme. The Society also accesses shorter (six months duration) funding through the Bank of England's Indexed Long-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 2020, 26.1% of the Group's assets were encumbered (2019: 23.49%) representing £271.3million of residential mortgage assets (2019: £218.2million) and £44.1million of other assets (2019: £33.2million).

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 2020 at which point it was fully funded with a surplus of £1.0m on the trustee basis of valuation. The Society was not required to make any contribution to the Scheme in 2020 (2019: nil).

For accounting purposes, an FRS 102 valuation is undertaken at the balance sheet date using a corporate bond based discount rate (unlike the trustees basis). This, together with a change in inflation assumption, resulted in a deterioration of £1m, of which £0.9m was

charged to Other Comprehensive Income with the remainder processed through the Income Statement.

At the 31 December 2020 the Scheme is shown as a pension liability of £614,000 (2019: asset of £403,000). Further details on the Scheme can be found in note 27 to the Accounts.

Capital

Regulatory 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.

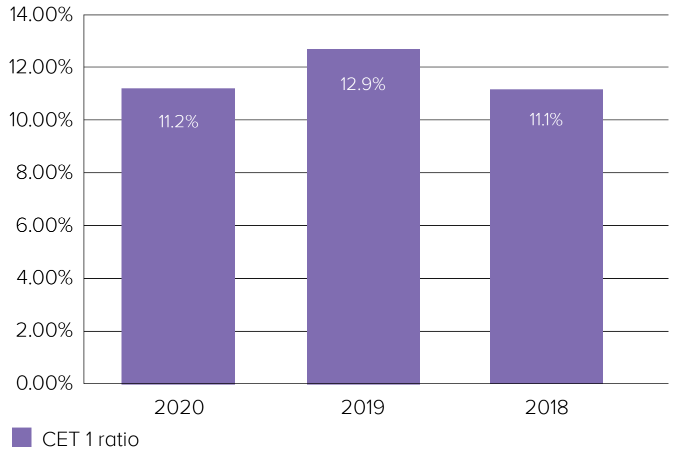
The Group's capital requirements are set and monitored by the Prudential Regulatory Authority (PRA). All the Society's capital ratios remained in excess of regulatory requirements throughout the year.

At the start of 2020, the economy experienced a significant shock as the COVID-19 pandemic swept the world, the impact which this had on the markets and therefore, assets held at fair value was initially severe, with some but not all recovering towards the end of the year.

The continued execution of the growth strategy was maintained throughout this difficult time, with this being key to overall capital growth in future periods, utilising the benefit of past IT and infrastructure investment to allow improved profitability through a well managed cost base.

After regulatory deductions, the Group's total regulatory capital decreased from £57.9million to £56.1million principally as a result of the reported loss after tax explained above together with an offset from the amortisation of intangible assets. Further details on the capital position, including reconciliation to Group reserves, is provided in Note 29 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.



The CET1 ratio has fallen in the current period as a result of two factors, firstly the capital availability has reduced from the loss in the period and charges through Other Comprehensive Income for both the pension scheme and property revaluations (offset by the unwind of the intangible asset) and secondly due to the growth in the balance sheet assets, which has seen an increase in the risk weighted assets in the year of £38.7m. Growth in the loan book has impacted the CET1 ratio by 1.2% and whilst it has been capital depletive in the current year, the benefit is expected to flow through in terms of improved net interest income in 2021.

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.

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
Risk Committee	Non-Executive Director
Remuneration Committee	Non-Executive Director
Nominations 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, Pricing and Promotions Committee	Chief Commercial Officer

Further details on the Committees can be found in the Corporate Governance Report on pages 30 to 36.

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, further refined in the year to formally include Cyber Risk and Information Security 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. Society maintains a Board-approved Recovery Plan that outlines a menu of options the Society could credibly take to recover from a Society-specific or market-wide stress. The separate 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 and cyber security whilst monitoring their system providers. The Group have continued its investment in its core systems and cyber security throughout 2020 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 and operating 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 or counterparty is unwilling or unable to honour 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 as follows:

Treasury credit risk:
Treasury credit risk is the risk of default on assets held to mitigate liquidity risk and as a short term placement of surplus funding (on-call accounts, CDs and FRNs). We manage the risk of investing in these liquid assets by having strict criteria for accepting counterparties to invest in and absolute limits for these investments with each counterparty. These criteria and limits are stated in our approved treasury policy. We review our approved counterparty list and investments made monthly at the Assets and Liabilities Committee.

Retail credit risk:
This risk materialises when a loss is incurred through non-repayment of mortgage lending and is mitigated through our Lending Policy approved by the Executive Risk Committee and overseen by the Board who review key metrics, which shows our risk appetite for our lending and includes clear guidelines for mandate levels and lending. We also focus on supporting borrowers who may be having payment difficulties to help mitigate any potential loss and assist the borrowers in returning to a normal repayment pattern.

Where we consider the potential for a loss we make a provision for this in accordance with our policies.

Mitigation:
The Society operates within a prudent credit risk appetite and obtains external insurance to mitigate losses on higher loan to value properties.

Interest Rate Risk
Description:
Interest rate risk arises from either a mismatch between the interest rate characteristics or the maturity profiles of assets and liabilities which may impact the Society's capital and earnings.

The Society uses derivatives to manage interest rate risk by converting fixed rate mortgage cash flow into variable rate LIBOR/SONIA. In a falling interest rate environment creates risk where savings rates cannot be reduced to match the falling LIBOR/SONIA rates.

An additional downside impact on the carrying value of the Effective Interest Rate (EIR) fair value asset attached to the mortgage asset. The equity release mortgage book presents additional valuation risk due to the movements in the long term discount rate (although this portfolio is also exposed to risks related to house price movements and repayment experience).

Mitigation:
The Society manages the 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 quality and term of the Group's liquidity portfolio and actively seeking alternative sources of finance. Note 28 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 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 and financial crime risk
Description:
Compliance and financial crime 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 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.

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.

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.

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

Climate Change and Environmental Risk
The UK launched the Green Finance Strategy on 2 July 2019. The Strategy supports the UK's economic policy for strong, sustainable and balanced growth, the delivery of a modern Industrial Strategy and the domestic and international commitments on climate change, the environment and sustainable development. The Society has identified climate change as a significant area of risk and ensures that the financial implications are understood and monitored regularly.

Limits to mitigate risks have been set following extensive scenario analysis and a pro-active approach has been taken in order to support the Society in becoming a more sustainable business. A particular focus has been placed upon the physical impact of climate change on the Society's mortgage book, for example, properties located in areas subject to flood risk. The Society also recognises transition risks which can arise from the process of adjustment towards a low-carbon economy.

In addition, the Society has established a "Green Hub" to reduce its carbon footprint and reach a greener future for all our Members. The Hub is designed to provide broad but detailed information covering the diverse ways that we can make eco-friendly changes to our lives, from utilising online resources to help reduce emissions, to getting the whole family involved in challenges and activities that create environmentally friendly households. The Society believes in the power of community and is confident in its collective ability to make a difference by encouraging its Members to become greener in the way we manage our money. Accordingly, Members are able to manage their savings remotely via an online solution and an app. Also, we have introduced two new products:

- the Enviro Saver, an online savings account which generates money for an environmental charity. Members still receive interest on savings but forego a small amount of interest, which we match and donate to charity annually as a lump sum payment; and
- the Retro Fit Mortgage, a residential mortgage that rewards Members with a rate reduction if you carry out works that improve the energy efficiency of your homes.

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 legislation, building societies are required to hold a minimum amount of capital to protect the Members' funds and remain solvent in the event of severe economic stresses. In addition to these minimum requirements, further buffers have been introduced to ensure that Members' interests are protected even in the most adverse scenarios. The Capital Conservation buffer continued to be set at its maximum level of 2.50% of risk-weighted assets throughout 2020. The countercyclical buffer (CCyB) was scheduled to be increased from 1% of risk-weighted assets to 2% in December 2020 before the COVID-19 pandemic impacted the economy and the full CCyB buffer was released in Q2 2020 to support financial institutions and manage the market impact of the stress. 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 expected to be phased back in over the coming years and the Society has planned for this re-introduction within its forecasting and strategic planning.

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 2023.

Moving to the revised framework may require the Society to hold an additional £3.7million of capital for regulatory purposes, based on latest management assessment, however local implementation rules are still to be announced.

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 largely neutral impact for the Society.

Economic Outlook
At the time of writing, the impact of COVID-19 continues to dominate economic conditions across the globe. In spite of this, the housing market has remained surprisingly buoyant and borrowers are generally continuing to make their monthly mortgage payments as they fall due. The extent to which these positive signs may be detrimentally impacted as government support starts to diminish presents a high degree of forecasting uncertainty.

Economic uncertainties around Brexit have started to reduce although it is clear that there may be both negative and positive outcomes for different sectors of the economy and the net impact will only start to become clear as the year progresses. The Society is directly impacted in relation to ex-pat mortgages and following a review of the legal position the decision was taken to withdraw from sale new mortgage originations to ex-pat customers within the EU. Although the majority of new origination for this product are for members outside of the EU, the restriction is unwelcome and is hoped to be temporary pending clarity of requirements across the various EU countries. The likelihood of negative interest rates appears to be receding although this remains an area of risk to the Group's plans and continues to be subject to scenario and stress testing to ensure ongoing resilience.

The Society has redefined its strategic growth plans during the year and set a lower growth ambition and a concentration on higher quality earnings. The current expectation is a return to profit in 2021 with positive earnings momentum gathering pace as the balance sheet positions more appropriately to the lower interest rate environment.

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, also increases 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 2021 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 an area of focus as the mortgage holidays granted are not treated as arrears in line with guidance from the Bank of England. The Society have undertaken an exercise to assess the likely impact on the mortgage book at the balance sheet date and have made suitable provision, which is deemed to manage the currently foreseen impact on the 2021 financial period and beyond. 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, these are detailed further below:

Credit risk
Economic conditions, and prospects, impact on the performance of the Society's mortgage assets. Increased unemployment typically increases 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 stressed to ensure members can continue to make repayments at much higher interest 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 28, "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 and falling interest rates which continue to constrain margins. The Society is a participant in the Bank of England's Sterling Monetary Framework and has a £95.5million liability under the Term Funding Scheme with additional incentives for SMEs (TFSME), repayable in the last financial quarter of 2024. The Society's plans take account of the repayment profile and seek to steadily grow other funding to replace TFSME funding in an orderly and controlled manner.

A significant number of other deposit taking institutions also obtained TFSME funding, many with a similar or earlier repayment profile. In the longer term, market interest rates are expected to rise to prefund the repayment of the TFSME scheme as it matures. An increase in Base Rate or market rates would place further pressure on funding costs.

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, an increase in voluntary prepayments or changes in life expectancy could result in mortgage valuations suffering losses. In particular there is a no-negative equity guarantee feature of the product which restricts the ability to obtain full repayment when the eventual sale price of the property is less than the amount owing.

Lifetime mortgages are held at fair value, which incorporates the estimated impact of such losses, however, in holding the portfolio at fair value, this also brings in some accounting volatility. Note 28 provides further details in relation to sensitivities which are most relevant to the valuation. In assessing the carrying value of the mortgage, there are multiple areas of risk to be priced, whereas the associated derivative which is used to hedge parts of the exposure relates purely to the risks arising from the fixed rate of interest

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 2020 in which the Scheme was in surplus of £1.0m on the trustee valuation basis with the next valuation due in April 2023 and is also updated for FRS 102 purposes annually, the FRS 102 valuation at the 31st December 2020 is a deficit of £614k.

