Company Number 02492014

Crocus Home Loans Limited

Financial Statements

For the year ended 31 December 2015

Crocus Home Loans Limited

Company Information

Company No. 02492014

Chairman

Mr G R Dunn

Registered Office

1A Market Street
Saffron Walden
Essex
CB10 1HX

Directors

Mr G R Dunn
Mr C H Field
Ms J E Smith
Mr T G Barr
Mr N J Holden
Mrs S A Howe
Mr N J Treble
Mr C R L Wilson
Mrs E Kelly
Mrs J A Zaremba
Mr D L Garner

Statutory Auditor

Deloitte LLP
Four Brindleyplace
Birmingham
B1 2HZ
United Kingdom

Bankers

Barclays Bank plc
Market Place
Saffron Walden
Essex
CB10 1UL

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Crocus Home Loans Limited

Strategic Report

For the year ended 31 December 2015

Principal activity and business review

The Company is a wholly owned subsidiary of Saffron Building Society. Its principal activity is mortgage lending and administration of purchased loan books. The Directors intend to continue and develop this activity. The Directors consider the state of the Company's affairs to be satisfactory.

The results for the year ended 31 December 2015 are compiled under revised UK Generally Accepted Accounting Principles (UK GAAP) in the form of Financial Reporting Standard 102 (FRS102). These are the first results of the Company under FRS102 and as a consequence results for the year ended 31 December 2014 have been restated.

Business Model & Strategy

The Company's business

The Company's business is to maintain loans that are secured on residential property, with the mortgage portfolios having been acquired, and funded principally by an intercompany loan from its parent undertaking.

Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Company's performance and could cause actual results to differ materially from expected and historical results. In order to ensure that the interests of all customers are adequately protected at all times, the Company takes advantage of the established governance structure and enterprise wide risk management framework of Saffron Building Society, which has been designed to identify, manage, monitor, report and control the major risks exposed in the delivery of the Company's strategic objectives.

Risk management framework

The oversight and direction of the Board is central to the Company's risk management framework. The risk management framework ensures that, through a series of Board sub-committees and management structures, appropriate policies, procedures and processes are implemented across the business to control, monitor and report risk exposure in accordance with risk appetite. The framework identifies operational roles and responsibilities (both individual and collective) in the risk management process and ensures that exposed risks are aligned to the Risk Appetite Statement of the Board, with any unacceptable risk exposures being managed and mitigated through Board sub-committees. The key risk orientated committees, operating under the delegated authority of the Board, include the Risk, Audit, Compliance and Conduct Committee (RACCC) and Board Credit Committee (BCC). In addition there are two Executive committees: the Assets and Liabilities Committee (ALCO); and the Credit Committee. Both committees meet monthly and are reported to the next Board meeting.

The principal risks inherent in the Company's business model include the following:

Economic Environment

The Company's business is exposed to rise from the UK's general economy. Adverse economic conditions (for example falling house prices, rising unemployment, rising interest rates) might increase the number of borrowers that default on their loans or adversely affect funding structures, which may in turn increase the Company's costs and could result in losses on some of the Company's assets.

The main economic factor affecting the business will be Credit risk.

Credit risk

Credit risk is the risk of default by counterparties to transactions.

Adverse changes in the credit quality of the Company's borrowers, a general deterioration in UK economic conditions or adverse changes arising from systemic rises in UK and global financial systems could reduce recoverability and value of the Company's assets.

Fixed rate mortgages only exist within the equity release portfolio. The Company has sourced qualified specialists to assess the risks associated with the equity release mortgages held by the Company and to enable appropriate risk mitigation. Additionally the Company is protected from interest rate risk where the proportion of the intercompany loan from the Society that relates to equity release is at a fixed rate.

The Company has sourced qualified specialists to assess other risks associated with the equity release mortgages held by the Company and to enable appropriate risk mitigation in respect of the no negative equity guarantee provided under the products. This encompasses the modelling and assesment of expected losses using estimated mortality rates and future house price estimates, and is based on data on the loans in the portfolio and ages of the borrowers.

Crocus Home Loans Limited

Strategic Report (continued)

Liquidity Risk

The Company policy is to maintain sufficient liquid funds to ensure liabilities can be met as they fall due. This is achieved by an intercompany loan from the parent company. The Board reviews this policy annually.

