Annual Report & Accounts

2022

Saffron Building Society

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Our 2022 Highlights

Profit after tax
£14.7m

Community Link used for
1125
hours

CET1 ratio
14.7%

Total Assets
£1,286m

Gross Mortgage lending
£233m

Customer Satisfaction score
90%

Chair's Statement

Nick Treble

> 2022 has been a record year in Saffron's 173-year history across a number of measures: strong levels of new lending, low arrears, improved capital strength, high customer satisfaction, and record profitability.

Dear member,

This will be my last report to you as Chair as I will retire from the Board at the AGM in April 2023, having completed nine years as a Non-Executive for the Society. It has been a huge privilege to work with all my colleagues at Saffron and to support them as they have navigated some challenging times, and I am pleased to report to you that the Society is in robust health.

This year will see us holding the 173rd AGM, and we have stayed true to our core purpose of providing a safe place for our members' savings and enabling them to buy their own homes. During the year we have seen a gradual relaxation of the constraints that Covid-19 imposed, a number of changes at the top of UK politics, and some relief for hard-pressed savers, many of whom have been starved of deposit income for the last decade.

2022 saw a sharp change in the interest rate environment. At the start of 2022 official rates were still very low with Base Rate at 0.25%, and by the end of the year it had risen to 3.5% – with many forecasters suggesting further increases to come. Longer-term interest rates also rose materially and experienced significant volatility during 2022 as illustrated by the yield on ten-year UK government bonds. In January 2022 the interest you received on ten-year UK government gilts was about 1% and it ended the year at circa 3.5% having been 1% higher during the brief Truss administration.

It is difficult to predict the future with any great confidence, or the direction of interest rates, but we can see in the present that inflation is much higher than the Government's target; the war in the Ukraine continues; tax rises have been necessary to support Government expenditure; and many households are experiencing a squeeze on their finances. After a decade of very low mortgage rates the current upward adjustment for borrowers on floating rate mortgages or maturing fixed rate mortgages will be painful. We are absolutely committed to working closely with any of our mortgage holders who do experience problems to help them through any temporary difficulties.

I am pleased to say that the sound risk management practices established by management and overseen by the Board Risk Committee are paying off and we have not seen any material evidence of difficulty in our loan portfolio.

During 2022 your Society lent £233m in new mortgage lending, achieving the target for the year and resulting in our total loans to customers exceeding the £1bn mark. Growth for growth's sake is not our strategy. Our objective is to help more members to achieve their goals by using and continuing to develop our expertise to design mortgage solutions that fit member needs, and in underwriting. Continuing this approach means that we are targeting to increase our level of new loans modestly in 2023 while maintaining our risk standards.

Profitability is important as it helps build up capital resources in the Society's balance sheet that both increases the financial strength of Saffron Building Society but also supports the planned growth in our loans to customers. Profitability was strong in 2022 with Profit Before Tax of £17.5m, a record year following a previous record year in 2021. The core measure of capital (CET1) has reached 14.7%, a significant move towards the Society's 15% strategic goal with this expected to be achieved during 2023.

However, increased profitability or growth in member loans are not our only, or even our primary, objectives. As a mutual, our objective is to serve our members, indeed we have defined our vision as helping our members and the community we serve to achieve 'money happiness'. These financial statements give more detail on how we are translating our vision of 'money happiness' in practical steps. However, the Board is proud of the efforts of our colleagues in providing financial education in schools; in the provision of the Community Link as a venue; and in the enhancements to the Saffron Community Fund that support our community giving activity.

At the AGM in April 2023 three long-serving Non-Executive Directors will retire, having served their full nine-year term, and we have been fortunate in recruiting a number of excellent individuals to replace them. Jaz Saggu has joined the Board during 2022 as a Non-Executive Director and has a long and successful career in the insurance sector, academia and social housing. In addition, we have been fortunate to recruit Barbara Anderson who will take over as Chair at the AGM. Barbara is a very experienced Non-Executive Director and Chair, with a background across a number of relevant sectors, and is ideally placed to lead the Board into the next part of our Saffron Building Society story. Brief details of their careers and experience are included in the Directors' biographies on page 49.

The Board would like to express its thanks to Trevor Slater who has retired as Chief Financial Officer and Board member. Trevor's contribution to the Society, and particularly his input to the Board, has made a real difference both at the financial management level and in the strategic discussions. Trevor will be much missed both personally and professionally and, on behalf of the Board, I wish him and his family a long and enjoyable retirement. Following an external and internal search process I am pleased to welcome Maurice Mills on board as CFO. Maurice has been part of the Saffron finance team for six years, most recently as Deputy CFO and knows the Society intimately.

Neil Holden, Gary Barr and I will retire at the AGM in April 2023. Both Neil and Gary have served on the Board during a period that has included some significant challenges and many successes. Their contribution to the Society – at the Board, in the leadership of Committees and in the many individual interactions – has been exemplary. On behalf of the Board, I would like to thank them and wish them well for the future.

2022 has been a record year in Saffron's 173-year history across a number of measures: strong levels of new lending, low arrears, improved capital strength, high customer satisfaction, and record profitability. The Board would like to thank all colleagues at the Society who should feel rightly pleased with their contribution to the outcome. The Society is in a strong place for whatever market conditions it faces in the coming years.

I would also like to thank our members who continue to support us and the mutual sector. As a mutual we are owned by our members: we are here to serve them and the community we operate in, and we are very grateful for the support you continue to give us. Building societies have a very important role to play in providing choice to consumers in retail financial services, and mutuality allows them to do so in a unique way. We at Saffron are convinced that mutuality will continue to be valued by members for many years to come.

On a personal note I would like to thank all my colleagues on the Board and across Saffron Building Society for their support during the past nine years and as Chair for the last three years. I have absolute confidence that the new Board, with Barbara's leadership and the Management Team under Colin Field, will continue to take the Society forward.

Nick Treble
Chair

Chief Executive's Report

Colin Field

"I want to thank you - our members - and also my colleagues for your continued support over what has been an exceptional year for the Society."

Dear member,

In each of the seven years I have been CEO of Saffron, I have assessed the performance of the Society over the year and taken pride in the progress that has been made in making the Society better, improving service to our members and supporting our colleagues. Each year I have explained our performance and progress in the face of various challenges, and 2022 has once more proved to be no different. The country finally emerged from a long and difficult period of pandemic to confront sharp increases in the cost of living, most notably in energy costs. During the year, Bank of England base rate increased 8 times to reach 3.5%, whilst inflation reached levels not seen since 1990, peaking at 10.5%.

Our financial performance was exceptionally strong, building on the momentum gained in 2021 to deliver another record profit before tax performance of £17.5m and underlying profit before fair value and tax of £11.9m, the concept of underlying profit is discussed further in the Strategic Report. This result was built off a further strong year of mortgage lending, taking the book through the £1bn level and representing a 3% increase in mortgage assets year on year. In line with other institutions, the Society benefited from a mortgage market buoyed by Government stimulation through stamp duty actions and through the release of pent-up housing demand post-pandemic. While the strong demand was very helpful to our performance, I was delighted to see the strength and mix of lending, in which we helped more first-time buyers and self-build members than the previous year. The Society has worked hard to develop its Net Interest Margin over recent years and it's pleasing to see this key metric at such a buoyant level having also taken action to return greater value to savings members.

The Net Interest received by the Society increased by 33.4% year on year. The main driver for this was the significant increase to the 'receive leg' from the interest rate derivatives that we use for risk management purposes. Interest rate derivatives are taken out against fixed rate mortgages and savings products to effectively convert the net interest the Society receives or pays on the mortgage or savings product from fixed to variable. As the Society's remaining interest bearing assets and liabilities are variable these interest rate derivatives then allow the Society's net interest margin to remain more stable if rates move either up or down.

The Bank of England base rate increases did filter through to both our savings rates and mortgage rates, but these changes are not reflected immediately. The Society considers all members when making changes to pricing and the actions that we took during the year increased our average savings rate by 1.17% with mortgage rates increasing on average by 0.67%. I appreciate that for a savings member, these increases may seem long overdue after many years of suffering from the low interest rate environment, while for a borrowing member, any increase will add more stress to the household budget. I do hope that you can recognise: a) that it's a difficult balance to strike, and b) that the results achieved have not been to the detriment of either saving or borrowing members.

The cost base of the Society increased materially year on year, due in part to additional recruitment that we've carried out to support our future, but also due to the impact of inflation on both salaries and non-staff costs. Even ahead of the spike in energy costs, we were seeing pressure on salaries due to the tightness of labour markets and the ongoing challenge to attract and retain talent. Over the coming year, it's likely that while inflation will likely ease, we will continue to face upward pressure on costs.

Of course, financial performance is important, not least because it's profitability that funds our growth and the development of future initiatives, but our primary goal is to improve the financial wellbeing of our members and wider community and in this regard, I'm happy with the progress we've made. In 2022 we supported 353 first-time buyers buy their first home with total lending of £77.7m, an increase of 64% vs 2021. For children, we completed the first stage of revamping the children's and young adult proposition, including range simplification and introduction of new best buy children's 2-year fixed rate bond. We won Savings Champion 'Best Children's Account Provider' for our work in this space.

Our Small Saver rewarded modest savers with a best buy rate throughout the year, being recommended by Martin Lewis as a good way to start saving and helping us win another Savings Champion award for 'Best Regular Savings Account Provider'.

We recognise that as a modern mutual Society, we have a key role to play in supporting our heartland communities and I've been thrilled to see this develop over recent years with our commitment to financial education within schools through our partnership with WizeUp, our commitment to charitable giving through our Saffron Community Fund and through our support of local clubs and societies. The standout delivery of 2022 was the introduction of the Community Link in February. The Link provides a space which can be used free of charge by local charities and community groups and, since its launch, it's been used by over 50 separate community groups for in excess of 1,100 hours.

The Link has also served to demonstrate how Saffron can play its part in bringing together community groups through word of mouth, and also stimulated by events such as the open evening that was held in October that brought together many of the groups that had used the facility.

Another highlight was the Society joining the Alternative Reclaim Fund, following a successful project planned, managed and executed by our retail team. In common with other financial institutions, we have accounts that have not been accessed for many years and have become dormant. The retail project team identified these dormant accounts and sought to contact members to inform them about these funds. In doing this, we were able to reunite 275 members with over £620,000 of balances. Where the customers could not be contacted, the remaining funds were transferred to the Alternative Reclaim Fund who are still able to reunite members with their money if they contact the Society but were also able to transfer over £400,000 to our Saffron Community Fund. This dormant contribution will be invested by Essex Community Foundation and will allow for our grant panel to allocate money to good causes this year and for future years.

My review of the year would not be complete if I didn't talk a little about my colleagues who work at the Society. When I talk with members, it's the relationships that they've built with our people that they describe as being special. It's true that the nature of our business has changed over recent years, with the acceleration of new technology and new channels transforming the way in which we wish to live our lives and conduct business. It's also true that behind these changes, it's still our people that make the difference between whether we stand out or not. Over recent years, the Society has taken many actions designed to improve the reward available to colleagues today, while also improving career opportunities for the future.

Last year we took two further actions to provide more clarity regarding reward and progression. To provide confidence to our colleagues that they're paid fairly, we conducted a Society-wide salary benchmarking exercise to ensure that all staff received at least the median level of salary available within financial services. We also took action to help support our colleagues with the rapidly rising cost of living which, in combination with the benchmarking, meant that all colleagues received at least a 7% increase in salary in July. At the same time as the benchmarking exercise, we also launched 'career families', which outlined the competencies required for each role type, accompanied by the salary payable such that colleagues can work with their line managers to better plan their career development. Our future success will depend on our ability to attract, develop and retain great people.

Our success this year has been the result of the efforts and energy of our people and I'm hugely grateful for their commitment and support over recent years and for the future. I do want to share a heartfelt thank-you to one colleague, Trevor Slater, our CFO who has had a major positive impact on the Society over the last two-and-a-half years and is now looking forward to a well-earned retirement. Trevor has provided insight and oversight in a period in which we increased our mortgage assets over 25%, significantly improved our profitability and developed our capital strength materially. Our new CFO, Maurice Mills, has been working alongside Trevor over this period and will provide continuity to the delivery of our Strategy.

I also want to thank Nick Treble, Gary Barr and Neil Holden who also retire this year, having served nine years on the Board. I've valued their support when needed and challenge when necessary during their tenure in which the Society has made substantial progress.

As I look forward to the year ahead, it seems likely that the economy will struggle to return to growth and that the ongoing pressure from inflation and higher interest rates will further reduce disposable incomes. How these factors combine to impact employment and/or house prices is at this point uncertain, but I'm sure that this will be on the minds of many of us. What I can say is that the Society heads into an uncertain year positioned well and ready to support you, its members.

Finally, I want to thank you – our members – and also my colleagues for your continued support over what has been an exceptional year for the Society.

Colin Field
Chief Executive Officer

Our Awards Cabinet

We are always delighted when our hard work is recognised by members and industry professionals. Below is a list of awards we were thrilled to have won in 2022:

Savings Champion Awards
Best Regular Savings Account Provider
Best Children's Account Provider
Best Building Society

MoneyAge Awards
Mortgage Provider of the Year

MoneyAge Mortgage Awards
Building Society of the Year

Moneynet
Best Children's Savings Provider (6th year running)

The Business Development Team at the Mortgage Awards ceremony

Strategic Report

Introduction to our Strategic Report

This report outlines the Society's strategy and reviews the progress we've made against it, together with an assessment of the external environment in which we operate and principal risks we face as a business.

The Society's core purpose remains unchanged, which is helping people to achieve money happiness through owning their own home and providing a secure home for their savings, while remaining relevant to today's evolving and highly competitive environment.

The Society offers a range of mortgages to meet a wide range of needs, including residential owner occupier products, options for first time buyers, and buy-to-let mortgages. In addition, Saffron has developed the capability to assess more complex cases where it can earn higher returns with products suitable for contractors, the self-employed, lending in and into retirement, and for renovating a property or building from scratch. In all cases, the Society's philosophy is to consider individual circumstances, apply common sense and provide a personal, reliable service to members, both present and future.

Our wide range of award-winning savings products can be 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 a range of accounts designed especially for children's savings.

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

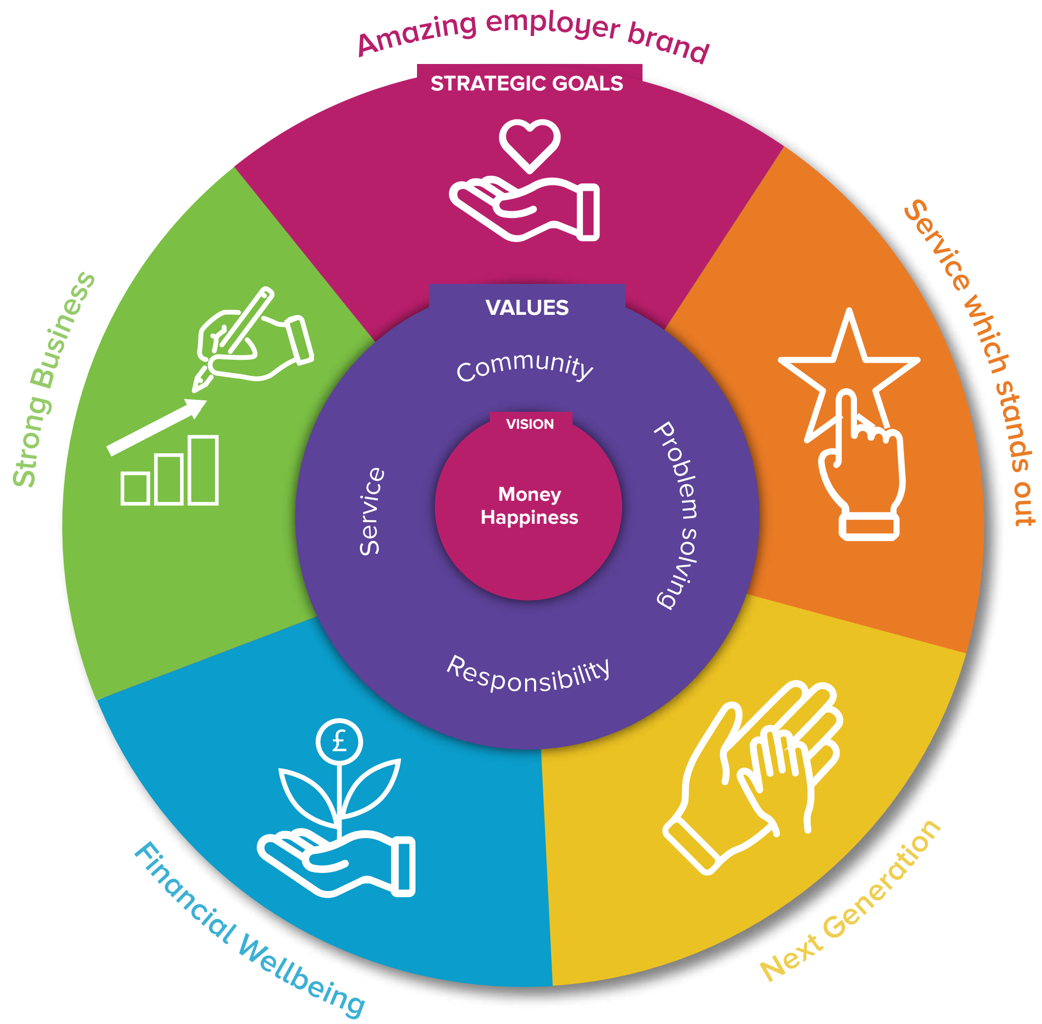
The Group has assets of £1.3bn and operates from its head office in Saffron Walden, Essex, and eight branches across three counties, and employs 163 colleagues.

Strategic highlights 2022

- Improved core capital ratios through focus on margin rich lending.
- Well managed liquidity levels, resulting in sufficient funding to achieve the Society goals.
- Contribution into a reclaim fund to support communities within the heartland.
- Showed commitment to our colleagues through increased salaries of at least 7% and an early bonus payment in December to support the increased energy bills.
- Proudly supported our 109,393 members.

Who we are and what we do

**In 2022 the Society was
Guided by our Vision...
Powered by our Values...
and Driven by our Strategic Goals.**



Our Vision

Saffron Building Society is a mutual organisation, owned by its members and run entirely for their benefit. Since 1849 the Society has been focused on helping people own their own home and providing a secure home for their savings. In satisfying these two important needs, the Society aims to realise its vision of creating 'money happiness' for its members. This means helping people feel confident, positive and in control of their finances, so they can get more out life. It's a vision that is as relevant today as it was 173 years ago, and the guiding force behind everything the Society does.

Our Values

The Society's ultimate point of difference is its culture. In a world where financial services can often seem impersonal and uncaring, Saffron Building Society's culture is powered by a clear set of human values. These values aren't superficial or imposed by above: they're what our members and colleagues have said really matter to them, and what they want the Society to stand for in the world. These values are brought to life day in, day out by colleagues for the benefit of members and in the pursuit of money happiness. Together, they're what make Saffron special.

Responsibility

Members trust Saffron with the financial things that matter most: their homes and their savings. The Society repays this trust by always acting with the highest level of responsibility, taking care to get things right, and always acting in members' best interests.

Problem-solving

Money happiness flourishes when problems are solved. That's why everyone at Saffron is focused on solving problems with skill, knowledge and empathy. Big or small, every challenge is an opportunity to create more benefits for members.

Service

Great service leaves people feeling valued and understood. It can't be faked – it comes from within and is something the Society expects its people to demonstrate in every role.

Community

Saffron is inspired to leave a legacy in the communities it serves. By building connections with local groups and nurturing relationships that last generations, the Society aims to be an integral part of our members' communities for years to come.

Our Strategic Goals

The Society's business model is simple, using savings members' deposits to help borrowing members buy a home of their own with a mortgage. Income is received from these mortgages and used to pay interest to savers, with any profit being used to reinvest in the Society and maintain financial strength.

The simplicity of the Society's business model is a source of strength and is detailed in the following pages of this Strategic Report. But to remain relevant in an ever more competitive and complex market, as well as help achieve its vision of money happiness for members, the Society has identified five strategic goals that it prioritises in the course of its business. These are:

- Running a **strong business** that is a safe and secure place for members to trust throughout their lives
- Creating an **amazing employer brand** that people are proud of and motivated to work for
- Offering our members **service which stands out**, so they love dealing with us and recommend us to others
- Helping the **next generation** get started in life with saving and owning their first home
- Driving **financial wellbeing** initiatives that help our members, communities and colleagues prosper

Business & Operational Review

Strategy and product

In order to deliver the Society's strategy to help people to achieve money happiness through owning their own home and providing a secure home for their savings, the following products and services are in place.

The Society has a range of mortgages to meet a wide range of needs. 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 offer a number of other support services through a network of selected partner organisations.