Trevor Slater
Chief Financial Officer
On behalf of the Board 2 March 2021

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. 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 does not 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 legal entities to engage with stakeholders, take account of their interests and describe how they have done so.

Colleague engagement remains high on the agenda. Despite the challenges the pandemic has presented, our colleague engagement activities were enhanced to support greater communication and collaboration across the Society. Weekly 'all staff' calls hosted by the CEO and senior management to update on business related matters and share wellbeing initiatives have been introduced. A weekly newsletter 'Saffron Snapshot' written by and for all colleagues sharing stories and updates across all business areas was launched. 'Coffee and Chat' sessions hosted by the People Team were created to encourage colleague interaction and informal conversation. Furthermore, our innovative engagement platform captures real time scores and comments that are viewed and responded to by Senior Management. Overall scores are presented to the Board.

The Non-Executive Directors have spent time with employees during the course of the year, supporting on key initiatives such as the Engagement project. All Board Members are encouraged to connect with colleagues and opportunities for the Non-Executive Directors to work with different business areas was made available. Additionally, the Board appointed Gary Barr as Employee Champion to act as a conduit between the workforce and the Board to provide greater oversight and bring people related matters to the fore.

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 two Executive Directors (Chief Executive Officer and Chief Financial Officer) and five Non-Executive Directors (including a Chairman). Our Chief Financial Officer joined the Society on 1 June 2020 and prior to that our Group Financial Controller had been appointed as Chief Financial Officer on an interim basis. The Nominations Committee maintain a succession plan for Executives and Non-Executive Directors.

The Board met 13 times in 2020 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.

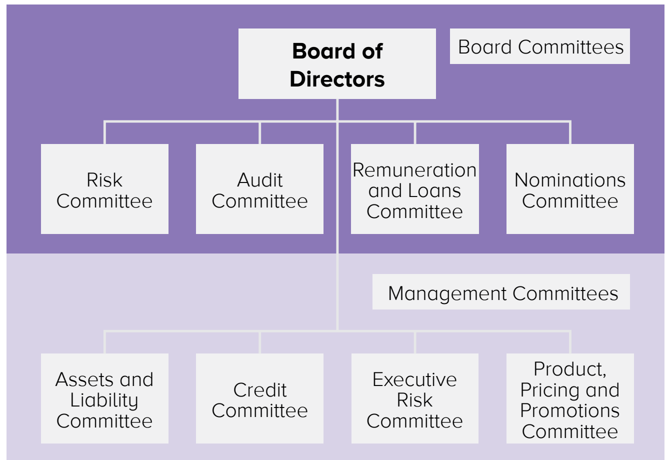
Effectiveness

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 to review gender pay across the Society. In 2021 we will voluntarily publish our gender pay gap. Committee will also monitor 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 Chairman of the Society who is the Chair of the Committee, Senior Independent Director, the Chair of the Audit Committee 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 follow good practice in corporate governance, including reviewing the UK Corporate Governance Code. In the appointment of new Directors the Committee is driven by the need for diversity around the board table and sets high expectations when engaging with professional search agencies to encourage a diverse range of applicants. The Committee considers diversity in the context of experience and skills as well as cultivating a wide range of characteristics and different perspectives.

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. 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 the Committee reviews at least annually the acceptability of accounting policies and the significant financial judgements. The external auditor, BDO, has also considered the appropriateness of the accounting policies and judgements made by management.

Below are the key judgements and audit matters specifically reviewed by the AC.

During 2020 the AC met 8 times to fulfil its 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.
- reviewing the integrity of systems and controls in operation around the Society.

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. The Society uses an EIR software tool to ensure accuracy of the EIR modelling. The significant judgement within the EIR methodology is the prepayment profile of the loan cohorts, AC have provided challenge on the projected profiles compared to historical experience and likely outcomes to gain comfort over the assumptions within the tool.

Valuation of Lifetime Mortgages and associated swap

The Group has a portfolio of Lifetime Mortgages that are accounted for at fair value through profit or 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. Expected 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 11 to 29.

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.

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 David Rendell. Members of the Executive and senior management are invited to attend as appropriate.

The RC 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 RC monitors the performance of the Group's loan book throughout the year and reviews 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 2020 the RC met 7 times to fulfil its 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.

Directors' attendance 2020

Name	Board	Audit Committee	Remuneration & Loans Committee	Nominations Committee	Risk Committee
Number of meetings held					
J Ashmore	13 (13)	8 (8)	3 (3)	3 (3)	7 (7)
G Barr	12 (13)	8 (8)	3 (3)	N/A	7 (7)
G Dunn*	4 (4)	N/A	1 (1)	3 (3)	N/A
C Field	13 (13)	N/A	N/A	6 (6)	N/A
N Holden	13 (13)	8 (8)	3 (3)	2 (2)	6 (7)
E Kelly*	3 (4)	3 (3)	1 (1)	N/A	2 (2)
D Rendell**	9 (9)	4 (4)	2 (2)	N/A	5 (5)
T Slater **	5 (5)	N/A	N/A	N/A	N/A
N Treble	13 (13)	4 (4)	3 (3)	5 (6)	2 (2)

***Geoffrey Dunn and Liz Kelly resigned as directors on 30 April 2020**

****David Rendell and Trevor Slater and were appointed as directors on 1 May and 1 June 2020 respectively**

( ) the number of meetings a director is eligible to attend

All directors are invited to attend the meetings of committees of which they not members.

Nick Treble resigned as a member of both the Audit Committee and the Risk Committee upon being appointed Chairman of the Society in April 2020 but continued to attend its meetings.

Following the year end, Robin Litten was appointed as a Non-Executive Director on 4 January 2021 and joined the Audit, Risk and Remuneration and Loans committees as a member.

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 the Executive Team, including Executive Directors, Deputy CFO, Head of Commercial Finance and the Treasurer. It manages capital risk, liquidity risk (the risk that the Society will not be able to meet its financial obligations), financial reporting risk and interest rate risk (which arises from a mismatch between interest rate characteristics). The Committee is responsible for ensuring the Society operates within agreed parameters set out in the ALCO Terms of Reference. On a monthly basis the Committee reviews performance against prescribed risk appetite metrics to ensure that the Society is operating within the Board approved risk appetite. The Committee meets at least eleven times a year and is chaired by the Chief Financial Officer.

Credit Committee

The Committee comprises the Executive Team, including Executive Directors. 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 the Executive Team, including 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 the Executive Team, including 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 specifications for vacancies to be filled. The Board advertises externally or uses an external search consultancy for candidates for Board appointments. 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 are driven to improve their approach to diversity and consistently strive for greater variety when reviewing the composition of the board, and the workforce generally.

The board are committed to developing a diverse and inclusive Society where people feel a sense of belonging. Discrimination is not tolerated and individuality is celebrated. The board have a desire to continuously improve their knowledge and education around diversity matters and the Society are working hard to improve training and awareness across the Society.

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. Timely completion of essential training is monitored 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 and Elizabeth Kelly retired on 30 April 2020. The Chairman Nicholas Treble, Chair of Audit Committee Neil Holden and Gary Barr have each served six years on the Board and were all re-elected at the 2020 AGM. The Senior Independent Director Jenny Ashmore has served five years on the Board and was re-elected at the 2020 AGM. Our new Chief Financial Officer Trevor Slater joined Saffron in 2020 along with Non-Executive Director David Rendell and they will be eligible for election at the 2021 AGM along with Robin Litten who was appointed as a Non-Executive Director after the year end. All Directors will be eligible for re-election at the 2021 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 45.

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 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 also receives annually, an update from AC Chairman a detailed update of the internal audit programme results. 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 page 11 to 29.

Audit engagement

The appointment or re-appointment of external auditors is recommended by AC and confirmed by the Board who re-appointed BDO LLP for the period ended 31 December 2020. The Society last tendered for external audit services in 2019 resulting in the appointment of 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. 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 to a public interest entity. 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 UK regulations on the provision of non-audit services to a public interest entity. 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.

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.

Workforce Engagement and Wellbeing

In normal years, the Non-Executive Directors have all spent time with employees during the course of the year, working and advising on key projects and initiatives. All Board Members are encouraged to visit the Society's branches. However, this interaction was severely limited in 2020 due to the COVID-19 pandemic.

The Society has continued to support employee's mental health and 6 members of staff, including the CEO, are qualified Mental Health First Aiders. This offer of support and acknowledgement of the importance of mental health has been crucial during the ongoing period of enforced remote working and lockdown restrictions, leading to the scheduling of Teams meeting on Christmas Day for those employees spending the day alone. A number of other wellbeing initiatives have been launched and managed throughout the year by the People Team under the "Happy and Here" banner.

Member engagement

As a mutual the Society does not have shareholders but is responsible to its Members. In 2020 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 'Smart Money People' which is a customer survey tool and this feedback is taken into consideration at the Customer Experience Committee to improve the customer experience when engaging with the Society. Non-Executive Directors ordinarily spend time in the branches and operational departments to help them understand the Member perspective.

Annual General Meeting (AGM)

The AGM held in the year was hosted remotely due to the national lockdown imposed by Government following COVID-19, at the AGM the Chief Executive and Chief Finance Officer gave 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. Members can vote online or by post and prepaid envelopes are included with the notice of the meeting to enable Members to appoint a proxy to vote on their behalf. 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. Following on from the approach taken in 2020, the 2021 AGM will be held virtually. This means that, unfortunately, Members will not be able to attend in person although Member participation is encouraged and the opportunity to submit questions in advance will be made available. All Members will also be able to join the AGM via a computer, smart phone or tablet and watch a mixture of recorded presentations and live content.

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 also reviews Society-wide remuneration principles (other than those directly affecting Executive Directors) providing appropriate oversight to the Executive Team.

Executive Directors (including the Chief Executive Officer) are not involved in deciding their own levels of remuneration.

Likewise, the Non-Executive Directors (including the Chairman) are not involved in deciding their 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 principle 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.

All key elements of remuneration are reviewed annually and take into account market conditions, employment competition and the Society's financial performance. We use external market data to determine appropriate pay levels and we are implementing a clear and transparent pay and grading structure in 2021. Our last external All-Society benchmarking review was carried out in 2018 and the next one will be in 2021.

Overall, we continue to make good progress in line with external market data and in-sector salary benchmarking. We exceed the statutory National Minimum Wage and voluntary Real Living Wage requirements.

Our focus for 2020 centred on colleague wellbeing. We did not furlough any of our staff and were able to support working from home for most office-based staff and COVID-vulnerable staff. Flexible hours and additional safety measures were put in place for all staff, particularly those working in our branches.

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. The bonus scheme is discretionary, subject to a review at least annually and paid out only when affordable.

Society Pay and Bonus

No member of staff suffered a pay reduction as a consequence of COVID-19 and no staff were furloughed

Despite the challenges, we were able to recognise and reward certain employees by offering modest pay increases, principally in the lower quartiles. No bonus was awarded for the year ended 31 December 2020 .

Health and Wellbeing

We remain focused on supporting all employees with healthcare options via full or partial private medical cover. Our internal Mental Health First Aiders are fully qualified to listen, support and signpost to professional support when and if necessary.

Real Living Wage

We are fully committed to honouring the Real Living Wage and 100% of our employees in 2020 were paid (at least) £9.50 per hour.

Gender Pay

There is no equal pay gap, however there is a gender pay gap within our upper quartile because we have more men than women in Executive roles. There is a robust plan in progress to address how we attract more women to apply for the senior roles, and how we develop the women working for the Society to grow and progress into senior positions.