Operational Risk

The activities of the Company expose it to any operational risks relating to its ability to implement and maintain effective systems to process its transactions with customers. A significant breakdown in IT systems of the Group might adversely impact the ability of the Company to operate its business effectively.

To address these risks, the Head of Operational Risk (employed by Saffron Building Society) has put in place risk and control self assessments (RCSA) covering the operations of the entire Group. RSCAs are reviewed and tested on a regular basis and the results reported to the Executive and the RACCC. Any incidents are assessed in terms of potential cost to the Company and the causes identified to ensure no reoccurrence. Additionally the internal audit function (provided externally by PwC through Saffron Building Society) carries out targeted reviews of critical systems and processes to ensure that they remain adequate for their purpose. The Group has a Business Continuity Plan which the Company is part of and is kept under regular review and is designed to ensure that any breakdown in systems would not cause significant disruption to the business.

Performance of the business

Profitability of the business

The profitability of the business relies on:

careful management of loan accounts to increase retention and maintain the current low levels of delinquency,
delivery of effective customer service,
appropriate funding sources to sustain the business; and,
maintaining control of operating and investment costs.

Income

The Company's income is derived from interest, fees and similar charges arising from its investments in loans secured on residential property.

Net interest income

Net interest income is the difference between the Interest receivable on the Company's mortgage portfolio and the interest payable to the parent company on the intercompany loan.

Generation of assets

All assets have been generated through the acquisition of mortgage portfolios. Included within Loans secured on residential property are £38,582,370 (2014 Restated: £40,756,962) of lifetime mortgages. The Company has no plans to expand this activity.

Funding the business

The Company's sole source of funding is an intercompany loan from its parent company. Reflecting the reduction in total loans and advances to customers, funding levels reduced by £4,066,500 (2014 Restated: increase £8,541,068).

Results and dividends

The profit on the ordinary activities of the Company before taxation amounted to £654,100 (2014 Restated: £703,542). After deducting total dividends of £nil (2014: £400,000) and taxation, a profit of £539,569 (2014 Restated: £147,404) has been added to reserves.

No interim dividend was declared in the year (2014: £nil).
The Directors propose a final dividend of £nil per share (2014: £400 per share).

Future outlook

For 2016, the principal risks and uncertainties faced by the Company continue to be associated with the outlook for the UK economy and, more specifically, the housing market. There is an uncertain economic growth outlook, compounded by uncertainty surrounding the referendum on whether the UK should remain a member of the European Union, in particular prospects for unemployment levels. Throughout these uncertain times, the Company remains focussed on serving customers' best interests whilst ensuring that the Company remains compliant, effective and efficient.

By Order of the Board:

G R Dunn
Director

20 April 2016

Registered Office: 1A Market Street, Saffron Walden, Essex, CB10 1HX

Company Number 02492014

Crocus Home Loans Limited

Directors' Report

For the year ended 31 December 2015

The Directors submit their report together with the audited financial statements for the year ended 31 December 2015.

The Directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report including the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

(a) select suitable accounting policies and then apply them consistently;
(b) make judgements and accounting estimates that are reasonable and prudent;
(c) state whether applicable UK Accounting Standards have been followed; and,
(d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors
The Directors who served during the year were as follows:

Mr G R Dunn
Mr C H Field
Ms J E Smith
Mr T G Barr
Mr N J Holden
Mrs S A Howe
Mr N J Treble
Mr C R L Wilson
Mrs E Kelly (appointed from 19.05.15)
Mrs J A Zaremba (appointed from 19.05.15)
Mr D L Garner (appointed from 14.09.15)

Each of the persons who is a Director at the date of approval of this report confirms that:

(1) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and,

(2) the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Going concern
The Directors are satisfied that having considered the current uncertain economic conditions, the Company has adequate resources to continue in business for the foreseeable future. For this reason, the accounts continue to be prepared on the going concern basis.

This Directors consider (amongst other things) the economic backdrop to the Company's activities, prospects for the mortgage market, the future path of interest rates, the Company's profitability and available liquid and capital resources. Scenarios are also prepared under stressed but plausible operating conditions in order to consider the effect on the Company's business, financial position, capital and liquidity. After making the necessary enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in business for the foreseeable future.

