

Saffron Building Society

Annual Members' Review 2010

incorporating
the Summary Financial Statement
and Notice of Annual General Meeting



Savings | Mortgages | Financial Advice | Insurance | Since 1849

Financial Highlights

ASSETS (£m)



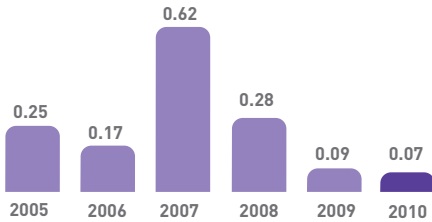
- Assets increased by 11.4% in the year.
- Retail balances increased by 15.2%.
- The increase in mortgage lending was fully financed through retail savings.

PROFIT BEFORE TAXATION (£m)



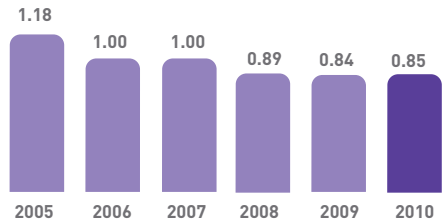
- Profit before tax of £1.1m compared to £2.0m in 2009.
- Profits reduced as a result of low interest rates which have impacted on the return on the Society's investments.
- Strong performance from the Group's other income sources.

SOCIETY ARREARS RATIO (%)



- This ratio expresses mortgage balances in arrears as a % of the total Society mortgage book. The amount at 0.07% is below the Building Societies average of 1.55%.
- The Group arrears performance (greater than 3 months in arrears by number) at 0.39% (2009: 0.57%) is below the Council of Mortgage Lenders published average at 2.15%. The amount by value has decreased from 0.57% to 0.43%.

MANAGEMENT EXPENSES RATIO (%)



- This ratio expresses management expenses of the group as a % of average assets.
- The Group ratio above shows continuing efficiencies within the Society along with a good contribution from Saffron Independent Financial Advisers Limited which was once again profitable. The Society ratio was 0.80% (2009: 0.82%).
- The level of expenses has increased in line with asset growth. The long term trend remains downward and increasing efficiency remains a core objective.

Chairman's Report

I am pleased to be able to present the 2010 report and accounts for Saffron Building Society. These demonstrate the continued security and solidity of Saffron's commitment to remaining an independent and dynamic mutual Society (the "Society"). Since economic turmoil really came to a head in 2008, the tangible signs of improvement have been keenly anticipated and whilst it is technically true that the UK came out of recession in 2010, and that house price declines stabilised, the UK economy has remained a difficult and uncertain environment for individuals and businesses alike.

Although 2010 was not nearly so sensational in terms of the demise of financial institutions, we have still seen a number for whom the challenges of such a fragile economic environment have proven unmanageable. However I am pleased to be able to report another strong set of results for Saffron, despite the difficult underlying market conditions. Andy Golding will comment further on economic factors, the Society's response to them and the resultant performance in his Chief Executive's report.

There are three key priorities that the Board of Saffron adheres to in setting the strategy and direction for the Society:

- Security of members' money
- Making mutuality relevant and of value to members and
- Demonstrating the very best governance and risk management.

We believe these factors are critical in running a safe, secure and yet dynamic building society. I will use these headings to frame my report.

Security of Members' Money

This is at the very heart of the Board's priorities. We recognise the trust that members place in their Society and take the responsibility for that extremely seriously. This is why you have not seen Saffron entering complex markets such as commercial lending and why we are extremely challenging of other businesses we work with, particularly those with whom we deposit the Society's own liquid funds.

The Society has maintained excellent arrears performance across its entire mortgage portfolio and this enviable result places Saffron



Peter Harrison
Chairman

significantly better than the Building Societies Association and Council of Mortgage Lenders average.

Saffron remains very strong from a capital and liquidity perspective and our regular severe stress testing continues to demonstrate the Society's ability to withstand significant market stress. Despite investment during 2010 in improved IT systems, new branch premises and enhanced online savings offerings, we have continued to manage the cost base effectively against the assets of the Society.

Finally, whilst making excessive profits is not at the heart of our mutual ethos, it is important to us that we remain profitable, even in such a low interest rate climate. I am, therefore, pleased to report profits of £1.1 million after taking into account the investments we have made in improving the Society and the product range during the year.

Making mutuality relevant and of value

It may be true that mutuals have been around for some time and Saffron of course is now 161 years old. That said we recognise the importance of taking all that is core to mutuality and continually seeking to improve its relevance in an evolving market place by getting closer to our members and looking for ways for them to have a greater say in the Society.

Andy will report in more depth on what the Society has been up to during 2010, but the communities we serve and the products we offer are all an important part of Saffron doing its bit as a regional community mutual.

The press has been full of reports of a lack of mortgages and a decline in the volume of

Chairman's Report (continued)

savings, but despite this, Saffron's assets have grown by over 11% in 2010. We opened 30,000 savings accounts for both new and existing members, we have completed £144 million of new mortgage loans, our financial planning subsidiary Saffron Independent Financial Advisers has helped 256 new clients with their financial planning and Saffron Insure now looks after the home and car insurance needs of over 3,000 members.

These figures speak for themselves and when coupled with some of our innovative developments in online savings and accolades from the charity Fairbanking in the national press, it is clear to see that Saffron's commitment to relevance and value is being well received.

Governance and risk management

As Chairman my duties include ensuring that the Board of Saffron Building Society demonstrates competence, challenge, knowledge of the wider issues affecting the financial services market and most of all an understanding of the responsibilities and accountabilities required to run a member owned institution.