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 all 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	The pension contribution is 8.5% of basic salary (in line with industry guidance) This is paid monthly into a group personal pension plan unless otherwise requested to be payable as a cash alternative. For Executives appointed before 1 December 2018 the employer contribution remains at 13.5% of basic salary	None of the Executive Directors are Members of the (closed) final salary scheme
Bonus	No bonus will be paid in respect of the 2020 performance year. In 2020 some Executives did receive a payment from previous bonus years, because 40% of any bonus earned will be deferred over 3 years	Earned on an annual basis and is determined by a combination of organisational and individual performance. It is linked to appropriate risk management, financial performance, capital management, quality customer service, operational fitness and people engagement. These organisational metrics are linked to the business plan for the year and approved by the Remuneration and Loans Committee
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 (family cover) and enhanced annual leave	Benchmarked in line with the Sector
Redundancy	Enhanced redundancy scheme, which can pay up to 52 weeks of employment is based on length of service	This scheme is non-contractual and has the facility to 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 2020

Pay awards, if made, generally apply from 1 April each year. In respect of the period commencing 1 April 2020, the annual pay review process itself saw basic salaries for Executives increase in line with market rates. In 2019 there were no Executive salary increases due to the financial results of the Society.

No bonus award is payable for the year ended 31 December 2020 .

There were no other changes to the other benefits or pension contributions for current Executive Directors in 2020.

Salary reviews for the wider group of employees were awarded in April and July, with a focus on addressing those staff members who were in the lower quartile. The Chief Executive Officer updated all colleagues on the decisions around pay and bonus for 2020 through regular all staff communication.

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.

The Remuneration and Loans Committee review the Chairman's fee each year. Recommendations are made by the Chief Executive Officer to the full board for approval.

In 2020 there was no increase to Non- Executive Directors' fees (the last increase was in 2018). 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 Officer (and in the case of the Chief Executive Officer, 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 93.

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 2020

The total remuneration of each Director is analysed and presented in Note 7 to the Accounts.

Approval

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

Jenny Ashmore

Chair of the Remuneration and Loans Committee On behalf of the Board 2 March 2021

Directors' Report

The Directors submit their Report prepared in the context of the UK Corporate Governance Code and in accordance with the requirements of the Building Societies Act. The Directors' Report should be read in conjunction with the Chairman's Statement, Chief Executive's Report and Strategic Report on pages 4 to 29.

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 12)
Business review and future developments	Strategic Report (page 16)
Principal risks and uncertainties	Strategic Report (pages 25 to 29)
Financial risk management objectives and policies and risk exposures	Strategic Report (page 23)
Disclosure requirements under CRDIV country by country reporting	Note 31 to the Accounts

Results

Group reported loss before tax for the year ended 31 December 2020 was £3.8million (2019: profit of £3.1million).

The Group loss after tax transferred to general reserves was £3.3million (2019: profit of £2.5million).

Capital

Group gross capital at 31 December 2020 was £60.0million (2019:£63.9million) being 5.4% of total shares and borrowings (2019: 6.6%). Free capital at the same date was £49.9million (2019:£50.4million) and 4.5% of total shares and borrowings (2019:5.2%). An explanation of these ratios can be found in the Annual Business Statement on page 93.

Mortgage arrears

At Group level at 31 December 2020 there were 18 properties (2019: 6) where payments were 12 months or more in arrears. At 31 December 2020, the Group held 3 properties (2019:4) 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 £44,434 (2019:£16,000) in support of charities and organisations. No contributions were made for political purposes (2019: 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.

Viability and going concern.

The directors have assessed the long term prospects and viability of the Group. This has included consideration of the wide-ranging possible impacts of COVID-19 as well as other principal and emerging risks which may impact the Society over the short to medium term. In addition, when 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 directors have been forecasting the 2020 loss for some time and the longer term strategy for the Group was reassessed by the Board during 2020 to take account of available capital resources and the uncertain economic outlook. This resulted in the development of a five year plan which focuses upon capital strength with quality of earning being paramount and with volume growth at a consistent and sustainable level. The Board considered the strategy in detail in September and the plan was further refined in November, taking account of the latest economic expectations. Although a five year view was considered by the Board, the viability is formally assessed over a three year period, with the longer term view being more uncertain due to the wide range of possible economic outcomes facing the UK.

Viability Assessment

The Society has modelled a number of scenarios as part of the latest ICAAP including a pandemic scenario where the modelled financial impacts were significantly more severe and faster developing than presently being experienced. The scenario was specifically designed to test the resilience of the Group to deteriorations in unemployment, arrears and house prices which were more severe than the latest Bank of England illustrative tests.

The base plan in the ICAAP pre-dated the latest five year strategic plans which provide an additional focus on capital management. Notwithstanding this, management have also completed additional stress testing of the new plan at the balance sheet date to ensure that the findings remain largely consistent with the ICAAP. The conclusions were consistent with the ICAAP and demonstrate the ongoing expectation that capital levels are adequate to withstand an extremely severe financial shock.

Stress testing in the ICAAP and at the balance sheet date also incorporated a stress on the equity release mortgage portfolio, which was a significant contributory factor to the 2020 loss. Management presently reserve surplus capital over and above the regulatory requirement for future potential deteriorations in the equity release mortgage book. The stress testing demonstrated the ability to absorb such a stress within the capital being reserved at the same time as being subjected to other wide-ranging detrimental circumstances.

Improvements in net interest margin are a particular focus of the Group during the viability assessment period and latest results from recent months provide additional reassurance to management that delivery of the plans can be achieved. The latest forecasts are proving to be sound and the strategy for capital efficiency and improved earning has been progressively implemented over a number of months and product and interest rate management are closely monitored to ensure that the plans stay on track.

Liquidity stress testing is modelled annually in the ILAAP and the levels of liquidity and stress scenarios are regularly updated with management meeting to review liquidity on a fortnightly basis as well as reviewing in detail at the monthly ALCO meeting. Liquidity levels have been elevated in 2020, and were particularly high at the balance sheet date following the success of the on-line e-saver offering which provided instant access to Members at 0.5%. This has provided more than sufficient funding for the healthy mortgage pipeline and in 2021 it is likely that additional use will be made of the Bank of England's latest term funding initiative which provides access to four year funding at base rate. Liquidity will be progressively managed down over 2021, but always remaining within the director's prudent risk appetite which is significantly in excess of the regulatory minimum requirements.

Operational viability has been tested during the pandemic with staff working effectively from remote locations for protracted periods of time. The previous investment in IT infrastructure has proved extremely valuable under extreme conditions and remote working is operating successfully. IT resilience generally has been a particular focus for a number of years and additional investment will be made in 2021 to further improve the position.

Conclusion

The viability assessment which has been undertaken by the directors at the balance sheet date is based upon the details summarised above and provides the key input into the following conclusions:

- The strategy of the society is appropriate under the foreseeable future conditions which have been projected over the viability assessment period, to ensure that the Group remains relevant, profitable and able to service the needs of Members.
- Regulatory capital is expected to be strengthened over the viability assessment period and in the event that economic conditions deteriorate rapidly, the stress testing demonstrates the resilience of the society to a variety of severe shocks.
- Liquidity levels are currently high and the strategic plan incorporates liquidity holding costs to ensure a continuation of readily available resources. Stress testing, regular monitoring and access to central bank support provides reassurance that obligations can be maintained even under extremely adverse circumstances.
- The IT and general operational capability of the Group is resilient and although it is impossible to foresee and model all conceivable situations, the directors are confident in the Group's ability to continue to service Members under a variety of adverse circumstances.

The directors therefore have an expectation that the Group is viable over the period to December 2023 and can continue to meet its liabilities as they fall due over that period.

The viability assessment above provides the directors with a reasonable expectation that the Group has adequate resources to continue in business over the period to December 2023, meeting liabilities as they fall due, subject to unforeseen external stresses. Accordingly the Annual Report and Accounts continue to adopt the going concern basis of accounting.

Our people

Employment policies are reviewed annually by the board to ensure effective employment conditions and equal opportunities remain fit for purpose. The whistleblowing policy is easily accessible to all staff. The Society is driven by a relentless focus to ensure all colleagues have the opportunity to develop professionally and personally. The Society's core purpose cannot be achieved without investing in our People.

The Society is fully committed to the ongoing learning and development of people through a wide range of induction, training, internal mobility and performance enhancing related activities.

In addition to the 'thank you' day we awarded to all staff in 2020, we continue to thank all our staff for their unwavering support, positivity and performance over the last 12 months.

In 2020, the Society became accredited by the Good Business Charter. The GBC recognises Saffron as being part of a responsible business and partners with Living Wage Foundation, Ethical Trading Initiative and the Prompt Payment Code amongst others.

Business associates

We would like to thank our solicitors, internal and external auditors 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)

T Slater (Chief Financial Officer) joined the Society on 1 June 2020

Non-Executive Directors

N J Treble (Chairman)

J Ashmore* (Senior Independent Director)

T G Barr

N J Holden

D R Rendell joined the Society on 30 April 2020

G R Dunn (Chairman) Retired on 30 April 2020

E Kelly Retired on 30 April 2020

*married name Zaremba

Subsequent to the year end, on 4 January 2021, R S P Litten was appointed as a Non-Executive Director of the Society

Being eligible, all directors will stand for election or 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.

Nick Treble
Chairman
On behalf of the Board 2 March 2021

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.

Nick Treble

Chairman

Nick has nearly 40 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, of Cambridge & Counties Bank and a Trustee for a major family settlement.

Nick joined the Board in March 2014 and was appointed Vice Chairman in May 2016 and became Chairman in April 2020 following Geoff Dunn’s retirement. He is a Member of the Remuneration and Loans Committee and chairs the Nominations Committee. He is a Member of the Association of Corporate Treasurers.

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 runs her own business consulting 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.

In addition to her Non-Executive roles at Saffron Building Society, she is also Non-Executive Director of Commonwealth Games England.

Jenny joined the Board in 2015 and chairs the Remuneration and Loans Committee, and is the Senior Independent Director and Vice Chair. She is a Member of the Risk Committee, Nominations Committee and Audit Committee and Whistleblowing Champion.

*Married name Zaremba

Gary Barr

Non-Executive Director

Gary is an IT leader with 30 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 was 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 Board in 2014 as Chief Financial Officer before being promoted to Chief Executive Officer in September 2015. Colin is passionate about developing the role of Saffron as a modern mutual business, providing service to new and existing Members and the wider community. Prior to joining the Society, Colin 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. He is a Member of the Nominations Committee.

Neil Holden

Non-Executive Director

Neil is a Chartered Accountant with 40 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 joined the Board in March 2014 and chairs the Audit Committee. He is a Member of the Risk Committee, the Nominations Committee and Remuneration and Loans Committee. Neil also chairs the Society's Pension Scheme.

David Rendell

Non-Executive Director

David is a risk management leader with 40 years' experience in financial services across both consumer and corporate lending in the UK and across Europe.

His executive career includes both risk management and business leadership roles within Lloyd's Banking Group (1988-2000) where he was Credit and Risk Director of the Asset Finance division and GE Capital (2000-2016) where latterly he was CRO of the European Leasing division, Managing Director of the Green Financing division and CRO and Management Board Member of GE's Dutch bank, Artesia.

From 2016, David was CEO and from 2019 a Non-Executive Director of Allium Lending Group.

David joined the board in April 2020. He chairs the Risk Committee and is a Member of the Audit Committee and the Remuneration and Loans Committee.