Auditor
Deloitte LLP, have indicated that they are willing to be reappointed at the forthcoming Annual General Meeting.

By Order of the Board:

G R Dunn
Director

20 April 2016

Registered Office
1A Market Street
Saffron Walden
Essex
CB10 1HX

Company Number 02492014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CROCUS HOME LOANS LIMITED

We have audited the financial statements of Crocus Home Loans Limited for the year ended 31 December 2015 which comprise Income Statement, Statement of Financial Position, and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its 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 Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

S. Cumberbatch

Stewart Cumberbatch, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom

20 April 2016

Crocus Home Loans Limited

Income statement

For the year ended 31 December 2015

	Notes	2015	2014 Restated
		£	£
Interest receivable	2	2,287,469	2,356,351
Interest payable	3	(1,567,581)	(1,615,215)
Net interest income		719,888	741,136
Other operating income		16,986	26,709
Other operating charges		(583)	(1,810)
Net fair value movement	4	-	-
Administrative expenses	4	(64,659)	(65,994)
Impairment (losses) / gains on loans and advances	5	(17,532)	3,501
Profit before tax		654,100	703,542
Tax	6	(114,531)	(156,138)
Profit for the financial year and total comprehensive income for the period		539,569	547,404

All amounts relate to continuing activities.

The Notes on pages 7-14 form an integral part of these financial statements.

Crocus Home Loans Limited

Statement of financial position

As at 31 December 2015

	Notes	2015	2014 Restated
		£	£
Assets			
Debtors	7	52,663,418	56,297,895
Cash at bank		291,185	210,178
		52,954,603	56,508,073
Creditors			
Amounts falling due within one year	8	(50,561,250)	(54,654,289)
		2,393,353	1,853,784
Capital and reserves			
Share capital	9	1,000	1,000
Profit and loss account		2,392,353	1,852,784
Equity shareholder's funds		2,393,353	1,853,784

Statement of changes in equity

	Profit and loss account	Share capital	Total
2015	£	£	£
Balance as at 1 January 2015	1,852,784	1,000	1,853,784
Profit for the financial year	539,569	-	539,569
Dividend	-	-	-
Balance as at 31 December 2015	2,392,353	1,000	2,393,353

	Profit and loss account	Share capital	Total
2014 Restated	£	£	£
Balance as at 1 January 2014	1,705,380	1,000	1,706,380
Profit for the financial year	547,404	-	547,404
Dividend	(400,000)	-	(400,000)
Balance as at 31 December 2014	1,852,784	1,000	1,853,784

The Notes on pages 7-14 form an integral part of these financial statements.

The financial statements of Crocus Home Loans Limited (registered number 2492014) were approved by the Board of Directors and authorised for issue on 20 April 2016. They were signed on its behalf by:

G R Dunn
Director

20 April 2016

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:

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). These are the Company's first set of financial statements prepared in accordance with FRS102. The accounts have been restated to show the impact on comparative financial information. Note 14 contains further information about material adjustments made to comparative information.

In applying FRS102, the Company has elected to apply the recognition and measurement provisions of IAS39 Financial Instruments: Recognition and measurement (as adopted for use in the EU).

As reflected in the Strategic Report, the Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason, the accounts continue to be prepared on a going concern basis.

The functional currency of Crocus Home Loans Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The financial statements are also presented in pounds sterling.

b) Interest income and expense:

Interest income and interest expense for all interest bearing financial instruments is recognised in "Interest receivable" and "Interest payable", respectively, using the effective interest rates of the financial assets or financial liabilities to which it relates except for the Company's portfolio of Lifetime mortgages which are recognised at fair value. The effective interest rate is the rate that discounts the expected future cash flows, over the expected life of the financial instruments, to the net carrying amount. Interest on impaired financial assets is recognised at the effective interest rate, applied to the carrying amount as reduced by any allowance for impairment.

c) Cash flow statement:

A cash flow statement has not been prepared because the Company is a wholly owned subsidiary of Saffron Building Society, within whose consolidated cash flow statement the cashflows of the Company are included.

