Annual Report & Accounts 2021

Saffron Building Society

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Chairman's Statement

Your Building Society has made good progress during 2021, a year in which we delivered growth in lending and maintained high levels of service whilst still having to adapt to the challenges posed by the ongoing COVID-19 pandemic. Just as the Society has had to adapt, so has the Board and despite some of the challenges of working in a largely remote manner, from a governance perspective, the Society has continued to operate very much as normal.

All of our lives have been impacted by the pandemic and few of us would have thought that we would still be working through it two years on. I would like to pay tribute to our colleagues in the Society who have adapted to new ways of working and supporting our Members. Although we have adapted well to remote working and virtual Board meetings, I hope that there will be a return to normality in 2022 and we will be able to engage more fully with both Members and our colleagues. However, the "new normal" will probably be different to the old pattern of working and will provide us with further opportunities to enhance customer service or ways of working to benefit Members and colleagues.

The strong financial performance recognised in the year is very welcome and follows a number of years in which the Society has had to address legacy headwinds. The statutory profit recorded more than recovers the loss made in 2020 and builds capital strength that is important to allow the Society to invest and grow its capability into the future. The financial strength is important, but as Colin has highlighted in his CEO report, the Society has delivered against far more than financial strength during the year.

The Board recognises that the Society must develop to meet the needs and demands of the wider community, and that to achieve this, it must strive to improve its proposition for Members, colleagues and the wider community that we operate in. The Board pays close attention to the feedback provided by Members and monitors a range of metrics that measure customer service, operational effectiveness and colleagues engagement. Over the last 12 months, it is pleasing to note that the Society has maintained a high level of service to Members and also high levels of engagement with colleagues, and it has been good to see the ongoing and developing engagement with community too. The Society and its colleagues have been a strong supporter of local good causes, clubs and groups throughout its long history and this has been especially welcome during the pandemic. I am delighted that we have extended this commitment to community, by making available a building in the centre of Saffron Walden, our "Saffron Community Link" that can be used by local groups at no cost. We understand just how important our role is in supporting our local communities and we will continue to build on this role over the coming years.

The Board has continued through its period of refresh and renewal, with the role of Chair of Audit passing from Neil Holden to Robin Litten. Robin joined us a non-executive director in 2020 after a career in the building society sector and, most recently, serving as Chief Financial Officer of a large building society. I want to thank Neil for his strong chairmanship of the Audit Committee over the last seven years, a period in which the Society has worked through complex financial matters and is now materially stronger. I am pleased to say that Neil has remained on the Board and so we continue to benefit from both his considerable business experience but also the knowledge he has accumulated about the Saffron Building Society.

I would also like to welcome John Penberthy-Smith to the Board as an executive director. John joined the Saffron Building Society two years ago as Chief Commercial Officer and has made a tremendous contribution as a part of Colin's executive team. I am confident that John will bring a new dimension to the Board's decision making.

In the coming year we will continue to refresh the Board as we recruit new non-executive directors to replace directors who will have completed our normal term in 2023. The recruitment process will seek to identify suitably qualified candidates who have both the technical expertise, business experience and cultural alignment to work effectively at the Saffron Building Society. Of course, we are also very mindful of our commitment to improve diversity at the senior level in the organisation and will report on our progress at next year's AGM.

Looking forward, the direction of the economic weather is again not clear. Forecasts are inherently challenging and our objective is to position your Society so it can accommodate a variety of economic scenarios and maintain the focus on serving our Members. Interest rates remain low by any historical comparison but could now be on an upward trend. In more normal times this would be welcomed by savers and likely reflect a sign of economic recovery, but now the position is less clear given the sharp increase in inflation that we have seen recently. The Society is well positioned to support its Members through the challenges ahead, which is a testament to the hard work and progress made over several years by all of our colleagues in the Society.

I have found it frustrating that we have been unable to hold a traditional AGM for the last couple of years, coinciding with the period of the pandemic. For the AGM this year, we are hoping to hold the meeting in the traditional physical sense but also provide the option for Members to join and contribute through their computer or mobile device. A core feature of the mutual model is that the Society is owned by you and I hope that this hybrid manner of running the meeting will enable many of you to participate.

On behalf of the Board I would like to thank all of the colleagues at Saffron Building Society for their continued efforts to support our Members during the pandemic. It would be foolish to predict the end of the COVID-19 pandemic but I am optimistic that the worst is behind us but, inevitably, there will be other opportunities and challenges that will present in the coming year and the Board considers your Society is well placed to deal with whatever we are faced with.

May I also thank the Members who have supported their Society through 2021. A building society is a mutual, it is owned by the Members and exists only to serve them and help its Members on their financial journey through life. On behalf of the Board and all my colleagues at the Saffron we hope that you stay safe and healthy during the pandemic and beyond this difficult period.

Chief Executive's Report

In my report last year, I talked about there being reasons for optimism. The vaccine roll out was progressing at pace and it seemed that a semblance of normality would return later in the year. Now, looking back, whilst a greater sense of freedom has been achieved, we are still some way away from the normality that we strive for, but the direction remains positive.

Your Society has continued to operate in the same manner that it had done through most of 2020, providing service through branches, telephone and online, and operating in a hybrid manner for many of our other functions. I remain incredibly proud of the manner in which my colleagues have performed in what continues to be difficult circumstances. We have continued to provide excellent service to you, our Members, evidenced by the levels of customer satisfaction and willingness to promote the Society that we achieve. The verbatim feedback that I see and hear and the recognition that we have achieved within the industry, winning Overall Mortgage Lender of the Year and First-time Buyer Mortgage Lender of the Year at the Mortgage Awards, Best Children's Savings Provider for the fifth year running at the Money Net Awards and the Most Eco-Conscious Financial Services Firm – South East England at the Build 2022/21 Eco Excellence Awards.

Through my tenure as CEO I have written and talked on a number of occasions about the strong underlying performance of the Society, but have also had to explain why this performance did not always translate to a strong financial performance being recognised in our statutory accounts. This was again the case in 2020, where I explained how the reduction in interest rates had reduced our Net Interest Margin and further impacted the fair value of our derivatives and legacy lifetime mortgage book, resulting in the Society recording a statutory loss before tax of £3.8m.

In my report last year I forecast that the reduction in our Net Interest Margin would be a one off in nature and that income would return to levels experienced previously. I am pleased to report that this prediction was accurate and that our underlying business performance has translated to a strong financial performance in 2021. Following the reduction in interest rates in 2020, the adjustments that we have made have restored our Net Interest Margin to a healthier level. Business growth, achieved without significantly increasing our cost base, fewer headwinds and the continued hard work and commitment of our people has meant that the Society has recognised the strongest level of profitability in its history with a growth in mortgage lending of £53m to £996m and the Society climbing to its highest ever level of total assets. I am incredibly proud of this achievement that reflects the hard work that has been undertaken not only in 2021 but over several years.

Greater detail on our financial performance is provided in the Business Review on page 12, but I wanted to highlight some key points here.

Our interest receivable improved as a result of an increase in the loan portfolio at good yields, contributing an additional £7.2m. During the first half of the year, the mortgage market was buoyant, fuelled by home purchasers wishing to take advantage of the stamp duty holiday announced by the government.

Our interest payable benefited from the Society being able to take advantage of Bank of England funding at attractive rates. In total, we drew down £190m of funding from the TFSME scheme, which was sufficient to fund all of our mortgage growth in the year.

Over recent years, the Society has focussed heavily on maintaining and reducing its cost base, but in 2021 we saw an increase in costs of £0.9m, predominantly due to the reinstatement of discretionary colleagues bonus' where they were not paid in the prior, loss making year.

It is important that the Society does make sufficient financial returns if we are to achieve our overarching goal, to play a tangible role in improving financial wellbeing, driven by the needs of our Members and wider community. Within the Society we talk about our strategic goals – those areas where we have to succeed for our Society to thrive into the future. Financial and operational strength is the key enabling goal that allows us to be able to unlock the other four. Most simply put, the Society must deliver strong and consistent profitability for us to be able to invest in the products, propositions and facilities that you, our Members demand, supported by motivated and engaged colleagues that you trust to serve you.

We operate within markets that are highly competitive, and compete with a broad spectrum of businesses, encompassing large clearing banks, challenger banks and other Building Societies. For the Society to maintain its success, we must deliver service that stands out, both to existing and future Members and customers. Over recent years, we have made improvements to our online and mobile channels and this has served us well, especially during this period of pandemic. We have also refined our lending propositions and capabilities to be able to help people to be able to buy and build the homes that they want. Increasingly we are attracting new Members who seek to design and develop their own home and our self-build propositions are now supporting 167 people with 74 new Members supported this year.

The Society has invested in technology in recent years and will need to continue to invest to future proof the business. In 2022 we will implement a significant upgrade to our core banking platform that will enable the Society to improve its service to savings and business customers. This investment is important, but our success in a competitive market will be determined by the capability and attitude of our people and it is vital that we continue to recruit, develop and retain great people, in an environment where the economy is struggling with skill shortages. We understand that we have to be regarded as an "amazing employer brand" and during the year, we have made further improvements to our colleague proposition. We have also adapted our head office buildings to support the hybrid ways of working that we have recently become accustomed to. We have reduced fixed desk areas and replaced them with collaboration and hot desk areas supported by technology that will allow those working from home to interact with those in the office.

We have continued to build on our strong community foundations and throughout the pandemic have maintained charitable fundraising, support of local clubs and groups and the provision of financial education to both primary and secondary school groups. In 2021, we have implemented two new initiatives. We sought to facilitate colleague volunteering through a mobile application that matches volunteering opportunities with volunteers. Many of our colleagues are now participating in volunteering missions, culminating in the Society launching a 12 missions of Christmas challenge in December with our staff completing over 412 separate missions and pledges. We also wanted to do more to support our Saffron Walden heartland community and towards the end of the year we welcomed the first groups into our Saffron Community Link, located next door to our Saffron Walden branch. We have designed the 'link' as a fully equipped multipurpose space to be used by local community groups and charities, able to accommodate meetings, presentations, exhibitions and more – at no cost to the user.

I am pleased with the progress that the Society has made on each of the goals I have outlined above, and we look forward to sharing further progress with you.

Looking forward

Each year when I write my report, I wish that I could talk about the year ahead with more certainty. The macroeconomic environment remains highly uncertain, with inflation at the year end of 5.4% and with potential to rise yet higher, predominantly due to the steep increase in the cost of utilities. Already, the Bank of England has processed one increase to its benchmark Bank Base Rate, and the markets anticipate further increases over the year, as the bank seeks to wrestle the inflation metric back to its 2% goal.

Whilst the anticipation of higher interest rates will be welcome to our savings Members, I expect that many of you will be concerned about the impact of higher inflation on household budgets and I also recognise that rising interest rates will concern borrowing Members. As a Society we will continue to balance the needs of both savers and borrowers fairly and remain committed to supporting our Members with their financial goals.

Finally, I would like to thank you all for your continued support for the Society.

Business Review

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

The significant roll out of the COVID-19 vaccine programme dominated both the political and economic landscape throughout 2021. Government support packages helped to reduce unemployment throughout the lockdown periods and supported businesses to the end of 2021, when the schemes were phased out.

Demand in the housing market has remained strong throughout the period with the government providing incentives to boost the housing market, and in particular the stamp duty holiday which ended in September 2021. General house price growth has continued throughout 2021, in spite of some concern around a house price reduction, as a result of financial struggles as government support was phased out.

The labour market has improved over the year with headline unemployment rates gradually reducing from 5.1% in December 2020 to 4.1% at December 2021. Average earnings have also seen an increase, with adjusted figures suggesting annual wage growth was between 4.2% – 8.8% for the year to December 2021.

CPI inflation rose from 0.6% at the start of the year to 5.4% at December 2021 with forecasts expecting this to reach over 7% in 2022 before falling back to the Bank of England 2% target within the next 2 years, putting pressure on the Bank of England to raise the Base Rate in 2022. A 0.25% increase was announced in February 2022 taking the Base Rate to 0.5%. At the point of writing, the Bank of England has suggested that it may be necessary to increase the Base Rate further in the coming months to control inflation, noting that supply-side issues have driven a proportion of the inflationary rise through global supply chain shortages in the UK as a result of new restrictions on the availability of workers and the movement of goods introduced during 2021.

Following the government support in 2020 with the release of Term Funding Scheme with additional incentives for SME's (TFSME), the Society has been able to manage its net interest margin through this cheaper source of funding, coupled with falling savings rates in the market during the year. The UK mortgage market remains extremely competitive and mortgage rates have generally fallen during the year as a result.

At the time of writing, market interest rates sentiment suggest that there is likely to be some further movement in the interest rate environment, with increases in Base Rate likely to continue throughout the coming year, with longer term interest rate curves pricing in a rise to around 2% within the next 12 months.

Earnings on fixed rate mortgages are generally protected by interest rate swaps which convert the fixed interest income into a variable rate (SONIA). These variable rates have improved significantly during the second half of the year as a result of both optimism around the pandemic recovery and from inflationary pressures. This has led to some fair value benefits to the Society in the year.

The Group's business and strategy

The Society's core purpose remains unchanged, which is helping people to achieve their home-ownership aspirations and providing a secure home for their savings, whilst remaining relevant to today's evolving environment.

The Society has a range of mortgages to meet a wide range of needs, whether a customer 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, lending in and into retirement, those renovating a property or building from scratch. 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 are serviced in branch, via telephone and in many cases online. Our product offerings include instant access, fixed-term, tax-free and regular savings as well as award-winning accounts designed especially for children's savings.

Outside of our core borrowing and savings products we are also able to provide access to financial advice, estate planning, inheritance tax planning, open market mortgage advice and financial products through a network of selected partners.

A summary of products offered across our network and how they are serviced is shown below:

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

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

	Channel		
Other products	Telephone	Online	In-branch
Financial planning	✓		✓
Mortgage advice	✓		
Protection	✓		✓

The Society has a 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 2021. The Group has assets of £1,296million and operates from its head office in Saffron Walden, Essex and Customer Service Centre in Little Chesterford together with eight branches across three counties and employs 170 colleagues. As a Mutual organisation, owned by Members, the Society's core strategy is to deliver long-term value to its Members, taking a personal approach to assessing individual circumstances whilst providing multi-channel options to suit all Members.

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

In a commitment by the Society to its members and its wider communities, 2021 has seen a continued 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 contribute interest to give to our environmental charity partner, The Conservation Volunteers, the Society's investment in the Green Hub and our own electric van.

It is not possible to deliver the core elements of strategy without long term financial stability, measured as capital and liquidity strength. The Society has had a particularly strong year in 2021, with a reversal of the 2020 experience when market wide interest rate reductions had a damaging effect across the Society's income statement. Access to central government funding and lower interest costs for savings has been coupled with a second strong year of mortgage growth and at improved margins. Asset quality has been maintained and bad debt experience remains extremely low.

The Society continues to focus on improving 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.
- High quality customer service.
- Careful risk management, including vigilance in underwriting processes.
- Investment in technology and processes.
- Control of operating costs.
- Strong consistent culture and clear set of values throughout the Society.
- Improved colleague engagement, giving a forum for feedback and change.

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 2021 financial year is explained later in this Strategic Report.

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 2021 are presented in the table below, together with the 2020 comparison and associated commentary:

	2021	2020
Trading performance		
Gross mortgage advances	£239.6m	£253.2m
Total mortgage balances	£996.0m	£942.8m
Shares and deposit balances	£964.5m	£975.4m
People experience		
Engagement	8.1	8.0
Member experience		
Customer net promoter score	+40.9	N/A
Customer satisfaction	89.0%	N/A
Broker net promoter score	32.3	N/A
Broker satisfaction	74.8%	N/A
Financial sustainability		
Profit/(Loss) before tax	£8,055k	(£3,828)k
Net interest margin	1.82%	1.46%
Management expenses ratio	1.26%	1.33%
Common equity Tier 1 ratio	12.5%	11.2%
Liquidity coverage ratio	340%	304%

* The basis of measurement for these metrics have been amended in the year to make them more appropriate, therefore the comparative metrics are not directly comparable. Further explanation is included within the table on the next page.