Trevor Slater

Chief Financial Officer

Trevor joined the Board in June 2020 and has over 30 years' experience in the financial services industry. His early career started in Yorkshire Bank where he was the Financial Controller and director of a number of Group companies, before being appointed as the Group Chief Accountant of the parent company, Clydesdale Bank PLC, in 2006. Trevor's responsibilities at that time covered regulatory and financial reporting, as well as risk management oversight and a variety of other associated areas. Trevor is a Chartered Management Accountant and a Chartered Banker and immediately prior to joining the Society had been the Finance Director at Ipswich Building Society since December 2017.

Robin Litten

Non-Executive Director

Robin joined the Board in January 2021 bringing over 20 years' experience in senior financial services roles. His early career was spent in consulting with Touche Ross and then in retail with the Sears Group. In 1997 he joined the Barclays Bank Group and held senior roles in its credit card business, as Deputy Finance Director at Barclaycard and as Chief Financial Officer of Barclays Private Bank. In 2002 he joined Scarborough Building Society as CFO becoming CEO in 2008 prior to its merger with Skipton Building Society where he became Commercial Director. In 2012 he joined Leeds Building Society where he was Chief Financial Officer. Robin is a Chartered Management Accountant and is a Member of the Society's Audit Committee, Risk Committee and Remuneration and Loans Committee.

Independent auditor's report to the members of Saffron Building Society

Opinion on the financial statements

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 2020 and of the Group's and Society's loss 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.

We have audited the financial statements of Saffron Building Society (the 'Society') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise 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 statement 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).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

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 including retenders and reappointments is 2 years, covering the years ending 31 December 2019 to 31 December 2020. We remain independent of 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. The non-audit services prohibited by that standard were not provided to the Society.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's assessment of the going concern Board paper which includes the going concern assumptions applied in the financial statements. Assessing this in light of our understanding of the group's long-term strategy, forecasts, ICAAP and ILAAP submissions, and current assessment of the impact of various stress scenarios. Further, we have used publicly available information, for example on house market and house price index, to challenge and assess the reasonableness of certain assumptions used to derive the forecasts and stress applied.
- In understanding the capital and liquidity of the Society, we have reviewed the ICAAP, ILAAP and capital adequacy ratio with the help of our regulatory specialists. We have used this understanding to assess management's capital and liquidity position.

- Enquiring with management about implications of COVID-19 on the business and the impact of this on the forecasts.
- Assessing the forecast used to support the Going Concern assessment for arithmetical accuracy, consistency of the forecasts with our understanding of the business, and through challenge of the various stress scenarios.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

As a result of our audit approach we have covered 100% of the Group's net assets (2019:100%), 100% of the Group's revenue (2019: 100%) and 95.2% of the Group's loss before tax (2019:100% of the Group's profit before tax).

		2020	2019
Key audit matters	Revenue recognition	✓	✓
	Impairment losses on loans and advances (excluding life time mortgages)	✓	✓
	Valuation of lifetime mortgages	✓	✓
Materiality	£450k (2019:£371k) based on 0.99% (2019: 0.78%) of Tier 1 Capital.		

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Group's 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 being either dormant companies or considered not significant for the Group. These two significant 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 (2019:100%), 100% of the Group's revenue (2019: 100%) and 95.2% of the Group's loss before tax (2019:100% of the Group's profit before tax). The movement in the current year % was caused by Saffron Mortgage Finders Limited which operated during 2020 but was not considered significant for the purposes of the Group audit. We conducted desktop reviews for all non-significant components.

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 Corporate Governance report on page 32 refers to the risk around the Society's revenue recognition. Management's associated accounting policies are detailed on page 61 with detail about judgements in applying accounting policies and critical accounting estimates on page 63.	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 also a fraud risk area due to the judgments and complexity. 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.	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 the third party model software used by management 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 expectation of future borrower behaviour. We challenged management on the allocation of loans to the Society's behavioural life assumption groupings, assessing whether these were appropriate based on the type of product. **Key observations:** We concluded that the EIR net asset and interest income recognised are appropriate.
Impairment losses on loans and advances (excluding lifetime mortgages) Corporate Governance Report on page 32 refers to the risk around loan loss provisioning. Management's associated accounting policies are detailed on page 62 with detail about judgements in applying accounting policies and critical accounting estimates on page 63. Note 12 for Impairment losses on loans and advances	The Group holds £0.8m of impairment provisions at year-end (2019: £1.0m). This comprises a specific provision of £0.3m (2019: £0.7m) and a collective provision of £0.5m (2019: £0.3m). 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. Impairment losses on loans and advances (excluding lifetime mortgages) is therefore also a fraud risk area due to the judgments and complexity.	We tested the operating effectiveness of the system control that identifies loans in arrears. 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 assessed the sensitivity analysis on the discount applied to the indexed collateral valuations and to the level of segmentation in the model. For the effects of Covid-19 management further segmented the collective impairment population and adjusted the probability of defaults accordingly. We assessed this segmentation by testing the additional triggers applied by management and compared the probability of default adjustments against to available information. 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 Corporate Governance Report on page 32 refers to the valuation risk of the lifetime mortgages portfolio. Management's associated accounting policies are detailed on page 62 with detail about judgements in applying accounting policies and critical accounting estimates on page 63. Note 11 for fair value of the lifetime mortgages portfolio.	The Group holds a portfolio of lifetime mortgages at a fair value of £61.6m (2019: £61.0m). 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. Valuation of lifetime mortgages is therefore also a fraud risk area due to the judgments and complexity.	We engaged our internal valuation experts who reviewed and recalculated the Group's mortgage pool and NNEG valuation model using a combination of management and the expert's 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 engaged our internal valuation experts to re-perform the valuation of the interest rate swaps that the Group has entered into for the lifetime mortgage portfolio. 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. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole and performance materiality as follows:

	2019 £k Group	2019 £k Group	2020 £k Society	2019 £k Society
Materiality	450	371	385	283
Basis for determining materiality	0.99% of Tier 1 Capital	0.78% of Tier 1 Capital	0.75% of net assets	0.52% of net assets
Rationale for the benchmark applied	We determined that Tier 1 capital was the most appropriate benchmark considering the different in stakeholders. In particular 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 have increased the % used to calculate the basis of materiality to take into account the better understanding of the Group and Society post our first year audit for the year ended 31 December 2019.		The materiality for all significant components was limited to 1.5 times the group materiality. Therefore, our materiality was limited to £385k for the Society as this is the most significant operating entity within the group.	
Performance materiality	290	241	250	184
Basis for determining performance materiality	Determined at 64% for the group and 65% for the Society (2019: 65% Group and Society) of materiality on the basis of our risk assessment together with our assessment of the Group's and the Society's overall control environment. The reduction in the % compared to 2019 was due to rounding down of the performance materiality once calculated at 65%.			

Component materiality
We identified components within the Group and the component materiality was set between £300k and £385k (2019: £203k and £283k).

Reporting threshold
We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £9k (2019:£7k). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Building Societies Act 1986 reporting
Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Building Societies Act 1986 and ISAs (UK) to report on certain opinions and matters as described below.

Annual business statement and directors' report	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 its 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 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 92 for the financial year ended 31 December 2020 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 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 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

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, and tax legislation.

We focused on laws and regulations that could give rise to a material misstatement in the company financial statements. Our tests included, but were not limited to:
- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, internal audit and the audit committee;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence with the Financial Conduct Authority and the Prudential Regulation Authority;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments;
- assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- considering the effectiveness of the control environment in monitoring compliance with laws and regulations.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit. As part of this discussion, we identified potential for fraud in relation to accounting estimates such as EIR, impairments, and lifetime mortgages.

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 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.

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. There are inherent limitations in the audit procedures performed 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 are to become aware of it.

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

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.

BDO LLP

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

2 March 2021

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 2020

	Notes	2020 (£000) Group	2020 (£000) Society	2019 (£000) Group	2019 (£000) Society
Interest receivable and similar income	2	23,785	23,139	30,132	29,531
Interest payable and similar charges	3	(8,082)	(8,082)	(9,958)	(9,958)
Net interest income		**15,703**	**15,057**	**20,174**	**19,573**
Fees and commissions receivable		510	543	939	974
Fees and commissions payable		(511)	(488)	(638)	(615)
Other operating income		169	169	39	39
Net fair value movements	4	(3,887)	(1,868)	(492)	234
Total net income		**11,984**	**13,413**	**20,022**	**20,205**
Administrative expenses	5	(12,697)	(12,528)	(13,913)	(13,913)
Depreciation and amortisation	14,16	(2,434)	(2,433)	(2,482)	(2,482)
Other operating charges	15,27	(525)	(525)	(67)	(67)
Operating profit before impairment losses and provisions		**(3,672)**	**(2,073)**	**3,560**	**3,743**
Impairment losses on loans and advances	12	(194)	(195)	(334)	(328)
Provisions for liabilities	26	-	-	(136)	(136)
Operating (loss)/profit		**(3,866)**	**(2,268)**	**3,090**	**3,279**
(Loss)/Profit on disposal of property, plant and equipment		38	38	(29)	(29)
(Loss)/Profit before tax		**(3,828)**	**(2,230)**	**3,061**	**3,250**
Tax	8	543	247	(543)	(569)
(Loss)/Profit for the financial year		**(3,285)**	**(1,983)**	**2,518**	**2,681**

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 2020

	Notes	2020 (£000) Group	2020 (£000) Society	2019 (£000) Group	2019 (£000) Society
(Loss)/Profit for the financial year		(3,285)	(1,983)	2,518	2,681
Available for sale reserve					
-Valuation gains/(losses) taken to reserves	23	82	82	504	504
-Amount transferred to income statement	23	-	-	(386)	(386)
Net actuarial gain/(loss) recognised in the defined benefit pension scheme	27	(957)	(957)	394	394
Unrealised gain/(loss) on revaluation of property, plant and equipment		(386)	(386)	388	388
Tax relating to components of other comprehensive income		207	207	(37)	(37)
Total comprehensive income for the year		**(4,339)**	**(3,037)**	**3,381**	**3,544**

Group
Statement of financial position
for the year ended 31 December 2020

	Notes	2020 (£000) Group	2019 (£000) Group
Assets			
Liquid assets			
-Cash in hand and balances with the Bank of England		155,630	86,653
-Loans and advances to credit institutions	9	44,383	36,452
-Debt securities	9	51,011	102,055
Derivative financial instruments	10	614	219
Loans and advances to customers	11	942,814	828,741
Total liquid assets		**1,194,452**	**1,054,120**
Investment properties	15	2,495	3,070
Property, plant and equipment	14	3,621	4,400
Intangible assets	16	4,491	6,363
Other assets	17	1,452	1,379
Current tax asset		-	168
Deferred tax asset	22	584	286
Pension asset	27	-	403
Total assets		**1,207,095**	**1,070,189**
Liabilities			
Shares	18	893,977	813,214
Amounts owed to credit institutions	19	131,257	79,571
Amounts owed to other customers		81,471	81,826
Derivative financial instruments	10	36,954	27,913
Other liabilities	20	1,999	2,052
Provision for liabilities	26	244	244
Deferred tax liability	22	118	571
Pension liability	27	614	-
Subordinated liabilities	21	10,270	10,268
Total liabilities		**1,156,904**	**1,015,659**
Reserves			
General reserves		49,691	53,747
Available for sale reserve	23	118	15
Revaluation reserve	24	382	768
Total reserves and liabilities		**1,207,095**	**1,070,189**

