Company Number: 02492014

Crocus Home Loans Limited

Financial Statements

For the year ended 31 December 2023

Company information

Chair	**G Dunn**
Directors	**C H Field** **M L Mills** **J W Penberthy-Smith** **J A Ashmore** **D R Rendell** **R S P Litten** **J S Saggu** **C B Cartellieri**
Registered Office	**Saffron House** **1A Market Street** **Saffron Walden** **Essex** **CB10 1HX**
Statutory Auditor	**BDO LLP** **55 Baker Street** **London** **W1U 7EU**
Bankers	**Barclays Bank plc** **Level 12,** **1 Churchill Place** **Canary Wharf** **London** **E14 5HP**

Index

Strategic Report

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 have no plans to develop this activity. The Directors consider the state of the Company's affairs to be satisfactory.

Business model and strategy
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.

Economic Environment
The UK economic environment is a major influence on the company's performance, which in 2023 has been impacted by high levels of inflation, higher interest rates and geopolitical uncertainty. The Bank of England base rate has moved from 2.25% at the start of the financial year to 5.25% at the end of year. This has had a clear impact on the mortgage market with house prices stalling.

The labour market has loosened over the year with headline unemployment rates gradually increasing from 3.7% in December 2022 to 4.3% at December 2023.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 has eased from 10.5% in December 2022 to 4% in December 2023, well above the Bank of England's 2% target. Forecasts expect inflation to continue reducing slowly in the first half of 2024, with the target of 2% inflation likely to be reached by 2025 based on the Bank of England's central projection.

The principal driver of the company's reduced profit level in the year has been changes in the fair value of derivatives transacted to hedge interest rate risk on the Society's lifetime mortgage book, which incurred a charge of £534k. (2022, the company reported a net fair value gain of £3.8m) as financial markets reacted to inflation, increasing SONIA rates on the variable leg of interest rate swaps.

Key performance indicators
The Company is managed at a Group level using an extensive range of performance and control reports. The key performance indicators (KPIs) at a Company level are as follows.

	2023	2022
Profit after tax (£000s)	4	3,624
Loans and advances to customers (£000s)	26,472	26,928

Performance of the business
The Company prepares its results under Financial Reporting Standard 102 (FRS102), "the Financial Reporting Standard applicable in the UK and Republic of Ireland" and elects to apply the measurement and recognition principles of IAS39, "Financial instruments: Recognition and measurement (as adopted for use in the EU)".

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.

Profit after tax of £4,269 for the year ended 31 December 2023 compares with a profit after tax of £3,624,146 for the year ended 31 December 2022. The decrease in the financial performance was driven by changes in the fair value of derivative instruments used to hedge the interest rate risk of the equity release mortgage book and the increase in the interest element of the intercompany loan linked to Bank of England base rate. This is partly matched by an increase in the fair value of the equity release mortgage book, however, long term interest rates are only one of the feeds into the Black Scholes model to determine the fair value of the book which means that this will not naturally exactly match the interest rate movement on the associated derivative, with both the derivative and the equity release mortgage book carried at fair value through profit or loss.

Strategic Report (Continued)

Performance of the business (continued)

- **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 entity on the intercompany loan. Net interest income is the principal source of the Company's income and will vary according to both the volume of assets and liabilities and rates of interest that apply. A fall in the level of loans and advances to customers through redemption activity has been used to offset the amount owed to the Company's parent undertaking, which resulted in the Company earning net interest income of £603,664 (2022: £719,189). The income has fallen in the year as a result of the rates charged on the intercompany loan element which is linked to Bank of England base rate and has seen a significant increase in the year.

- **Net fair value movements**
  This income category comprises entirely from fair value movements on the Company's portfolio of fixed-rate equity release mortgages and an intercompany recharge in respect of derivative financial instruments held by the Company's parent undertaking to manage interest rate exposure. Although the derivatives are held entirely for risk management purposes, the equity release mortgage portfolio and derivatives are not in a qualifying hedge relationship. The net loss of £533,821 (2022: Income of £3,816,534) mainly arises from the mismatch between the valuation movements on the equity release mortgage book and the recharge from the associated derivatives.

- **Charges for impairment and provisions**
  The Company is proud of the arrears performance of its residential mortgage assets, reflecting individual underwriting, clear lending policies and robust credit risk management practices.