Measure	Explanation	2021 performance	Trend compared with 2020
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 for 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 long-term growth plan, a lower target was set this year than was achieved in 2020. Actual performance exceeded the plan although capital consumption was constrained in line with the plan due to the favourable risk weighting of the lending which was originated.	Total advances of £240m exceeded the target of £215m.	Consistent
Total mortgage balances	The total size of the Society's mortgage assets. The Society needs to maintain sufficient balances of quality mortgage assets to meet demand from members and generate sufficient income, balanced with associated capital requirements. The targeted level of mortgage assets set out in the budget was exceeded.	Mortgage asset exceeded plan of £957m.	Improving
Shares and deposit balances	With the exception of recent TFSME drawings, 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. The Society has managed down retail balances as a proportion of mortgage advances due to the higher than planned availability of TFSME drawings.	Growth below plan (£10m short).	Reducing
Engagement	The Board strives to make Saffron a great place to work with high levels of colleague engagement, motivation and commitment. A bi-weekly survey of all employees measures multiple aspects of employee satisfaction as well as overall engagement. There is no specific target set for this measure as the Society strives for as high a score as possible and acts on results and findings.	Score of 8.1 (0.2 above external benchmark).	Improving
Customer net promoter score	This is a measure of how likely our Members are to recommend the Society to others and reflects their satisfaction with our service to them. It is measured as the difference between the number of Members who would recommend the Society (promoters) minus those that would not recommend the Society (detractors). Last year we reviewed the way we collected Member feedback and identified that there were several customer touchpoints which were not included in the survey and also that historically feedback from Members leaving the society was not represented. Therefore in November 2020 we improved the way we collect feedback and introduced a more sophisticated and non-bias method of asking for feedback. This has resulted in broader and more realistic feedback which is a closer representation of our customer base across both savings and mortgages. As expected the changes in measurement have resulted in the NPS score dipping as more adverse feedback was being captured. Throughout 2021 we have seen the score improve as the measurement has settled and actions responding to Member feedback have been completed. Creators of NPS, Bain & Company, suggest a score: above 0 is good, above 20 is favourable, and above 50 is excellent. As a Society we target a score of over 45.	An average score of 40.9 was achieved across the year.	Not directly comparable with 2020 due to improved measurement
Customer satisfaction	The Society seeks always to serve its Members through the delivery of good value products with 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. We ask our customers to provide us with a rating of the service they received from members of staff across all channels. Surveys are distributed to customers when they make a personal interaction with us. This includes branch transactions, account closures, webchat conversations, calls to the contact centre and mortgage servicing queries. The score is an average of all customer ratings and we target a score of over 90% customer satisfaction. We are proud that even through a challenging year due to the COVID-19 pandemic we have maintain exceptional high level of service to Members	Score of 89.0%.	Not directly comparable with 2020 due to improved measurement
Broker net promoter score	This is a measure of how likely our Brokers who act as intermediaries for new mortgage customers are to recommend the Society to others. It represents the difference between the number of Brokers who would recommend the Society (promoters) minus those that would not recommend the Society (detractors). Our target is to exceed a NPS score of 30. In 2021 we put significant effort into improving the Broker customer journey with us to be smoother and more effective, as well as improving our communication with these key stakeholders. We are pleased to see these changes are starting to improve the Broker experience of Saffron which a key driver for our future success.	An average score of 32.3 was achieved across the year.	Not measured

Measure	Explanation	2021 performance	Trend compared with 2020
Broker satisfaction	An improved way to measure Broker satisfaction was launched in May 2021 to more accurately capture and respond to this channel's important feedback. Our target is to exceed 80% satisfaction and we have been at that level at times throughout the year. However, the overall score has been pulled below target due to the industry wide phenomenon of Stamp Duty Holidays which put significant strain on the service levels and response times due to the unusual peaks in demand for mortgages in 2021. Now these extraordinary peaks have been navigated we have seen service levels return to normal levels.	Score of 74.8%.	Not measured
Profit before tax	This represents the amount earned by the Society after taking into account all expenses and provisions excluding taxation. Profits are the principle source of capital for the Society. Profits in the year improved dramatically as the pandemic eased through a combination of an improved net interest margin (see below) and positive fair value movement from the Society's swap portfolios, slightly offset by charges from the Society's portfolio of equity release mortgages.	Profit before tax of £8.1m which is materially ahead of the plan of £1.9m.	Improving
Net interest margin	This represents the difference between interest received by the Society from its mortgages and other loans less interest paid on its deposits and other borrowings and compares the value against the balance sheet value. This needs to be sufficiently high to generate a profit whilst providing consistent, competitive and fair rates to members. The net interest margin materially improved in 2021 following TFSME drawings, reduced savings rates and a growing mortgage portfolio.	Net interest margin of 1.82% which is above the original plan of 1.77%.	Improving
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 the low growth strategy of the business in the past to manage the capital position. The ratio improved in 2021 due to a combination of asset growth and careful cost management. This is expected to remain stable in the future in order to deliver improved customer experience in line with the Society's strategy.	Management expense ratio of 1.26% which is below the budgeted 1.30%.	Improving
Common equity Tier 1 ratio	Growing the Society's capital strength relative to its size is a key element of the Board's strategy. Common Equity capital is the highest quality capital available and, for the Society, comprises accumulated profits held in reserves. This ratio represents the relationship between Common Equity capital total assets, weighted by the level of risk they carry. The Board targets improvements in this ratio even as the Society grows. The improvement in trading profit has seen this improve in the year.	12.5% which is ahead of the planned ratio of 12%.	Improving
Liquidity coverage ratio	It is important to maintain appropriate levels of liquidity. This ratio represents the regulatory measure of liquidity adequacy and is one of a suite of liquidity measures which is managed by the Society. 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 the planned percentage of 274%.	Increasing

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

Profits are the principal source of new capital available to the Society. As a mutual, owned by its Members and without external shareholders, any profits are retained within the business contributing to capital strength and providing the platform for continued investment in service improvements for Members.

Overview of Income Statement

£millions	Group 2021	Group 2020	Group 2019
Net interest income	22.8	15.7	20.2
Other income and charges	0.5	(0.2)	(0.3)
Administrative expenses	(13.5)	(12.8)	(13.9)
Depreciation and amortisation	(2.3)	(2.4)	(2.5)
Impairment losses	0.0	(0.2)	(0.3)
Fair value movements and other operating charges	0.6	(3.9)	(0.1)
Profit/(Loss) before tax	**8.1**	**(3.8)**	**3.1**
Tax	(1.7)	0.5	(0.6)
Profit/(Loss) after tax	**6.4**	**(3.3)**	**2.5**

The challenges experienced in 2020 have largely reversed in the current period with significantly increased net interest income and improved performance of fair valued assets.

During 2021, the government support packages to both mortgage customers, through the stamp duty tax holiday and the financial services industry through the access to central funding at Base Rate, have helped to encourage lending to mortgage customers and to maintain the demand for property. This has assisted in the improvements to the net interest margin achieved by the Society in the year.

Derivative valuations have experienced some recovery over the year, with longer-term interest rates increasing as the country exited the lockdowns due to the successful roll out of the vaccination programme and with many businesses experiencing rapid recovery. This, plus the inflationary pressures from energy price increases and global supply shortages, are increasing the likelihood of further Base Rate increases in 2022 and market sentiment around these possible increases has resulted in some rate increases being priced into the derivative market at the end of the year. This has produced a benefit to the Income Statement from derivative positions used for hedging, although, in the case of lifetime mortgages, this was more than offset by the adverse impact of prepayments which continue to feature in excess of expectations.

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. Movements in the valuation of assets which are accounted for at Fair Value Through Profit or Loss (FVTPL) are also classified as income.

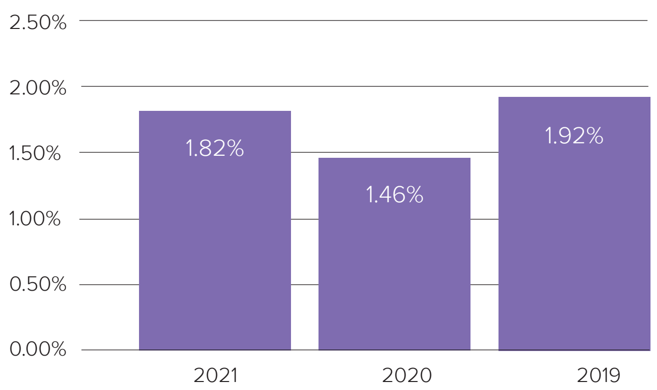
Net interest income

The net interest margin for the year ended 31 December 2021 was 1.82% (2020: 1.46%).

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 improve in 2021, with savings rates in the marketplace at an all-time low during the year due to the significant amount of favourably priced government funding in the economy which in turn is driving down the demand for savings. Mortgage rates in the marketplace have also fallen, in part due to the TFSME funding at bank Base Rate, which is allowing margins to be maintained on lower interest rate products.

The Society has successfully delivered its strategy of improving yields on mortgage advances in the period, with less low yielding mass-market mortgages and increased emphasis on niche products with higher rates whilst always maintaining asset quality. The clamour to complete mortgages before the end of the stamp duty holiday combined with the large pipeline of mortgage applications carried into 2021 set the Society up to achieve a high level of advances in the period at strong rates at a time when mortgage rates in the market were beginning to fall.

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. The Society has recently been able to increase certain savings rates for the benefit of members as a result of the financial performance in the period.

Overall net interest income for the year ended 31 December 2021 increased to £22.8million (2020: £15.7million).

Other income

Other income and charges

Other operating income principally comprises of rental income from the Society's investment properties, together with any movements in the fair value of those properties. The properties were professionally valued on an open market value basis in October 2021 and increased in value by £260k (2020: decreased by £400k).

Other operating charges for the year ended 31 December 2021 of £97k (2020: £132k) include administrative expenses costs incurred by the Society's closed defined benefit pension scheme but borne by the Society of £70k (2020: £67k). In the previous period, there were also costs linked to the provision of protective equipment to ensure our branches and head office remained COVID-19 safe environments of £65k, there were no additional costs of this kind in the current period.

Fees

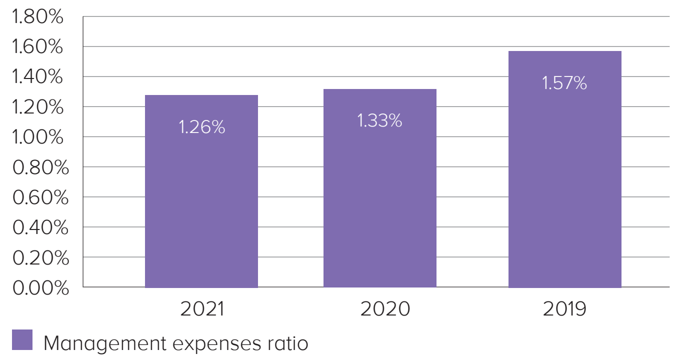
Fees receivable consist of mortgage-related income not accounted for under the Effective Interest Rate (EIR) accounting policy together with commissions from mortgage advice through our subsidiary, Saffron Mortgage Finders Limited and sales of insurance and financial planning products through our partner network. Fees payable include other (non-EIR) mortgage-related costs and bank charges.

Administrative expenses and depreciation

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

Control of operating costs forms a part of the broader strategic objective to grow the 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 the ever evolving regulatory and legal requirements. Administrative expenses of £13.5million compare with £12.7million in 2020, with the majority of the increase being for

colleague costs relating to the improvement in capability, bonus accruals linked to the improved financial performance of the society and an element of temporary staffing to aid the delivery of the core banking platform software upgrade. Further charges for depreciation and amortisation of £2.3million (2020: £2.4million) principally reflect the continued amortisation of the Society's technology investment in 2017. The Group's management expenses ratio expresses total Group's total operating costs as a percentage of average Group assets and has been presented below.



Charges for impairment and provisions

As a result of borrowers recovering from the impact of COVID-19, the collective impairment provision has fallen in the period by £94k which has unwound through the income statement. When the pandemic first materialised, the Society helped 630 Members by granting payment holidays, although many of these customers have since been able to recommence payments, leaving 24 customers now moved into severe financial difficulty following the end of their payment holidays and had moved to payment plans or collections as at December. The Society continues to remain cautious around affordability of those who have previously had access to the government furlough scheme and believe that further defaults may arise in the future as the impacts from the scheme being fully unwound begin to filter through.

With the backdrop of an uncertain housing market, which remains buoyant even after the end of the stamp duty holiday due to the bounce back of businesses following the end of lockdowns, there is a risk that the inflationary pressures in the marketplace having a negative impact on house prices, 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 remains very low, with few instances of specific provision being required.

The following charges have been booked following a thorough review of the portfolio, with a particular emphasis on those members who have exhibited signs of stress in the recent past.

Impairment charges	Group		
£000s	2021	2020	2019
Collective impairment charge	(97)	170	(59)
Individual impairment charge	84	24	393
Total	(13)	194	334

The Group is a Receiver of Rents on 2 properties (2020:3) representing capital balances of £0.4million (2020: £0.9million). Two properties were disposed of in the year ending 31 December 2021 and 1 new property was added. Disposal of the remaining properties is planned for 2022.

The arrears ratios (number of loans >3 months in arrears) as a percentage of the total loan book has improved slightly to 0.67% at 31 December 2021 (2020:0.72%). 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.

Net fair value movements

This 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 to manage interest rate risk 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, with any changes in the value of these derivatives in non-qualifying relationships flowing directly to the income statement. In particular, there are derivatives which hedge the pipeline of new mortgages and any losses or gains on these derivatives prior to draw-down will reverse out over the subsequent lives of those 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 cashflows for the purposes of hedge accounting are not always able to be adequately matched and can create hedging ineffectiveness. Again, 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 and 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 purely by long-term interest rate movements. These different bases of calculation lead to asymmetry through the Income Statement and in the current year, the value of the derivatives improved by £7.1m, compared with a decrease in mortgage portfolio carrying value of £8.5m, resulting in a charge to the Income Statement of £1.4m. Certain factors in the asymmetry such as early redemptions may not reverse over time, although other elements are timing related and 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 around 80 years old.

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 charges in respect of trading profits in the year ended 31 December 2021 of £1,625k (2020: Tax credit of £543k). The taxable profits have fully utilised the Society's carried forward deferred tax asset, which was principally generated through the losses incurred and carried forward from previous periods. 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 £ 1,295.9million at 31 December 2021, compared with £1,207.1million at 31 December 2020.

	Group		
£millions	2021	2020	2019
Liquid assets	279.0	251.0	225.2
Loans and advances to customers	996.0	942.8	828.7
Fixed and other assets	20.9	13.3	16.3
Total assets	**1,295.9**	**1,207.1**	**1,070.2**
Shares	897.5	894.0	813.2
Deposits	304.1	212.7	161.4
Other liabilities	27.3	39.9	30.8
Subordinated liabilities	10.3	10.3	10.3
Total liabilities	**1,239.2**	**1,156.9**	**1,015.7**
Reserves	56.7	50.2	54.5
Total liabilities and reserves	**1,295.9**	**1,207.1**	**1,070.2**

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 2021 the Group's portfolio of liquid assets totalled £279.0million (2020: £251.0million) and comprised of the following:

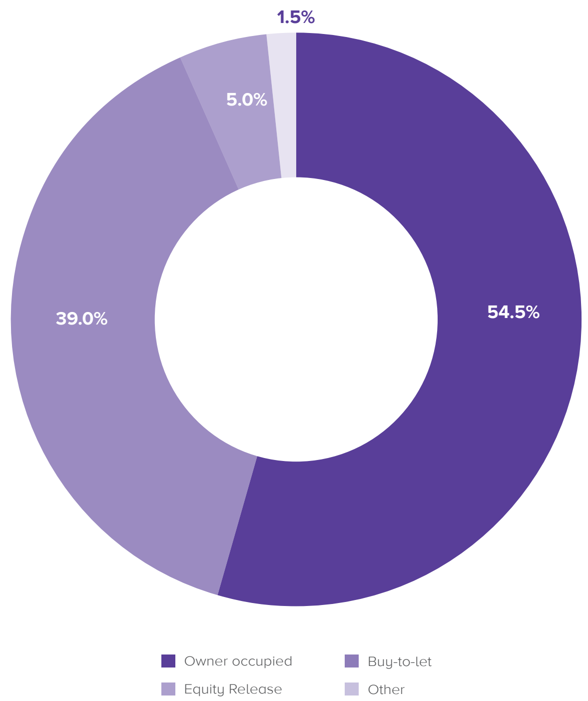
	Group	Group	
£millions	2021	2020	2019
Bank of England deposits	182	155	87
UK Government debt	-	-	71
Other bank deposits	30	45	35
Supranational debt	67	51	32
	279	**251**	**225**

At 31 December 2021 the ratio of liquid assets to shares and deposits stood at 23.2% (2020: 22.7%). 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 2021 the Group's LCR was 340% (2020: 272%), with a regulatory minimum requirement of 100%.

The Group also monitors the longer term stability of its funding, through the Net Stable Funding Ratio (NSFR). At 31 December 2021 the Group's NSFR was 136% (2020: 128%), with a regulatory minimum requirement of 100%.

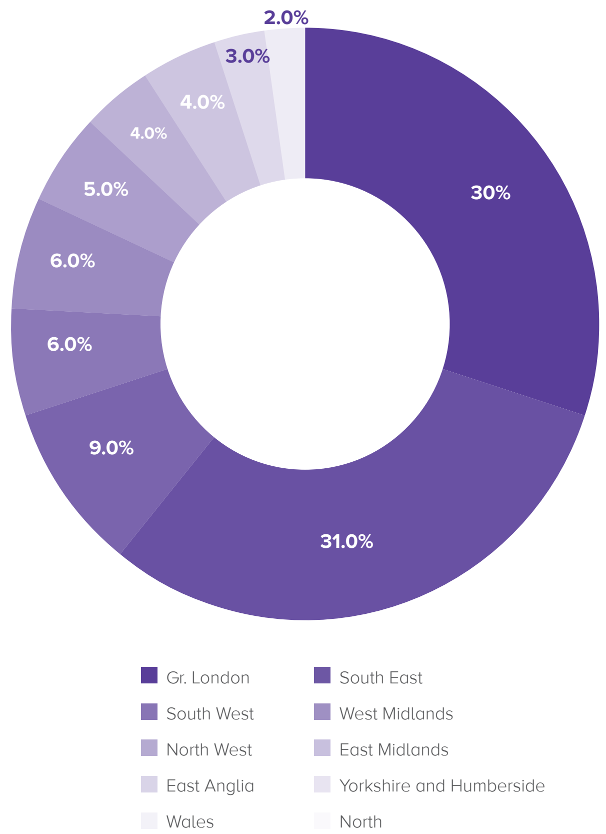
Mortgages

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



The Group lends exclusively through mortgage intermediaries. The Society recorded gross lending of £239.6million in the year ended 31 December 2021 (2020: £253.2million). After the impact of mortgage repayments, voluntary redemptions and other movements, total loans and advances to customers (net of impairment) at 31 December 2021 was £996 million, compared with £943million at 31 December 2020.

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 2021.