d) Financial assets:

The Group classifies non-derivative financial assets as loans and receivables at fair value through the Income statement. No financial assets are classified as held-to-maturity.

i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinate payments that are not quoted in an active market. The Company's loans and advances to customers (except for a portfolio of Lifetime mortgages) are classified as loans and receivables, measured at amortised cost less impairment provisions. Initial cost may include certain upfront costs and fees such as procurement fees or application 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 reflected in the carrying value of the mortgage assets.

ii) Fair value through profit and loss
All other non-financial derivative assets are measured at fair value with subsequent changes in fair value recognised in the Income statement. The Company's portfolio of Lifetime mortgages are classified as at fair value with management taking the fair value option available under IAS39.

e) Impairment of financial assets not carried at fair value through the profit and loss:

Loans and receivables
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 Company'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.

1. Accounting policies (continued)

f) Taxation:

Taxation comprises amounts for current and deferred tax and is recognised in the Income statement to match with the related item(s) and is determined using the rates of taxation enacted at the Statement of financial position date. Current tax represents the expected tax payable on profit adjusted for tax purposes. Deferred tax reflects temporary timing differences between the amounts determined for accounting purposes and amounts determined for taxation purposes.

g) Accounting estimates and judgments:

In applying the Company's accounting policies, the Company is required to make estimates and apply judgments that can have a material effect on the carrying amounts of assets and liabilities. Such estimates and judgments 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:

i) Amortised cost accounting - Expected mortgage life
Amortised cost accounting for mortgage assets requires judgements regarding the expected life of the underlying assets. The expected life of mortgage assets is derived using a combination of historical data and management judgment and is reviewed periodically throughout the year and reassessed against actual performance. Any changes to the expected life would alter the timing of recognition of interest receivable and amend the carrying value of loans and advances to customers as stated in the Statement of financial position.

ii) Impairment losses on loans and advances to customers
Impairment losses are calculated using credit risk characteristics, expected cash flows and historical experience. Estimates are made of house price inflation, default rates, time taken to sell properties in possession and the extent of any discounts that may apply and, for buy-to-let advances, the level of rental receipts.

iii) Fair value of financial assets
Financial assets at fair value through profit and loss - Estimated on the basis of the results of a discounted cash flow model that makes maximum use of market inputs. The fair value of the Company's portfolio of Lifetime mortgages are calculated in this way, making appropriate assumptions regarding mortality rates, voluntary early redemptions, future house price inflation and sale discount. Expected cash flows are discounted using a long-term interest rate, derived from quoted interest rates using generally observable market data in similar time bandings to match the expected timings of the cash flows of the mortgages, together with adjustments to reflect the cost of funding, capital, illiquidity and other risks.

2. Interest receivable

	2015 £	2014 Restated £
On loans fully secured on residential property	2,287,469	2,356,351

3. Interest payable

	2015 £	2014 £
On loan from parent undertaking	1,567,581	1,615,215

4. Other expenses

Profit before tax has been derived after charging the following amounts:

	2015 £	2014 £
Fair value through profit and loss (Note 1 dii)	10,010,000	11,040,000
Intercompany recharge	(10,010,000)	(11,040,000)
Net fair value movement	-	-

The intercompany recharge amount reflects charges made by the parent undertaking to match the movement in fair value of the Company's portfolio of Lifetime mortgages. The charge is made by the parent undertaking to reflect changes in the fair value of the derivative financial instruments it holds as a hedge against the lifetime mortgage assets.

Other administrative expenses	64,659	65,994

In the current year, the fee for the audit of the Company's statutory accounts of £8,000 (2014: £6,000) was paid by the Company's parent undertaking.

None of the Directors received any emoluments from the Company in respect of their services as Director during the year. All Directors receive remuneration from the Company's parent undertaking. It is impracticable to allocate the Directors' remuneration between the Company and the parent undertaking.

The Company had no employees in either the current or prior years.