For these reasons Saffron is keen to retain the very best Executive Directors it can afford and the highest quality Non Executive Directors available. That ethos will not change and the Board has remained strong during 2010. You may recall that at the 2010 Annual General Meeting (AGM) both Charles Wilson and John Goodfellow were elected to the Board and both proved to be excellent appointments. However, unfortunately, after a period of serious illness John Goodfellow, resigned as a Non Executive Director. We were extremely disappointed to see John go and on behalf of the Board I wish him all the best for a full recovery and thank him for his contribution. As I write we are actively seeking a replacement who will stand for election at the 2012 AGM.

The Board operates a robust and effective committee structure to manage risk. Our Credit,


Audit and Compliance, Asset and Liability and Risk Committees are attended by a selection of Non Executives and in turn report to the full Society Board to ensure that all directors are adequately informed to make strategic decisions with an understanding of the risks involved. This culture of risk management is central to our plans, again to ensure that the security of the Society and its members is paramount.

Finally from a governance perspective I stated last year that following the removal of the short term executive bonus scheme, its last payment was made in March 2010. This leaves in place the medium term incentive scheme which is deferred in payment for three years and payable subject to ongoing performance of the Society and individual. Your Board believes strongly in such a bonus scheme which puts a proportion of overall income at risk based on individual performance.

Outlook

At the time of writing there is no clarity about when economic conditions may recover or indeed when interest rates may rise. However Saffron remains well able to trade its way through this challenging period and is well positioned for a rising rate environment when it eventually happens.

Everyone in the Society is committed to the mutual model and our staff have worked tirelessly during the year to deliver the very best service they can to members. I would like to thank the staff and Andy and his executive team for their unflinching commitment to keeping Saffron and its members safe and thriving in a challenging market place. I would also like to thank you, our members, for your continued loyalty to and engagement with your Society.



Peter Harrison
Chairman

Chief Executive's Report



Andy Golding
Chief Executive

Whilst 2008 and 2009 were historic years in financial terms for the entire global economy, for many 2010 has felt much more like a year of waiting. Waiting, for example, to see the full effects of the new Coalition Government's fiscal policies; waiting to see what would happen on house prices that increased a bit and then declined a bit; waiting on unemployment figures that have been up and down in the year. The Bank of England's Monetary Policy Committee have been waiting too, but their target of 2% core price inflation has continued to evade them whilst economists forecasts ranged from further significant down turn to a strong export led recovery. The question I have been asked more times in the year than any other is "when will interest rates go up?". The truth of the matter is no one really knows but if inflation is going to be kept under control, at some point, possibly in 2011 or at the latest early 2012, the consensus is that they will have to.

In an uncertain environment the temptation is to do nothing. Many financial services companies have stayed under the radar, choosing to keep the hatches battened down and not embark on new strategies. But here at Saffron we reviewed our strategic plans and decided that our duty was to provide the services that members demanded of us and I would therefore describe Saffron in 2010 as very much "open for business."

I am pleased to present this year's results as a further demonstration of our clear strategy of security, community, proposition and sustainability. Peter Harrison commented in his report on our desire to remain profitable regardless of the trading conditions. This is important to us, but so is investing and shaping the business for the future, not only for today's membership but for generations of members to come.

The Board runs the Society to a balanced business scorecard, which sees us measure and manage key metrics and outputs across the four quadrants of Financial, Member and Customer, Internal Quality and Risk and Staff. I will use our balanced business scorecard headings as an agenda for providing you with more detail about how we have performed and just what the Society has been doing during 2010.

Financial

A building society is a net saver and in normal conditions makes a significant proportion of its profit from the investment of its own liquid assets. When base rate is at 5% the actual amounts earned on over £230m of investments is a significant profit generator. Of course with base rate being at only 0.5% for the whole of 2010 the same cannot be said. Therefore running costs and profits must come from the margin on mortgage book over savings rates, coupled with other income generation. In this low rate period, we have actually sought to continually improve the offerings to our savings members, whilst at the same time balancing the pricing of our mortgage offerings to attract quality mortgage borrowers.

Peter Harrison shared in his report the success that this strategy delivered in terms of new retail savings, mortgage growth and more members making use of our other services. This combined with careful cost management has enabled us to grow, invest in improving the Society and its offering, whilst still delivering profitability in a stagnant external market place.

Chief Executive's Report (continued)

Member and customer

During the year we have made a number of member focused changes to the Society. We have invested in our branch locations in both Brentwood and our new Branch Agency in Buntingford. We have improved our online functionality for users of our e-saver products. We have already received feedback that the customer experience is much better. We have completely upgraded our core IT systems and this will enable us to streamline other processes during 2011, aimed at improving the way we work for you. We have developed a number of new products for both borrowers and savers, including our innovative wedding and car savings plans, regular savings accounts, our self build mortgages, and our new style branch instant access accounts with bonuses for those who don't withdraw in a quarter. These have proved extremely popular.

We recognise that developing new products is important to ensure that we remain competitive and thanks to feedback from members we have introduced benefits for family linked products during the year and intend to enhance this further in 2011.

We seek regular feedback from members and you provide us with excellent information about where we get it right and, more importantly, where we don't. Internal ISA transfer processing was a good example of where you told us we were just not good enough, so again we have improved our systems to make the process simpler and quicker.

As Peter Harrison alluded to, we have done a lot of new business in the year. Our savings balances grew by over £103 million and our mortgages by £144 million. We are proud to be a growing building society and keen to continually improve our product and service offerings to you.

