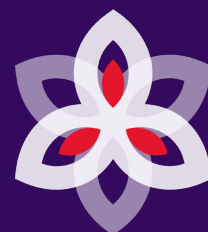
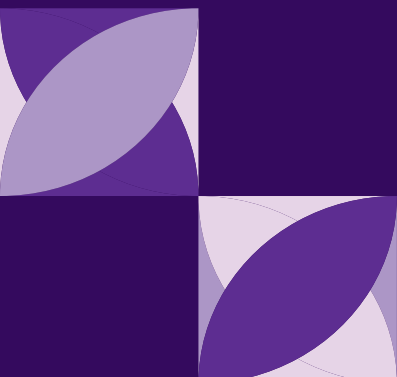


# Annual Report & Accounts

## 2023



**Saffron**  
Building Society

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# Our 2023 Highlights



Profit After Tax  
**£5.9m**



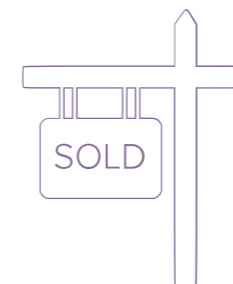
Community Link Usage  
**1,517**  
hours



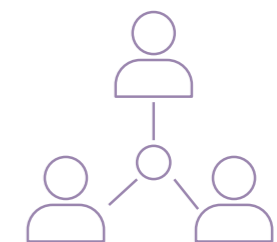
CET1 Ratio  
**15.0%**



Total Assets  
**£1,441m**



Gross Mortgage Lending  
**£266m**



Staff Engagement  
**8.3 out of 10**



# Chair's Welcome

Geoffrey Dunn



The Society has maintained the momentum achieved over recent years, delivering further growth, supported by strong financial performance.



Welcome to Saffron Building Society's 2023 Annual Report & Accounts.

I write this statement as the interim Chair of the Society following the decision by the recently appointed Chair, Barbara Anderson, to step down from the role. She has been offered another Chair role to start in the near future and has decided to focus on this and other developing areas of her portfolio. I look forward to supporting the Society in its search for its permanent Chair over the coming months.

As a previous Chair of the Society, retiring from the role in 2020, I have been encouraged to see the position that the Society now finds itself in, delivering growth in balance sheet and profitability alongside investment in people capability and improving financial strength that will support our development and provide security for the Society.

The Society has maintained the momentum achieved over recent years, delivering further growth, supported by strong financial performance. This performance is explained in more detail in both the CEO Report and Strategic Report.

The purpose of the Society is to provide value and service to Members. This is encapsulated in our vision to help Members achieve "money happiness", and whilst growth and profitability are not goals in themselves they are vitally important to ensure the Society delivers its purpose and vision for years to come. Our success provides the resources required to further invest in our people or in our technology and systems that provide you, our Members, with the service and propositions that you need now, and ensure that the Society remains relevant for Members in the future.

During the year, the Society made some very visible improvements, by upgrading all but one of its branch locations with the final one due in 2024, to provide better facilities for Members and Colleagues.

The Society also made some less visible improvements to its IT systems that will enable it to offer improved service to Members during 2024 and beyond. The changing landscape for financial services means that the levels of investment will need to be higher in future years, as all firms focus on maintaining and developing their place in a competitive marketplace. Saffron has already taken steps to build on its people capability to prepare for this challenge and we continue to focus on how it will adapt in the coming years.

In the broader economy, the interest rate environment changed sharply in 2022, with the base rate rising from 0.25% to 3.5%. This year we have seen a continuation of this upward journey, with the base rate standing at 5.25% at the time of writing. The market is uncertain about how long rates will remain at this level, but are increasingly of the view that the new move will be downward.

Interest rates were increased to fight the elevated levels of inflation that have had a negative financial impact on everyone. For our savings Members, the increase in the corresponding rise of household bills has been partially offset by the returns that we have been able to provide on savings balances. However, we recognise that the impact on our mortgage Members has been compounded by the rise in rates that have rippled through, both to the Society's Standard Variable Rate (SVR), but also to new rates available from the Society. Whilst these increased interest rates have impacted our borrowers, it is reassuring that the level of arrears remain low. We remain committed to working closely with any of our mortgage holders, who do experience problems, to help them through any temporary difficulties.

During 2024, our Vice Chair and Senior Independent Director, Jenny Ashmore, will retire from the Board, having completed a nine-year term with the Society. I would like to thank Jenny for the service and expertise she has provided on the Board, during an extended period in which the Society has strengthened its capability, returned to growth and demonstrated strong delivery for Members and Colleagues alongside financial returns that compare well to our peers. In anticipation of Jenny's pending retirement, we have recruited Caroline Cartellieri to the Board. Caroline brings a huge amount of experience across strategy, business operations and digital transformation during an executive career in the retail and hospitality industries. Through 2024, trading conditions are likely to tighten

for most lenders, with firms looking to secure business during a period where demand is forecast to be lower than experienced in recent years. Margin is also likely to see pressure from funding costs that are expected to remain higher for longer, due to the pressures on individuals' finances caused by the current elevated cost of living and the structural impact of the term funding, issued by the Bank of England throughout the pandemic, which the Society is due to repay over 2024 and 2025. The tighter trading conditions will mean that the Society's profitability over the next 12-24 months is anticipated be lower than achieved in 2022 and 2023, but will still support the investment required to enable the strategic journey that the Society is on.

Finally, I would like to thank our Members and Colleagues who continue to support the Society.



# Chief Executive's Report

Colin Field



Our focus on our Members, combined with a shared understanding that we must build on our strong foundations and continually strive to develop the Society, makes me proud.



In what has been another testing year in the economy, I'm pleased to report that Saffron responded well to the various challenges faced during 2023.

As our Members would expect, we continued to help them manage their finances with competitive products and good service. We ended the year with growth in total Member numbers, as well as growth in both savings and mortgage balances, which is testament to the strength of Saffron in the market.

The Society owes its success to its Colleagues, and I am very proud of how they responded to 2023's various challenges.

Like many customer-facing businesses, the Society has seen an increase in staff vacancy levels following the pandemic. This, alongside a volatile interest rate environment, has resulted in higher workloads, but teams have pulled together to find new ways of serving Members and support the growth Saffron has enjoyed.

Our continued focus on Members, alongside our exciting growth and transformation plans, makes me optimistic for the continued success of the Society.

## Trading and financial performance

The Society maintained the momentum built in recent years in growing both mortgage lending and savings, which in turn contributed to another strong profit before tax performance of £7.7m. During the year we originated £266m of lending, which coupled with improvements to the amount of business retained, resulted in total mortgage balances before impairment and fair value impacts increasing by 8.1% to £1.14Bn - another record for the Society. The growth in lending generated a requirement to increase the amount of retail funding brought into the Society, which was successfully executed by raising rates on both new and existing products. I find it particularly satisfying when our success in lending translates into better value provided to our savings Members, both new and existing.

At a headline level, profit before tax of £7.7m was a large reduction on the previous year, but on what we describe as an underlying level (i.e. trading performance excluding fair value movements) the performance was very much in line with this year's underlying profit of £11.1m compared with last year's of £11.9m. Underlying profit is discussed further in the Strategic Report.

During my period as CEO, our focus has been to develop the business to support a level of margin higher than many others within our sector. We have been successful in this goal by developing mortgage products that are underpinned by our strong understanding and assessment of risk, efficiently distributed through trusted networks of mortgage intermediaries. The success of this strategy can be seen in our 2023 performance, which saw margin increase to 2.41% thanks to better lending yields and the positive contribution of derivative swap payments (which rose alongside interest rates during the year).

Earlier, I outlined just how much the interest rate environment changed over the year. I want to outline how the Society responded to these changes and demonstrate how we try to make our rate decisions to be fair to both savings and mortgage Members. To do this, I need to talk through the component parts of our margin, mortgage income, savings interest (and other funding costs) and net derivative income. There are some other elements to NIM (e.g. treasury income), but I don't want to make my explanation any more complicated than necessary.

At the start of the year, our mortgage portfolio returned a yield of 3.88% which we funded with savings at 2.56%. Our Net Interest Margin (NIM) was higher than the difference between the two, due to the impact of net derivative income from interest rate swaps.

During the year the main reference rate that we are familiar with, Bank Base Rate increased from 3.5% to 5.25%, a movement of 1.75 percentage points. The Society must balance off how it changes its rates in response to market movements to be fair to Members and to remain competitive. More generally across the market, we saw savings rates increase more quickly than mortgage rates, and this was reflected in the changes to pricing that we made in the year. During the year, the yield on our mortgage portfolio increased by 0.81 percentage points, with our savings increasing by 1.33 percentage points, such that the gap between the mortgage yield and the savings interest paid was only 0.8%.

Whilst the underlying margin between mortgage and savings fell during the year, the Net Interest Margin increased, reflecting the increased income received on what is called the "return leg" of the interest rate swap. It is this income that has enabled the Society to dampen the increases to mortgage rates and to pass on more of the rate changes to savings Members.

Over time, the contribution from derivative income will reduce due to the maturity of existing swap contracts. As this happens the overall margin of the Society will reduce to a lower equilibrium, based around market pricing for both savings and mortgages. I hope that the example illustrated above demonstrates how the Society seeks to balance interest cost and benefit fairly

and outlines why we anticipate that Society margin will continue to fall from its recent high.

Perhaps the standout metric within our financials is the increase in the cost base when compared with previous years, increasing from £18.3m to £20.7m. There are three basic drivers of the increase in cost.

Firstly, the Society is not immune from the inflation challenges that we have all faced over the last 18 months. Inflationary pressures on colleague salaries and third-party contracts have seen our overall operating costs increase by £0.8m. The second factor leading to an increase in cost is the investment that we have made to grow capability over the last 18 months. We have sought to increase the number of Colleagues in customer-facing and customer support areas such as underwriting, mortgage processing & servicing and in business development. This investment was £0.3m across the year and was necessary to support the growth in business that we have achieved over recent years. The third area of growth has been through £0.7m of one-off costs, incurred to support the implementation of our core system servicing upgrade and through professional costs incurred in investigating the sale of our portfolio of equity release mortgages. Taken together, these costs represent necessary strategic investment in Saffron to build an even stronger business for the future.

Each and every instance of a Member being in arrears is a priority for us, and in each case we work with the Member to help them through their individual difficulties. It is heartening that despite the increase in mortgage interest rates, the volume of arrears has been very low to this point. Several factors have contributed to this, including the changes to mortgage affordability stress testing introduced by the Financial Policy Committee in 2014 and the ability of Members and customers to adapt to their changing financial situations. We continue to monitor this cases carefully.

## Developing the Society for Members and Customers

The Society increased its savings Members hip during the year by over 7% as it expanded its lending and attracted new Members to the Society through its range of attractive savings products.

In 2023 the Society launched its first Members' Month celebration, designed to reward membership and demonstrate our mutual difference. Highlights included a market-leading 9% regular savings product, branch events and a huge tea party exclusively for Members at Down Hall, near Bishops Stortford. I was delighted by the positive response to the tea party, which was so strong that we had to book in a second sitting for the day.

During the year, we completed the refurbishment of seven of our eight branches, with the aim of creating a better environment for both Members and Colleagues. We remain committed to our branches and I look forward to the re-development of the Ware branch during 2024, to provide a better, more usable space for all. In addition

to branches, we improved telephone, online and mobile services this year – and we have plans to release an improved mobile app during the first half of 2024.

I am also very pleased that we continue to receive strong feedback from Members and achieve satisfaction and recommendation scores that are towards the top end of those achieved in the financial industry. I know that as hard as we try, we don't always get everything right – a case in point being the roll out of our new online portal this year. Whilst the portal provided better security, we didn't communicate the revised requirements as well as we should have. I'd like to apologise to any of you who were negatively impacted by this change and provide you with assurance that we have learned from this experience.

I am proud that once again we have received recognition from broader industry groups. We won Savings Champion "Best Building Society" and "Best Children's Account Provider" for the second year running and once again were awarded with the Money Age "Building Society of the Year" award.

#### Building our Community impact

In the ten years that I have been at the Society, the contribution to community causes has always been a focus, and I am delighted that we have developed this further in recent years. The Saffron Community Link was opened in February 2022, offering a facility free of charge to community groups in the Saffron Walden area. In 2023, the Community Link was used by groups and charities for a total of 1,517 hours.

We actively support local groups and clubs; including schools, sports clubs, community events and theatre groups. This support is all part of the Society seeking to create a meaningful and sustainable difference for years to come.

Our people continue to volunteer to support good causes, and during the year, we expanded our volunteering policy to allow our branch teams to close their branches to support local causes.

During the year, this resulted in 718 hours being volunteered. The Saffron Community Fund provided £76k of giving to charitable good causes during 2023 having increased its number of grant panel assessments to two per year. Membership of the grant panel is available to both Colleagues and Members and if you are interested in joining the panel and having a say on where funds are allocated then I encourage you to get in touch with us.

I am very proud of the commitment we make to support our communities and that the momentum is building. In 2024, we will launch a new partnership with MyBnk that will support young people from Essex who are leaving care, to attain the financial skills and confidence to thrive in their lives.

#### Looking forward to the year ahead and closing thoughts

In the reports I have written over the last few years, I have explained that the outlook is uncertain and again this is the conclusion that I have reached for this year. At the time of writing, inflation has abated, but has not continued to reduce as had been anticipated. New inflationary pressures are growing, following the attacks in the Red Sea leading to shipping being diverted to longer routes.

This all means that the future direction of interest rates is uncertain. Markets still believe that the path will be downward, but the debate is around the pace of the reductions. Higher interest rates are of benefit to savers but will be a source of worry for those borrowers who are now either making payments at higher rates or anticipating re-mortgaging at a higher rate soon.

The UK economy has been relatively resilient over the last couple of years, but whilst unemployment remains low, the output measures reflect that the UK has entered a technical recession and the future path of the economy remains challenging.

In facing such uncertainty, the Society will seek to continue the progress it has made over recent years. Saffron will continue to invest in both people and digital capability, whilst being mindful that profitability in coming years will likely be lower than that achieved in the last three years. It is vital that the Society balances its success today with remaining relevant to Members in future years. Myself and my other Board Colleagues are very mindful that we are very mindful that we are stewards of Saffron, we're committed to setting the Society up for success now and for years to come.

Finally, I would like to thank all Members and Colleagues for your continued support of the Society.

## Our Awards cabinet

We are always delighted when our hard work is recognised by Members and industry professionals. During 2023, we were thrilled to receive the following awards for our mortgage and savings products:

### The Mortgage Awards

Overall Mortgage Lender of the Year

### MoneyAge Awards

Building Society of the Year

### Savings Champion

Best Building Society

Best Children's Account Provider

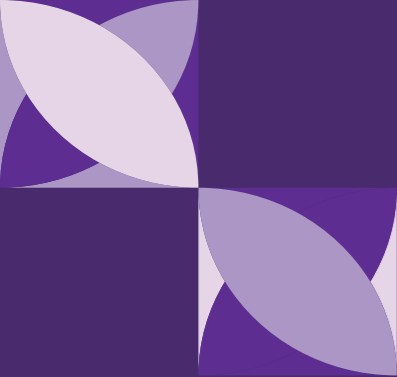


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For the second year in a row, Saffron Building Society has been awarded our Best Children's Account Provider, illustrating its dedication to helping children to start saving from an early age. Saffron has been offering rewarding savings accounts to children across the country and keeping competition alive by regularly producing market leading products.

Anna Bowes, Savings Champion Co-Founder

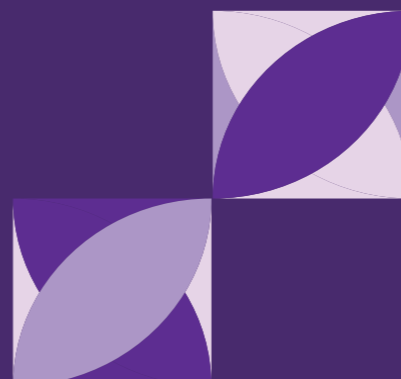
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# Strategic Report

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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.

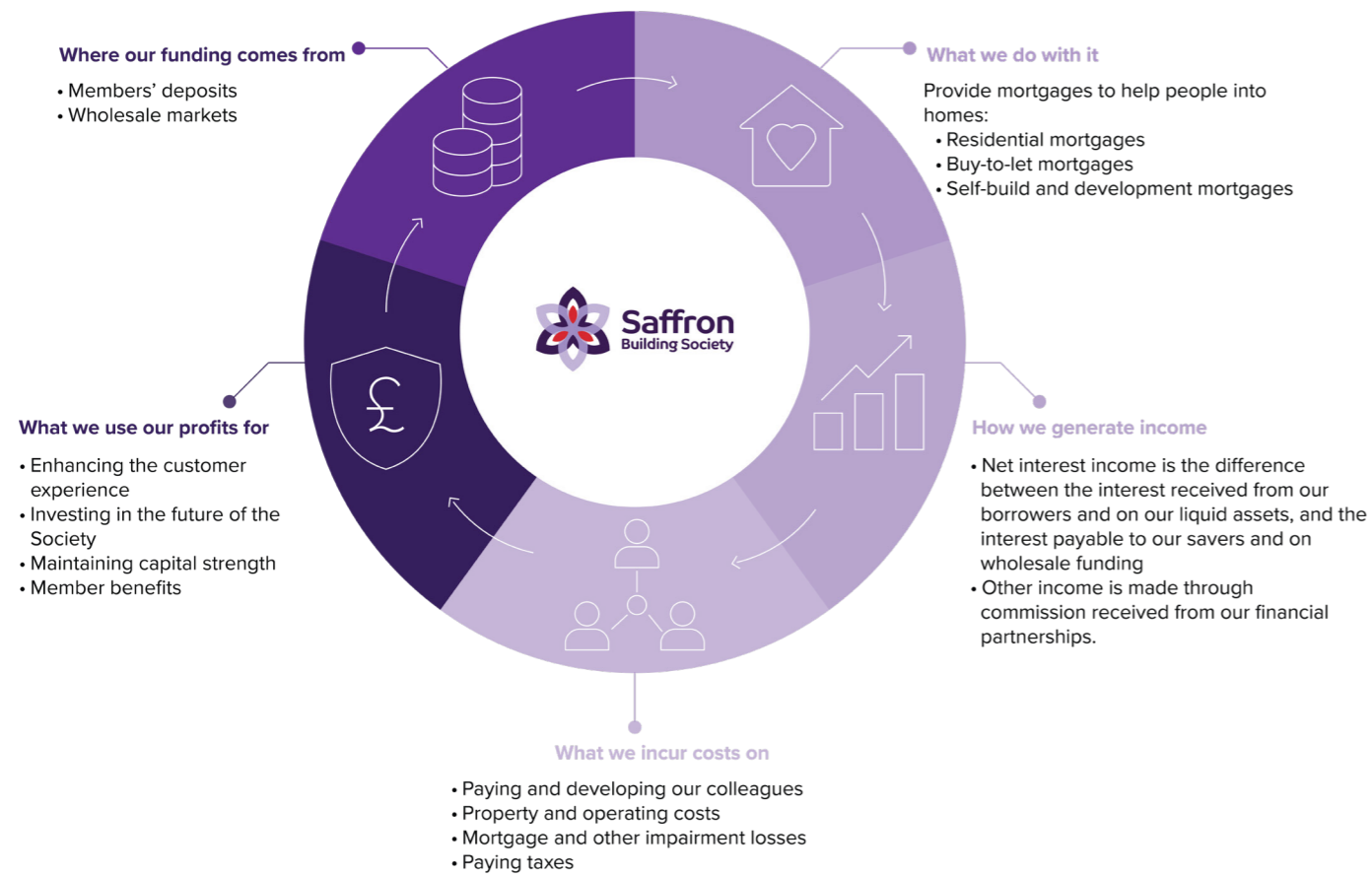


# Introduction to our Strategic Report

## Mutuality & Our Business Model

The Society's core vision remains unchanged, which is helping people to achieve "Money Happiness" through owning their own home and providing a secure home for their savings. We will only achieve this vision if we remain relevant in today's highly competitive and rapidly evolving market.

Our mutual status means that we do not have to make dividend payments to external shareholders. Our profits are therefore reinvested into the Society for the long-term benefit of our Members and customers. We believe mutuality offers a more sustainable and transparent business model to many of our competitors. Put simply, we retain enough profit to invest in the business and build capital for future strength, and return any surplus profit to Members in the form of better products, rates and service.



## Our Products, Services & Operations

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 continued to build on its capability to assess more complex cases where it can truly capitalise on its underwriting capabilities to unlock improved returns with products suitable for contractors, the self-employed, lending in and into retirement, 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 borrowers and their brokers.

Our wide range of award-winning savings products can be serviced in-branch, via telephone and, in many cases,

online. Our product offering includes; instant access, fixed-term, tax-free and regular savings, as well as a range of accounts designed for children to encourage good saving behaviours at a young age.

Outside of our core borrowing and savings products, through a network of selected partner organisations, 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.

The Group has assets of £1.4bn and operates from its head office in Saffron Walden, Essex, and eight branches (across three counties) and employs 197 Colleagues.

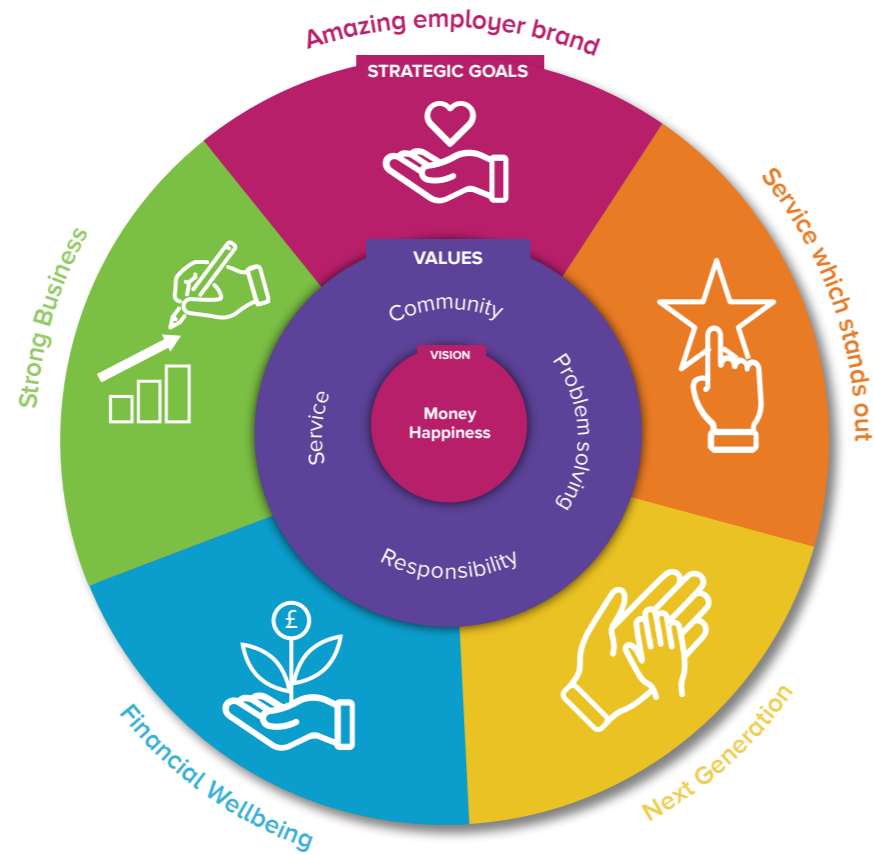
## Strategic highlights 2023

- Improved core capital ratios achieved through a focus on higher yield, more specialist lending.
- Well-controlled liquidity levels, resulting in sufficient funding to support the Society's growth plan and begin early repayment of Bank of England term funding.
- Core banking platform upgrade to support better customer experience.
- Show commitment to and invest in Colleagues through increased salaries of at least 5%.