5. Impairment losses on loans and advances

	Individual £	Collective £	Total £
At 1 January 2015 (Restated)	13,934	26,045	39,979
Charge / (credit) for the year	22,386	(4,854)	17,532
At 31 December 2015	36,320	21,191	57,511

6. Taxation on profit on ordinary activities

	2015 £	2014 Restated £
The tax charge comprises:		
Current tax on profit		
UK corporation tax	129,805	149,131
	129,805	149,131
Adjustments in respect of prior periods		
UK corporation tax	(20,489)	14,533
Total current tax	109,316	163,664
Deferred tax		
Origination and reversal of timing differences	5,215	(7,526)
Total deferred tax	5,215	(7,526)
Total current and deferred tax charge in the Income statement	114,531	156,138

The standard rate of corporation tax was 23% up to 31 March 2014, 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015, giving effective rates of 21.49% for the year ended 31 December 2014 and 20.25% for the year ended 31 December 2015. During 2015, reductions in the corporation tax rates to 19% from 1 April 2017 and 18% from 1 April 2020 were substantively enacted into legislation.

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:

	2015	2014 Restated
Profit before tax	654,100	703,542
Tax on profit on ordinary activities at standard UK corporation tax rate of 20.25% (2014: 21.49%)	132,455	151,191
Effects of:		
Impact of rate change	1,705	-
Adjustments to tax charge in respect of previous periods	(14,432)	4,947
Other	(5,197)	-
Total tax charge for the period recognised in the Income statement	114,531	156,138

7. Debtors

	2015 £	2014 Restated £
Loans fully secured on residential property	52,704,346	56,315,385
Provision for impairment losses on loans and advances	(57,511)	(39,979)
	52,646,835	56,275,406
Deferred tax	16,583	22,489
	52,663,418	56,297,895

	£
At 1 January 2015 (Restated)	22,489
Deferred tax movement for the year	(5,906)
At 31 December 2015	16,583

The deferred tax asset is derived from short term timing differences from the tax treatment for impairment loss provisions. The Company considers this asset to be recoverable in the foreseeable future under the normal course of business.

8. Creditors

	2015 £	2014 Restated £
Amounts owed to parent undertaking	50,402,873	54,469,373
Corporation tax	129,805	154,622
Other creditors	28,572	30,294
	50,561,250	54,654,289

Interest is charged by the parent undertaking on a monthly basis at a rate of 3month Libor plus 0.50% on balances outstanding. The loan is repayable on demand and is subject to three month's notice.

9. Share capital

	2015	2014
	£	£
1,000 Ordinary Shares of £1 each	1,000	1,000

10. Ultimate parent undertaking

The Company is a wholly owned subsidiary of Saffron Building Society, which is registered in the United Kingdom. This is the largest and smallest Group for which Group accounts are drawn up.

Group accounts are available from their registered office at 1A Market Street, Saffron Walden, Essex, CB10 1HX.

11. Related party transactions

Transactions with other Group companies have not been disclosed, in accordance with exemptions contained within FRS102, since consolidated Group accounts are available (see Note 10).

12. 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 Company is a retailer of financial instruments in the form of mortgage products.

The Company 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 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 RACCC.

The table below provides a summary of the terms and conditions of the Company's financial instruments and description of respective accounting policies.

Financial instrument	Terms and conditions	Accounting policy
Loans and advances to customers	Secured on residential property or land Standard contractual term of 25 years Fixed or variable rate interest	Loans and receivables at amortised cost* Accounted for at settlement date

* Excluding portfolio of equity release mortgages accounted for at fair value.

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 on-going basis either at fair value or at amortised cost. The tables below analyse the Company's assets and* liabilities by financial classification:

Carrying values by category as at 31 December 2015

	Held at amortised cost		Held at fair value	
	Loans and receivables	Financial assets and liabilities at amortised cost	Financial assets and liabilities	Total
	£	£	£	£
Financial assets				
Cash in hand	-	291,185	-	291,185
Loans and advances to customers	14,064,465	-	38,582,370	52,646,835
Other assets	-	16,583	-	16,583
	14,064,465	307,768	38,582,370	52,954,603
Financial liabilities				
Amounts owed to parent undertaking	-	50,402,873	-	50,402,873
Other liabilities	-	158,377	-	158,377
	-	50,561,250	-	50,561,250

Carrying values by category as at 31 December 2014 (Restated)

Financial assets				
Cash in hand	-	210,178	-	210,178
Loans and advances to customers	15,518,444	-	40,756,962	56,275,406
Other assets	-	22,489	-	22,489
	15,518,444	232,667	40,756,962	56,508,073
Financial liabilities				
Amounts owed to parent undertaking	-	54,469,373	-	54,469,373
Other liabilities	-	184,916	-	184,916
	-	54,654,289	-	54,654,289

There have been no reclassifications during the year.