Finally we introduced a set of promises to you during 2010:

- Membership is ownership, talk to us and we'll listen
- Safe and secure but definitely not boring
- No gimmicks, no jargon, no silly rules
- Doing good stuff in your community now and in the future
- Our staff are brilliant and we'll prove it

These promises are easy to write down, but much harder to live up to all the time, but the Board and every member of staff at the Society has signed up to them and we are all committed to continually striving to be the kind of mutual building society you want.

Internal Quality and Risk

Risk management is central to our primary objective of protecting the security of members' money. The regulatory climate has intensified since the economic downturn began, but at Saffron we have sought to embrace and live up to the requirements as part of the culture of the business.

We have worked hard to ensure that our mortgages perform well and our arrears performance of 0.07% of Society (0.39% Group) mortgages being in arrears is a testament to that work and the quality of our underwriting and mortgage lending approach. Where borrowers have found themselves in difficulty we have worked with them and exercised as much appropriate forbearance as possible to help them stay in their home whilst they get their finances back on track.

We have received a very low level of complaints during 2010, but have treated each one extremely seriously, ensuring that we learn from mistakes and where possible make changes to our processes to prevent recurrence.

Our staff

The Society has a good record of attracting and retaining high quality staff. Not just competent individuals, but people who

Chief Executive's Report (continued)

understand and value mutuality and the importance of being a member owned institution.

As a mutual we have a corporate responsibility to focus on community, not just the communities in which we trade, but our community of members and stakeholders in the widest sense. During the year the staff and management have been involved in a huge number of community events to raise much needed funds for charities in and around our region. Activities ranged from bathing in mud baths to sponsored bike rides and our 118 full time equivalent staff raised in excess of £10,000 in 2010 for some wonderful causes. I should also say that many of you kindly donated or sponsored those activities, which I know is much appreciated by the staff.

You will see from our member promises mentioned earlier, that we think our staff are pretty amazing. Of course as human beings none of us can get it right all the time, but as the Chief Executive of this Society I can assure you that we are all committed to trying.

As well as physical communities, we have sought to embrace the growing communities that are evolving online. I am proud of our Facebook presence which shares information and pictures about all the good things we get up to in the community and that Saffron is the most followed building society on twitter. I also continue to write my regular blog, which seems to attract positive feedback from those that follow it.

Final thoughts

As we enter 2011 with a continuing sense of economic uncertainty, the Board and I are clear about how we need to operate. We must continue to find ways to improve our service and product range, remember what a building society is here to do, provide savings and mortgages and associated quality products well and most of all do what the Society has done well for over 16 decades; look after your money and serve you well.

Finally I would like to thank my team and staff for making the Society what it is and you, our members for your custom and loyalty.



Andy Golding
Chief Executive

Community Report

The Society has always taken its social responsibility very seriously, but more than this, the fundamentals of mutuality are centred on a sense of community. This encapsulates our community of members, the communities we serve, the jobs we create and the partner businesses we work with. In addition the Board believes that the Society needs to strive for a positive impact on community in the widest possible sense.

In 2010 we introduced you to our promises. This report details how we feel we have performed against the corporate responsibility and community orientated promises in the year.

Membership is ownership – talk to us, and we'll listen

Members of a mutual organisation like a building society have the right to vote at the Annual General Meeting (AGM), electing directors, approving the remuneration policy and appointing auditors. At Saffron Building Society we try to involve you in other ways as well.

Our member survey last year asked for your views on whether the Society should participate in the Government Dormant Accounts Scheme which will allow building societies to re-invest the money from accounts where the owners cannot be traced and no activity has taken place for many years. You told us that you would like us to use this scheme to support regional charities.

We have listened to you and have set up Saffron Building Society Community Fund. This fund is being managed by Essex Community Foundation but decisions about



Staff led by Jon Hall, Finance Director, take to their bikes to raise more money for Macmillan Cancer Support

which causes to support rest with the Society. We would like your help again. This time we would like you to tell us the type of charities you would like us to support. Please complete our survey and let us know what you think. This can be accessed at the end of the online voting process or by picking up a form in your local branch or agency.

Our annual member conference was replaced this year with a series of member lunches hosted by the Executive team. These were an opportunity to explore on a more personal level what is important to members and we learned a lot from the 53 members who attended.

Our thanks go to those who gave up their time and to other members who have worked alongside us on our Customer Complaints forum, and in other ways during the year.



Haverhill Branch raise money for Macmillan Cancer Support.

Community Report (continued)

If you would like to play a more active role and be part of shaping our future please give us a call on 01799 582938 or email marketing@saffronbs.co.uk and add your name to our mailing list.

Last year we again ran an online survey, accessed at the end of the AGM voting process, and 22% of those who voted online took part. We are going to do the same this year as it helps us to understand if we are improving our service to you. We know that we have members who do not wish to use the internet so we also have survey documents available in our branches. We do hope that you will participate.

Our staff are brilliant and we'll prove it

You frequently tell us our staff are a real asset – whether they are the faces you see as you come into our branches, the voices you talk to over the telephone or those who behind the scenes support their work. We agree with you and our promises encourage you to find out how brilliant they are.

We want to be a great employer and we regularly ask our staff what they want us to do differently. They tell us we are very good at keeping them informed about the business and what we expect of them but they are also happy to say when we could do better and we continue to work on these areas.

We take pride in offering access to professional and comprehensive training and development activities and strongly encourage staff to study for qualifications through our study support programme. Take up on this is rising as the world is spreading on how valuable self learning is. This means we have staff confident in their own knowledge and their ability to provide a good service to members.

You know best who you value amongst our staff and so we have given you the chance in our survey to again nominate someone who really looks after you well so that we can recognise them through our internal award scheme.