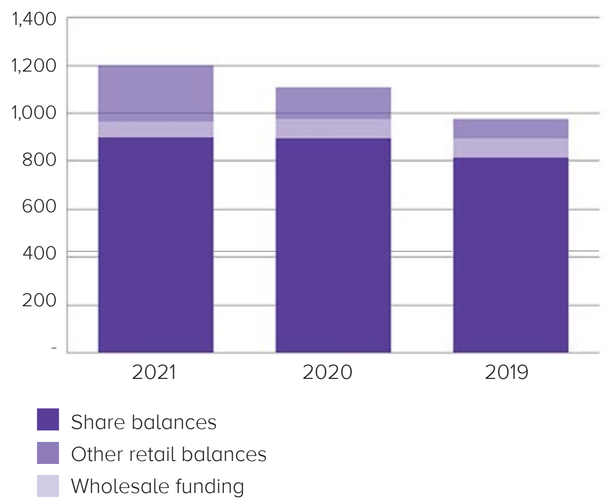


Funding the business

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

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, where appropriate prioritising existing Members over new, and recognising it should not regularly appear in the "Best Buy" tables. 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 general reductions in market interest rates 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 repricing down its savings rates. Improving profitability has facilitated increasing savings rates during the last quarter of 2021 to reward Members for the Society's success in achieving improved margins on the mortgage assets and further increases are expected, particularly following the December 2021 Base Rate increase. The increase in net mortgage balances was more than covered by the Society's further drawdown from the Bank of England TFSME scheme.

Wholesale funding

The Society remains an active participant of the Bank of England's Sterling Monetary Framework (SMF), accessing the TFSME scheme, which is 4 year funding linked to Base Rate. As at 31 December 2021 the Society held £190million (2020: £95.5million) of TFSME funding. Drawings were greater than originally planned following strong mortgage completion's at the start of the year, which were a necessary pre-requisite under the conditions of the scheme. The Society also has access to 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 usually 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 2021, 20.9% of the Group's assets were encumbered (2020: 13.5%) representing £242.3million of residential mortgage assets (2020: £118.8million) and £28.0million of other assets (2020: £44.1million).

Pensions

The Society operates a defined benefit pension scheme (the Scheme) that was closed to colleagues 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, but is subject to annual valuation for the purposes of inclusion in the financial statements. The Society was not required to make any contribution to the Scheme in 2021 (2020: 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). The net asset and liability movements resulted in an improvement of £0.5m, of which £0.6m was credited to Other Comprehensive Income with the remainder charged through the Income Statement.

At the 31 December 2021 the Scheme is recorded as a pension liability of £85,000 (2020: £614,000). Further details on the Scheme can be found in note 27 to the Accounts.

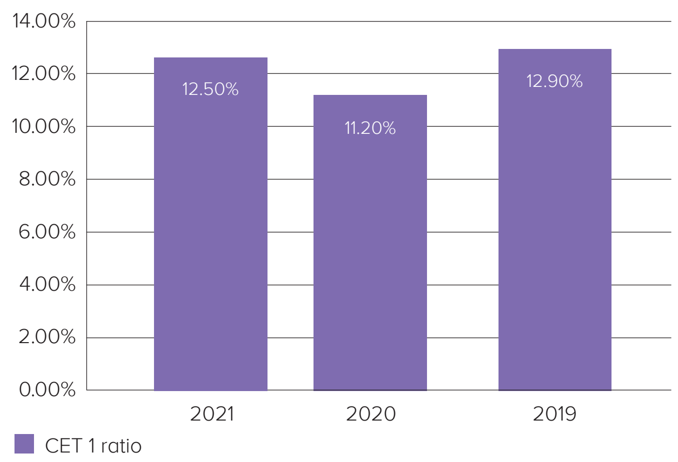
Capital

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.

After regulatory deductions, the Group's regulatory capital increased from £56.1million to £63.7 million as a result of the significant profit 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 improved considerably in the current period, with the capital availability increasing due to the profit in the financial period and amortisation of the intangible asset. The favourable impact on the CET1 ratio has been partly reduced by increases in risk weighted assets as a result of mortgage growth. Growth in the loan book has impacted the CET1 ratio by 1.65%, but the income benefits for 2021 and the future are expected to further strengthen the CET1 ratio over future years.



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.

Lisa from our Colchester branch taking part in the Road to Tokyo challenge that our Halstead and Colchester branch took part in raising money for St Helena Hospice.

Principal risks and uncertainties

The Society's risk management framework and risk appetite is explained within the Board Risk Committee Report on pages 46.

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 Enterprise-wide Risk Management Framework, are described below.

Credit risk

Description:
Credit risk is the risk that a customer is unwilling or unable to honour their obligations to the Society as they fall due, resulting in an actual or potential loss exposure for the Society. The Society segments credit risk into two categories: Retail and Treasury. As a primary lender the Group faces credit risk as an inherent component of its lending activities. Adverse changes in the credit quality of the Group's borrowers, a general deterioration in UK economic conditions or adverse changes arising from systemic risks in UK and global financial systems could reduce the recoverability and value of the Group's assets.

Mitigation:
The Society operates within a credit risk appetite, which accepts niche lending sectors but seeks to minimise risk, in terms of property type, location and borrower characteristics, this is monitored carefully and benchmarked against external loss and risk data.

Interest Rate Risk

Description:
Interest rate risk is the risk of fluctuations in interest rates and changes in the value of instruments we use to manage interest rate risk which may impact the Society's capital and earnings.

The principal exposures faced by the Society are significant repayments or product switches within the Society mortgage portfolio, which have an additional downside impact on the carrying value of the Effective Interest Rate (EIR) component of the mortgage asset. A further risk is the impact to the equity release mortgage book of movements in the long term discount rate (although this portfolio is also exposed to risks related to house price movements and mortality 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 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 Operational Risk maintains department-specific risk and control self- assessments (RCSA) covering the operations of the entire Society. RCSAs are reviewed and tested on a regular basis and the results reported to the Executive and Board Risk Committees. 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 present the 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 attainment of Information Security industry standards.

Compliance risk

Description:
Compliance risk is the risk of financial loss, reputational damage and or regulatory censure arising from failure to comply with regulatory or legislative requirements. The market sectors in which the Group operates and the markets from which it receives its funding have been subject to extensive intervention by the UK Government, European Union and other regulatory bodies. To the extent that such actions disadvantage the Group, when compared to other market participants, they represent a risk to the Group.

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 two actively promoted green products:

- 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 a charity annually as a lump sum payment; and
- Retro Fit Mortgage, a residential mortgage that rewards Members with a rate reduction if they carry out works that improve the energy efficiency of their 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

Building societies are required to hold a minimum amount of capital to protect the Members' funds and remain solvent in the form of severe economic stresses. In addition to these minimum requirements, further buffers have been introduced to ensure that Members' interests are protected even in the most adverse scenarios. The Capital Conservation buffer continued to be set at its maximum level of 2.50% of risk-weighted assets throughout 2021. The Countercyclical buffer (CCyB) was released in 2020 to support financial institutions and help to 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 scheduled to be phased back in over the coming years and the Society has planned for this re-introduction within its forecasts.

Basel III Reform

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 amount of capital for regulatory purposes. The Society has currently planned for the most prudent expectation of how the new rules may be introduced, and has anticipated full implementation from 1 January 2023. However, the detailed implementation guidance has not yet been published and could result in an outcome which is different than currently planned.

Economic Outlook

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

The shocking events currently unfolding in Ukraine increase the economic uncertainty, and the longer-term financial consequences for members are unknown. Energy prices are already impacted, as are businesses with trade both to and from Russia. The Society has no interests which are directly impacted by the conflict although there may be mortgage members whose employer trading is detrimentally affected. As always, the Society will seek to assist members where possible.

Whilst Brexit has been delivered in January 2021, the outcome of trade agreements continues to evolve. Although the core Society business is UK based, any change to our global trading relationships could have an impact on domestic markets, including the housing market. In addition there are a number of instruments held by the society which are linked to market interest rates and are therefore affected by market movements. The Society continues to monitor this situation.

Both of the core markets that the Society operates in (savings and mortgages) are highly competitive, as more competitors move into niche mortgage markets and as savers increasingly search out better returns.

Notwithstanding the risk factors identified above, the improvement to the Society's capital position against the regulatory capital requirement means that the Society is in a position to grow mortgage and savings balances through 2022 and beyond.

Competition

The activities of challenger banks and FinTech firms, as well as the rapidly accelerating digital transformation within direct competitors, continues to gather momentum, further serving to pressure margins. Consumer expectations influenced from other sectors and increasingly within financial services, further increase the risk of the Society losing relevance due to the desire for more online serviceability amongst savers and instantaneous decision making amongst home buyers.

Digitalisation of the business in order to respond to market conditions may create a need to further enhance both technology and 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 Member expectations.

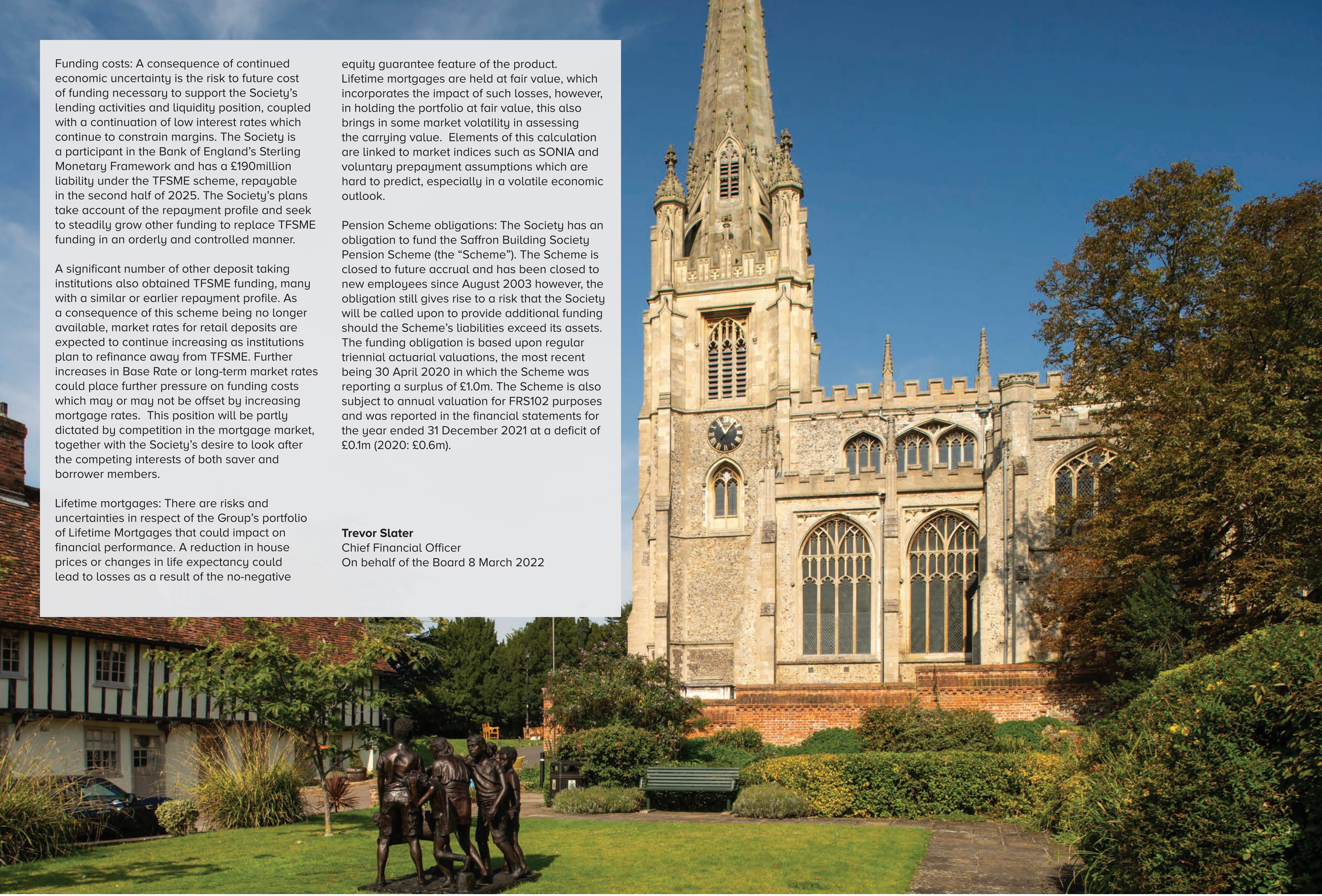
Financial performance

The economic conditions facing the Society into 2022 remain uncertain however, the Society continues to consider itself well positioned to navigate the risks associated with such uncertainty because of the improved levels of profitability in the financial period and within the Society's 5 year plan with continued levels of diligence applied in the areas of mortgage underwriting and broader financial risk and treasury management.

Mortgage arrears and impairment remain well controlled with the low levels of impairment recognised in the year and with very minor levels of impairment seen which relate to financial deterioration as a result of the pandemic. Balance sheet make up and treasury management remains a core area of focus as it is critical for the Society to optimise the levels of capital and 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 and 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 payments 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 interest rates which continue to constrain margins. The Society is a participant in the Bank of England's Sterling Monetary Framework and has a £190million liability under the TFSME scheme, repayable in the second half of 2025. 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. As a consequence of this scheme being no longer available, market rates for retail deposits are expected to continue increasing as institutions plan to refinance away from TFSME. Further increases in Base Rate or long-term market rates could place further pressure on funding costs which may or may not be offset by increasing mortgage rates. This position will be partly dictated by competition in the mortgage market, together with the Society's desire to look after the competing interests of both saver and borrower members.

Lifetime mortgages: There are risks and uncertainties in respect of the Group's portfolio of Lifetime Mortgages that could impact on financial performance. A reduction in house prices or changes in life expectancy could lead to losses as a result of the no-negative equity guarantee feature of the product. Lifetime mortgages are held at fair value, which incorporates the impact of such losses, however, in holding the portfolio at fair value, this also brings in some market volatility in assessing the carrying value. Elements of this calculation are linked to market indices such as SONIA and voluntary prepayment assumptions which are hard to predict, especially in a volatile economic outlook.

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 reporting a surplus of £1.0m. The Scheme is also subject to annual valuation for FRS102 purposes and was reported in the financial statements for the year ended 31 December 2021 at a deficit of £0.1m (2020: £0.6m).

Trevor Slater
Chief Financial Officer
On behalf of the Board 8 March 2022

Corporate Governance Report

Corporate Governance Report

Introduction

The Board remain committed to the highest standards of corporate governance and although the Society, as a mutual organisation, is not required to comply with the principles of the UK Corporate Governance Code, it pays due regard to the code, along with other legislation and guidance when establishing and reviewing corporate governance arrangements.

During 2021 the Board conducted a detailed governance review and updated all of its documentation in line with current best practice.

This section outlines how the Society is managed, highlighting the role, constitution and governance of the Board and its Committees.

The Board

The Board provides leadership to Saffron Building Society within a framework of prudent and effective controls, which enable risk to be assessed and managed.

The Board meets at least six times a year in order to fulfil its legal and regulatory obligations as well as overseeing the effective management of the Society.

The Board's training and meeting timetables are planned 12 months in advance. The Board receive comprehensive management information and a summary of key discussions of Board and Management Committees covering internal performance alongside external updates such as environmental, social, legal governance and regulatory change. The Board and its committees have a regular cycle of meetings.

The Board has four regular Committees and one temporary Committee, which allow it to consider specific areas in more detail than would be possible within Board meetings. Full Committee structure can be found on page 36 with subsequent reports from the Committees on pages 42 to 53.

Meeting Attendance

Wherever possible, meetings are attended by all members of the Committee. The table on page 37 shows the member attendance.

Engagement

As a mutual organisation, the Society has members rather than shareholders. The Society values its mutual status, with its members central to its decision making, it actively seeks the views of its members and strives to increase member engagement wherever possible.

All members are encouraged to ask questions at the AGM, and throughout the year. Members are invited to attend the AGM, either physically or virtually where they can ask questions and voice their views. Wherever possible, our members are encouraged to submit questions prior to the AGM, to ensure a satisfactory answer is provided, but the Chairman, Chief Executive Officer, Chief Financial Officer and Chair of Remuneration and Loans Committee will be in attendance to answer any questions at the AGM, as appropriate.

Members are asked to pre-register to attend the meeting physically to ensure that any social distancing requirements can be met if required.

Effectiveness

Annual effectiveness reviews are carried out on the Board, its committees and the management committees with the results of the surveys being reviewed and actions agreed to enhance the future effectiveness of the Board and its Committees.

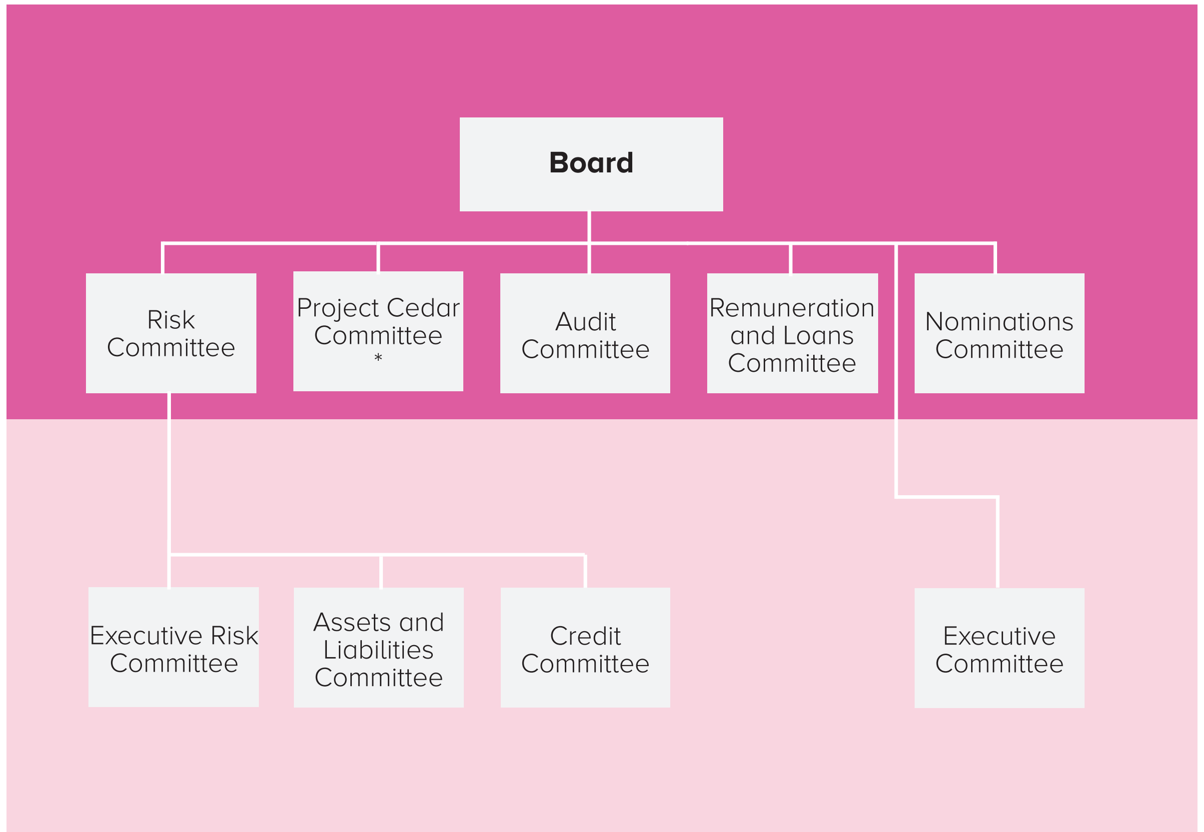
During 2021, the Terms of Reference for all Committees were reviewed and updated to bring them in line with best practice. The Terms of Reference are available on the Society's website.