# Our Strategy

In 2023 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 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 of life. It's a vision that is as relevant today as it was 174 years ago, and is 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

As outlined in the introduction above, the simplicity of the Society's business model is a source of strength, and more details can be found in the following pages of the Strategic Report. However, the Society has identified five strategic goals that it prioritises in order to achieve its vision of "money happiness".

These are:

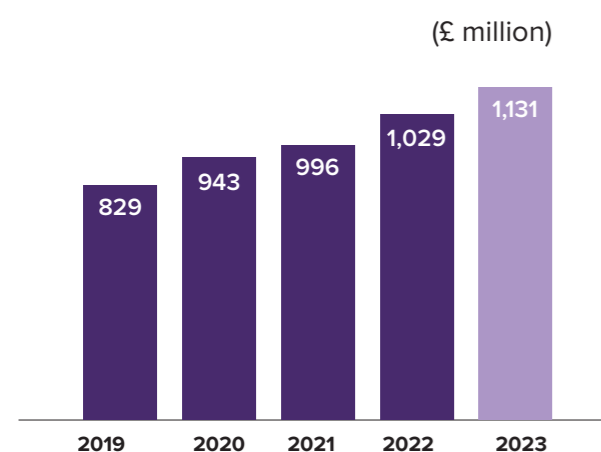
- Running a strong business that is a safe and secure place for Members to benefit from throughout their lives

- Creating an amazing employer brand that people are proud of and motivated to work for
- Offering our Members service which stands out, so that 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

# Financial Review

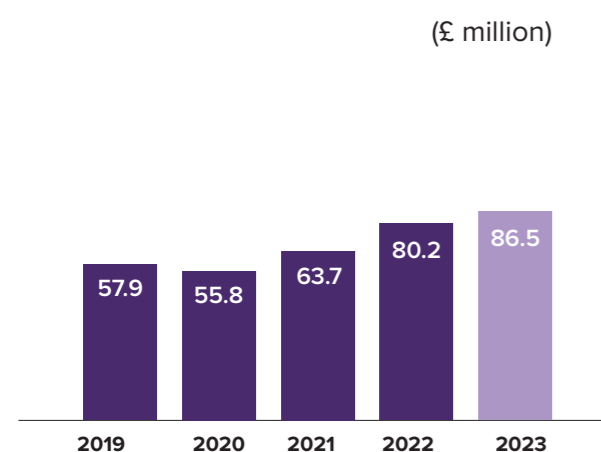
Being a mutual, Saffron Building Society is owned by its Members and doesn't have external shareholders. The Society aims to sustainably grow its mortgage and savings balances and, although profit is an important part of a sustainable Member-owned business, maximising profits is not the sole objective. The Board manages the Society, and its agreed strategy, by employing a range of financial performance and control reports, which includes monitoring the key financial metrics shown below. More detail on all of these metrics can be found on the following pages.

## Mortgage Balances



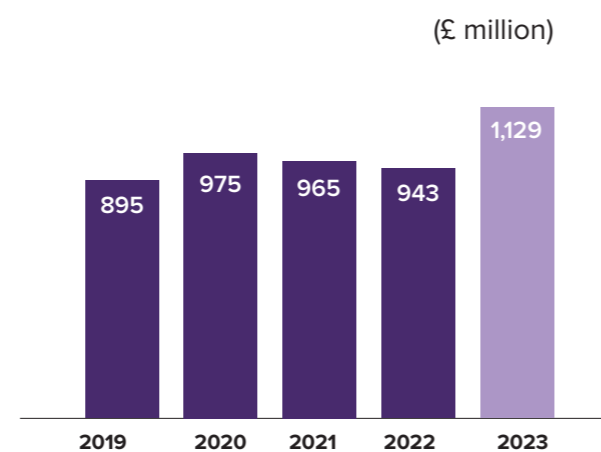
We achieved gross lending of £266m to mortgage customers (2022: £233m) with net lending of £102m (2022: £33m).

## Regulatory Capital



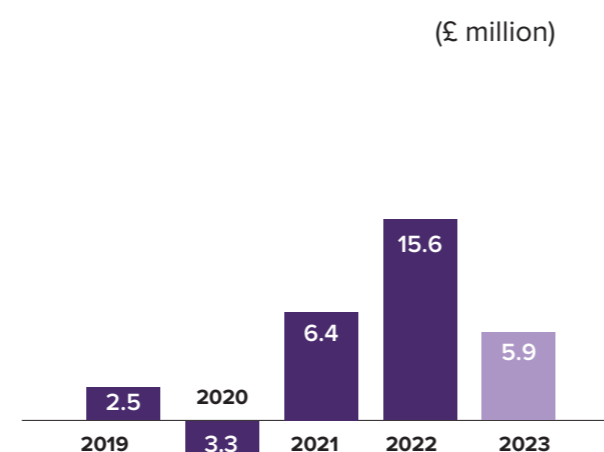
CET 1 ratio remained at 15% (2022: 15%) as a result of mortgage book growth.

## Savings Balances



We increased savings balances by £186m (2022: reduced by £22m).

## Profit after tax



Profit after tax as a percentage of total assets of 0.4% (2022: 1.21%).

# Key Performance Indicators

The KPIs adopted throughout 2023, with comparison against 2022, are presented in the table below, together with explanatory comment to follow on the corresponding pages.

	2023	2022
<b>Trading performance</b>		
Gross mortgage advances	£265.8m	£232.6m
Total mortgage balances	£1,131.3m	£1,028.6m
Shares and deposit balances	£1,128.9m	£943.0m
<b>People experience</b>		
Engagement	8.3	8.1
<b>Member experience</b>		
Customer net promoter score	+43.7	+49.7
Customer satisfaction	88.7%	90.4%
Broker net promoter score	+50.0	+27.5
Broker satisfaction	83.9%	78.2%
<b>Financial sustainability</b>		
Profit before tax	£7.7m	£18.7m (restated)
Net interest margin	2.41%	2.34%
Management expenses ratio	1.50%	1.44%
Common equity Tier 1 ratio	15.0%	15.0% (restated)
Total capital ratio	16.9%	17.2% (restated)
Liquidity coverage ratio	223%	178%

Measure	Explanation	2023 performance	Trend compared with 2022
<b>Gross mortgage advances</b>	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 £240m was set this year and actual performance achieved this.	Total advances of £266m exceeded the target of £240m.	Improving
<b>Total mortgage balances</b>	The total size of the Society's Group mortgage assets. The Society needs to maintain sufficient balances of quality mortgage assets to meet demand from Members and generate sufficient income, balanced with associated capital requirements. The targeted level of mortgage assets set out in the budget was exceeded.	Mortgage asset larger than plan at £1,131m.	Improving
<b>Shares and deposit balances</b>	With the exception of 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 in growing its savings balances to support mortgage book growth and its planned refinancing of its TFSME drawings.	Growth ahead of plan at £1,129m (£102m ahead)	Improving
<b>Engagement</b>	The Board strives to make Saffron a great place to work with high levels of colleague engagement, motivation and commitment. A regular 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. With slightly higher than usual turnover of staff in the year, maintaining such a strong score is considered a positive.	Score of 8.3 (in line with target)	Increasing
<b>Customer net promoter score</b>	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. The result in the year has been impacted by increased mortgage pricing to our mortgage Members and the impact of competitive but not top of market savings products. It remains the focus of the Society to provide our Members with a good experience at every touchpoint.	An average score of 43.7 was achieved across the year.	Reducing
<b>Customer satisfaction</b>	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. 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 88.7%	Reducing
<b>Broker net promoter score</b>	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 2023 the Society put in place measures ensuring communications between the broker network and the underwriting team were improved, aiding the pace of offers and building strong relationships with our brokers.	An average score of 50.0 was achieved across the year.	Improving

Measure	Explanation	2023 performance	Trend compared with 2022
<b>Broker satisfaction</b>	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 which has been achieved this year due to the increased communication between the Society and the broker network and improvements in overall service, including the application decision process.	Score of 83.9%	Improving
<b>Profit before tax</b>	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 remained strong as a result of the improved net interest margin (see below).	Profit before tax of £7.7m which is ahead original budget of £6.8m.	Reducing
<b>Net interest margin</b>	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 remained elevated in 2023 following the increases in the central bank base rate, which saw industry-wide mortgage pricing increase at a faster pace than savings rates. This has corrected in the second half of 2023 and it is expected that the NIM will drop back towards historic rates. Increased niche lending has also contributed to a higher Net Interest Margin.	Net interest margin of 2.41% which is above the original budget of 2.28%.	Improving
<b>Management expenses ratio</b>	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 increased in 2023 due to the growth in the cost base of the Society due to inflationary pressures throughout the year coupled with some core project spend, which has been partly mitigated by the balance sheet growth in the period. This is expected to decrease in the future due to the expectation that mortgage growth will exceed expense growth.	Management expense ratio of 1.50% which is below the budgeted 1.55%.	Increasing
<b>Common equity Tier 1 ratio</b>	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 trading profit have been offset by the strong mortgage growth in the year which has increased the capital requirement. This is modelled to reduce in the future due to regulatory capital requirement changes and fair value unwind.	15.0% which is in line with the budgeted position.	Improving
<b>Total Capital Ratio</b>	Total capital is the amount of regulatory capital available to the Society as a percentage of its risk weighted assets. It comprises the Tier 1 capital which is explained above plus the Tier 2 capital, which for the Society is made up of its general provisions plus its subordinated debt instrument. This has declined from 17.2% as the subordinated debt instrument entered its final 5 years, requiring the available capital to the Society to be amortised by almost 20%.	16.9% which is slightly ahead of the budgeted position of 16.7%	Improving
<b>Liquidity coverage ratio</b>	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 drawn in additional liquidity to align with the lending plan plus planned repayments of the central bank funding and overall liquidity requirements.	In line with the 223% planned.	Improving

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

# Business & Operational Review

## Products

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 omni-channel approach allows our savings Members the choice as to how they wish to transact with us, with products which 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 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, such as financial planning support, mortgage advice and protection policies through a network of selected partner organisations.

## Communities

The Board continues to believe Saffron should continue its proud tradition of supporting the local communities which it serves – especially around its branch network. It does this in numerous ways, including making one-off grants through the Saffron Community Fund and sharing its premises free of charge for events in the Community Link space in Saffron Walden. Both of these initiatives experienced significant growth in 2023, and continue to benefit from the allocation of a dedicated staff member responsible for running our community engagement activities. The Society also continues to offer Colleagues the chance to volunteer to help local good causes and build connections within our heartland, a policy that was enhanced in 2023 through a new retail team volunteering policy. The Board encourages any Member to contact the Society with ideas about how we can support local groups and good causes.

## Environmental, Social and Governance (ESG).

ESG continues to be an important and growing theme within financial services and the wider economy. The Society has evolved its tracking of key ESG metrics (these can be found in the relevant section of the Strategic Report) and been recognised in its efforts through the award of Bronze accreditation from The Carbon Charter. Saffron will continue to invest in ESG in the future, including in a new partnership delivering financial education for vulnerable young people in the Essex region.

In July 2023, the Society implemented phase 1 of the Financial Conduct Authority's (FCA) 'New Consumer Duty' which requires higher standards of firms to ensure they 'act to deliver good outcomes for retail customers'. The Society has consistently evidenced good customer outcomes for a number of years. We will continue to build on the framework during 2024.

## 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 2023.

The Society has a number of non-trading subsidiaries and the Board are considering the next steps for these companies as part of the wider business strategy.

## Premises

The Society acquired a plot of land during 2022 on the Shire Hill site in Saffron Walden. This has been identified as a potential site for a modern, sustainable head office to secure the Society in its heartland for the future. Planning permission was achieved on the site in 2023 and the Board are considering the next steps for the site.

## 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 25. 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 remained strong over the past two years from a starting position in 2022 of £11.9m profit to the current position of £11.1m. This improvement is the result of the growth in mortgage assets, coupled with the improved swap earnings through the increases in the SONIA overnight rate.

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, is drawing closer to its contractual repayment which for the Society is in Q4 2025. While this source of funding has supported the Society's liquidity levels throughout the year, it had historically been at rates lower than other forms of funding. This became less beneficial throughout the year as Bank of England rates increased significantly. The Society has therefore increased its liquidity levels throughout the year and has made its first staged repayment of £30m against this funding source, with plans to make further staged repayments throughout 2024.

While savings rates are increasing, mortgage rates have not increased at the same pace due to the competitive pressures and affordability challenges. This may lead to pressure on margins in the near future. 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 continued strength of underlying earnings has seen the Society continue its recent path of strong profitability.

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 and consideration of Subordinated Debt refinancing
- 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 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 the financial performance of the business section of this Strategic Report.

# External Environment

2023 was another year of uncertainty, characterised by the challenging economic backdrop of persistent inflation and interest rates at 15 year highs. Many major economies, including the UK, flirted with recession, and the economic volatility was compounded by the failure of a number of US banks and the rescue of a major Swiss bank by its historical rival. Geopolitical tensions were further heightened by the Israel-Palestine conflict igniting following the events of October 7th. The Society's diligent focus on its strategic priorities has enabled it to weather this volatility and achieve a financial outcome that contributes further to its strength and resilience.

While the UK housing market showed some signs of recovery in early 2023 following the turmoil triggered by the "mini budget" in 2022, UK housing market sales were the lowest they have been in a decade with activity weakening throughout the year. The slowdown throughout the year has been driven by several factors, including tightening monetary policy via higher base/interest rates as well as the cost-of-living crisis. House building activity has seen the steepest drop since April 2009 (excluding the early 2020 initial lockdown period).

Labour market in the UK loosened with headline unemployment rate rising to 4.3% from 3.7% in December 2022. Average wages including bonuses have increased in real terms, despite high inflation, with nominal wages increasing at a rate of 8.5% including bonuses and 7.8% excluding bonuses.

CPI inflation eased from 10.5% in December 2022 to 4.2% in November 2023, though remaining above the Bank of England's 2% target. As the rate of inflation in the UK fell between July and August 2023, the Bank of England chose not to increase interest rates for the first time since November 2021, holding rates at 5.25% for the remainder of 2023. Weakening underlying inflationary data raises the possibility that the current cycle of interest rate rises may have peaked. Higher rates are good news for savers as they benefit from higher returns on their savings, but is bad news for borrowers as it increases borrowing costs for households, and businesses, dampening investment opportunities.

The Board monitors these external indicators and others throughout the year to ensure they are factored into the Society's decision making and strategy development.



Essex & Suffolk Rivers Trust receiving a donation of £4,783.42 from the Enviro Saver product.

# 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	Restated		
	Group 2023	Group 2022	Group 2021
Net interest income	32.9	30.3	22.8
Other income and charges	(0.2)	(0.3)	0.5
Administrative expenses	(19.0)	(15.9)	(13.5)
Depreciation and amortisation	(1.5)	(2.2)	(2.3)
Impairment losses	(0.7)	(0.2)	0.0
(Loss)/profit on disposal of property, plant and equipment	(0.4)	0.2	0.0
<b>Underlying profit before tax</b>	<b>11.1</b>	<b>11.9</b>	<b>7.5</b>
Fair value movements	(3.3)	6.8	0.6
<b>Reported profit before tax</b>	<b>7.7</b>	<b>18.7</b>	<b>8.1</b>
Tax	(1.9)	(3.1)	(1.7)
<b>Reported profit after tax</b>	<b>5.9</b>	<b>15.6</b>	<b>6.4</b>

The Society achieved an excellent financial performance in 2023, despite the changing market environment and the volatility in both mortgage and saving markets alongside the unwind of the fair value gains seen in the prior period, maintaining its underlying profit levels close to the levels achieved in the prior year. The Society has effectively managed to balance the needs of savers and borrowers by prudently managing both our savings and mortgage rates, following the constant changes in the Bank of England base rate throughout 2023. Rising interest rates supported the Society's net interest income position, however, persistent inflation has increased the Society's operating costs.

## 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

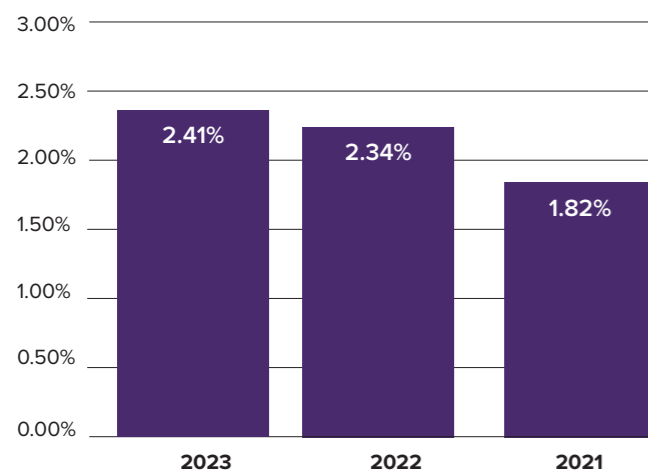
Overall net interest income for the year ending 31 December 2023 increased to £32.9million (2022: £30.3million).

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 Net Interest Margin (NIM) for the year ended 31 December 2023 was 2.41% (2022: 2.34%).



The Society's net interest margin has increased in 2023 despite market reaction to the continued rise in the Bank of England Base Rate, which has resulted in substantial savings rate increases throughout the year as institutions refinanced away from materially more expensive base rate linked funding from the Bank of England, pushing retail rates upwards. Mortgage rates in the marketplace initially increased to their highest levels in 15 years, but competition in the market created downward pressure on mortgage pricing. Despite this the Society exceeded its mortgage lending target of £240m, delivering £266m of new lending. The Society always strives to achieve an appropriate balance between rewarding savers with competitive and sustainable interest rates across a range of products and activity to match with the broader funding need of the Society.

The Society has remained true to the mutual value of borrowing from and lending to its Members. During the second half of 2023 it substantially increased the range of savings rates, to pass on the benefits of the Bank of England Base Rate, to draw in the funding required to support the improved lending performance following the sustained period of low rates.

### 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 2023 and increased in value by £220k (2022: increased by £62k).

Other operating charges for the year ending 31 December 2023 of £211k (2022: £304k) include administrative expenses and interest costs incurred by the Society's closed defined benefit pension scheme but borne by the Society of £80k (2022: £78k).

### 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.

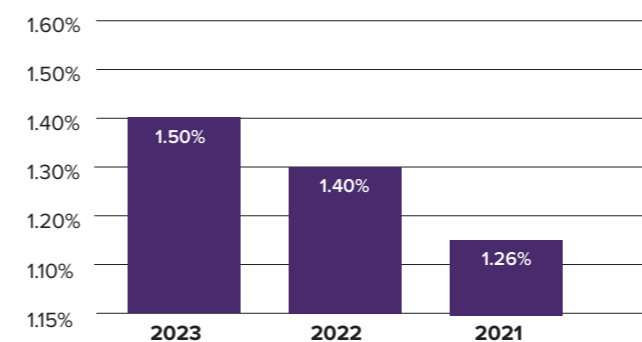
## Administrative expenses

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 is a key part of the broader strategic objective to grow the Society's capital position. It is balanced with the 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 £19.0million compare with £15.8million in 2022, with the majority of the increase being for staff costs. These represent both the inflationary pressures on wages and the continued investment in people capability to support the growth of the Society. The expenses also include some one time project spends and the investment in upgrading our core banking platform, a project which was successfully delivered in December 2023.

Further charges for depreciation and amortisation of £1.5million (2022: £2.2million) principally reflect the final amortisation of the Society's IT investment completed in 2017. 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 Society's collective impairment charge has increased in the year to £694k (2022: £86k) following the minor reduction in the House Price Index (HPI) across the UK and the persistence of inflation as measured by the Consumer Price Index (CPI). The combination of these factors has given rise to a higher Loss Given Default (LGD) which

has driven up the Society's collective impairment charge for the year.

The individual impairment charge for the year was £56k (2022: £163k). 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 £000s	Group		
	2023	2022	2021
Collective impairment charge	694	86	(97)
Individual impairment charge	56	163	84
<b>Total</b>	<b>750</b>	<b>249</b>	<b>(13)</b>

The Group is a Receiver of Rents on 5 properties (2022:1) representing capital balances of £0.5million (2022: £0.8 million). Two properties were disposed of in the year end December 2023 and nil new properties were added. Disposal of the remaining properties is planned for in 2024.

The arrears ratios (number of loans >3 months in arrears) as a percentage of the total loan book has increased slightly to 0.58% at 31 December 2023 (2022: 0.56%). 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 mortgage 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. 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 is 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 of such a product.

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, house price volatility together and actuarial factors such as mortality rates and the long-term cost of funds. The supporting derivative value is not impacted by the same elements and is principally impacted purely by long-term interest rate movements. In the current year, the increase in value of derivatives was £0.2m, compared with an increase in mortgage portfolio fair value of £0.8m resulting in a benefit to the income statement of £0.3m. 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.

### Taxation

The statutory rate of corporation tax has increased from 19% to 25% on the 1 April 2023, following the enactment of The Finance Act 2021.

The Group had corporation tax charges in respect of trading profits in the year ending 31 December 2023 of £1.9m (2022 restated: £3.1m).

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

£millions	Group		
	2023	2022 (Restated)	2021 (Restated)
Liquid assets	277.8	212.3	279.0
Loans and advances to customers	1,131.3	1,028.6	996.0
Fixed and other assets	31.6	46.6	20.7
<b>Total assets</b>	<b>1,440.7</b>	<b>1,287.5</b>	<b>1,295.7</b>
Shares	1,034.1	880.3	897.5
Deposits	300.6	312.2	304.1
Other liabilities	18.0	13.4	27.2
Subordinated liabilities	9.8	9.7	10.3
<b>Total liabilities</b>	<b>1,362.5</b>	<b>1,215.6</b>	<b>1,239.1</b>
Reserves	78.2	71.9	56.6
<b>Total liabilities and reserves</b>	<b>1,440.7</b>	<b>1,287.5</b>	<b>1,295.7</b>

The Group generates new assets principally through the origination of new mortgage loans secured on residential property. Total assets stood at £1,440.7 million at 31 December 2023, compared with £1,287.5 million at 31 December 2022.

### 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 Society has built liquid assets through 2023 in order to facilitate the refinancing of the Bank of England funding while maintaining an appropriate level of liquidity.

At 31 December 2023 the Group's portfolio of liquid assets totalled £277.8 million (2022: £212.3million) and comprised the following:

£millions	Group		
	2023	2022	2021
Bank of England deposits	155	104	182
UK Government debt	42	20	-
Other bank deposits	18	22	30
Supranational debt	63	66	67
	<b>278</b>	<b>212</b>	<b>279</b>

At 31 December 2023 the ratio of liquid assets to shares and deposits stood at 20.8% (2022: 17.8%). 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 2023 the Group's LCR was 223% (2022: 178%), above the regulatory minimum of 100%.