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

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

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

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

It is not possible to deliver our strategy without long-term financial stability, particularly measured by capital strength. The legacy support from the Government in the form of the Term Funding Scheme with additional incentives for SMEs (TFSME), a scheme allowing collateralised drawings from the Bank of England at Bank Base Rate, supported the Society's net interest margin, with funding at rates which have generally been lower than other forms of funding. While this has supported interest margins in the current year, savings rates are increasing significantly and generally at a higher amount than mortgages, leading to potential pressure on margins over future periods. The Society's improvement in its net interest income has also been assisted by a healthy increase in mortgage lending over recent years, at strong rates and backed by derivatives which have provided additional income as Bank of England base rate has increased. The increase in interest rate outlook has also had a positive effect on the fair value of the derivative portfolio in the period and, together with a record level of underlying earnings, has seen the Society record unprecedented levels of profitability.

Communities

The Board also recognises that the Society should have a positive impact on the communities in which it operates and supporting communities is one of Saffron's core values. Joining the Alternative Reclaim Fund Scheme allows the Society to place its dormant funds with a scheme to invest in the local community. The funds are protected should these dormant account holders come forward for reimbursement, but in the meantime is better utilising the balances for the good of the wider member group.

The Society also champions financial education in local schools, provides interview support for school leavers, continues to support Essex Community Fund and is exploring ways to share our branch facilities with local groups (the new Community Link being a great example of this).

In a commitment by the Society to its members and its wider communities, 2022 has seen an increase in focus on green initiatives and products. These are covered in detail later on in the Strategic Report, and ESG is an area where the Board are looking to go much further in the future with the launch of a new Sustainability Strategy (to be known as the 'For Years To Come' plan).

Subsidiaries

The Society also 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 2022.

The decision was taken to cease trading the other trading subsidiary, Saffron Mortgage Finders Limited in the period due to difficult trading conditions, as a result of an increase in market participants. Any requests to the Society through its branch network are introduced directly to Openwork.

Premises

During 2022, as a result of the hybrid working arrangements now in place, the Society decided to reduce the amount of head office space it had. This led to the closure of the Customer Service Centre, which was a leased facility on Great Chesterford Research Park. There was no detriment to members from this closure as colleagues continued to serve them through hybrid working. During the same period, the Society acquired a plot of land on the Shire Hill site in Saffron Walden, which has been identified as a potential site for a modern, green head office to secure the Society in its heartland for the future.

Performance

Underlying profit is the measure of profitability from the core business activities, removing the impact of accounting fair value adjustments which include adjustments which will unwind over time, as calculated on page 24. Given the level of volatility in the economy over the past three years, underlying profit is being reflected within the table summarising the income statement in order to provide members with clarity over the core business performance.

Underlying performance has improved over the past two years from a starting position in 2020 of £0.1m profit to the current position of £11.9m. This improvement is the result of targeted margin-rich mortgage business coupled with the Bank of England base rate linked TFSME funding and improved swap earnings through the increases in the SONIA overnight rate.

The Society continues to focus on improving relative capital strength while recognising that it must also continue a growth trajectory to fully deliver on its strategy. This will continue to be achieved through the following:

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

The Society's results, and in particular capital generation, have been impacted by adverse changes to the valuation of the Society's portfolio of Lifetime Mortgages in recent years. The impact on the 2022 financial year was generally positive for this portfolio, and future volatility has been reduced by structuring the derivatives which hedge the lifetime mortgage portfolio to better match the accounting risks. This area is detailed further in the later sections of 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.

The performance in the year is detailed in more detail the financial performance of the business section of this strategic report.

External Environment

2022 was a year of many political and economic strains upon the UK and world economies: from the war in Ukraine driving up prices in general and particularly energy costs, to the market dislocation around the 'mini budget'. However, it was a year where the Society has successfully focused on the key elements of its core strategy and achieved a financial outcome which has significantly improved its financial strength and resilience.

Demand in the housing market remained strong for the majority of the year, however in the final quarter there was some evidence of house prices beginning to fall under affordability pressures created by rising inflation coupled with a higher interest rate environment. Government support continued to be offered through the second half of the year, through a reduction in Stamp Duty in an attempt to stimulate the housing market. However many lenders withdrew from the market entirely or some just from the fixed rate products due to the uncertainty around the severity of the Monetary Policy Committee's (MPC) actions to kerb inflation.

The labour market has improved over the year with headline unemployment rates continuing to fall from 4.1% in December 2021 to 3.7% in December 2022. Average earnings have also seen an increase due to the sustained period of inflation in the year, with adjusted figures suggesting annual wage growth was between 4.8 and 7.0% for the year to December 2022.

CPI inflation rose from 5.4% at the start of the year to 10.5% at December 2022 with forecasts expecting this to fall back to 4% by the end of 2023 before returning to the Bank of England 2% target in 2025. The Bank of England has suggested that it may be necessary to increase the rate further in the coming months in its efforts to cement this reduction.

Following a number of years of historically low interest rates paid to savers as a result of the low Bank of England Base Rate and access to central Bank of England funding, there has been a notable shift, with many financial institutions looking to attract funding which has resulted in significantly improved savings rates. Meanwhile the mortgage market experienced a very volatile year in 2022, especially following the 'mini budget' in September when average rates increased steeply and many lenders retreated due to the uncertainty. Towards the end of the year the mortgage market stabilised and returned to its usual, highly competitive nature. As a result, we ended the year with downward pressure on mortgage pricing and more sustained upward pressure on savings pricing.

Market interest rates sentiment suggests that there are likely to be further increases in Bank of England Base Rate during the coming year, with longer-term interest rate curves pricing in a rise to around 4.5% within the next 12 months.

Earnings on fixed rate mortgages are generally protected by interest rate derivatives 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 the increased Bank of England base rate, which resulted in a significant uplift in the SONIA receive rate, leading to material fair value benefits to the Society from its back book of derivatives which were originated in a low interest rate environment resulting in the fixed pay leg of the instrument being significantly below the SONIA receive leg throughout the year. These gains are expected to unwind over time as the historic derivative book runs off and the new derivatives are taken at the higher rates in the market.

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 2022, with comparison against 2021, are presented in the table below, together with explanatory comment which follow on the corresponding pages.

	2022	2021
Trading performance		
Gross mortgage advances	£232.6m	£239.6m
Total mortgage balances	£1,028.6m	£996.0m
Shares and deposit balances	£943.0m	£964.5m
People experience		
Engagement	8.1	8.1
Member experience		
Customer net promoter score	+49.7	+40.9
Customer satisfaction	90.4%	89.0%
Broker net promoter score	+27.5	+32.3
Broker satisfaction	78.2%	74.8%
Financial sustainability		
Profit before tax	£17.5m	£8.1m
Net interest margin	2.34%	1.82%
Management expenses ratio	1.40%	1.26%
Common equity Tier 1 ratio	14.7%	12.5%
Liquidity coverage ratio	178%	340%

Measure	Explanation	2022 performance	Trend compared with 2021
Gross mortgage advances	Our lending policy and underwriting criteria are designed to ensure lending is responsible and affordable. Each year the Board sets a target level of new lending in line with risk appetite, anticipated demand for the Society's lending products and as part of broader capital management strategy. In line with the Society's long-term growth plan, a target of £230m was set this year and actual performance achieved this.	Total advances of £233m exceeded the target of £230m.	Reducing
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 on a gross basis was met, however the fair value adjustment of £27m significantly exceeded the forecast level due to market interest rate increases, resulting in the net position trending below plan.	Mortgage asset below plan of £1,050m	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 was successful, managing down retail balances as a proportion of mortgage advances due to excessive liquidity levels.	Growth below plan (£15m 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. A targeted improvement to 8.3 was set for the year, 0.2 above the starting point. It has been a transformational year for the Society from a staffing perspective, with such investment into our staffing, and maintaining such a robust score in such a transformational year is deemed a positive. The Society strives for as high a score as possible and acts on results and findings.	Score of 8.1 (0.2 below target)	Stable
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 who would not recommend the Society (detractors). 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 and the result in the year demonstrates the focus by the Society to provide our members with a good experience at every touchpoint.	An average score of 49.7 was achieved across the year.	Improving
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.	Score of 90.4%.	Improving
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 who would not recommend the Society (detractors). Our target is to exceed an NPS score of 30. In 2022 the challenging environment, resulting in the withdrawal of a number of our mortgage products, has had a detrimental impact on this metric. We are putting significant effort into rebuilding these relationships.	An average score of 27.5 was achieved across the year.	Reducing

Measure	Explanation	2022 performance	Trend compared with 2021
Broker satisfaction	An improved way to measure Broker satisfaction was launched last year to capture and respond to this channel's important feedback more accurately. 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 withdrawal from the mortgage market for a period of the year, impacting on the broker network significantly. Now that the market has returned to a more stable state, we have seen service levels return to normal levels.	Score of 78.2%.	Improving
Profit before tax	This represents the amount earned by the Society after taking into account all expenses and provisions excluding taxation. Profits are the principal source of capital for the Society. Profits in the year improved dramatically through a combination of an improved net interest margin (see below) and positive fair value movement from the Society's swap portfolios and equity release mortgage book.	Profit before tax of £17.5m ahead original budget of £11.1m.	Improving
Net interest margin	This represents the difference between interest received by the Society from its mortgages and other loans less interest paid on its deposits and other borrowings. This needs to be sufficiently high to generate a profit while providing consistent, competitive and fair rates to members. The net interest margin improved in 2022 following the central bank facilities available holding savings rates low for the majority of the year and the increase in more niche lending in the period.	Net interest margin of 2.34% which is above the original budget 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 many of its peers and reflects the low growth strategy of the business in the past to manage the capital position. The ratio worsened in 2022 due to a combination of sustained inflationary pressures throughout the year, with peaks in inflation exceeding 10%, with a number of supply side contracts linked to inflation. This also includes increased staff rewards issued via the bonus scheme to recognise their incredible performance through what has been a very difficult year. This is expected to increase in the future due to continued inflationary pressure and managed investment in order to deliver improved customer experience in line with the Society's strategy.	Management expense ratio of 1.40% which is above the budgeted 1.37%.	Increasing
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 improvements in both trading profit and fair value asset valuations have seen this improve significantly in the year. This is modelled to remain static in the future due to regulatory capital requirement changes and fair value unwind.	14.7% which is ahead of the planned ratio of 14.3%.	Improving
Liquidity coverage ratio	It is important to maintain appropriate levels of liquidity. This ratio represents the regulatory measure of liquidity adequacy and is one measure of liquidity. Liquidity is maintained throughout the year at levels necessary to significantly exceed regulatory requirements and our own stress tests. The Society operated significantly above regulatory requirements throughout the year and has consciously allowed liquidity to reduce to align with the lending plan and overall liquidity requirements.	Behind planned percentage of 232% as a result of strategic focus on liquidity requirements.	Reducing

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.

The Chief Executive's report on pages 8 and 9 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.

The Board monitors both reported and underlying profit before tax. Historically, the Society published reported profit before tax as the key comparative measure of profit. However, reported profit includes net fair value movements, which the Board does not believe fully reflects underlying business performance, and therefore underlying profit is now also used to illustrate performance. Underlying profit before tax equates to reported results, adjusted to exclude net gains or losses from fair value movements. Fair value movements are principally movements in derivatives and hedge accounting adjustments, as well as fair value changes in the lifetime mortgage portfolio. The presentation of underlying profit is illustrated consistently in prior years. The reconciliation of the underlying profit to statutory profit is provided below.

Overview of Income Statement

£millions	Group 2022	Group 2021	Group 2020
Net interest income	30.3	22.8	15.7
Other income and charges	(0.3)	0.5	(0.2)
Administrative expenses	(15.9)	(13.5)	(12.8)
Depreciation and amortisation	(2.2)	(2.3)	(2.4)
Impairment losses	(0.2)	0.0	(0.2)
Profit on disposal of property, plant and equipment	0.2	0.0	0.0
Underlying profit before tax	**11.9**	**7.5**	**0.1**
Fair value movements	5.6	0.6	(3.9)
Reported profit (loss) before tax	**17.5**	**8.1**	**(3.8)**
Tax	(2.8)	(1.7)	0.5
Reported profit (loss) after tax	**14.7**	**6.4**	**(3.3)**

The Society has achieved a strong profit in the year through the underlying mortgage business which has been balanced against affordable savings rates, strong control over the cost base in the face of heightened inflationary pressures and improvements to the fair value assets following improved bank base rate, and the further increases in the swap curves, capturing the expectation of continued rate rises into 2023.

Income

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

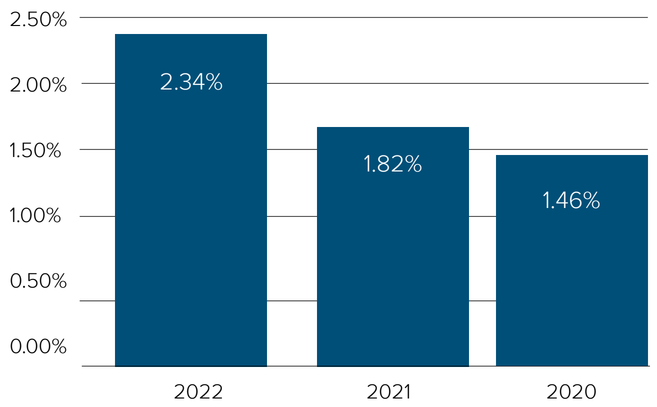
Net interest income

The net interest margin for the year ended 31 December 2022 was 2.34% (2021: 1.82%).

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 it balances the requirement to offer attractive rates for savers and borrowers while 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 2022, with savings rates in the marketplace remaining low for a large proportion of the year, before seeing some recovery in the fourth quarter of the year as the market reacted to the Bank of England base rate rises. Mortgage rates in the marketplace have seen significant increases as lenders have reacted to rising long term interest rates.

The market environment during the year required many lenders to withdraw products as demand became strong and rates continued to increase for products as a result of the hedging costs in the market. The Society was no exception and withdrew fixed rate products as a result of the volume of applications received and the difficulty in pricing into such a volatile macroeconomic environment. Notwithstanding the challenges around the front book lending timings, the Society achieved its front book lending targets and delivered a gross mortgage book above plan due to the improvement in the mortgage retentions throughout the year.

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 while balancing activity to match with the broader funding need of the Society.

The Society has, throughout the year, been passing on increases in the base rate to its members, targeting market-leading products for more stable term funding to benefit members following the sustained period of low rates.

Overall net interest income for the year ended 31 December 2022 increased to £30.3million (2021: £22.8million).

Other income and charges

Other operating income principally comprises 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 November 2022 and decreased in value by £62k (2021: increased by £260k).
Other operating charges for the year ended 31 December 2022 of £304k (2021: £97k) include administrative expenses and interest costs incurred by the Society's closed defined benefit pension scheme but borne by the Society of £78k (2021: £79k).

Fees

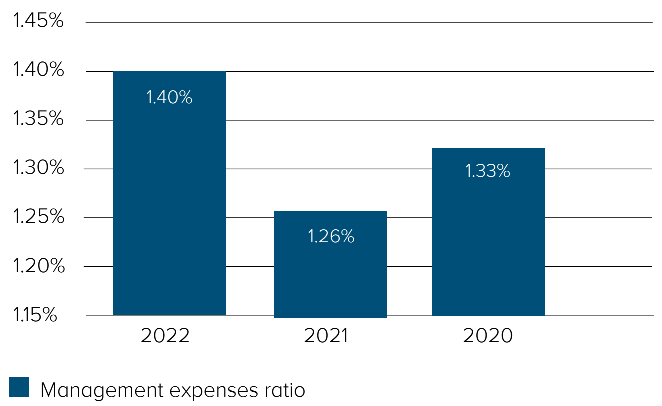
Fees receivable consist of mortgage-related income not accounted for under the Effective Interest Rate (EIR) accounting policy together with commissions from sales of insurance and financial planning products through our partner network. Fees payable include other (non-EIR) mortgage-related costs and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

Administrative expenses

Administrative expenses comprise staff costs together with all other costs and overheads necessary for the Group to function. Together with depreciation and amortisation charges, they comprise the total operating costs for the Group which is referred to as management expenses.

Control of management expenses forms a part of the broader strategic objective to grow the Society's capital position but has been balanced with the conflicting objective to continue to invest in the Society to improve services to members and meet the ever-evolving technology, regulatory and legal requirements. Administrative expenses of £15.8million compare with £13.5million in 2021, with the majority of the increase being for staff costs relating to the inflationary pressures on wages and supply side contracts alongside the continued investment to improve capability and service. Further charges for depreciation and amortisation of £2.2million (2021: £2.3million) principally reflect the continued amortisation of the Society's IT investment completed in 2017 which is due to end in 2023. The Group's management expenses ratio expresses total Group management expenses as a percentage of average group assets and has been presented below.

Management expenses ratio



Impairment and provisions

The collective impairment charge has increased in the period following the fall in the prior year, where borrowers recovered from the impact of Covid-19 more quickly than anticipated, with many members able to improve their financial position in the period.

The increase in the period has arisen due to management utilising evidence of deteriorating credit scores to better inform any indicators of financial difficulty, with the backdrop of an uncertain housing market, which is beginning to show indications of house prices falling as a result of the inflationary pressures and the increasing market rates for products causing financial difficulty for mortgage customers.

The individual impairment charge in the year remains very low as a proportion of the mortgage book, with few instances of specific provision being required.

The following charges have been booked following a thorough review of the book.

Impairment charges	Group		
£000s	2022	2021	2020
Collective impairment charge	86	(97)	170
Individual impairment charge	163	84	24
Total	**249**	**(13)**	**194**

The Group is a Receiver of Rents on 1 property (2021:2) representing capital balances of £0.8million (2021: £0.4million). Two further properties were disposed of in the year ended 31 December 2022 and 1 new property was added. Disposal of the remaining property is planned for in 2023.

The arrears ratios (number of loans >3 months in arrears) as a percentage of the total loan book has reduced slightly to 0.56% at 31 December 2022 (2021: 0.67%), principally following the disposal activity described above. Further information on the quality of the Group's loan portfolio, including information on loan forbearance activities, can be found in Note 28 to the Accounts.

Net fair value movements

This category includes the movements in fair value of derivatives and where in hedging relationships, the net movements in the value of the hedged items and the Equity release mortgage portfolio which is also recorded at fair value.

Derivatives that are not being accounted for as hedging underlying assets or liabilities

This category includes derivatives that are economically hedging the pipeline of mortgages that have yet to complete but which are not allowed to be hedge accounted for until the underlying assets complete; swaps taken out to protect the Society from basis risk; and the movement in the valuation of the No Negative Equity Guarantee (NNEG) relating to the Lifetime Mortgages which is treated as an embedded derivative.

Changes in fair value due to Lifetime mortgages

This category includes the impact to profit and loss that comes from the Lifetime Mortgage portfolio. Due to the value of the portfolio even small changes to assumptions applied can cause relatively large movements in the valuation concerned such as house price inflation and house price 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. In the current year, the increase in value of derivatives was £15.5m, compared with a fall in mortgage portfolio carrying value of value of £13.8m resulting in a benefit to the income statement of £1.7m. During the year we continued to adjust our hedging arrangements for our Lifetime Mortgage book with the counterparty to match the level of prepayment that we have seen with the aim of reducing the amount of ineffectiveness that may impact our results in future years.

A Lifetime Mortgage is one where a loan is taken out against the value of a property but where the interest charged is not paid during the life of the loan. Instead, the interest is added to the loan balance and, at the end of the term (which typically comes on the move into residential care of the borrower or their death), the loan balance (including the rolled-up interest) is deducted from the sale proceeds of the house. To protect the borrower from the possibility that the loan balance is greater than the property value at the end of the loan the loans included what is referred to as a No Negative Equity Guarantee (NNEG). This was a promise that the borrower wouldn't be charged for any excess of the loan value over the property value. The inclusion of a NNEG promise in a Lifetime Mortgage is a normal feature such a product.

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 2022 of £2.9m (2021: £1.7m).

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 stood at £1,286.3million at 31 December 2022, compared with £1,295.9million at 31 December 2021.

	Group		
£millions	2022	2021	2020
Liquid assets	212.3	279.0	251.0
Loans and advances to customers	1,028.6	996.0	942.8
Fixed and other assets	45.4	20.9	13.3
Total assets	**1,286.3**	**1,295.9**	**1,207.1**
Shares	880.3	897.5	894.0
Deposits	312.2	304.1	212.7
Other liabilities	13.0	27.3	39.9
Subordinated liabilities	9.7	10.3	10.3
Total liabilities	**1,215.2**	**1,221.2**	**1,156.9**
Reserves	71.1	56.7	50.2
Total liabilities and reserves	**1,286.3**	**1,295.9**	**1,207.1**

Liquid assets

The Group's liquid assets mostly comprise 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, the outcome of which highlighted the excessive liquidity held and action was taken in the period to manage this down to a more appropriate level.