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 Board considers that all Non-Executive Directors are independent in character and judgement. All Committees were found to be fully performing in 2021, with any actions for improvement being noted by the Committees.

An external effectiveness review of the Board is scheduled and will be conducted in 2022.

Board Committee Structure



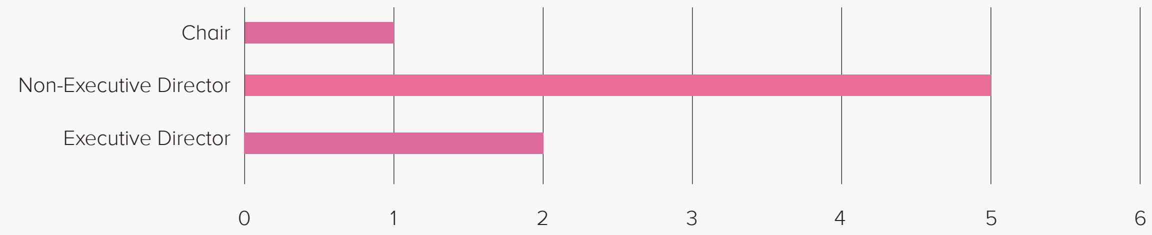
The Board has four Committees that help it carry out its responsibilities. Full reports for each of the Committees are contained on pages 42 to 53.

*There is currently a temporary Committee (Project CEDAR Committee), that is tasked with ensuring the smooth upgrade of the core banking platform of the Society. Project Cedar Committee is Chaired by Gary Barr, with its membership comprising Jenny Ashmore, David Rendell, Robin Litten and John Penberthy-Smith.

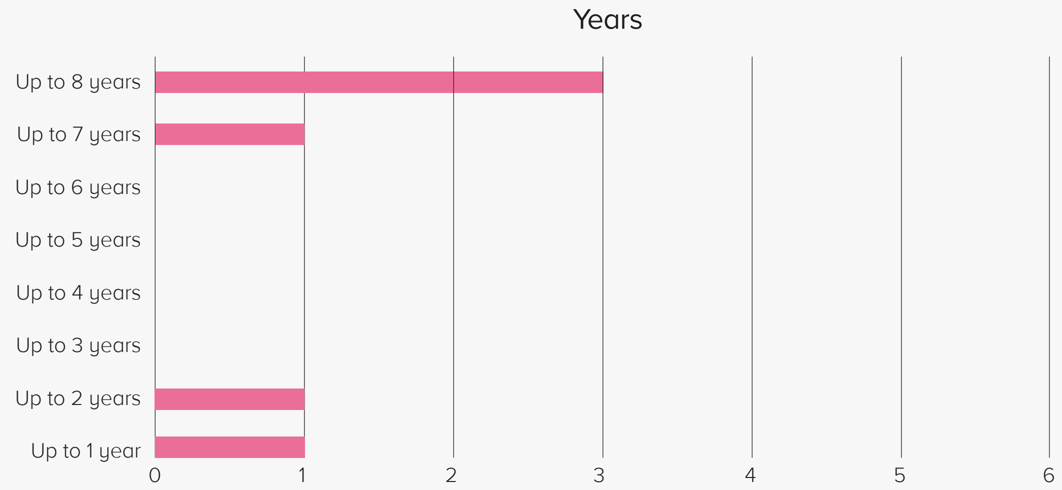
Board Director Attendance, Composition and Tenure

	Board	Audit Committee	Risk Committee	Nominations Committee	Project Cedar Committee	Remuneration and Loans Committee
Nick Treble	7/7	-	6/6	6/6	-	4/4
Jenny Ashmore	6/7	6/6	6/6	6/6	3/3	4/4
Neil Holden	7/7	6/6	6/6	6/6	-	4/4
Gary Barr	7/7	6/6	6/6	-	3/3	4/4
Robin Litten	7/7	6/6	6/6	-	2/3	4/4
David Rendell	7/7	6/6	6/6	-	3/3	4/4
Colin Field	6/7	-	-	6/6	-	-
Trevor Slater	7/7	-	-	-	-	-

Executive and Non-Executive Director composition as at 31 December 2021



Longevity of tenure for Non-Executive Directors



Meet the Directors

Non-Executives

Nick Treble – Chairman

Appointment: March 2014

Experience: 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).

Committee Membership: Board (Chair), Nominations Committee (Chair), Risk Committee and Remuneration and Loans Committee.

External Appointments: Non-Executive Director of Bank Leumi (UK) plc, Eskmuir Property Group, Cambridge & Counties Bank and a Trustee for a major family settlement.

Jenny Ashmore – Senior Independent Director

Appointment: May 2015

Experience: over 25 years' experience spanning consumer goods, media and oil/utilities as a marketing and commercial leader. Her career includes 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.

Committee Membership: Board, Nominations Committee, Risk Committee, Remuneration and Loans Committee (Chair), Audit Committee and Project Cedar Committee.

External Appointments: Non-Executive Director of Commonwealth Games England, Jazz-works Limited and Fitness Over Fifty Limited.

Neil Holden – Non-Executive Director

Appointment: March 2014

Experience: 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.

Committee Membership: Board, Nominations Committee, Risk Committee, Remuneration and Loans Committee and Audit Committee.

External Appointments: Non-Executive Director of Integrated Financial Arrangements Limited, Integralife UK Limited, Stanbic International Insurance Limited and AlbaCo Limited.

Gary Barr – Non-Executive Director

Appointment: April 2014

Experience: 30 years' experience in industry including retail, manufacturing, health and services. Companies he worked for include IT Director at the National Blood Service (NBS), Welcome Break, Sodexo UK & Ireland, WM Morrisons and Dixons Group the electrical retailer as Group IT Director.

Committee Membership: Board, Risk Committee, Remuneration and Loans Committee, Audit Committee and Project Cedar Committee (Chair).

External Appointments: Non- Executive Director of IT Range Ltd.

David Rendell – Non-Executive Director

Appointment: April 2020

Experience: 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) 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.

Committee Membership: Board, Risk Committee (Chair), Remuneration and Loans Committee, Audit Committee and Project Cedar Committee.

External Appointments: Director of Richmond Place Consultants Limited.

Robin Litten – Non-Executive Director

Appointment: January 2021

Experience: Over 20 years' experience in senior financial services roles. His early career was spent in consulting with Touche Ross, where he qualified as a Chartered Management Accountant and then in retail with Sears Group. In 1997 he joined 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.

Committee Membership: Board, Risk Committee, Remuneration and Loans Committee, Audit Committee (Chair) and Project Cedar Committee.

External Appointments: Member of the Risk and Audit Committee of Ripon Cathedral.

Executive Directors

Colin Field - Chief Executive Officer

Appointment: April 2014

Experience: A number of senior finance positions with Barclays, Caudwell Group and Willis Group having previously qualified with PwC. Colin is a Chartered Accountant (FCA). Colin joined the Board in 2014 as Chief Financial Officer before being promoted to Chief Executive Officer in September 2015.

Committee Membership: Board, Nominations Committee, Executive Committee, Executive Risk Committee, Asset and Liability Committee and Credit Committee.

Trevor Slater - Chief Financial Officer

Appointment: June 2020

Experience: 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 until 2017. 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.

Committee Membership: Board, Executive Committee, Executive Risk Committee, Asset and Liability Committee and Credit Committee.

John Penberthy-Smith – Chief Commercial Officer

Appointment: January 2022

Experience: Worked in senior level Commercial roles in a wide variety of industries such as Telecommunications/Technology/ Retail and the Public Sector with Vodafone/ Dixons Stores Group and the Money Advice Service. John joined Saffron in April 2020.

Committee Membership: Board, Project Cedar Committee, Executive Committee, Executive Risk Committee and Credit Committee.

Haverhill branch cycled 155km in support of The Women's Tour and to raise money for our Community Fund!

Nominations Committee Report

Chair	Nick Treble
Members:	Jenny Ashmore, Neil Holden and Colin Field

The Nominations Committee has responsibility for:

- succession Planning of senior roles;
- responsibility map;
- committee membership;
- the balance of Board skills, independence, experience and knowledge;
- any new appointments; and
- the performance of Directors.

Key areas of focus during 2021

The Committee focused on succession planning and the recruitment of future Non-Executives during 2021, alongside its normal duties.
Other items considered by the Committee are set out in the following sections:

Re-election policy

The Directors are subject to election at the first Annual General Meeting (AGM) after their appointment, and will be subject to annual re-election in line with the Corporate Governance Code.

The Committee reviews the performance of Directors before recommending them to stand for re- election. This includes a review of an individual's performance, alongside the skillsets of the members, to ensure the Board remains fresh and vigorous.

Performance Evaluation

The Non-Executive Directors operate an annual appraisal scheme in which all the Directors appraise the performance of their colleagues, including the Chairman. The Senior Independent Director carries out the formal appraisal of the Chairman. The Chairman carries out the formal appraisal of the CEO and the CEO carries out all appraisals for any other Executive Directors. The consolidated results are used to evaluate any overall weaknesses. The results of the exercise inform the Nominations Committees decision to recommend the Director for re-election to the Board.

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 a professional search agency 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 Nominations Committee 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 focused on improving the diversity of the Board and other senior positions within the Society.

It is committed to developing a diverse and inclusive Society where people feel a sense of belonging. Discrimination is not tolerated and individuality is celebrated. There is a desire to improve knowledge and education around diversity matters and the Society continues to improve training and awareness across the Society.

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 consider diversity across a broad range of attributes and characteristics, both visible and invisible. These can include experience, skill and thought in addition to the more visible characteristics such as gender and ethnicity.

The gender balance of the Society's Board, Executive Team and Senior Leadership Team is presented below:

	Male	Female
Non Executive Directors	80%	20%
Executive Team	100%	0%
Senior Leadership Team	64%	36%

In relation to diversity and inclusion, the Committee works closely with the Remuneration and Loans Committee. See the Remuneration and Loans Committee report on pages 50 to 53.

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 upon joining the Society.

Directors annually re-affirm their external interests and declare any conflicts of interest at each Board meeting.

In all cases the Nominations Committee considers if a Director's ability to act in the best interests of the Society might be compromised with any recommendations being made to the Board. No Director is able to participate in decision making where there would be a perceived conflict due to existing appointments. If a relationship existed between the Society and a company associated with a Non-Executive Director, all dealings would be undertaken with appropriate care and due diligence.

On behalf of Nominations Committee
Nick Treble
8 March 2022

Board Audit Committee Report

Chair	Robin Litten (Succeeded Neil Holden in September)
Members:	Jenny Ashmore, Neil Holden, David Rendell, Gary Barr

The Audit Committee has the responsibility to:

- approve the terms of engagement, appointment, reappointment or dismissal of the internal auditors, including an annual review of auditor effectiveness;
- manage the relationship with the external auditor, including an annual review of auditor effectiveness and their appointment, reappointment and removal;
- review and assess the integrity of the Society's financial reporting and statements; and
- monitor the effectiveness of internal controls and risk management systems.

Audit Effectiveness

The Committee reviews the effectiveness of the internal and external audit process on an annual basis. The Committee were satisfied that both the external auditors and internal auditors were performing their duties in an independent and effective manner.

Key areas of focus during 2021

The significant judgements, issues and actions taken by the Committee in relation to the Annual report and Accounts which were considered by the Committee during the year, whilst working closely with the Board Risk Committee, the Society's Risk function and Internal Audit, are set out in the following sections.

Key areas discussed by the Committee throughout the year are as follows:

- 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; and
- reviewing the integrity of systems and controls in operation around the Society.

Aside from these key areas, the judgemental areas most open to material manipulation or error were also considered in detail, these are covered further below:

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 loan cohorts. The Committee provided challenge on the projected profiles compared to historical experience and likely outcomes and gained comfort over the assumptions adopted 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 measurement mismatch with the associated swap which is also accounted for 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 18 and 19. After reviewing these and other reports presented by management, and after discussion with the Group's auditors, the Committee 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.

Impairment considerations and disclosures

Throughout the emergence of the COVID-19 pandemic, the Group considered the impact on the mortgage book of those members whose situations have been detrimentally altered by the pandemic but are supported through government schemes, masking what may have ordinarily resulted in arrears and provisioning. While the Society do not disadvantage affected members from a product offering perspective, management have considered the need for additional provisioning against future arrears as a result of conditions which existed at the year end. This judgement has been presented to the Committee for appropriate scrutiny and is considered appropriate.

Tax compliance

The Committee considered the tax approach of the Group in the year, reviewing papers covering the various tax exposures to ensure that there were appropriate controls around tax reporting and that the Group were not taking advantage of aggressive tax mitigation schemes. The committee was satisfied that the Group are acting appropriately when accounting for tax and reporting this to the external body.

Fair, Balanced and Understandable

The Committee considered whether the 2021 Annual Report & Accounts, taken as a whole, were fair, balanced and understandable. The Committee satisfied itself that there was a robust process of review and challenge at different levels within the Society, and that the reports portrayed both the successes and challenges and fairly represented the results and business performance of the Society. It further determined that the language was appropriate (it could be understood by a person with reasonable knowledge of the building society and financial services sector). The Audit Committee therefore deemed that the Annual Report and Accounts were fair, balanced and understandable.

Accounting Policies

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 LLP, has also considered the appropriateness of the accounting policies and judgements made by management.

Going Concern and Viability

The Committee reviewed the Going Concern basis of the preparation for the Annual Report and Accounts, reviewing and commenting upon the Going Concern and Viability disclosures within the Directors Report. Having assessed managements support for the Going Concern basis of preparation, the Committee supported the Going Concern assumption.

Internal Audit

The Committee works closely with PwC as part of the running of internal audit. Throughout the year the Committee review the progress and the results of any internal audits. The Committee approved the internal audit plan and all changes to it during December 2021.

External Auditor

BDO acted as the Society's external auditor during 2021, and the Committee is responsible for overseeing the relationship with the external auditor and the quality of the audit process.

The Committee manages auditor independence through the pre-approval of any non-audit services, assessing the proposed undertakings against fee levels and potential self-review threats. During the year the external auditors undertook non audit services totalling £39k. This included a validation of half year profit for regulatory purposes and the validation work in relation to the TFSME scheme. The Committee are satisfied that the provision of such work did not impair the independence of the external auditor.

The Saffron Building Society 2020 accounts were subject to FRC review with no significant findings reported. The Committee has considered the findings and no further actions are required.

On behalf of the Audit Committee
Robin Litten
8 March 2022

Board Risk Committee Report

Chair	David Rendell
Members:	Nick Treble, Jenny Ashmore, Gary Barr, Robin Litten and Neil Holden

The Risk Committee has responsibility for:

- the effectiveness of the systems of internal control;
- the plans and activities of Risk, Compliance and Conduct teams and the effectiveness and resourcing of those teams;
- the principal risks faced by the Society, together with evidence that the Society is currently operating within risk appetite and will continue to do so based on the outlook for those risks;
- approval and review of Credit Risk in excess of Credit Committee approval; and
- overseeing the annual integrated assurance plan comprising the internal audit and risk management and compliance plans.

Committee Attendance

The Committee is chaired by David Rendell and its membership comprises Non-Executive Directors. During 2021 the Risk Committee met five times to fulfil its responsibilities. The Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Commercial Officer and a representative from Internal Audit routinely attend Committee meetings. Other attendees are invited as deemed appropriate by the Chair of the Committee.

Committee Considerations

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 effective 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. The Committee ensures that there is an appropriate balance between risk and reward in order to optimise Member benefit 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 through:

- 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 responsibilities of the committees and of individual roles in place to govern risk and how oversight for these operates;
- 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.

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

"Three lines of defence"

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 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:

Board committees	Chaired by
Audit Committee	Non-Executive Director
Risk Committee	Non-Executive Director
Remuneration and Loans Committee	Non-Executive Director
Nominations Committee	Non-Executive Director
Project Cedar Committee	Non-Executive Director

Management Committees	Chaired by
Assets and Liabilities Committee	Chief Financial Officer
Executive Risk Committee	Chief Risk Officer
Credit Committee	Chief Risk Officer
Executive Committee	Chief Executive Officer

Further details on the Board Committees can be found on page 36 and full reports are contained from pages 42 to 48.

Risk appetite

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

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. All changes are taken to the Risk Committee for challenge before being recommended to the Board.

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 account when making decisions on remuneration across all levels of the organisation to ensure incentives do not drive poor customer outcomes or excessive risk taking.