Doing good stuff in your community now and in the future

In 2010 we decided to try something new. We introduced in branch voting to select charities for our staff to support. You chose 3 charities, Kisses 4 Kids, Macmillan Cancer Support and Little Haven's Hospice. Our staff set to work to raise as much money as possible and to promote these charities. After an amazing 6 months of fundraising activity the total donations reached just over £10,000. This was largely down to the ideas, willingness to get involved and commitment that our people showed and we are hugely proud of their efforts and the results. None of this would have been possible without the generosity of our members though so a big "thank you" to you as well. You will find pictures of some of the activities undertaken on these pages.

We kept our matched funding scheme going and this resulted in Society donations of £2,762 to charities close to the hearts of our staff. Further donations of £3,167 were made to other regions good causes.

To finish the year we made a £10,000 donation into our newly established Saffron Building Society Community Fund. This donation is supplemented by a £5,000 grant from the Grassroots scheme and gets our new charitable support plans off to a flying start.



Staff led by Andy Golding, Chief Executive, help with the gardening at St Elizabeth's Centre.

Notice of Annual General Meeting 2011

The 161st Annual General Meeting of the members of the Saffron Building Society will be held on Wednesday 27th April 2011 at The Airspace Conference Centre, Imperial War Museum, Duxford, CB22 4QR at 6pm for the following purposes:

1. To receive the Directors' report, the annual accounts, the annual business statement and the Auditors' report thereon for the year ending 31st December 2010.
2. To consider, and if thought fit, pass an ordinary resolution to re-appoint Deloitte LLP as Auditors.
3. To approve the Directors' remuneration report for the year ending 31st December 2010.
4. To consider, and if thought fit, pass ordinary resolutions to elect Directors:
 - (i) To re-elect Trevor John Bayley
 - (ii) To re-elect Andrew John Golding
 - (iii) To re-elect Andrew Rushworth
5. To consider and, if thought fit, pass the following resolution as a Special Resolution: That the Rules of the Society be amended in the manner specified in the document produced to the meeting and initialled by the Chairman for the purposes of identification.
6. To transact any other business permitted by the rules of the Society.

By order of the Board
Sara Andrews, Secretary
21st March 2011

Notes

1. These notes form part of the Notice of Meeting.
2. Under the Society's rules, a member entitled to attend the meeting and vote may appoint one proxy to attend and vote on his/her behalf. You may appoint the Chairman of the meeting or anyone else as your proxy, and your proxy does not have to be a member of the Society. Your proxy may vote for you at the meeting but only on a poll. A poll is a formal vote (which includes all valid proxies). Your proxy may not speak at the meeting except to demand or join in demanding a poll.
3. You may instruct your proxy how to vote at the meeting. Please read the instructions on the Proxy Voting Form.
4. The voting date is 27th April 2011 if voting in person and 21st April 2011 if voting by proxy.
5. In order to attend and vote at the meeting, or to appoint a proxy, you must qualify either as a shareholding member or as a borrowing member (please refer to the voting conditions on the Proxy Voting Form).
6. In addition, you can only vote once as a member, irrespective of:
 - (a) the number of accounts you hold and whether you hold accounts in different capacities (for example, on your own behalf and as a trustee), and
 - (b) whether you qualify to vote as a shareholding member and as a borrowing member.
7. Members attending the meeting will be requested to produce their passbooks or other evidence of membership in order to obtain admission. If you are appointing a proxy to attend the meeting and vote on your behalf, please ensure that your proxy brings an appropriate form of identification to the meeting.
If you appoint a proxy to vote on your behalf and your proxy does not attend the meeting, your vote will not be counted.

Notice of Annual General Meeting 2011 (continued)

Rule Changes

The Board is proposing a number of changes to the Society's Rules at this year's AGM. A copy of the document setting out the proposed amendments and a copy of the existing Rules showing the proposed changes are available on the Society's website www.saffronbs.co.uk, or may be obtained by a member on request to the Secretary, Saffron Building Society, Saffron House, 1A Market Street, Saffron Walden, Essex, CB10 1HX.

The principal changes are as follows:

- removing out of date material and including relevant updated material, for example replacing references to Building Societies Commission with Regulator and replacing the reference to Banking Act 1987 with Financial Services and Markets Act 2000;
- introducing Rules that would enable the Society to issue PIBS (permanent interest bearing shares) if thought appropriate by the Board of the Society. PIBS are deferred shares, where the rights of the holders rank behind other shareholders and may count towards the capital of the Society. Most other building societies already include these PIBS provisions in their Rules;
- providing for arrangements under the Dormant Bank and Building Society Accounts Act 2008 should the Society choose in the future to adopt such arrangements;
- providing that a member nominated Director candidate cannot withdraw from the election process later than 28 days after the end of the financial year;
- giving the Chairman the ability to allow joint members to attend and speak at meetings of the Society;
- that the minutes of general meetings of the Society are to be approved by the Board and;
- providing that proxy forms may be returned to an address specified by the Board, such as the place where the votes are to be counted, rather than to the head office;

Directors Seeking Election 2011

The Board of the Saffron Building Society comprises Executive and Non-Executive Directors.

The role of the Executive Directors is to deal with the day-to-day running of the business, while Non-Executive Directors bring an outside perspective and provide independent challenge.

Directors are appointed on a three-year cycle, after which they must seek re-election. On this basis at the 2011 Annual General Meeting Trevor Bayley is standing for re-election as a Non Executive Director and Andy Golding and Andrew Rushworth are standing for re-election as Executive Directors.