These accounts were approved by the Board of Directors on 2 March 2021 and were signed on its behalf by:

T Slater
(Chief Financial Officer)

C H Field
(Chief Executive Officer)

N J Treble
(Chairman)

Society
Statement of financial position
for the year ended 31 December 2020

	Notes	2020 (£000) Society	2019 (£000) Society
Assets			
Liquid assets			
-Cash in hand and balances with the Bank of England		155,630	86,653
-Loans and advances to credit institutions	9	44,044	36,451
-Debt securities	9	51,011	102,055
Derivative financial instruments	10	614	219
Loans and advances to customers	11	901,547	787,829
Total liquid assets		**1,152,846**	**1,013,207**
Investments in subsidiary undertakings	13	43,328	41,100
Investment properties	15	2,495	3,070
Property, plant and equipment	14	3,617	4,400
Intangible assets	16	4,491	6,363
Other assets	17	1,452	1,379
Current tax asset		-	130
Deferred tax asset	22	16	14
Pension asset	27	-	403
Total assets		**1,208,245**	**1,070,066**
Liabilities			
Shares	18	893,977	813,214
Amounts owed to credit institutions	19	131,257	79,571
Amounts owed to other customers		81,471	81,826
Derivative financial instruments	10	36,954	27,913
Other liabilities	20	1,947	2,029
Provision for liabilities	26	244	244
Deferred tax liability	22	118	571
Pension liability	27	614	-
Subordinated liabilities	21	10,270	10,268
Total liabilities		**1,156,852**	**1,015,636**
Reserves			
General reserves		50,893	53,647
Available for sale reserve	23	118	15
Revaluation reserve	24	382	768
Total reserves and liabilities		**1,208,245**	**1,070,066**

These accounts were approved by the Board of Directors on 2 March 2021 and were signed on its behalf by:

T Slater
(Chief Financial Officer)

C H Field
(Chief Executive Officer)

N J Treble
(Chairman)

Statement of changes in Members' interests

(£000)

Group 2020

	Notes	General reserve	Available for sale reserve	Revaluation reserve	Total
Balance as at 1 January 2020		53,747	15	768	54,530
Loss for the financial year		(3,285)	-	-	(3,285)
Other comprehensive income/(charge) for the year		(771)	103	(386)	(1,054)
Total comprehensive income/(charge) for the year		(4,056)	103	(386)	(4,339)
Balance as at 31 December 2020		**49,691**	**118**	**382**	**50,191**

Group 2019

	Notes	General reserve	Available for sale reserve	Revaluation reserve	Total
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**

Society 2020

	Notes	General reserve	Available for sale reserve	Revaluation reserve	Total
Balance as at 1 January 2020		53,647	15	768	54,430
Loss for the financial year		(1,983)	-	-	(1,983)
Other comprehensive income/(charge) for the year		(771)	103	(386)	(1,054)
Total comprehensive income/(charge) for the year		(2,754)	103	(386)	(3,037)
Balance as at 31 December 2020		**50,893**	**118**	**382**	**51,393**

Society 2019

	Notes	General reserve	Available for sale reserve	Revaluation reserve	Total
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**

Group cash flow statements
for the year ended 31 December 2020

	Notes	2020 (£000) Group	2019 (£000) Group
Cash flows from operating activities			
Profit/(Loss) before tax		(3,828)	3,061
Interest on subordinated liabilities	21	634	632
(Gains)/Losses on disposal of debt securities	9	504	(556)
Net fair value movements	4	8,804	5,465
(Gain)/Loss on disposal of property, plant and equipment		(38)	29
Depreciation and amortisation	14,16	2,430	2,481
Increase in impairment of loans and advances	12	194	334
Decrease/(increase) in loans and advances to credit institutions		(10,867)	(6,507)
Decrease/(increase) in loans and advances to customers		(114,267)	30,869
Decrease/(increase) in prepayments, accrued income and other assets		(259)	223
Increase in shares		81,203	29,266
Increase/(Decrease) in amounts owed to credit institutions		51,616	(11,914)
Increase/(Decrease) in amounts owed to other customers		(355)	12,552
(Decrease)/Increase in accruals, deferred income and other liabilities		(421)	585
Net tax received		168	182
Net cash inflow from operating activities		**15,518**	**66,702**
Cash flows from investing activities			
Purchase of debt securities		(93.046)	(85.482)
Disposal of debt securities		144,172	60,293
Purchase of property, plant and equipment		(107)	(251)
Net cash inflow from sale of property, plant and equipment		213	-
Purchase of intangible fixed assets		(75)	(160)
Net cash used in investing activities		**51,157**	**(25,600)**
Net cash used in financing activities			
Interest on subordinated liabilities		(634)	(632)
Net increase in cash and cash equivalents		**66,041**	**40,470**
Cash and cash equivalents at beginning of the year		**91,019**	**50,549**
Cash and cash equivalents at end of the year (2)		**157,060**	**91,019**

Notes:
1) All cash flows are stated inclusive of VAT where applicable.
2) Cash and cash equivalents comprise cash in hand £155,630,000 (2019: £86,653,000) and loans and advances to credit institutions repayable on call and short notice of £1,430,000 (2019: £4,366,000).

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

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

e) Cash and cash equivalents:
For the purposes of the cash flow statement, cash and cash equivalents comprise balances with an original maturity date of less than three months from acquisition in respect of cash, treasury and other bills and loans and advances to credit institutions. The cashflow statements have been prepared using the indirect method.

f) Derivative financial instruments ("derivatives")
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.

Hedge accounting
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.

g) Financial assets:
The Group classifies non-derivative financial assets as loans and receivables, available for sale assets or at fair value through profit or loss (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 23). Subsequent changes in fair value are recognised through other comprehensive income until sale or maturity of the assets, following which the cumulative gains or losses are removed from other comprehensive income and recycled through profit or loss.

iii) Fair value through profit or loss
The Group's portfolio of equity release mortgages are classified as fair value through profit or loss assets with the Directors electing to take the fair value through profit or loss assets option available under IAS39 on the basis that it prevents an accounting measurement mismatch.

h) 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 28). Where the Group considers that a loss may arise in these cases, a charge for impairment will be made in accordance with the above policy.

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

j) 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.

k) 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

l) 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.

m) 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.

n) Retirement benefits:
The Society operates a final salary pension scheme which is closed to new participants and is 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.

o) 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.

p) Taxation:
Taxation comprises amounts for current and deferred tax and is recognised in either the Income statement or other 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 recognised through other comprehensive income, to match with the subsequent recognition of the deferred gain or loss in the Income statement.

q) Term Funding Scheme with added incentives for SME's (TFSME):
In order for the Society to access funding from the Government's TFSME 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.

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 cash flows 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 £314k. In the scenario where the mortgages redeem one month later this results in further income of £476k 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 5% downturn in house price would lead to an additional provision for impairment of £404k while an improvement in house price of 5% would lead to a reduction in provision of £277k. If the probability of default on our loan book increased by 25%, our provision would increase by £93k, however if the probability of default decreased by 25%, our provision would fall by £93k.

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, voluntary prepayments and house price growth to assess the impact of the No Negative Equity Guarantee. Further information on these assumptions, together with sensitivity analysis, is provided in Note 28 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 27 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 £280k.

2. Interest receivable and similar income

	2020 (£000)		**2019** (£000)	
	Group	Society	Group	Society
On assets held at amortised cost				
Loans fully secured on residential property	23,816	23,617	28,045	27,774
Loans to subsidiaries	-	1,023	-	1,129
Other liquid assets / cash and short term funds	785	785	1,316	1,316
On available for sale securities				
Liquid assets	-	-	-	-
Gains on disposal	-	-	379	379
On financial instruments held at fair value through the income statement				
Loans fully secured on residential property	2,509	1,039	2,523	1,064
Derivatives	(3,325)	(3,325)	(2,131)	(2,131)
	23,785	**23,139**	**30,132**	**29,531**

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

3. Interest payable and similar charges

	2020 (£000)		**2019** (£000)	
	Group	Society	Group	Society
On liabilities held at amortised cost				
Shares held by individuals	6,624	6,624	7,814	7,814
Subordinated liabilities	634	634	632	632
Deposits and other borrowings	841	841	1,475	1,475
On financial instruments held at fair value through the income statement				
Derivatives	(17)	(17)	37	37
	8,082	**8,082**	**9,958**	**9,958**

4. Net fair value movements

	2020 (£000		**2019** (£000)	
	Group	Society	Group	Society
Derivatives in designated fair value hedge relationships	(4,049)	(4,049)	(2,388)	(2,388)
Adjustments to hedged items in fair value hedge accounting relationships	2,856	2,856	2,064	2,064
Derivatives not in designated fair value hedge relationships	(4,378)	(1,414)	(4,579)	(2,686)
Increase in fair value of assets and liabilities	1,684	739	4,411	3,244
	(3,887)	**(1,868)**	**(492)**	**234**

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.

5. Administrative expenses

	2020 (£000)		**2019** (£000)	
	Group	Society	Group	Society
Staff costs (Note 6)	7,040	6,920	6,990	6,990
Remuneration of auditors:				
- audit of the Society's accounts	227	227	175	175
- audit of the Society's subsidiary pursuant to legislation	27	27	20	20
- assurance related services	7	7	5	5
Operating lease rentals	293	293	283	283
Other administrative expenses	5,103	5,054	6,440	6,440
	12,697	**12,528**	**13,913**	**13,913**

Note: all audit fees are borne by the Society and are shown net of VAT. Comparative figures have been corrected to reflect a position net of VAT

6. Staff numbers and costs

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

	2020		**2019**	
	Group	Society	Group	Society
Principal office	117	113	109	109
Branch offices	40	40	49	49
	157	**153**	**158**	**158**

	2020 (£000)		**2019** (£000)	
The aggregate costs of these persons were as follows:	Group	Society	Group	Society
Wages and salaries	5,990	5,886	5,964	5,964
Social security costs	601	591	603	603
Other pension costs (Note 27)	449	443	423	423
	7,040	**6,920**	**6,990**	**6,990**

7. Remuneration of and transactions with Directors

Analysis of Directors' emoluments:	Salary/ fees	Bonus paid (1)	Other benefits (2)	Pension/ Pension allowance	2020 (£000) Total	2019 (£000) Total
Executive						
C H Field	188	10	20	25	243	217
T Slater (4)	96	-	10	7	113	-
D L Garner (3)	-	-	-	-	-	241
	284	10	30	32	356	458
Non-Executive						
G R Dunn* (5)	17	-	-	-	17	53
T G Barr	33	-	-	-	33	33
N J Treble	50	-	-	-	50	43
N J Holden	43	-	-	-	43	43
J A Ashmore	40	-	-	-	40	33
E Kelly*	11	-	-	-	11	33
D Rendell	29	-	-	-	29	
	223	-	-	-	223	238
Total 2020	**507**	**10**	**30**	**32**	**579**	**-**
Total 2019	**596**	**15**	**41**	**44**	**-**	**696**

Notes:

1. Remuneration and Loans Committee approved a pay increase in July 2020 for CH Field taking gross salary to £200,000. There was a bonus paid in March 2020 of £10,384 to CH Field and a further deferred bonus (at his own request) of £13,563 due to be paid in March 2021.
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
4. T Slater joined the Society on 1 June 2020.
5. G R Dunn retired at the AGM in April 2020 and left the Society on 30 April 2020.

N J Treble was appointed as Chairman on 30 April 2020.

J A Ashmore was appointed as Senior Independent Director on 1 May 2020.

E Kelly resigned as a director and left the Society on 30 April 2020.