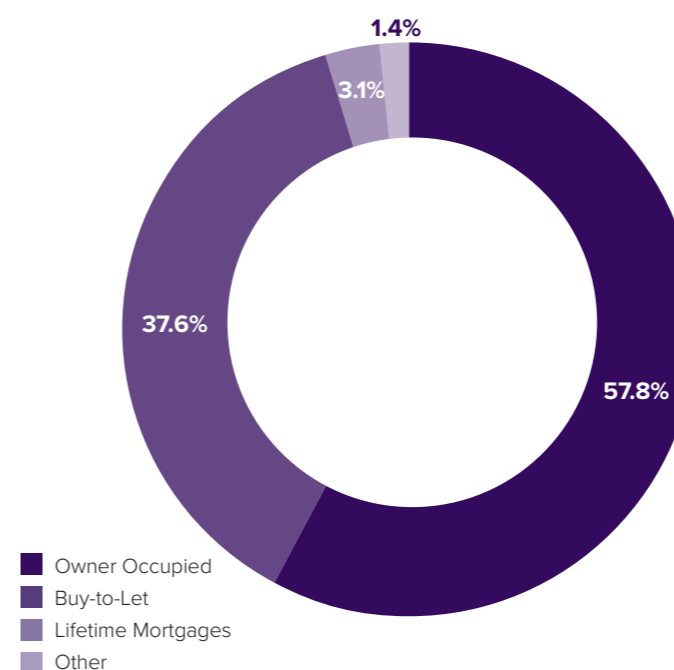
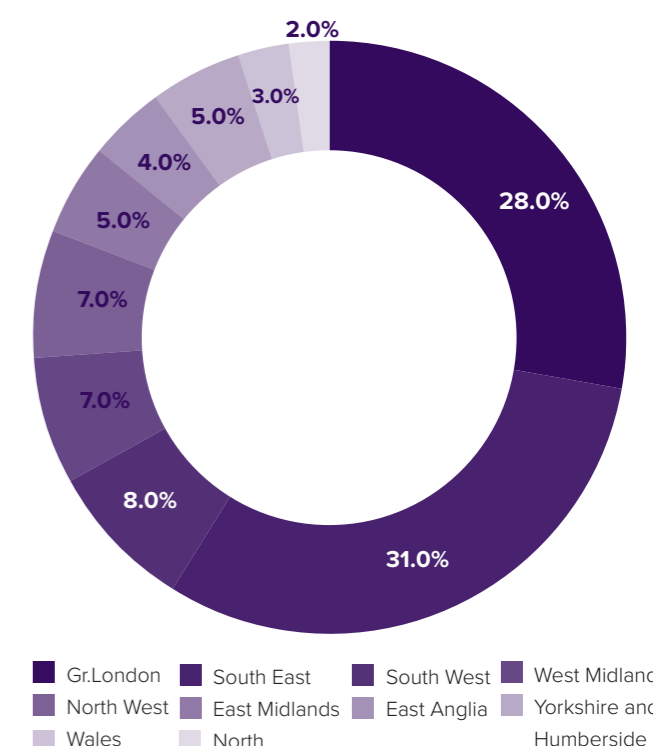
The Group also monitors the longer-term stability of its funding, and hence liquidity, through the Net Stable Funding Ratio (NSFR). At 31 December 2023 the Group's NSFR was 149% (2022: 133%), above the regulatory minimum of 100%.

### 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 Lifetime 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 £265.8 million in the year ended 31 December 2023 (2022: £232.6million). Stated after the impact of mortgage repayments, voluntary redemptions and other movements, total loans and advances to customers (net of impairment) at 31 December 2023 was £1,131.4million, compared with £1,028.6million at 31 December 2022.

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 change in mortgage concentration in 2023.

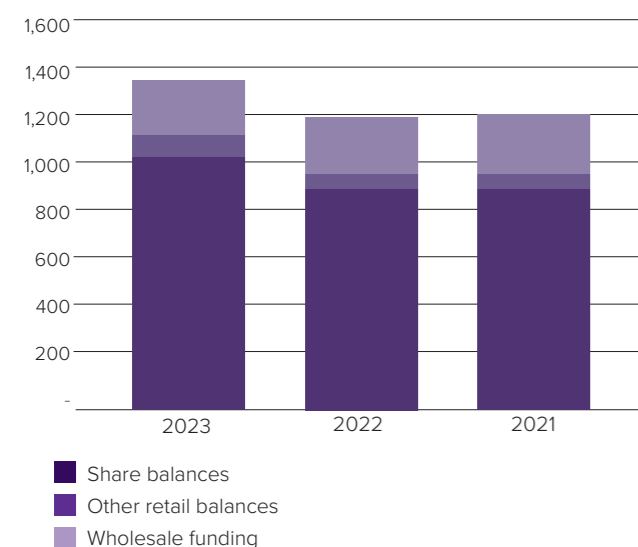


## Funding the business

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 has to balance the levels of retail inflows it attracts with the Society's overall liquidity position and mortgage requirements. As such, it is not possible to appear in 'Best Buy' tables every week as this would distort the levels of funding the Society would attract. However, the Society strives to offer fair and competitive interest rates to savers at all times, and rewards loyalty through enhanced rates on a number of key retentions products. During the year, the savings market saw significant rises across the Board. The Society also confirmed its desire to commence the repayment of the Term Funding Scheme with additional incentives for SME's (TFSME), which is due to be refinanced in 2025 and replaced with retail funding. As a result,

the Society raised its instant access funding rates. Despite 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 principle 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 term funding linked to Bank of England base rate and due to be refinanced in late 2025. At 31 December 2023 the Society held £160million (2022: £190million) of TFSME funding, following a repayment of £30m in November 2023 and is planning to make further repayments throughout 2024. 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 2023, 17.1% of the Group's assets were encumbered (2022: 21.2%) representing £230.1million of mortgage assets (2022: £252.5million) and £16.8 million of other assets (2022: £20.7million).

## 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 2023, at which point the Scheme was £26k in surplus 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 2023 (2022: 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 a charge of £0.6m, which was credited to Other Comprehensive Income.

At 31 December 2023 the Scheme is shown as a pension liability of £641,000 (2022: asset of £83,000). Further details on the Scheme can be found in note 27 to the Accounts.

## Capital

Regulatory capital consists of general reserves (accumulated profits and losses), the available for sale reserve plus collective provisions for impairment and the revaluation reserve in respect of the Society's freehold properties. The Group also has in issue subordinated liabilities that expire in January 2028. Capital regulations require intangible assets and pension scheme surpluses to be deducted from available capital.

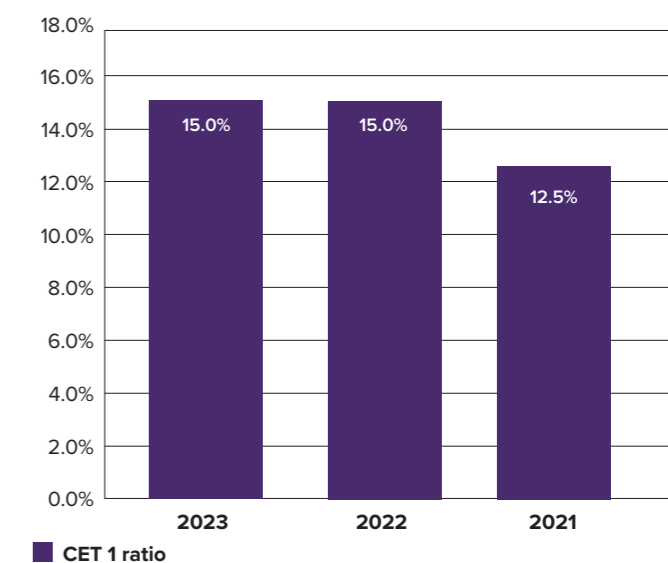
The Group holds capital to protect its Members from the effect of shocks or stresses, whether to the economy, the financial sector as a whole or the Society specifically. The Group's capital requirements are set and monitored by the Prudential Regulatory Authority (PRA). All the Society's capital ratios remained in excess of regulatory requirements throughout the year.

After regulatory deductions, the Group's total regulatory capital increased from £80.2 million to £86.5million as a result of the 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 remained stable in the current period primarily due to capital availability increasing through the profit in the financial period coupled with the unwind of the intangible asset, however risk weighted assets grew by £47.5m, which was

primarily driven by the growth in the mortgage book. Growth in the loan book has reduced the CET1 ratio by 0.9% and offset an element of the reserve growth with the benefits of the increased lending expected to generate improved net interest income in 2024 and beyond.



Total regulatory capital incorporates the Tier 2 capital held by the Society in the form of Subordinated Debt instruments which are now beginning to amortise and the total collective provisions.

Tier 2 capital in the form of Subordinated Debt, given its illiquid and long term nature, is allowed to be treated as capital, which further supports the capital resilience of the Society while also allowing for increased book growth where it is deemed beneficial for the Society.

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.

# Principal Risks & Uncertainties

**The Society's Risk Management Framework and Risk Appetite is explained within the Board Risk Committee Report on page 60.**

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 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 risk department 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, and alignment of the Society's information security management system to industry-recognised standards such as ISO27001:2013.

## 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:

- Failing to identify new or developing regulatory requirements / guidance;
- Failing to comply with all regulatory requirements;
- 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 and 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 and has supported in the Society's implementation of phase 1 of Consumer Duty.

## Business risk

**Description:**  
The Group faces competition in all the core markets in which it operates. There is a danger that its profitability and/or market share may be impacted by the actions of its competitors.

**Mitigation:**  
To mitigate this risk, the Group maintains close relationships with its Members and customers, business introducers and other significant participants in the markets in which it is active as well as participating in sector-wide organisations (for example, the Building Societies Association) and initiatives. This allows market trends to be identified and addressed within the Group's business strategy.

# Future Outlook & 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 'Our Approach to Sustainability' 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.

## 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 in Europe, however following the UK's exit of Europe, the PRA are considering the rules for

the UK which are due to be announced in Q2 2024 alongside the UK specific Small Domestic Deposit Takers (SDDT) rules which are an alternative solution for entities with less than £20bn of assets regulated in the UK.

The implementation of the final Basel III policies have been moved by six months as a result of the delay in issuing the guidance and will take effect from 1 July 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 mid 2025.

## Economic outlook

The ongoing conflict in Ukraine and the Middle East increases economic uncertainty, and the longer-term financial consequences for Members are unknown. Interest rates look to have peaked in this cycle, inflation continues to ease but remains elevated both in the UK and many western economies. Commodity shortages continue to ease and the fall in wholesale energy prices has supported the easing of inflation. On the domestic front, strong pay growth adds to the inflationary pressures. Uncertainty is likely to continue into 2024 as the UK prepares for a general election, at a point where the economy is in a technical recession and the likely impact this could have on employment.

The Society monitors economic indicators which impact the housing market, with market interest rates and inflation rates being 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 2024 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 2024 are challenging with competitive pressures on both the mortgage and savings rates causing some margin pressures. Profitability is further pressured by the above average inflation levels, however the Society continues to be well positioned to navigate these risks. This is because of improved levels of profitability and growth over recent years.

The Society's five-year plan forecasts sufficient levels of profitability which support the required levels of growth and investment. 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 £160million 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 Bank of England 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 as a result of the focused change in strategy to hedge more to the accounting risk within internally set limits. 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 2023 in which the Scheme was reporting a surplus of £26k. The Scheme is also subject to annual valuation for FRS102 purposes and was reported in the financial statements for the year ended 31 December 2023 at a deficit of £0.6m (2022: surplus of £0.1m).

Maurice Mills  
Chief Financial Officer  
On behalf of the Board 7 March 2024

## Building Society For Years To Come - our approach to sustainability

For 174 years, Saffron Building Society has helped generations of people achieve two of the most fundamental financial goals in life: having financial security and owning a place they can call home. In doing so, the Society aims to realise its modern vision of creating 'Money Happiness' for its Members and the broader community.

'Money Happiness' means helping people feel confident, positive and in control of their money, so they can get more out of life. It also means supporting good causes and finding ways to strengthen the social fabric of the communities we serve. The Society's mutual model is central to this vision because it allows Saffron to focus wholeheartedly on the needs of its key stakeholder groups: Members, Communities, Colleagues and the Planet.

In recent years, the Society has developed a distinctive approach to sustainability by using the


lens of mutuality to define the positive impact it aims to make across Environmental, Social and Governance (ESG) matters. By leveraging its mutual business model, the Society can balance profit with purpose by making decisions in the best long-term interests of its key stakeholder groups. The Society firmly believes that focussing on the longer-term impact of its actions leads to better decision making, stronger results and a more sustainable business for years to come.


In last year's Annual Report the Society introduced its Sustainability Vision and listed the progress it had already made across the three ESG pillars. This year the Society's Sustainability Vision remains consistent but additional metrics have been reported below. Saffron will continue to evolve its ESG reporting capability even further over the next twelve months to enhance even further the visibility of its impact across each of the three pillars.




Colleagues visited Lighthouse Furniture Project Ltd, seeing how they run their amazing project.



ESG Pillar	Stakeholder Group	Impact Area	2023 Measure	
<b>Environmental</b> 	<b>Planet</b>	Carbon Footprint*	Scope 1 emissions: 62.9 tCO2e Scope 2 emissions: 65.3 tCO2e Scope 3 emissions: 278.3 tCO2e Total tCO2e emissions: 406.5 tCO2e Renewable electricity procurement: 65.3 tCO2e Net carbon emissions: 341.2 tCO2e	
			Awarded Bronze accreditation from The Carbon Charter.	
			Electricity Supply	100% from renewable sources via our supplier
			Company Car & Van Fleet	100% of vehicles electric or hybrid
			Reducing Account Paper Usage through online servicing	6,284 accounts registered for online servicing
			Donations to Green Charity via EnviroSaver Account	£4,783
			Green Lending (via Retro Fit mortgage product)	£2.19m

<b>Social</b> 	<b>Members</b>	<b>Serving Members</b>	
		Net Promoter Score (NPS)	+43.7%
		Customer Satisfaction	88.7%
		<b>Creating Financial Wellbeing through saving</b>	
		Average savings rate paid to Members	2.87%**
		Number of new savings accounts opened	15,365
		Number of children's accounts opened	5,855
		Number of Financial Wellbeing Reviews conducted	1,203
		<b>Supporting underserved borrower needs</b>	
		Number of First Time Buyer / Joint Buyer Sole Proprietor mortgages	136
		Number of Self Employed mortgages	64
		Number of Contractor mortgages	35
		Number of Self Build mortgages	70
		<b>Rewarding Member Loyalty</b>	
		Number of Members' Month Loyalty Regular Saver accounts opened	2,920
		Number of free wills written for Members	87
		Number of Members attending an in-person event	591
<b>Communities</b>	Community Link usage hours	1,517 hours	
	Retail network volunteering	718 hours	
	Saffron Community Fund donations	£78,055	

ESG Pillar	Stakeholder Group	Impact Area	2023 Measure	
<b>Governance</b> 	<b>Colleagues</b>	Accreditations & Memberships	Living Wage Employer	
			Disability Confident Employer	
			Women in Finance Charter	
			Mortgage Mental Health Charter	
			Board Diversity	33% Female 67% Male.
			Gender Pay Gap	41%
			Anti-Bribery & Modern Slavery	100% compliance

\* The Society's Greenhouse Gas Report is compiled by independent consultancy Groundwork East. It covers emissions from Saffron Building Society's own premises and operations, as well as some 'value chain' emissions. The report includes electricity and gas consumption, vehicle fleet fuel use, and business travel, as well as waste disposal, employee commuting and working from home. Actual data obtained from relevant meter readings, invoices, and mileage & expenses reports is used to calculate emissions for the majority of sites and activities. However, there are some areas in which informed estimates have been made by Saffron Building Society employees, for example where actual data relating to the timescale in question is not available.

In line with the UK Reporting Guidelines carbon emissions are broken down into direct and indirect emissions. These are categorised into Scope 1, Scope 2 and Scope 3 emissions (as per the GHG Protocol methodology) according to which activity and fuel or energy use they arise from.

- **Scope 1:** These are Direct Emissions which arise from the activities of an organisation and include fuel combustion on site or in owned equipment, such as gas boilers, fleet vehicles and mobile machinery. For Saffron Building Society Scope 1 Emissions is comprised of onsite natural gas consumption and fuel usage in company owned vehicles.
- **Scope 2:** These are Indirect Emissions from electricity purchased and used by the organisation. Emissions are created during the production of the energy which is eventually used by the organisation. For Saffron Building Society Scope 2 Emissions is comprised of onsite electricity consumption.
- **Scope 3:** These are all other Indirect Emissions from activities of the organisation, occurring from sources that they do not own or control. Saffron Building Society has identified 3 categories of Scope 3 emissions (as categorised by the GHG Protocol) which are included within this report: Category 5 – Waste generated by operations; Category 6 – Business travel; Category 7 – Employee commuting. Due to the recent and on-going move towards hybrid-working and home-working, Saffron Building Society has also decided to report on the home-working emissions arising from its employees (which is not identified as a specific Scope 3 category). Also included here are emissions arising from the 'Transmission and Distribution' (T&D) of electricity purchased by the organisation. Emissions arising from fuels and energy not captured elsewhere are also included as a Scope 3 emission.

GHG emissions are expressed as tonnes of CO2 equivalents (tCO2e). This is a unit of measurement used to indicate the global warming potential of a greenhouse gas, expressed in terms of the global warming potential of one unit of carbon dioxide. The UK Government's 2022 Carbon Conversion Factors have been applied to the units of energy and fuel consumption to calculate the associated emissions.

\*\* Worked out as average interest paid & accrued in 2023 against average balance held in shares & deposits.

# Reviewing our ESG Progress



## Environmental

Saffron Building Society continues to be mindful of the need to help address global climate change, both to comply with new and forthcoming regulation but also because our Members and Colleagues tell us it is a key concern of theirs. Although a relatively small lender, the Society recognises the impact its housing stock and its wider operations can have on the planet.

For a number of years the Society has partnered with Groundwork East, an independent sustainability charity and consultancy, to advise the Society on how best to approach its ESG strategy. In 2023, the Society's commitment to sustainability was recognised by achieving Bronze accreditation from The Carbon Charter.



In particular, Groundwork East monitor the business' greenhouse gas emissions and calculate our annual carbon footprint, which we are publishing in this report for the first time (on page 38).

The carbon footprint measurement and reporting follows the Greenhouse Gas Protocol Corporate Standard (aligning with HM Government Environmental Reporting Guidelines) with emissions broken down into three scopes and reported in Carbon Dioxide Equivalent (CO<sub>2</sub>e), calculated using the prevailing UK Government's carbon conversion factors.

The reported Greenhouse assessment inventory covers Scopes 1 and 2 emissions (our energy and fuel use) and key Scope 3 emissions, including business travel, waste generated in operations, employee commuting as well as including emissions from homeworking.

Going forward, the Society will continue to work with Groundwork East to develop and implement a plan to manage and reduce our carbon footprint further. Efforts are already being made across two main areas to address the Society's environmental impact:

### Greener operations

The Society is mindful of the waste produced in its operations. In 2023 we saw an increase in the number of customers using our online services. Although we always give customers a choice of channels, online account management reduces the use of paper for transactions. We will continue to evolve our digital product propositions to benefit this area, and trial new methods of reducing paper usage in traditional branch channels (e.g. by removing printed leaflets from banking halls, and offering them on a 'printed by request' basis).

The Society is continuing to explore the potential for a new-style 'concept branch' in Ware. When complete, this branch will be a testbed for a number of new sustainability initiatives which, if successful, will be rolled out across the wider branch network. Features under consideration include enhanced recycling facilities, local & sustainable materials, low-flush toilets, LED lights and reusable cups, glasses and crockery.

### Enabling Members to live greener lives

The Society's Retro-fit mortgage continued to be available to new borrowers during 2023, rewarding Members who made environmental improvements to their property after purchase through a reduction on the mortgage rate payable. The Society completed 8 Retro-Fit mortgages in 2023, totalling £2.19m. There are plans to review this product in order to make it even more relevant and helpful to borrowers in the future.

The Society also launched a new offer to all existing mortgage holders, giving them the option to have a free EPC Plus assessment carried out on their property. An EPC Plus assesses the carbon emissions from a property and makes tangible, easy-to-understand recommendations on how to improve this further. Early update during a pilot phase has been encouraging, and this is being rolled out to all mortgage holders.

Saffron's popular Enviro Saver account continues to pay 0.1% of the value of balances to an environmental charity chosen by Members each year. The Society has promoted this product with a very competitive rate versus our average instant access account, which has attracted more customers and higher balances in 2023, resulting in a higher donation in 2023 than the previous year.



## Social

Building societies have a proud tradition of serving overlooked segments and opening up financial wellbeing for more people. In challenging times, the need for an organisation like Saffron is more relevant than ever.

### Members – building financial wellbeing

Saffron is building Members' financial wellbeing through offering good value products, rewarding long term loyalty, and supporting Members with excellent service.

The Society aimed to pay a competitive and fair rate of interest to all savers during 2023, which resulted in total interest payments of £29.7m made to our savers. In particular, the Society paid preferential rates to children in order to kick-start the savings habit from an early age. The Society was proud to receive the coveted Savings Champion awards for Best Building Society and Best Children's Provider in recognition of the competitiveness of its products.

Loyalty was recognised by the Society through offering preferential savings rates on fixed rate bonds to Members who renewed their account with us. The Society also held its inaugural 'Members' Month' celebration in June 2023, with a series of events and competitions across the Society to thank Members for their support. A highlight of Members' Month was the limited-edition Loyalty Regular Saver paying a best-buy rate on 9% on monthly deposits – at the time this was the only savings account in the UK to beat the running rate of inflation, and was extremely popular with our Members.

In mortgages, the Society continued to support First Time Buyers with higher Loan-to-Value (LTV) products, in addition to its innovative Joint Borrower Sole Proprietor (JBSP) product which allows a family member to help with affordability. Saffron also helped borrowers with more complex income arrangements to access home finance, particularly through its Self-Employed, Contractor and Self-Build propositions.

Service is at the heart of the Society's proposition, and although 2023 saw a slight drop on both metrics due to wider market competitive pressures, the Society's results are still very strong compared to the financial services sector as a whole. A number of key areas have been identified for improvement during 2024.

### Colleagues – building happiness at work

Our Colleagues are crucial to the Society's success, only through having healthy and engaged Colleagues can we effectively support our Members and help them achieve member happiness. In 2023, we continued our focus on wellbeing, with a range of events tailored at providing support and education to Colleagues. To support Colleagues through ongoing challenges with cost-of-living, we invested in colleague pay, ensuring we remain an accredited Living Wage Foundation payer. Our regular colleague engagement surveys demonstrate that Colleagues feel Saffron is a positive place to work and help us identify further opportunities to support Colleagues.

In 2024, we will go even further for our Colleagues by:

- Focusing on skills and capabilities to support Colleagues' future careers
- Launching a new system to support Colleagues learning and self-development
- Invest in our People Leaders to ensure they are set up to support Colleagues to be and achieve their best
- Continuing and expanding our wellbeing agenda to educate Colleagues and help them maintain happy and healthy lifestyles
- Take more actions aimed at ensuring we promote of culture and environment which is diverse and creates equity and inclusion
- Taking action to improve the colleague experience through better systems and self-service

## Communities – building real help to thrive

Saffron continues its proud tradition of supporting the local communities which it serves – especially around its branch network. It does this in numerous ways, including making one-off grants through the Saffron Community Fund and sharing its premises free of charge for events in the Community Link space in Saffron Walden. Both of these initiatives experienced significant growth in 2023, and continue to benefit from the allocation of a dedicated staff member responsible for running our community engagement activities. The Society also continues to offer Colleagues the chance to volunteer to help local good causes and build connections within our heartland, a policy that was enhanced in 2023 through a new retail team volunteering policy. The Society encourages any member to contact the Community Business Partner to find out more about how we can support local groups and good causes: [community@saffronbs.co.uk](mailto:community@saffronbs.co.uk)



## Governance

Good governance is critical 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 as a whole. Our approach to corporate governance is set out in detail on pages 48 and 49 and this includes the role of the Board and its Committees.

### Diversity & 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.

Through establishing a diverse Board, we recognise the opportunity to provide increased strength in leading Saffron into the future. This remains a key focus in the recruitment process that will be undertaken during 2024.

The Board uses a skills matrix to assess its skills on an annual basis. This 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's purpose. The Board plays a significant role in monitoring, assessing and demonstrating the values of the Society and alignment to its purpose.