Key areas of focus during 2021

The items considered by the Committee during the year are set out in the sections below. The Risk Committee works closely with the Audit Committee, the Society's Risk function and Internal Audit.

Stress testing

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

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

Recovery and Resolution plans

It is a requirement for all Banks and Building Societies to construct plans that detect possible failure and minimise the consequences of failure should it occur. The Society maintains a Board-approved Recovery Plan that outlines a menu of options the Society could credibly take to recover from a very severe 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. The Group have continued its investment in its core systems and cyber security throughout 2021 to stay commercially competitive and more importantly, to protect its members from the ever increasing risk of cyber-crime.

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

Loan loss provisioning

The Committee 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.

The Committee reviewed the approaches used and key assumptions adopted and agreed with the overall level of provisioning held. Following recommendation and approval from Risk Committee, Audit Committee concluded the assumptions used to support management's judgement as to the adequacy of impairment provision were appropriate. A risk assessment is undertaken on these assumptions against the Board risk appetite.

On behalf of the Risk Committee
David Rendell
8 March 2022

Volunteers presented a cheque to The Conservation Volunteers of £3,000 raised from the Enviro Saver.

Remuneration and Loans Committee Report

The Board has an established Remuneration and Loans Committee that comprises of all 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 (Senior Independent Director) and is responsible for:

- recommending the Society's remuneration policy to the Board;
- approving 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; and
- reviewing, at least annually, the Remuneration Policy Statement (which outlines the Society's remuneration approach) to ensure clarity and appropriate risk assessment.

The Committee membership includes the Non-Executive Directors, with the Chief Executive Officer and Head of People attending as required.
The Committee also reviews Society-wide remuneration, 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 the Remuneration Policy is to ensure the remuneration of all colleagues and executives is fair, reflects individual performance and competence and is competitive within the local financial services market.
The Remuneration Policy ensures that the strategic objectives can be achieved: attracting, motivating, rewarding and retaining people with appropriate skills and behavioural competencies to deliver the business plan. It also promotes and encourages 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). Directors and some other key roles 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 Policy addresses the Corporate Governance Code requirements and the Committee uses this to ensure that the implementation takes due consideration of the need for clarity, simplicity, risk, predictability, proportionality and alignment to culture.

Remuneration packages are comprised of: basic salary, car benefit, healthcare benefit, pension contribution and bonus payments. The bonus payments reflect both overall organisation performance and individual recognition.
The bonus scheme is discretionary, subject to review at least annually, and paid out only when affordable.

All key elements of remuneration are reviewed annually and take into account market conditions, employment competition and the Society's financial performance. The Committee reviews external market data (benchmarking data from McLagan, and the Building Societies Association annual remuneration survey) to determine appropriate pay levels.

Management undertook an in-depth review across the Society in 2021 using external advice and used factual role-specific data to assess objectively where the Society is in relation to the market. This tool will be used going forward to ensure fairness across different roles and responsibilities in the Society.

COVID-19 continued to have a major impact on everyone in 2021. As in 2020, no colleagues suffered any pay reduction, no colleagues were furloughed, and all COVID-19 related absence was paid in full. It also created the need for many colleagues to continue to work from home. In line with the wider industry, flexible working is being tested and different approaches explored. There have been no changes in contracts at this stage, and the review of the flexible working learnings and best approach will be brought to the Board before a policy is put into place.

Remuneration Decisions in 2021

In July 2021 a 2.5% salary increase was awarded to all colleagues (excluding Executive Directors). In addition, there was a further increase for frontline Customer Service Assistants, such that the starting salary is now £18,000 (upon successful completion of probation). Within this process, every person's salary was reviewed in the context of their responsibilities and some additional increases were applied to ensure that they kept pace with the external benchmarks of that role.

The 2.5% increase was in-line with inflation at the time and meant that the Society continued to make steady progress in line with the mid-range of combined external market data and in-sector salary benchmarking. The Society exceeds the statutory National Minimum Wage and meets the voluntary Real Living Wage requirements of at least £9.50 per hour. This rate is set to rise in 2022 to £9.90 per hour and the Society will continue to deliver on its commitment to the Real Living Wage.

Looking ahead, the rises in inflation and the cost of living will require careful monitoring and understanding when considering the salary packages in 2022.

Bonus for 2021

After a number of very challenging years for the Society, 2021 was a stand-out year where strong retained earnings were delivered primarily due to well-managed growth of the mortgage book. This performance was on top of keeping all of the operations working effectively through the COVID-19 constraints.

In recognition of the hard work in continuing to manage through the pandemic and deliver these results, the bonus comprised a fixed sum bonus of £1,500 per qualifying colleagues, plus a 0%, 5%, or 10% bonus payment across all roles, depending on individual performance.

Executive Directors' Remuneration

Exceptional performance is expected of all Executive Directors, with rewards linked to the promotion and support of Society values, including appropriate risk management, financial performance, quality customer service, colleague engagement and individual excellence.

Role-by-role benchmarking of salaries showed that the Executive Directors' salaries remained in-line with the market. Therefore, the Executive Directors did not receive a pay increase in 2021.

The bonus award reflects the extraordinary leadership delivered by the Executive team in 2021 as a part of a 3-year turnaround plan. The performance included a Capital Improvement Plan in 2019/20 and rebuilding the engine of growth for the Society to deliver the 2021 results, all against the difficult backdrop of COVID-19.

Therefore, after no bonus payment in 2018, a small bonus in 2019 and no bonus payment in 2020, the Committee agreed that the bonus award for 2021 should be at the upper-end of the policy-approved range to reflect the level of delivery from the Executive Directors and was awarded within a range of 25% to 30%. In line with the Policy, this is paid out in three parts: 60% of the amount in March 2022 and the remaining 40% deferred across the next 3 years.

There were no other changes to the other benefits or pension contributions for current Executive Directors in 2021.

Non-Executive Directors' Fees

In determining Non-Executive Director remuneration, the Committee and the Board take account of fees payable to Non-Executive Directors and chairmen of building societies that are similar in size and complexity to the Society. To ensure that fees are set at a level to retain and attract individuals of the calibre necessary to operate an organisation such as the Society and which reflect the skills and time commitment required, the Committee periodically commissions a review of Non-Executive remuneration.

In 2021 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.

Directors' Remuneration for 2021

The total remuneration of each Director is detailed in Note 7 to the Accounts and is summarised as follows.

Total Remuneration	2021 (£'000)	2020 (£'000)
Executive Directors	548	346
Non-Executive Directors	255	223
TOTAL	803	569

The increase in the period results from the Executive Director's bonus award for 2021 and the timing of new Director appointments in 2020 and 2021.

Gender Pay Gap

The Committee reviews the Gender Pay Gap data annually. This is prepared using appropriate published guidance and is a measure that is reviewed and challenged by the Committee. A work plan has been developed to improve this area.

There is no gap in Equal Pay in the Society – so a man and woman performing the same role at Saffron are equally remunerated.

The Gender Pay Gap is calculated comparing men and women's average hourly rates of pay to measure workplace disadvantage. While the exercise is about pay, other factors are considered such as occupational segregation, childcare and dependency care matters.

The current colleagues mix is 59% women and 41% men, but in-line with almost all organisations in the UK, there are more women in the lower paid roles and more men in the higher paid roles. This creates the Gender Pay Gap.

Gender Pay Gap	2021
Overall	38%
By quartile	%
Lower	0%
Low Middle	0%
Upper Middle	7%
Upper	37%

The Society's Gender Pay Gap has remained flat in 2021 compared with 2020, despite significant work taking place in this area. The work has been in the policy and procedure areas to support gender diversity in recruitment, retention and development, and has included interventions in training and development, as well as in policy areas such as flexible hours and menopause policy. These are not a short-term fix – as the quartile data shows, the gap is all related to senior positions and these change relatively infrequently. It is therefore a priority for the Society builds a strong pipeline and clear process, to ensure that we attract and retain the best diverse talent available. With all other UK employers chasing the same goals, it is a highly competitive area. The action plan is a regular focus of the Committee and the Board in order to make more progress in this area, and we expect to have more to report in the coming year.

To underline this commitment, the Society signed up to the Women in Finance Charter in 2021. This is a commitment by HM Treasury and signatory firms to work together to build a more balanced and fair industry.

The Charter:
- commits firms to supporting the progression of women into senior roles in the financial services sector by focusing on the executive pipeline and the mid-tier level;
- requires firms to set relevant targets and strategy for their organisation, and then to implement these, collecting and tracking key data;
- requires firms to publicly report on progress to deliver against these internal targets to support the transparency and accountability needed to drive change.

This is one part of the Society's commitment to equality, inclusion and diversity.

Wellbeing

In addition to remuneration, a key focus has been on supporting wellbeing for colleagues through a very difficult and uncertain period. This has included:

- delivery of a calendar of events with external wellbeing experts;
- boosting line-manager training and support
- increasing the number of mental health firstaiders;
- introducing mental health sessions during all colleague inductions programmes; and
- improved mental health and counselling support tools and resources available to all colleagues.

Wellbeing is one of the areas actively tracked via an engagement platform where all colleagues score and comment every fortnight. Line Managers and Executive see the overall scoring for the organisation and departments, and also review and respond directly to all feedback. This allows fast visibility and response to emerging issues.

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
8 March 2022

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 Strategic Report on pages 12 to 30.

Information presented in other sections

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

Business objectives and activities	Business Review section of the Strategic Report (page 12)
Business review and future developments	Business Review section of the Strategic Report (page 17)
Principal risks and uncertainties	Principal risks and uncertainties section of the Strategic Report (pages 26 to 30)
Financial risk management objectives and policies and risk exposures	Board Risk Committee Report (page 46)
Disclosure requirements under CRDIV country by country reporting	Note 31 to the Accounts

Results

Group reported profit before tax for the year ended 31 December 2021 was £8.1million (2020: loss of £3.8million).

The Group profit after tax transferred to general reserves was £6.4million (2020: loss of £3.3million).

Capital

Group gross capital at 31 December 2021 was £66.6million (2020:£60.0million) being 5.5% of total shares and borrowings (2020: 5.4%).

Free capital at the same date was £57.4million (2020:£49.7million) and 4.8% of total shares and borrowings (2020: 4.5%).

Mortgage arrears

At Group level at 31 December 2021 there were 17 properties (2020: 18) where payments were 12 months or more in arrears. At 31 December 2021, the Group held 2 properties (2020:3) in possession.

Supplier payment policy

The Group will settle 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 two websites saffronbs.co.uk and saffronforintermediaries.co.uk. The maintenance and integrity of these sites are 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 £45,096 (2020:£44,434) in support of charities and organisations. No contributions were made for political purposes (2020: 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; and
- 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; and
- 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; and
- 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 recovery and the new Omicron variant, inflation and 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.

Viability Assessment

The Directors are a year into the current 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 successful delivery of this strategy within the period has strengthened both the capital position and the relevance of the Society. The Board considered the strategy into year two again in detail in July and the financial projections were further refined in December, 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.

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 seen during the previous variants of the pandemic. 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 ICAAP demonstrates the ongoing expectation that capital levels are adequate to withstand an extremely severe financial shock.

Stress testing in the ICAAP also incorporated a stress on the equity release mortgage portfolio, which has historically created significant charges. 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 that the amount held by management against this book was sufficient to mitigate the vast majority of the ICAAP stress and the remaining capital surplus amount was more than sufficient to cover the remainder at the same time as being subjected to other wide-ranging detrimental circumstances.

Improvements in net interest margin and mortgage book size are a particular focus of the Group. During the viability assessment period. Results from the last year 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 profitability has continued into 2022. 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 2021 and were particularly high at the balance sheet date following the successful prepositioning of mortgage books and the drawdown of the TFSME funding. This has provided more than sufficient funding for the steady mortgage pipeline. Liquidity will be progressively managed down over 2022, but always remaining within the director's prudent risk appetite which is significantly in excess of the regulatory minimum requirements.

Operational resilience has been tested during the pandemic with colleagues working effectively from remote locations for protracted periods of time and suppliers continuing to support throughout the pandemic. The previous investment in IT infrastructure has proved particularly valuable under extreme conditions and remote working is operating successfully. Outsourcing is a particular area of focus for the Society into 2022, with more information on suppliers operational viability being sought.

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 provide 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 2024 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 2024, 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

Colleague engagement remains high on the Board agenda. Despite the challenges the pandemic has presented, colleague activities were enhanced to support greater communication and collaboration across the Society. Weekly 'all colleague' calls hosted by the Chief Executive Officer and Senior Management are held, with business related matter updates and wellbeing initiatives being some of the things that are discussed. All colleagues are encouraged to ask as many questions as they like.

Our innovative engagement platform captures real time scores and comments that are viewed and responded to by Senior Management, with overall scores being shared with the Board.

Normally, the Non-Executives would spend time with employees during the course of the year, and with the COVID-19 pandemic this could not happen in the same way. The Chairman joined some of the weekly 'all colleague' calls and the Employee Champion, Gary Barr spent time with the workforce, in order to act as a conduit between them and the Board, giving greater oversight and ensuring people matters are brought to the fore. It is hoped that during 2022 more face to face interactions can be arranged.

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 colleagues.

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.

We continue to thank all our colleagues for their unwavering support, positivity and performance over the last 12 months.

The Society has been 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)

Non-Executive Directors

N J Treble (Chairman)
J Ashmore* (Senior Independent Director)
T G Barr
N J Holden
D R Rendell
R Litten (appointed 4 January 2021)

*married name Zaremba

Being eligible, all Directors will stand for election or re-election

Biographies of the Directors appear at pages 38 to 40. 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 8 March 2022

Independent Auditor's Statement to the Members and Depositors 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 of the Society's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements of Saffron Building Society (the "Society") and its subsidiaries (the "Group") for the year ended 31 December 2021 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 Statement 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 ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 3 years covering the years ending 31 December 2019 to 31 December 2021. We remain independent of the Group and 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 Group or 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 Group and the Society's ability to continue to adopt the going concern basis of accounting included:

- Assessing the capital and liquidity of the Group and Society by reviewing the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and capital adequacy ratio with the assistance of our regulatory experts.
- Enquiring with the Directors' about the implications of COVID-19 on the business, checking that these have been appropriately factored into the forecasts.
- Assessing the appropriateness of the assumptions and judgements made in the base case and stress tested forecasts used to support the going concern assessment by considering the consistency of the forecasts with our understanding of the business, as well as looking at the historic accuracy of the forecasts by comparing with actual results.

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 Group or 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

		2021	2020
Key audit matters	Revenue recognition (Effective Interest Rate adjustment)	✓	✓
	Impairment losses on loans and advances (excluding lifetime mortgages)	✓	✓
	Valuation of lifetime mortgages	✓	✓
Materiality	£564,000 based on 1% of Net Assets (2020: £450,000 based on 0.99% of Tier 1 Capital)		

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

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 - Effective Interest Rate adjustment The Group's accounting policies are detailed on page 69 with detail about judgements in applying accounting policies and critical accounting estimates on page 71. Please refer to Note 2 for interest receivable and similar income.	The Group has an effective interest rate asset included in the Statement of Financial Position of £1.4m (2020: £0.5m) which reflects prepaid fees that are integral to the effective interest rate as well as accrued interest income. Both are spread over the behavioural life of the loans and advances using the effective interest rate method resulting in an effective interest rate adjustment within the Income Statement of £0.9m (2020: (£1.6m)). The Group's mortgage interest income is recognised on an effective interest rate ("EIR") method in accordance with the requirements of the applicable accounting standards. 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. The key assumptions in the effective interest rate models are the directly attributable fees and costs and the expected behavioural life of the loans. Significant management judgement is required to determine the expected cash flows for Group's loans and advances within these models. The key assumption in the EIR models are the expected behavioural life redemption profiles of the mortgages due to the impact on timing and quantum of expected future cash flows. 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.	We assessed whether the revenue recognition policies adopted by the Group are in accordance with requirements of the applicable accounting standards. 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, assessing the Group's model calculation of the EIR adjustment to ensure the calculations were in compliance with the requirements of the applicable accounting standards. We tested 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 reasonableness of the loan behavioural life assumptions used by management based on the Group's historical data, recent loan performance, product type and expectations of borrower behaviour. We tested the completeness and accuracy of data used in the reassessment of behavioural life redemption profiles. The arithmetical accuracy and logic in the model was also tested. We assessed the models for their sensitivities to changes in the key assumptions by considering different profiles of behavioural life. 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:** Based on our audit work performed, we consider that the effective interest rate accounting is appropriate.