  The Company's impairment review has resulted in a charge of £36 (2022 – a release of £754).

  Overall growth in house prices throughout the first part of the year, coupled with a reduction in non-equity release mortgage assets contributed to a lower collective provision requirement.

- **Generation of assets**
  All assets have been generated through the acquisition of mortgage portfolios. Included within Loans fully secured on residential property are £22,193,101 (2022: £21,778,837) of equity release mortgages. The Company has no plans to expand this activity.

- **Mortgages**
  The Company's total portfolio of loans and advances mostly comprise equity release mortgage advances and owner-occupied and buy-to-let mortgages. Equity release mortgages are included in the financial statements at fair value. At 31 December 2023, total loans and advances to customers stood at £26,472,004 (2022: £26,927,858).

- **Funding the business**
  The Company's sole source of funding is an intercompany loan from its parent undertaking. In 2023, the intercompany loan increased by £394,987, primarily driven by loan repayments made as mortgage redemptions occur, offset by the recharge of the Company's proportion of fair value increases linked to the equity release derivative (2022: reduced by £11,881,917 as a result of fair value benefit and mortgage redemptions).

- **Results and dividends**
  The profit on ordinary activities of the Company before dividends and tax amounted to £5,270 (2022: £4,472,170). After adding total dividends of £nil (2022: £nil) and taxation, an amount of £4,269 was added to the reserves (2022: £3,624,146).

  No interim dividend was declared at the year-end (2023: £nil). The Directors propose a final dividend of £nil per share (2022: £nil per share).

Strategic Report (Continued)

Financial risk management objectives and policies

Risk management framework
The primary goal of Risk Management is to ensure that the outcome of risk-taking activity is consistent with the Company's strategies and risk appetite and appropriate for the level and type of risks that it takes paying regard to regulatory guidance. It ensures that there is an appropriate balance between risk and reward in order to optimise returns and when issues arise, these are managed for the best outcome of the Company. The parent company's Enterprise-wide Risk Management Framework (ERMF) provides the foundation for achieving these goals through:

- articulating risk management practices and procedures;
- documenting a consistent framework for risk management across the Group;
- establishing minimum standards around key risk management framework issues;
- articulating the risk strategy and enterprise wide risk appetite; and
- directing the approach to risk governance.

The ERMF sets out the method of managing risk via:

- defining its Risk Appetite, which is the level of risk that the Group is prepared to accept whilst pursuing its business strategy, recognising a range of possible outcomes as the business plan is implemented;
- detailing the 3 Lines of Defence (3LoD) model and its operation within the Risk Management Framework;
- determining the roles and responsibilities of the committees in place to govern risk;
- identifying those rules responsible for the key risks and how the oversight operates together with the reporting structure to ensure independent oversight of risk decisions;
- documenting the main risk management processes under its approach of Identify; Evaluate; Mitigate; Report; Manage and Challenge;
- describing the key risks facing the Company and how they are managed; and
- listing and explaining where the policies sit in the Group hierarchy and how they operate.

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

Risk governance
The oversight and direction of the Board is central to the Company'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 other committee members drawn from the Executives and appropriate members of senior management.

The Board Committees forming part of the Risk Management Framework comprise: Risk Committee (RC), Audit Committee (AC); and Board Credit Committee (BCC). In addition there are four Management committees: the Assets and Liabilities Committee (ALCO); the Executive Committee (Ex Co); the Executive Risk Committee (ERC) and the Credit Committee (CC). Executive committees meet monthly and are reported to the next Board meeting.

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

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 and also have the ability to threaten its business model, solvency or liquidity. 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 its parent undertaking, Saffron Building Society, described above.

The principal risks that arise from the Company's operations, and which are managed under the risk management framework, are described below:

Strategic Report (Continued)

Financial risk management objectives and policies (continued)

Credit risk
Credit risk is the risk that a customer is unwilling or unable to honour its obligations to the Company as they fall due, resulting in an actual or potential loss exposure for the Company. Adverse changes in the credit quality of the Company'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 Company's assets.

The Company operates within a credit risk appetite which directs mortgage activities to lower risk / lower return sectors of the mortgage market, both in terms of property location and borrower characteristics and this is monitored carefully and benchmarked against external loss and risk data.