D Rendell was appointed as Chair of Risk on 30 April 2020.

Non-Executive Director fees did not increase in 2020. Changes to individual fees reflect changes in position.

8. Taxation on profit on ordinary activities

The tax charge comprises:	2020 (£000) Group	2020 (£000) Society	2019 (£000) Group	2019 (£000) Society
Current tax on profit on ordinary activities				
UK corporation tax	-	-	-	-
Adjustments in respect of prior periods	-	-	(18)	-
Total current tax	**-**	**-**	**(18)**	**-**
Deferred tax				
Origination and reversal of timing differences	(543)	(247)	561	569
Adjustments in respect of prior periods	-	-	-	-
Effect of tax rate change on opening balance	-	-	-	-
Total deferred tax	**(543)**	**(247)**	**561**	**569**
Total tax (credit)/charge on profit on ordinary activities	**(543)**	**(247)**	**543**	**569**

The standard rate of Corporation Tax was 19% from 1 April 2017, giving effective tax rates of 19% for the year ended 31 December 2020 and 31 December 2019. The Finance Bill 2016 enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the reduction in the UK rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%. This rate was substantively enacted on 17 March 2020, and was due to come into force on 1 April 2020. Based on this rate we have assumed that the deferred tax assets and liabilities will reverse after 12 months and we have updated the disclosures to reflect this.

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	(3,828)	(2,230)	3,061	3,250
Tax on profit on ordinary activities at standard UK corporation tax rate of 19% (2019:19%)	(728)	(425)	581	617
Effects of:				
Fixed asset differences	27	27	35	35
Non-taxable expense/(income)	44	76	26	26
Impact of rate change	65	65	-	-
Adjustments to tax (credit)/charge in respect of previous years	-	-	(154)	(136)
Other	49	10	55	27
Total tax (credit)/charge for the period recognised in the income statement	**(543)**	**(247)**	**543**	**569**

9. Liquid assets

	2020 (£000) Group	2020 (£000) Society	2019 (£000) Group	2019 (£000) Society
Loans and advances to credit institutions:				
Repayable on call and short notice	1,430	1,091	4,366	4,365
Placements with credit institutions	42,953	42,953	32,086	32,086
	44,383	**44,044**	**36,452**	**36,451**

As at 31 December 2020 £41,838k (2019:£31,082k) of cash has been deposited by the Group and Society as collateral against derivative contracts.

	2020 (£000) Group	2020 (£000) Society	2019 (£000) Group	2019 (£000) Society
Debt securities:				
Gilts	-	-	-	-
Treasury bills	-	-	70,872	70,872
Bonds	51,011	51,011	31,183	31,183
	51,011	**51,011**	**102,055**	**102,055**

	2020 (£000) Group & Society
Movements during the year of debt securities are analysed as follows:	
At 1 January	102,055
Additions	93,046
Disposals	(144,172)
Net gains from changes in fair value recognised in Statement of comprehensive income	82
At 31 December	**51,011**

10. Derivative financial instruments

	Group & Society (£000)		
	Contract/ notional amount	Fair values – Assets	Fair values – Liabilities
As at 31 December 2020			
a) Unmatched derivatives – Interest rate swaps	85,856	370	(30,836)
b) Derivatives designated as fair value hedges – Interest rate swaps	417,700	244	(6,118)
Total recognised derivative assets / (liabilities)	**503,556**	**614**	**(36,954)**
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)**

Unmatched derivatives include three interest rate swaps with a net notional value of £38.8million (2019:£38.5million) designed to protect the Society against the interest rate risk presented by its portfolio of equity release mortgages. This is an amortising swap 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 £10million (2019: £33million), which the Society has elected to de-designate from their hedging relationship at December 2020 and a further £13million (2019: £19million) which, at the end of December 2020 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 Cessation	End After LIBOR Cessation
Interest Rate Swaps		
Notional Value (£'000's)	51,000	148,279
Net Fair Value (£'000's)	217	32,446
Number of LIBOR Swaps	19	41
Loans and Advances to Customers		
Value of mortgage Contracts (£'000's)	182	1,656
Number of Mortgage Contracts	2	18

Of the LIBOR Swaps, 55 are in a hedging relationship and 5 are unmatched.

Of those LIBOR swaps which will mature after LIBOR has ceased, 37 are in a hedging relationship and 4 unmatched

11. Loans and advances to customers

	2020 (£000)		2019 (£000)	
	Group	Society	Group	Society
Loans fully secured on residential property				
Held at amortised cost (1)	876,160	868,590	766,011	757,941
Held at fair value through the income statement	61,600	27,901	60,967	28,122
Other loans - loans fully secured on land	1,197	1,197	1,271	1,271
	938,957	897,688	828,249	787,334
Provision for impairment losses on loans and advances (Note 12)	(767)	(765)	(1,016)	(1,013)
	938,190	896,923	827,233	786,321
Fair value adjustment for hedged risk	4,624	4,624	1,508	1,508
	942,814	**901,547**	**828,741**	**787,829**

Note

(1) The Society has pledged £271.3million of mortgage loan pools with the Bank of England for the Term Funding Scheme with additional incentives for SME's (2019:£218.3million).

12. Impairment losses on loans and advances

	(£000)		
	Individual	Collective	Total
Group			
At 1 January 2020	685	331	1,016
Charge for the year	24	170	194
Amounts utilised in the period	(443)	-	(443)
At 31 December 2020	**266**	**501**	**767**
Society			
At 1 January 2020	685	328	1,013
Charge for the year	24	171	195
Amounts utilised in the period	(443)	-	(443)
At 31 December 2020	**266**	**499**	**765**

In determining the level of impairment charge a deterioration in economic conditions leading to higher forced sale discounts, lower house prices and higher levels of default related to COVID-19 has been considered. The assessment considers the impact of COVID-19 and resulted in a management overlay impairment charge of £249k being made. The estimate of forced sale discount and an increase in the probability of default resulting from COVID-19 were key determinants of the management overlay impairment charge.

13. Investments in subsidiary undertakings

	2020 (£000) Society	2019 (£000) Society
Shares in subsidiary undertakings	86	86
Loans to subsidiary undertakings	43,242	41,014
	43,328	**41,100**
Movement during the year of loans to subsidiary undertakings:		
Cost		
At 1 January	41,014	42,385
Repayments received	(2,323)	(4,453)
Loans advanced	4,551	3,082
At 31 December	**43,242**	**41,014**

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 Society holds 100% of the ordinary share capital of Saffron Mortgage Finders Limited, for the purpose of mortgage intermediary services. The share capital authorised and issued is £2.

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.

14. Property, plant and equipment

	Group (£000)			
	Land and buildings freehold	Land and buildings short leasehold	Equipment, fixtures, fittings and vehicles	Total
Cost or valuation				
At 1 January 2020	4,321	1,167	3,251	8,739
Additions	-	3	104	107
Disposals	-	(23)	(132)	(155)
Revaluation	(386)	-	-	(386)
At 31 December 2020	**3,935**	**1,147**	**3,223**	**8,305**
Depreciation				
At 1 January 2020	998	698	2,643	4,339
Charged in year	152	113	222	487
Disposals	-	(23)	(119)	(142)
At 31 December 2020	**1,150**	**788**	**2,746**	**4,684**
Net book value				
At 31 December 2020	**2,785**	**359**	**477**	**3,621**
At 31 December 2019	3,323	469	608	4,400

14. Property, plant and equipment (continued)

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 30 November 2020 based upon the open market value of the properties at that time. This valuation was £2,785,000 compared to a net book value of £3,170,000. Had these assets been carried at historic cost, the net book value at 31 December 2020 would be £3,276,516 (2019: £3,432,139).

Land and buildings freehold includes non-depreciable land held by the Society for its own activities with a net book value of £565,000 (2019:£652,500).

	Society (£000)			
	Land and buildings freehold	Land and buildings short leasehold	Equipment, fixtures, fittings and vehicles	Total
Cost or valuation				
At 1 January 2020	4,321	1,167	3,251	8,739
Additions	-	3	99	102
Disposals	-	(23)	(132)	(155)
Revaluation	(386)	-	-	(386)
At 31 December 2020	**3,935**	**1,147**	**3,218**	**8,300**
Depreciation				
At 1 January 2020	998	698	2,643	4,339
Charged in year	152	113	221	486
Disposals	-	(23)	(119)	(142)
At 31 December 2020	**1,150**	**788**	**2,745**	**4,683**
Net book value				
At 31 December 2020	**2,785**	**359**	**473**	**3,617**
At 31 December 2019	3,323	469	608	4,400

15. Investment properties

	2020 (£000)
	Group & Society
At 1 January 2020	3,070
Disposals	(175)
Revaluation loss	(400)
At 31 December 2020	**2,495**

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 2020. The property rental income earned, all of which is leased out under operating leases, amounted to £169k (2019:£153k) 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 2020	Group £000s 2019
Not later than one year	190	155
Later than one year and not later than five years	511	500
Later than five years	293	350

16. Intangible assets

	(£000)
	Group & Society
Cost	
At 1 January 2020	16,320
Additions	75
Disposals	-
At 31 December 2020	**16,395**
Amortisation	
At 1 January 2020	9,957
Charged in year	1,947
Disposals	-
At 31 December 2020	**11,904**
Net book value	
At 31 December 2020	**4,491**
At 31 December 2019	6,363

Intangible assets at 31 December 2020 comprise the costs of investment in new mortgages and savings platforms to meet the future needs of the Society and include nil (2019:nil) of assets in the course of construction. Amortisation is charged against these assets when they become ready for use by the business over estimated useful lives of between four and seven years.

17. Other assets

	2020 (£000)		2019 (£000)	
	Group	Society	Group	Society
Other assets	3	3	54	54
Prepayments and accrued income	1,449	1,449	1,325	1,325
	1,452	**1,452**	**1,379**	**1,379**

18. Shares

	2020 (£000)		2019 (£000)	
	Group	Society	Group	Society
Held by individuals	893,884	893,884	813,277	813,277
Fair value adjustment for hedged risk	93	93	(63)	(63)
	893,977	**893,977**	**813,214**	**813,214**

19. Amounts owed to credit institutions

	2020 (£000)		2019 (£000)	
	Group	Society	Group	Society
Amounts owed to credit institutions	131,257	131,257	79,571	79,571
	131,257	**131,257**	**79,571**	**79,571**

20. Other liabilities

	2020 (£000)		2019 (£000)	
	Group	Society	Group	Society
Social Security	204	197	157	157
Other creditors	780	761	744	744
Other accruals	1,015	989	1,151	1,128
	1,999	**1,947**	**2,052**	**2,029**

21. Subordinated liabilities

	2020 (£000)		2019 (£000)	
	Group	Society	Group	Society
Fixed Rate 6.32% Subordinated Debt 2028	10,270	10,270	10,268	10,268

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

22. Deferred taxation assets and liabilities

	2020 (£000)		2019 (£000)	
	Group	Society	Group	Society
Deferred tax assets				
Balance 1 January	286	14	1,057	793
Tax value of losses carried forward	298	2	(771)	(779)
Balance 31 December	**584**	**16**	**286**	**14**
Deferred taxation liabilities				
Balance 1 January	571	571	724	724
Income statement credit	(246)	(246)	(116)	(116)
Charge recognised through Other Comprehensive Income	(207)	(207)	(37)	(37)
Fixed asset timing differences	381	381	576	576
Other timing differences	(289)	(289)	(28)	(28)
Capital gains	26	26	23	23
Liability at 31 December	**118**	**118**	**571**	**571**

During 2015 and 2016 corporation tax rates were reduced to 19%. All deferred tax balances have been recognised at 19%, being the rate enacted at the balance sheet date at which the balances are materially expected to reverse.