The Board carries out an annual effectiveness review, which assesses the Board's culture. The Board outlines that overall its culture is positive, although identified some areas of improvements to ensure the Board is as effective as it can be.

The Board monitors culture through the Board report, the employee champion and through the expansion of the Remuneration Committee into the People and Remuneration Committee.

### 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 and is intended to measure workplace disadvantage. This calculation is conducted at an aggregate level and therefore does not pay regard to the roles each person performs.

Saffron has excellent representation of women in the workplace, with women making up 59% of our population for these calculations. However, Saffron Building Society, like other retail businesses, has a high number of female Colleagues in lower paid roles and/or working part time, which impact the average pay and creates a gender pay gap, which for 2023 was 41%, up from 38% in 2022.

While there is a gender pay gap, there is no gap in equal pay in the Society – our analysis tells us that where we have men and women performing the same role, they are equally remunerated.

The Society has developed a Diversity, Equity and Inclusion Strategy, a core component of which is our Women in Finance Charter Commitments and Goals. This strategy will ensure a cohesive set of actions to improve the representation of women in more senior roles in our organisation through positive action. This includes areas of focus such as: supporting a women's inclusion network, improving our family friendly benefits, mentoring for talented women and a focus on diversity in succession plans.

## Anti-Bribery & 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, and provides training for all staff Members on an annual basis. In addition, the Society has specific procedures in place to ensure we comply with the Bribery Act 2010.

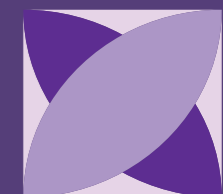
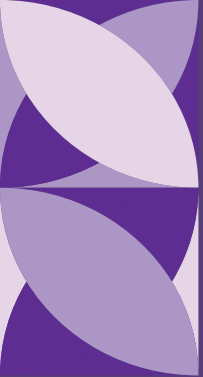
At Saffron, we strongly believe that the way we conduct our business should not negatively impact any human rights. In order to prevent slavery and human trafficking in our supply chain, the Society has put a thorough process in place to ensure Modern Slavery is not conducted anywhere in the supplier chain. The Society has a Modern Slavery Statement, which is reviewed by the Board and restated annually.

## The Future

The Society is committed to continued and increased focus on ESG matters going forward, because it is what our stakeholders expect and fundamental to our long-term decision making process. Moreover, a robust ESG focus will strengthen the Society's resilience to future challenges and give it a competitive advantage in an ever-more intensive market.

Saffron will continue to invest in ESG areas in future years, including in a new partnership delivering financial education for vulnerable young people in the Essex region.

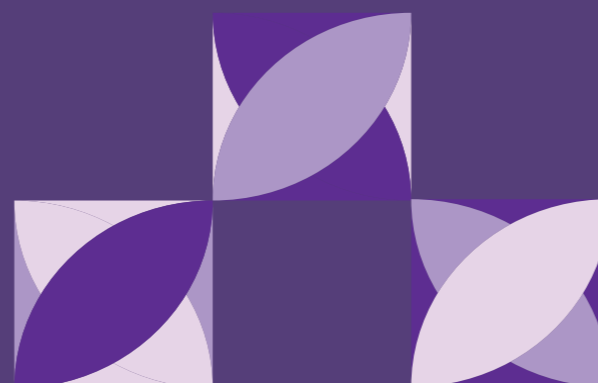




# Corporate Governance Report

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



# Corporate Governance Report

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.

The Board oversees Management's delivery of the strategy, providing support and effective challenge in the Society's journey.

During 2023, the Board welcomed Caroline Cartellieri as a Non-Executive Director. Caroline brings with her a wealth of experience and knowledge that are essential for the Society's future. Having over 25 years' experience in retail, she provides expertise in leveraging technology to optimise customer experience and deep expertise in digital transformation, marketing and business strategy.

The Society also appointed Maurice Mills to be its new Chief Financial Officer. Maurice brings valuable experience having previously served as the Society's Deputy Chief Financial Officer for almost three years following a career in practice.

You can read more about all of our Directors on pages 51 to 53.

During 2024, Jenny Ashmore will retire, having served on the Board for nine years. The Society offers great thanks to Jenny for her contributions over the years, helping to support and bring the Society through very challenging times.

The Board had a collaborative strategy away day in July, working through the Society's strategy, undertaking some team activities and working to align their vision of the Society for the future. The Board introduced 'Board lunches', which provided an opportunity for wider team Members of the Society to spend time with the Board. Non-Executives engaged with different areas of the business and spent time to getting to know individuals in the wider departments.

Barbara Anderson, who had been appointed the Society Chair in April 2023, resigned in February 2024. Geoff Dunn joins the Board as an interim Chair as the Society conducts its recruitment process to appoint a new permanent Chair.

In 2024, the Board will work to improve areas highlighted for improvement in the Board effectiveness review and spend time engaging with the Society's people and other stakeholders to allow the Board to take wider perspectives in its decision making.

The Board look forward to meeting more of the Society's Members during Members' Month in June 2024!

## Corporate Governance highlights 2023

- A review of the Board Committees to ensure that they continue to work effectively to support Society Governance.
- Reassessment of the Society's Strategic plan to ensure that it continues to support Members, both now and in the future.
- Appointment of Geoff Dunn, Caroline Cartellieri and Maurice Mills to the Board.



# 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.

The Chair ensures that Directors receive accurate, timely and clear information, which follows established Board Reports with information on the performance of a number of key areas of the

business, including operational matters, technology, people, risk and legal and governance. Information is provided through the Society Secretary who ensures that all Directors have access to resources and information pertinent to it. The Board has access to the Society Secretary for advice at any point.

The Board has four committees that support it in its work, which allow it to consider specific areas in more detail.

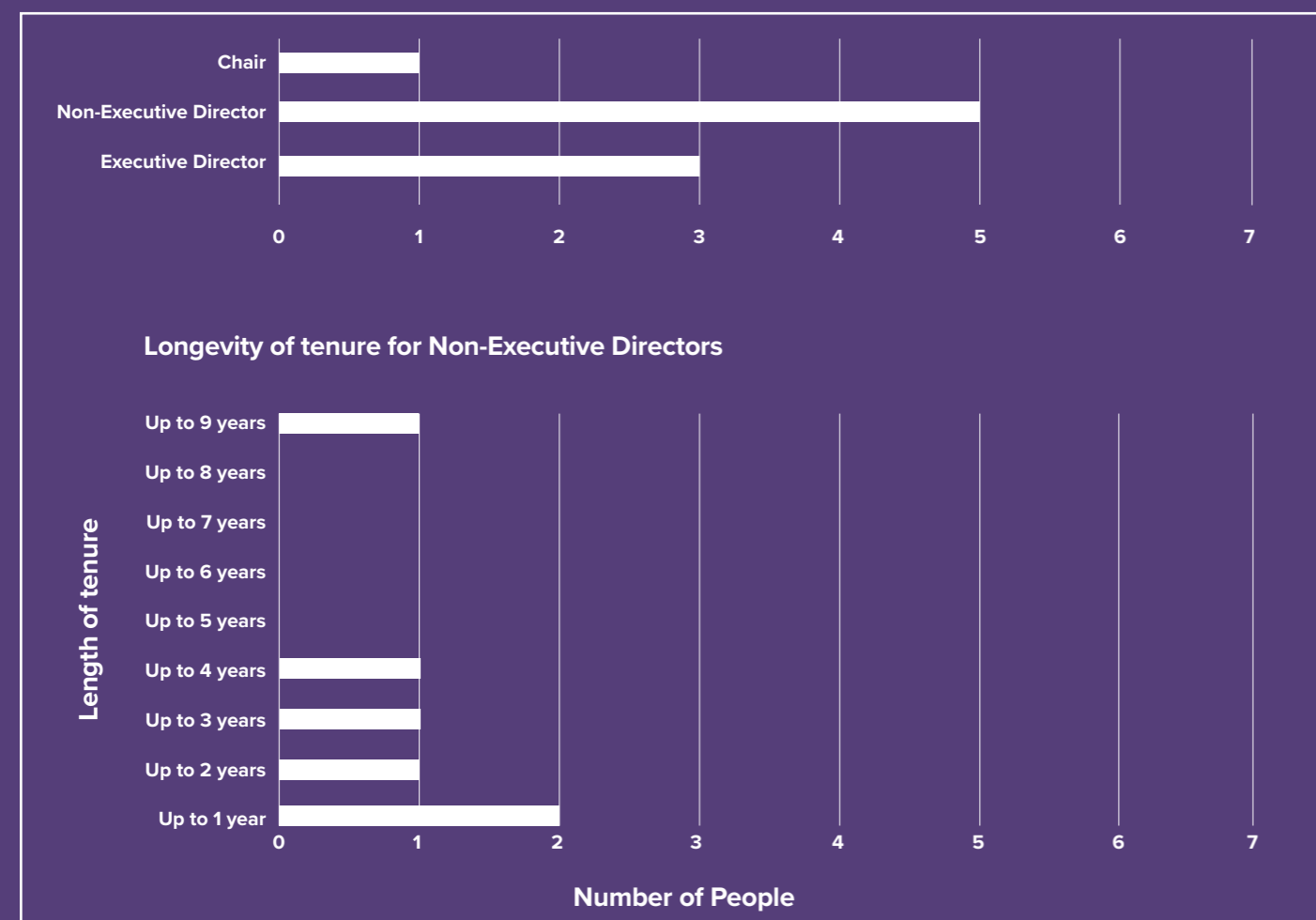
Set out below is the attendance, membership, tenure and Executive and Non-Executive split of the Board.

Members	Barbara Anderson*	David Rendell	Robin Litten	Jenny Ashmore	Jaz Saggu	Colin Field	John Penberthy-Smith	Maurice Mills**	Caroline Cartellieri**	Nick Treble***	Neil Holden***	Gary Barr***
Meetings Attended	8/8	8/8	8/8	8/8	8/8	8/8	8/8	4/4	2/3	1/2	2/2	2/2

\* Attended only in the capacity as a non-qualifying Director due to an administrative oversight. This had no impact on the decisions made by the Board.

\*\* Maurice joined the Board in July 2023, Caroline joined the Board in September 2023.

\*\*\* Nick, Neil and Gary all retired in April 2023



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.

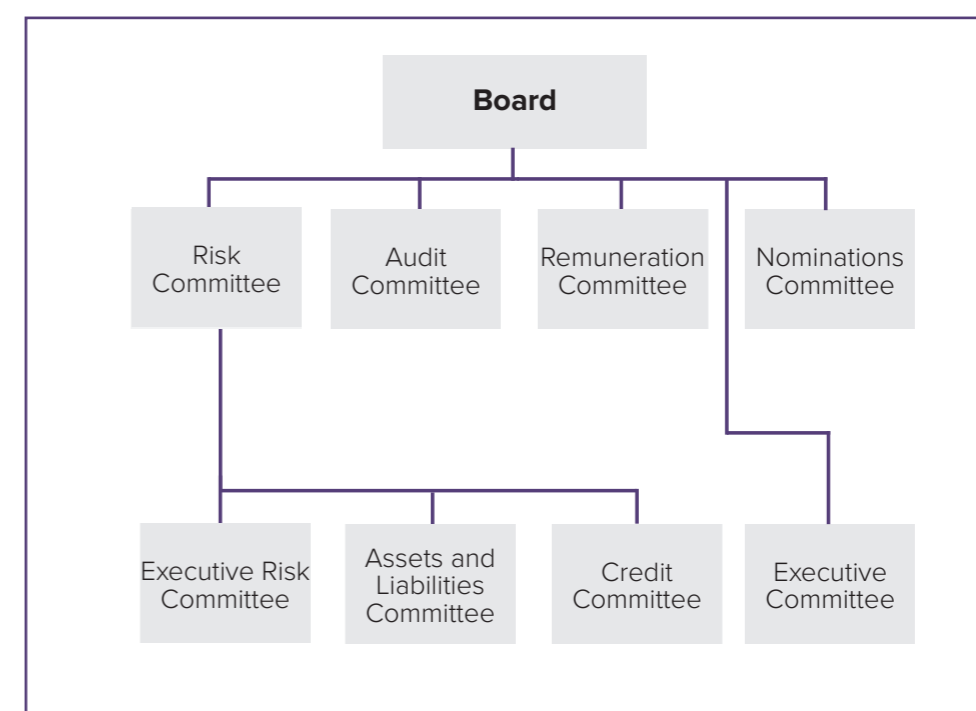
The Society Secretary maintains a detailed register

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, for approval by the Board.

The full Committee structure is included below.

## Board Committee Structure



## Workforce engagement

Jaz Saggu is 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, providing them with 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 2024, our Members will have the opportunity to attend a fully virtual AGM. Members can ask questions of our Board, with our Chief Executive Officer, Chief Financial Officer, Chair and Chair of the People and Remuneration Committee all on hand to answer them. 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 2024, 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.



Members of the Saffron Community Fund panel meet for lunch at the wonderful Cafe Cornell.

## Meet the Directors

As at the 31 December 2023, the Board comprises of five Non-Executive Directors and three Executive Directors. All of the Non-Executive Directors are considered to be independent under the code; the Chair was considered independent on appointment.

The Chair is responsible for leading the Board and ensuring it acts effectively. The Chair must be a different individual to the CEO and there must be a clear division of responsibilities between the two roles.

Jenny Ashmore stands down as the Senior Independent Director during 2024 following her support for the interim Chair.



### Geoffrey Dunn – Interim Chair

**Appointment:** February 2024

**Experience:** Geoffrey has more than 40 years' experience in financial services and IT services. Following an early career in investment banking he became Group Finance Director of the global financial broker, Exco International plc, which was followed by a move to Brussels, initially as Chief Financial Officer (CFO) of SWIFT and later as CFO of Global One, the global telecoms provider. He returned to the UK as Group FD of Xansa, the FTSE listed IT company before undertaking a number of major interim financial roles including: Finance Director of the Bank of England, Business Finance Director for Co-operative Financial Services and latterly Chief Financial Officer of Northern Rock plc during its reconstruction. Geoff was also a Non-Executive Director (and deputy Chairman) of Citadele Banka SC (the Latvian equivalent to NR). He was a Non-Executive Director & latterly Chairman of Saffron Building Society from 2011 to 2020.

**Committee Membership:** Board, Nominations Committee.

**External Appointments:** None.



### 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, as an Executive, Main Board and INED, at Aviva, Benfield, GE Money, HBOS, NPG Wealth Management, Prudential, WTW and with PE-backed firms. As an INED and Trustee with RiverStone Insurance Ltd, Network Homes Ltd, British Foreign Schools Society and Council Member of the British Heart Foundation, and previously held a visiting professorship in Digital Change Management.

**Committee Membership:** Board, Risk Committee and Remuneration Committee.

**External appointments:** Independent Chairman 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 and Member of Council at Cranfield University.



### Caroline Cartellieri – Non Executive Director

**Appointed:** September 2023.

**Experience:** Caroline is a seasoned C-level Executive with over 25 years' experience in retail, consumer goods and hospitality. Leveraging technology to optimise the customer experience, she brings deep expertise in digital transformation, marketing and business strategy. She holds a BSc (Econ) from the London School of Economics and an MBA from the Wharton School of Business.

**Committee Membership:** Board.

**External appointments:** Non-Executive Director at Europ Assistance; Trustee of Asthma + Lung UK; Non-Executive Director of the Museum of London Trading Board; Director of C-Squared Consulting Ltd.

# Meet the Directors continued



## David Rendell – Non-Executive Director

**Appointed:** April 2020.

**Experience:** David has 40 years' experience in financial services across both consumer and corporate lending in the UK and across Europe. His executive career includes both risk management and business leadership roles within Lloyd's Banking Group (1988-2000) and GE Capital (2000-2016) where latterly he was CRO of the European Leasing division, Managing Director of the Green Financing division and CRO and Management Board Member of GE's Dutch bank, Artesia.

**Committee Membership:** Board, Risk Committee (Chair), Remuneration Committee and Audit Committee.

**External appointments:** Director of Richmond Place Consulting Ltd



## 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 being promoted to Chief Executive Officer in September 2015.

**Committee Membership:** Board and Nominations Committee

**External appointments:** None.



## Robin Litten – Non-Executive Director

**Appointed:** January 2021.

**Experience:** Following his early career in consulting and retail Robin has 25 years' experience in senior financial service roles. He has held senior finance roles in Barclays Bank in its credit card and private banking businesses and has served in executive board positions at a number of building societies completing his executive career as CFO at Leeds Building Society.

**Committee Membership:** Board, Risk Committee and Audit Committee (Chair).

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



## John Penberthy-Smith – Chief Commercial Officer

**Appointed:** January 2022.

**Experience:** John is a customer centric commercial leader, with a track record of connecting businesses with their consumers. His executive career spans, retail, telecoms, public sector and financial services including senior roles at Dixons Stores Group, Vodafone, Three, Eircom and the Money Advice Service.

**Committee Membership:** Board.

**External appointments:** None.



## 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, Audit Committee, Remuneration Committee (Chair) and Nominations Committee.

**External appointments:** None.



## Maurice Mills – Chief Financial Officer

**Appointed:** July 2023.

**Experience:** Maurice has been with the Society for 6 years and heads up the finance and property departments. Maurice is a Certified Chartered Accountant (FCCA) and had an extensive career as a practice accountant and auditor pre his time at Saffron, working on various industries such as tech, financial services, retail and construction. He joined the Society in 2017 as the Financial Controller before being promoted to Deputy Chief Financial Officer in 2020 and Chief Financial Officer in January 2023.

**Committee Membership:** Board.

**External appointments:** None.



# Nominations Committee Report

Jenny Ashmore



Dear Member,

I am pleased to present the report of our work during 2023.

The Committee comprises of two independent Non-Executive Directors and the Chief Executive Officer. During 2023 the Committee met twice and the attendance is detailed below.

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

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



Members	Colin Field	Barbara Anderson**	Jenny Ashmore	Nick Treble*	Neil Holden*
<b>Meetings Attended</b>	2/2	2/2	2/2	1/1	1/1

\* Retired from the Committee in April 2023

\*\*Attended only in the capacity as a non-qualifying Director due to an administrative oversight. This had no impact on the decisions made by the Committee.

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

## The Committee

The committee is responsible for overseeing: succession Planning of senior roles;

- SMCR & 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, both visible and invisible. These can include experience, skill and thought in addition to the more visible characteristics such as gender and ethnicity.

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.

The Committee oversaw the appointment of one new Non-Executive, Caroline Cartellieri, who was appointed as a Non-Executive Director in September 2023.

The Committee also recommended the appointment of the Chief Financial Officer Role during 2023, with Maurice Mills being appointed into the role in January and to the Board in July 2023 following regulatory approval.

## Succession Planning

The Nominations Committee monitors Board succession 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 & Responsibility Map.

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

The Committee will continue to monitor applications under the Senior Manager & Certification Regime and reviews the Society's Responsibilities Map at least annually.

## Performance of Directors

The Chair leads the annual appraisal of the Non-Executive Directors, and the Senior Independent Director leads the appraisal of the Chair. These include gathering 360-degree feedback from all Board Members on the performance of their Colleagues and 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 results of the exercise inform the Nominations Committees 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 2024 the committee intends to continue its attention to key matters of Board succession and the future of the Board.

On behalf of the Nominations Committee

Jenny Ashmore  
7 March 2024



# Board Audit Committee

Robin Litten



Dear member,

As Chair of the Audit Committee, I am pleased to present the report of our work during 2023.

The Committee comprises of three 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 2023 the Committee met five times and the attendance is detailed below. Meetings are routinely attended by the Society's Chair, CEO, CFO, CRO, CCO and IT director, as well as representatives from the Society's internal and external auditors. Committee Members also meet in private 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](http://www.saffronbs.co.uk/about/corporate-information/board-and-its-committees) and are also subject to annual review.



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

\* The membership of the Committee changed in June 2023

\*\* Neil Holden retired in April 2023

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

### The Committee

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.

### Accounting policies

In considering the integrity of the Group's financial statements, the Committee has reviewed the groups accounting policies and significant financial judgements and satisfied itself that statements are fair, balanced and understandable.

### 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 a loan. The Society uses an EIR software tool to ensure accuracy of the EIR modelling. The significant judgement within the EIR methodology is the prepayment profile of the loan cohorts, and the Committee has provided challenge on the projected profiles compared to historical experience and likely outcomes to gain comfort over the assumptions within the tool, with many of the profiles being shortened in the period as customer behaviours supporting a general trend to shorter average loan lives.

### Valuation of Lifetime Mortgages and associated swaps

The Group has a portfolio of Lifetime Mortgages that are accounted for at fair value through profit or loss to prevent an accounting mismatch with the associated swap which is also accounted 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 page 28 with further detail included within Note 28 to the accounts on page 106. 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

Current economic conditions are characterised by higher interest rates persistently elevated levels of inflation and resultant cost-of-living pressures on household finances. Management have considered the need for additional provisioning against future arrears as a result of conditions which existed at the year end. The committee reviewed the assumptions and judgements made in calculating impairment provisions and consider them 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 the tax workings and that the Group were not taking advantage of aggressive tax mitigation schemes. The Committee was satisfied that the Group are acting appropriately when accounting for tax.

### Going Concern and Viability

The Committee reviewed the Going Concern basis of the preparation for the Annual Report and Accounts, meaning that the Committee are satisfied that the Society will remain trading for a period not less than 12 months from the date of signing these financial statements. The Committee also considers the viability of the Society over a three-year period. In assessing both the Going Concern basis of preparation and the wider viability of the Society, the Committee reviewed Management's assessment of the Society's Profitability, Liquidity, Capital and external factors. As part of the assessment, stress testing is also considered. The Committee were satisfied with the conclusions management had reached that the Society is a Going Concern and remains viable.

### Fair, balanced and understandable

The Committee considered whether the 2023 Annual Report & Accounts, taken as a whole, were fair, balanced and understandable. The Committee satisfied itself that there was a robust process of review and challenge at different levels within the Society, and that the reports portrayed both the successes and challenges and fairly represented the results and business performance of the Society. It further determined that the language was appropriate (it could be understood by a person with reasonable knowledge of the building society and financial services sector). The Audit Committee therefore deemed that the Annual Report and Accounts were fair, balanced and understandable.

### External audit

BDO acted as the Society's external auditor during 2023. The Committee is responsible for overseeing the relationship with the external auditor including approving its terms and remuneration.

Ariel Grosberg of BDO has been the Society's statutory auditor since 2019 and will be rotating off of the engagement as part of the firm's independence rules, a new BDO partner will be appointed for 2024. Auditors must resign or re-tender after 10 years, with a successful tender allowing a maximum of 20 years.

### Audit effectiveness

The Committee reviews the effectiveness of the external audit process on an annual basis taking into account feedback from all of the Committee Members and attendees as well as results of audit quality reviews conducted by the FRC on BDO.

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 2023, BDO did not carry out any non-audit services work.

The committee meets in private with the auditor without Management present at least once a year.

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

BDO's report can be found on pages 72 to 77.

### Internal audit

PwC continue to act as the Group's internal auditor.

The Committee approved the internal audit plan for 2023 having received input from Committee Members and Management, through its internal assessment of risks. The committee reviewed progress against the plan throughout the year and considered the conclusions of reports presented to it. As a result, the committee concluded that the Group's control environment is appropriate for its size and complexity and is operating effectively.

The committee meets in private with representatives from internal audit without Management present at least once a year.

### Whistleblowing

The Society has arrangements in place so that Colleagues can raise concerns in confidence or anonymously and that these are properly investigated. The Society reviewed and updated its whistleblowing policy during the year.

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 2023, no reports were filed to the Whistleblowing Champion, and no cases were open at the end of 2023.

The Society remains committed to continually evaluating its approach to whistleblowing and its effectiveness, and the Committee plays a key part in this as contributors to the Annual Report.