Market risk
Market risk is the risk of any impact on the Company's financial position due to adverse movements in market rates, such as interest rates, house price indices, equity prices, currency or commodity prices. The Company's principal exposure to market risk is interest rate risk and prepayment risk within the Company's portfolio of equity release mortgages recorded at fair value.

The Company manages market risk through on-balance sheet matching of assets and liabilities, or derivative financial instruments held through arrangements with the parent undertaking. Following the adoption of FRS102 movements in interest rates and other indices have a direct impact on the value of certain balance sheet items which, in turn, creates volatility in the reported earnings of the Company that cannot be eliminated entirely.

Liquidity risk
Liquidity risk is the risk that the Company is unable the 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.

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 undertaking. The Board reviews this policy annually.

Operational risk
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 Company 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 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 Group. RCSAs are reviewed and tested on a regular basis and the results reported to the Executive and RC. Any incidents and near misses are assessed in terms of potential cost 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 operating 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 business disruption.

Strategic Report (Continued)

Future 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. The Group has no interests which are directly impacted by the conflict although there may be mortgage customers whose employer trading is detrimentally affected. As always, the Society will seek to assist members where possible.

The Company has continued to weather the domestic and global economic volatility and the significant inflationary pressures resulting in cost-of-living pressures.

The core market that Crocus operates in (mortgages) is highly competitive, as more competitors move into niche mortgage markets with pressure on interest rates that may lead to future margin compression for many in the industry and could see further prepayments away from the Crocus legacy product offerings. This is monitored carefully by the directors.

Notwithstanding the risk factors identified above, the mortgage balances continue to perform as expected, with continued support of funding from the parent entity where required.

By order of the Board

Mr C H Field
Director
7 March 2024

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2023.

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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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

Directors who served during the year and up to the date of signing the financial statements:

C H Field
J W Penberthy-Smith
T Slater (Resigned 18th January 2023)
M L Mills (Appointed 11th July 2023)
B Anderson (Appointed 18th January 2023) (Resigned 21st February 2024)
G Dunn (Appointed 9th February 2024)
N J Treble (Resigned 18th April 2023)
J A Ashmore*
T G Barr (Resigned 18th April 2023)
N J Holden (Resigned 18th April 2023)
D R Rendell
R S P Litten
J S Saggu
C B Cartellieri (Appointed 1st September 2023)

* Married name Zaremba

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

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

Directors' Report (Continued)

Going concern

The Directors are satisfied that having considered the current uncertain economic conditions, the Company, by virtue of its continued funding by its parent, has adequate resources to continue in business for the foreseeable future. A letter of support has also been received from Saffron Building Society confirming that any shortfall of external costs will be covered by the parent and that intercompany funding will not be withdrawn in the 12 months following the signing of these financial statements. For these reasons, the accounts continue to be prepared on the going concern basis.

The 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.

The use of financial instruments

The financial risk management objectives and policies of the Company are set out in the Strategic report, along with the key risks the Company is exposed to.

Auditor

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

By order of the Board

Mr C H Field
Director
7 March 2024

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

Opinion on the 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 2023 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.

We have audited the financial statements of Crocus Home Loans Limited ("the Company") for the year ended 31 December 2023 which comprise the Income statement, Statement of financial position, Statement of changes in equity, 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.

Independence

We are independent of the Company 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

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 Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Directors report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- 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; and

- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which 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; or

- the Directors were not entitled to take advantage of the small companies' exemptions in preparing the Directors' report.

Responsibilities of Directors

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

In preparing the financial statements, the Directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates and considered the risk of acts by the Company which would be contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with the Companies Act 2006, Financial Conduct Authority ("FCA") regulations and tax legislation.

We focused on laws and regulations that could give rise to a material misstatement in the company financial statements.

Our tests included, but were not limited to:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- obtaining an understanding of the control environment that the Company has in place for monitoring compliance with laws and regulations;
- making enquiries in respect of known or suspected fraud of management;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments by agreeing them to supporting documentation, and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

- in addressing the risk of fraud in accounting estimates, assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Auditor's responsibilities for the audit of the financial statements (Continued)

Non-compliance with laws and regulations

We focused on laws and regulations that could give rise to a material misstatement in the company financial statements.