At 31 December 2022 the Group's portfolio of liquid assets totalled £212.3million (2021: £279.0million) and comprised the following:

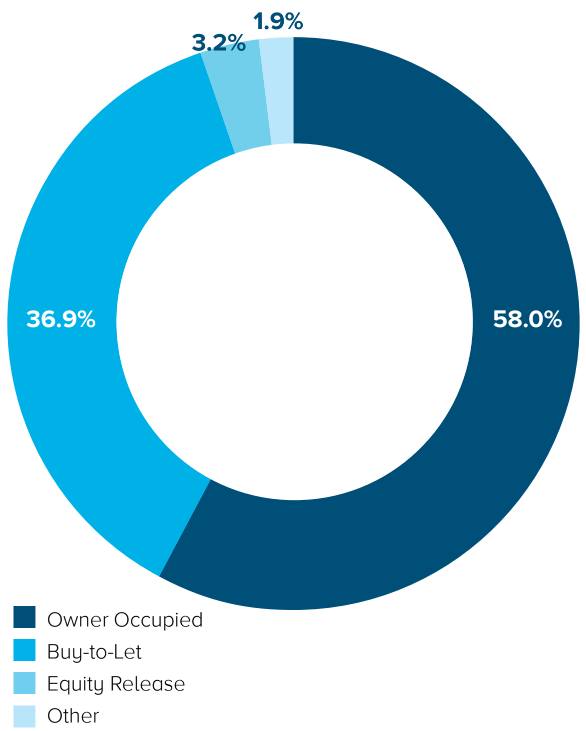
	Group		
£millions	2022	2021	2020
Bank of England deposits	104	182	155
UK Government debt	-	-	-
Other bank deposits	22	30	45
Non-UK Government debt	-	-	-
Supranational debt	86	67	51
	212	**279**	**251**

At 31 December 2022 the ratio of liquid assets to shares and deposits stood at 17.8% (2021: 23.2%). 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 2022 the Group's LCR was 178% (2021: 340%), above the regulatory minimum of 100%.

The Group also monitors the longer-term stability of its funding, and hence liquidity, through the Net Stable Funding Ratio (NSFR). At 31 December 2022 the Group's NSFR was 133% (2021: 136%), above the regulatory minimum of 100%.

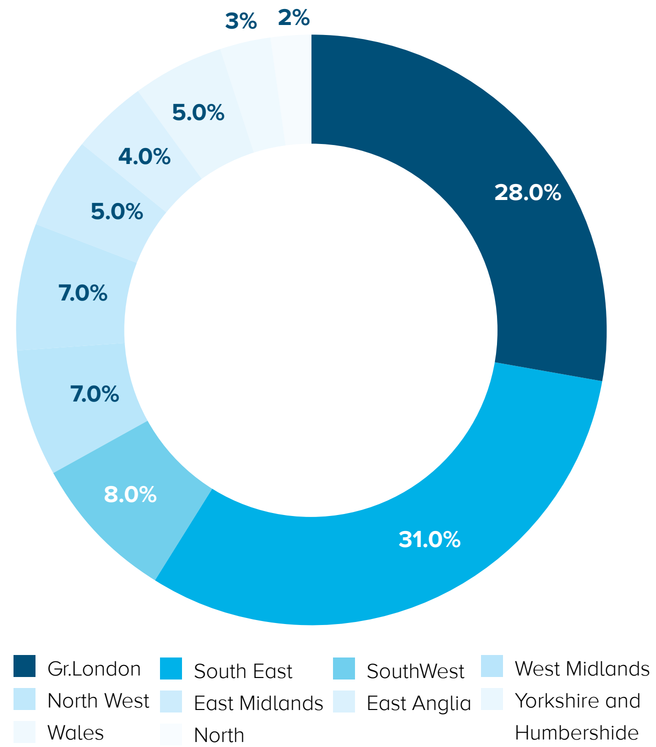
Mortgages

The Group's total portfolio of loans and advances mostly comprise 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 £232.6million in the year ended 31 December 2022 (2021: £239.6million). Stated after the impact of mortgage repayments, voluntary redemptions and other movements, total loans and advances to customers (net of impairment) at 31 December 2022 was £1,028.6million, compared with £996million at 31 December 2021.

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 2022.

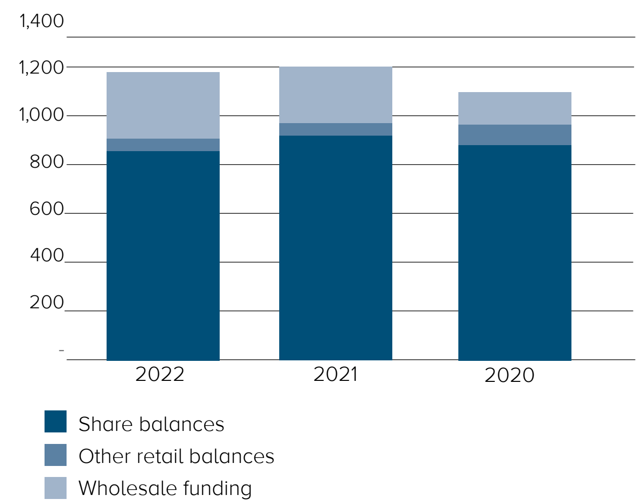


Funding the business

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

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

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



Retail funding

The Society strives to offer fair and competitive interest rates at all times, rewarding loyalty through enhanced rates on retention products, over new, but recognises it should not appear in the 'Best Buy' tables every week due to the level of funding inflows which would follow. The Society also has to balance the levels of retail inflows it attracts with the Society's overall liquidity position and mortgage funding requirements. During the year, the rate rises in the market and the Society's desire to undertake an element of natural hedging through fixed-term savings products saw its longer-term funding rates increased significantly. Other shorter-term funding was balanced against the market in order to retain existing funding and to attract additional funding to finance the mortgage lending. In spite of this difficult balance of rewarding our savings members through increased savings rates against the need to balance our own margins to achieve the financial performance required for the investment in the future strategic priorities, the Society has passed on the improved rates in a controlled manner to reflect the mutual values of rewarding its members for the Society's success.

Wholesale funding

The Society remains an active participant of the Bank of England's Sterling Monetary Framework (SMF), accessing the Term Funding Scheme for Small and Medium Entities (TFSME), which is four-year funding linked to Bank of England base rate. At 31 December 2022 the Society held £190million (2021: £190million) of TFSME funding. 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 typically for periods of up to two years in duration.

Asset encumbrance

The Group uses certain assets as collateral to support the raising of secured funding under the terms of the Bank of England's SMF. Collateral, entirely in the form of cash deposits, is also used to support financial derivative contracts entered into by the Society as part of its management of interest rate risk. At 31 December 2022, 21.2% of the Group's assets were encumbered (2021: 20.9%) representing £252.5million of mortgage assets (2021: £242.3million) and £20.7million of other assets (2021: £28.0million).

Pensions

The Society operates a defined benefit pension scheme (the Scheme) that was closed to staff joining the Society after 4 August 2003 and to future accrual from 1 January 2008.

The Scheme is funded based on triennial actuarial valuations, the most recent being 30 April 2020 at which point it was fully funded with a surplus of £1.0m on the trustee basis of valuation, 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 2022 (2021: 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 £0.2m, which was credited to Other Comprehensive Income.

At 31 December 2022 the Scheme is shown as a pension asset of £83,000 (2021: liability of £85,000). 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.

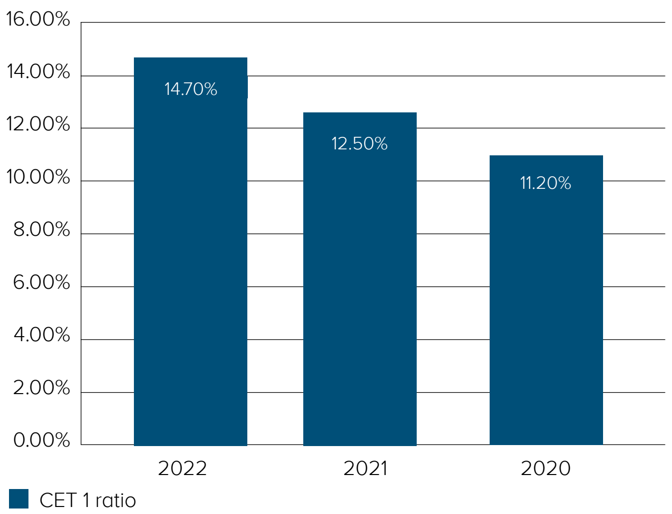
The Group's capital requirements are set and monitored by the Prudential Regulatory Authority (PRA). All the Society's capital ratios remained in excess of regulatory requirements throughout the year.

During 2022, the increase in the Bank of England base rate and the link that this has to the rate received on the Society's back book of swaps have resulted in some significant fair value benefits within the reported profits. 2022 saw a combination of factors start to reduce borrower affordability, especially towards the end of the year. These factors included persistent high inflation, tighter fiscal policy and increased mortgage rates. Although the effects are still being played out, early indicators suggest the result is a modest dampening in property demand and a corresponding fall in house prices. Nevertheless the Society's mortgage products remained popular in our chosen markets with healthy demand from applicants. Meanwhile, savings rates within the market remained depressed, although there have been improvements in the savings pricing towards the end of the year. This has resulted in improvements to the net interest margin achieved by the Society in the year.

After regulatory deductions, the Group's regulatory capital increased from £63.7million to £78.7million 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 primarily due to capital availability increasing through the significant profit in the financial period coupled with the unwind of the intangible asset. Risk weighted assets grew by £38.3m, which was primarily driven by the growth in the mortgage book. Growth in the loan book has impacted the CET1 ratio by 0.66% and offset an element of the reserve growth with benefits is expected to flow through in terms of improved net interest income in 2023.



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.

2.34%

Net interest margin, an increase of 0.52% in the year.

Principal Risks & Uncertainties

The Society's Risk Management Framework and Risk appetite is explained within the Board Risk Committee Report on page 58.

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

Mitigation:
The Society operates within a credit risk appetite which 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 repayment or product switches within the Society mortgage portfolio which have an additional downside impact on the carrying value of the Effective Interest Rate (EIR) fair value asset attached to the mortgage asset. A further risk is the impact to the equity release mortgage book of movements in the long-term discount rate (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. 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, through either 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 Deputy CRO maintains department-specific risk and control self-assessments (RCSAs) covering the operations of the entire Society. RCSAs are reviewed and tested on a regular basis and the results reported to the Executive and Board Risk Committee. Any incidents and near misses are assessed in terms of potential cost to the Society and the causes identified to improve controls. Additionally the Group's internal audit function (provided externally by PwC) carries out targeted reviews of critical systems and processes to ensure that they are properly designed and operate effectively. The Group has a Business Continuity Plan which is kept under regular review and is designed to ensure that any breakdown in systems would not cause significant disruption to the business.

IT security / cyber-crime

Description:
Cyber-crime and the security of information held by the Society are a present and growing threat that the Society's systems might be infiltrated, allowing the intruder to take control of member 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, ongoing certification to Cyber Essentials Plus, and alignment of the Society's information security management system to industry-recognised standards such as ISO27001:2013 and the NIST Cyber Security Framework.

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 or the newly formed Consumer Duty legislation.

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.

Saffron Building Society colleagues at the Saffron Walden Carnival, July 2022

Future Outlook & 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 is working to ensure 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. More discussion around this and the other steps taken around the environmental impacts to the business can be seen in the 'Building a more sustainable society' section of the Strategic Report on page 37.

Regulatory developments

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

Capital buffers

Under European Law, building societies are required to hold a minimum amount of capital to protect the members' funds and remain solvent in the event of severe economic stresses. In addition to these minimum requirements, further buffers have been introduced to ensure that members' interests are protected even in the most adverse scenarios. The Capital Conservation buffer continued to be set at its maximum level of 2.50% of risk-weighted assets throughout 2022. The countercyclical buffer (CCyB) was reintroduced at 1% in 2022 following its release in 2020 to support financial institutions manage the market impact of Covid-19. 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 to increase to 2% from July 2023 and the Society has planned for this re-introduction within its forecasting and strategic planning in the coming years.

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 which have been announced as taking effect from 1 January 2025.

Moving to the revised framework may require the Society to hold additional 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 2025. However, following Brexit, there is currently uncertainty as to how the Prudential Regulation Authority will choose to apply these rules in the UK with a recent consultation paper published which highlights the possible impacts, alongside a new 'strong and simple' regime which the regulator is considering which will reduce the immediate impact on smaller societies to ensure a simple and proportionate risk-based capital framework.

Gross mortgage book exceeding £1bn for the first time in the Society's history.

Economic outlook

The ongoing conflict in Ukraine increases economic uncertainty, and the longer-term financial consequences for members are unknown. Energy prices have fallen back from their peak but remain elevated compared to previous levels, while commodity shortages due to both direct impacts of the war and sanctions on Russia have contributed to inflation of a vast range of products. 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.

While the UK formally left the EU in 2020 and agreed a trade deal with the EU in 2021, the economic fallout of this significant change is still emerging. In 2022 the lack of free movement of labour exacerbated labour shortages in the UK, while additional import costs contributed to high levels of inflation. The Society monitors economic developments which impact the housing market, market interest rates and inflation rates - the main factors which affect it directly. Both 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 2023 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 to respond to market conditions may create a need to further enhance both technology and risk management capabilities across several 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 2023 are challenging, however the Society continues to consider itself well positioned to navigate the associated risks because of the improved levels of profitability in the financial period and within the Society's five-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 due to cost-of-living pressures. Balance sheet make-up and treasury management remain 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. 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 no new drawings can be made under the TFSME or an equivalent scheme, competition for retail deposits is expected to increase as institutions plan to refinance away from TFSME, which is likely to increase the rates that financial institutions will need to pay to attract and retain retail deposits. Further increases in Base Rate or long-term market rates could also 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 holding the portfolio at fair value also brings in some market volatility in assessing the carrying value, albeit significantly reduced during 2022 as a result of the focused change in strategy to hedge more to the accounting risk. 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 2022 at a surplus of £0.1m (2021: deficit of £0.1m).

Colin Field
Chief Executive Officer
On behalf of the Board 2 March 2023

Building a more sustainable Society

Saffron Building Society is run for the mutual benefit of our members. People trust us with the important things in life – their savings and homes – and have always expected us to act with the highest levels of integrity. Running a 'good' business that makes a positive difference is not something new to us: it's been integral to our mutual model for over 170 years and has stood the test of time.

As the world continues to change around us, we believe mutuality is more relevant than ever. It allows us to balance profit with purpose and make decisions that are in the best long-term interests of stakeholders, leading to better outcomes and a more sustainable member-owned business.

Although responsibility is already one of our core values, we know members and other stakeholders are increasingly keen to understand how we plan to make a sustainable difference across Environmental, Social and Governance (ESG) matters. This new section of our Annual Report draws together our approach to each of these key areas, along with recent highlights in support of each one.

Over the forthcoming year, the Society has exciting plans to deepen its ESG commitments and create an even bigger positive impact for our key stakeholders through profit reinvestment. We look forward to sharing progress with you in next year's Annual Report.

Our Sustainability Vision:

As a mutual, Saffron can balance the need for profit with the importance of purpose. We will do this by making careful decisions that are in the best long-term interests of stakeholders, aiming to minimise harm and maximise positive and lasting benefits wherever we do business.

In 2022 we made significant progress towards our Sustainability Vision across the three ESG pillars.

Environmental

Energy & Transport

- 100% of electricity consumed in Saffron premises comes from renewable sources via our suppliers.
- Switched company car scheme to exclusively electric or hybrid vehicles
- Electric van used for corporate operations
- Electric charging points available at Head Office for colleague use

Waste

- Every branch and office equipped with recycling points to minimise waste to landfill
- 3,027 additional customers set up for online access, helping to save paper on account operations

Green Products

- Continued to lend to Members looking to improve the energy efficiency of their homes with our innovative 'Retro-Fit' green mortgage product
- Donated over £7,000 to The Wildness Foundation through our high interest Enviro Saver product

Social

Members:

- Paid average savings rate of 0.84% against market average of 0.56% (measured as total retail interest paid over average retail balances), market data taken from www.finder.com.
- 353 First Time Buyers helped with a mortgage
- 2,364 number of free Financial Wellbeing Reviews carried out for members
- Winner of Savings Champion awards for our regular and children's saving accounts, as well as overall Best Building Society
- Over 90% member satisfaction and above internal target for Net Promoter Score (NPS)

Colleagues:

- Real Living Wage employer
- Disability Confident employer
- Above industry benchmark on measures of health, mental and physical wellbeing , as measured by bi-weekly colleague survey (via Peakon)

Communities:

- Community Link opened with 56 groups using it for 1,125 hours in 2022
- Significant staff time donated to volunteering
- £19,327 total donations to charities via Saffron Community Fund

Governance

- New Board appointments to ensure the Board has the right skills, experience, background and diversity
- Enhanced the supplier management process to ensure all suppliers do not breach our Modern Slavery Statement
- External Board evaluation carried out
- Increased focus on values and culture, with specific Board collaboration sessions carried out

About our approach to ESG

Environmental

Saffron Building Society must play its part in addressing global climate change – not only is it an area likely to increase in regulation, but a recent survey revealed it is a top concern for both our members and colleagues. A key focus of this is how we can support the transition to a lower carbon economy and take action to limit global temperature rises to 1.5 degrees (a commitment which was established by the Paris Agreement on Climate Change in 2015). The Society is working towards this transition in two main ways:

A greener internal operation

Driving down our own carbon footprint by reducing the amount of electricity and gas we consume at our premises, and the fuel we use in our vehicles. Improved monitoring, consolidation of our offices and the upgrading of company vehicles are all already helping us to be more efficient and reduce emissions. All the electricity we use across the Society now comes from renewable energy sources such as wind and solar, and this has also significantly reduced our carbon footprint. We will be working in 2023 to reduce this even further.

Enabling members to live greener lives

Reducing the 'financed emissions' in our value chain arising from the properties we invest in through our mortgages. A UK Government report published in 2021 found that the residential sector produces 20% of the UK's carbon emissions, so by helping our members improve the energy efficiency of their homes we can have a big impact in this area. We will do this by financing the necessary improvements to homes, combined with offering members knowledge and tools to live more sustainably. In 2022 we continued to offer our innovative 'Retro-Fit Mortgage' product that rewards members who improve the energy efficiency of their homes and developed plans to improve the 'Green Hub' on our website with more advice for members looking to reduce their emissions. This area will receive significantly enhanced focus in 2023.

Wilderness Foundation receiving a donation of £7,849.78 from the Enviro Saver product.

In 2023, the Society has significant plans to step up our commitments in the Environmental area. We have partnered with Groundwork East, an environmental charity and consultancy, to help guide our strategy and provide expert support on implementing business changes. These include:

- Calculating the Society's CO2 footprint and implementing a multi-year reduction plan
- Launching and testing a new flagship branch format based on sustainable business practices, before rolling out the most effective innovations to the rest of the branch network
- Dedicating resource to developing and testing a wider range of green products to help members reduce CO2 emissions in their homes and support environmental causes
- Providing improved tools and guidance to members on how to improve their home's energy efficiency and reduce their wider impact on the environment

Social

Mutuals have a proud heritage of driving change in Social areas, putting people first to create more sustainable businesses. At Saffron, we believe we have responsibilities to three key groups of social stakeholders: our members, our colleagues and our communities.

Members – building financial wellbeing

Our role is to provide good-value products backed by great service that helps our members achieve greater financial wellbeing – we call this 'money happiness'. In this sense, our core business of savings and mortgages had an inherently positive impact for members in what was a very challenging year.

Jessica Pursglove, Branch Manager

In 2023, the Society will continue to deliver desirable products and services that build money happiness for new and existing members. Alongside this, we will:

- Revamp the Financial Wellbeing Review proposition to increase its usefulness in the current economic climate
- Develop ways to recognise and reward membership beyond products so that members feel supported more holistically by their building society

Colleagues - building happiness at work

We know from talking to members that our colleagues are Saffron's biggest asset. Every day they come to work to create a better experience for our members and help more people achieve money happiness. It is therefore important that they are rewarded fairly and empowered to be their best. In 2022 we focused on listening to colleagues and supporting them through the cost-of-living crisis with a series of pay and wellbeing improvements. Our regular colleague engagement survey demonstrated that these actions were having a positive impact.

In 2023, we aim to go further for our colleagues by:

- Focusing on attracting, training and retaining high-quality colleagues to serve our members
- Improving our Learning & Development programme to upskill colleagues in a more engaging and effective way
- Creating an outreach programme to local schools and colleges to offer work experience and apprenticeship opportunities within our community
- Promoting and embedding a culture of inclusivity, diversity and belonging for all colleagues

Communities - building real help to thrive

Local communities have been under strain in recent years, first through the Covid-19 pandemic and more recently the pressure on the cost of living. At the same time, local high streets have faced their own economic challenges and many not-for-profit organisations have had to cope with increased demand for their services.

We believe strong, thriving and caring local communities are vital for money happiness to flourish, and we aim to play a prominent role in all the communities where we have a presence. That's why 2022 saw the landmark opening of the Saffron Community Link – a fully equipped community space in the heart of Saffron Walden that's available for local groups to use free of change. We've been blown away by the positive response, and we encourage members to spread the word about this fantastic facility.