### 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 2024 the Committee intends to continue its attention to key matters of financial reporting and internal control in the context of the external economic and regulatory environment and the Society's strategic plans.

On behalf of the Audit Committee

Robin Litten  
7 March 2024



Colin Field and a Member during Members' Month at the Saffron Walden Branch Roadshow



# Board Risk Committee

David Rendell



Dear Member,

As Chair of the Risk Committee, I am pleased to present the report of our work during 2023.

The Committee comprises of three 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 2023 the Committee met six times and 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.

Its terms of reference are subject to annual review and available on the Society's website <https://www.saffronbs.co.uk/about/corporate-information/board-and-its-committees>



Members	David Rendell	Jaz Saggi	Robin Litten	Jenny Ashmore**	Nick Treble*	Neil Holden*
Meetings Attended	6/6	6/6	6/6	1/2	1/2	2/2

\*Neil Holden and Nick Treble retired in April 2023

\*\*The Members hip of the Committee was changed in June 2023

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

## The Committee

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;
- review and approval of Credit Risk in excess of Credit Committee approval;
- oversees the delivery of the annual integrated assurance plan comprising the internal audit, risk management and compliance plans.

## 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 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;
- establishing minimum standards around key risk management framework issues;
- articulating the Society's risk strategy, its Risk Management Framework 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 committees and of individual roles in place to govern risk and how oversight for these operates;
- documenting the main risk management processes under its approach of Identify; Evaluate; Mitigate; Report; Manage and Challenge; and
- 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 (1st line);
- those that oversee, monitor and challenge the first line (2nd line); and
- the audit functions which provide independent assurance (3rd line).

## Risk Governance

The oversight and direction of the Board is central to the Society's risk management framework. The Board exercises governance over risk through a series of Board committees and management structures. Each of the Board committees includes at least two Non-Executive Directors (one of which chairs), with management committee Members comprising from the Executive and appropriate Members of senior management. The Committees forming part of the risk management framework can be found on page 49.

## 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. The Risk Committee oversees that each department across the organisation takes ownership for the identification and management of risks specific to their areas, with the Board and Management Committees, together with the three lines of defence model ensuring a strong risk culture is embedded throughout the organisation, set by the “tone from the top”. As a mutual organisation, exemplary conduct is also expected from everyone in the organisation and conduct is taken into account when making decisions on remuneration across all levels of the organisation to ensure incentives do not drive poor customer outcomes or excessive risk taking.

### 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 Committee reviews and recommends the annual PRA prescribed Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) to identify and quantify the capital and liquidity risks it faces. Stress testing is undertaken as part of these processes with the combined output used to inform the Board’s risk appetite, policies, together with management actions and contingency plans.

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

### Recovery 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 Committee has the responsibility to approve at least annually the Society’s 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.

### Consumer Duty of Care

The Committee this year assumed oversight of the Society’s activity to ensure it fully complies with Consumer Duty of Care regulations. The first formal report will be recommended for approval by the Board in 2024.

### 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.

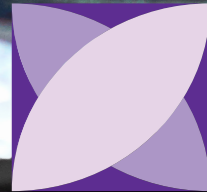
### Concluding remarks

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

In 2024, the Committee intends to continue its attention to key matters of Risk, Consumer Duty and ensuring the risk appetite aligns to the Society’s strategy moving forward.

On behalf of the Risk Committee

David Rendell  
7 March 2024





# Remuneration Committee Report

Jenny Ashmore



Dear Member,

As Chair of the Remuneration Committee, I am pleased to present the report of our work during 2023.

The Committee comprises of three 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 2023 the Committee met six times and attendance is detailed above. 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.

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



Members	Jenny Ashmore	Jaz Saggi	David Rendell	Robin Litten*	Neil Holden**	Gary Barr**	Nick Treble**
Meetings Attended	7/7	7/7	6/7	2/2	2/2	0/2	1/2

\* Members hip for the Committee was changed in June 2023.

\*\* Directors retired in April 2023.

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

## The Committee

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 all staff bonus and Executive team; and
- reviewing Women in Finance metrics, and benchmarking and progress against action plans.

## 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, skill, knowledge and competence 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 2021 using external advice and used factual role-specific data to assess objectively where the Society is in relation to the market. The tool continues to be used to ensure fairness across different roles and responsibilities in the Society.

## Decisions in 2023:

### Salary:

In July 2023 a 5% salary increase was awarded to all Colleagues to account for the impact of inflation on take-home pay, with some further increases in roles/ areas where the external benchmarking showed that the market had become significantly more competitive. This ensured that the Society was benchmarking competitively within the financial services market and wider sectors for similar roles.

The Society exceeds the statutory National Minimum Wage and meets the voluntary Real Living Wage requirements. The Real Living Wage has risen to £12.00 per hour and accredited employers have until May 1st 2024 to ensure all employees are paid this rate. The Society is already above this figure but intends to maintain Real Living Wage accreditation and will looking to increase the salaries of our lower earners further beyond the Real Living Wage to support the recruitment and retention needs of the organisation.

### All staff bonus 2023

2023 was another strong year for the Society, following on from the record year set in 2022, with continued strong retained earnings delivered due to a well-managed growth of the mortgage book.

In recognition of another strong set of results, the Society is intending to pay a strong bonus to Colleagues in March 2024.

This bonus will comprise two components, an 'Our Contribution' award of £1,250 paid at a flat rate to all Colleagues (pro-rated) and a 'My Contribution' award which is a percentage of base salary reflecting individual performance, with a range of 0% to 17%.

## Report on Directors Remuneration

### Executive Directors

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 other Colleagues, the Executive Directors received a salary increase of 5%. Our Executive Directors have a separate bonus scheme to all other Colleagues. Considering the successful performance year, the Committee agreed that the bonus award for 2023 should be at the upper-half of the approved range to reflect the level of delivery from the Executive Directors and was awarded within a range of 16% to 22% of salary. In line with the Policy, this is paid

out in three parts: 60% of the amount in March 2024 and the remaining 40% deferred across the next 3 years.

There were no other changes to the variable pay or pension contributions for current Executive Directors in 2023.

#### Non-Executive Directors

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 an organisation such as the Society and which

reflect the skills and time commitment required, the Committee periodically commissions a review of Non-Executive remuneration.

In 2023 there was an increase to Non-Executive Directors' fees of 5%, the Chair also received a 5% increase, the same as that awarded to staff, reflecting the wider economic environment. There are no bonus schemes or other benefits for Non-Executive Directors and they are not entitled to any pension from the Group. The recommendation around fees is made by the CEO and Chair, and for the Chair, fees are discussed and approved by the Remuneration Committee.

Full details of individuals Director's remuneration are disclosed below.

	2023 (£)				2022 (£)					
	Bonus earned in Salary relation to financial year	Other benefits	Pension	Total	Salary	Bonus earned in financial year	Other benefits	Pension	Total	
<b>Executive</b>										
C H Field	£225,500	£41,580	£22,550	£30,443	<b>£320,073</b>	£210,000	£61,600	£21,000	£34,350	<b>£326,950</b>
J Penberthy-Smith	£175,480	£39,547	£18,227	£12,857	<b>£246,111</b>	£165,000	£47,936	£16,560	£12,134	<b>£241,630</b>
T Slater - Resigned 03/01/2023	-	-	-	-	-	£170,775	£42,372	£17,078	£12,513	<b>£242,738</b>
M L Mills** - appointed 11/07/2023	£78,750	£25,200	£7,875	£10,631	<b>£122,456</b>	-	-	-	-	-
<b>Total</b>	<b>£479,730</b>	<b>£106,327</b>	<b>£48,652</b>	<b>£53,931</b>	<b>£688,640</b>	<b>£545,775</b>	<b>£151,908</b>	<b>£54,638</b>	<b>£58,997</b>	<b>£811,318</b>
<b>Non-Executive</b>										
T G Barr	£13,626	£0	£0	£0	£13,626	£44,505	£0	£0	£0	£44,505
N J Treble	£16,795	£0	£0	£0	£16,795	£54,855	£0	£0	£0	£54,855
N J Holden	£13,626	£0	£0	£0	£13,626	£44,505	£0	£0	£0	£44,505
J A Ashmore	£47,160	£0	£0	£0	£47,160	£44,505	£0	£0	£0	£44,505
D Rendell	£47,160	£0	£0	£0	£47,160	£44,505	£0	£0	£0	£44,505
R Litten	£47,160	£0	£0	£0	£47,160	£44,505	£0	£0	£0	£44,505
J Saggu - appointed 01/09/2022	£36,193	£0	£0	£0	£36,193	£11,770	£0	£0	£0	£11,770
B Anderson* - appointed 01/10/2022	£61,418	£0	£0	£0	£61,418	£14,980	£0	£0	£0	£14,980
C Cartellieri - appointed 01/09/2023	£12,359	£0	£0	£0	£12,359	-	-	-	-	-
<b>Total</b>	<b>£295,497</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£295,497</b>	<b>£304,130</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£304,130</b>
<b>Grand Total:</b>	<b>£775,227</b>	<b>£106,327</b>	<b>£48,652</b>	<b>£53,931</b>	<b>£984,137</b>	<b>£849,905</b>	<b>£151,908</b>	<b>£54,638</b>	<b>£58,997</b>	<b>£1,115,448</b>

\* B Anderson did not meet the Society's director qualification requirements due to an administrative oversight. Her remuneration is included for completeness.

\*\* M Mills salary within the table covers earnings since appointment to the Board.

#### 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 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 included on page 39.

#### Concluding remarks

The Committee conducted its annual review of effectiveness incorporating feedback from Members and attendees. The review concluded that it had met its terms of reference with opportunities to improve how it operates and there were areas to enhance its oversight and the role it plays in the Society.

In 2024 the Committee intends to continue its attention on key matters of Remuneration as well as broaden the scope of the Committee to consider and review the Society's People Strategy. It will also formally change its name to the Remuneration and People Committee.

On behalf of the Remuneration Committee

Jenny Ashmore  
7 March 2024



Colleagues celebrating International Week of Happiness with a 'bring your dog to work' day.

# 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 Chair's Statement, Chief Executive's Report and Strategic Report on pages 6 to 43.

## 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 22)
Business review and future developments	Strategic Report (page 25)
Principal risks and uncertainties	Strategic Report (pages 32 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 2023 was £7.7million (2022 restated: £18.7million).

The Group profit after tax transferred to general reserves was £5.9million (2022 restated: £15.6million).

## Capital

Group gross capital at 31 December 2023 was £86.1 million (2022 restated: £81.6million) being 6.5% of total shares and borrowings (2022 restated: 6.8%). Free capital at the same date was £80.0 million (2022 restated: £74.8 million) and 6.0% of total shares and borrowings (2022 restated: 6.3%).

## Mortgage arrears

At Group level at 31 December 2023 there were 13 properties (2022: 15) where payments were 12 months or more in arrears. At 31 December 2023, the Group held 10 properties (2022:2) 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 £78,055 (2022: £60,313) in support of charities and organisations. No contributions were made for political purposes (2022: 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 to prevent and detect 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 three years ago and is largely unchanged in its focus on capital strength and sustainable growth into niche segments in order to maintain relevance. 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 has strengthened both the capital position and the relevance of the Society. The Board considered the strategy in detail during July 2023 and the financials were further refined in December 2023, taking account of the latest economic expectations. Although a five-year view was considered by the Board, the viability is formally assessed over a three-year period, with the longer-term view being more uncertain due to the wide range of possible economic outcomes facing the UK.

## Viability assessment

The Society has modelled a number of scenarios as part of the latest ICAAP including the Bank of England's latest 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 significant strain on arrears and house prices dropping significantly, alongside considerable equity release unwinds of fair value.

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 three 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 2023 was achieved as a result of mortgage book growth in niche seams of lending which return more premium yield. This performance includes a charge of £3.3m of fair value movements on the derivative portfolio, however underlying profit (which excludes these charges), has returned pre-tax profits in 2023 of £11.1m 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 and have contributed to the strong returns in the period.

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 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 up to a more appropriate level throughout the second half of 2023 as the Society sought to fund the increased mortgage activity in the period and to provide sufficient funding for the year end mortgage pipeline alongside the first tranche of planned TFSME repayment. Liquidity is planned to be grown further throughout 2024 to fund future mortgage book growth and TFSME repayments. Liquidity levels are forecast to remain comfortably within the Director's 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 remained a particular area of focus for the Society into 2023, with more information key 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 further strengthened in 2023 and is planned to be maintained above regulatory minimum over the viability assessment period and in the event that economic conditions deteriorate rapidly, the stress testing demonstrates the resilience of the Society to a variety of severe shocks.
- Liquidity levels are currently high and the strategic plan incorporates liquidity holding costs to ensure a continuation of readily available resources. Stress testing, regular monitoring and access to central bank support provide reassurance that obligations can be maintained even under extremely adverse circumstances.
- The IT and general operational capability of the Group is resilient and although it is impossible to foresee and model all conceivable situations, the Directors are confident in the Group's ability to continue to service Members under a variety of adverse circumstances.

The Directors therefore have an expectation that the Group is viable over the period to December 2026 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

Our people are our biggest asset and crucial to us supporting Members and creating money happiness. As such, colleague engagement always remains high on the Board agenda.

To support this, the Society has a number of communication channels with Colleagues to ensure we are gathering feedback. The Society hosts digital town halls on a weekly 'All Society Call' with Management providing a direct update on business strategy, performance and broader updates from guest speakers on key topics. This forum is also used to deliver aspects of our Wellbeing Strategy with a range of key topics covered throughout the year to support awareness and education on important topics such as Mental Health.

The Society measures colleague engagement through regular engagement surveys. Our participation rate and engagement scores continue to be above our industry benchmark which is very pleasing. These scores and underlying comments and data are monitored regularly to ensure timely action can be taken to address any issues raised.

There are two other key channels available to Colleagues. The Society has appointed a designated Non-Executive Director for Colleague Engagement in Jaz Saggi. The purpose of this role is to ensure colleague views and sentiment is represented in the Boardroom. Jaz achieves this by attending colleague events and

being accessible to all Colleagues. Jaz has recently been a guest speaker on an All Society Call to promote his role and help Colleagues feel comfortable to approach him.

To support the broader Board's connection with Colleagues, a cross section of Colleagues are also invited to attend the lunchtime session of Board meetings providing the opportunity for Board Members and Colleagues to meet informally, build relationships and share views.

The other channel is our Whistleblowing process. The Society has recently appointed a new Whistleblowing Champion to take over from Jenny Ashmore who is retiring.

In addition to communication and engagement channels, the Society ensures it has appropriate People Policies in place to support Colleagues.

The Society cannot deliver its strategic goals without Colleagues with the right skills and abilities. The Society remains committed to ensuring Colleagues have the opportunity to develop and this is a key feature of our Employee Value Proposition.

During the last year, Saffron has supported a number of Colleagues to undertake professional training as well as investing in a bespoke Team Leader Training Programme for our Retail Management.

The Society will continue to invest in Colleagues to ensure they have the right skills for our future needs and in 2024, the Society is rolling out a new Learning Management System which will greatly enhance Colleagues access to learning interventions enabling them to take greater ownership of their own development.

The Directors would like to reiterate their thanks and appreciation of Colleagues and their continued hard work, dedication and support to Members over the last 12 months.

#### 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)  
M L Mills (Chief Financial Officer) (Appointed 11/07/2023)  
J Penberthy-Smith (Chief Commercial Officer)

#### Non-Executive Directors

B Anderson\*\* (Chair) (Resigned 08/02/2024)  
N J Treble (Chair) (Resigned 18/04/2023)  
J Ashmore\* (Senior Independent Director)  
T G Barr (Resigned 18/04/2023)  
N J Holden (Resigned 18/04/2023)  
D R Rendell  
R S P Litten  
J S Saggi  
C Cartellieri (Appointed 01/09/2023)

\*married name Zaremba

\*\*acting only in the capacity as a non-qualifying Director due to an administrative oversight.

All non-retiring Directors will stand for election or re-election. Biographies of the Directors appear at pages 51 to 53. 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.

Maurice Mills  
Chief Financial Officer  
On behalf of the Board 7 March 2024

# 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 and of the Society's affairs as at 31 December 2023 and of the 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 2023 which comprise the Group and Society Income Statement, the Group and Society Statement of Comprehensive Income, the Group and Society Statement of Financial Position, the Group and Society Statement of Changes in Members' Interests, the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

## Independence

Following the recommendation of the Audit committee, we were appointed by the Board of Directors on 19 June 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods.

## Overview

		2023	2022
<b>Coverage</b>	100% (2022: 100%) of Group profit before tax 100% (2022: 100%) of Group revenue 100% (2022: 100%) of Group total assets		
<b>Key audit matters</b>	Revenue Recognition (effective Interest Rate adjustment)	✓	✓
	Impairment losses on loans and advances	✓	✓
	Valuation of lifetime mortgages	✓	✓
<b>Materiality</b>	Group financial statements as a whole £781k (2022: £710k) based on 1% (2022: 1%) of Net assets (2022: Net assets)		

The period of total uninterrupted engagement including retenders and reappointments is 5 years, covering the years ended 31 December 2019 to 31 December 2023. We remain independent of the Group and Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Society.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the ability the Group and Society 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; and
- 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 ability the Group and Society 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.

## 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 rise to a 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.

## Climate change

Our work on the assessment of potential impacts on climate-related risks on the Group's operations and financial statements included:

- Enquiries and challenge of management to understand the actions they have taken to identify climate-related risks and their potential impacts on the financial statements and adequately disclose climate-related risks within the Annual report and Accounts;
- Our own qualitative risk assessment taking into consideration the sector in which the Group operates and how climate change affects this particular sector; and
- Review of the minutes of Board and Audit Committee meeting and other papers related to climate change and performed a risk assessment as to how the impact of the Group's commitment as set out in the Strategic report may affect the financial statements and our audit.

We also assessed the consistency of managements disclosures included as 'Other Information' on pages 37-43 with the financial statements and with our knowledge obtained from the audit.

Based on our risk assessment procedures, we did not identify there to be any Key Audit Matters materially impacted by climate-related risks.

## 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

### Revenue recognition-Effective Interest Rate adjustment

The Group's accounting policies are detailed on page 85 with detail about judgements in applying accounting policies and critical accounting estimates on page 89.

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 £3.6m (2022: £2.4m) 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 £1.3m (2022: £1.2m).

The Group uses an effective interest rate ("EIR") software tool to ensure the accuracy of the EIR modelling. The Group's mortgage interest income is recognised on an 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 rely on the completeness and accuracy of input data. The key assumptions in the EIR 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 the 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 high levels of management judgment and complexity that it involves.

For these reasons revenue recognition was considered to be a key audit matter.

## How the scope of our audit addressed the key audit matter

We assessed whether the revenue recognition policies adopted by the Group accord with the requirements of the applicable accounting standards. This included assessing the types of fees being spread within the EIR models.

We evaluated the accuracy of the third party modelling 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 complied with the requirements of the applicable accounting standards.

We tested the completeness and accuracy of data and key inputs feeding into the EIR models, by agreeing samples back to the source documents. This included the data used in the historical behavioural life redemption profiles. The arithmetical accuracy and logic in the model were 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, and product type.

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:

We have not identified any indicators that the assumptions included in the EIR models are unreasonable in consideration of the Society's mortgage portfolio, historic behaviours and current economic and market conditions.

**Key Audit Matter**

**How the scope of our audit addressed the key audit matter**

<p><b>Impairment losses on loans and advances (excluding lifetime mortgages)</b></p> <p>The Group's accounting policies are detailed on page 85 with detail about judgements in applying accounting policies and critical accounting estimates on page 89.</p> <p>Refer to note 12 for Impairment losses on loans and advances.</p>	<p>The Group holds £1.5m of impairment provisions at year-end (2022: £0.8m). This comprises a specific provision of £0.3m (2022: £0.3m) and a collective provision of £1.2m (2022: £0.5m).</p> <p>The Group accounts for the impairment of loans and advances to customers (excluding lifetime mortgages) using an incurred loss model.</p> <p>In accordance with the recognition and measurement criteria of applicable accounting standards, management has calculated two types of provision.</p> <p>(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.</p> <p>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.</p> <p>The specific provision is sensitive to key judgements and assumptions in respect to the underlying value of collateral held.</p> <p>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.</p> <p>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.</p> <p>For these reasons the impairment losses on loans and advances (excluding lifetime mortgages) was considered to be a key audit matter.</p>	<p>We assessed the specific and collective provision methodology against the requirements of applicable accounting standards.</p> <p>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.</p> <p>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.</p> <p>Our testing on specific provisions included selecting a sample of loans and confirming whether the external collateral valuation was consistent with 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.</p> <p>For the collective provision we tested the appropriateness of the key assumptions within this model, such as impairment triggers, indexed property valuations, and the probability of defaults. We did this through a combination of making independent recalculations and agreeing inputs to external data sources where applicable. We assessed the appropriateness of the discount applied in relation to 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 the provision.</p> <p>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 had been adequately taken into consideration.</p> <p>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.</p> <p><b>Key observations:</b> We have not identified any indicators to suggest that the provision for loans and advances to customers is unreasonably estimated in consideration of the key assumptions and judgements made or that the related disclosures are not appropriate.</p>
<p><b>Valuation of lifetime mortgages</b></p> <p>The Group's accounting policies are detailed on page 85 with detail about judgements in applying accounting policies and critical accounting estimates on page 89.</p> <p>Refer to note 11 for the fair value of the lifetime mortgages portfolio.</p>	<p>The Group holds a portfolio of lifetime mortgages at a fair value of £39.0m (2022: £38.0m). Management has elected to account for the lifetime mortgage portfolio at fair value through profit or loss, in order to prevent a potential accounting measurement mismatch. This would exist if the mortgage portfolio were accounted for at Valuation of lifetime mortgages is therefore also a fraud risk area due to the material judgments and complexity.</p> <p>For these reasons, the valuation of the lifetime mortgages was considered to be a key audit matter. amortised cost but the associated swap were accounted for at fair value. This would create potential income statement volatility.</p> <p>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").</p> <p>The valuation involves 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.</p>	<p>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.</p> <p>With the assistance of our internal valuation experts, we reviewed and assessed the appropriateness of the Group's mortgage pool and NNEG valuation model.</p> <p>With the assistance of our internal valuation experts:</p> <ul style="list-style-type: none"> <li>we assessed the appropriateness of the discount rates, HPI growth rate, HPI volatility expectations, and other assumptions used in the Groups valuation;</li> <li>we 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; and</li> <li>we compared HPI growth rate and HPI volatility assumptions to our independent estimate derived from observable market data</li> </ul> <p>We compared the mortality rates with the Group's external actuary's actuarial tables, and we assessed the competence, objectivity and independence of the Group's actuary.</p>

**Key Audit Matter**

**How the scope of our audit addressed the key audit matter**

<p><b>Valuation of lifetime mortgages</b></p> <p>The Group's accounting policies are detailed on page 86 with detail about judgements in applying accounting policies and critical accounting estimates on page 89.</p> <p>Refer to note 11 for the fair value of the lifetime mortgages portfolio.</p>	<p>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.</p> <p>Valuation of lifetime mortgages is therefore also a fraud risk area due to the extent of both material judgments and complexity.</p> <p>For these reasons, the valuation of the lifetime mortgages was considered to be a key audit matter.</p>	<p>We recalculated the prepayments rate applied to the model by:</p> <ul style="list-style-type: none"> <li>independently reperforming the calculations;</li> <li>verifying a sample of prepayments made to underlying source data; and</li> <li>with the support of our internal valuations experts, running sensitivity analysis of the prepayments applied in the model on the Groups valuation.</li> </ul> <p>For key model data, we tested the completeness and accuracy of the inputs by agreeing a sample back to underlying source data.</p> <p>We engaged our internal valuation experts to re-perform the valuation of the interest rate swaps that the Group has entered into for the lifetime mortgage portfolio.</p> <p><b>Key observations:</b> Based on our audit work performed, we consider the key assumptions and judgements made in the valuation of the lifetime mortgages to be appropriate.</p>
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**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:

	2023 £000 Group	2022 £000 Group	2023 £000 Society	2022 £000 Society
<b>Materiality</b>	781	710	678	527
<b>Basis for determining materiality</b>	1% of Net Assets	1% of Net Assets	1% of Net Assets	Significant component allocated materiality. This equates to 0.93% of net assets
<b>Rationale for the benchmark applied</b>	<p>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.</p> <p>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.</p> <p>The total materiality for all significant components was set at 1.5 times the Group materiality.</p> <p>Materiality for the Society was set at £527k as this is the most significant operating entity within the Group.</p>			
<b>Performance materiality</b>	586	532	509	395
<b>Basis for determining performance materiality</b>	75% of materiality	75% of materiality	75% of materiality	75% of materiality
<b>Rationale for the percentage applied for performance materiality</b>	<p>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% (2022: 75%) of materiality.</p>			

## Component materiality

We allocated materiality for the significant component of the Group, apart from the Society 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 £397K (2022: £269K). 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 £30k (2022: £14k). 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.