Our tests included, but were not limited to:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above.

Fraud

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

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Company'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.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have 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:

https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the 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.

DocuSigned by:

Ariel Grosberg

6314B688DC384B1...

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

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

Income statement

For the year ended 31 December 2023

	Notes	2023 £	2022 £
Interest receivable	2	1,576,628	1,516,968
Interest payable	3	(972,964)	(797,779)
Net interest income		603,664	719,189
Other operating income		393	2,372
Net fair value movement	4	(533,821)	3,816,534
Total net income		70,236	4,538,095
Administrative expenses	5	(64,930)	(66,679)
Operating profit before impairment and provisions		5,306	4,471,416
Impairment (charge)/reversal on loans and advances	6	(36)	754
Profit before tax		5,270	4,472,170
Tax on profit on ordinary activities	7	(1,001)	(848,024)
Profit for the financial year and total comprehensive income for the period		4,269	3,624,146

Profit for the financial year arises from continuing operations. There were no other gains and losses in the year and therefore no separate Statement of total comprehensive income is presented.

The Notes on pages 16 to 26 form an integral part of these financial statements.

Statement of financial position

As at 31 December 2023

	Notes	31 December 2023 £	31 December 2022 £
Assets			
Loans and advances to customers	8	26,472,004	26,927,858
		26,472,004	26,927,858
Creditors			
Amounts falling due within one year	9	(23,392,871)	(23,852,994)
		3,079,133	3,074,864
Capital and reserves			
Called up share capital	10	1,000	1,000
Profit and loss account		3,078,133	3,073,864
Equity shareholder's funds		3,079,133	3,074,864

The Notes on pages 16 to 26 form an integral part of these financial statements.

The financial statements of Crocus Home Loans Limited (registered number 02492014) were approved by the Board of Directors and authorised for issue on 7 March 2024. They were signed on its behalf by:

Mr M L Mills
Director

Statement of changes in equity

	Profit and loss account	Share capital	Total
2023	**£**	**£**	**£**
Balance as at 1 January 2023	3,073,864	1,000	3,074,864
Profit and total comprehensive income for the financial year	4,269	-	4,269
Balance as at 31 December 2023	3,078,133	1,000	3,079,133

	Profit and loss account	Share capital	Total
2022	**£**	**£**	**£**
Balance as at 1 January 2022	(550,282)	1,000	(549,282)
Profit and total comprehensive income for the financial year	3,624,146	-	3,624,146
Balance as at 31 December 2022	3,073,864	1,000	3,074,864

Notes to the Financial Statements

For the year ended 31 December 2023

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:

Crocus Home Loans Limited is a private limited company and is limited by shares.

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).

The accounts have been prepared under the historical cost convention as modified by financial instruments at fair value. 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 Directors 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 equity release 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) Other operating income:

Other income includes Fees and Commission and is recognised when the Company has fulfilled all contractual obligations.

d) Cash flow statement:

The Company has taken advantage of the disclosure exemption in FRS102 1.12(b) not to present a statement of cash flows because the Company is a wholly owned subsidiary of Saffron Building Society, within whose consolidated cash flow statement the cash flows of the Company are included.

e) *Financial assets:*

The Company classifies non-derivative financial assets as loans and receivables or fair value through profit and loss. 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 equity release mortgages) are classified as loans and receivables, measured at amortised cost. 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 or loss
All other Non-derivative financial assets are measured at fair value with subsequent changes in fair value recognised in the Income statement. The Company's portfolio of equity release mortgages is classified as at fair value with management taking the fair value option available under IAS39 on the basis that it prevents an accounting measurement mismatch.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

f) Financial liabilities:

Non-derivative financial liabilities are measured at amortised cost with interest recognised using the effective interest rate method.

The Company's parent undertaking holds a derivative financial instrument to manage interest rate exposure associated with the portfolio of fixed rate equity release mortgages. Fair value movements in the swap are reflected in the valuation of the amount owed to the parent undertaking and adjusted through the intercompany recharge.

g) Impairment of financial assets not measured at fair value through 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 future cash flows discounted at the effective interest rate. In estimating future cash flows, account is taken of expected movement's 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 movement's 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.

h) 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 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 temporary timing differences between the amounts determined for accounting purposes and amounts determined for taxation purposes.

i) Accounting estimates and judgements:

In applying the Company's accounting policies, the Company 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:

i) Effective interest rate - Expected mortgage life
The calculation of an effective interest rate requires judgements regarding the expected life of 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.

ii) Impairment losses on loans and advances to customers
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.