At the same time, colleagues across the Society have continued to volunteer for local good causes and raise money for charity. Our ongoing partnership between Saffron Community Fund (managed by Essex Community Foundation) distributed £19,327 to local good causes, and the Saffron Community Fund was boosted by over £400,000 as part of the Asset Reclaim Fund (read more on page 22).

Saffron Community Link

Colin Field at the Asset Reclaim fund

In 2023, we will:

- Revitalise the Saffron Community Fund as a leading regional philanthropic fund with increased funding from the Society
- Extend the Saffron Community Link concept to reach more members in our geographic footprint

Governance

Good governance is important because it creates the strong foundations on which the Society can continue to grow, and also builds the trust that is essential in financial services. Our approach to corporate governance is set out in detail on pages 42 to 69 and this includes the role of the Board and its Committees.

Diversity and Skills on the Board

Diversity is core to our business at every level of the Society. The Board carefully considers diversity, skills and experience when making any future appointments. The Board saw increased diversity in 2022 with the appointment of two new Non-Executives. Through establishing a diverse Board, we recognise the opportunity to provide increased strength in leading Saffron into the future and this remains a key focus for future appointments.

The Board uses a skills matrix to assess its skills on an annual basis, which is used to identify and support the needs of future appointments to the Board.

Culture

Culture determines how we behave, how we make decisions and how it aligns to the Society and its purpose. The Board plays a significant role in monitoring, assessing and demonstrating the values of the Society and the alignment to its purpose.

During 2022, the Board carried out an external Board evaluation which identified some improvements the Board can make to ensure it's being as effective as it can be. The Board also received training on values and cultures and began a journey to improve and live the values the Society lives by.

Gender Pay Gap

The Remuneration Committee reviews the Gender Pay Gap data annually. The pay gap is calculated comparing men's and women's average hourly rates of pay and is intended to measure workplace disadvantage. There is no gap in equal pay in the Society - so anyone performing the same role is equally remunerated, however Saffron is similar to other retail businesses in that we have more female colleagues in lower paid roles, which in turn creates a gender pay gap.

The Society has further developed its approach to recruitment and talent management during the year to improve diversity and combat conscious and unconscious bias, but despite these efforts, the results confirm our Gender Pay Gap remains at 38% which is flat from 2021. The gap largely relates to our senior positions which change relatively infrequently and for which there is no short-term fix.

The Society has made strong progress in identifying, developing and promoting talented women at lower levels of seniority and It remains a key priority for the Society and the Board to build a strong pipeline and clear process to ensure we attract and retain the best diverse talent available.

We continue to carry out significant work taking place in this area to support gender diversity in recruitment, retention and development. To support this, the Society signed up to the Women in Finance Charter in 2021 .

Anti-bribery and modern slavery

We are committed to the highest standards at Saffron, with absolutely no tolerance for bribery and corruption. The Society has an anti-bribery policy, company training for all staff members and procedures to ensure that we comply with the Bribery Act 2010.

The way we conduct our business should not negatively impact any human rights, and in order to prevent slavery and human trafficking in our supply chain, the Society has put appropriate measures in place. The Society has a Modern Slavery Statement, which can be found on the Society's website. We also have enhanced our supplier management process to ensure that appropriate due diligence is carried out on all suppliers of the Society and any fourth parties to ensure we do not work with any suppliers in breach of this statement.

Looking to the future

We recognise that ESG is important to our members and our stakeholders because it demonstrates how the Society is creating the positive change that is expected of us. Moreover, a well-defined ESG approach will strengthen the Society's resilience to future challenges and give us a competitive advantage in an ever-more intensive market.

As mentioned above, ESG is an area of enhanced focus for the Society in 2023. We will build upon our strong mutual heritage and the great achievements made in recent years to create a new integrated approach to ESG matters, based on the theme of 'building society for years to come'. It will encapsulate our ambition to use profit for purpose and leverage the power of long-term decision making, alongside significant commitments to key stakeholders across the ESG pillars.

Corporate Governance Report

Corporate Governance Report

This Report will outline how the Society is managed, highlighting the role, constitution and governance of our Board and its Committees.

As always, Saffron remains 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 2018, it pays due regard to the Code, along with other legislation and guidance when establishing and reviewing corporate governance arrangements.

A big highlight for the Board this year was the Board Effectiveness Review carried out by an independent third party in June 2022. The Board have worked hard to start to implement improvements recommended by the review and will continue to do so into 2023.

The Board also focused on the development of the Society's first Sustainability Strategy (to be known as the 'For Years To Come' Plan), which will launch fully in 2023.

Following this AGM, three Non-Executive Directors will retire, having served on the Board for nine years. The Society offers great thanks to Gary Barr, Neil Holden and to the Chair, Nick Treble for their valuable contributions over the years, bringing the Society through very challenging times.

Our Chief Financial Officer Trevor Slater also retired in January 2023; as a key member of the Executive Team and Board, Trevor has made a lasting and valuable contribution to the Society. The Society thanks him for his dedicated service.

We also welcome two new Non-Executives to the Board, Jaz Saggu and Barbara Anderson who is currently the Chair designate. You can read more about them on page 49.

The Board continues to ensure it has a robust governance framework to manage the challenging environment to support our members and the delivery of our strategy.

Corporate governance highlights 2022

- Enhanced procedures throughout the governance framework.
- Enhanced engagement on the values and culture of the society.
- Appointment of Jaz Saggu and Barbara Anderson.
- Introduction of the focus on the new sustainability strategy due to role out in 2023.

About your Board

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

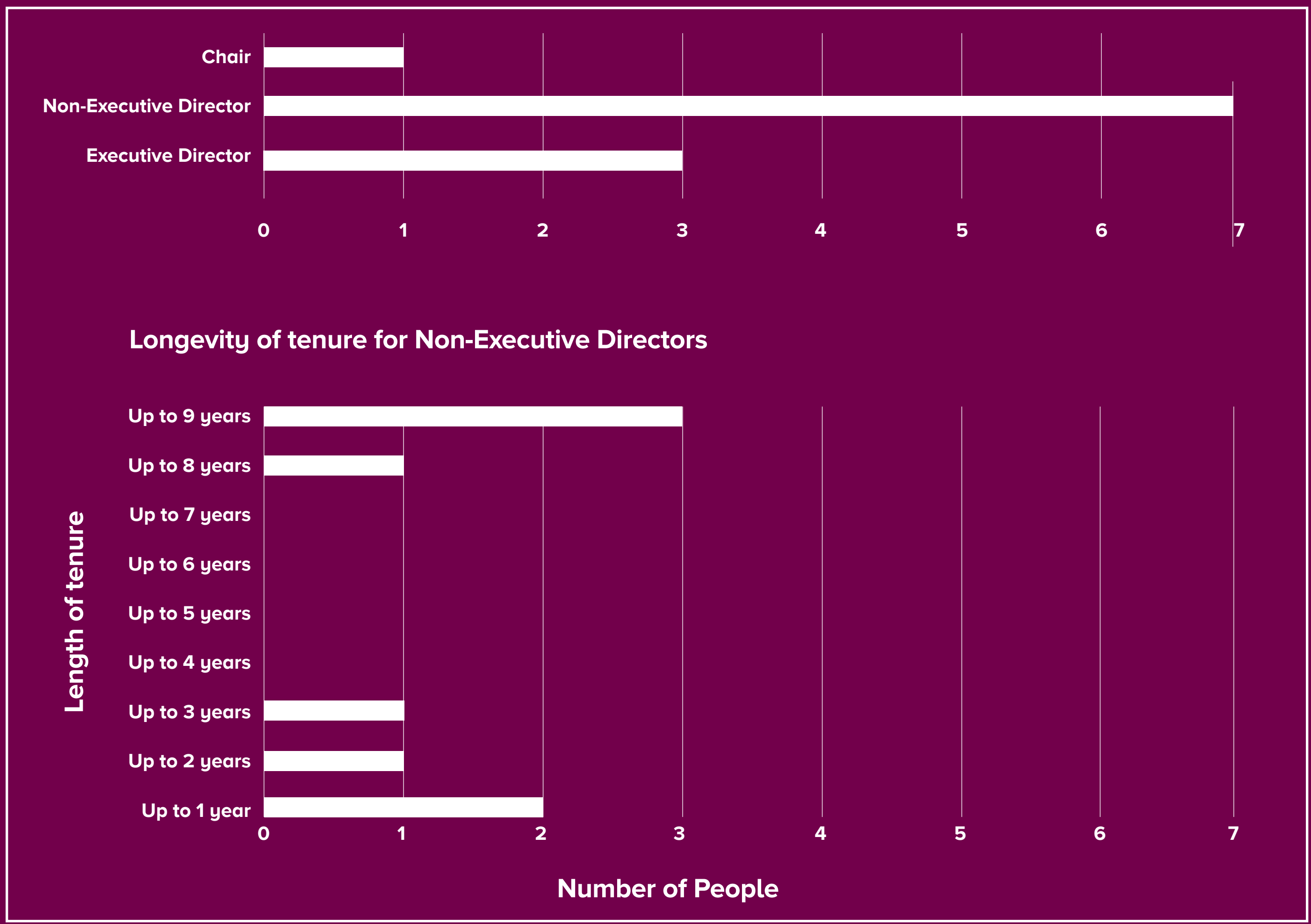
The Board meets at least six times a year in order to fulfil its legal and regulatory obligations as well as overseeing the effective management of the Society. It has one session that includes an in-depth review of the Strategy which is where the Board input into and approve plans to make sure Saffron Building Society is a sustainable, independent Society for years to come.

As at the 31 December 2022, the Board comprises of eight Non-Executive Directors and three Executive Directors. All of Non-Executive Directors are considered to be independent under the code; the Chair was considered independent on appointment.

The Board has access to the Society Secretary for advice at any point.

Set out below is the attendance, membership, tenure and Executive and Non-Executive split of the Board.

Members	Nick Treble	Jenny Ashmore	Neil Holden	Gary Barr	David Rendell	Robin Litten	Jaz Saggu	Barbara Anderson	Colin Field	Trevor Slater	John Penberthy-Smith
Meetings Attended	9/9	8/9	9/9	8/9	9/9	8/9	3/3	2/2	9/9	9/9	9/9



> **"The leadership of the CEO and the guidance and additional work from the NEDs were noted and praised"**
>
> *Board external effectiveness review*

The Board's training and meeting timetables are planned 12 months in advance. They 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.

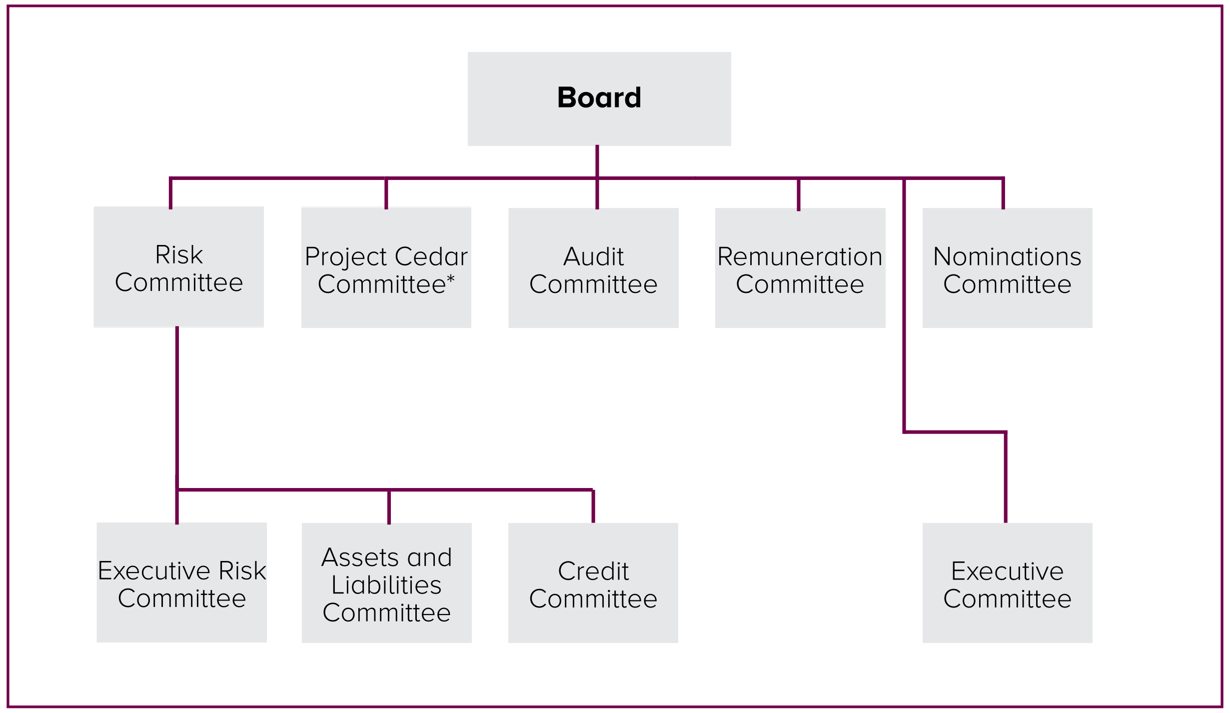
The Board has four regular Committees and one temporary Committee, which allows focus in specific areas in more detail than would be possible within Board meetings.

The Society Secretary maintains a detailed register of any conflicts of interest. Each year, the directors must reaffirm this list to ensure it remains up to date. The Board note any new conflicts at the start of each meeting in addition to this.

Any additional appointments which a Director wishes to take up should first be referred to the Nominations Committee for consideration, and if appropriate, approval by the Board.

The full Committee structure is included below.

Board Committee Structure



Project Cedar Committee is a temporary Committee, that is tasked with ensuring the smooth upgrade of the core banking platform of the Society. Project Cedar Committee is chaired by Jaz Saggu who succeeds Gary Barr, with its membership comprising Jenny Ashmore, David Rendell, Robin Litten and John Penberthy-Smith.

The recent Board effectiveness review called out the governance of Project Cedar being as close to exemplary, making sure that all matters of this project are carefully managed and mitigated.

Workforce engagement

Jaz Saggu takes over from Gary Barr as the Society's Employee Champion.

The Employee Champion brings independent oversight of the workforce, particularly around engagement and culture, and participates in promoting the success of the Society. They spend time with colleagues over the year, allowing a direct link to the Board.

We participate in a monthly engagement survey with our colleagues which measures the levels of engagement throughout the Society. This is monitored through the Executive Team with high-level outputs being reported back to Board to allow them to have oversight of the engagement of the workforce.

The Chief Executive Officer and Chief Commercial Officer hold weekly calls with all staff in the Society, to keep our colleagues up to date with the Society's strategy and objectives, as well as other key updates.

Colleagues are actively encouraged to ask questions and share feedback they have.

Member engagement

As a member, you part own the Society and it is run on your behalf by the Board. The Annual General Meeting (AGM) is the main opportunity to hear how your Society is performing and ask the Board any questions. This is why we encourage you to take part.

In 2023, for the first time, our members will have the opportunity to attend a fully virtual AGM. Members can ask questions of our Board, with our Chief Executive Officer, Chair and Chair of the Remuneration Committee all on hand to answer. Members will also be able to vote remotely.

Details of how to vote are included in your AGM Notice, the Annual Members Review and on our website. You can vote at the AGM, via the post, in branch and online. A donation of £1 for each vote will be made the Community Fund.

Throughout 2023, the Society will be holding a members' month. Members are key in shaping the Society and the Society actively welcomes feedback from its members. More information about the members' month is in the Annual Members' Review.

We welcome questions at any point, and you can get in contact with us, by writing to us, e-mailing us, calling us or popping into a branch. These details can all be found on our website or on the back of this document.

The Saffron Community Link recieving the Saffron 4 Sight Extra Mile Award.

Meet the Directors

Barbara Anderson – Non-Executive Director and Chair Designate

Appointed: October 2022.

Experience: With an extensive background in venture capital and corporate finance, as well as SMEs and Third Sector organisations, Barbara brings a vital track record in driving commercial growth, technology-led change and embracing environmental, social and governance (ESG) initiatives. Having received an MPhil, MA and Diplomas in Architecture from the University of Cambridge, she has a longstanding personal interest in sustainable communities.

Committee membership: Board and Nominations Committee.

External appointments: Independent Board member and Chair of Audit & Risk at the UK's smart meter data network provider, SmartDCC Ltd; Non-Executive Director at BSC 2 VCT; and Chair of the Energy Saving Trust.

Jaz Saggu – Non-Executive Director

Appointed: September 2022.

Experience: Jaz has over 30 years' experience in financial services, with extensive expertise in data, digital and cultural transformation. During this time he has held positions as an Executive, Main Board and INED, at Aviva, Benfield, GE Money, HBOS, NPG Wealth Management, Prudential, WTW and with PE-backed firms. He was INED and Trustee with RiverStone Insurance Ltd, Network Homes Ltd, British Foreign Schools Society and Council member of the British Heart Foundation. Alongside this he held a visiting professorship in Digital Change Management.

Committee membership: Board, Risk Committee, Audit Committee, Remuneration Committee and Project Cedar Committee.

External appointments: Independent Chair of Watmos Ltd; Independent Non-Executive Director of A2 Dominion; Independent Non-Executive Director of BHSF Group Ltd, BHSF Management Services Ltd and BHSF Employee Benefits Ltd; and Independent Non-Executive Director, member of Council at Cranfield University; and Worshipful Company of Insurers Trustee.

Jenny Ashmore – Senior Independent Director

Appointed: May 2015.

Experience: Jenny has over 25 years' experience as a marketing and commercial leader in the consumer goods, media, oil and utilities sectors. Her career has included appointments as Senior Commercial Leader and Chief Marketing Officer at Procter & Gamble, Mars, Yell Group and SSE. She now acts as a consultant 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, Risk Committee, Audit Committee, Remuneration Committee and Project Cedar Committee.

External appointments: None.

David Rendell – Non-Executive Director

Appointed: April 2020.

Experience: Having worked across both consumer and corporate lending in the UK and Europe for 40 years, David has extensive experience in financial services. His executive career includes both risk management and business leadership roles within Lloyds Banking Group (1988-2000) and GE Capital (2000-2016). At GE Capital he held the positions of 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, Audit Committee, Remuneration Committee and Project Cedar Committee.

External appointments: Director of Richmond Place Consulting Ltd.

Robin Litten – Non-Executive Director

Appointed: 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, Audit Committee (Chair), Risk Committee, Remuneration Committee.

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

Colin Field – Chief Executive Officer

Appointed: April 2014.

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

Committee membership: Board, Nominations Committee, Executive Committee, Executive Risk Committee, Assets and Liabilities Committee and Credit Committee.

External appointments: None.

John Penberthy-Smith – Chief Commercial Officer

Appointed: January 2022.

Experience: John has 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.

Committee membership: Board, Executive Committee, Project Cedar Committee, Executive Risk Committee, Assets and Liabilities Committee, Executive Committee and Credit Committee.

External appointments: None.

Retiring Directors

Nick Treble

Non-Executive Director Retires
18 April 2023.

Gary Barr

Non-Executive Director Retires
18 April 2023.

Neil Holden

Non-Executive Director Retires
18 April 2023.

Trevor Slater

Chief Financial Officer
Retired on the 3 January 2023.

Chief Financial Officer

Maurice Mills has been appointed as Chief Financial Officer for the Society. Maurice will be eligible for appointment to the Board subject to regulatory approval, and will not be a Director until that time.

Maurice Mills – Chief Financial Officer

Appointed: January 2023.

Experience: Maurice has 6 years' experience in the building society sector, previously holding the Deputy CFO position at the Society for the past 3 years, having worked in manager level positions within practice firms before the move into industry, most recently with BDO. Maurice is a Chartered Accountant (FCCA).

Committee membership: Board, Executive Committee, Executive Risk Committee and Credit Committee and Chairs the Asset and Liabilities Committee.

External appointments: None.

Nominations Committee Report

Nick Treble

“

Dear member,

As Chair of the Nominations Committee, I am pleased to present the report of our work during 2022.

The Committee comprises of three independent Non-Executive Directors and the Chief Executive Officer.

During 2022 the Committee met seven times and the attendance is detailed below.

The Committee provides reports to the Board on its work throughout the year.

The Committee’s Terms of Reference are available on the Society’s website: **www.saffronbs.co.uk/about/corporate-information/board-and-its-committees** and are also subject to annual review.

”

Members	Nick Treble	Jenny Ashmore	Neil Holden	Colin Field
Meetings Attended	7/7	7/7	7/7	7/7

Details of our work, key issues considered and our conclusions are summarised as follows:

Responsibilities

The Committee is responsible for overseeing:

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

Appointments

The Nominations Committee leads the process for Board appointments and makes recommendations to the Board.

In the appointment of new Directors, the Committee is driven by the need for diversity around the Board table and sets high expectations when engaging with professional search agencies to encourage a diverse range of applicants. The Committee considers diversity across a broad range of attributes and characteristics, these can include experience, skill and thought.

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.

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.