<p><b>Annual business statement and Directors' report</b></p>	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> <li>The annual business statement and the Directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986;</li> <li>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</li> <li>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.</li> </ul> <p>In the light of the knowledge and understanding of the Group and the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' report.</p>
<p><b>Matters on which we are required to report by exception</b></p>	<p>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:</p> <ul style="list-style-type: none"> <li>adequate accounting records have not been kept by the Society; or</li> <li>the Society financial statements are not in agreement with the accounting records; or</li> <li>we have not received all the information and explanations we require for our audit.</li> </ul>

## Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given on page 114 for the financial year ended 31 December 2023 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

## Responsibilities of Directors

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

In preparing the financial statements, the Directors are responsible for assessing the Group's and Society's ability to continue as a

going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or 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:

### Non-compliance with laws and regulations

Based on:

- Our understanding of the Group and Society and the industry in which it operates;
- Discussion with management and those charged with governance; and
- Obtaining and understanding of the Group's and Society's policies and procedures regarding compliance with laws and regulations.

We considered the significant laws and regulations to be the Building Societies Act 1986, pension legislation, tax legislation.

The Group and Society is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be requirements of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of legal correspondence and correspondence with regulatory authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation.

### Irregularities including fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management, internal audit, and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's and Society's policies and procedures relating to:
  - Detecting and responding to the risks of fraud;

and

- Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements; and
- Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

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 respect of the above included:

- 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;
- 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
- Assessing significant estimates made by management for bias (refer to the key audit matters section for procedures performed).

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team Members, who were deemed to have the appropriate competence and capabilities, 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/](http://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.

Ariel Grosberg (Senior Statutory Auditor)  
For and on behalf of BDO LLP, Statutory Auditor  
London, UK  
11 March 2024

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



# The Accounts 2023



# The Accounts

Income Statement for the year ended 31 December 2023	Notes	Restated			
		2023 (£000)		2022 (£000)	
		Group	Society	Group	Society
Interest receivable and similar income	2	74,578	73,974	41,428	40,713
Interest payable and similar charges	3	(41,681)	(41,681)	(11,070)	(11,070)
<b>Net interest income</b>		<b>32,897</b>	<b>32,293</b>	<b>30,358</b>	<b>29,643</b>
Fees and commissions receivable		394	439	448	494
Fees and commissions payable		(628)	(609)	(608)	(586)
Other operating income		285	285	79	79
Net fair value movements	4	(3,329)	(2,795)	6,751	2,934
<b>Total net income</b>		<b>29,619</b>	<b>29,613</b>	<b>37,028</b>	<b>32,564</b>
Administrative expenses	5	(19,040)	(18,924)	(15,826)	(15,833)
Depreciation and amortisation	14,16	(1,465)	(1,465)	(2,197)	(2,197)
Other operating charges		(211)	(211)	(304)	(304)
(Loss)/profit on disposal of property, plant and equipment and investment properties		(404)	(404)	226	226
<b>Operating profit before impairment gains and provisions</b>		<b>8,499</b>	<b>8,609</b>	<b>18,927</b>	<b>14,456</b>
Impairment losses on loans and advances	12	(750)	(750)	(249)	(250)
<b>Operating profit and profit before tax</b>		<b>7,749</b>	<b>7,859</b>	<b>18,678</b>	<b>14,206</b>
Tax	8	(1,898)	(1,898)	(3,070)	(2,222)
<b>Profit for the financial year</b>		<b>5,851</b>	<b>5,961</b>	<b>15,608</b>	<b>11,984</b>

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 2023	Notes	Restated			
		2023 (£000)		2022 (£000)	
		Group	Society	Group	Society
Profit for the financial year		5,851	5,961	15,608	11,984
Available for sale reserve					
-Valuation gains / (losses) taken to reserves	23	548	548	(421)	(421)
Net actuarial (loss)/gain recognised in the defined benefit pension scheme	27	(646)	(646)	246	246
Unrealised gain on revaluation of property plant and equipment.		554	554	-	-
Tax relating to components of other comprehensive income		(25)	(25)	(167)	(167)
<b>Total comprehensive income for the year</b>		<b>6,282</b>	<b>6,392</b>	<b>15,266</b>	<b>11,642</b>

## Group Statement of Financial Position at year ended 31 December 2023

	Notes	Restated	
		2023 (£000)	2022 (£000)
		Group	Group
<b>Assets</b>			
Liquid assets			
Cash in hand and balances with the Bank of England		154,542	103,738
Loans and advances to credit institutions	9	18,171	22,710
Debt securities	9	63,298	75,832
Treasury bills	9	41,821	10,014
<b>Total liquid assets</b>		<b>277,832</b>	<b>212,294</b>
Derivative financial instruments	10	20,696	36,582
Loans and advances to customers	11	1,131,298	1,028,579
Investment properties	15	2,230	2,010
Property, plant and equipment	14	4,315	3,465
Intangible assets	16	798	1,858
Prepayments and accrued income	17	2,065	2,194
Current tax asset	17	851	-
Deferred tax asset	17,22	645	426
Pension asset	27	-	83
<b>Total assets</b>		<b>1,440,730</b>	<b>1,287,491</b>
<b>Liabilities</b>			
Shares	18	1,034,139	880,281
Amounts owed to credit institutions	19	205,796	249,559
Amounts owed to other customers		94,755	62,676
Derivative financial instruments	10	14,362	10,034
Other liabilities	20	808	1,057
Accruals and deferred income	20	2,082	2,183
Provision for liabilities	26	144	144
Deferred tax liability	22	-	-
Pension liability	27	641	-
Subordinated liabilities	21	9,848	9,682
<b>Total liabilities</b>		<b>1,362,575</b>	<b>1,215,616</b>
<b>Reserves</b>			
General reserves		77,254	71,939
Available for sale reserve	23	(35)	(446)
Revaluation reserve	24	936	382
<b>Total reserves and liabilities</b>		<b>1,440,730</b>	<b>1,287,491</b>

These accounts were approved by the Board of Directors on 7 March 2024 and were signed on its behalf by:

**C H Field**  
(Chief Executive Officer)

**M L Mills**  
(Chief Financial Officer)

**R S P Litten**  
(Director)

**Society**  
**Statement of Financial Position**  
at year ended 31 December 2023

	Notes	Restated	
		2023 (£000)	2022 (£000)
		Society	Society
<b>Assets</b>			
Liquid assets			
-Cash in hand and balances with the Bank of England		154,542	103,738
-Loans and advances to credit institutions	9	18,171	22,641
-Debt securities	9	63,298	75,832
Treasury bills	9	41,821	10,014
<b>Total liquid assets</b>		<b>277,832</b>	<b>212,225</b>
Derivative financial instruments	10	20,696	36,582
Loans and advances to customers	11	1,104,825	1,001,651
Investments in subsidiary undertakings	13	23,379	22,937
Investment properties	15	2,230	2,010
Property, plant and equipment	14	4,315	3,465
Intangible assets	16	798	1,858
Prepayments and accrued income	17	2,065	2,194
Current tax asset	17	844	585
Deferred tax asset	17,22	645	426
Pension asset	27	-	83
<b>Total assets</b>		<b>1,437,629</b>	<b>1,284,016</b>
<b>Liabilities</b>			
Shares	18	1,034,139	880,281
Amounts owed to credit institutions	19	205,796	249,559
Amounts owed to other customers		94,755	62,676
Derivative financial instruments	10	14,362	10,034
Other liabilities	20	808	794
Accruals and deferred income	20	2,061	2,161
Provision for liabilities	26	144	144
Deferred tax liability	22	-	-
Pension liability	27	641	-
Subordinated liabilities	21	9,848	9,682
<b>Total liabilities</b>		<b>1,362,554</b>	<b>1,215,331</b>
<b>Reserves</b>			
General reserves		74,174	68,749
Available for sale reserve	23	(35)	(446)
Revaluation reserve	24	936	382
<b>Total reserves and liabilities</b>		<b>1,437,629</b>	<b>1,284,016</b>

These accounts were approved by the Board of Directors on 7 March 2024 and were signed on its behalf by:

**C H Field**  
(Chief Executive Officer)

**M L Mills**  
(Chief Financial Officer)

**R S P Litten**  
(Director)

**Statement of changes in  
Members' interests  
Group 2023**

	(£000)			Total
	General reserve	Available for sale reserve	Revaluation reserve	
Balance as at 1 January 2023	71,147	(446)	382	71,083
Net effect of prior year adjustment	790	-	-	790
Restated Balance as at 1 January 2023	71,937	(446)	382	71,873
- Profit for the financial year	5,851	-	-	5,851
- Other comprehensive (charge)/income for the year	(534)	411	554	431
Total comprehensive income/(charge) for the year	5,317	411	554	6,282
<b>Balance as at 31 December 2023</b>	<b>77,254</b>	<b>(35)</b>	<b>936</b>	<b>78,155</b>

**Group 2022**

Balance as at 1 January 2022	56,484	(129)	382	56,737
Net effect of prior year adjustment	(128)	-	-	(128)
Restated Balance as at 1 January 2022	56,356	(129)	382	56,609
- Profit for the financial year (Restated)	15,608	-	-	15,608
- Other comprehensive (charge) for the year	(25)	(317)	-	(342)
Total comprehensive income/(charge) for the year	15,583	(317)	-	15,266
<b>Restated balance as at 31 December 2022</b>	<b>71,939</b>	<b>(446)</b>	<b>382</b>	<b>71,875</b>

**Society 2023**

Balance as at 1 January 2023	67,957	(446)	382	67,893
Net effect of prior year adjustment	790	-	-	790
Restated Balance as at 1 January 2023	68,747	(446)	382	68,683
- Profit for the financial year	5,961	-	-	5,961
- Other comprehensive (charge)/income for the year	(534)	411	554	431
Total comprehensive income for the year	5,427	411	554	6,392
<b>Balance as at 31 December 2023</b>	<b>74,174</b>	<b>(35)</b>	<b>936</b>	<b>75,075</b>

**Society 2022**

Balance as at 1 January 2022	56,920	(129)	382	57,173
Net effect of prior year adjustment	(128)	-	-	(128)
Restated Balance as at 1 January 2022	56,792	(129)	382	57,045
- Profit for the financial year (Restated)	11,984	-	-	11,984
- Other comprehensive (charge)/income for the year	(27)	(317)	-	(344)
Total comprehensive income for the year	11,957	(317)	-	11,640
<b>Restated balance as at 31 December 2022</b>	<b>68,749</b>	<b>(446)</b>	<b>382</b>	<b>68,685</b>

**Group cash flow statements**  
for the year ended 31 December 2023

	Notes	Restated	
		2023 (£000)	2022 (£000)
		Group	Group
<b>Cash flows from operating activities</b>			
Profit before tax		7,749	18,678
Interest on subordinated liabilities	21	732	661
Losses on disposal of debt securities	9	-	(324)
Net derivative financial instruments		(12,221)	(6,751)
Gain on revaluation of investment property		(220)	-
Loss/(Gain) on disposal of property, plant and equipment		19	(226)
Impairment of intangible assets		383	-
Depreciation and amortisation	14,16	1,465	2,198
Increase in impairment of loans and advances	12	751	252
Decrease in loans and advances to credit institutions		3,807	6,419
Increase in loans and advances to customers		(85,163)	(68,375)
Increase/(Decrease) in prepayments, accrued income and other assets		129	(387)
Increase/(Decrease) in shares		147,693	(17,015)
Cash received on derivative instruments		17,492	4,261
Cash paid on derivative instruments		(2,426)	(4,561)
(Decrease)/Increase in amounts owed to credit institutions		(45,213)	12,486
Increase/(Decrease) in amounts owed to other customers		31,790	(4,359)
Increase in accruals, deferred income and other liabilities		7,210	813
Net tax paid		(3,255)	(3,000)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>70,722</b>	<b>(59,230)</b>
<b>Cash flows from investing activities</b>			
Purchase of debt securities and treasury bills		(174,584)	(131,288)
Disposal of debt securities and treasury bills		155,859	111,654
Purchase of property, plant and equipment		(756)	(117)
Purchase of intangible fixed assets		(347)	(300)
Purchase of investment property		-	(777)
Disposal of investment property		-	1,160
<b>Net cash used in investing activities</b>		<b>(19,828)</b>	<b>(19,668)</b>
Interest on subordinated liabilities		(711)	(661)
Cash paid/(received) on derivative instruments		(111)	9
<b>Net cash used in financing activities</b>		<b>(822)</b>	<b>(652)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>50,072</b>	<b>(79,550)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>105,456</b>	<b>185,006</b>
<b>Cash and cash equivalents at end of the year (2)</b>		<b>155,528</b>	<b>105,456</b>

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 £154,542k (2022 : £103,738k) and loans and advances to credit institutions repayable on call and short notice of £732k (2022 : £1,718k).

# 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 68.

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 70.

The preparation of these accounts in conformity with FRS102 requires management to make judgements and estimates and use assumptions in the application of these policies that affect the values of reported assets, liabilities, income and expenditure. Although these estimates are based on management judgements and best knowledge of the events, actions or amounts, taking into account historical evidence and any other relevant factors, actual results may differ from these estimates.

The functional currency of Saffron Building Society is considered to be pounds sterling because that is the currency of the primary economic environment in which the Society operates. The consolidated financial statements are also presented in pounds sterling.

The Society has taken advantage of the exemption in FRS102, which provides that where a company is a member of a group and a Consolidated Cash Flow Statement is published, the Society does not have to prepare a Cash Flow Statement.

### b) Basis of consolidation:

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

### c) Prior year restatement:

During the audit of the current year financial statements, there was one area identified which required restating in prior periods, details of this adjustment is as follows:

### Presentational restatement

The financial statements of the Group are prepared in accordance with the Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice) and the requirements of the Building Societies Act 1986. The Act requires the presentation of the financial statements to follow the format indicated in the Building Societies (Accounts and Related Provisions) Regulation 1998.

In prior years, the Society combined certain assets and liabilities in the Statement of Financial Position whereas the format as per the Regulations requires these to be presented separately. 'Treasury bills' and 'Debt securities' were previously presented as Debt securities;

'Other assets' and 'Prepayment and accrued income' were previously presented as Other assets; and 'Other liabilities' and 'Accruals' were previously presented as Other liabilities.

The Society also erroneously classified 'Loans and advances to customers' and 'Derivative financial instruments' as part of the Total liquid assets.

The affected assets and liabilities have now been presented separately in the Statement of Financial Position to align the presentation with the format indicated by the Regulations. The movement of these balances as captured in the Statement of Cashflows has been amended accordingly.

### Derivative financial instruments ("derivatives") - hedge accounting:

The Group measures and records derivatives in the Statement of financial position at fair value. An interpretation error led to the Group deducting interest paid from the reported fair values of derivatives where interest settlement had been made on the day of the fair value report. The group has raised adjustments to accurately reflect derivative asset and liability positions, with adjustments also made to the income statement in respect of the derivative expense or income, and the knock-on effect to tax.

**Group 2021**

Statement of financial position extract	£000s	As at 31 December 2021	Correction of prior period error	As at 1 January 2022
Assets	Derivative financial instruments	9,373	(159)	9,214
	Total assets	1,295,909	(159)	1,295,750
Liabilities	Derivative financial instruments	24,177	(2)	24,175
	Other liabilities	2,657	(30)	2,627
	Total liabilities	1,239,172	(32)	1,239,140
Reserves	General reserves	56,484	(127)	56,357
	Total reserves and liabilities	1,295,909	(159)	1,295,750

**Society 2021**

Statement of financial position extract	£000s	As at 31 December 2021	Correction of prior period error	As at 1 January 2022
Assets	Derivative financial instruments	9,373	(159)	9,214
	Total assets	1,296,313	(159)	1,261,317
Liabilities	Derivative financial instruments	24,177	(2)	24,175
	Other liabilities	2,625	(30)	2,595
	Total liabilities	1,239,140	(32)	1,239,108
Reserves	General reserves	56,920	(127)	56,793
	Total reserves and liabilities	1,296,313	(159)	1,296,154

**Group 2022**

Restatement of financial statements for the comparative year income statement	£000s	As at 31 December 2022	Correction of prior period error	As at 1 January 2023
Net fair value movements		5,617	1,134	6,751
Total net income		35,894	1,134	37,028
Tax		(2,855)	(215)	(3,070)
Profit for the financial year		14,689	919	15,608

**Society 2022**

Restatement of financial statements for the comparative year income statement	£000s	As at 31 December 2022	Correction of prior period error	As at 1 January 2023
Net fair value movements		1,800	1,134	2,934
Total net income		31,430	1,134	32,564
Tax		(2,007)	(215)	(2,222)
Profit for the financial year		11,065	919	11,984

**Group 2022**

Statement of financial position extract	£000s	As at 31 December 2022	Correction of prior period error	As at 1 January 2023
Assets	Derivative financial instruments	35,414	1,168	36,582
	Total assets	1,286,323	1,168	1,287,491
Liabilities	Derivative financial instruments	9,844	190	10,034
	Other liabilities	3,054	186	3,240
	Total liabilities	1,215,240	376	1,215,616
Reserves	General reserves	71,147	792	71,939
	Total reserves and liabilities	1,286,323	1,168	1,287,491

**Society 2022**

Statement of financial position extract	£000s	As at 31 December 2022	Correction of prior period error	As at 1 January 2023
Assets	Derivative financial instruments	35,414	1,168	36,582
	Current tax asset	771	(186)	585
	Total assets	1,283,034	982	1,284,016
Liabilities	Derivative financial instruments	9,844	190	10,034
	Total liabilities	1,215,141	190	1,215,331
Reserves	General reserves	67,957	792	68,749
	Total reserves and liabilities	1,283,034	982	1,284,016

**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.

The Statement of Cash Flows has been prepared using the indirect method.

**f) Derivative financial instruments ("derivatives")**

The Society uses derivatives solely for the purposes of risk management. Derivatives are measured and recorded in the Statement of Financial Position at fair value and classified as assets when the fair value is positive and as liabilities when the fair value is negative. Fair values are obtained by applying quoted market rates to discounted cash flows.

**Hedge accounting**

Certain derivatives held for risk management purposes are held as hedging instruments in qualifying hedging relationships. To designate as being in a hedging relationship, the Society formally documents the relationship between the hedging instrument and the hedged item, including the strategy and risk management objective for undertaking the hedge together with a description of the methodology that will be used to determine the effectiveness of the hedging relationship. An assessment is made at the inception of the hedge relationship and on an ongoing basis throughout the hedging relationship to ensure the hedge is, and remains, highly effective in offsetting changes in the fair value of the hedged items during the period for which the hedge is designated. A hedge is considered to be highly effective where the results of the hedge effectiveness testing are within a range of 80% to 125%.

**Fair value hedges**

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities. For example, 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.

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.

**ij) 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.

In light of the deteriorating cost of living crisis, the Society has continued to assess the impact of this pressure on its impairment provision through potential changes in values of collateral and potential changes in the probability of default.

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.

**jj) 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 £313k (2022 - £205k). In the scenario where the mortgages redeem one month later this results in further income of £700k (2022 - £431k) 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 £455k (2022 - £162k) while an improvement in house price of 5% would lead to a reduction in provision of £341k (2022 - £96k). If the probability of default on our loan book increased by 25%, our provision would increase by £205k (2022 - £54k), however if the probability of default decreased by 25%, our provision would fall by £205k (2022 - £54k).

**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 £1,273k (2022 -£1,201k). A 1% decrease in the discount rate would increase the defined benefit pension obligation by £1,551k (2022 - £1,470k).

## 2. Interest receivable and similar income

	2023 (£000)		2022 (£000)	
	Group	Society	Group	Society
<b>On financial instruments not held at fair value through the income statement</b>				
Loans fully secured on residential property	46,126	45,855	33,886	33,717
Loans to subsidiaries	-	973	-	802
Other liquid assets / cash and short term funds	4,663	4,663	927	927
Interest received on available for sale instruments	5,146	5,146	1,504	1,504
	<b>55,935</b>	<b>56,637</b>	<b>36,317</b>	<b>36,950</b>
<b>On financial instruments held at fair value through the income statement</b>				
Loans fully secured on residential property	2,239	933	2,266	918
Derivatives	16,404	16,404	2,845	2,845
	<b>74,578</b>	<b>73,974</b>	<b>41,428</b>	<b>40,713</b>

## 3. Interest payable and similar charges

	2023 (£000)		2022 (£000)	
	Group	Society	Group	Society
<b>On liabilities not held at fair value through the income statement</b>				
Shares held by individuals	27,521	27,521	6,789	6,789
Subordinated liabilities	732	732	682	682
Deposits and other borrowings	12,574	12,574	3,527	3,527
	<b>40,827</b>	<b>40,827</b>	<b>10,998</b>	<b>10,998</b>
<b>On financial instruments held at fair value through the income statement</b>				
Derivatives	854	854	72	72
	<b>41,681</b>	<b>41,681</b>	<b>11,070</b>	<b>11,070</b>

## 4. Net fair value movements

	2023 (£000)		Restated 2022 (£000)	
	Group	Society	Group	Society
Derivatives in designated fair value hedge relationships	(18,978)	(18,978)	24,766	24,766
Adjustments to hedged items in fair value hedge accounting relationships	16,629	16,629	(19,894)	(19,894)
Derivatives not in designated fair value hedge relationships	(1,833)	(948)	13,676	4,255
Increase/(Decrease) in fair value of assets and liabilities	853	502	(11,797)	(6,193)
	<b>(3,329)</b>	<b>(2,795)</b>	<b>6,751</b>	<b>2,934</b>

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

	2023 (£000)		2022 (£000)	
	Group	Society	Group	Society
Colleague costs (Note 6)	10,743	10,743	9,447	9,447
Remuneration of auditors:	-	-	-	-
- audit of the Society's accounts	367	367	324	324
- audit of the Society's subsidiaries pursuant to legislation	32	32	30	30
- assurance related services	-	-	24	24
Operating lease rentals	133	133	308	308
Intercompany Loan Impairment	-	(116)	-	13
Other administrative expenses	7,765	7,765	5,693	5,687
	<b>19,040</b>	<b>18,924</b>	<b>15,826</b>	<b>15,833</b>

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

Assurance related services in both periods are in connection with the TFSME scheme audit. The prior year assurance related services also included a mid year profit verification.