Key Audit Matter		How we addressed the key audit matter in our audit
Impairment losses on loans and advances (excluding lifetime mortgages) The Group's accounting policies are detailed on page 70 with detail about judgements in applying accounting policies and critical accounting estimates on page 71. Refer to note 12 for Impairment losses on loans and advances.	The Group holds £0.6m of impairment provisions at year-end (2020: £0.8m). This comprises a specific provision of £0.2m (2020: £0.3m) and a collective provision of £0.4m (2020: £0.5m). 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 applicable accounting standards, 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 both the specific and collective loan loss provision requires significant management judgement and estimate in determining the value and timing of expected future cash flows. The specific provision is sensitive to key judgements and assumptions in respect to the underlying value of collateral held. The collective provision is calculated within a model that uses a combination of the Society's historical experience, segmentation of the loans by risk and external data, adjusted for current macroeconomic conditions. The model is sensitive to key judgements and assumptions including probability of defaults, future house price movements and forced sale discounts against collateral. Due to the sensitivity to key inputs, judgements and estimates and high degree of estimation uncertainty, the Group's collective impairment provision has a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. Error within the loan loss provisioning models itself or bias in key assumptions applied could result in the material misstatement of impairment provisions.	We assessed the specific and collective provision methodology against the requirements of applicable accounting standards. We tested the operating effectiveness of the system control that identifies loans in arrears which is then flagged for investigation. We checked that loans flagged were appropriately considered by management in determining the specific provisioning. We evaluated the completeness and accuracy of data and key assumption inputs feeding into the collective and specific provision calculations through reconciliation to underlying records, including sampling to underlying source data. Our testing on specific provisions included selecting a sample of loans and assessing the external collateral valuation. We tested the discount rate applied to the collateral valuations based on past actual discounts where collateral was sold. 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 assessed the appropriateness of the discount applied against the historic average and market data. We also assessed the sensitivity of 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 available information. We have profiled the loan population and tested a sample of loans, including performing loans for impairment indicators including arrears and high loan to values to identify individual loans, which may have impairments not identified by management to challenge the completeness and accuracy of management's impairment provision estimate. **Key observations:** Based on our audit work performed, we consider the provision for loans and advances is a reasonable estimate in consideration of the key assumptions and judgements made.
Valuation of lifetime mortgages The Group's accounting policies are detailed on page 70 with detail about judgements in applying accounting policies and critical accounting estimates on page 71. Refer to note 11 for fair value of the lifetime mortgages portfolio.	The Group holds a portfolio of lifetime mortgages at a fair value of £50.0m (2020: £61.6m). 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. In addition to the fair valuation of the lifetime mortgage portfolio, there is a No Negative Equity Guarantee ("NNEG"). The valuation is subject to 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. 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. Valuation of lifetime mortgages is therefore also a fraud risk area due to the material judgments and complexity.	We assessed the election to account for the lifetime mortgage portfolio at fair value in accordance with the requirements of applicable accounting standards. We engaged our internal valuation experts who reviewed and assessed the appropriateness off the Group's mortgage pool and NNEG valuation model. Using a combination of management's assumptions and our internal valuation expert's assumptions the audit team established an acceptable range for the overall valuation and compared this to the results produced by the Group. With support from our internal valuation experts we assessed the mortality rates, prepayment rates, future long term house price index ("HPI") and HPI volatility expectations and other assumptions used in the Groups valuation. 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 agreeing to either internal or external information. We compared the mortality rates to the Group's external actuary's actuarial tables and the HPI and HPI volatility assumptions to our independent estimate derived from observable market data. We assessed the competence, objectivity and independence of the Group's actuary. 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:** Based on our audit work performed ,we consider the valuation of lifetime mortgages to be reasonably stated in consideration of the key assumptions and judgements made.

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 financial statements as a whole and performance materiality as follows:

	2021 £k Group	2020 £k Group	2021 £k Society	2020 £k Society
Materiality	564	450	527	385
Basis for determining materiality	1% of Net Assets	0.99% of Tier 1 Capital	Significant component allocated materiality. This equates to 0.93% of net assets.	0.75% of net assets
Rationale for the benchmark applied	We determined that Net Assets was the most appropriate benchmark considering the different stakeholders. The benchmark was changed to Net Assets in the current year as this is considered to be the United Kingdom Generally Accepted Accounting Practice measure which most closely corresponds to regulatory capital, being the main driver for the Society, as the purpose of the Society is to optimise rather than maximise profits..	We determined that Tier 1 capital was the most appropriate benchmark considering the different 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.	The total materiality for all significant components was set at 1.5 times the Group materiality. Materiality for the Society was set at £527k as this is the most significant operating entity within the Group.	We determined that Net Assets was the most appropriate benchmark considering the different stakeholders.
Performance materiality	423	290	395	250
Basis for determining performance materiality	On the basis of our risk assessment together with our assessment of the overall control environment and expected total value of known and likely misstatements, based on past experience, our judgement was that overall performance materiality for the Group and Society should be 75% (2020: 65%) of materiality.			

Component materiality

We allocated materiality for each component of the Group dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £318k to £527k. In the audit of each component, we further applied performance materiality levels of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £11k (2020: £9k). 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 Annual Report and 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 this 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 Group and 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 Society; or • the 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 99 for the financial year ended 31 December 2021 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, 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 and the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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. We considered the significant laws and regulations to be the Building Societies Act 1986, Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") regulations, and relevant pension and tax legislation.

We assessed the susceptibility of the financial statements to material misstatement, including fraud and considered the fraud risk areas to be management override of controls and in relation to accounting estimates such as the EIR adjustment in revenue recognition, valuation of lifetime mortgages and loan loss provisioning.

Our procedures in response to the above included:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- reading minutes of meetings of those charged with governance, internal audit reports and correspondence with the FCA and the PRA for indication of any non-compliance with laws and regulations;
- obtaining an understanding of the control environment that the Group has in place for monitoring compliance with laws and regulations;
- made enquiries in respect of known or suspected fraud of management, internal audit and the audit committee;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments by agreeing them to supporting documentation, and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- in addressing the risk of fraud in accounting estimates, the procedures performed in the key audit matters section of our report, assessing whether the judgements made in making accounting estimates are indicative of a potential bias;

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.

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: https://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
8 March 2022
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 2021

	Notes	2021 (£000) Group	2021 (£000) Society	2020 (£000) Group	2020 (£000) Society
Interest receivable and similar income	2	27,597	26,909	23,785	23,139
Interest payable and similar charges	3	(4,838)	(4,838)	(8,082)	(8,082)
Net interest income		**22,759**	**22,071**	**15,703**	**15,057**
Fees and commissions receivable		734	732	510	543
Fees and commissions payable		(590)	(560)	(511)	(488)
Other operating income		421	421	169	169
Net fair value movements	4	622	113	(3,887)	(1,868)
Total net income		**23,946**	**22,777**	**11,984**	**13,413**
Administrative expenses	5	(13,511)	(13,676)	(12,697)	(12,528)
Depreciation and amortisation	14,16	(2,296)	(2,295)	(2,434)	(2,433)
Other operating charges		(97)	(97)	(525)	(525)
Operating profit/(loss) before impairment gains/(losses) and provisions		**8,042**	**6,709**	**(3,672)**	**(2,073)**
Impairment gains/(losses) on loans and advances	12	13	12	(194)	(195)
Operating profit/(loss)		**8,055**	**6,721**	**(3,866)**	**(2,268)**
Profit on disposal of property, plant and equipment		-	-	38	38
Profit/(Loss) before tax		**8,055**	**6,721**	**(3,828)**	**(2,230)**
Tax	8	(1,625)	(1,057)	543	247
Profit/(Loss) for the financial year		**6,430**	**5,664**	**(3,285)**	**(1,983)**

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 2021

	Notes	2021 (£000) Group	2021 (£000) Society	2020 (£000) Group	2020 (£000) Society
Profit/(loss) for the financial year		6,430	5,664	(3,285)	(1,983)
Available for sale reserve					
-Valuation gains/(losses) taken to reserves	23	(323)	(323)	82	82
-Amount transferred to income statement	23	1	1	-	-
Net actuarial gain/(loss) recognised in the defined benefit pension scheme	27	608	608	(957)	(957)
Unrealised gain/(loss) on revaluation of property, plant and equipment		-	-	(386)	(386)
Tax relating to components of other comprehensive income		(170)	(170)	207	207
Total comprehensive income/(charge) for the year		**6,546**	**5,780**	**(4,339)**	**(3,037)**

Group
Statement of Financial Position
for the year ended 31 December 2021

	Notes	2021 (£000) Group	2020 (£000) Group
Assets			
Liquid assets			
-Cash in hand and balances with the Bank of England		182,408	155,630
-Loans and advances to credit institutions	9	30,009	44,383
-Debt securities	9	66,633	51,011
Derivative financial instruments	10	9,373	614
Loans and advances to customers	11	996,029	942,814
Total liquid assets		**1,284,452**	**1,194,452**
Investment properties	15	2,455	2,495
Property, plant and equipment	14	3,888	3,621
Intangible assets	16	3,250	4,491
Other assets	17	1,864	1,452
Deferred tax asset	22	-	584
Total assets		**1,295,909**	**1,207,095**
Liabilities			
Shares	18	897,468	893,977
Amounts owed to credit institutions	19	237,125	131,257
Amounts owed to other customers		67,035	81,471
Derivative financial instruments	10	24,177	36,954
Other liabilities	20	2,657	1,999
Provision for liabilities	26	244	244
Deferred tax liability	22	90	118
Pension liability	27	85	614
Subordinated liabilities	21	10,291	10,270
Total liabilities		**1,239,172**	**1,156,904**
Reserves			
General reserves		56,484	49,691
Available for sale reserve	23	(129)	118
Revaluation reserve	24	382	382
Total reserves and liabilities		**1,295,909**	**1,207,095**

These accounts were approved by the Board of Directors on 8 March 2022 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 2021

	Notes	2021 (£000) Society	2020 (£000) Society
Assets			
Liquid assets			
-Cash in hand and balances with the Bank of England		182,408	155,630
-Loans and advances to credit institutions	9	29,920	44,044
-Debt securities	9	66,633	51,011
Derivative financial instruments	10	9,373	614
Loans and advances to customers	11	961,693	901,547
Total liquid assets		**1,250,027**	**1,152,846**
Investments in subsidiary undertakings	13	34,837	43,328
Investment properties	15	2,455	2,495
Property, plant and equipment	14	3,885	3,617
Intangible assets	16	3,250	4,491
Other assets	17	1,859	1,452
Deferred tax asset	22	-	16
Total assets		**1,296,313**	**1,208,245**
Liabilities			
Shares	18	897,468	893,977
Amounts owed to credit institutions	19	237,125	131,257
Amounts owed to other customers		67,035	81,471
Derivative financial instruments	10	24,177	36,954
Other liabilities	20	2,625	1,947
Provision for liabilities	26	244	244
Deferred tax liability	22	90	118
Pension liability	27	85	614
Subordinated liabilities	21	10,291	10,270
Total liabilities		**1,239,140**	**1,156,852**
Reserves			
General reserves		56,920	50,893
Available for sale reserve	23	(129)	118
Revaluation reserve	24	382	382
Total reserves and liabilities		**1,296,313**	**1,208,245**

These accounts were approved by the Board of Directors on 8 March 2022 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)	General reserve	Available for sale reserve	Revaluation reserve	Total
Group 2021				
Balance as at 1 January 2021	49,691	118	382	50,191
Profit for the financial year	6,430	-	-	6,430
Other comprehensive income/(charge) for the year	363	(247)	-	116
Total comprehensive income/(charge) for the year	6,793	(247)	-	6,546
Balance as at 31 December 2021	**56,484**	**(129)**	**382**	**56,737**
Group 2020				
Balance as at 1 January 2020	53,747	15	768	54,530
Loss for the financial year	(3,285)	-	-	(3,285)
Other comprehensive (charge)/income for the year	(771)	103	(386)	(1,054)
Total comprehensive (charge)/income for the year	(4,056)	103	(386)	(4,339)
Balance as at 31 December 2020	**49,691**	**118**	**382**	**50,191**
Society 2021				
Balance as at 1 January 2021	50,893	118	382	51,393
Profit for the financial year	5,664	-	-	5,664
Other comprehensive income/(charge) for the year	363	(247)	-	116
Total comprehensive income/(charge) for the year	6,027	(247)	-	5,780
Balance as at 31 December 2021	**56,920**	**(129)**	**382**	**57,173**
Society 2020				
Balance as at 1 January 2020	53,647	15	768	54,430
Loss for the financial year	(1,983)	-	-	(1,983)
Other comprehensive (charge)/income for the year	(771)	103	(386)	(1,054)
Total comprehensive (charge)/income for the year	(2,754)	103	(386)	(3,037)
Balance as at 31 December 2020	**50,893**	**118**	**382**	**51,393**

Group cash flow statements
for the year ended 31 December 2021

	Notes	2021 (£000) Group	2020 (£000) Group
Cash flows from operating activities			
Profit/(Loss) before tax		8,055	(3,828)
Interest on subordinated liabilities	21	661	634
Losses on disposal of debt securities	9	83	504
Net fair value movements	4	(21,833)	8,804
Gain on disposal of property, plant and equipment		-	(38)
Depreciation and amortisation	14,16	2,296	2,430
(Decrease)/Increase in impairment of loans and advances	12	(10)	194
Decrease/(increase) in loans and advances to credit institutions		15,542	(10,867)
Increase in loans and advances to customers		(53,205)	(114,267)
Increase in prepayments, accrued income and other assets		(412)	(259)
Increase in shares		3,809	81,203
Increase in amounts owed to credit institutions		105,868	51,616
Decrease in amounts owed to other customers		(14,436)	(355)
Increase/(Decrease) in accruals, deferred income and other liabilities		356	(421)
Net tax (paid)/received		(1,200)	168
Net cash inflow from operating activities		**45,574**	**15,518**
Cash flows from investing activities			
Purchase of debt securities		(42,116)	(93.046)
Disposal of debt securities		26,171	144,172
Purchase of property, plant and equipment		(467)	(107)
Net cash inflow from sale of property, plant and equipment		-	213
Purchase of intangible fixed assets		(555)	(75)
Net cash (used in)/generated from investing activities		**(16,967)**	**51,157**
Net cash generated from/(used in) financing activities			
Interest on subordinated liabilities		(661)	(634)
Net increase in cash and cash equivalents		**27,946**	**66,041**
Cash and cash equivalents at beginning of the year		**157,060**	**91,019**
Cash and cash equivalents at end of the year (2)		**185,006**	**157,060**

Notes:
1) All cash flows are stated inclusive of VAT where applicable.
2) Cash and cash equivalents comprise cash in hand £182,408,000 (2020 : £155,630,000) and loans and advances to credit institutions repayable on call and short notice of £2,598,000 (2020 : £1,430,000).

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 54.

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 54.

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.

Changes in accounting policies relating to the interest benchmark reform

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments, which were also enacted into FRS102, modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks e.g. LIBOR are amended as a result of the ongoing interest rate benchmark reforms. The IASB has issued amendments to these standards to provide temporary reliefs for instruments and hedges directly impacted by the IBOR reform
In August 2020 the ISAB issued Interest Rate Benchmark reform Phase Two. These amendments (effective for years beginning after 1 January 2021, but with early adoption permitted) address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues). The amendments allow for modifications to be made to financial instruments to the extent that they are necessary to implement IBOR Reform and where the new basis for calculating cash flows is economically equivalent to the previous basis.

Phase 2 reliefs

Both IAS 39 and IFRS 9 require hedge relationships to be terminated where the contractual terms of the hedging or hedged instrument are changed or where the hedging or hedged instrument is disposed of. The relief allows hedge relationships to continue where changes to the hedging or hedged instruments are necessary as a direct consequence of interest rate benchmark reform, and the new basis is economically equivalent to the previous basis. Documentation in support of hedge accounting must be amended to reflect the changes. The Society has adopted phase 2 for the year ended 31 December 2021. The relief permitted the Society to amend its existing derivative contracts without the requirement to de-designate from their existing hedging relationship, which would otherwise have been required under IAS39, providing the amendments were made on an economic equivalent basis. On 17th December 2021 the Society transitioned all of its remaining LIBOR linked interest rate swap contracts to SONIA-linked contracts on an economic equivalent basis via the fall-back approach and applied the IBOR Phase 2 reliefs to maintain all existing hedging relationships. The LIBOR Committee reviewed arrangements for the transition and noted that the process was designed in order that the impact on the Society's interest rate risk management and reported results should be minimal. At 31 December 2021 the Society has no LIBOR-linked exposures.

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 Cash Flow 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%.

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 Income Statement.

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, other than freehold properties detailed above are recorded at cost and 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 £353k (2020 - £314k). In the scenario where the mortgages redeem one month later this results in further income of £553k (2020 - £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 £218k (2020 - £404k) while an improvement in house price of 5% would lead to a reduction in provision of £138k (2020 - £277k). If the probability of default on our loan book increased by 25%, our provision would increase by £58k (2020 - £93k), however if the probability of default decreased by 25%, our provision would fall by £58k (2020 - £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 £266k (2020 - £280k).

2. Interest receivable and similar income

	2021 (£000)		**2020** (£000)	
	Group	Society	Group	Society
On assets held at amortised cost				
Loans fully secured on residential property	28,988	28,828	23,816	23,617
Loans to subsidiaries	-	861	-	1,023
Other liquid assets / cash and short term funds	169	169	451	451
On available for sale securities				
interest received on instruments	144	144	334	334
On financial instruments held at fair value through the income statement				
Loans fully secured on residential property	2,341	952	2,509	1,039
Derivatives	(4,045)	(4,045)	(3,325)	(3,325)
	27,597	**26,909**	**23,785**	**23,139**

3. Interest payable and similar charges

	2021 (£000)		**2020** (£000)	
	Group	Society	Group	Society
On liabilities held at amortised cost				
Shares held by individuals	3,728	3,728	6,624	6,624
Subordinated liabilities	682	682	634	634
Deposits and other borrowings	474	474	841	841
On financial instruments held at fair value through the income statement				
Derivatives	(46)	(46)	(17)	(17)
	4,838	**4,838**	**8,082**	**8,082**

4. Net fair value movements

	2021 (£000)		**2020** (£000)	
	Group	Society	Group	Society
Derivatives in designated fair value hedge relationships	12,330	12,330	(4,049)	(4,049)
Adjustments to hedged items in fair value hedge accounting relationships	(10,573)	(10,573)	2,856	2,856
Derivatives not in designated fair value hedge relationships	7,425	3,000	(4,378)	(1,414)
(Decrease)/Increase in fair value of assets and liabilities	(8,560)	(4,644)	1,684	739
	622	**113**	**(3,887)**	**(1,868)**

The gains and 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

	2021 (£000)		**2020** (£000)	
	Group	Society	Group	Society
Colleague costs (Note 6)	7,817	7,627	7,040	6,920
Remuneration of auditors:				
- audit of the Society's accounts	230	230	227	227
- audit of the Society's subsidiaries pursuant to legislation	30	30	27	27
- assurance related services	39	39	7	7
Operating lease rentals	299	299	293	293
Intercompany Loan Impairment	-	413	-	-
Other administrative expenses	5,096	5,038	5,103	5,054
	13,511	**13,676**	**12,697**	**12,528**

Note: all audit fees are borne by the Society and are shown net of VAT.