23. Available for sale reserve

	2020 (£000)		2019 (£000)	
	Group	Society	Group	Society
Reserve at start of the year	15	15	(123)	(123)
Realised gains	-	-	(386)	(386)
Net changes in fair value	82	82	504	504
Tax relating to components of other comprehensive income	21	21	20	20
Reserve at end of the year	**118**	**118**	**15**	**15**

24. Revaluation reserve

	2020 (£000)		2019 (£000)	
	Group	Society	Group	Society
Revaluation reserve at start of the year	768	768	380	380
Unrealised valuation gains/(losses) on property, plant and equipment	(386)	(386)	388	388
Revaluation reserve at end of the year	**382**	**382**	**768**	**768**

25. Financial commitments

	2020 (£000)		2019 (£000)	
	Group	Society	Group	Society
Total future minimum lease payments under non-cancellable operating leases are as follows:				
Not later than one year	357	357	339	339
Later than one year and not later than five years	723	723	986	986
Later than five years	-	-	13	13

26. Provisions for liabilities

	Group & Society (£000)		
	Financial Services Compensation Scheme Levy	Dilapidations	Total
2020			
At 1 January 2020	-	244	244
Charge for the year	-	-	-
Provision utilised	-	-	-
At 31 December 2020	**-**	**244**	**244**
2019			
At 1 January 2019	15	152	167
Charge for the year	-	136	136
Provision utilised/released	(15)	(44)	(59)
At 31 December 2019	**-**	**244**	**244**

26. Provisions for liabilities (continued)

Financial Services Compensation Scheme Levy
During the 2019 period end, the latest levy invoice was received at an amount lower than previously provided resulting in a release of the remainder of the provision. No further charge is expected at this stage and therefore no provision has been recognised in the period ended December 2020.

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.

27. 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 £449,000 (2019:£423,000).

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 2020. At the date of the latest actuarial valuation, the market value of the assets was £14,132,000 (2017: £13,351,000) which was sufficient to cover 108% (2017: 110%) of the value of the benefits that had accrued to Members at that date plus a reserve for future expenses of £758,000 (2017: £992,000).

As at 31 December 2020 the scheme is shown in the Statement of financial position as a pension liability of £614,000 (2019 asset of £403,000) before allowance for deferred tax.

Future funding obligation

The triannual valuation of the scheme revealed a funding surplus of £1,039,000. 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 2021.

27. Group pensions (continued)

	Date of fund valuation	
	31 December 2020	31 December 2019
Main assumptions		
Rate of increase in salaries	2.3%	1.9%
Rate of increase in pensions in payment	2.8%	2.7%
Rate of increase in pensions in payment after 05.04.05	2.1%	2.1%
Discount rate	1.3%	2.0%
RPI inflation assumptions	2.8%	2.7%
CPI inflation assumptions	2.3%	1.9%

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 2020	14,916	(14,513)	403
Benefits paid	(482)	482	-
Administration expenses	(67)	-	(67)
Net interest income/(expense)	293	(286)	7
Re-measurement gains			
- Actuarial gain	-	(2,424)	(2,424)
- Return on assets excluding interest income	1,467	-	1,467
At 31 December 2020	**16,127**	**(16,741)**	**(614)**

The scheme liabilities were valued in accordance with the guidelines set out in Section 28 of FRS102 using a discount rate of 1.3% 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	**2020** (£000)	**2019** (£000)
Equities and other growth assets	10,359	10,115
DCF	1,075	1,062
Liability Driven Investments	3,881	2,895
Cash	47	30
Annuities	765	814
	16,127	**14,916**

Demographic assumptions	**31 December 2020**	**31 December 2019**
Mortality (Pre-retirement)	Nil deaths	Nil deaths
Mortality (Post-retirement)	S3PA CMI 2019	S2PA CMI2018

	31 December2020		**31 December 2019**	
Life expectancies (in years)	Males	Females	Males	Females
For an individual aged 65 in 2020	21.9	24.2	21.5	23.4
At age 65 for an individual aged 45 in 2020	23.2	25.6	22.8	24.9

27. Group pensions (continued)

Analysis of other pension costs charged in arriving at operating profit: Analysis of amounts included in other operating charges	**2020** (£000)	**2019** (£000)
Administration expenses	(67)	(68)
	(67)	**(68)**

Analysis of amounts included in pension finance income		
Net interest (expense)/income	7	1
	7	**1**

Analysis of amount recognised in the Statement of comprehensive income		
Actual return on assets less interest	1,467	1,448
Actuarial (loss)/gain on defined benefit obligation	(2,424)	(1,054)
Total actuarial gain/(loss) recognised in the Statement of comprehensive income	**(957)**	**394**

28. 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.

28. Financial instruments (continued)

The Group uses derivatives to manage its interest rate risks and for accounting purposes a number of these derivatives are in a fair value hedging relationship.

The fair value of derivative financial instruments held at 31 December 2020 is shown in Note 10.

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 or 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 or loss Accounted for at trade date

* Excluding portfolio of equity release mortgages accounted for at fair value through profit or 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:

28. Financial instruments (continued)

	Group (£000)							
	Held at amortised cost		Held at fair value					
Carrying values by category as at 31 December 2020	Loans and receivables	Financial assets and liabilities at amortised cost	Available-for-sale	Financial assets and liabilities	Derivatives designated as fair value hedges	Unmatched derivatives	Non-financial assets and liabilities	Total
Financial assets								
Cash in hand	-	155,630	-	-	-	-	-	155,630
Loans and advances to credit institutions	44,383	-	-	-	-	-	-	44,383
Debt securities	-	-	51,011	-	-	-	-	51,011
Derivative financial instruments	-	-	-	-	244	370	-	614
Loans and advances to customers	881,214	-	-	61,600	-	-	-	942,814
Other assets	-	-	-	-	-	-	12,643	12,643
	925,597	**155,630**	**51,011**	**61,600**	**244**	**370**	**12,643**	**1,207,095**
Financial liabilities								
Shares	-	893,977	-	-	-	-	-	893,977
Amounts owed to credit institutions	-	131,257	-	-	-	-	-	131,257
Amounts owed to other customers	-	81,471	-	-	-	-	-	81,471
Derivative financial instruments	-	-	-	-	6,118	30,836	-	36,954
Provisions for liabilities	-	-	-	-	-	-	244	244
Other liabilities	-	-	-	-	-	-	2,731	2,731
Subordinated liabilities	-	10,270	-	-	-	-	-	10,270
	-	**1,116,975**	**-**	**-**	**6,118**	**30,836**	**2,975**	**1,156,904**
Financial assets Carrying values by category as at 31 December 2019								
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**

There have been no reclassifications during the year.

28. Financial instruments (continued)

	Society (£000)							
	Held at amortised cost		Held at fair value					
Carrying values by category as at 31 December 2020	Loans and receivables	Financial assets and liabilities at amortised cost	Available-for-sale	Financial assets and liabilities	Derivatives designated as fair value hedges	Unmatched derivatives	Non-financial assets and liabilities	Total
Financial assets								
Cash in hand	-	155,630	-	-	-	-	-	155,630
Loans and advances to credit institutions	44,044	-	-	-	-	-	-	44,044
Debt securities	-	-	51,011	-	-	-	-	51,011
Derivative financial instruments	-	-	-	-	244	370	-	614
Loans and advances to customers	873,646	-	-	27,901	-	-	-	901,547
Investments in subsidiary undertakings	43,328	-	-	-	-	-	-	43,328
Other assets	-	-	-	-	-	-	12,071	12,071
	961,018	**155,630**	**51,011**	**27,901**	**244**	**370**	**12,071**	**1,208,245**
Financial liabilities								
Shares	-	893,977	-	-	-	-	-	893,977
Amounts owed to credit institutions	-	131,257	-	-	-	-	-	131,257
Amounts owed to other customers	-	81,471	-	-	-	-	-	81,471
Derivative financial instruments	-	-	-	-	6,118	30,836	-	36,954
Provisions for liabilities	-	-	-	-	-	-	244	244
Other liabilities	-	-	-	-	-	-	2,679	2,679
Subordinated liabilities	-	10,270	-	-	-	-	-	10,270
	-	**1,116,975**	**-**	**-**	**6,118**	**30,836**	**2,923**	**1,156,852**
Financial assets Carrying values by category as at 31 December 2019								
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**

28. Financial instruments (continued)

Fair value hierarchy classification

Valuation techniques

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly

Level 3 – inputs for the asset or liability that are not based on observable market data

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

Debt securities

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

Loans fully secured on residential property

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 S3XPA 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 2020 was 1.92% (2019:2.45%). The Group has determined, based on observable market rates that the discount rate has a range between 1.67% and 5.16% 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 2020 were 4% and 8% respectively. The value of the no-negative equity guarantee as at 31 December 2020 was £2.4m (2019:£2.5m).

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.

28. 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 2020 **Financial assets**	Level 1	Level 2	Level 3	Total
Debt securities	51,011	-	-	51,011
Loans fully secured on residential property	-	-	61,600	61,600
Derivative financial instruments	-	614	-	614
	51,011	**614**	**61,600**	**113,225**
Financial liabilities				
Amounts owed to credit institutions	-	-	-	-
Derivative financial instruments	-	6,118	30,836	36,954
	-	**6,118**	**30,836**	**36,954**

	(£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**

Amounts stated are for Group and Society except for loans fully secured on residential property which includes £33,698,917 (2019:£32,845,301) held within the Society's subsidiary Crocus Home Loans.

Reconciliation of opening and closing balances of Level 3 assets:	**2020** (£000)	**2019** (£000)
At 1 January	**60,967**	**58,820**
Amounts taken to income statement - Interest rolled up - Fair value gains	 **2,500** **1,649**	 **2,526** **3,040**
Redemptions	**(3,516)**	**(3,419)**
At 31 December	**61,600**	**60,967**

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 2020.

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 2020 with an estimate of the impact on profit before tax.

Input	**Sensitivity**		**Profit Impact (£m)**	
Discount rate	-0.25%	+0.25%	1.8	-1.9
HPI Growth	+0.5%	-0.5%	0.8	-0.8
HPI Volatility	-1.0%	+1.0%	0.5	-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 noted 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:

	2020 (£000)		**2019** (£000)	
	Group	Society	Group	Society
Cash in hand	155,630	155,630	86,653	86,653
Loans and advances to credit institutions	44,383	44,044	36,452	36,451
Debt securities	51,011	51,011	102,055	102,055
Derivative financial instruments	614	614	219	219
Loans and advances to customers	942,814	901,547	828,741	787,829
	1,194,452	**1,152,846**	**1,054,120**	**1,013,207**
Lending commitments (off balance sheet)	72,596	72,596	57,376	57,376
Maximum credit exposure	**1,267,048**	**1,225,442**	**1,111,496**	**1,070,583**

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:	**2020** (£000)	**2019** (£000)
Central banks	44,092	36,453
Multinational development banks	51,009	31,181
Central Government	-	70,872
	95,101	**138,506**

Concentration by credit grading	**2020** (£000)	**2019** (£000)
AAA	51,011	31,183
AA	30,690	97,701
A	1,134	9,622
Unrated	12,266	-
Total	**95,101**	**138,506**

Loans and advances to customers The table below shows information on the Group's loans and advances to customers by geographical concentration:	**2020** %	**2019** %
Greater London	32	30
South East	31	31
South West	9	9
East Anglia	4	5
West Midlands	6	6
East Midlands	5	5
North West	5	6
Yorkshire & Humberside	4	4
Wales	2	2
North	2	2

The Group's retail mortgages are secured on property. The value of these properties is updated using the ONS regional property price indices which comprise relative house price movements across the UK. These indexed valuations provide senior management with a view of the value and risk of the properties on which retail mortgages are secured.