Your Board strongly endorses the appointment of these individuals and recommends you vote in their favour at the AGM. Trevor Bayley has a strong financial services background and his accountancy expertise provides challenge around the financial and risk aspects of the business. He has chaired the Audit and Compliance Committee for the last year. Andy Golding, as Chief Executive, has remained committed to protecting member interests at a financially challenging time for the sector. As a staunch advocate for mutuality he has been instrumental in establishing future plans to make mutuality relevant in today's market. Andrew Rushworth, Operations Director, has considerable experience in process and change management and in 2010 steered his teams through a systems upgrade which has improved operational efficiency and produced more stream lined processes for customers.



TREVOR BAYLEY

Trevor is a Chartered Accountant with more than 30 years' experience in Financial Services. He spent over 20 years at Britannia serving as a Main Board Director for 11 of them and was also Chairman of a number of Britannia's subsidiaries. During his time at Britannia he had responsibility for Finance, Treasury, Payroll, Information Technology and Corporate Development.

After leaving Britannia he spent 5½ years at National Savings and Investments where he was Finance Director, Deputy Chief Executive and also had a spell as Acting Chief Executive. Trevor retired from full time employment in December 2006 and was awarded an OBE for his services to NS&I in the 2007 New Years Honours List. He lives in Staffordshire and is married with 4 children.

As a fervent supporter of, and believer in, the concept of mutually owned Financial Services organisations Trevor was delighted to join the Board of Saffron in May 2007 as a Non Executive Director, becoming Chairman of the Audit Committee in April 2009.

He believes that Saffron Building Society is ideally placed to support the needs of its members through both the provision of a range of products and services which fulfil their needs and by offering outstanding service however those members choose to transact with us.

Directors Seeking Election 2011 (continued)



ANDY GOLDING

Andy has over 25 years' experience in financial services, with a strong background in the banking and mortgage markets. He has held senior management

positions with NatWest, John Charcol the UK's leading independent mortgage broker and Bradford and Bingley. Andy joined the Society Board in 2004 as Sales & Marketing Director and took over as Chief Executive in 2006. In addition to his formal directorships he sits on the Building Societies Association Council and the Council of Mortgage Lenders Executive Board.

Andy is a strong advocate of mutuality and is regularly sought to speak at industry events promoting the maintenance of a dynamic and independent mutual sector. He is also recognised within the industry for the innovative use of social media in financial services.

Outside of the Building Society sector, Andy is involved at Board level on both an NHS Trust and the Education Trust responsible for managing the financial estate of Saffron Walden County High School. Both of these he sees as having clear links to the core values of mutuality, namely community involvement and accountability to the wider users of the services.



ANDREW RUSHWORTH

Andrew has more than 30 years' experience in the financial sector, beginning his career with Midland Bank, now HSBC. He has a wide range of

experience of the banking sector, having worked in various roles at HSBC including branch banking, international division, corporate finance and IT cash management.

He joined the society from AMP Banking, where he was responsible for the design and build of the technology and operational areas of this direct bank, ahead of the company's UK launch. He helped grow and develop a successful business before its sale. He sees this background of development and use of technology as vital in enhancing the level of customer service the Society offers.

Andrew joined the society in 2004 as Head of Information Systems and was appointed to the role of Operations Director at the beginning of 2005. He is responsible for the maintenance of a robust and secure technical environment, the Society's premises and the operational customer services aspects of the business. His focus is on ensuring continued high levels of service to both internal and external customers and believes it is essential to make the most of new technology to implement planned improvements and enhance processes.

In his spare time Andrew, who is married, has a passion for cars and DIY and is an avid traveller.

Our other Board Directors



Sales & Marketing Director – JOHN EASTGATE

John has over 20 years' experience in financial services, initially spending over ten years with Barclays, where he

progressed to senior management positions. He joined the Society in April 2008 after five years with Experian, where he headed the banking team in the Decision Analytics division. John joined the board as Sales & Marketing Director in October 2008.



Finance Director – JONATHAN HALL

Jonathan qualified as a chartered accountant with PricewaterhouseCoopers and has a strong background in the

financial services market, having been part of the senior management team at Norwich Union. Jonathan joined the Society in August 2004 from Central Trust plc where he was Group Financial Controller. Jonathan was appointed to the board of Safe Home Income Plans (SHIP) in 2008. Jonathan has represented building societies on working groups for regulatory and commercial developments in the sector.



Chairman – PETER HARRISON

Peter Harrison is a chartered accountant with over 30 years' experience in the profession specialising in financial services.

He worked at KPMG for over 20 years where he became a Senior Partner and the Head of the Financial Services practice in the UK. He joined the Board in 2004. Peter now undertakes varied assignments in the area of financial services including as a Non Executive Director for a quoted Investment Trust and a Senior Advisor and consultant with KPMG.



Non Executive Director and Vice Chairman – JAN SMITH

Jan Smith has over 20 years' financial services experience with particular emphasis on

strategy development, marketing, sales and customer service. She has held Board Director positions at TSB Bank plc, First Direct, Mazda Cars and RAC. She now operates as an independent strategy and marketing specialist working with companies such as Whitbread, Open University, and BACS. She is also a Non Executive Director of the Government Actuary's Department and Mid Essex Services Hospital NHS Trust. Jan joined the Board in 2005.



Non Executive Director – CHARLES WILSON

Charles Wilson is a solicitor with broad experience of the financial services sector, having worked at Abbey and Nationwide. He

served on several industry bodies including the board of Financial Ombudsman Service and the working group that established the LINK cash machine network. Charles took early retirement in 2005 and served as a Non Executive director of Hazell Carr plc. He joined the Board in July 2009.