Assurance related services in the period are in connection with the TFSME scheme audit and the mid year profit verification. The prior year related to a client money audit of a subsidiary which was no longer needed in the current period.

The intercompany loan impairment relates to the irrecoverable amount formally waived as a result of Saffron Mortgage Finders Limited pausing trading activities.

6. Colleague numbers and costs

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

	2021		**2020**	
	Group	Society	Group	Society
Principal office	124	121	117	113
Branch offices	35	35	40	40
	159	**156**	**157**	**153**

	2021 (£000)		**2020** (£000)	
The aggregate costs of these persons were as follows:	Group	Society	Group	Society
Wages and salaries	6,738	6,572	5,990	5,886
Social security costs	613	600	601	591
Other pension costs (Note 27)	466	455	449	443
	7,817	**7,627**	**7,040**	**6,920**

7. Directors Remuneration

Analysis of Directors' emoluments:	Salary/ fees	Bonus earned in relation to financial year (7)	Other benefits (2)	Pension/ Pension allowance	Total **2021** (£000)	Salary/ fees	Bonus earned in relation to financial year (7)	Other benefits (2)	Pension/ Pension allowance	Total **2020** (£000)
Executive										
C H Field (1)	200	60	21	27	**308**	188	-	20	25	**233**
T Slater (3)	165	45	18	12	**240**	96	-	10	7	**113**
	365	**105**	**39**	**39**	**548**	**284**	**-**	**30**	**32**	**346**
Non-Executive										
G R Dunn (4)	-	-	-	-	**-**	17	-	-	-	**17**
T G Barr	40	-	–	–	**40**	33	-	-	-	**33**
N J Treble	53	-	-	-	**53**	50	-	-	-	**50**
N J Holden	43	-	-	-	**43**	43	-	-	-	**43**
J A Ashmore	43	-	-	-	**43**	40	-	-	-	**40**
E Kelly (5)	-	-	-	-	**-**	11	-	-	-	**11**
D Rendell	43	-	-	-	**43**	29	-	-	-	**29**
R Litten (6)	33	-	-	-	**33**	-	-	-	-	**-**
	255	**-**	**-**	**-**	**255**	**223**	**-**	**-**	**-**	**223**
Total	**620**	**105**	**39**	**39**	**803**	**507**	**-**	**30**	**32**	**569**

Notes:
1. There was a bonus paid in March 2021 of £17,024 (2020 - £10,384) to CH Field in respect of 2018 and 2019 deferred bonus.
2. Other benefits is made up of car allowance and private health insurance.
3. T Slater joined the Society on 1 June 2020.
4. G R Dunn retired at the AGM in April 2020 and left the Society on 30 April 2020.
5. E Kelly resigned as a director and left the Society on 30 April 2020.
6. R Litten joined the Society on 4 January 2021 and was appointed Chair of Audit on 14 September 2021.

N J Treble was appointed as Chairman on 30 April 2020.
J A Ashmore was appointed as Senior Independent Director on 1 May 2020.
D Rendell was appointed as Chair of Risk on 30 April 2020.
Non-Executive Director fees did not increase in 2021. Changes to individual fees reflect changes in position.

7. Directors bonus reflects bonus earned in relation to activities within the financial period. 40% of this is deferred over the following 3 years.

8. Taxation on profit on ordinary activities

	2021 (£000)		**2020** (£000)	
The tax charge comprises:	Group	Society	Group	Society
Current tax on profit on ordinary activities				
UK corporation tax	869	869	-	-
Total current tax	**869**	**869**	**-**	**-**
Deferred tax				
Origination and reversal of timing differences	756	188	(543)	(247)
Total deferred tax	**756**	**188**	**(543)**	**(247)**
Total tax charge/(credit) on profit on ordinary activities	**1,625**	**1,057**	**(543)**	**(247)**

The standard rate of Corporation Tax was 19% from 1 April 2017, giving effective tax rates of 19% for the year ended 31 December 2021 and 31 December 2020. The Finance Bill 2021 enacted provisions to increase the main rate of UK corporation tax to 25% for companies with profits over £250,000 from 1 April 2023. Based on this rate we have assumed that any deferred tax assets and liabilities will reverse after 2023 and are therefore recorded at this rate.

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:

	2021 (£000)		**2020** (£000)	
	Group	Society	Group	Society
Profit/(loss) on ordinary activities before tax	8,055	6,721	(3,828)	(2,230)
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 19% (2020:19%)	1,529	1,276	(728)	(425)
Effects of:				
Fixed asset differences	32	32	27	27
Non-deductible expenses	57	136	44	76
Impact of rate change	22	22	65	65
Amount charged/credited directly to equity	116	116	-	-
Deferred tax charges directly to equity	(170)	(170)	-	-
Group relief claimed	-	(397)	-	-
Adjustments to tax charge in respect of previous years	38	38	-	-
Other	1	4	49	10
Total tax charge/(credit) for the period recognised in the income statement	**1,625**	**1,057**	**(543)**	**(247)**

9. Liquid assets

	2021 (£000)		**2020** (£000)	
	Group	Society	Group	Society
Loans and advances to credit institutions:				
Repayable on call and short notice	2,598	2,509	1,430	1,091
Placements with credit institutions	27,411	27,411	42,953	42,953
	30,009	**29,920**	**44,383**	**44,044**

As at 31 December 2021 £25,832k (2020 : £41,838k) of cash has been deposited by the Group and Society as collateral against derivative contracts.

	2021 (£000)		**2020** (£000)	
Debt securities:				
Gilts	-	-	-	-
Treasury bills	-	-	-	-
Bonds	66,633	66,633	51,011	51,011
	66,633	**66,633**	**51,011**	**51,011**

	2021 (£000)	**2020** (£000)
	Group & Society	Group & Society
Movements during the year of debt securities are analysed as follows:		
At 1 January	51,011	102,055
Additions	42,116	93,046
Disposals	(26,171)	(144,172)
Net (losses)/gains from changes in fair value recognised in Statement of comprehensive income	(323)	82
At 31 December	**66,633**	**51,011**

10. Derivative financial instruments

	Group & Society (£000)		
	Contract/ notional amount	Fair values – Assets	Fair values – Liabilities
As at 31 December 2021			
a) Unmatched derivatives – Interest rate swaps	125,496	2,395	(23,563)
b) Derivatives designated as fair value hedges – Interest rate swaps	553,200	6,978	(614)
Total recognised derivative assets / (liabilities)	**678,696**	**9,373**	**(24,177)**
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)**

Unmatched derivatives include six interest rate swaps with a net notional value of £31.9million (2020 : £38.8million) designed to protect the Society against the interest rate risk presented by its portfolio of equity release mortgages. These are amortising swaps and are 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 £10.0million (2020 : £10million), which the Society has elected to de-designate from their hedging relationship at December 2021 and a further £25.5million (2020 : £13million) which, at the end of December 2021 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.

During the year, the Society has transitioned its remaining LIBOR linked contracts to a SONIA equivalent contract.

11. Loans and advances to customers

	2021 (£000)		2020 (£000)	
	Group	Society	Group	Society
Loans fully secured on residential property				
Held at amortised cost (1)	951,762	945,505	876,160	868,590
Held at fair value through the income statement	50,008	21,928	61,600	27,901
Other loans - loans fully secured on land	1,133	1,133	1,197	1,197
	1,002,903	968,566	938,957	897,688
Provision for impairment losses on loans and advances (Note 12)	(565)	(564)	(767)	(765)
	1,002,338	968,002	938,190	896,923
Fair value adjustment for hedged risk	(6,309)	(6,309)	4,624	4,624
	996,029	**961,693**	**942,814**	**901,547**

Note

(1) The Society has pledged £464.4million of mortgage loan pools with the Bank of England for the Term Funding Scheme with additional incentives for SME's (2020 : £271.3 million) to cover the £190m (2020: £95.5m) drawn funding plus available headroom to further draw Sterling Monetary Framework funding where required.

12. Impairment losses on loans and advances

	(£000)		
	Individual	Collective	Total
Group			
At 1 January 2021	266	501	767
Charge for the year	84	(97)	(13)
Amounts utilised in the period	(189)	-	(189)
At 31 December 2021	**161**	**404**	**565**
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 2021	266	499	765
Charge for the year	84	(96)	(12)
Amounts utilised in the period	(189)	-	(189)
At 31 December 2021	**161**	**403**	**564**
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 £175k 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

	2021 (£000)	2020 (£000)
	Society	Society
Shares in subsidiary undertakings	86	86
Loans to subsidiary undertakings	34,751	43,242
	34,837	**43,328**
Movement during the year of loans to subsidiary undertakings:		
Cost		
At 1 January	43,242	41,014
Repayments received	(9,363)	(2,323)
Loans advanced	872	4,551
At 31 December	**34,751**	**43,242**

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 2021	3,882	1,147	3,223	8,252
Additions	-	-	467	467
Disposals	-	-	-	-
Revaluation				
Transfer from Investment Property	300	-	-	300
At 31 December 2021	**4,182**	**1,147**	**3,690**	**9,019**
Depreciation				
At 1 January 2021	1,097	788	2,746	4,631
Charged in year	144	114	242	500
Disposals	-	-	-	-
At 31 December 2021	**1,241**	**902**	**2,988**	**5,131**
Net book value				
At 31 December 2021	**2,941**	**245**	**702**	**3,888**
At 31 December 2020	2,785	359	477	3,621

	Society (£000)			
	Land and buildings freehold	Land and buildings short leasehold	Equipment, fixtures, fittings and vehicles	Total
Cost or valuation				
At 1 January 2021	3,882	1,147	3,218	8,247
Additions	-	-	467	467
Disposals	-	-	-	-
Revaluation	-	-	-	-
Transfer from Investment Property	300	-	-	300
At 31 December 2021	**4,182**	**1,147**	**3,685**	**9,014**
Depreciation				
At 1 January 2021	1,097	788	2,745	4,630
Charged in year	144	114	241	499
Disposals	-	-	-	-
At 31 December 2021	**1,241**	**902**	**2,986**	**5,129**
Net book value				
At 31 December 2021	**2,941**	**245**	**699**	**3,885**
At 31 December 2020	2,785	359	473	3,617

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 o £3,170,000. Had these assets been carried at historic cost, the net book value at 31 December 2021 would be £3,461,520 (2020 : £3,276,516).

Land and buildings freehold includes non-depreciable land held by the Society for its own activities with a net book value of £565,000 (2020 : £565,000).

15. Investment properties

	2021 (£000)
	Group & Society
At 1 January 2021	2,495
Transfer to property, plant and machinery	(300)
Disposals	-
Revaluation gain	260
At 31 December 2021	**2,455**

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 29 November 2021. The property rental income earned, all of which is leased out under operating leases, amounted to £161k (2020 : £169k) 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 2021	Group £000s 2020
Not later than one year	155	190
Later than one year and not later than five years	389	511
Later than five years	227	293

16. Intangible assets

	(£000)
	Group & Society
Cost	
At 1 January 2021	16,395
Additions	555
Disposals	-
At 31 December 2021	**16,950**
Amortisation	
At 1 January 2021	11,904
Charged in year	1,796
Disposals	-
At 31 December 2021	**13,700**
Net book value	
At 31 December 2021	**3,250**
At 31 December 2020	4,491

Intangible assets at 31 December 2021 comprise the costs of investment in new mortgages and savings platforms to meet the future needs of the Society and include £550k (2020: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

	2021 (£000)		**2020** (£000)	
	Group	Society	Group	Society
Other assets	3	-	3	3
Prepayments and accrued income	1,861	1,859	1,449	1,449
	1,864	**1,859**	**1,452**	**1,452**

18. Shares

	2021 (£000)		2020 (£000)	
	Group	Society	Group	Society
Held by individuals	897,693	897,693	893,884	893,884
Fair value adjustment for hedged risk	(225)	(225)	93	93
	897,468	**897,468**	**893,977**	**893,977**

19. Amounts owed to credit institutions

	2021 (£000)		2020 (£000)	
	Group	Society	Group	Society
Amounts owed to credit institutions	237,125	237,125	131,257	131,257
	237,125	**237,125**	**131,257**	**131,257**

Captured within the amounts owed to credit institutions is the Term Funding Scheme with additional incentives for SME's funding from the Bank of England of £190m (2020: £95.5m). This is all due for repayment between August and October 2025.

20. Other liabilities

	2021 (£000)		2020 (£000)	
	Group	Society	Group	Society
Social Security	208	205	204	197
Other creditors	955	955	780	761
Other accruals	1,494	1,465	1,015	989
	2,657	**2,625**	**1,999**	**1,947**

21. Subordinated liabilities

	2021 (£000)		2020 (£000)	
	Group	Society	Group	Society
Fixed Rate 6.82% Subordinated Debt 2028	10,291	10,291	10,270	10,270

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

22. Deferred taxation assets and liabilities

	2021 (£000)		2020 (£000)	
	Group	Society	Group	Society
Deferred tax assets				
Balance 1 January	584	16	286	14
Tax value of losses carried forward	-	(16)	298	2
Utilisation of previous recognised tax losses	(584)	-	-	-
Balance 31 December	**-**	**-**	**584**	**16**
Deferred taxation liabilities				
Balance 1 January	118	118	571	571
Income Statement credit	(198)	(198)	(246)	(246)
Charge recognised through Other Comprehensive Income	170	170	(207)	(207)
	90	**90**	**118**	**118**
Fixed asset timing differences	264	264	381	381
Other timing differences	(208)	(208)	(289)	(289)
Capital gains	34	34	26	26
Liability at 31 December	**90**	**90**	**118**	**118**

The Finance Bill 2021 enacted provisions to increase the main rate of UK corporation tax to 25% for companies with profits over £250,000 from 1 April 2023. all deferred balances have been recorded at 25%, being the rate enacted at the balance sheet date at which the balances are materially expected to reverse.

23. Available for sale reserve

	2021 (£000)		2020 (£000)	
	Group	Society	Group	Society
Reserve at start of the year	118	118	15	15
Realised gains	1	1	-	-
Net changes in fair value	(323)	(323)	82	82
Tax relating to components of other comprehensive income	75	75	21	21
Reserve at end of the year	**(129)**	**(129)**	**118**	**118**

24. Revaluation reserve

	2021 (£000)		2020 (£000)	
	Group	Society	Group	Society
Revaluation reserve at start of the year	382	382	768	768
Unrealised valuation gains/(losses) on property, plant and equipment	-	-	(386)	(386)
Revaluation reserve at end of the year	**382**	**382**	**382**	**382**

25. Financial commitments

	2021 (£000)		2020 (£000)	
	Group	Society	Group	Society
Total future minimum lease payments under non-cancellable operating leases are as follows:				
Not later than one year	331	331	357	357
Later than one year and not later than five years	391	391	723	723
Later than five years	2	2	-	-

26. Provisions for liabilities

	Group & Society (£000)
	Dilapidations
2021	
At 1 January 2021	244
Charge for the year	-
Provision utilised	-
At 31 December 2021	**244**
2020	
At 1 January 2020	244
Charge for the year	-
Provision utilised	-
At 31 December 2020	**244**

26. Provisions for liabilities (continued)

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 £466,000 (2020 : £449,000).

Defined benefit scheme

The Society operates a defined benefit pension scheme covering its longer serving employees. The scheme closed to colleagues 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 2021 the scheme is shown in the Statement of Financial Position as a pension liability of £85,000 (2020 : £614,000) 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 2022.

27. Group pensions (continued)

	Date of fund valuation	
	31 December 2021	31 December 2020
Main assumptions		
Rate of increase in salaries	2.8%	2.3%
Rate of increase in pensions in payment	3.2%	2.8%
Rate of increase in pensions in payment after 05.04.05	2.3%	2.1%
Discount rate	1.8%	1.3%
RPI inflation assumptions	3.3%	2.8%
CPI inflation assumptions	2.8%	2.3%

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 2021	16,127	(16,741)	(614)
Benefits paid	(302)	302	-
Administration expenses	(70)	-	(70)
Net interest income/(expense)	207	(216)	(9)
Re-measurement gains			
- Actuarial gain	-	191	191
- Return on assets excluding interest income	417	-	417
At 31 December 2021	**16,379**	**(16,464)**	**(85)**

The scheme liabilities were valued in accordance with the guidelines set out in Section 28 of FRS102 using a discount rate of 1.8% 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	**2021** (£000)	**2020** (£000)
Equities and other growth assets	10,627	10,359
DCF	1,693	1,075
Liability Driven Investments	3,317	3,881
Cash	58	47
Annuities	684	765
	16,379	**16,127**

Demographic assumptions	**31 December 2021**	**31 December 2020**
Mortality (Pre-retirement)	Nil deaths	Nil deaths
Mortality (Post-retirement)	S3PFA CMI 2020	S3PA CMI 2019

	31 December 2021		**31 December 2020**	
Life expectancies (in years)	Males	Females	Males	Females
For an individual aged 65 in 2021	21.9	24.3	21.9	24.2
At age 65 for an individual aged 45 in 2021	23.2	25.7	23.2	25.6

27. Group pensions (continued)

Analysis of other pension costs charged in arriving at operating profit: Analysis of amounts included in other operating charges	2021 (£000)	2020 (£000)
Administration expenses	(70)	(67)
	(70)	**(67)**

Analysis of amounts included in pension finance income		
Net interest (expense)/income	(9)	7
	(9)	**7**

Analysis of amount recognised in the Statement of comprehensive income		
Actual return on assets less interest	417	1,467
Actuarial gain/(loss) on defined benefit obligation	191	(2,424)
Total actuarial gain/(loss) recognised in the Statement of comprehensive income	**608**	**(957)**

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 2021 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 SONIA 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 SONIA 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 SONIA linked interest rate; Fixed term Short to medium term maturity	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)

Carrying values by category as at 31 December 2021	Group (£000) Held at amortised cost: Loans and receivables	Held at amortised cost: Financial liabilities at amortised cost	Held at fair value: Available for sale	Held at fair value: Financial assets and liabilities	Held at fair value: Derivatives designated as fair value hedges	Held at fair value: Unmatched derivatives	Non-financial assets and liabilities	Total
Financial assets								
Cash in hand	182,408	-	-	-	-	-	-	182,408
Loans and advances to credit institutions	30,009	-	-	-	-	-	-	30,009
Debt securities	-	-	66,633	-	-	-	-	66,633
Derivative financial instruments	-	-	-	-	6,978	2,395	-	9,373
Loans and advances to customers	946,021	-	-	50,008	-	-	-	996,029
Other assets	-	-	-	-	-	-	11,457	11,457
	1,158,438	**-**	**66,633**	**50,008**	**6,978**	**2,395**	**11,457**	**1,295,909**
Financial liabilities								
Shares	-	897,468	-	-	-	-	-	897,468
Amounts owed to credit institutions	-	237,125	-	-	-	-	-	237,125
Amounts owed to other customers	-	67,035	-	-	-	-	-	67,035
Derivative financial instruments	-	-	-	-	615	23,562	-	24,177
Provisions for liabilities	-	-	-	-	-	-	244	244
Other liabilities	-	2,449	-	-	-	-	383	2,832
Subordinated liabilities	-	10,291	-	-	-	-	-	10,291
	-	**1,214,368**	**-**	**-**	**615**	**23,562**	**627**	**1,239,172**

Financial assets Carrying values by category as at 31 December 2020

	Loans and receivables	Financial 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
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
	1,081,227	**-**	**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	-	1,795	-	-	-	-	936	2,731
Subordinated liabilities	-	10,270	-	-	-	-	-	10,270
	-	**1,118,770**	**-**	**-**	**6,118**	**30,836**	**1,180**	**1,156,904**

There have been no reclassifications during the year.