12. 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 Company to establish fair value of the financial instruments disclosed above are set out below:

Level 3: Loans fully secured on residential property – included within Loans and advances to customers is the Company's portfolio of equity release mortgages which are accounted for at fair value using the 'present value' method. Expected future principal (redemption) cash flows are derived by making appropriate assumptions regarding mortality rates and voluntary early redemptions together with assumptions on future house price inflation and sale discount.

The expected future cash flows are then discounted using a rate determined using a long-term interest rate, derived from quoted interest rates using generally observable market data in similar time bandings to match the expected timings of the cash flows of the mortgages, together with adjustments to reflect the cost of funding, capital, illiquidity and other risks.

At 31 December 2015, Level 3 financial instruments, being loans fully secured on residential property, were £38,582,370 (2014 restated: £40,756,962).

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 from loans to our retail customers.

The Company's maximum credit risk exposure is shown below:

	2015	2014 Restated
	£	£
Cash in hand	291,185	210,178
Loans and advances to customers	52,646,835	56,275,406
Total	52,938,020	56,485,584

The table below shows information on the Company's loans and advances to customers by payment due status:

	2015	2014 Restated
	£	£
Not impaired		
Neither past due nor impaired	48,752,127	51,742,744
Up to three months overdue but not impaired	2,630,598	3,476,952
Over three months overdue but not impaired	777,477	726,584
Possessions/Receiver of rents	255,856	239,066
Impaired		
Up to three months overdue	-	-
Between three and six months overdue	139,938	-
Between six and 12 months overdue	-	-
Over 12 months overdue	-	-
Possessions/Receiver of rents	90,840	90,060
	52,646,835	56,275,406
Value of collateral held: Indexed		
Neither past due or impaired	85,055,416	83,034,997
Impaired	352,357	104,200
	85,407,773	83,139,197

Forbearance

Forbearance is where the Company 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 Company 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.

The Company 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 Company 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 Company will only initiate repossession proceedings when all other reasonable attempts to resolve the problem have failed.

The principal forbearance tools used are interest-only concessions and arrangements to repay arrears over a period which is practical in terms of the circumstances of the borrower. The majority of borrowers who require assistance are aided by one or other of these methods. The table below gives details of the loans subject to interest-only concessions and arrangements at 31 December 2015.

	Interest only		Arrangements	
	Account balances (£000)	Number of accounts	Account balances (£000)	Number of accounts
2015	433	2	1,340	17
2014	252	4	1,159	11

During the year ended 31 December 2015, one (2014: one) property was taken into possession.

12. Financial instruments (continued)

Liquidity Risk

The Company's liquidity policy is to maintain sufficient assets in liquid form at all times to ensure that it can meet all its liabilities as they fall due. This is achieved by an intercompany loan from the parent company.

The Company is, therefore, reliant on the liquidity risk managment practices of its parent company who manage 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 Company'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 Company'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.

The table below demonstrates the *contracted* maturity profile:

Residual maturity as at 31 December 2015	On demand £	Not more than three months £	More than three months but not more than one year £	More than one year but not more than five years £	More than five years £	Total £
Financial Assets						
Cash in hand	291,185	-	-	-	-	291,185
Loans and advances to customers	-	386,748	699,330	3,950,941	47,609,816	52,646,835
Other assets	-	16,583	-	-	-	16,583
	291,185	403,331	699,330	3,950,941	47,609,816	52,954,603
Financial liabilities and reserves						
Amounts owed to parent undertaking	-	386,748	50,016,125	-	-	50,402,873
Other liabilities	-	158,377	-	-	-	158,377
Reserves	-	-	-	-	2,393,353	2,393,353
	-	545,125	50,016,125	-	2,393,353	52,954,603
Net liquidity gap	291,185	(141,794)	(49,316,795)	3,950,941	45,216,463	-