Summary Directors' Report

This financial statement is a summary of information contained in the audited Annual Accounts, the Directors' Report and the Annual Business Statement for the year ended 31st December 2010, all of which will be available to members and depositors free of charge on demand at every office of Saffron Building Society from 21st March 2011 and on the internet at www.saffronbs.co.uk

Approved by the Board of Directors on 24th February 2011 and signed on its behalf by:



P O Harrison, Chairman



J E Smith, Vice Chairman



A J Golding, Chief Executive

Business review

The Society's business activities, together with the factors likely to affect its future development, performance and position are reviewed in detail by the Chairman and the Chief Executive on pages 2 to 6.

In planning for the current level of interest rates the Society regarded continued investment in a competitive retail savings range and being an active mortgage lender as being critical to our members. The significant drop in income on the Society's own liquidity investment portfolio has therefore been managed through a lower current level of profitability which grows capital, but at a slower pace whilst interest rates remain at historic lows.

The Society has considerable financial resources. As a result of an ongoing assessment the directors believe the Society is well placed to manage its business risks successfully and to maintain adequate resources despite the potential tentative nature of any medium term economic recovery. This is reflected in the basis of preparation of the annual Report and Accounts.

Looking into 2011 and beyond the Society has established its plans to maintain a bigger,

better, and stronger independent regional building society.

Results for the year

Profit

Group operating profit before provisions in 2010 was £1.3m (2009: £2.6m), the fall is as a result of lower net interest income (down £1.6m). There was an increase of £0.7m in income from fees on new mortgage lending, financial advice, investments and insurance broking. Administrative expenses were slightly higher by £0.4m at Group and £0.2m at Society level. Rather than pass reductions onto savers, the Society has absorbed the significant fall in income relating to its own investment portfolio as shown by the lower levels of profitability.

In 2010 £0.2m has been charged as an increase in the provision for bad and doubtful debts (2009: £0.6m).

There has been no significant bad debt experience during 2010 reflecting the low level of mortgage arrears of 0.07% of Society mortgages (2009: 0.09%) and 0.39% in the Group (2009: 0.57%)

The Group pre-tax profit was £1.1m (2009: £2.0m) with £0.8m (2009: £1.7m) after tax transferred to reserves.

Summary Directors' Report (continued)

Assets

At 31st December 2010 assets totalled £931m, an increase of £95m (11.4%). Mortgage balances were up by 11.8% and savings balances by 15%.

Capital

The Society at 31st December 2010 had total capital resources of £50.4m, 16.3% (2009: 17.1%) of risk weighted assets in accordance with Capital Requirements Directive, commonly referred to as Basel 2. Core Tier 1 capital is 12.5% (2009:13.0%) of risk weighted assets.

Principal Risks and Uncertainties and how they are managed

In order to ensure that the interests of all members are adequately protected at all times, the Board has established and embedded a robust governance structure and risk management framework that are designed to identify, manage, monitor and control the major risks exposed in the delivery of the Society's strategic objectives, through a series of Board sub-committees and management forums.

The principal risks that arise from the Society's operations are credit, treasury, operational, strategic and external risks. These key categories of risk are common to most financial services firms in the UK. The key risk orientated committees, operating under the delegated authority of the Board, include the Risk Committee, Assets and Liabilities Committee, Credit Committee and Audit & Compliance Committee.

In 2011, the principal uncertainties faced by the Group are associated with the outlook for financial markets and the UK economy as a whole. These include;

- whether the stalling in the housing market evidenced in the second half of 2010 continues throughout 2011;
- the potential for less availability of funding and increased retail savings pressure following the withdrawal of Government liquidity schemes for banks and large building societies;

- the impact of an uncertain economic growth outlook on unemployment levels combined with consumers being squeezed with higher living and mortgage costs;
- a change to the regulatory architecture, which is likely to have a significant impact on the financial services sector.

The Board ensures that the focus remains on serving members' best interests whilst ensuring the Society remains compliant, effective and efficient.

Our people

Once a year the Board reviews employment policies and ensures that they are designed to provide fair and effective employment conditions and equal opportunities.

The Society has accreditation as an 'Investor in People', recognising the commitment to the ongoing training and development of staff and the alignment of individual goals to the Society's strategic aims.

We would like to thank all of our staff for the hard work and support they have given the Society over the last 12 months.

Charitable donations

During the year the Society made donations totalling £15,930 (2009: £5,845) in support of charities and organisations. No contributions were made for political purposes (2009: nil).

Summary Directors' Report (continued)

Business associates

We would like to thank our solicitors, auditors, agents and professional advisors for their continued support during the year.

Directors

The following served as directors of the Society during the year:

T J Bayley (Non Executive Director)

J P Eastgate (Sales & Marketing Director)

A J Golding (Chief Executive)

J G Goodfellow (Non Executive Director from 28th January 2010 to 30th November 2010)

A H Goodman (Non Executive Director to 22nd April 2010)

J E Hall (Finance Director)

P O Harrison (Chairman)

A Rushworth (Operations Director)

J E Smith (Vice Chairman)

C R L Wilson (Non Executive Director)

T J Bayley, A J Golding and A Rushworth retire by rotation at the Annual General Meeting (AGM) on 27th April 2011 and being eligible will stand for re-election.

Following the resignation of John Goodfellow in November 2010 the board has been seeking a replacement Non Executive Director and in accordance with the rules the successful applicant will be co-opted to the board in early 2011 before standing for election at the AGM in 2012.

Biographies of the Directors appear at pages 11-13.

None of the Directors hold any shares in, or debentures of, any associated body of the Society.