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.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

i) Accounting estimates and judgements (continued):

iii) Financial assets at fair value through profit or loss – Equity release mortgages
Loans and advances to customers includes a portfolio of equity release mortgages. All such loans were purchased before 2011 and such mortgages are no longer purchased. Under the product terms, interest is capitalised within the loan balance and becomes repayable on redemption of the loan through the 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 company 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 company to the risk that the company may not fully recover the expected redemption balances. Estimation uncertainty surrounds the measurement of 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 by 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.

2. Interest receivable

	2023	2022
	£	£
On assets held at amortised cost		
Loans fully secured on residential property	270,691	168,823
On assets held at fair value through profit and loss		
Loans fully secured on residential property	1,305,937	1,348,145
	1,576,628	1,516,968

3. Interest payable	2023	2022
	£	£
On loan from parent undertaking	(972,964)	(797,779)

4. Net fair value movement	2023	2022
	£	£
Fair value movement on equity release mortgage portfolio (Note 1 i-iii)	(885,055)	(5,603,961)
Intercompany recharge	351,234	9,420,495
Net fair value movement	(533,821)	3,816,534

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

The intercompany recharge amount reflects charges made by the parent undertaking to match the fair value movement of derivative financial instruments held by the parent undertaking for the purposes of managing the risk in the equity release portfolio of the Company. 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 equity release mortgage assets held by the Company.

5. Administrative expenses	2023	2022
	£	£
Other administrative expenses	64,930	66,679

In the current year, the fee for the audit of the Company's statutory accounts of £32,400 (2022: £30,000) 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 year.

Notes to the Financial Statements (continued)

6. Impairment consideration on loans and advances

	Individual	Collective	Total
	£	£	£
At 1 January 2023	-	59	59
Provision charge	-	36	36
At 31 December 2023	-	95	95
At 1 January 2022	-	813	813
Provision releases	-	(754)	(754)
At 31 December 2022	-	59	59

7. Taxation on profit on ordinary activities	2023	2022
The tax charge comprises:	£	£
Current tax on profit	1,001	848,024
	1,001	848,024
Deferred tax:		
Origination and reversal of timing differences	-	-
Total deferred tax	-	-
Total current and deferred tax charge/(credit)	1,001	848,024

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 are as follows:

	2023	2022
	£	£
Profit before tax	5,270	4,472,170
Tax on profit on ordinary activities at standard UK corporation tax rate of 23.52% (2022: 19%)	1,239	849,712
Effects of:		
Expenses not deductible for tax purposes	-	(48)
Group relief surrendered	-	-
Impact of rate change	-	-
Adjustments to tax charge in respect of previous periods	-	-
Re-measurements of deferred tax for changes in tax rates	-	-
Movement in deferred tax not recognised	-	(1,640)
Other	(238)	-
Total tax charge for the period recognised in the Income statement	1,001	848,024

Captured within the comparative period, line 'Other' above is the de-recognition of losses carried forward in the year due to the uncertainty over future consumption through profitability. Further detail of this is included within note 9.

8. Loans and advances to customers	2023	2022
	£	£
Loans fully secured on residential property (Note 14)		
Held at amortised cost	4,278,998	5,149,080
Provision for impairment losses on loans and advances (Note 6)	(95)	(59)
	4,278,903	5,149,021
Held at fair value through profit or loss	22,193,101	21,778,837
Total loans and advances	26,472,004	26,927,858

Notes to the Financial Statements (continued)

9. Creditors	**2023**	**2022**
	£	**£**
Amounts owed to parent undertaking	23,377,894	22,982,907
Corporation tax	1,001	848,024
Other creditors	13,976	22,063
	23,392,871	23,852,994

The interest is charged on a fixed and variable basis. The fixed element of the loan is charged monthly at a rate of 5.09% and the variable element is charged based on the Bank of England Base Rate plus 0.50%. The revised Bank Base Rate would be reflected from the first of the month following any change in base rate.