28. Financial instruments (continued)

Carrying values by category as at 31 December 2021	Society (£000) Held at amortised cost: Loans and receivables	Held at amortised cost: Financial liabilities at amortised cost	Held at fair value: Available for sale	Held at fair value: Financial assets and liabilities	Held at fair value: Derivatives designated as fair value hedges	Held at fair value: Unmatched derivatives	Non-financial assets and liabilities	Total
Financial assets								
Cash in hand	182,408	-	-	-	-	-	-	182,408
Loans and advances to credit institutions	29,920	-	-	-	-	-	-	29,920
Debt securities	-	-	66,633	-	-	-	-	66,633
Derivative financial instruments	-	-	-	-	6,978	2,395	-	9,373
Loans and advances to customers	939,765	-	-	21,928	-	-	-	961,693
Investments in subsidiary undertakings	34,837	-	-	-	-	-	-	34,837
Other assets	-	-	-	-	-	-	11,449	11,449
	1,186,930	**-**	**66,633**	**21,928**	**6,978**	**2,395**	**11,449**	**1,296,313**
Financial liabilities								
Shares	-	897,468	-	-	-	-	-	897,468
Amounts owed to credit institutions	-	237,125	-	-	-	-	-	237,125
Amounts owed to other customers	-	67,035	-	-	-	-	-	67,035
Derivative financial instruments	-	-	-	-	615	23,562	-	24,177
Provisions for liabilities	-	-	-	-	-	-	244	244
Other liabilities	-	2,420	-	-	-	-	380	2,800
Subordinated liabilities	-	10,291	-	-	-	-	-	10,291
	-	**1,214,339**	**-**	**-**	**615**	**23,562**	**624**	**1,239,140**

Financial assets Carrying values by category as at 31 December 2020

	Loans and receivables	Financial 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
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
	1,116,648	**-**	**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	-	1,750	-	-	-	-	929	2,679
Subordinated liabilities	-	10,270	-	-	-	-	-	10,270
	-	**1,118,725**	**-**	**-**	**6,118**	**30,836**	**1,173**	**1,156,852**

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 2020 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 2021 was 2.46% (2020 : 1.92%). The Group has determined, based on observable market rates that the discount rate has a range between 1.96% and 6.13% 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 2021 were 4% and 8% respectively. The value of the no-negative equity guarantee as at 31 December 2021 was £1.7m (2020 : £2.4m).

Interest rate swaps

Level 2 – Except for the swaps hedging the Group's portfolio of equity release mortgages (level 3), the valuation of interest rate swaps is 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.

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 2021 **Financial assets**	Level 1	Level 2	Level 3	Total
Debt securities	66,633	-	-	66,633
Loans fully secured on residential property	-	-	50,008	50,008
Derivative financial instruments	-	9,373	-	9,373
	66,633	**9,373**	**50,008**	**126,014**
Financial liabilities				
Derivative financial instruments	-	615	23,562	24,177
	-	**615**	**23,562**	**24,177**

	(£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				
Derivative financial instruments	-	6,118	30,836	36,954
	-	**6,118**	**30,836**	**36,954**

Amounts stated are for Group and Society except for loans fully secured on residential property which includes £28,079,636 (2020 : £33,698,917) held within the Society's subsidiary Crocus Home Loans.

Reconciliation of opening and closing balances of Level 3 assets:	**2021** (£000)	**2020** (£000)
At 1 January	61,600	60,967
Amounts taken to Income Statement - Interest rolled up - Fair value gains	 2,334 (8,510)	 2,500 1,649
Redemptions	(5,416)	(3,516)
At 31 December	50,008	61,600

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 2021.

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 2021 with an estimate of the impact on profit before tax.

Input	**Sensitivity**		**Profit Impact 2021 (£m)**		**Profit Impact 2020 (£m)**	
Discount rate	-0.25%	+0.25%	1.3	-1.3	1.8	-1.9
HPI Growth	+0.5%	-0.5%	0.4	-0.5	0.8	-0.8
HPI Volatility	-1.0%	+1.0%	0.3	-0.3	0.5	-0.5
Collateral Values	+5.0%	-5.0%	0.3	-0.4	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:

	2021 (£000)		**2020** (£000)	
	Group	Society	Group	Society
Cash in hand	182,408	182,408	155,630	155,630
Loans and advances to credit institutions	30,009	29,920	44,383	44,044
Debt securities	66,633	66,633	51,011	51,011
Derivative financial instruments	9,373	9,373	614	614
Loans and advances to customers	996,029	961,693	942,814	901,547
	1,284,452	1,250,027	1,194,452	1,152,846
Lending commitments (off balance sheet)	66,102	66,102	72,596	72,596
Maximum credit exposure	1,350,554	1,316,129	1,267,048	1,225,442

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:	**2021** (£000)	**2020** (£000)
Credit Institutions	28,411	42,973
Multinational development banks	66,633	51,009
Central Bank and Government	1,598	1,119
	96,642	95,101

Concentration by credit grading	**2021** (£000)	**2020** (£000)
AAA	66,633	51,011
AA	1,598	30,690
A	2,577	1,134
Unrated	25,834	12,266
Total	96,642	95,101

Loans and advances to customers The table below shows information on the Group's loans and advances to customers by geographical concentration:	**2021** %	**2020** %
Greater London	30	32
South East	31	31
South West	9	9
East Anglia	4	4
West Midlands	6	6
East Midlands	5	5
North West	6	5
Yorkshire & Humberside	4	4
Wales	3	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	**2021** %	**2020** %
0% - 50%	34	35
50.01% - 75%	50	45
75.01% - 80%	6	6
80.01% - 85%	7	5
85.01% - 90%	2	6
90.01% -95%	1	3
>95%	-	-

28. Financial instruments (continued)

Not impaired	2021 (£000)	2020 (£000)
Neither past due nor impaired	978,717	924,709
Up to three months overdue but not impaired	11,077	12,304
Over three months but not impaired	5,944	4,725
Possessions / receiver of rents	266	332
Impaired		
Up to three months overdue	-	-
Between three and six months overdue	57	735
Between six and twelve months overdue	130	212
Possessions / receiver of rents	403	564
	996,594	**943,581**

Value of collateral held: Indexed	2021 (£000)	2020 (£000)
Neither past due nor impaired	2,138,784	1,975,121
Either past due or impaired	42,018	43,817
	2,180,802	**2,018,938**

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 2021.

	Interest only		Reduced Payment Concessions (reduced below the amount of interest)		Arrangements	
2021	Account balances £000	Number of accounts	Account balances £000	Number of accounts	Account balances £000	Number of accounts
Society	-	-	125	1	4,329	15
Crocus Home Loans	-	-	140	1	441	3
Group total	**-**	**-**	**265**	**2**	**4,770**	**18**
2020						
Society	613	2	582	4	887	5
Crocus Home Loans	-	-	-	-	394	2
Group total	**613**	**2**	**582**	**4**	**1,281**	**7**

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:

	2021 Number of accounts	2020 Number of accounts
Capitalisations	-	-
Mortgage term extensions	4	2
Interest rate concessions	-	-
	4	**2**

During the year ended 31 December 2021, 2 properties were taken into possession, 1 by the Society (2020: nil) and 1 by Crocus Home Loans (2020: nil). 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 2021 the Group had 1 property in possession and 2 properties with a Receiver of Rents appointed (2020: 3) representing capital balances of £669k (2020: £895k), which is 0.07% of the total Group book (2020: 0.10%).

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 2021 provisions of £0.6m were maintained (2020: £0.8m).

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 the balance sheet much longer.

28. Financial instruments (continued)

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
	Group residual maturity as at 31 December 2021 (£000)					
Cash in hand	182,408	-	-	-	–	182,408
Loans and advances to credit institutions	30,009	-	-	-	–	30,009
Debt securities	-	5,004	21,020	40,609	–	66,633
	212,417	**5,004**	**21,020**	**40,609**	**-**	**279,050**
Derivative financial instruments	-	1,244	8,125	4	-	9,373
Loans and advances to customers	-	8,970	29,873	140,949	816.237	996,029
Other assets	2,292	363	361	5,531	2,910	11,457
	214,709	**15,581**	**59,379**	**187,093**	**819,147**	**1,295,909**
Financial liabilities and reserves						
Shares	626,267	73,164	129,852	68,185	-	897,468
Amounts owed to credit institutions	–	18,506	28,565	190,054	–	237,125
Amounts owed to other customers	63,591	1,252	2,192	–	–	67,035
Derivative financial instruments	–	10	169	558	23,440	24,177
Provisions for liabilities	–	–	15	–	229	244
Other liabilities	–	2,320	363	–	149	2,832
Subordinated liabilities	–	291	-	–	10,000	10,291
Reserves	–	–	-	–	56,737	56,737
	689,858	**95,543**	**161,156**	**258,797**	**90,555**	**1,295,909**
Net liquidity gap	**(475,149)**	**(79,962)**	**(101,777)**	**(71,704)**	**728,592**	**-**

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
	Group residual maturity as at 31 December 2020 (£000)					
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**

28. Financial instruments (continued)

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
	Group residual maturity as at 31 December 2020 (£000)					
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**	**-**

The following is an analysis of gross contractual cash flows payable under financial liabilities:	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
	Group & Society as at 31 December 2021 (£000)					
Shares	625,775	73,638	130,513	68,894	-	898,820
Amounts owed to credit institutions	-	18,513	28,638	191,901	-	239,052
Amounts owed to other customers	63,585	1,257	2,197	-	-	67,039
Derivative financial instruments	-	785	(40)	64	35,670	36,479
Other Liabilities	-	2,320	363	-	149	2,832
Subordinated liabilities	-	319	313	2,528	10,951	14,111
Total liabilities	**689,360**	**96,832**	**161,984**	**263,387**	**46,770**	**1,258,333**
	Group & Society as at 31 December 2020 (£000)					
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
Other liabilities	-	1,671	381	-	679	2,731
Subordinated liabilities	-	319	313	2,528	11,583	14,743
Total liabilities	**661,781**	**79,905**	**258,797**	**129,548**	**55,190**	**1,185,221**

During the period, an additional line has been added to the tables above for the current and prior period, detailing the split for other liabilities which was inadvertently omitted in the prior year financial statements.

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 both a 2% rise and a 2% fall 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 2021 (£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	182,408	–	–	–	–	182,408
Loans and advances to credit institutions	30,009	–	–	–	–	30,009
Debt securities	24,560	21,020	21,053	–	–	66,633
Derivative financial instruments	–	–	–	–	9,373	9,373
Loans and advances to customers	383,851	115,483	448,148	38,750	9,797	996,029
Other assets	–	–	–	–	11,457	11,457
Total Financial assets	**620,828**	**136,503**	**469,201**	**38,750**	**30,627**	**1,295,909**
Financial liabilities and reserves						
Shares	697,244	132,041	68,183	–	–	897,468
Amounts owed to credit institutions	208.560	28,565	–	–	–	237,125
Amounts owed to other customers	67,035	–	–	–	–	67,035
Derivative financial instruments	–	–	–	–	24,177	24,177
Provisions for liabilities	–	–	–	–	244	244
Other liabilities	–	–	–	–	2,832	2,832
Subordinated liabilities	–	–	–	10,000	291	10,291
Reserves	–	-	–	–	56,737	56,737
Total Financial liabilities and reserves	**972,839**	**160,606**	**68,183**	**10,000**	**84,281**	**1,295,909**
Impact of derivative instruments	438,611	(17,920)	(390,786)	(29,907)	–	-
Interest rate sensitivity gap	**86,600**	**(42,023)**	**10,232**	**(1,157)**	**(53,654)**	**-**
Sensitivity to profit and reserves:						
Parallel shift of -2%	300	(618)	615	22	-	319
Parallel shift of + 2%	(300)	618	(615)	(22)	-	(319)

28. Financial instruments (continued)

	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 -2%	1,102	(2,365)	852	(506)	-	(917)
Parallel shift of + 2%	(1,102)	2,365	(852)	506	-	917

At 31 December 2021, the Group has swaps in place with a net a notional value of £31.9m (2020 : £38.8m) 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)		
2021 Financial assets	Gross amounts*	Financial collateral**	Net amounts
- Derivative financial instruments	9,373	-	9,373
Total Financial assets	**9,373**	**-**	**9,373**
Financial liabilities			
- Derivative financial instruments	24,177	(25,832)	(1,655)
Total Financial liabilities	**24,177**	**(25,832)**	**(1,655)**
2020 Financial assets			
- Derivative financial instruments	614	-	614
Total Financial assets	**614**	**-**	**614**
Financial liabilities			
Derivative financial instruments	36,954	(41,839)	(4,885)
Total Financial liabilities	**36,954**	**(41,839)**	**(4,885)**

*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). 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 regulatory requirements. 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	2021 (£000)	2020 (£000)
General reserves		56,484	49,691
Available for sale reserve	23	(129)	118
Revaluation reserve	24	382	382
Prudent valuation adjustment		(156)	(150)
Deductions for intangible assets[1]	16	(3,250)	(4,491)
Total Common Equity Tier 1 Capital		**53,331**	**45,550**
Collective impairment losses	12	404	501
Subordinated liabilities	21	10,000	10,000
Total Tier 2 Capital		**10,404**	**10,501**
Total regulatory capital		63,735	56,051
Risk weighted assets (UNAUDITED)		426,122	407,699
Capital ratios (UNAUDITED)			
Common equity tier 1 ratio		12.5%	11.2%
Total capital ratio		15.0%	13.7%
Leverage ratio		4.7%	3.7%

29. Capital (continued)

Notes:

(1) 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 2021 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 2021 was £807,274. (2020 : £578,988).
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

	2021		2020	
Shares and deposits	Number of key management personnel	Amounts £000	Number of key management personnel	Amounts £000
Balance at 1 January	7	58	8	61
Net movements in the year	1	1	(1)	(3)
Balance at 31 December	8	59	7	58

	2021		2020	
	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 2021, there were no outstanding mortgage loans granted in the ordinary course of business to Directors and their connected persons.

31. Post balance sheet events

The shocking events currently unfolding in Ukraine increase the economic uncertainty, and the longer-term financial consequences for members are unknown. Energy prices are already impacted, as are businesses with trade both to and from Russia. The Society has no interests which are directly impacted by the conflict although there may be mortgage members whose employer trading is detrimentally affected. As always, the Society will seek to assist members where possible.

32. Country-by-country reporting

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

Article 89 of CRD IV requires credit institutions and investment firms in the EU to disclose annually, specifying, by Member State and by third country in which it has an establishment, the following information on a consolidated basis for the year ended 31 December 2021:

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 31 December 2021 was 170

Annual turnover: Equivalent to total net income and, along with profit before tax, is as disclosed in the Income Statement on page 64.

Corporation tax paid: As disclosed in the cash flow statement on page 68.

Public subsidies: There were none received in the year.

Annual Business Statement

for the year ended 31 December 2021

1. Statutory percentages	Ratio at 31 December 2021	Statutory limit
		%
Lending limit	1.3%	25
Funding limit	25.3%	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 2021	Ratio at 31 December 2020
	%	%
As a percentage of shares and borrowings:		
Gross capital	5.5	5.4
Free capital	4.8	4.5
Liquid assets	23.2	22.7
As a percentage of mean total assets:		
Profit after taxation	0.51	-0.29
Management expenses	1.26	1.33

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 2021

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
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 Integrated Financial Arrangements Limited Integralife UK Limited AlbaCo Limited Stanbic International Insurance Limited
David Rendell	17.7.1958	01.05.2020	Director	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	Bank Leumi (UK) plc Cambridge and Counties Bank Limited Eskmuir Group Crocus Home Loans Limited
Robin Litten	11.05.1963	04.01.2021	Director	Crocus Home Loans Limited

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
Antony Bush	IT Director
John Penberthy-Smith	Chief Commercial Officer

4. Directors' service contracts

As at 31 December 2021, C H Field and T Slater had service contracts with the Society which could be terminated by either party giving six months' notice.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