Directors are required to inform the Board in advance of any other positions that they have so that the time commitment and any potential conflict of interest can be considered. They also must notify the Society during their tenure if they wish to take up a new directorship.

The Committee oversaw the appointment of two new Non-Executives: Barbara Anderson, who was appointed as the Chair Designate, who succeeds Nick Treble, who steps down on 18 April 2023; and Jaz Saggu, who succeeds Gary Barr, who also steps down on 18 April 2023.

The Committee also oversaw the recruitment process for the succession of the Chief Financial Officer Role during 2022, with Maurice Mills being appointed into the role in January 2023. A thorough external process was undertaken, with a third party having been engaged to ensure the best person was appointed to the role.

Succession planning

With three Directors stepping down in 2023, the Nominations Committee spent a lot of time monitoring Board succession planning to ensure that the appropriate mix of skills, experience, independence, and knowledge of the business continues to be represented on the Board and Committees.

SMCR compliance and Responsibilities Map

The Committee reviewed the allocation of responsibilities under the Senior Manager & Certification Regime (SMCR) and approved the Society’s Responsibilities Map.

The Committee will continue to monitor applications under the SMCR and review the Society’s Responsibilities Map at least annually.

Performance of Directors

The Non-Executive Directors operate an annual appraisal scheme in which all the Directors appraise the performance of their colleagues, including the Chair. The Senior Independent Director carries out the formal appraisal of the Chair. The Chair 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 Committee’s decision to recommend the Director for re-election to the Board.

Concluding remarks

The Committee conducted its annual review of effectiveness incorporating feedback from members and attendees. The review concluded that it had operated effectively and in accordance with its terms of reference.

In 2023 the Committee intends to continue its attention on the future of the Board, ensuring the right mix of capabilities at Board level.

On behalf of the Nominations Committee

Nick Treble
2 March 2023

Board Audit Committee

Robin Litten

“

Dear member,

As Chair of the Audit Committee, I am pleased to present the report of our work during 2022. The Committee comprises independent Non-Executive Directors appointed by the Nominations Committee to provide the broad range of financial and operational expertise necessary to fulfil our duties.

During 2022 the Committee met five times and the attendance is detailed below. Meetings are routinely attended by the Society's Chair, CEO, CFO, CRO and CCO, as well as representatives from the Society's internal and external auditors. Committee members also meet in private and with the Society's internal and external auditors.

The Committee provides reports to the Board on its work throughout the year. The Committee's effectiveness is reviewed on an annual basis. The Committee's terms of reference are available on the Society's website: **www.saffronbs.co.uk/about/corporate-information/board-and-its-committees** and are also subject to annual review.

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Members	Robin Litten	Jenny Ashmore	Jaz Saggu*	David Rendell	Neil Holden**	Gary Barr***
Meetings Attended	5/5	5/5	2/2	5/5	5/5	4/4

* Jaz Saggu was appointed to the Committee in September 2022.
** Neil Holden retires at the AGM and will no longer be a member.
*** Gary Barr stood down from the Committee in September 2022.

Details of our work, key issues considered and our conclusions are summarised as follows:

Responsibilities

The Committee is responsible for overseeing:
- the integrity of the Society's financial statements and significant judgements used to prepare them;
- the objectivity and independence of the Society's external Auditor. The Committee is also responsible for the appointment, re-appointment or removal of the external Auditor;
- the effectiveness of systems of internal financial control and financial risk management;
- the Society's Internal Audit programme;
- the effectiveness of the Society's whistleblowing policy and procedures.

Principal activities

In considering the integrity of the Group's financial statements, the Committee reviews, at least annually, the acceptability of accounting policies and significant financial judgements.

The Committee, has also considered:
- the appropriateness of the accounting policies and judgements made by management;
- 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;
- the integrity of systems and controls in operation around the Society.

Key judgements

Revenue recognition using the effective interest rate (EIR) method

The Group recognises mortgage income on an effective interest rate (EIR) basis, which includes the deferral of related fees and commissions paid and received and the early recognition of future interest through the application of an average interest rate for the projected life of the loan. The Society uses a software tool to ensure accuracy of the EIR modelling. The significant judgement within the EIR methodology is the prepayment profile of the loan cohorts. The Committee has provided challenge on the projected profiles compared to historical experience and likely outcomes to gain comfort over the assumptions used 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 and loss. Associated interest rate swaps are also accounted for at fair value. Changes in the fair value of the mortgages and associated swaps are reported within net fair value movements 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 and recent prepayment experience 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 26 and 27 with further detail included within Note 28 to the accounts on page 102. 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 and challenge, and are sufficiently robust.

Impairment

Throughout the economic pressures brought about from the war in Ukraine and the recovery from the Covid-19 pandemic, management have considered the need for additional provisioning against future arrears as a result of conditions which existed at the year end. This judgement is presented to the Committee for appropriate scrutiny and challenge, 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 workings and that the Group were not taking advantage of aggressive tax mitigation schemes. The Committee was satisfied that the Group acted appropriately when calculating and accounting for tax.

Going Concern

The Committee reviewed the Going Concern basis used for the preparation of the Annual Report and Accounts, having assessed the basis of the conclusions management had reached.

Fair, balanced and understandable

The Committee considered whether the 2022 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 determined that the language was appropriate in that 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 is fair, balanced and understandable.

External audit

BDO acted as the Society's external auditor during 2022. The Committee is responsible for overseeing the relationship with the external auditor and the quality of the audit process. Ariel Grosberg of BDO is the Society's statutory auditor for the 2022 financial year. This is Ariel's fourth year acting as the Society's auditor. Auditors must resign or re-tender for the position after 10 years, with a successful tender allowing a maximum period for an audit firm of 20 years.

Audit effectiveness

The Committee reviews the effectiveness of the external audit process on an annual basis taking into account feedback from Committee members and attendees. The last review confirmed that the external auditor was performing in an independent and effective manner, with any areas of feedback being shared with the auditor as appropriate.

Independence

BDO have confirmed that it complies with all relevant ethical regulation and professional requirements and no relationships or threats have been identified that may reasonably be thought to bear on their objectivity and independence.

The Society has a non-audit services policy, which sets out permitted and non-permitted services that can be carried out by the external auditors. All non-audit services must be approved by the Audit Committee. During 2022, BDO carried out one area of non-audit services work, which was approved by the Committee.

The Committee is satisfied that BDO remained independent throughout the year.

BDO's report can be found on pages 70 to 75.

Internal audit

The Committee works closely with PwC who provide internal audit services to the Society.

The Committee approved the internal audit plan during 2022. The audit plan receives input from Committee members and management, through its internal assessment of risks.

Throughout the year the Committee reviews the progress and results of internal audits. Key highlights shared with the committee from the internal audit program was as follows:

- The Society has adhered to its risk appetite statement
- The control environment is in line with expectations for the Society's current size and complexity and Management has placed a high priority on risk and control

Private meetings are held throughout the year between the Chair and a representative from internal audit without management being present.

Whistleblowing

The Society has arrangements in place so that colleagues can raise concerns in confidence or anonymously and these are properly investigated. The committee oversees these arrangements.

Jenny Ashmore, Senior Independent Director, is the Society's Whistleblowing Champion and has overall responsibility for ensuring the Society implements and follows the Whistleblowing Policy. The Whistleblowing Champion presents an annual report to the Audit Committee.

In 2022, no reports were filed to the Whistleblowing Champion, and no cases were open at the end of 2022.

The Society remains committed to continually evaluating its approach to whistleblowing and its effectiveness.

Concluding remarks

The Committee conducted its annual review of effectiveness incorporating feedback from members and attendees. The review concluded that it had operated effectively and in accordance with its Terms of Reference.

In 2023 the Committee intends to continue its attention to key matters of financial reporting and internal control alongside the Society's plans to implement a new IT core banking platform and regulatory developments in areas such as operational resilience and the new consumer duty.

On behalf of the Audit Committee

Robin Litten
2 March 2023

Colleagues attended Colchester Sixth Form College Careers Fair, discussing next steps and a career with Saffron Building Society with year 12 students.

Board Risk Committee

David Rendell

Dear member,

As Chair of the Risk Committee, I am pleased to present the report of our work during 2022. The Committee comprises independent Non-Executive Directors appointed by the Nominations Committee to provide the broad range of financial and operational expertise necessary to fulfil our duties.

During 2022 the Committee met eight times and the attendance is detailed below. Meetings are routinely attended by the CEO, CFO, CRO and CCO as well as representatives from the Society's internal auditors.

The Committee provides reports to the Board on its work throughout the year.

The Committee's effectiveness is reviewed on an annual basis.

The Committee's terms of reference are available on the Society's website: **www.saffronbs.co.uk/about/corporate-information/board-and-its-committees** and are also subject to annual review.

Members	David Rendell	Jenny Ashmore	Jaz Saggu*	Nick Treble**	Robin Litten	Neil Holden**	Gary Barr***
Meetings Attended	8/8	7/8	2/2	7/8	8/8	8/8	5/5

* Jaz Saggu was appointed to the Committee in September 2022.
** Neil Holden and Nick Treble retire at the AGM and will no longer be members after April 2023.
*** Gary Barr stood down from the Committee in September 2022.

Details of our work, key issues considered and our conclusions are summarised as follows:

Responsibilities

Under the Committee's terms of reference, the Risk Committee has responsibility for:

- the effectiveness of the system of internal control;
- the plans and activities of risk and compliance and conduct teams, and the effectiveness and resourcing of those 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;
- the delivery of the annual integrated assurance plan

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 and preparing for Consumer Duty of Care.

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 Risk Management Framework (RMF) 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;
- articulating the Society's risk strategy, its proactive measures to mitigate risk and risk appetite; and
- directing the approach to risk governance throughout the Society.

The RMF sets out the Society's method of managing risk through:

- detailing the Three Lines of Defence (3LoD) model and its operation within the Saffron Risk Management Framework;
- determining the responsibilities of the management Risk Committees and of individual roles in place to govern risk and how oversight of 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 RMF 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 (first line);
- those that oversee, monitor and challenge the first line (second line); and
- the audit functions which provide independent assurance (third 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 nominees from the Executive and appropriate members of senior management. The Committees forming part of the Risk Management framework can be found on page 47.

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 statements set out in the Society's Risk Appetite Statement 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. The Board and Management Committees, together with the Three Lines of Defence model ensure 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.

The Society categorises its risks under five headings, and a further 30 sub-headings, which constitutes the full library of risks identified and against which levels of risk appetite are set. The Risk Management department ensures that the Society stays within those risk appetites:

Credit

The risk that a customer or counterparty is unable or unwilling to honour its obligations to the Society as they fall due, resulting in an actual or potential loss exposure for the Society.

Finance

Losses arising due to the mismanagement of the Society's capital and liquidity positions, adverse business strategy and poor management of interest rate positions.

Operational

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Compliance

Risk of legal penalties, financial forfeiture and material loss resulting from failure to act in accordance with industry laws and regulations, internal policies or prescribed best practices. The Society deliberately acts or omits to act in a way which delivers good outcomes for customers and/or materially impacts the Society's conduct requirements.

Regulatory

Risks arising from breach of regulations such as: Regulatory Reporting, GDPR or other issues resulting in financial or reputational damage.

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 and 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 plan

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 Recovery Plan document is updated at least annually.

Consumer Duty of Care

The Society has a project under way to be fully compliant with the forthcoming Consumer Duty of Care regulations. This project is overseen by the Board with regular updates.

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.

Concluding remarks

The Committee concluded its annual review of effectiveness incorporating feedback from members and attendees. The review concluded that it had operated effectively and in accordance with its Terms of Reference.

In 2023, the Committee intends to continue to ensure the Society's strategy is delivered with agreed levels of risk. It will also ensure it responds appropriately to the financial risks that the current economic challenges pose to the Society.

On behalf of the Risk Committee

David Rendell
2 March 2023

Colleges attended Crucial Crew 2022 to help children understand money and finances.

Remuneration Committee Report

Jenny Ashmore

“

Dear member,

As Chair of the Remuneration Committee, I am pleased to present the report of our work during 2022.

The Committee comprises independent Non-Executive Directors appointed by the Nominations Committee to provide the broad range of people and remuneration expertise necessary to fulfil our duties.

During 2022 the Committee met six times and the attendance is detailed below. Meetings are routinely attended by the CEO and Head of People to support the Committee in its work.

The Committee provides reports to the Board on its work throughout the year.

The Committee's terms of reference are available on the Society's website: **www.saffronbs.co.uk/about/corporate-information/board-and-its-committees** and are also subject to annual review.

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Members	Jenny Ashmore	Robin Litten	Jaz Saggu*	David Rendell	Neil Holden**	Gary Barr**	Nick Treble**
Meetings Attended	6/6	6/6	1/1	6/6	6/6	5/6	5/6

* Jaz Saggu was appointed to the Committee in September 2022.
** Neil Holden, Nick Treble and Gary Barr will step down as of 18 April 2023.

Details of our work, key issues considered and our conclusions are summarised as follows:

Responsibilities

The Committee is responsible for:
- overseeing the Society's Remuneration policy;
- approving the 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;
- overseeing approval of the bonus pot for all staff and Executives;
- reviewing Women in Finance metrics and benchmarking.

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, competence, skill and knowledge, and is competitive within the 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 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. The Committee is satisfied that the Remuneration Policy meets with the criteria of the Remuneration Code.

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) to determine appropriate pay levels.

Management undertook an in-depth review across the Society in 2022 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.

Decisions in 2022

Salary:

In July 2022, a minimum of 7% was awarded to all colleagues.

In addition, there was a further increase for frontline Member Representatives, such that the starting salary is now £19,367. Within this process, every person's salary was reviewed in the context of their responsibilities and additional increases were applied to ensure that they kept pace with the external benchmarks of that role. The 7% 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 financial services market data and in-sector salary benchmarking.

In a bid to support with retail recruitment and retention, Saturday pay has been increased for the first time in eight years, and travel allowance has been made permanent after a successful one-year trial.

The Society exceeds the statutory National Minimum Wage and meets the voluntary Real Living Wage requirements of at least £9.90 per hour. This rate is set to rise in 2023 to £10.90 per hour and the Society will continue to deliver on its commitment to the Real Living Wage.

The Society is looking to further increase salaries in retail to support with recruitment and retention, beyond that of the Real Living Wage.

Looking ahead, the rises in inflation and the cost of living, and the tough labour market, will require careful monitoring and understanding when considering total reward packages for colleagues in 2023.

Bonus for 2022

2022 has been a record year for the Society, following on from the stand-out year in 2021, with continued strong retained earning delivered due to well-managed growth of the mortgage book.

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 colleague. An advance payment of £1,000 was paid to colleagues in December in recognition of Christmas always being a period of higher expense which was intensified by the higher energy costs. The final £500 will be paid in March 2023. A further, 5%, 10%, 15% or 20% bonus payment will be made per qualifying colleague across all roles, depending on individual performance, objectives and behaviours, set to be paid in March 2023.

	2022 (£)					2021 (£)				
	Salary	Bonus earned in relation to financial year	Other benefits	Pension	**Total**	Salary	Bonus earned in financial year	Other benefits	Pension	**Total**
Executive										
C H Field	£210,000	£61,600	£21,000	£34,350	**£326,950**	£200,000	£60,000	£21,009	£27,000	**£308,009**
T Slater	£170,775	£42,372	£17,078	£12,513	**£242,738**	£165,000	£45,500	£17,610	£12,090	**£240,199**
J Penberthy-Smith - Joined 01/01/2022	£165,000	£47,936	£16,560	£12,134	**£241,630**	£0	£0	£0	£0	**£0**
Total	**£545,775**	**£151,908**	**£54,638**	**£58,997**	**£811,318**	**£365,000**	**£105,500**	**£38,618**	**£39,090**	**£548,209**
Non-Executive										
T G Barr	£44,505	£0	£0	£0	**£44,505**	£39,667	£0	£0	£0	**£39,667**
N J Holden	£44,505	£0	£0	£0	**£44,505**	£43,000	£0	£0	£0	**£43,000**
R Litten	£44,505	£0	£0	£0	**£44,505**	£35,500	£0	£0	£0	**£35,500**
D Rendell	£44,505	£0	£0	£0	**£44,505**	£43,000	£0	£0	£0	**£43,000**
N J Treble	£54,855	£0	£0	£0	**£54,855**	£53,000	£0	£0	£0	**£53,000**
J A Ashmore	£44,505	£0	£0	£0	**£44,505**	£43,000	£0	£0	£0	**£43,000**
J Saggu - Joined 01/09/2022	£11,770	£0	£0	£0	**£11,770**	£0	£0	£0	£0	**£0**
B Anderson - Joined 01/10/2022	£14,980	£0	£0	£0	**£14,980**	£0	£0	£0	£0	**£0**
Total	**£304,130**	**£0**	**£0**	**£0**	**£304,130**	**£257,167**	**£0**	**£0**	**£0**	**£257,167**
Grand Total:	**£849,905**	**£151,908**	**£54,638**	**£58,997**	**£1,115,448**	**£622,167**	**£105,500**	**£38,619**	**£39,090**	**£805,376**

Notes:

1. There was a bonus paid in March 2022 to CH Field of £17,024 (2021 - £17,024) in respect of 2019 and 2021 deferred bonus. T Slater received a payment of £26,730 (2021 - £nil) and J Penberthy-Smith received a payment of £25,920 (2021 - £nil) in respect of the 2021 deferred bonus.

2. Other benefits is made up of car allowance and private health insurance.

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 monitored and challenged by the Committee. A work plan has been developed to improve this area which focuses on the attraction, development and retention of our female representation.

The Gender Pay Gap is calculated comparing men's 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.

Our Gender Pay Gap figures are contained on page 41.

Directors Remuneration

Executive Directors

The remuneration of the Executive Directors is reviewed and approved by the Committee, including any appointment packages.

Exceptional performance is expected of all Executive Directors, with rewards linked to the promotion and support of Society values and behaviours, including appropriate risk management, financial performance, quality customer service, colleague engagement and individual excellence. In line with the record-breaking year the Society had, benchmarking against other comparable Societies and there not having been an increase to Executive Director pay since 2020, the Executive Directors received a salary increase of between 7% and 10%.

Considering the outstanding performance year, the Committee agreed that the bonus award for 2022 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 24% to 28%. In line with the Policy, this is paid out in three parts: 60% of the amount in March 2023 and the remaining 40% deferred across the next three years.

There were no other changes to the variable pay or pension contributions for current Executive Directors in 2022.

Non-Executive Remuneration

In determining Non-Executive remuneration, the Committee and the Board take account of fees payable to Non-Executive Directors and Chairs 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 Saffron Building Society and which reflect the skills and time commitment required, the Committee periodically commissions a review of Non-Executive remuneration.

The Remuneration Committee and Chief Executive Officer meet to agree and approve the fee for the Chair of the Society, with the Chair not being party to the discussion.

The remuneration of the Non-Executive Directors is recommended to the Board for approval following discussion and agreement between the Chair of the Society and the Chief Executive Officer.

In 2022 there was an increase to Non-Executive Directors' fees of 7%, the Chair also received a 7% increase (the last increase for any Non-Executive 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.

Full details of the audited individual Directors' remuneration are disclosed to the left.

Concluding remarks

The Committee conducted its annual review of effectiveness incorporating feedback from members and attendees. The review concluded that it had operated effectively and in accordance with its terms of reference.

In 2023 the Committee intends to continue its attention to key matters of remuneration to support the Society's People Strategy.

On behalf of the Remuneration Committee

Jenny Ashmore
2 March 2023

Directors' Report

The Directors submit their Report prepared in the context of the UK Corporate Governance Code and in accordance with the requirements of the Building Societies Act. The Directors' Report should be read in conjunction with the Chairman's Statement, Chief Executive's Report and Strategic Report on pages 6 to 41.

Information presented in other sections

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

Business objectives and activities	Strategic Report (page 18)
Business review and future developments	Strategic Report (page 24)
Principal risks and uncertainties	Strategic Report (pages 31 to 33)
Financial risk management objectives and policies, and risk exposures	Strategic Report (page 34)
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 2022 was £17.5million (2021: £8.1million).

The Group profit after tax transferred to general reserves was £14.7million (2021: £6.4million).

Capital

Group gross capital at 31 December 2022 was £80.2million (2021: £66.6 million) being 6.7% of total shares and borrowings (2021: 5.5%). Free capital at the same date was £73.4million (2021: £57.4million) and 6.2% of total shares and borrowings (2021: 4.8%).

Mortgage arrears

At Group level at 31 December 2022 there were 15 properties (2021: 18) where payments where 12 months or more in arrears. At 31 December 2022, the Group held 2 properties (2021:2) in possession. 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

Supplier payment policy

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

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

Charitable and political donations

During the year the Society made donations totalling £60,313 (2021: £45,096) in support of charities and organisations. No contributions were made for political purposes (2021: nil).

Directors' responsibilities in respect of the Annual Report, Annual Business Statement, Directors' Report and Annual Accounts

The Directors are required by the Building Societies Act 1986 ('the Act') to prepare, for each financial year, annual accounts which give a true and fair view of the:

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

In preparing these Accounts, the Directors are required to:

- select appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the applicable UK accounting standards have been followed, subject to any material departures discussed and explained in the accounts;
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

In addition to the Accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society and its subsidiaries.