The loan is repayable on demand and is subject to three months' notice.

10. Called up share capital

	2023	**2022**
	£	**£**
1,000 ordinary shares issued, called up and fully paid of £1 each	1,000	1,000

11. Ultimate parent undertaking

The Company is incorporated in the United Kingdom and is a wholly owned subsidiary of Saffron Building Society. The registered address for the parent is Saffron House, 1A Market Street, Saffron Walden, Essex, CB10 1HX. The Directors consider Saffron Building Society to be the controlling party of the Company.

This is the largest and smallest Group for which Group accounts are drawn up. Group accounts are available from their website at: www.saffronbs.co.uk/about-us/report-and-accounts.

12. 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 11).

13. 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 Risk Committee.

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:

Notes to the Financial Statements (continued)

13. Financial instruments (continued)

	Held at amortised cost		**Held at fair value**	**Non-financial assets and liabilities**	
Carrying values as at 31 December 2023	Loans and receivables	Financial assets and liabilities at amortised cost	Financial assets and liabilities		Total
	£	£	£	£	£
Financial assets					
Loans and advances to customers	4,278,903	-	22,193,101		26,472,004
	4,278,903	-	22,193,101		26,472,004
Financial liabilities					
Amounts owed to parent undertaking	-	18,834,214	4,543,680	-	23,377,894
Other liabilities	-	-	-	14,977	14,977
	-	18,834,214	4,543,680	14,977	23,392,871

	Held at amortised cost		**Held at fair value**	**Non-financial assets and liabilities**	
Carrying values as at 31 December 2022	Loans and receivables	Financial assets and liabilities at amortised cost	Financial assets and liabilities		Total
	£	£	£	£	£
Financial assets					
Loans and advances to customers	5,149,021	-	21,778,837	-	26,927,858
	5,149,021	-	21,778,837	-	26,927,858
Financial liabilities					
Amounts owed to parent undertaking	-	19,460,157	3,522,750	-	22,982,907
Other liabilities	-	-	-	870,087	870,087
	-	19,460,157	3,522,750	870,087	23,852,994

Loans and advances to customers comprise of residential and buy-to-let mortgage assets, held at amortised cost; and the Company's portfolio of equity release mortgages, held at fair value. There have been no reclassifications during the year.

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; and
- 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.

Notes to the Financial Statements (continued)

13. Financial instruments (continued)

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 hedging risks.

At 31 December 2023 Level 3 financial instruments, being loans fully secured on residential property, were £22,193,101 (2022: £21,778,837)

Level 3: Amounts owed to parent undertaking – the Company's parent undertaking holds a derivative financial instrument to manage interest rate exposure associated with the portfolio of fixed rate equity release mortgages. A counterparty valuation is used for the financial instrument derived from their internal modelling techniques. The Company corroborates the counterparty valuations provided through its own internal calculations. Fair value movements in the swap are reflected in the valuation of the amount owed to the parent undertaking and adjusted through the intercompany recharge.

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:

	2023	2022
	£	£
Loans and advances to customers	26,472,004	26,927,858
	26,472,004	26,927,858

The following table analyses the loan to value (LTV) of the residential portfolio:

	2023	2022
	%	%
0% to 50%	24	40
51% to 75%	64	51
76% to 80%	1	1
81% to 85%	3	-
86% to 90%	1	1
91% to 95%	1	1
95%>	6	6
	100	100

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

	2023	2022
Not impaired	£	£
Neither past due nor impaired	24,234,120	25,339,912
Up to three months overdue but not impaired	1,400,167	1,190,000
Over three months overdue but not impaired	837,717	397,946
Possessions / Receiver of rents	-	-
Impaired		
Possessions / Receiver of rents	-	-
	26,472,004	26,927,858
Value of collateral held: Indexed	£	£
Neither past due nor impaired	40,338,182	49,416,012
Either past due or impaired	7,737,724	5,505,015
	48,075,906	54,921,027

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.

Notes to the Financial Statements (continued)

13. Financial instruments (continued)

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 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 2023:

	Interest only		*Arrangements*	
	Account balances (£000)	Number of accounts	Account balances (£000)	Number of accounts
2023	-	-	379	1
2022	-	-	382	1

During the year ended 31 December 2023, no properties were taken into possession (2022: none).