Residual maturity as at 31 December 2014	On demand £	Not more than three months £	More than three months but not more than one year £	More than one year but not more than five years £	More than five years £	Total £
Financial Assets						
Cash in hand	210,178	-	-	-	-	210,178
Loans and advances to customers	-	383,970	923,362	4,076,066	50,892,008	56,275,406
Other assets	-	22,489	-	-	-	22,489
	210,178	406,459	923,362	4,076,066	50,892,008	56,508,073
Financial liabilities and reserves						
Amounts owed to parent undertaking	-	383,970	54,085,403	-	-	54,469,373
Other liabilities	-	184,916	-	-	-	184,916
Reserves	-	-	-	-	1,853,784	1,853,784
	-	568,886	54,085,403	-	1,853,784	56,508,073
Net liquidity gap	210,178	(162,427)	(53,162,041)	4,076,066	49,038,224	-

The gap in the table above in the 'More than three months but not more than one year' time bucket is because the loan from the parent undertaking is contractually repayable on 3 month's notice. However, the loan repayments are expected to be in line with the mortgage book repayments. The maturity analysis on the next page has been prepared on the expected loan repayment profile.

12. Financial instruments (continued)

The table below demonstrates the *expected* maturity profile:

Residual maturity as at 31 December 2015	On demand £	Not more than three months £	More than three months but not more than one year £	More than one year but not more than five years £	More than five years £	Total £
Financial Assets						
Cash in hand	291,185	-	-	-	-	291,185
Loans and advances to customers	-	386,748	699,330	3,950,941	47,609,816	52,646,835
Other assets	-	16,583	-	-	-	16,583
	291,185	403,331	699,330	3,950,941	47,609,816	52,954,603
Financial liabilities and reserves						
Amounts owed to parent undertaking	-	386,748	699,330	3,950,941	45,365,854	50,402,873
Other liabilities	-	158,377	-	-	-	158,377
Reserves	-	-	-	-	2,393,353	2,393,353
	-	545,125	699,330	3,950,941	47,759,207	52,954,603
Net liquidity gap	291,185	(141,794)	-	-	(149,391)	-

Residual maturity as at 31 December 2014	On demand £	Not more than three months £	More than three months but not more than one year £	More than one year but not more than five years £	More than five years £	Total £
Financial Assets						
Cash in hand	210,178	-	-	-	-	210,178
Loans and advances to customers	-	383,970	923,362	4,076,066	50,892,008	56,275,406
Other assets	-	22,489	-	-	-	22,489
	210,178	406,459	923,362	4,076,066	50,892,008	56,508,073
Financial liabilities and reserves						
Amounts owed to parent undertaking	-	383,970	923,362	4,076,066	49,085,975	54,469,373
Other liabilities	-	184,916	-	-	-	184,916
Reserves	-	-	-	-	1,853,784	1,853,784
	-	568,886	923,362	4,076,066	50,939,759	56,508,073
Net liquidity gap	210,178	(162,427)	-	-	(47,751)	-

Market risk

Market risk is the risk of charges to the Company's financial condition caused by market interest rates or early redemption of assets. The Company has no exposure to market risk as exposures arising from the Company's portfolio of fixed rate mortgages are matched by the Company's loan from its parent undertaking.

13. Capital

The Company's capital is managed as part of the Saffron Building Society group, of which the Company is a part. The Group's capital requirements are set and monitored by the Prudential Regulatory Authority (PRA) in the form of Internal Capital Guidance (ICG). A formal Internal Capital Adequacy Assessment Process (ICAAP) is followed to determine and demonstrate how these requirements are met. The ICAAP also sets out the framework for internal governance and oversight of risk and capital management policies and is used to assist with the management of capital and risk exposures. Actual and forecasted capital positions are reviewed against a risk appetite that requires capital to be maintained at a specific minimum level above the agreed ICG. There were no reported breaches of capital requirements during the year. There have been no material changes to the management of capital in the year.