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for:

- ensuring the Society and subsidiary undertakings keep accounting records in accordance with the Act;
- taking reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority under the Financial Services and Markets Act 2000;
- safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Viability and going concern

The Directors have assessed the long-term prospects and viability of the Group. This has included consideration of the 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, considering all available information about the future and factors likely to affect its future development, financial performance, liquidity and capital structure.

A five-year plan is prepared each year and the strategy underpinning the latest plan was initiated two years ago and is largely unchanged in its focus on capital strength and sustainable growth. Strong yielding but low risk lending is central to the strategy, with volume growth being largely funded by increased member savings and capital retention. The successful delivery of this strategy, alongside interest rate related fair value movements on the derivative portfolio, has strengthened both the capital position and the relevance of the Society. The Board considered the strategy in detail during July 2022 and the financials were further refined in December 2022, taking account of the latest economic expectations. Although a five-year view was considered by the Board, the viability is formally assessed over a three-year period, with the longer-term view being more uncertain due to the wide range of possible economic outcomes facing the UK.

Viability assessment

The Society has modelled a number of scenarios as part of the latest internal capital adequacy assessment (ICAAP) including a severe macroeconomic stress coupled with heavy prepayments in the Society's equity release mortgage portfolio, which is recorded at fair value. The scenarios were specifically designed to test the resilience of the Group to increases in inflation, increased unemployment, significant strain on arrears and large house price falls alongside significant charges against the carrying fair value of the equity release mortgage portfolio through prepayment assessments and the aforementioned house price falls. This resulted in a modelled stress which was more severe than the latest Bank of England illustrative tests.

Management presently reserve an amount of 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 was more than sufficient to cover the combined impacts on the wider business of the extreme scenario.

Net interest margin, asset quality, risk weightings and cost management are a particular focus of the Group during the viability assessment period, and consistent performance over the last two years provides additional reassurance to management that delivery of the plans over the next three years are achievable. The outperformance of the latest budget for 2022 was in part achieved through the gains in the fair value of the derivative portfolio, however underlying profit (which excludes these gains) has returned underlying pre-tax profits in 2022 of £11.9m demonstrating the success of the strategy for capital efficiency and improved earnings. Product and interest rate management are closely monitored to ensure that swift action is taken in the event of material changes in market conditions.

The ICAAP concludes that capital levels are adequate to withstand an extremely severe financial shock and provides illustrative guidance to help mitigate any adverse impact at an early stage in the evolution of such a scenario.

Liquidity stress testing is modelled annually in the internal liquidity adequacy assessment (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 managed down to a more efficient level throughout 2022 with an increase in liquidity levels towards the year end, designed to provide sufficient funding for the year end mortgage pipeline. Liquidity is planned to be maintained at prudent levels throughout 2023 to fund future mortgage book growth and will be increased in 2024 and 2025 to fund TFSME repayment in late 2025. Liquidity levels are forecast to remain comfortably within the Directors' prudent risk appetite throughout the three-year window, at a level which is significantly in excess of the regulatory minimum requirements.

As part of ongoing viability, operational resilience is a key priority and this was found to be particularly strong when 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 continues to operate successfully. Outsourcing has been a particular area of focus for the Society into 2022, with more information on suppliers' operational viability being obtained.

Viability conclusions:

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 was materially strengthened in 2022 and is planned to be maintained above regulatory minima 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 a reasonable expectation that the Group is viable over the period to December 2025 and can continue to meet its liabilities as they fall due over that period.

Going concern

The Directors are required to prepare financial statements on a going concern basis, unless it is inappropriate to presume that the Society and the Group will continue in business for a minimum of 12 months from the date of signing the financial statements.

The Directors review the results of the regular forecasts and stress tests to understand the potential financial and operational performance of the business under a number of economic and market conditions. This informs their assessment as to whether the Group and Society are a going concern.

Based on the assessments performed, the Directors have concluded that:

- The Society has proven access to liquidity resources, including access to central bank facilities where required through the use of the collateralised loan book, sufficient to meet both the normal demands of the business and the requirements which might arise in modelled stress scenarios. The availability and quality of liquid assets are structured so that funds are available to repay any maturing wholesale funding and cover significant demand from retail investors.
- The Society's current capital resources are sufficient to meet regulatory requirements. Having reviewed future plans and forecasts, the Directors consider plans for future capital generation are sufficient to maintain capital in excess of regulatory requirements, under both central and modelled stressed scenarios.

The Directors have therefore concluded that there is no material uncertainty in relation to the Society and the Group's continuation as a going concern and therefore it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Our people

Colleague engagement remains high on the Board agenda. Despite the challenges the new hybrid approach has presented, colleague activities continue to remain in focus to support greater communication and collaboration across the Society. Weekly 'all colleague' calls hosted by the Chief Executive Officer and Senior Management have continued throughout the year, with business-related matter updates and wellbeing initiatives being some of the things that are discussed. All colleagues are encouraged to actively participate through the question-and-answer segment which has improved awareness of the business priorities and strategic objectives.

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 quarterly as part of the updated key performance indicators which the Society monitors.

Normally, the Non-Executives would spend more time with employees during the course of a year, however the hybrid working approach has reduced staff presence on site, resulting in less face-to-face employee engagement with the Board – an area which the incoming Chair is looking to change, with focused Board and staff lunches.

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.

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 staff for their unwavering support, positivity and performance over the last 12 months.

The Society has been accredited by the Good Business Charter (GBC). 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) (Resigned 03/01/2023)
J Penberthy-Smith (Chief Commercial Officer) (Appointed 01/01/2022)

Non-Executive Directors

N J Treble (Chair)
J Ashmore* (Senior Independent Director)
T G Barr
N J Holden
D R Rendell
R Litten
J Saggu (Appointed 01/09/2022)
B Anderson (Appointed 01/10/2022)
*married name Zaremba

All, non-retiring Directors will stand for election or re-election.

Biographies of the Directors appear at pages 49 to 51. 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
Chair
On behalf of the Board 2 March 2023

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

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2022 and of Group's profit and of the Society's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements of Saffron Building Society (the 'Society') and its subsidiaries (the "Group") for the year ended 31 December 2022 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 ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 4 years, covering the years ending 31 December 2019 to 31 December 2022. 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 Society or the Group.

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's and 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 internal regulatory experts.
- 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 and looking at current forecasts to results to date.

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
Coverage	100% (2021: 100%) of Revenue 100% (2021: 100%) of Profit before tax 100% (2021: 100%) of Total assets		
Key audit matters	Revenue Recognition (Effective Interest Rate adjustment)	✓	✓
	Impairment losses on loans and advances (excluding lifetime mortgages)	✓	✓
	Valuation of lifetime mortgages	✓	✓
Materiality	*Group financial statements as a whole* £710,000 based on 1% of Net Assets (2021: £564,000 based on 1% of Net Assets)		

An overview of the scope of our audit

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

We considered there to be two significant components, the Society and Crocus Home Loans Limited, for which full scope audits were performed by the Group engagement team.

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 the scope of our audit addressed the key audit matter
Revenue recognition-Effective Interest Rate adjustment *The Group's accounting policies are detailed on page 83 with detail about judgements in applying accounting policies and critical accounting estimates on page 85.* *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 £2.4m (2021: £1.4m) 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 £1.2m (2021: (£0.9m)). The Group uses a EIR software tool to ensure accuracy of the EIR modelling. 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. For these reasons revenue recognition was considered to be a key audit matter.	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 accuracy of 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 check that 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 models by agreeing samples back to the source documents. This includes the data used in the historical behavioural life redemption profiles. The arithmetical accuracy and logic in the model was also tested. 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 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 Group'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 the scope of our audit addressed the key audit matter
Impairment losses on loans and advances (excluding lifetime mortgages) *The Group's accounting policies are detailed on page 84 with detail about judgements in applying accounting policies and critical accounting estimates on page 85.* *Refer to note 12 for Impairment losses on loans and advances.*	The Group holds £0.8m of impairment provisions at year-end (2021: £0.6m). This comprises a specific provision of £0.3m (2021: £0.2m) and a collective provision of £0.5m (2021: £0.4m). The Group accounts for the impairment of loans and advances to customers (excluding lifetime mortgages) using an incurred loss model. In accordance with the recognition and measurement criteria of 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 Group'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. For these reasons the impairment losses on loans and advances (excluding lifetime mortgages) was considered to be a key audit matter.	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 to supporting documentation including recent sale offer price. 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 to assess the impact on provision. We have performed stand back procedures and assessed the completeness of post model adjustments for the year end by considering whether macro -economic factors such as increased inflation within the domestic economy has been adequately taken into consideration. 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 84 with detail about judgements in applying accounting policies and critical accounting estimates on page 85.* *Refer to note 11 for the fair value of the lifetime mortgages portfolio.*	The Group holds a portfolio of lifetime mortgages at a fair value of £38.0m (2021: £50.0m). Management has elected to account for the lifetime mortgage portfolio at fair value through profit or loss in order to prevent an accounting measurement mismatch which would exist if the mortgage portfolio were accounted for at amortised cost and the associated swap was accounted for at fair value, creating potential income statement volatility. The valuation of the lifetime mortgage portfolio is a complex exercise, which requires a discounted cash flow technique. 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 the 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.	We assessed the election to account for the lifetime mortgage portfolio at fair value through profit or loss 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. With support from our internal valuation experts: • we assessed the appropriateness of the discount rates, house price inflation ("HPI") growth rate, HPI volatility expectations, and other assumptions used in the Groups valuation. • challenged the discount rate used by management by estimating an acceptable range of the discount rate based on a bottom up approach, calibrating the rate to market observable data, and running sensitivity on the rate. • compared HPI growth rate and HPI volatility assumptions to our independent estimate derived from observable market data We compared the mortality rates to the Group's external actuary's actuarial tables and we assessed the competence, objectivity and independence of the Group's actuary.

Key Audit Matter		How the scope of our audit addressed the key audit matter
Valuation of lifetime mortgages *The Group's accounting policies are detailed on page 84 with detail about judgements in applying accounting policies and critical accounting estimates on page 85.* *Refer to note 11 for the fair value of the lifetime mortgages portfolio.*	Valuation of lifetime mortgages is therefore also a fraud risk area due to the material judgments and complexity. For these reasons, the valuation of the lifetime mortgages was considered to be a key audit matter.	We recalculated the prepayments rate applied to the model by; • Independently reperforming the calculations, • Verifying a sample of prepayments made to underlying source data, • With the support of our internal valuations experts, running sensitivity analysis of the prepayments applied in the model on the Groups valuation. For key model data, we tested the completeness and accuracy of the inputs by agreeing a sample back to underlying source data. We engaged our internal valuation experts to re-performed the valuation of the interest rate swaps that the Group has entered into for the lifetime mortgage portfolio. **Key observations:** Based on our audit work performed, we consider the key assumptions and judgements made in the valuation of the lifetime mortgages to be appropriate.

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:

	2022 £k Group	2021 £k Group	2022 £k Society	2021 £k Society
Materiality	710	564	678	527
Basis for determining materiality	1% of Net Assets	1% of Net Assets	1% of Net Assets	Significant component allocated materiality. This equates to 0.93% of net assets
Rationale for the benchmark applied	We determined that Net assets was the most appropriate benchmark considering the different stakeholders. This is considered to be the measure which closely corresponds to regulatory capital. Regulatory stability is considered to be a main driver for the Group as well as the purpose of the Group which is to optimise rather than maximise profits.		We determined that Net assets was the most appropriate benchmark considering the different stakeholders. This is considered to be the measure which closely corresponds to regulatory capital. 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.
Performance materiality	532	423	509	395
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% (2021: 75%) of materiality.			

Component Materiality

We allocated materiality for the significant component of the Group, apart from the Parent Company whose materiality is set out above, dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality was set at £269K (2021:£318K). In the audit of that component, we further applied a performance materiality level 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 £14k (2021:£11k). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Other Building Societies Act 1986 reporting

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

Annual business statement and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • The annual business statement and the Directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986; • The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • The information given in the annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given. In the light of the knowledge and understanding of the Group and the Society and their environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion: • adequate accounting records have not been kept by the 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 113 for the financial year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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 Group and the industry in which it operates and considered the risk of acts by the Group which would be contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with the Building Societies Act 1986, Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") regulations, pension legislation and tax legislation.

We 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, loan loss provisioning and the valuation of lifetime mortgages.

Our procedures in response to the above included:

- obtaining an understanding of the control environment that the Group has in place for monitoring compliance with laws and regulations;
- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with the relevant laws and regulations discussed above;
- making enquiries in respect of known or suspected fraud of management, internal audit and the Audit Committee;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence with the FCA and the PRA for instances of fraud or non compliance with laws and regulations;
- 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 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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Ariel Grosberg (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
2 March 2023
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

The Accounts 2022

The Accounts

Income Statement
for the year ended 31 December 2022

	Notes	2022 (£000) Group	2022 (£000) Society	2021 (£000) Group	2021 (£000) Society
Interest receivable and similar income	2	41,428	40,713	27,597	26,909
Interest payable and similar charges	3	(11,070)	(11,070)	(4,838)	(4,838)
Net interest income		**30,358**	**29,643**	**22,759**	**22,071**
Fees and commissions receivable		448	494	734	732
Fees and commissions payable		(608)	(586)	(590)	(560)
Other operating income		79	79	421	421
Net fair value movements	4	5,617	1,800	622	113
Total net income		**35,894**	**31,430**	**23,946**	**22,777**
Administrative expenses	5	(15,826)	(15,833)	(13,511)	(13,676)
Depreciation and amortisation	14,16	(2,197)	(2,197)	(2,296)	(2,295)
Other operating charges		(304)	(304)	(97)	(97)
Operating profit before impairment gains and provisions		**17,567**	**13,096**	**8,042**	**6,709**
Impairment (losses)/gains on loans and advances	12	(249)	(250)	13	12
Operating profit		**17,318**	**12,846**	**8,055**	**6,721**
Profit on disposal of property, plant and equipment and investment properties		226	226	-	-
Profit before tax		**17,544**	**13,072**	**8,055**	**6,721**
Tax	8	(2,855)	(2,007)	(1,625)	(1,057)
Profit for the financial year		**14,689**	**11,065**	**6,430**	**5,664**

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

Statement of comprehensive income
for the year ended 31 December 2022

	Notes	2022 (£000) Group	2022 (£000) Society	2021 (£000) Group	2021 (£000) Society
Profit for the financial year		14,689	11,065	6,430	5,664
Available for sale reserve					
-Valuation losses taken to reserves	23	(421)	(421)	(323)	(323)
-Amount transferred to income statement	23	-	-	1	1
Net actuarial gain recognised in the defined benefit pension scheme	27	246	246	608	608
Tax relating to components of other comprehensive income		(167)	(167)	(170)	(170)
Total comprehensive income for the year		**14,347**	**10,723**	**6,546**	**5,780**

Group Statement of Financial Position
for the year ended 31 December 2022

	Notes	2022 (£000) Group	2021 (£000) Group
Assets			
Liquid assets			
Cash in hand and balances with the Bank of England		103,738	182,408
Loans and advances to credit institutions	9	22,710	30,009
Debt securities	9	85,846	66,633
Derivative financial instruments	10	35,414	9,373
Loans and advances to customers	11	1,028,579	996,029
Total liquid assets		**1,276,287**	**1,284,452**
Investment properties	15	2,010	2,455
Property, plant and equipment	14	3,465	3,888
Intangible assets	16	1,858	3,250
Other assets	17	2,194	1,864
Deferred tax asset	17,22	426	-
Pension asset	27	83	-
Total assets		**1,286,323**	**1,295,909**
Liabilities			
Shares	18	880,281	897,468
Amounts owed to credit institutions	19	249,559	237,125
Amounts owed to other customers		62,676	67,035
Derivative financial instruments	10	9,844	24,177
Other liabilities	20	3,054	2,657
Provision for liabilities	26	144	244
Deferred tax liability	22	-	90
Pension liability	27	-	85
Subordinated liabilities	21	9,682	10,291
Total liabilities		**1,215,240**	**1,239,172**
Reserves			
General reserves		71,147	56,484
Available for sale reserve	23	(446)	(129)
Revaluation reserve	24	382	382
Total reserves and liabilities		**1,286,323**	**1,295,909**

These accounts were approved by the Board of Directors on 2 March 2023 and were signed on its behalf by:

C H Field
(Chief Executive Officer)

N J Treble
(Chair)

R Litten
(Director)

Society
Statement of Financial Position
for the year ended 31 December 2022

	Notes	2022 (£000) Society	2021 (£000) Society
Assets			
Liquid assets			
-Cash in hand and balances with the Bank of England		103,738	182,408
-Loans and advances to credit institutions	9	22,641	29,920
-Debt securities	9	85,846	66,633
Derivative financial instruments	10	35,414	9,373
Loans and advances to customers	11	1,001,651	961,693
Total liquid assets		**1,249,290**	**1,250,027**
Investments in subsidiary undertakings	13	22,937	34,837
Investment properties	15	2,010	2,455
Property, plant and equipment	14	3,465	3,885
Intangible assets	16	1,858	3,250
Other assets	17	2,194	1,859
Current tax asset	17	771	-
Deferred tax asset	17,22	426	-
Pension asset	27	83	-
Total assets		**1,283,034**	**1,296,313**
Liabilities			
Shares	18	880,281	897,468
Amounts owed to credit institutions	19	249,559	237,125
Amounts owed to other customers		62,676	67,035
Derivative financial instruments	10	9,844	24,177
Other liabilities	20	2,955	2,625
Provision for liabilities	26	144	244
Deferred tax liability	22	-	90
Pension liability	27	-	85
Subordinated liabilities	21	9,682	10,291
Total liabilities		**1,215,141**	**1,239,140**
Reserves			
General reserves		67,957	56,920
Available for sale reserve	23	(446)	(129)
Revaluation reserve	24	382	382
Total reserves and liabilities		**1,283,034**	**1,296,313**

These accounts were approved by the Board of Directors on 2 March 2023 and were signed on its behalf by:

C H Field
(Chief Executive Officer)

N J Treble
(Chair)

R Litten
(Director)

Statement of changes in members' interests

(£000)	General reserve	Available for sale reserve	Revaluation reserve	Total
Group 2022				
Balance as at 1 January 2022	56,484	(129)	382	56,737
- Profit for the financial year	14,689	-	-	14,689
- Other comprehensive charge for the year	(25)	(317)	-	(342)
Total comprehensive income/(charge) for the year	14,664	(317)	-	14,347
Balance as at 31 December 2022	**71,147**	**(446)**	**382**	**71,083**
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 (charge)/income for the year	363	(247)	-	116
Total comprehensive (charge)/income for the year	6,793	(247)	-	6,546
Balance as at 31 December 2021	**56,484**	**(129)**	**382**	**56,737**
Society 2022				
Balance as at 1 January 2022	56,920	(129)	382	57,173
- Profit for the financial year	11,065	-	-	11,065
- Other comprehensive charge for the year	(27)	(317)	-	(344)
Total comprehensive income/(charge) for the year	11,037	(317)	-	10,721
Balance as at 31 December 2022	**67,957**	**(446)**	**382**	**67,894**
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 (charge)/income for the year	363	(247)	-	116
Total comprehensive (charge)/income for the year	6,027	(247)	-	5,780
Balance as at 31 December 2021	**56,920**	**(129)**	**382**	**57,173**

Group cash flow statements
for the year ended 31 December 2022

	Notes	2022 (£000) Group	2021 (£000) Group
Cash flows from operating activities			
Profit before tax		17,544	8,055
Interest on subordinated liabilities	21	661	661
(Gains)/Losses on disposal of debt securities	9	(324)	83
Net fair value movements	4	(5,617)	(622)
Gain on disposal of property, plant and equipment		(226)	-
Depreciation and amortisation	14,16	2,198	2,296
Increase/(Decrease) in impairment of loans and advances	12	252	(10)
Decrease in loans and advances to credit institutions		6,419	15,542
Increase in loans and advances to customers		(68,375)	(68,645)
Decrease/(Increase) in prepayments, accrued income and other assets		(387)	(412)
(Decrease)/Increase in shares		(17,015)	3,809
Cash received on derivative instruments		4,261	177
Cash paid on derivative instruments		(4,561)	(5,973)
Increase in amounts owed to credit institutions		12,486	105,868
Decrease in amounts owed to other customers		(4,359)	(14,436)
(Decrease)/Increase in accruals, deferred income and other liabilities		813	356
Net tax paid		(3,000)	(1,200)
Net cash (outflow)/inflow from operating activities		**(59,229)**	**45,549**
Cash flows from investing activities			
Purchase of debt securities		(131,288)	(42,116)
Disposal of debt securities		111,654	26,171
Purchase of property, plant and equipment		(117)	(467)
Net cash inflow from sale of property, plant and equipment		-	-
Purchase of intangible fixed assets		(300)	(555)
Purchase of investment property		(777)	-
Disposal of investment property		1,160	-
Net cash used in investing activities		**(19,668)**	**(16,967)**
Interest on subordinated liabilities		(661)	(661)
Cash received on derivative instruments		9	25
Net cash used in financing activities		**(652)**	**(636)**
Net (decrease)/increase in cash and cash equivalents		**(79,550)**	**27,946**
Cash and cash equivalents at beginning of the year		**185,006**	**157,060**
Cash and cash equivalents at end of the year (2)		**105,456**	**185,006**

Net cash paid and net cash received on derivatives has been split to be in accordance with the standard. Changes were also made to Net fair value movement and Increase in loans and advances to customers.