Auditors

Deloitte LLP has acted for the Society throughout 2010 and has audited the Group accounts for 2010, which are published here and are a summary of the information contained in the audited and unqualified annual accounts.

A resolution to re-appoint Deloitte LLP as auditors to the Group will be proposed at the Annual General Meeting.



P O Harrison (Chairman)

On behalf of the Board
24th February 2011

Summary statement of financial results

	Group 2010 £000	Group 2009 £000
Results for the year		
Net interest receivable	6,978	8,590
Other income and charges	1,815	1,074
Administrative expenses and depreciation	(7,512)	(7,104)
Operating profit before provisions	1,281	2,560
Provisions for bad and doubtful debts	(191)	(558)
Profit on ordinary activities before taxation	1,090	2,002
Tax on profit on ordinary activities	(258)	(320)
Profit for the financial year	832	1,682

Statement of Total Recognised Gains And Losses

Profit for the financial year	832	1,682
Actuarial gain / (loss) recognised in the pension scheme	373	(1,556)
Movement in deferred tax relating to the pension scheme	(197)	199
Total gains and losses recognised since last Annual Accounts	1,008	325

Financial position at the end of the year

Assets		
Liquid assets	235,033	212,577
Mortgages	686,918	614,459
Fixed and other assets	9,231	8,819
Total assets	931,182	835,855
Liabilities		
Shares	742,185	673,992
Borrowings	135,710	108,071
Other liabilities	2,915	4,428
Subordinated liabilities	10,000	10,000
Reserves	40,372	39,364
Total liabilities	931,182	835,855

Summary of key financial ratios

	2010 %	2009 %
Gross capital as a percentage of shares and borrowings (note 1)	5.7	6.3
Liquid assets as a percentage of shares and borrowings (note 2)	26.8	27.2
Profit for the year as a percentage of mean total assets (note 3)	0.09	0.20
Management expenses as a percentage of mean total assets (note 4)	0.85	0.84

Notes

1. The gross capital ratio measures the proportion that capital bears to shares and borrowings. Gross capital constitutes the reserves and subordinated liabilities shown in the balance sheet and includes the profits accumulated since the Society's formation. Capital provides a financial cushion against possible adverse market conditions in the future and therefore protects investors.
2. The liquid assets ratio measures the proportion of the Group's shares and borrowings which are held in the form of cash, short term deposits and securities which can be readily converted into cash. Liquid assets are maintained at a level which enables the Group to meet requests from investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.
3. This ratio measures the proportion which profit after taxation for the year bears to the average balance of the total assets for the year. The ratio is similar to a company's return on assets. The Group needs to make a reasonable profit each year in order to maintain its capital ratios at a suitable level to protect investors.
4. The ratio of management expenses as a percentage of average total assets measures the proportion which administrative expenses (including depreciation) bear to the average balance of total assets during the year.

Statement of the independent auditor to the members and depositors of Saffron Building Society

Pursuant to Section 76 of the Building Societies Act 1986, we have examined the summary financial statement for the year ended 31 December 2010 which comprises the summary Income Statement and Balance Sheet together with the summary Directors' Report.

This report is made solely to the Society's members, as a body, in accordance with section 76(5) of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, for our audit report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the summary statement of financial results, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary statement of financial results within the Annual Members' Review with the full annual accounts, Annual Business Statement and Directors' Report and its compliance with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

We also read the other information contained in the Annual Members' Review as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary statement of financial results.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the Society's full annual accounts describes the basis of our audit opinion on those financial statements.

Opinion

In our opinion the summary statement of financial results is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of Saffron Building Society for the year ended 31 December 2010 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made thereunder.

for and on behalf of
DELOITTE LLP
Chartered Accountants and Statutory Auditors
Birmingham, United Kingdom

25th February 2011

Summary Directors' Remuneration Report

This report is a summary version of the Directors' Remuneration Report for the year ended 31st December 2010. It is published with the aim of giving members an insight into how decisions around Directors' remuneration are taken. A resolution will be put forward at the Annual General Meeting inviting members to vote on the report. The vote is advisory and the Board will take into account members' views in determining future policy.

In line with best practice in corporate governance the Board has established a Remuneration and Loans Committee which comprises all the Non Executive Directors. It reviews and approves remuneration policy, packages and service contracts for Executive Directors and fees for Non Executive Directors. It also considers and approves loans to Directors or connected persons.

Executive Directors' remuneration

The Board's policy is to set remuneration levels to attract and retain high quality Executive Directors and to encourage performance through rewards directly linked to Society and individual performance. The committee reviews and takes into account benchmark data and seeks advice on remuneration in comparable financial services organisations.

Basic salary

Basic salaries for Executive Directors take into account job content and responsibilities, performance and comparative salary levels.

In 2010 Directors basic salaries were increased and these changes are reflected in the remuneration table. Andy Golding (Chief Executive) chose to defer a pay review in light of the lower profit levels forecast for the Group.

There is an annual appraisal scheme for all Executive Directors which incorporates 360 degree feedback. The results of this exercise help inform levels of salary award.

Bonus

Bonuses paid in 2010 are shown in the table of remuneration on page 21. These are the last annual bonuses to be paid following the

decision by the Board to remove the short term bonus scheme.

During 2010 the Society's Executive Directors were eligible to accrue a medium term non pensionable performance bonus. Medium term bonuses are capped at 30% of salary and only paid subject to achievement of core objectives on a 3 year deferred basis. These objectives for 2011 have been set around profit, cost/income ratio and asset growth, capital adequacy, quality and personal achievement.