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:

	2023		2022	
	Group	Society	Group	Society
Principal office	142	142	132	132
Branch offices	36	36	37	37
	<b>178</b>	<b>178</b>	<b>169</b>	<b>169</b>

The aggregate costs of these persons were as follows:

	2023 (£000)		2022 (£000)	
	Group	Society	Group	Society
Wages and salaries	9,232	9,232	8,095	8,095
Social security costs	878	878	823	823
Other pension costs (Note 27)	633	633	529	529
	<b>10,743</b>	<b>10,743</b>	<b>9,447</b>	<b>9,447</b>

## 7. Directors Remuneration

Directors' emoluments are set out within the Remuneration Committee Report on pages 64 to 67.

Total Directors' emoluments for the year amounted to £984k (2022: £1,115k). Details of Director loans and transactions are shown in Note 30.

## 8. Taxation on profit on ordinary activities

	2023 (£000)		Restated 2022 (£000)	
	Group	Society	Group	Society
The tax charge comprises:				
<b>Current tax on profit on ordinary activities</b>				
UK corporation tax	2,154	2,154	3,893	3,045
Adjustments in respect of prior periods	(11)	(11)	(141)	(141)
<b>Total current tax</b>	<b>2,143</b>	<b>2,143</b>	<b>3,752</b>	<b>2,904</b>
<b>Deferred tax</b>				
Origination and reversal of timing differences	(258)	(258)	(547)	(547)
Adjustments in respect of prior periods	13	13	5	5
Effect of tax rate change in opening balance	-	-	(140)	(140)
<b>Total deferred tax</b>	<b>(245)</b>	<b>(245)</b>	<b>(682)</b>	<b>(682)</b>
<b>Total tax charge on profit on ordinary activities</b>	<b>1,898</b>	<b>1,898</b>	<b>3,070</b>	<b>2,222</b>

The standard rate of tax applied to reported profit changed on 1 April 2023 to 25% (2022: 19% per cent). The applicable tax rate has changed following the substantive enactment of the Finance Act 2021. The deferred tax liability is calculated using the tax rate enacted from 1 April 2023 at 25%.

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:

	2023 (£000)		Restated 2022 (£000)	
	Group	Society	Group	Society
<b>Profit/(loss) on ordinary activities before tax</b>	7,749	7,859	18,678	14,206
Tax on profit on ordinary activities at standard UK corporation tax rate of 23.52% (2022: 19%)	1,822	1,848	3,548	2,698
Effects of:				
Fixed asset differences	186	186	36	36
Non-deductible expenses	4	4	16	16
Impact of rate change	(4)	(4)	5	5
Amount charged/credited directly to equity	25	25	167	167
Deferred tax charges directly to equity	(25)	(25)	(167)	(167)
Group relief claimed	(2)	(2)	(2)	(2)
Adjustments to tax charge in respect of previous years	3	3	(141)	(141)
Other	(111)	(137)	(392)	(390)
<b>Total tax charge for the year recognised in the income statement</b>	<b>1,898</b>	<b>1,898</b>	<b>3,070</b>	<b>2,222</b>

## 9. Liquid assets

	2023 (£000)		2022 (£000)	
	Group	Society	Group	Society
<b>Loans and advances to credit institutions:</b>				
Repayable on call and short notice	986	986	1,718	1,649
Placements with credit institutions	17,185	17,185	20,992	20,992
	<b>18,171</b>	<b>18,171</b>	<b>22,710</b>	<b>22,641</b>

As at 31 December 2023 £14,147k (2022: £17,404k) of cash has been deposited by the Group and Society as collateral against derivative contracts.

### Debt securities:

	2023 (£000)		2022 (£000)	
	Group & Society	Group & Society	Group & Society	Group & Society
Gilts	-	-	9,983	9,983
Certificates of deposit	25,717	25,717	10,016	10,016
Treasury bills	41,821	41,821	10,014	10,014
Bonds	37,581	37,581	55,833	55,833
	<b>105,119</b>	<b>105,119</b>	<b>85,846</b>	<b>85,846</b>

Movements during the year of debt securities are analysed as follows:

	2023 (£000)		2022 (£000)	
	Group & Society	Group & Society	Group & Society	Group & Society
At 1 January		85,846		66,633
Additions		174,584		131,288
Disposals		(155,859)		(111,654)
Net gains/(losses) from changes in fair value recognised in Statement of comprehensive income		548		(421)
<b>At 31 December</b>		<b>105,119</b>		<b>85,846</b>

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 2023			
a) Unmatched derivatives – Interest rate swaps	82,934	1,762	(8,491)
b) Derivatives designated as fair value hedges – Interest rate swaps	662,000	18,934	(5,871)
<b>Total recognised derivative assets / (liabilities)</b>	<b>744,934</b>	<b>20,696</b>	<b>(14,362)</b>
As at 31 December 2022 restated			
a) Unmatched derivatives – Interest rate swaps	109,531	2,621	(7,882)
b) Derivatives designated as fair value hedges – Interest rate swaps	641,700	33,961	(2,152)
<b>Total recognised derivative assets / (liabilities) restated</b>	<b>751,231</b>	<b>36,582</b>	<b>(10,034)</b>

Unmatched derivatives include an interest rate swap with a net notional value of £26.6m (2022 : £27.9m) or gross notional of £44.9m (2022 : £56m) 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 £0.5m (2022 : £3.5m) or gross notional of £7.5m (2022 : £21.5m), which the Society has elected to de-designate from their hedging relationship at December 2023 and a further £12.5m (2022 : £32.0m) which, at the end of December 2023 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

	2023 (£000)		2022 (£000)	
	Group	Society	Group	Society
Loans fully secured on residential property				
Held at amortised cost (1)	1,103,010	1,098,731	1,018,033	1,012,883
Held at fair value through the income statement	38,993	16,799	37,545	15,766
Other loans - loans fully secured on land	629	629	1,056	1,056
	<b>1,142,632</b>	<b>1,116,159</b>	<b>1,056,634</b>	<b>1,029,705</b>
Provision for impairment losses on loans and advances (Note 12)	(1,515)	(1,515)	(765)	(765)
	<b>1,141,117</b>	<b>1,114,644</b>	<b>1,055,869</b>	<b>1,028,940</b>
Fair value adjustment for hedged risk	(9,819)	(9,819)	(27,290)	(27,289)
	<b>1,131,298</b>	<b>1,104,825</b>	<b>1,028,579</b>	<b>1,001,651</b>

## Note

(1) The Society has pledged £407.6m of mortgage loan pools with the Bank of England for the Term Funding Scheme with additional incentives for SME's (2022: £376.8m) to cover the £175m (2022: £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
<b>Group</b>			
At 1 January 2023	275	490	765
Charge for the year	56	694	750
Amounts utilised in the period	-	-	-
<b>At 31 December 2023</b>	<b>331</b>	<b>1,184</b>	<b>1,515</b>
At 1 January 2022	161	404	565
Charge for the year	163	86	249
Amounts utilised in the period	(49)	-	(49)
<b>At 31 December 2022</b>	<b>275</b>	<b>490</b>	<b>765</b>
<b>Society</b>			
At 1 January 2023	275	490	765
Charge for the year	56	694	750
Amounts utilised in the period	-	-	-
<b>At 31 December 2023</b>	<b>331</b>	<b>1,184</b>	<b>1,515</b>
At 1 January 2022	161	403	564
Charge for the year	163	87	250
Amounts utilised in the period	(49)	-	(49)
<b>At 31 December 2022</b>	<b>275</b>	<b>490</b>	<b>765</b>

## 13. Investments in subsidiary undertakings

	2023	2022
	(£000)	(£000)
	Society	Society
Shares in subsidiary undertakings	86	86
Loans to subsidiary undertakings	23,293	22,851
	<b>23,379</b>	<b>22,937</b>
Movement during the year of loans to subsidiary undertakings:		
Cost		
At 1 January	22,851	34,751
Repayments received	(508)	(12,739)
Loans advanced	950	839
<b>At 31 December</b>	<b>23,293</b>	<b>22,851</b>

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 2023 financial year:

	Share Capital	
	2023	2022
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. The registered office of each subsidiary is Saffron House, 1a Market Street, Saffron Walden, Essex, United Kingdom, CB10 1HX.

## 14. Property, plant and equipment

	Group & Society (£000)			Total
	Land and buildings freehold	Land and buildings short leasehold	Equipment, fixtures, fittings and vehicles	
<b>Cost or valuation</b>				
At 1 January 2023	4,182	1,147	3,510	8,839
Additions	15	-	741	756
Disposals	-	(722)	(92)	(814)
Revaluation	554			554
<b>At 31 December 2023</b>	<b>4,751</b>	<b>425</b>	<b>4,159</b>	<b>9,335</b>
<b>Depreciation</b>				
At 1 January 2023	1,391	1,016	2,967	5,374
Charged in year	150	51	231	432
Disposals	-	(696)	(90)	(786)
<b>At 31 December 2023</b>	<b>1,541</b>	<b>371</b>	<b>3,108</b>	<b>5,020</b>
<b>Net book value</b>				
<b>At 31 December 2023</b>	<b>3,210</b>	<b>54</b>	<b>1,051</b>	<b>4,315</b>
At 31 December 2022	2,791	131	543	3,465

Freehold Land and Buildings are held at valuation and were professionally valued by Derrick Wade Waters, Chartered Surveyors, on a fair value basis as at 31 December 2023 based upon the open market value of the properties at that time. This valuation was £3,210,000 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 2023 would be £3,230,192 (2022 : £3,346,089).

Land and buildings freehold includes non-depreciable land held by the Society for its own activities with a net book value of £615,000 (2022 : £565,000).

## 15. Investment properties

	2023 (£000)	Group & Society
At 1 January 2023		2,010
Additions		-
Disposals		-
Revaluation charge		220
<b>At 31 December 2023</b>		<b>2,230</b>

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 27 November 2023. The property rental income earned, all of which is leased out under operating leases, amounted to £65k (2022: £79k) and has been recognised within other operating income.

The total future minimum lease payments due to the Society under non-cancellable operating leases are as follows:

	Group £000s	Group £000s
	2023	2022
Not later than one year	59	32
Later than one year and not later than five years	134	31
Later than five years	140	-
	<b>333</b>	<b>63</b>

## 16. Intangible assets

	(£000)	Group & Society
<b>Cost</b>		
At 1 January 2023		17,245
Additions		347
Impairment		(383)
<b>At 31 December 2023</b>		<b>17,209</b>
<b>Amortisation</b>		
At 1 January 2023		15,387
Charged in year		1,024
Disposals		-
<b>At 31 December 2023</b>		<b>16,411</b>
<b>Net book value</b>		
<b>At 31 December 2023</b>		<b>798</b>
At 31 December 2022		1,858

Intangible assets at 31 December 2023 comprise the costs of investment in new mortgages and savings platforms to meet the future needs of the Society and include £48k (2022: £803k) 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. Assets in the course of construction totalling £383k were written off through the Income Statement following the confirmation that part of the planned upgrades to the mortgages and savings platforms would not be successful.

## 17. Other assets

	2023 (£000)		Restated 2022 (£000)	
	Group	Society	Group	Society
Other assets	6	6	2	2
Current tax asset	851	844	-	585
Deferred tax asset	645	645	426	426
Prepayments and accrued income	2,059	2,059	2,192	2,192
	<b>3,561</b>	<b>3,554</b>	<b>2,620</b>	<b>3,205</b>

**18. Shares**

	2023 (£000)		2022 (£000)	
	Group	Society	Group	Society
Held by individuals	1,034,179	1,034,179	881,004	881,004
Fair value adjustment for hedged risk	(40)	(40)	(723)	(723)
	<b>1,034,139</b>	<b>1,034,139</b>	<b>880,281</b>	<b>880,281</b>

**19. Amounts owed to credit institutions**

	2023 (£000)		2022 (£000)	
	Group	Society	Group	Society
Amounts owed to credit institutions	205,796	205,796	249,559	249,559
	<b>205,796</b>	<b>205,796</b>	<b>249,559</b>	<b>249,559</b>

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 £160m (2022: £190m) and Indexed Long Term Repo (ILTR) of £15m (2022 - £nil). The TFSME drawing is due for repayment between September and October 2025.

**20. Other liabilities**

	2023 (£000)		2022 (£000)	
	Group	Society	Group	Society
Corporation tax	-	-	263	-
Social Security	287	287	311	311
Other creditors	521	521	483	483
Other accruals	2,082	2,061	2,183	2,161
	<b>2,890</b>	<b>2,869</b>	<b>3,240</b>	<b>2,955</b>

**21. Subordinated liabilities**

	2023 (£000)		2022 (£000)	
	Group	Society	Group	Society
Fixed Rate 7.32% Subordinated Debt 2028	9,848	9,848	9,682	9,682

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 £465k (2022: £609k).

**22. Deferred taxation assets and liabilities**

	2023 (£000)		2022 (£000)	
	Group	Society	Group	Society
<b>Deferred tax assets</b>				
Balance 1 January	426	426	-	-
Tax value of losses carried forward	-	-	-	-
Timing differences	219	219	426	426
Utilisation of previous recognised tax losses	-	-	-	-
<b>Balance 31 December</b>	<b>645</b>	<b>645</b>	<b>426</b>	<b>426</b>
<b>Deferred taxation liabilities</b>				
Balance 1 January	-	-	90	90
Income Statement credit	-	-	(90)	(90)
Charge recognised through Other Comprehensive Income	-	-	-	-
<b>Balance at 31 December</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fixed asset timing differences	(53)	(53)	(84)	(84)
Other timing differences	(626)	(626)	(375)	(375)
Capital gains	34	34	34	34
<b>(Asset)/Liability at 31 December</b>	<b>(645)</b>	<b>(645)</b>	<b>(426)</b>	<b>(426)</b>

All deferred tax balances have been provided at a rate of 25% (2022: 25%) which is the rate applicable when the deferred tax is expected to crystallise.

**23. Available for sale reserve**

	2023 (£000)		2022 (£000)	
	Group	Society	Group	Society
Reserve at start of the year	(446)	(446)	(129)	(129)
Net changes in fair value	548	548	(421)	(421)
Tax relating to components of other comprehensive income	(137)	(137)	105	105
<b>Reserve at end of the year</b>	<b>(35)</b>	<b>(35)</b>	<b>(446)</b>	<b>(446)</b>

**24. Revaluation reserve**

	2023 (£000)		2022 (£000)	
	Group	Society	Group	Society
Revaluation reserve at start of the year	382	382	382	382
Unrealised gain on revaluation of property, plant and equipment	554	554	-	-
<b>Revaluation reserve at end of the year</b>	<b>936</b>	<b>936</b>	<b>382</b>	<b>382</b>

**25. Financial commitments**

	2023 (£000)		2022 (£000)	
	Group	Society	Group	Society
Total future minimum lease payments under non-cancellable operating leases are as follows:				
Not later than one year	129	129	216	216
Later than one year and not later than five years	36	36	165	165
Later than five years	-	-	-	-
	<b>165</b>	<b>165</b>	<b>381</b>	<b>381</b>

## 26. Provisions for liabilities

Group &amp; Society (£000)

Dilapidations

2023	
At 1 January 2023	144
Charge for the year	-
Provision utilised	-
<b>At 31 December 2023</b>	<b>144</b>
2022	
At 1 January 2022	244
Charge for the year	(100)
Provision utilised	-
<b>At 31 December 2022</b>	<b>144</b>

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:

	2023 (£000)	2022 (£000)
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 £633,000 (2022: £529,000).

### 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 2023. At the date of the latest actuarial valuation, the market value of the assets was £10,441,000 (2020: £14,132,000) which was sufficient to cover 100% (2020: 108%) of the value of the benefits that had accrued to Members at that date plus a reserve for future expenses of £nil (2020: £992,000).

As at 31 December 2023 the scheme is shown in the Statement of Financial Position as a pension liability of £643,000 (2022: £83,000 asset) before allowance for deferred tax.

### Future funding obligation

The triannual valuation of the scheme revealed a funding surplus of £26k. The Society did not make any payments to the scheme during the financial year ending 31 December 2023.

## 27. Group pensions (continued)

Date of fund valuation

31 December 2023 31 December 2022

### Main assumptions

Rate of increase in salaries	2.6%	2.5%
Rate of increase in pensions in payment	2.9%	3.0%
Rate of increase in pensions in payment after 05.04.05	2.1%	2.2%
Discount rate	4.5%	4.8%
RPI inflation assumptions	3.0%	3.0%
CPI inflation assumptions	2.6%	2.5%

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.

### Reconciliation of scheme's assets and defined benefit obligation:

	(£000)		
	Assets	Defined benefit obligation	Total
At 1 January 2023	10,942	(10,859)	83
Benefits paid	(473)	473	-
Administration expenses	(80)	-	(80)
Net interest income/(expense)	512	(510)	2
Re-measurement gains			
- Actuarial loss	-	(712)	(712)
- Return on assets excluding interest income	66		66
<b>At 31 December 2023</b>	<b>10,967</b>	<b>(11,608)</b>	<b>(641)</b>

The scheme liabilities were valued in accordance with the guidelines set out in Section 28 of FRS102 using a discount rate of 4.5% 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

	2023 (£000)	2022 (£000)
Equities and other growth assets	4,013	4,422
Diversified credit fund	3,178	3,538
Liability Driven Investments	3,025	2,399
Cash	250	60
Annuities	501	523
	<b>10,967</b>	<b>10,942</b>

### Demographic assumptions

	31 December 2023	31 December 2022
Mortality (Pre-retirement)	Nil deaths	Nil deaths
Mortality (Post-retirement)	S3PA CMI 2022	S3PA CMI 2021

### Life expectancies (in years)

	31 December 2023		31 December 2022	
	Males	Females	Males	Females
For an individual aged 65 in 2023	21.4	23.9	21.9	24.3
At age 65 for an individual aged 45 in 2023	22.6	25.3	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	2023 (£000)	2022 (£000)
Administration expenses	(80)	(76)
	<b>(80)</b>	<b>(76)</b>
Analysis of amounts included in pension finance income		
Net interest expense	2	(2)
	<b>2</b>	<b>(2)</b>
Analysis of amount recognised in the Statement of comprehensive income		
Actual return/(loss) on assets less interest	66	(5,689)
Actuarial (losses)/gains on defined benefit obligation	(712)	5,935
<b>Total actuarial (loss)/gain recognised in the Statement of comprehensive income</b>	<b>(646)</b>	<b>246</b>

## 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 2023 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	Loans and receivables at amortised cost
	Fixed term	
	Short to medium term maturity	Accounted for at settlement date
Debt securities	Fixed or SONIA linked interest rate	Available-for-sale at fair value through Other Comprehensive Income
	Fixed term	
	Short to medium term maturity	Accounted for at settlement date
Loans and advances to customers	Secured on residential property or land	Loans and receivables at amortised cost*
	Standard contractual term of 25 years	
	Fixed or variable rate interest	Accounted for at settlement date
Shares	Fixed or variable term	Amortised cost
	Fixed or variable interest rates	Accounted for at settlement date
Amounts owed to credit institutions	Fixed or SONIA linked interest rate;	Amortised cost
	Fixed term	
	Short to medium term maturity	Accounted for at settlement date
Amounts owed to other customers	Fixed or variable interest rate	Amortised cost
	Fixed or variable term	
	Short to medium term maturity	Accounted for at settlement date
Subordinated liabilities	Fixed interest rate	Amortised cost
	Fixed term	Accounted for at settlement date
Derivative financial instruments	Fixed interest received/paid converted to variable interest paid/received	Fair value through profit or loss
	Based on notional value of the derivative	Accounted for at trade date
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)

Carrying values by category as at 31 December 2023	Group (£000)							Total
	Held at amortised cost		Held at fair value					
	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	
<b>Assets</b>								
Cash in hand and balances with the Bank of England	154,542	-	-	-	-	-	-	154,542
Loans and advances to credit institutions	18,171	-	-	-	-	-	-	18,171
Debt securities	-	-	105,119	-	-	-	-	105,119
Derivative financial instruments	-	-	-	18,934	1,762	-	-	20,696
Loans and advances to customers	1,092,306	-	-	38,992	-	-	-	1,131,298
Other assets	-	-	-	-	-	-	10,904	10,904
	<b>1,265,019</b>	<b>-</b>	<b>105,119</b>	<b>38,992</b>	<b>18,934</b>	<b>1,762</b>	<b>10,904</b>	<b>1,440,730</b>
<b>Liabilities</b>								
Shares	-	1,034,139	-	-	-	-	-	1,034,139
Amounts owed to credit institutions	-	205,796	-	-	-	-	-	205,796
Amounts owed to other customers	-	94,755	-	-	-	-	-	94,755
Derivative financial instruments	-	-	-	-	5,871	8,491	-	14,362
Provisions for liabilities	-	-	-	-	-	-	144	144
Other liabilities	1,857	-	-	-	-	-	1,674	3,531
Subordinated liabilities	-	9,848	-	-	-	-	-	9,848
	<b>1,857</b>	<b>1,344,538</b>	<b>-</b>	<b>-</b>	<b>5,871</b>	<b>8,491</b>	<b>1,818</b>	<b>1,362,575</b>

**Assets** Carrying values by category as at 31 December 2022 restated

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	-	-	-	33,961	2,621	-	-	36,582
Loans and advances to customers	991,034	-	-	37,545	-	-	-	1,028,579
Other assets	1,197	-	-	-	-	-	8,839	10,036
	<b>1,118,679</b>	<b>-</b>	<b>85,846</b>	<b>37,545</b>	<b>33,961</b>	<b>2,621</b>	<b>8,839</b>	<b>1,287,491</b>

**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	-	-	-	-	2,151	7,883	-	10,034
Provisions for liabilities	-	-	-	-	-	-	144	144
Other liabilities	2,142	-	-	-	-	-	1,098	3,240
Subordinated liabilities	-	9,682	-	-	-	-	-	9,682
	<b>2,142</b>	<b>1,202,198</b>	<b>-</b>	<b>-</b>	<b>2,151</b>	<b>7,883</b>	<b>1,242</b>	<b>1,215,616</b>

In 2022, the Society inadvertently classed Cash in hand and balances with the Bank of England as Financial instruments at amortised costs. In the current year, the Society has reclassified these balances to Loans and Receivables in line with FRS 102.