Notes:
1) All cash flows are stated inclusive of VAT where applicable.
2) Cash and cash equivalents comprise cash in hand £103,738,000 (2021 : £182,408,000) and loans and advances to credit institutions repayable on call and short notice of £1,718,000 (2021 : £2,598,000).

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 66.

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 Directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements having assessed the long term prospects and viability of the group, as set out in the Director's Report on page 66.

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 ember of a group and a Consolidated Cash Flow Statement is published, the Society does not have to prepare a Cash Flow Statement.

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

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

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

e) Cash and cash equivalents:
For the purposes of the Cash Flow Statement, cash and cash equivalents comprises 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. Cash equivalents in particular are highly liquid unrestricted investments that are readily convertible into known amounts of cash with an insignificant risk of changes in value.

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, the group hedges fixed rate mortgages, fixed rate savings (shares) and fixed rate subordinated debt. Changes in 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 account 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. As part of the Society's Equity Release valuation a Black-Scholes option approach has been adopted to assess the size of the risk associated with the valuation on the properties falling due to market forces over time. This model will assess the size of the risk given certain assumptions on how the UK housing market is expected to perform over a long term horizon. The Model will calculate a figure per property which is then deduct directly from the fair value of each loan.

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 financial difficulties in meeting their obligations.

A range of forbearance options are available to support customers who are in financial difficulty, if it can be demonstrated that this difficulty can be successfully overcome. The Society considers that if one or more of the options identified below can be agreed, this would always be preferable to taking possession of the customer's home.

The main options offered are:

- Reduced monthly payment including interest only concession
- An arrangement to clear outstanding arrears
- Extension of mortgage term
- Capitalisation of arrears

Customers requesting a forbearance option will need to provide information to support the request. This is likely to include an assessment of their Income and Expenditure, and where appropriate bank statements to ensure that the forbearance option is fair and equitable to all parties and is demonstrably sustainable. If the forbearance request is granted, the account is monitored in accordance with our policy and procedures. Further information on forbearance is contained within 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) Employee benefits:
Defined contribution pension arrangements Obligations for contributions to defined contribution pension arrangements are recognised as an expense in the Income Statement as incurred.

Defined benefit schemes

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.

As the present value of the defined benefit obligation of the Society's defined benefits scheme is less than the fair value of plan assets at the reporting date, the plan has a surplus. The Society recognises a plan surplus as a defined benefit plan asset only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

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 effective interest rate 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 £205k (2021 - £353k). In the scenario where the mortgages redeem one month later this results in further income of £431k (2021 - £553k) 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 £162k (2021 - £218k) while an improvement in house price of 5% would lead to a reduction in provision of £96k (2021 - £138k). If the probability of default on our loan book increased by 25%, our provision would increase by £54k (2021 - £58k), however if the probability of default decreased by 25%, our provision would fall by £54k (2021 - £58k).

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. 1% increase in the discount rate would reduce the defined benefit obligation by £1,201k (2021 - £2,402k). A 1% decrease in the discount rate would increase the defined benefit pension obligation by £1,470k (2021 - £3,065k).

2. Interest receivable and similar income

	2022 (£000)		**2021** (£000)	
	Group	Society	Group	Society
On assets held at amortised cost				
Loans fully secured on residential property	33,886	33,717	28,988	28,828
Loans to subsidiaries	-	802	-	861
Other liquid assets / cash and short term funds	927	927	169	169
On available for sale securities				
interest received on instruments	1,504	1,504	144	144
On financial instruments held at fair value through the income statement				
Loans fully secured on residential property	2,266	918	2,341	952
Derivatives	2,845	2,845	(4,045)	(4,045)
	41,428	**40,713**	**27,597**	**26,909**

3. Interest payable and similar charges

	2022 (£000)		**2021** (£000)	
	Group	Society	Group	Society
On liabilities held at amortised cost				
Shares held by individuals	6,789	6,789	3,728	3,728
Subordinated liabilities	682	682	682	682
Deposits and other borrowings	3,527	3,527	474	474
On financial instruments held at fair value through the income statement				
Derivatives	72	72	(46)	(46)
	11,070	**11,070**	**4,838**	**4,838**

4. Net fair value movements

	2022 (£000)		**2021** (£000)	
	Group	Society	Group	Society
Derivatives in designated fair value hedge relationships	23,628	23,628	12,330	12,330
Adjustments to hedged items in fair value hedge accounting relationships	(19,894)	(19,894)	(10,573)	(10,573)
Derivatives not in designated fair value hedge relationships	13,680	4,260	7,425	3,000
Decrease in fair value of assets and liabilities	(11,797)	(6,193)	(8,560)	(4,644)
	5,617	**1,800**	**622**	**113**

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

	2022 (£000)		**2021** (£000)	
	Group	Society	Group	Society
Colleague costs (Note 6)	9,447	9,447	7,817	7,627
Remuneration of auditors:				
- audit of the Society's accounts	324	324	230	230
- audit of the Society's subsidiaries pursuant to legislation	30	30	30	30
- assurance related services	24	24	39	39
Operating lease rentals	308	308	299	299
Intercompany Loan Impairment	-	13	-	413
Other administrative expenses	5,693	5,687	5,096	5,038
	15,826	**15,833**	**13,511**	**13,676**

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:

	2022		**2021**	
	Group	Society	Group	Society
Principal office	132	132	124	121
Branch offices	37	37	35	35
	169	**169**	**159**	**156**

	2022 (£000)		**2021** (£000)	
The aggregate costs of these persons were as follows:	Group	Society	Group	Society
Wages and salaries	8,095	8,095	6,738	6,572
Social security costs	823	823	613	600
Other pension costs (Note 27)	529	529	466	455
	9,447	**9,447**	**7,817**	**7,627**

7. Directors Remuneration

Directors' emoluments are set out within the Directors' Remuneration Report on pages 62 to 65.

Total Directors' emoluments for the year amounted to £1,115k (2021: £805k). Details of Director loans and transactions are shown in Note 30.

8. Taxation on profit on ordinary activities

The tax charge comprises:	2022 (£000) Group	2022 (£000) Society	2021 (£000) Group	2021 (£000) Society
Current tax on profit on ordinary activities				
UK corporation tax	3,679	2,831	869	869
Adjustments in respect of prior periods	(141)	(141)	-	-
Total current tax	**3,537**	**2,689**	**869**	**869**
Deferred tax				
Origination and reversal of timing differences	(547)	(547)	756	188
Adjustments in respect of prior periods	5	5	-	-
Effect of tax rate change in opening balance	(140)	(140)	-	-
Total deferred tax	**(682)**	**(682)**	**756**	**188**
Total tax charge on profit on ordinary activities	**2,855**	**2,007**	**1,625**	**1,057**

The standard rate of Corporation Tax was 19% from 1 April 2017, giving effective tax rates of 19% for the year ended 31 December 2022 and 31 December 2021. 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:

	2022 (£000) Group	2022 (£000) Society	2021 (£000) Group	2021 (£000) Society
Profit/(loss) on ordinary activities before tax	17,544	13,072	8,055	6,721
Tax on profit on ordinary activities at standard UK corporation tax rate of 19% (2021: 19%))	3,334	2,484	1,529	1,276
Effects of:				
Fixed asset differences	36	36	32	32
Non-deductible expenses	16	16	57	136
Impact of rate change	5	5	22	22
Amount charged/credited directly to equity	167	167	116	116
Deferred tax charges directly to equity	(167)	(167)	(170)	(170)
Group relief claimed	(2)	(2)	-	(397)
Adjustments to tax charge in respect of previous years	(141)	(141)	38	38
Other	(392)	(390)	1	4
Total tax charge for the year recognised in the income statement	**2,855**	**2,007**	**1,625**	**1,057**

9. Liquid assets

	2022 (£000) Group	2022 (£000) Society	2021 (£000) Group	2021 (£000) Society
Loans and advances to credit institutions:				
Repayable on call and short notice	1,718	1,649	2,598	2,509
Placements with credit institutions	20,992	20,992	27,411	27,411
	22,710	**22,641**	**30,009**	**29,920**

As at 31 December 2022 £17,404k (2021: £25,832k) of cash has been deposited by the Group and Society as collateral against derivative contracts.

	2022 (£000) Group	2022 (£000) Society	2021 (£000) Group	2021 (£000) Society
Debt securities:				
Gilts	9,983	9,983	-	-
Certificates of deposit	10,016	10,016	-	-
Treasury bills	10,014	10,014	-	-
Bonds	55,833	55,833	66,633	66,633
	85,846	**85,846**	**66,633**	**66,633**

	2022 (£000) Group & Society	2021 (£000) Group & Society
Movements during the year of debt securities are analysed as follows:		
At 1 January	66,633	51,011
Additions	131,288	42,116
Disposals	(111,654)	(26,171)
Net losses from changes in fair value recognised in Statement of comprehensive income	(421)	(323)
At 31 December	**85,846**	**66,633**

As part of the contract with the central swap counterparty the Society holds two types of collateral: variation margin and initial margin. The Society deposits or receives variation margin to cover the replacement of the derivatives in the event of default of a counterparty. Initial margin is deposited against the derivatives contracts in the event the fair value of the contracts reduces significantly due to changes market in expectations of future rates.

10. Derivative financial instruments

	Group & Society (£000) Contract/ notional amount	Fair values – Assets	Fair values – Liabilities
As at 31 December 2022			
a) Unmatched derivatives – Interest rate swaps	109,531	2,620	(7,883)
b) Derivatives designated as fair value hedges – Interest rate swaps	641,700	32,794	(1,961)
Total recognised derivative assets / (liabilities)	**751,231**	**35,414**	**(9,844)**
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)**

Unmatched derivatives include an interest rate swap with a net notional value of £27.9million (2021 : £31.9million) or gross notional of £56million (2021 : £52million) 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 net notional value of £3.5million (2021 : £10.0million) or gross notional of £21.5million (2021 : £10.8million), which the Society has elected to de-designate from their hedging relationship at December 2022 and a further £32.0million (2021 : £25.5million) which, at the end of December 2022 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.

11. Loans and advances to customers

	2022 (£000)		2021 (£000)	
	Group	Society	Group	Society
Loans fully secured on residential property				
Held at amortised cost (1)	1,018,033	1,012,883	951,762	945,505
Held at fair value through the income statement	37,545	15,766	50,008	21,928
Other loans - loans fully secured on land	1,056	1,056	1,133	1,133
	1,056,634	**1,029,705**	**1,002,903**	**968,566**
Provision for impairment losses on loans and advances (Note 12)	(765)	(765)	(565)	(564)
	1,055,869	**1,028,940**	**1,002,338**	**968,002**
Fair value adjustment for hedged risk	(27,290)	(27,289)	(6,309)	(6,309)
	1,028,579	**1,001,651**	**996,029**	**961,693**

Note

(1) The Society has pledged £376.8million of mortgage loan pools with the Bank of England for the Term Funding Scheme with additional incentives for SME's (2021 : £464.4million) to cover the £190m (2021: £190m) drawn funding plus available headroom to further draw Sterling Monetary Framework funding where required.

(2) The Bank of England allows the Society to pledge mortgage assets with itself in order for the Society to obtain additional funding. The Society encumbers these mortgages and in the event that the Society went into default the Bank of England would receive the mortgages loans the Society has pledged to cover the exposure of the outstanding loans to the Society at that point in time.

12. Impairment losses on loans and advances

	(£000)		
	Individual	Collective	Total
Group			
At 1 January 2022	161	404	565
Charge for the year	163	86	249
Amounts utilised in the period	(49)	-	(49)
At 31 December 2022	**275**	**490**	**765**
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**
Society			
At 1 January 2022	161	403	564
Charge for the year	163	87	250
Amounts utilised in the period	(49)	-	(49)
At 31 December 2022	**275**	**490**	**765**
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**

13. Investments in subsidiary undertakings

	2022 (£000)	2021 (£000)
	Society	Society
Shares in subsidiary undertakings	86	86
Loans to subsidiary undertakings	22,851	34,751
	22,937	**34,837**
Movement during the year of loans to subsidiary undertakings:		
Cost		
At 1 January	34,751	43,242
Repayments received	(12,739)	(9,363)
Loans advanced	839	872
At 31 December	**22,851**	**34,751**

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

The following 100% owned subsidiaries were not carrying on business at the end of the 31 December 2022 financial year:

	Share Capital	
Saffron Independent Financial Advisers Limited	£85,000	£85,000
Saffron Walden Investment Services Limited	£2	£2
Saffron Walden Property Developments Limited	£2	£2
Saffron Walden Property Sales Limited	£2	£2
Saffron Mortgage Finders Limited	£2	£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 2022	4,182	1,147	3,690	9,019
Additions	-	-	117	117
Disposals	-	-	(297)	(297))
At 31 December 2022	**4,182**	**1,147**	**3,510**	**8,839**
Depreciation				
At 1 January 2022	1,241	902	2,988	5,131
Charged in year	150	114	247	511
Disposals	-	-	(268)	(268)
At 31 December 2022	**1,391**	**1,016**	**2,967**	**5,374**
Net book value				
At 31 December 2022	**2,791**	**131**	**543**	**3,465**
At 31 December 2021	2,941	245	702	3,888

	Society (£000)			
	Land and buildings freehold	Land and buildings short leasehold	Equipment, fixtures, fittings and vehicles	Total
Cost or valuation				
At 1 January 2021	4,182	1,147	3,685	9,014
Additions	-	-	122	122
Disposals	-	-	(297)	(297)
At 31 December 2022	**4,182**	**1,147**	**3,510**	**8,839**
Depreciation				
At 1 January 2021	1,241	902	2,986	5,129
Charged in year	150	114	249	513
Disposals	-	-	(268)	(268)
At 31 December 2022	**1,391**	**1,016**	**2,967**	**5,374**
Net book value				
At 31 December 2021	**2,791**	**131**	**543**	**3,465**
At 31 December 2021	2,941	245	699	3,885

Freehold Land and Buildings are held at valuation and were professionally valued by Derrick Wade Waters, Chartered Surveyors, on a fair value basis as at 30 November 2020 based upon the open market value of the properties at that time. This valuation was £2,785,000 compared to a net book value of £3,170,000. Had these assets been carried at historic cost, the net book value at 31 December 2022 would be £3,346,089 (2021 : £3,461,520).

Land and buildings freehold includes non-depreciable land held by the Society for its own activities with a net book value of £565,000 (2021 : £565,000).

15. Investment properties

	2022 (£000)
	Group & Society
At 1 January 2022	2,455
Additions	777
Disposals	(1,160)
Revaluation charge	(62)
At 31 December 2022	**2,010**

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 17 November 2022. The property rental income earned, all of which is leased out under operating leases, amounted to £79k (2021 : £161k) and has been recognised within other operating income.

During the period, a plot of land was acquired on Shire Hill, Saffron Walden for £777k. Its use is currently undetermined and has therefore been recorded in investment properties.

The total future minimum lease payments due to the Society under non-cancellable operating leases are as follows:	Group £000s 2022	Group £000s 2021
Not later than one year	32	155
Later than one year and not later than five years	31	389
Later than five years	-	227
	63	**771**

16. Intangible assets

	(£000)
	Group & Society
Cost	
At 1 January 2022	16,950
Additions	300
Disposals	(5)
At 31 December 2022	**17,245**
Amortisation	
At 1 January 2022	13,700
Charged in year	1,687
Disposals	-
At 31 December 2022	**15,387**
Net book value	
At 31 December 2022	**1,858**
At 31 December 2021	3,250

Intangible assets at 31 December 2022 comprise the costs of investment in new mortgages and savings platforms to meet the future needs of the Society and include £803k (2021: £550k) 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

	2022 (£000)		**2021** (£000)	
	Group	Society	Group	Society
Other assets	2	2	3	-
Current tax asset	-	771	-	-
Deferred tax asset	426	426	-	-
Prepayments and accrued income	2,192	2,192	1,861	1,859
	2,620	**3,391**	**1,864**	**1,859**

18. Shares

	2022 (£000)		2021 (£000)	
	Group	Society	Group	Society
Held by individuals	881,004	881,004	897,693	897,693
Fair value adjustment for hedged risk	(723)	(723)	(225)	(225)
	880,281	**880,281**	**897,468**	**897,468**

19. Amounts owed to credit institutions

	2022 (£000)		2021 (£000)	
	Group	Society	Group	Society
Amounts owed to credit institutions	249,559	249,559	237,125	237,125
	249,559	**249,559**	**237,125**	**237,125**

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 (2021: £190m). This is all due for repayment between August and October 2025.

20. Other liabilities

	2022 (£000)		2021 (£000)	
	Group	Society	Group	Society
Corporation tax	77	-	-	-
Social Security	311	311	208	205
Other creditors	483	483	955	955
Other accruals	2,183	2,161	1,494	1,465
	3,054	**2,955**	**2,657**	**2,625**

21. Subordinated liabilities

	2022 (£000)		2021 (£000)	
	Group	Society	Group	Society
Fixed Rate 6.82% Subordinated Debt 2028	9,682	9,682	10,291	10,291

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. Captured within the the subordinated debt is a fair value adjustment of £609k (2021: £78k).

22. Deferred taxation assets and liabilities

	2022 (£000)		2021 (£000)	
	Group	Society	Group	Society
Deferred tax assets				
Balance 1 January	-	-	584	16
Tax value of losses carried forward	-	-	-	(16)
Timing differences	426	426	-	-
Utilisation of previous recognised tax losses	-	-	(584)	-
Balance 31 December	**426**	**426**	**-**	**-**
Deferred taxation liabilities				
Balance 1 January	90	90	118	118
Income Statement credit	(90)	(90)	(198)	(198)
Charge recognised through Other Comprehensive Income	-	-	170	170
Balance at 31 December	**-**	**-**	**90**	**90**
Fixed asset timing differences	(84)	(84)	264	264
Other timing differences	(375)	(375)	(208)	(208)
Capital gains	34	34	34	34
(Asset)/Liability at 31 December	**(426)**	**(426)**	**90**	**90**

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

	2022 (£000)		2021 (£000)	
	Group	Society	Group	Society
Reserve at start of the year	(129)	(129)	118	118
Realised gains	-	-	1	1
Net changes in fair value	(421)	(421)	(323)	(323)
Tax relating to components of other comprehensive income	105	105	75	75
Reserve at end of the year	**(446)**	**(446)**	**(129)**	**(129)**

24. Revaluation reserve

	2022 (£000)		2021 (£000)	
	Group	Society	Group	Society
Revaluation reserve at start of the year	382	382	382	382
Revaluation reserve at end of the year	**382**	**382**	**382**	**382**

25. Financial commitments

	2022 (£000)		2021 (£000)	
	Group	Society	Group	Society
Total future minimum lease payments under non-cancellable operating leases are as follows:				
Not later than one year	216	216	331	331
Later than one year and not later than five years	165	165	391	391
Later than five years	-	-	2	2
	381	**381**	**724**	**724**

26. Provisions for liabilities

	Group & Society (£000)
	Dilapidations
2022	
At 1 January 2022	244
Charge for the year	(100)
Provision utilised	-
At 31 December 2022	**144**
2021	
At 1 January 2021	244
Charge for the year	-
Provision utilised	-
At 31 December 2021	**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:

	2022 (£000)	2021 (£000)
Principal offices	-	100
Branch offices	144	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 £529,000 (2021 : £466,000).