The table below reconciles the Company's reserves to it's total capital position:

Common Equity Tier 1 Capital	Notes	Group 2015 £	Group 2014 Restated £
Equity shareholder's funds		2,393,353	1,853,784
Total Common Equity Tier 1 Capital		2,393,353	1,853,784

Tier 2 Capital		Group 2015 £	Group 2014 Restated £
Collective impairment losses	5	21,191	26,045
Total Tier 2 Capital		21,191	26,045

14. Explanation of transition to FRS102

This is the first year that the Company has presented its financial statements under FRS102. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were from the year ended 31 December 2014 and the date of transition to FRS102 was therefore 1 January 2014. As a consequence of adopting FRS102, a number of accounting policies have changed to comply with FRS102.

Changes to accounting policies
The significant accounting policies adopted in preparation of these financial statements are described in full in Note 1. The principle changes to accounting policies as a consequence of adopting FRS102 are:

	Policy under previous UK GAAP	Policy under FRS102
Interest receivable	Credited to profit and loss account when receivable.	Interest income for all interest bearing financial instruments is recognised using the effective interest rates of the underlying financial assets. The effective interest rate is the rate that discounts the expected future cash flows over the expected life of the financial instrument to the net carrying amount.
Financial assets	Recorded at cost, adjusted for provisions for bad and doubtful debts.	*Loans and receivables* are recorded at amortised cost using the effective interest rate, less impairment charges.
		The Company's portfolio of Equity Release mortgages is recorded at *fair value*.
Impairment	*Specific provision* is made where arrears are more than 2 months behind and exceed 2.5% of the outstanding loan balance, determined as the difference between the achievable market value, calculated by applying an industry recognised house price index less forced sale deduction, and the outstanding loan balance, after allowance for costs.	*Individual provision* is made when a property is still in occupation and we may be facing the prospect (or may be in the process of taking possession) for either sale to appoint a Receiver of Rents. The original valuation is taken and Indexed for current value against the regional house price index and a haircut applied for forced sale in line with the average historical repossession and compared to the current exposure for an exposure at risk which would is also provided for.
	General provision is made to cover losses known from experience to exist but have not been specifically identified, calculated using a combination of past loss experience, lending quality and consistency with industry levels. General provisions also include provisions against equity release mortgages, calculated on an expected loss basis using estimated mortality rates and other assumptions.	*Collective provision* is made against the remaining group of loans and advances (excluding those subject to Fair Value Adjustment or those assets where the Mark to Market position is taken as a capital haircut), to cover latent losses which, although not specifically identified, are known from experience to exist in the various loan portfolios. Provisions are calculated by applying various economic factors to pools within the mortgage portfolios that have similar characteristics. These factors take into account: - Ours or industry experience of default rates; - Portfolio Internal and External Credit Rating; - Loss emergence periods; - The effect of regional movements in house prices based on a recognised index; and, - Adjustments to allow for ultimate forced sales values and realisation costs

Reconciliation of equity

	1/1/14 £	31/12/14 £
Total Equity reported under previous UK GAAP	1,375,477	1,465,672
Interest receivable	(75,071)	(79,886)
Fair value through profit and loss	6,360,000	11,040,000
Intercompany recharge	(6,360,000)	(11,040,000)
Impairment	488,000	570,814
Other	-	860
Tax	(82,586)	(103,676)
Total Equity reported under FRS102	**1,705,820**	**1,853,784**

Reconciliation of profit before tax for the financial year ended 31 December 2014

	£
Profit before tax for the financial year under previous UK GAAP	625,243
Interest receivable	(4,815)
Fair value through profit and loss	4,680,000
Intercompany recharge	(4,680,000)
Impairment	82,814
Other	300
Profit before tax under FRS102	**703,542**

A summary of the material adjustments is provided below:

Interest receivable	This adjustment reflects the movement in interest derived under the effective interest rate methodology. The adjustment to equity reflects the increase in value of the financial assets being the difference between value of income to be received over the expected life of the loan less amounts already recorded under previous UK GAAP.
Fair value through profit and loss	This adjustment reflects the increase in the fair value of the Company's Lifetime mortgage book (Note 1 dii).
Intercompany recharge	This adjustment reflects the increase in the intercompany loan as a result of the increase in the fair value of the Company's Lifetime mortgage book (Note 4).
Impairment	This adjustment principally represents the reversal of amounts reported under previous UK GAAP in respect of financial assets now reported at fair value.