The following table analyses the loan to value (LTV) of the mortgage portfolio	**2020** %	**2019** %
0% - 50%	35	39
50.01% - 75%	45	41
75.01% - 80%	6	6
80.01% - 85%	5	3
85.01% - 90%	6	5
90.01% -95%	3	4
>95%	-	2

28. Financial instruments (continued)

Not impaired	**2020** (£000)	**2019** (£000)
Neither past due nor impaired	924,709	810,429
Up to three months overdue but not impaired	12,304	15,108
Over three months but not impaired	4,725	2,930
Possessions / receiver of rents	332	-
Impaired		
Up to three months overdue	-	-
Between three and six months overdue	735	-
Between six and twelve months overdue	212	-
Possessions / receiver of rents	564	1,290
	943,581	**829,757**

Value of collateral held: Indexed	**2020** (£000)	**2019** (£000)
Neither past due nor impaired	1,975,121	1,824,651
Either past due or impaired	43,817	44,418
	2,018,938	**1,869,069**

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 2020.

	Interest only		**Reduced Payment Concessions (reduced below the amount of interest)**		**Arrangements**	
2020	Account balances £000	Number of accounts	Account balances £000	Number of accounts	Account balances £000	Number of accounts
Society	613	2	582	4	887	5
Crocus Home Loans	-	-	-	-	394	2
Group total	**613**	**2**	**582**	**4**	**1,281**	**7**
2019						
Society	122	1	364	3	1,717	14
Crocus Home Loans	-	-	-	-	630	4
Group total	**122**	**1**	**364**	**3**	**2,347**	**18**

28. 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:

	2020	2019
	Number of accounts	Number of accounts
Capitalisations	-	1
Mortgage term extensions	2	4
Interest rate concessions	-	-
	2	**5**

During the year ended 31 December 2020, no 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 1 new property during the year.

At the end of 2020 the Group had no properties in possession and 3 properties with a Receiver of Rents appointed (2019: 4) representing capital balances of £895k (2019: £1.3m), which is 0.10% of the total Group book (2019: 0.16%).

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 2020 provisions of £0.8m were maintained (2019:£1.0m).

Payment deferrals

Payment deferrals were offered to borrowers affected by the COVID-19 pandemic in accordance with regulatory guidance, to temporarily suspend their contractual repayments. Additional payment deferrals have been granted when the regulatory guidance extended the scheme for a further three months. These payment deferrals are not recorded as forbearance. For borrowers who continue to need financial support following the completion of a payment deferral period, we offer tailored support in the form of reduced payment concessions.

	2020	2019
Payment Deferrals	24	-
	24	**-**

89% of the borrowers who were granted payment deferrals have resumed full mortgage payments on £136.7m of mortgage balances. At the end of the year, less than 5% had sought support tailored to their individual circumstances.

At the end of 2020 the Society had £4.4m of mortgage balances with a payment deferral.

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.

28. Financial instruments (continued)

	Group residual maturity as at 31 December 2020 (£000)					
Financial assets	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	155,630	-	-	-	-	155,630
Loans and advances to credit institutions	44,383	-	-	-	-	44,383
Debt securities	-	10,076	16,154	24,781	-	51,011
	200,013	**10,076**	**16,154**	**24,781**	**-**	**251,024**
Derivative financial instruments	-	-	-	80	534	614
Loans and advances to customers	-	10,407	32,130	135,571	764,706	942,814
Other assets	2,329	92	1,470	6,154	2,598	12,643
	202,342	**20,575**	**49,754**	**166,586**	**767,838**	**1,207,095**
Financial liabilities and reserves						
Shares	588,057	66,214	224,391	15,315	-	893,977
Amounts owed to credit institutions	-	9,811	25,925	95,521	-	131,257
Amounts owed to other customers	71,550	720	9,201	-	-	81,471
Derivative financial instruments	-	27	190	5,967	30,770	36,954
Provisions for liabilities	-	-	15	-	229	244
Other liabilities	-	1,671	381	-	679	2,731
Subordinated liabilities	-	270	-	-	10,000	10,270
Reserves	-	-	-	-	50,191	50,191
	659,607	**78,713**	**260,103**	**116,803**	**91,869**	**1,207,095**
Net liquidity gap	**(457,265)**	**(58,138)**	**(210,349)**	**49,783**	**675,969**	**-**

	Group residual maturity as at 31 December 2019 (£000)					
Financial assets	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**

28. 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
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**	**-**

The following is an analysis of gross contractual cash flows payable under financial liabilities:	Group & Society as at 31 December 2020 (£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	586,377	66,987	226,417	15,582	-	895,363
Amounts owed to credit institutions	-	9,818	25,999	95,882	-	131,699
Amounts owed to other customers	75,404	53	2,541	3,896	-	81,894
Derivative financial instruments	-	1,057	3,146	11,660	42,928	58,791
Subordinated liabilities	-	319	313	2,528	11,583	14,743
Total liabilities	**661,781**	**78,234**	**258,416**	**129,548**	**54,511**	**1,182,490**
	Group & Society as at 31 December 2019 (£000)					
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**

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.

28. 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. 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 2020 (£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	155,630	-	-	-	-	155,630
Loans and advances to credit institutions	44,383	-	-	-	-	44,383
Debt securities	24,668	16,157	10,186	-	-	51,011
Derivative financial instruments	-	-	-	-	614	614
Loans and advances to customers	417,741	59,823	397,664	39,502	28,084	942,814
Other assets	-	-	-	-	12,643	12,643
Total Financial assets	**642,422**	**75,980**	**407,850**	**39,502**	**41,341**	**1,207,095**
Financial liabilities and reserves						
Shares	645,076	233,586	15,315	-	-	893,977
Amounts owed to credit institutions	105,332	25,925	-	-	-	131,257
Amounts owed to other customers	81,471	-	-	-	-	81,471
Derivative financial instruments	-	-	-	-	36,954	36,954
Provisions for liabilities	-	-	-	-	244	244
Other liabilities	-	-	-	-	2,731	2,731
Subordinated liabilities	-	-	-	10,000	270	10,270
Reserves	-	-	-	-	50,191	50,191
Total Financial liabilities and reserves	**831,879**	**259,511**	**15,315**	**10,000**	**90,390**	**1,207,095**
Impact of derivative instruments	421,669	(25,403)	(364,732)	(31,534)	-	-
Interest rate sensitivity gap	**232,212**	**(208,934)**	**27,803**	**(2,032)**	**(49,049)**	**-**
Sensitivity to profit and reserves:						
Parallel shift of + 1%	(551)	1,182	(426)	252	-	457
Parallel shift of + 2%	(1,102)	2,365	(852)	506	-	917

28. Financial instruments (continued)

	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

At 31 December 2020, the Group has swaps in place with a net a notional value of £38.8m (2019:£38.5m) designed to protect the Society against the interest rate risk presented by its equity release mortgages. These are amortising swaps where the notional value of the instruments are tailored to reflect the expected life of the equity release portfolio, 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.

28. Financial instruments (continued)

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

	(£000)		
2020 Financial assets	Gross amounts*	Financial collateral**	Net amounts
- Derivative financial instruments	614	-	614
Total Financial assets	**614**	**-**	**614**
Financial liabilities			
- Derivative financial instruments	36,954	(41,839)	(4,885)
Total Financial assets	**36,954**	**(41,839)**	**(4,885)**
2019 Financial assets			
- 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)**

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

29. 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	**2020** (£000)	**2019** (£000)
General reserves		49,691	53,747
Available for sale reserve	24	118	15
Revaluation reserve	25	382	768
Pension fund adjustments[1]		-	(403)
Prudent valuation adjustment		(150)	(190)
Deductions for intangible assets[2]	17	(4,491)	(6,363)
Total Common Equity Tier 1 Capital		**45,550**	**47,574**
Collective impairment losses	13	501	331
Subordinated liabilities	22	10,000	10,000
Total Tier 2 Capital		**10,501**	**10,331**
Total regulatory capital		56,051	57,905
Risk weighted assets (UNAUDITED)		407,699	369,011
Capital ratios (UNAUDITED)			
Common equity tier 1 ratio		11.2%	12.9%
Total capital ratio		13.7%	15.7%
Leverage ratio		3.7%	4.4%

29. 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 2020 which are available on our website.

30. 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 13 contains details of subsidiary undertakings and of any loans to subsidiary undertakings.

b) Key management compensation

The Directors of the Society are considered to be the Key Management Personnel, as defined by FRS102.
Total compensation for key management personnel for the year ended 31 December 2020 was £578,988. (2019:£695,740).
Further information on compensation for key management personnel can be found in Note 7 and in the Directors' Remuneration Report.

c) Transactions with key management personnel and their connected persons

	2020		2019	
Shares and deposits	Number of key management personnel	Amounts £000	Number of key management personnel	Amounts £000
Balance at 1 January	8	61	9	67
Net movements in the year	(1)	(3)	(1)	(6)
Balance at 31 December	7	58	8	61

	2020		2019	
	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 2020, there were no outstanding mortgage loans granted in the ordinary course of business to Directors and their connected persons.

31. 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 2020:

Name, nature of activities and geographical location:

The Society has six 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 2020 was 157.

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 2020

1. Statutory percentages	Ratio at 31 December 2020	Statutory limit
	%	%
Lending limit	0.5	25
Funding limit	19.2	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 2020	Ratio at 31 December 2019
	%	%
As a percentage of shares and borrowings:		
Gross capital	5.4	6.6
Free capital	4.5	5.2
Liquid assets	22.7	23.1
As a percentage of mean total assets:		
Profit after taxation	-0.29	0.24
Management expenses	1.33	1.57

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 serving during the year ended 31 December 2020

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 Commonwealth Games England Jazz-works Limited Fitness Over Fifty Limited
Gary Barr	22.11.1962	10.04.2014	Director	Crocus Home Loans Limited IT Range Limited
Geoffrey Dunn*	10.07.1949	26.05.2011	Director	Crocus Home Loans Ltd
Colin Field	24.11.1973	1.05.2014	Chief Executive Officer	Crocus Home Loans Ltd Saffron Independent Financial Advisers Limited Saffron Walden Property Sales Limited Saffron Walden Investment Services Limited Saffron Walden Property Developments Limited Saffron Mortgage Finders Limited
Neil 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 Saffron Pension Scheme
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 Home Loans Limited
David Rendell	17.7.1958	01.05.2020	Director	Allium Lending Group Limited Crocus Home Loans Limited Richmond Place Consultants Limited
Trevor Slater	23.09.1963	01.06.2020	Chief Financial Officer and Society Secretary	Crocus Home Loans Limited
Nick 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

* Geoffrey Dunn and Liz Kelly resigned as directors on 30 April 2020

Following the year end, Robin Litten was appointed as a Non-Executive Director on 4 January 2021

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
J Penberthy-Smith	Chief Commercial Officer

4. Directors' service contracts

As at 31 December 2020, C H Field had a service contract with the Society which could be terminated by either party giving six months' notice.

Saffron Building Society

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saffronbs.co.uk

Saffron House
1A Market Street
Saffron Walden
Essex CB10 1HX