## 28. Financial instruments (continued)

Carrying values by category as at 31 December 2023	Society (£000)							Total
	Held at amortised cost		Held at fair value					
	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	
<b>Assets</b>								
Cash in hand and balances with the Bank of England	154,542	-	-	-	-	-	-	154,542
Loans and advances to credit institutions	18,171	-	-	-	-	-	-	18,171
Debt securities	-	-	105,119	-	-	-	-	105,119
Derivative financial instruments	-	-	-	-	18,934	1,762	-	20,696
Loans and advances to customers	1,088,026	-	-	16,799	-	-	-	1,104,825
Investments in subsidiary undertakings	23,379	-	-	-	-	-	-	23,379
Other assets	-	-	-	-	-	-	10,897	10,897
	<b>1,284,118</b>	<b>-</b>	<b>105,119</b>	<b>16,799</b>	<b>18,934</b>	<b>1,762</b>	<b>10,897</b>	<b>1,437,629</b>
<b>Liabilities</b>								
Shares	-	1,034,139	-	-	-	-	-	1,034,139
Amounts owed to credit institutions	-	205,796	-	-	-	-	-	205,796
Amounts owed to other customers	-	94,755	-	-	-	-	-	94,755
Derivative financial instruments	-	-	-	-	5,871	8,491	-	14,362
Provisions for liabilities	-	-	-	-	-	-	144	144
Other liabilities	1,857	-	-	-	-	-	1,653	3,510
Subordinated liabilities	-	9,848	-	-	-	-	-	9,848
	<b>1,857</b>	<b>1,344,538</b>	<b>-</b>	<b>-</b>	<b>5,871</b>	<b>8,491</b>	<b>1,797</b>	<b>1,362,554</b>

**Assets** Carrying values by category as at 31 December 2022 restated

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	-	-	-	-	33,961	2,621	-	36,582
Loans and advances to customers	985,885	-	-	15,766	-	-	-	1,001,651
Investments in subsidiary undertakings	22,937	-	-	-	-	-	-	22,937
Other assets	1,623	-	-	-	-	-	8,998	10,621
	<b>1,136,824</b>	<b>-</b>	<b>85,846</b>	<b>15,766</b>	<b>33,961</b>	<b>2,621</b>	<b>8,998</b>	<b>1,284,016</b>

**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	-	-	-	-	2,152	7,882	-	10,034
Provisions for liabilities	-	-	-	-	-	-	144	144
Other liabilities	1,109	-	-	-	-	-	1,846	2,955
Subordinated liabilities	-	9,682	-	-	-	-	-	9,682
	<b>1,109</b>	<b>1,202,198</b>	<b>-</b>	<b>-</b>	<b>2,152</b>	<b>7,882</b>	<b>1,990</b>	<b>1,215,331</b>

## 28. Financial instruments (continued)

### Fair value hierarchy classification

#### Valuation techniques

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

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

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

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

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

#### Debt securities

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

#### Loans fully secured on residential property

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

#### Mortality or Entry into Long Term Care

This is based on the expected death or entry into long term care of the customer or longest surviving customer for a joint borrowing. Mortality assumptions have been adjusted with reference to the CMI 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 2023 was 4.79% (2022 : 4.99%). The Group has determined, based on observable market rates that the discount rate has a range between 3.44% and 6.38% 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 2023 were 4% and 8% respectively. The value of the no-negative equity guarantee as at 31 December 2023 was £1.0m (2022: £0.9m).

### 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)			
	Level 1	Level 2	Level 3	Total
<b>As at 31 December 2023</b>				
<b>Financial assets</b>				
Debt securities	79,402	25,717	-	105,119
Loans fully secured on residential property	-	-	38,992	38,992
Derivative financial instruments	-	20,696	-	20,696
	<b>79,402</b>	<b>46,413</b>	<b>38,992</b>	<b>164,807</b>
<b>Financial liabilities</b>				
Derivative financial instruments	-	5,872	8,490	14,362
	<b>-</b>	<b>5,872</b>	<b>8,490</b>	<b>14,362</b>

	Restated			
	(£000)			
	Level 1	Level 2	Level 3	Total
<b>As at 31 December 2022</b>				
<b>Financial assets</b>				
Debt securities	85,846	-	-	85,846
Loans fully secured on residential property	-	-	37,545	37,545
Derivative financial instruments	-	36,582	-	36,582
	<b>85,846</b>	<b>36,582</b>	<b>37,545</b>	<b>159,973</b>
<b>Financial liabilities</b>				
Derivative financial instruments	-	2,151	7,883	10,034
	<b>-</b>	<b>2,151</b>	<b>7,883</b>	<b>10,034</b>

Amounts stated are for Group and Society except for loans fully secured on residential property which includes £22,193,101 (2022 : £21,778,837) held within the Society's subsidiary Crocus Home Loans.

Reconciliation of opening and closing balances of Level 3 assets:	2023 (£000)	2022 (£000)
	At 1 January	37,545
Amounts taken to Income Statement		
- Interest rolled up	2,209	2,260
- Fair value gains	833	(11,813)
Redemptions	(1,595)	(2,910)
At 31 December	38,992	37,545

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 2023.

#### 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 2023 with an estimate of the impact on profit before tax.

Input	Shift	Profit Impact 2023 (£m)		Profit Impact 2022 (£m)	
Adjustment to mortality assumptions	+/-10%	(0.2)	0.2	(0.2)	0.2
House Price Inflation	+/-0.5%	0.2	(0.3)	0.2	(0.2)
House price volatility	+/-1%	(0.2)	0.2	(0.1)	0.1
Voluntary Prepayment	+/-0.5%	(0.1)	0.1	(0.1)	0.1
Discount Rate	+/- 1%	(0.3)	0.3	(3.2)	2.8
Parallel Shift on Yield Curve	+/-100 bps	0.0	(0.0)	0.4	(0.4)

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 (£2.8m).

#### 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:

	2023 (£000)		Restated 2022 (£000)	
	Group	Society	Group	Society
Cash in hand	154,542	154,542	103,738	103,738
Loans and advances to credit institutions	18,171	18,171	22,710	22,641
Debt securities	105,119	105,119	85,846	85,846
Derivative financial instruments	20,696	20,696	36,582	36,582
Loans and advances to customers	1,131,298	1,104,825	1,028,579	1,001,651
	<b>1,429,826</b>	<b>1,403,353</b>	<b>1,277,455</b>	<b>1,250,458</b>
Lending commitments (off balance sheet)	69,320	69,320	74,643	74,643
<b>Maximum credit exposure</b>	<b>1,499,146</b>	<b>1,472,673</b>	<b>1,352,098</b>	<b>1,325,101</b>

#### 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:	2023 (£000)		2022 (£000)	
	Group	Society	Group	Society
Credit Institutions	43,888	43,888	31,129	31,060
Multinational development banks	37,581	37,581	55,833	55,833
Central Bank and Government	41,821	41,821	21,594	21,594
<b>Total</b>	<b>123,290</b>	<b>123,290</b>	<b>108,556</b>	<b>108,487</b>

An analysis of the Group treasury asset concentration is shown in the table below:	2023 (£000)		2022 (£000)	
	Group	Society	Group	Society
Concentration by credit grading				
AAA	37,580	37,580	55,833	55,833
AA	43,747	43,747	21,594	21,594
A	26,704	26,704	11,734	11,665
Unrated	15,259	15,259	19,395	19,395
<b>Total</b>	<b>123,290</b>	<b>123,290</b>	<b>108,556</b>	<b>108,487</b>

In 2023 the Society has placed some of its liquidity assets into certificates of deposits with UK national banks which has increased the exposure to the AA graded counterparties, of which there was £25,000,000 held as of 31 December 2023

**Loans and advances to customers** The table below shows information on the Group's loans and advances to customers by geographical concentration:

	2023 %	2022 %	2023 %	2022 %
	Group	Group	Society	Society
Greater London	28	28	28	28
South East	31	31	31	31
South West	8	8	8	8
East Anglia	4	4	4	4
West Midlands	7	7	7	7
East Midlands	5	5	5	5
North West	7	7	7	7
Yorkshire & Humberside	5	5	5	5
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

	2023 %	2022 %	2023 %	2022 %
	Group	Group	Society	Society
0% - 50%	33	36	33	36
50.01% - 75%	44	47	44	47
75.01% - 80%	7	5	7	5
80.01% - 85%	5	5	5	5
85.01% - 90%	6	5	6	5
90.01% - 95%	4	2	4	2
>95%	1	-	1	-

### Not impaired

	2023	2022	2023	2022
	(£000)	(£000)	(£000)	(£000)
	Group	Group	Society	Society
Neither past due nor impaired	1,103,638	1,005,332	1,079,401	979,992
Up to three months overdue but not impaired	20,581	15,385	19,182	14,195
Over three months but not impaired	5,410	6,164	4,573	5,766
Possessions / receiver of rents	341	963	341	963

### Impaired

Up to three months overdue	-	-	-	-
Between three and six months overdue	407	-	407	-
Between six and twelve months overdue	-	-	-	-
Over twelve months overdue	-	512	-	512
Possessions / receiver of rents	921	223	921	223
	<b>1,131,298</b>	<b>1,028,579</b>	<b>1,104,825</b>	<b>1,001,651</b>

### Value of collateral held: Indexed

	2023	2022	2023	2022
	(£000)	(£000)	(£000)	(£000)
	Group	Group	Society	Society
Neither past due nor impaired	2,321,962	2,305,771	2,281,624	2,256,355
Either past due or impaired	77,334	61,181	69,596	55,676
	<b>2,399,296</b>	<b>2,366,952</b>	<b>2,351,220</b>	<b>2,312,031</b>

### 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.

## 28. Financial instruments (continued)

The table below gives details of the loans subject to interest-only concessions and arrangements at 31 December 2023.

	Interest only		Reduced Payment Concessions (reduced below the amount of interest)		Arrangements	
	Account balances £000	Number of accounts	Account balances £000	Number of accounts	Account balances £000	Number of accounts
<b>2023</b>						
Society	-	-	-	-	876	7
Crocus Home Loans	-	-	-	-	379	1
<b>Group total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,255</b>	<b>8</b>
<b>2022</b>						
Society	-	-	303	2	2,945	12
Crocus Home Loans	-	-	-	-	382	1
<b>Group total</b>	<b>-</b>	<b>-</b>	<b>303</b>	<b>2</b>	<b>3,327</b>	<b>13</b>

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:

	2023	2022
	Number of accounts	Number of accounts
Temporary transfer to interest only	21	-
Mortgage term extensions	-	1
Interest rate concessions	5	-
Aggrangements	51	47
	<b>77</b>	<b>48</b>

During the year ended 31 December 2023, 9 properties were taken into possession, 7 by the Society (2022: 2) and 2 by Crocus Home Loans (2022: nil). The Group also engages a Receiver of Rents to manage properties on behalf of the customer, where the customer is unable to do so effectively. A Receiver of Rent was appointed on 4 new properties during the year.

At the end of 2023 the Group had 10 properties in possession and 5 properties with a Receiver of Rents appointed (2022: 1) representing capital balances of £1,261k (2022: £1,187k), which is 0.11% of the total Group book (2022: 0.12%).

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 2023 provisions of £1.5m were maintained (2022: £0.8m).

### Liquidity Risk

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

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

The table below analyses the Group's assets and liabilities into relevant maturity groupings, based on the remaining period to contractual maturity at the Statement of Financial Position date. This is not representative of the Group's management of liquidity. Loans and advances to customers rarely run their full course. The actual repayment profile is likely to be significantly different from that shown in the analysis. For example most mortgages have a contractual maturity of around 25 years but are generally repaid much sooner. Conversely, retail deposits repayable on demand generally remain on the balance sheet much longer.

**28. Financial instruments (continued)**

Group residual maturity as at 31 December 2023 (£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
<b>Assets</b>						
Cash in hand and balances with the Bank of England	154,542	-	-	-	-	154,542
Loans and advances to credit institutions	18,171	-	-	-	-	18,171
Debt securities	-	38,439	50,767	5,546	10,367	105,119
	<b>172,713</b>	<b>38,439</b>	<b>50,767</b>	<b>5,546</b>	<b>10,367</b>	<b>277,832</b>
Derivative financial instruments	-	311	2,007	16,819	1,559	20,696
Loans and advances to customers	-	8,010	31,118	166,523	925,647	1,131,298
Other assets	1,370	379	1,577	2,935	4,643	10,904
	<b>174,083</b>	<b>47,139</b>	<b>85,469</b>	<b>191,823</b>	<b>942,216</b>	<b>1,440,730</b>
<b>Liabilities and reserves</b>						
Shares	664,284	57,493	187,982	124,380	-	1,034,139
Amounts owed to credit institutions	-	25,077	18,625	162,094	-	205,796
Amounts owed to other customers	70,457	3,860	20,438	-	-	94,755
Derivative financial instruments	-	98	338	5,724	8,202	14,362
Provisions for liabilities	-	-	-	-	144	144
Other liabilities	-	2,527	272	-	732	3,531
Subordinated liabilities	-	(152)	-	-	10,000	9,848
Reserves	-	-	-	-	78,155	78,155
	<b>734,741</b>	<b>88,903</b>	<b>227,655</b>	<b>292,198</b>	<b>97,233</b>	<b>1,440,730</b>
<b>Net liquidity gap</b>	<b>(560,658)</b>	<b>(41,764)</b>	<b>(142,186)</b>	<b>(100,375)</b>	<b>844,983</b>	<b>-</b>

Restated Group residual maturity as at 31 December 2022 (£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
<b>Assets</b>						
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
	<b>126,448</b>	<b>26,013</b>	<b>42,516</b>	<b>12,083</b>	<b>5,234</b>	<b>212,294</b>
Derivative financial instruments	-	352	3,656	30,160	2,414	36,582
Loans and advances to customers	-	14,864	33,502	150,448	829,765	1,028,579
Other assets	1,262	356	1,179	3,631	3,608	10,036
	<b>127,710</b>	<b>41,585</b>	<b>80,853</b>	<b>196,322</b>	<b>841,021</b>	<b>1,287,491</b>

**28. Financial instruments (continued)**

Restated Group residual maturity as at 31 December 2022 (£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
<b>Liabilities and reserves</b>						
Shares	583,033	58,755	128,926	108,958	609	880,281
Amounts owed to credit institutions	-	32,091	21,137	196,331	-	249,559
Amounts owed to other customers	57,020	280	5,376	-	-	62,676
Derivative financial instruments	-	80	772	962	8,220	10,034
Provisions for liabilities	-	-	-	-	144	144
Other liabilities	-	3,659	(499)	-	80	3,240
Subordinated liabilities	-	(318)	-	-	10,000	9,682
Reserves	-	-	-	-	71,875	71,875
	<b>640,053</b>	<b>94,547</b>	<b>155,712</b>	<b>306,251</b>	<b>90,928</b>	<b>1,287,491</b>
<b>Net liquidity gap</b>	<b>(512,343)</b>	<b>(52,962)</b>	<b>(74,859)</b>	<b>(109,929)</b>	<b>750,093</b>	<b>-</b>

Group & Society as at 31 December 2023 (£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
The following is an analysis of gross contractual cash flows payable under financial liabilities:						
Shares	658,238	59,188	195,745	136,077	-	1,049,248
Amounts owed to credit institutions	-	25,131	19,065	193,623	-	237,819
Amounts owed to other customers	70,163	3,972	21,413	-	-	95,548
Derivative financial instruments	-	261	434	10,119	16,447	27,261
Other Liabilities	-	2,528	272	-	734	3,534
Subordinated liabilities	-	369	365	12,565	-	13,299
<b>Total liabilities</b>	<b>728,401</b>	<b>91,449</b>	<b>237,294</b>	<b>352,384</b>	<b>17,181</b>	<b>1,426,709</b>

Restated Group & Society as at 31 December 2022 (£000)						
	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
Shares	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	-	3,659	(499)	-	80	3,240
Subordinated liabilities	-	369	363	2,930	10,369	14,031
<b>Total liabilities</b>	<b>639,771</b>	<b>96,288</b>	<b>159,262</b>	<b>339,668</b>	<b>28,840</b>	<b>1,263,829</b>

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 2023 (£000)					
	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
<b>Assets</b>						
Cash in hand	154,542	-	-	-	-	154,542
Loans and advances to credit institutions	18,171	-	-	-	-	18,171
Debt securities	57,938	46,231	950	-	-	105,119
Derivative financial instruments	-	-	-	-	20,696	20,696
Loans and advances to customers	447,875	173,634	482,764	30,539	(3,514)	1,131,298
Other assets	-	-	-	-	10,904	10,904
<b>Total assets</b>	<b>678,526</b>	<b>219,865</b>	<b>483,714</b>	<b>30,539</b>	<b>28,086</b>	<b>1,440,730</b>
<b>Liabilities and reserves</b>						
Shares	700,885	208,410	124,378	-	466	1,034,139
Amounts owed to credit institutions	187,172	18,624	-	-	-	205,796
Amounts owed to other customers	94,755	-	-	-	-	94,755
Derivative financial instruments	-	-	-	-	14,362	14,362
Provisions for liabilities	-	-	-	-	144	144
Other liabilities	-	-	-	-	3,531	3,531
Subordinated liabilities	-	-	10,000	-	(152)	9,848
Reserves	-	-	-	-	78,155	78,155
<b>Total liabilities and reserves</b>	<b>982,812</b>	<b>227,034</b>	<b>134,378</b>	<b>-</b>	<b>96,506</b>	<b>1,440,730</b>
Impact of derivative instruments	373,451	(7,668)	(344,848)	(20,935)	-	-
<b>Interest rate sensitivity gap</b>	<b>69,165</b>	<b>(14,837)</b>	<b>4,488</b>	<b>9,604</b>	<b>(68,420)</b>	<b>-</b>
Sensitivity to profit and reserves:						
Parallel shift of -2%	(85)	372	(203)	(1,361)	-	(1,277)
Parallel shift of + 2%	85	(372)	203	1,361	-	1,277

## 28. Financial instruments (continued)

	As at 31 December 2022 (£000)					
	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
<b>Assets</b>						
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	-	-	-	-	36,582	36,582
Loans and advances to customers	377,700	127,528	484,892	60,661	(22,202)	1,028,579
Other assets	-	-	-	-	10,036	10,036
<b>Total assets</b>	<b>559,651</b>	<b>156,943</b>	<b>485,820</b>	<b>60,661</b>	<b>24,416</b>	<b>1,287,491</b>
<b>Liabilities and reserves</b>						
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	-	-	-	-	10,034	10,034
Provisions for liabilities	-	-	-	-	144	144
Other liabilities	-	-	-	-	3,240	3,240
Subordinated liabilities	-	-	-	10,000	(318)	9,682
Reserves	-	-	-	-	71,875	71,875
<b>Total liabilities and reserves</b>	<b>922,485</b>	<b>155,432</b>	<b>113,990</b>	<b>10,000</b>	<b>85,584</b>	<b>1,287,491</b>
Impact of derivative instruments	420,054	(666)	(371,851)	(47,537)	-	-
<b>Interest rate sensitivity gap</b>	<b>57,220</b>	<b>845</b>	<b>(21)</b>	<b>3,124</b>	<b>(61,168)</b>	<b>-</b>
Sensitivity to profit and reserves:						
Parallel shift of -2%	(31)	129	(144)	(777)	-	(823)
Parallel shift of + 2%	31	(129)	144	777	-	823

At 31 December 2023, the Group has swaps in place with a net a notional value of £26.6m (2022: £27.9m) 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)		Net amounts
	Gross amounts*	Financial collateral**	
<b>2023 Financial assets</b>			
- Derivative financial instruments	20,696	-	20,696
<b>Total Financial assets</b>	<b>20,696</b>	<b>-</b>	<b>20,696</b>
<b>Financial liabilities</b>			
- Derivative financial instruments	14,362	(6,333)	8,029
<b>Total Financial liabilities</b>	<b>14,362</b>	<b>(6,333)</b>	<b>8,029</b>
<b>2022 Financial assets restated</b>			
- Derivative financial instruments	36,582	-	36,582
<b>Total Financial assets</b>	<b>36,582</b>	<b>-</b>	<b>36,582</b>
<b>Financial liabilities restated</b>			
Derivative financial instruments	10,034	(26,547)	(16,513)
<b>Total Financial liabilities</b>	<b>10,034</b>	<b>(26,547)</b>	<b>(16,513)</b>

\*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.

	Restated	
	2023 (£000)	2022 (£000)
The table below reconciles the Group's reserves to its total capital position:		
	Notes	
General reserves	77,254	71,939
Available for sale reserve	23	(446)
Revaluation reserve	24	382
Prudent valuation adjustment		(197)
Deductions for intangible assets <sup>1</sup>	16	(1,858)
Deduction for Pension Surplus		(83)
<b>Total Common Equity Tier 1 Capital</b>	<b>77,168</b>	<b>69,737</b>
Collective impairment losses	12	490
Subordinated liabilities	21	10,000
<b>Total Tier 2 Capital</b>	<b>9,338</b>	<b>10,490</b>
Total regulatory capital	86,506	80,227
Risk weighted assets (UNAUDITED)	512,918	465,549
<b>Capital ratios (UNAUDITED)</b>		
Common equity tier 1 ratio	15.0%	15.0%
Total capital ratio	16.9%	17.2%
Leverage ratio	6.0%	5.9%

## 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 2023 which are available on our website.

(2) The movement in subordinated liabilities reflects the amortisation of the debt.

## 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 2023 was £984,137 (2022 : £1,115,448).

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

	2023		2022	
	Number of key management personnel	Amounts £000	Number of key management personnel	Amounts £000
<b>Shares and deposits</b>				
Balance at 1 January	12	61	8	59
Net movements in the year	(4)	82	4	2
Balance at 31 December	8	143	12	61

	2023		2022	
	Number of connected persons	Amounts £000	Number of connected persons	Amounts £000
Balance at 1 January	6	43	1	-
Net movements in the year	1	175	5	43
Balance at 31 December	7	218	6	43

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 2023, 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 2023:

### 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 2023 was 198.

**Annual turnover:** Equivalent to total net income and, along with profit before tax, is as disclosed in the Income Statement on page 80.

**Corporation tax paid:** As disclosed in the cash flow statement on page 84.

**Public subsidies:** There were none received in the year.

# Annual Business Statement

for the year ended 31 December 2023

1. Statutory percentages	Ratio at 31 December 2023	Statutory limit
	%	%
<b>Lending limit</b>	2.3	25
<b>Funding limit</b>	22.5	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 2023	Restated ratio at 31 December 2022
	%	%
<b>As a percentage of shares and borrowings:</b>		
<b>Gross capital</b>	6.4	6.8
<b>Free capital</b>	6.0	6.3
<b>Liquid assets</b>	20.8	17.8
<b>As a percentage of mean total assets:</b>		
<b>Profit after taxation</b>	0.43	1.44
<b>Management expenses</b>	1.50	1.40

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 2023

Name of Director	Date of Birth	Date of Appointment	Occupation	Other Directorships
<b>Jenny Ashmore</b>	16.01.1971	19.05.2015	Director	Crocus Home Loans Limited Jazz-works Limited Fitness Over Fifty Limited
<b>Gary Barr</b>	22.11.1962	10.04.2014	Director	Crocus Home Loans Limited IT Range Limited
<b>Colin Field</b>	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
<b>Neil Holden</b>	7.12.1959	27.03.2014	Director	Crocus Home Loans Limited Integrated Financial Arrangements Limited Integralife UK Limited Stanbic International Insurance Limited
<b>David Rendell</b>	17.07.1958	01.05.2020	Director	Crocus Home Loans Limited Richmond Place Consultants Limited
<b>Maurice Mills</b>	30.04.1982	11.01.2023	Chief Financial Officer	Crocus Home Loans Limited Saffron Independent Financial Advisers Limited Saffron Walden Property Sales Limited Saffron Walden Investment Services Limited Saffron Walden Property Developments Limited Saffron Mortgage Finders Limited
<b>Nick Treble</b>	24.08.1959	27.03.2014	Director	Bank Leumi (UK) plc Cambridge and Counties Bank Limited Eskmuir Group Crocus Home Loans Limited
<b>Robin Litten</b>	11.05.1963	04.01.2021	Director	Crocus Home Loans Limited
<b>John Penberthy-Smith</b>	04.03.1967	01.01.2022	Chief Commercial Officer	Crocus Home Loans Limited Emeth Consulting Limited
<b>Jaz Saggu</b>	18.06.1962	01.09.2022	Director	BHSF Group Ltd BHSF Management Services Limited BHSF Employee Benefits Limited Wasmos Ltd Crocus Home Loans Limited
<b>Caroline Cartellieri</b>	14.12.1970	01.09.2023	Director	Europ Assistance Museum of London Trading Board C-Squared Consulting Ltd.

Due to an administrative oversight, the Chair did not meet the Society's director qualification requirements and is therefore not disclosed within the table above.

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
<b>Antony Bush</b>	IT Director
<b>Roy Sparks</b>	Chief Risk Officer

#### 4. Directors' service contracts

As at 31 December 2023, C H Field, J Penberthy-Smith and M L Mills had service contracts with the Society which could be terminated by either party giving six months' notice.

**0800 072 1100**

saffronbs.co.uk

**Saffron House**

1A Market Street

Saffron Walden

Essex CB10 1HX



**Saffron**  
Building Society