Other forbearance measures offered by the Group include a change to the date of payment each month, payment holidays, 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 Mortgage Team Extensions	-	-
Number of Mortgage charter temp transfers	6	-
Concessions	1	-
Arrangements	-	-
Total	7	-
Payment Deferrals	-	-
Total	-	-

Liquidity Risk

The Company's liquidity policy is to always maintain sufficient assets in liquid form 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 management 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.

Notes to the Financial Statements (continued)

13. Financial instruments (continued)

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 contractual maturity profile of financial assets and liabilities:

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
Residual maturity as at 31 December 2023	**£**	**£**	**£**	**£**	**£**	**£**
Financial Assets						
Loans and advances to customers	-	138,806	483,306	2,119,639	23,730,253	26,472,004
	-	138,806	483,306	2,119,639	23,730,253	26,472,004
Financial liabilities and reserves						
Amounts owed to parent undertaking	-	138,806	23,239,088	-	-	23,377,894
Other liabilities	-	14,977	-	-	-	14,977
Reserves	-	-	-	-	3,079,133	3,079,133
	-	152,783	23,239,088	-	3,079,133	26,472,004
Net liquidity gap	-	(14,977)	(22,755,782)	2,119,639	20,651,120	-

	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
Residual maturity as at 31 December 2022	**£**	**£**	**£**	**£**	**£**	**£**
Financial Assets						
Loans and advances to customers	-	25,133	186,419	2,453,383	24,262,923	26,927,858
Other assets	-	-	-	-	-	-
	-	25,133	186,419	2,453,383	24,262,923	26,927,858
Financial liabilities and reserves						
Amounts owed to parent undertaking	-	25,133	22,957,774	-	-	22,982,907
Other liabilities	-	22,063	848,024	-	-	870,087
Reserves	-	-	-	-	3,074,864	3,074,864
	-	47,196	23,805,798	-	3,074,864	26,927,858
Net liquidity gap	-	(22,063)	(23,619,379)	2,453,383	21,188,059	-

The net liquidity 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 months' notice. However, the loan repayments are expected to be in line with the mortgage book repayments. The maturity analysis below has been prepared on the expected loan repayment profile.

Notes to the Financial Statements (continued)

13. Financial instruments (continued)

The table below demonstrates the expected maturity profile of financial assets and liabilities:

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
Residual maturity as at 31 December 2023	£	£	£	£	£	£
Financial Assets						
Loans and advances to customers	-	138,806	483,306	2,119,639	23,730,253	26,472,004
	-	138,806	483,306	2,119,639	23,730,253	26,472,004
Financial liabilities and reserves						
Amounts owed to parent undertaking	-	138,806	483,306	2,119,639	20,636,143	23,377,894
Other liabilities	-	14,977	-	-	-	14,977
Reserves	-	-	-	-	3,079,133	3,079,133
	-	153,783	483,306	2,119,639	23,716,276	26,472,004
Net liquidity gap	-	(14,977)	-	-	14,977	-

	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
Residual maturity as at 31 December 2022	£	£	£	£	£	£
Financial Assets						
Loans and advances to customers	-	25,133	186,419	2,453,383	24,262,923	26,927,858
	-	25,133	186,419	2,453,383	24,262,923	26,927,858
Financial liabilities and reserves						
Amounts owed to parent undertaking	-	25,133	186,419	2,453,383	20,317,972	22,982,907
Other liabilities	-	22,063	848,024	-	-	870,087
Reserves	-	-	-	-	3,074,864	3,074,864
	-	47,196	1,034,443	2,453,383	23,392,836	26,927,858
Net liquidity gap	-	(22,063)	(848,024)	-	870,087	-

Market risk

Market risk is the risk of changes 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.

The variable element of the intercompany loan agreement between *Saffron Building Society and Crocus Home Loans limited* was changed from 3 month LIBOR in the prior period following the cessation of LIBOR, instead moving to Bank of England Base Rate from March 2022 and thereafter. The significant increases to the Bank of England base rate expose the company to the risk that rolled up interest on the loan could exceed the fixed rates on the mortgage book, however this is mitigated due to the equity in the mortgage book significantly exceeding the loan balance.

Notes to the Financial Statements (continued)

14. 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). 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 regulatory requirement. 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.