In the event of non achievement of a target area by the Society no payments would be made to directors in respect of that element of the scheme. All payments to individuals are performance related and are also subject to claw-back where the Remuneration and Loans Committee considers it appropriate. The bonus plan is non-contractual with the Remuneration and Loans Committee having the final decision on payments to be made and the right to withdraw the scheme if it is no longer considered fit for purpose.

Benefits

Executive Directors are included in the Society's Group Personal Pension Plan and are also eligible for a fully expensed car, permanent health insurance and private medical insurance.

Service contracts

All Executive Directors are employed on permanent service contracts.

Non Executive Directors' fees

The Remuneration and Loans Committee reviews the level of fees for Non Executive

Summary Directors' Remuneration Report

(continued)

Directors each year, taking into account data on fees paid in the mutual financial services sector, levels of responsibility, time commitments and the recommendations of the Chief Executive and Chairman.

There are no bonus schemes or other benefits for Non Executive Directors and they are not entitled to any pension from the Group. In 2010, for the second year running, Non Executive Director fees were held at previous levels.

Analysis of Directors' remuneration

	Salary/ fees £000	Annual Bonus paid £000	Medium term Bonus paid £000	Other non-cash benefits £000	Pension contributions £000	2010 Total £000	2009 Total £000
Executive							
A J Golding	148	25	28	16	20	237	226
J E Hall	125	19	22	15	17	198	176
A Rushworth	88	13	16	11	11	139	131
J P Eastgate	88	13	-	12	12	125	122
	449	70	66	54	60	699	655
Non-Executive							
T Bayley	23	-	-	-	-	23	22
A H Goodman	7	-	-	-	-	7	20
J Goodfellow (28.01.10 to 30.11.10)	17	-	-	-	-	17	-
P O Harrison	33	-	-	-	-	33	30
J E Smith	23	-	-	-	-	23	22
C Wilson	20	-	-	-	-	20	9
R J Herbert (to 21.04.09)	-	-	-	-	-	-	10
	123	-	-	-	-	123	113
Total 2010	572	70	66	54	60	822	-
Total 2009	546	74	61	50	37	-	768

Annual bonus is the balance of bonus earned in respect of 2009 paid in March 2010.

The Board took the decision in 2010 to cease annual bonus arrangements so the payment in 2010 was the last to be settled under this scheme.

Medium term bonus was earned and accrued in 2007 with payment deferred until 2010.

The bonus arrangements are explained in the Summary Directors' Remuneration Report.

Mortgage loans with directors and connected persons:

At 31 December 2010, there were outstanding mortgage loans granted in the ordinary course of business to three directors and their connected persons, amounting in aggregate to £913,966 (2009: £782,033)

Details of the above transactions are included in the Society's register of directors' loans, extracted details of which are available for inspection by members during normal office hours at the Society's principal office for a period of 15 days prior to and including the Annual General Meeting.



Agencies:

Burton Associates

45 High St, Buntingford,
Hertfordshire SG9 9AD
Telephone: 01763 272 851

Eden Independent Financial Advisers

Rayleigh Chambers
102 High Street, Rayleigh
Essex SS6 7BY
Telephone: 01268 745 811

Game Estate Agents

Custom House, 1A Yorick Road
West Mersea, Colchester
Essex CO5 8HT
Telephone: 01206 384 810

John Stiff Estate Agents

11 Clacton Road, St Osyth
Clacton on Sea
Essex CO16 8PA
Telephone: 01255 820 424

Matthews & Hayes (Gis) Ltd

208 Main Rd, Gidea Park
Romford
Essex RM2 5HH
Telephone: 01708 741 805

Profile UK

5 Jubilee Court, Hunstanton Road
Dersingham, Kings Lynn
Norfolk PE31 6HH
Telephone: 01485 544 585

Suttons Estate Agents

29 High Street, Heacham
Norfolk PE31 7EP
Telephone: 01485 570 030

Street Luscombe and Partners

Wealth Management Ltd
Unit 3, Dencora House
34 Whitehouse Road
Ipswich,
Suffolk IP1 5LT
Telephone: 01473 242 484

Torc Financial Services

The Business Centre
Snettisham, Kings Lynn
Norfolk PE31 7LR
Telephone: 01485 544 434

Head Office

Saffron House, 1A Market Street,
Saffron Walden, Essex CB10 1HX
Telephone: 01799 522 211

Saffron Direct

Telephone: 0800 072 1100

Branch Offices:

15 Market Square, **Bishop's Stortford**
Hertfordshire CM23 3UT
Telephone: 01279 757 757

21 High Street, **Brentwood**
Essex CM14 4RG
Telephone: 01277 226 161

5 High Street, **Colchester**
Essex CO1 1DA
Telephone: 01206 549 278

32 Connaught Avenue, **Frinton-on-Sea**
Essex CO13 9PR
Telephone: 01255 679 060

31 High Street, **Great Dunmow**
Essex CM6 1AB
Telephone: 01371 876 484

38 High Street, **Halstead**
Essex CO9 2AP
Telephone: 01787 478 045

2 Queen Street, **Haverhill**
Suffolk CB9 9EF
Telephone: 01440 703 241

22 Market Hill, **Royston**
Hertfordshire SG8 9JG
Telephone: 01763 243 210

Saffron House, 1A Market Street,
Saffron Walden, Essex CB10 1HX
Telephone: 01799 520 606

27 Bell Street, **Sawbridgeworth**
Hertfordshire CM21 9AR
Telephone: 01279 721 027

Ideal Quarters,
129 The Grove, **Stratford**
London E15 1EN
Telephone: 020 8534 8141

Please check opening hours
before your visit

57 High Street, **Ware**
Hertfordshire SG12 9AD
Telephone: 01920 466 431



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