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 2022 the scheme is shown in the Statement of Financial Position as a pension asset of £83,000 (2021: £85,000 liability) 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 2022	31 December 2021
Main assumptions		
Rate of increase in salaries	2.5%	2.8%
Rate of increase in pensions in payment	3.0%	3.2%
Rate of increase in pensions in payment after 05.04.05	2.2%	2.3%
Discount rate	4.8%	1.8%
RPI inflation assumptions	3.0%	3.3%
CPI inflation assumptions	2.5%	2.8%

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 2022	16,379	(16,464)	(85)
Benefits paid	(395)	395	-
Administration expenses	(76)	-	(76)
Net interest income/(expense)	291	(293)	(2)
Re-measurement gains			
- Actuarial gain	-	5,935	5,935
- Return on assets excluding interest income	(5,257)	(432)	(5,689)
At 31 December 2022	**10,942**	**(10,859)**	**83**

The scheme liabilities were valued in accordance with the guidelines set out in Section 28 of FRS102 using a discount rate of 4.8% 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	**2022** (£000)	**2021** (£000)
Equities and other growth assets	4,422	10,627
DCF	3,538	1,693
Liability Driven Investments	2,399	3,317
Cash	60	58
Annuities	523	684
	10,942	**16,379**

Demographic assumptions	**31 December 2022**	**31 December 2021**
Mortality (Pre-retirement)	Nil deaths	Nil deaths
Mortality (Post-retirement)	S3PA CMI 2021	S3PA CMI 2020

	31 December 2022		**31 December 2021**	
Life expectancies (in years)	Males	Females	Males	Females
For an individual aged 65 in 2022	21.9	24.3	21.9	24.3
At age 65 for an individual aged 45 in 2022	23.2	25.7	23.2	25.7

27. Group pensions (continued)

Analysis of other pension costs charged in arriving at operating profit: Analysis of amounts included in other operating charges	**2022** (£000)	**2021** (£000)
Administration expenses	(76)	(70)
	(76)	**(70)**
Analysis of amounts included in pension finance income		
Net interest expense	(2)	(9)
	(2)	**(9)**
Analysis of amount recognised in the Statement of comprehensive income		
Actual return on assets less interest	(5,689)	417
Actuarial gain on defined benefit obligation	5,935	191
Total actuarial gain/(loss) recognised in the Statement of comprehensive income	**246**	**608**

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 2022 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
Tax assets/liabilities	No interest paid or received	Loans and receivable at amortised cost
Pension assets/liabilities	No interest paid or received	Amortised cost

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

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

28. Financial instruments (continued)

	Group (£000)							
	Held at amortised cost		Held at fair value					
Carrying values by category as at 31 December 2022	Loans and receivables	Financial instruments at amortised cost	Available for sale	Financial assets and liabilities	Derivatives designated as fair value hedges	Unmatched derivatives	Non-interest bearing assets and liabilities	Total
Assets								
Cash in hand and balances with the Bank of England	-	103,738	-	-	-	-	-	103,738
Loans and advances to credit institutions	22,710	-	-	-	-	-	-	22,710
Debt securities	-	-	85,846	-	-	-	-	85,846
Derivative financial instruments	-	-	-	-	32,794	2,620	-	35,414
Loans and advances to customers	991.034	-	-	37,545	-	-	-	1,028,579
Other assets	1,197	-	-	-	-	-	8,839	10,036
	1,014,941	**103,738**	**85,846**	**37,545**	**32,794**	**2,620**	**8,839**	**1,286,323**
Liabilities								
Shares	-	880,281	-	-	-	-	-	880,281
Amounts owed to credit institutions	-	249,559	-	-	-	-	-	249,559
Amounts owed to other customers	-	62,676	-	-	-	-	-	62,676
Derivative financial instruments	-	-	-	-	1,961	7,883	-	9,844
Provisions for liabilities	-	-	-	-	-	-	144	144
Other liabilities	1,956	-	-	-	-	-	1,098	3,054
Subordinated liabilities	-	9,682	-	-	-	-	–	9,682
	1,956	**1,202,198**	**-**	**-**	**1,961**	**7,883**	**1.242**	**1.215.240**

Assets Carrying values by category as at 31 December 2021								
Cash in hand and balances with the Bank of England	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**
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**

There have been no reclassifications during the year.

28. Financial instruments (continued)

	Society (£000)							
	Held at amortised cost		Held at fair value					
Carrying values by category as at 31 December 2022	Loans and receivables	Financial instruments at amortised cost	Available for sale	Financial assets and liabilities	Derivatives designated as fair value hedges	Unmatched derivatives	Non-interest bearing assets and liabilities	Total
Assets								
Cash in hand and balances with the Bank of England	-	103,738	-	-	-	-	-	103,738
Loans and advances to credit institutions	22,641	-	-	-	-	-	-	22,641
Debt securities	-	-	85,846	-	-	-	-	85,846
Derivative financial instruments	-	-	-	-	32,794	2,620	-	35,414
Loans and advances to customers	985,885	-	-	15,766	-	-	-	1,001,651
Investments in subsidiary undertakings	22,937	-	-	-	-	-	-	22,937
Other assets	1,623	-	-		-	-	9,184	10,807
	1,033,086	**103,738**	**85,846**	**15,766**	**32,794**	**2,620**	**9,184**	**1,283,034**
Liabilities								
Shares	-	880,281	-	-	-	-	-	880,281
Amounts owed to credit institutions	-	249,559	-	-	-	-	-	249,559
Amounts owed to other customers	-	62,676	-	-	-	-	-	62,676
Derivative financial instruments	-	-	-	-	1,961	7,883	-	9,844
Provisions for liabilities	-	-	-	-	-	-	144	144
Other liabilities	1,109	-	-	-	-	-	1,846	2,955
Subordinated liabilities	-	9,682	-	-	-	-		9,682
	1,109	**1,202,198**	**-**	**-**	**1,961**	**7,883**	**1,990**	**1,215,141**

Assets Carrying values by category as at 31 December 2021								
Cash in hand and balances with the Bank of England	-	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
	1,004,522	**182,408**	**66,633**	**21,928**	**6,978**	**2,395**	**11,449**	**1,296,313**
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	-	-	-	-	-	-	2,800	2,800
Subordinated liabilities	-	10,291	-	-	-	-	-	10,291
	-	**1,211,919**	**-**	**-**	**615**	**23,562**	**3,044**	**1,239,140**

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, calculated by a market information system for a theoretical derivative with a notional profile similar to that of the expected profile of the mortgage over its life, 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 2022 was 4.99% (2021 : 2.46%). The Group has determined, based on observable market rates that the discount rate has a range between 3.42% and 6.33% 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 2022 were 4% and 8% respectively. The value of the no-negative equity guarantee as at 31 December 2022 was £0.9m (2021 : £1.7m).

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.

28. Financial instruments (continued)

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

	(£000)			
As at 31 December 2022 **Financial assets**	Level 1	Level 2	Level 3	Total
Debt securities	85,846	-	-	85,846
Loans fully secured on residential property	-	-	37,545	37,545
Derivative financial instruments	-	35,414	-	35,414
	85,846	**35,414**	**37,545**	**158,805**
Financial liabilities				
Derivative financial instruments	-	1,961	7,883	9,844
	-	**1,961**	**7,883**	**9,844**

	(£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**

Amounts stated are for Group and Society except for loans fully secured on residential property which includes £21,778,837 (2021 : £28,079,636) held within the Society's subsidiary Crocus Home Loans.

Reconciliation of opening and closing balances of Level 3 assets:	**2022** (£000)	**2021** (£000)
At 1 January	50,008	61,600
Amounts taken to Income Statement - Interest rolled up - Fair value gains	2,260 (11,813)	2,334 (8,510)
Redemptions	(2,910)	(5,416)
At 31 December	37,545	50,008

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 2022.

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 2022 with an estimate of the impact on profit before tax.

Input	**Shift**	**Profit Impact 2022 (£m)**		**Profit Impact 2021 (£m)**	
Adjustment to mortality assumptions	+/-10%	(0.2)	0.2	(0.8)	0.9
House Price Inflation	+/-0.5%	0.2	(0.2)	0.4	(0.5)
House price volatility	+/-1%	(0.1)	0.1	(0.3)	0.9
Voluntary Prepayment	+/-0.5%	(0.1)	0.1	(0.5)	0.5
Discount Rate	+/- 1%	(3.2)	2.8	(5.7)	4.9
Parallel Shift on Yield Curve	+/-100 bps	0.4	(0.4)	1.6	(1.5)

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 changes in the yield curve shown final sensitivity disclosed above. Without the interest rate swap this figure would be (£2.5M).

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. The Asset and Liabilities 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:

	2022 (£000)		**2021** (£000)	
	Group	Society	Group	Society
Cash in hand	103,738	103,738	182,408	182,408
Loans and advances to credit institutions	22,710	22,641	30,009	29,920
Debt securities	85,846	85,846	66,633	66,633
Derivative financial instruments	35,414	35,414	9,373	9,373
Loans and advances to customers	1,028,579	1,001,651	996,029	961,693
	1,276,287	**1,249,290**	**1,284,452**	**1,250,027**
Lending commitments (off balance sheet)	74,643	74,643	66,102	66,102
Maximum credit exposure	**1,350,930**	**1,323,933**	**1,350,554**	**1,316,129**

Loans and advances to credit institutions and Debt securities
The 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:	**2022** (£000)		**2021** (£000)	
	Group	**Society**	**Group**	**Society**
Credit Institutions	31,129	31,060	28,411	28,322
Multinational development banks	55,833	55,833	66,633	66,633
Central Bank and Government	21,594	21,594	1,598	1,598
Other			-	-
Total	**108,556**	**108,487**	**96,642**	**96,553**

An analysis of the Group treasury asset concentration is shown in the table below:	**2022** (£000)		**2021** (£000)	
	Group	**Society**	**Group**	**Society**
Concentration by credit grading				
AAA	55,833	55,833	66,633	66,633
AA	21,594	21,594	1,598	1,598
A	11,734	11,665	2,577	2,488
Unrated	19,395	19,395	25,834	25,835
Total	**108,556**	**108,487**	**96,642**	**96,554**

In 2022 the Society has placed some of it liquidity assets into certificates of deposits with UK national banks which has increased the exposure to the AA graded counterparties, of which there was £10M held as of 31 December 2022

Loans and advances to customers The table below shows information on the Group's loans and advances to customers by geographical concentration:	**2022** %	**2021** %	**2022** %	**2021** %
	Group	**Group**	**Society**	**Society**
Greater London	28	30	28	30
South East	31	31	31	31
South West	8	9	8	9
East Anglia	4	4	4	4
West Midlands	7	6	7	6
East Midlands	5	5	5	5
North West	7	6	7	6
Yorkshire & Humberside	5	4	5	4
Wales	3	3	3	3
North	2	2	2	2

28. Financial instruments (continued)

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	2022 %	2021 %	2022 %	2021 %
	Group	Group	Society	Society
0% - 50%	36	34	36	34
50.01% - 75%	47	50	47	50
75.01% - 80%	5	6	5	6
80.01% - 85%	5	7	5	7
85.01% - 90%	5	2	5	2
90.01% -95%	2	1	2	-
>95%	-	-	-	-

Not impaired	2022 (£000)	2021 (£000)	2022 (£000)	2021 (£000)
	Group	Group	Society	Society
Neither past due nor impaired	1,005,332	978,717	979,992	951,978
Up to three months overdue but not impaired	15,385	11,077	14,195	10,846
Over three months but not impaired	6,164	5,944	5,766	5,194
Possessions / receiver of rents	963	266	963	266
Impaired				
Up to three months overdue	-	-	-	-
Between three and six months overdue	-	57	-	57
Between six and twelve months overdue	-	130	-	130
Over twelve months overdue	512	-	512	-
Possessions / receiver of rents	223	403	223	403
	1,028,579	**996,594**	**1,001,651**	**968,874**

Value of collateral held: Indexed	2022 (£000)	2021 (£000)	2022 (£000)	2021 (£000)
	Group	Group	Society	Society
Neither past due nor impaired	2,305,771	2,138,784	2,256,355	2,086,124
Either past due or impaired	61,181	42,018	55,676	38,324
	2,366,952	**2,180,802**	**2,312,031**	**2,124,448**

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 2022.

28. Financial instruments (continued)

	Interest only		Reduced Payment Concessions (reduced below the amount of interest)		Arrangements	
2022	Account balances £000	Number of accounts	Account balances £000	Number of accounts	Account balances £000	Number of accounts
Society	-	-	303	2	2,945	12
Crocus Home Loans	-	-	-	-	382	1
Group total	**-**	**-**	**303**	**2**	**3,327**	**13**
2021						
Society	-	-	125	1	4,329	15
Crocus Home Loans	-	-	140	1	441	3
Group total	**-**	**-**	**265**	**2**	**4,770**	**18**

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:

	2022	2021
	Number of accounts	Number of accounts
Capitalisations	-	-
Mortgage term extensions	1	4
Interest rate concessions	-	-
	1	**4**

During the year ended 31 December 2022, 2 properties were taken into possession, 2 by the Society (2021: 1) and nil by Crocus Home Loans (2021: 1). 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 2022 the Group had 2 properties in possession and 1 property with a Receiver of Rents appointed (2021:2) representing capital balances of £1,187k (2021: £669k), which is 0.12% of the total Group book (2021: 0.07%).

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 2022 provisions of £0.8m were maintained (2021: £0.6m).

Liquidity Risk

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

The Group manages this risk on a continuous basis through ALCO and by ensuring compliance with the Liquidity and Financial Risk Management Policies approved by the Board. In practice this results in the Group holding a significant amount of highly liquid assets, mainly UK gilts, Treasury bills, multilateral development bank securities and deposits with the Bank of England, which are eligible to meet its required liquidity buffer set by the regulator. The Society also holds a separate pool of such assets for use as collateral with derivative counterparties. In addition the Group maintains deposits placed on call or overnight with the Bank of England and major banks to meet its operational needs without drawing on its buffer requirements.

The table 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)

Group residual maturity as at 31 December 2022 (£000)						
Assets	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
Cash in hand and balances with the Bank of England	103,738	-	-	-	–	103,738
Loans and advances to credit institutions	22,710	-	-	-	–	22,710
Debt securities	-	26,013	42,516	12,083	5,234	85,846
	126,448	**26,013**	**42,516**	**12,083**	**5,234**	**212,294**
Derivative financial instruments	-	276	3,150	29,574	2,414	35,414
Loans and advances to customers	-	14,864	33,502	150,448	829,765	1,028,579
Other assets	492	355	1,950	3,631	3,608	10,036
	126,940	**41,508**	**81,118**	**195,736**	**841,021**	**1,286,323**
Liabilities and reserves						
Shares	583,033	58,755	128,926	108,958	609	880,281
Amounts owed to credit institutions	–	32,090	21,137	196,331	–	249,559
Amounts owed to other customers	57,020	281	5,376	–	–	62,676
Derivative financial instruments	–	52	728	844	8,220	9,844
Provisions for liabilities	–	–	-	–	144	144
Other liabilities	–	2,702	272	–	80	3,054
Subordinated liabilities	–	(318)	-	–	10,000	9,682
Reserves	–	–	-	–	71,083	71,083
	640,053	**93,562**	**156,439**	**306,133**	**90,136**	**1,286,323**
Net liquidity gap	**(513,113)**	**(52,054)**	**(75,321)**	**(110,397)**	**750,885**	**-**

Group residual maturity as at 31 December 2021 (£000)						
Assets	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
Cash in hand and balances with the Bank of England	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**

28. Financial instruments (continued)

Group residual maturity as at 31 December 2021 (£000)						
	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
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**	**-**

Group & Society as at 31 December 2022 (£000)						
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
Shares	582,768	59,232	131,006	115,026	-	888,032
Amounts owed to credit institutions	-	32,104	21,487	218,093	-	271,684
Amounts owed to other customers	57,003	282	5,522	-	-	62,807
Derivative financial instruments	-	642	1,383	3,619	18,391	24,035
Other Liabilities	-	2,702	272	-	80	3,054
Subordinated liabilities	-	369	363	2,930	10,369	14,031
Total liabilities	**639,771**	**95,331**	**160,033**	**339,668**	**28,840**	**1,263,643**

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**

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 2022 (£000)					
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	103,738	–	–	–	–	103,738
Loans and advances to credit institutions	22,710	–	–	–	–	22,710
Debt securities	55,503	29,415	928	–	–	85,846
Derivative financial instruments	–	–	–	–	35,414	35,414
Loans and advances to customers	377,700	127,528	484,892	60,661	(22,202)	1,028,579
Other assets	–	–	–	–	10,036	10,036
Total assets	**559,651**	**156,943**	**485,820**	**60,661**	**23,248**	**1,286,323**
Liabilities and reserves						
Shares	636,421	134,295	108,956	–	609	880,281
Amounts owed to credit institutions	223,388	21,137	5,034	–	–	249,559
Amounts owed to other customers	62,676	–	–	–	–	62,676
Derivative financial instruments	–	–	–	–	9,844	9,844
Provisions for liabilities	–	–	–	–	144	144
Other liabilities	–	–	–	–	3,054	3,054
Subordinated liabilities	–	–	–	10,000	(318)	9,682
Reserves	–	-	–	–	71,083	71,083
Total liabilities and reserves	**922,485**	**155,432**	**113,990**	**10,000**	**84,416**	**1,286,323**
Impact of derivative instruments	420,054	(666)	(371,851)	(47,537)	–	-
Interest rate sensitivity gap	**57,220**	**845**	**(21)**	**3,124**	**(61,168)**	**-**
Sensitivity to profit and reserves:						
Parallel shift of -2%	(31)	129	(144)	(777)	-	(319)
Parallel shift of + 2%	31	(129)	144	777	-	319

28. Financial instruments (continued)

	As at 31 December 2021 (£000)					
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 assets	**620,828**	**136,503**	**469,201**	**38,750**	**30,627**	**1,295,909**
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 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)

At 31 December 2022, the Group has swaps in place with a net a notional value of £27.9m (2021 : £31.9m) 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)		
2022 Financial assets	Gross amounts*	Financial collateral**	Net amounts
- Derivative financial instruments	35,414	-	35,414
Total Financial assets	**35,414**	**-**	**35,414**
Financial liabilities			
- Derivative financial instruments	9,844	(26,547)	(16,703)
Total Financial liabilities	**9,844**	**(26,547)**	**(16,703)**
2021 Financial assets			
- 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)**

*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	2022 (£000)	2021 (£000)
General reserves		71,147	56,484
Available for sale reserve	23	(446)	(129)
Revaluation reserve	24	382	382
Prudent valuation adjustment		(197)	(156)
Deductions for intangible assets[1]	16	(1,858)	(3,250)
Deduction for Pension Surplus		(83)	-
Total Common Equity Tier 1 Capital		**68,945**	**53,331**
Collective impairment losses	12	490	404
Subordinated liabilities	21	10,000	10,000
Total Tier 2 Capital		**10,490**	**10,404**
Total regulatory capital		79,435	63,735
Risk weighted assets (UNAUDITED)		464,427	426,122
Capital ratios (UNAUDITED)			
Common equity tier 1 ratio		14.7%	12.5%
Total capital ratio		17.0%	15.0%
Leverage ratio		5.7%	4.7%

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 2022 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 2022 was £1,115,448 (2021 : £805,376).
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

	2022		2021	
Shares and deposits	Number of key management personnel	Amounts £000	Number of key management personnel	Amounts £000
Balance at 1 January	8	59	7	58
Net movements in the year	4	2	1	1
Balance at 31 December	12	61	8	59

	2022		2021	
	Number of connected persons	Amounts £000	Number of connected persons	Amounts £000
Balance at 1 January	1	-	1	-
Net movements in the year	5	43	-	-
Balance at 31 December	6	43	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 2022, there were no outstanding mortgage loans granted in the ordinary course of business to Directors and their connected persons.

31. Country-by-country reporting

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

Article 89 of CRD IV requires credit institutions and investment firms in the EU to disclose annually, specifying, by member State and by third country in which it has an establishment, the following information on a consolidated basis for the year ended 31 December 2022:

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 2022 was 167.

Annual turnover: Equivalent to total net income and, along with profit before tax, is as disclosed in the Income Statement on page 78.

Corporation tax paid: As disclosed in the cash flow statement on page 82.

Public subsidies: There were none received in the year.

Annual Business Statement

for the year ended 31 December 2022

1. Statutory percentages	Ratio at 31 December 2022	Statutory limit
	%	%
Lending limit	3.8	25
Funding limit	26.2	50

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

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

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

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

2. Other percentages	Ratio at 31 December 2022	Ratio at 31 December 2021
	%	%
As a percentage of shares and borrowings:		
Gross capital	6.7	5.5
Free capital	6.1	4.8
Liquid assets	17.8	23.2
As a percentage of mean total assets:		
Profit after taxation	1.14	0.51
Management expenses	1.40	1.26

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 2022

Name of Director	Date of Birth	Date of Appointment	Occupation	Other Directorships
Barbara Anderson	17.02.1968	01.10.2022	Director	Smart DCC Limited British Smaller Companies VCT2 Plc ARC Sovereign British Business Bank Plc British Business Finance Ltd British Business Financial Services Ltd 28 Bolton Gardens Management Company Limited EST (Holdings) Limited London Youth Conservatoire Ltd Crocus Home Loans Limited
Jenny Ashmore	16.1.1971	19.5.2015	Director	Crocus Home Loans Limited 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 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
John Penberthy-Smith	04.03.1967	01.01.2022	Chief Commercial Officer	Crocus Home Loans Limited Emeth Consulting Limited
Jaz Saggu	18.06.1962	01.09.2022	Director	BHSF Group Ltd BHSF Management Services Limited BHSF Employee Benefits Limited Wasmos Ltd 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
Clive Moore	Chief Risk Officer

4. Directors' service contracts

As at 31 December 2022, C H Field, John Penberthy-Smith and T Slater had service contracts with the Society which could be terminated by either party giving six months' notice.

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Saffron Building Society