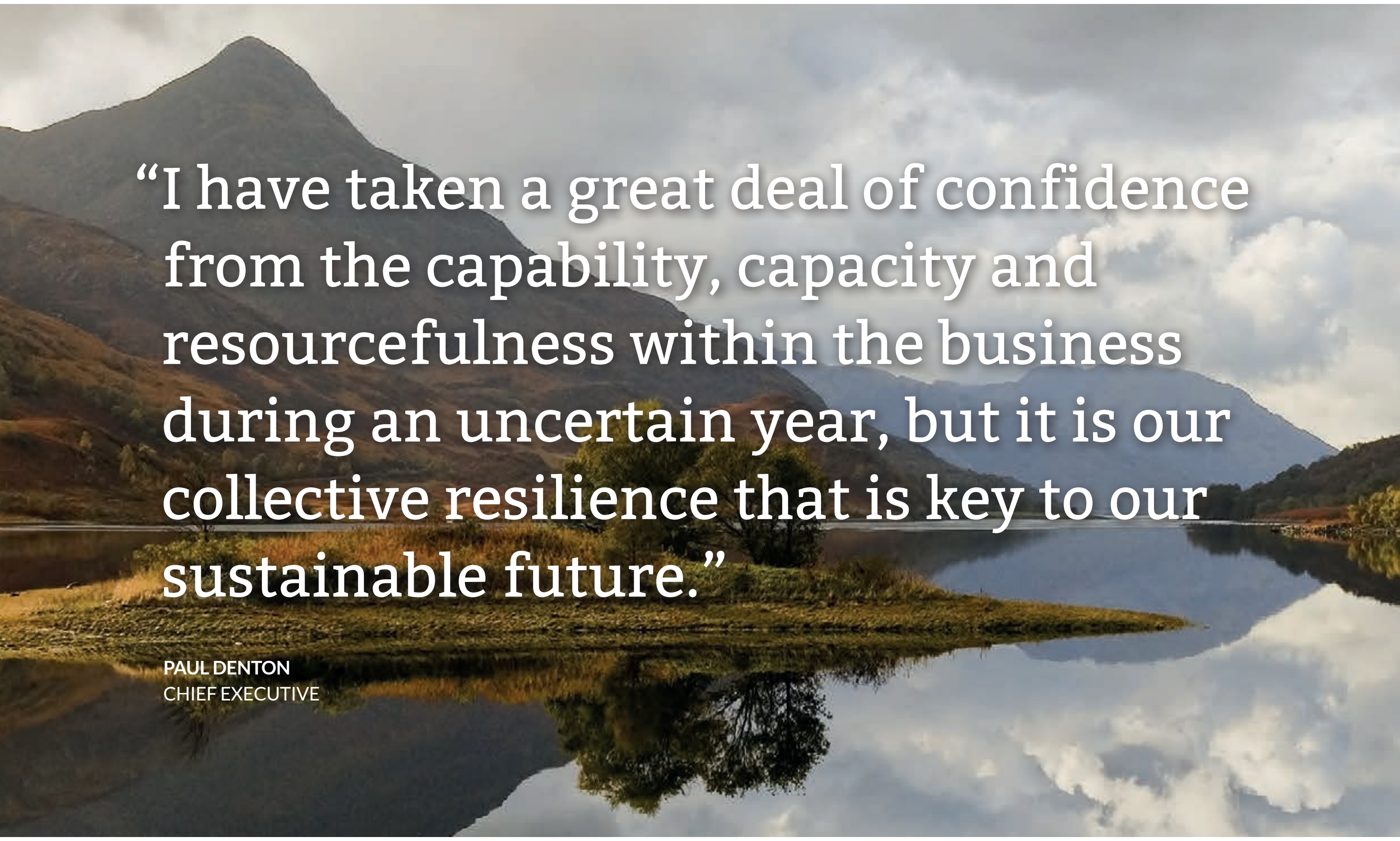
Annual Report & Accounts

For the year ended 31 January 2020

SCOTTISH BUILDING SOCIETY



"I have taken a great deal of confidence from the capability, capacity and resourcefulness within the business during an uncertain year, but it is our collective resilience that is key to our sustainable future."

PAUL DENTON
CHIEF EXECUTIVE

CONTENTS

Chairman's Report

"I believe that our continuing strength and success lies in offering compelling mortgage and savings propositions, understanding our customers and our long-held reputation for excellent service."

YOUR SOCIETY

The year to 31 January 2020 has been another positive one for the Society. We maintained a strong and profitable financial position, albeit at a lower level than recent years due to a number of one-off costs as we transitioned to a new operating structure.

Our results reflect a sixth consecutive year of mortgage book growth and strong growth in savings balances, against a backdrop of a highly competitive mortgage market and continued economic uncertainty. Indeed, at the time of writing, the effects of the coronavirus (COVID-19) pandemic in social and economic terms are severe and unprecedented in our lifetime. We must all play our part and do the right thing.

As a result, we will continue to align our business plans appropriately, adapting them where we need to and always keeping the needs of our members foremost in mind. I believe that our continuing strength and success lies in offering compelling mortgage and savings propositions, understanding our customers and our long-held reputation for excellent service.

OUR COMMUNITY AND ENVIRONMENT

Our charity work remains an effective way to do our part in our communities and engage with our members. We continued to support a number of local and national charities through our branch network in 2019 and will ask our members to vote on this as part of our AGM process. We plan to hold this year's AGM on 27 May 2020. Given the current restrictions in place as a result of the COVID-19 outbreak, we are considering our options on how to hold the meeting. Further details will be communicated to members in April but please also check our website (www.scottishbs.co.uk) for updates.

Operating responsibly and sustainably is another focus area in 2020. We understand our responsibilities as a corporate citizen to do our collective part to reduce our carbon footprint. This ranges from looking at the ways we can limit the impacts we have on our local environments, to launching products aimed at helping customers make their homes and properties more energy efficient and sustainable.

THE BOARD

Members who attended the AGM at Physicians Hall in Edinburgh last year were introduced to our new Chief Executive, Paul Denton, who joined the Board in July 2019. Paul succeeded Mark Thomson who served as CEO for seven years and I thank Mark for his hard work and commitment to the Society. I am also pleased to confirm Neil Easson's appointment to the Board as Finance & Central Functions Director with effect from 1 April 2020.

I am delighted to welcome Andrew Hastings and Sheila Gunn to the Board. Both bring a wealth of commercial experience and are fantastic additions to the non-executive team.

After 5 years with the Society, Simon Pashby stepped down from the Board in November 2019. I would like to offer the Board's thanks for his involvement with the Society and, on a personal note, for being of great help and support to me as Chairman.

The Board met at regular intervals throughout the year to review and discuss the ongoing operations of the Society and the impact (including potential impacts) of issues affecting our industry and the wider economy. You can read more about these in the Director's Report, starting on page 8.

OUR PEOPLE

One of Paul's early actions as Chief Executive, was to ensure we had the leadership team in place that could deliver on our growth strategy and plans. Some changes were made to the team and the Board are confident this will ensure our plans are delivered effectively and successfully. The delivery of excellent service in our day-to-day operations, our continued business growth, and our strategic initiatives cannot happen without the continued teamwork across the leadership team, colleagues and agents. On behalf of the Board, I would like to thank all of the Society team as they progress with our plans.

LOOKING FORWARD

As I mentioned earlier, we are in extraordinary times, unprecedented in our lifetime, but we are a resilient Society. We are also confident that our propositions and commitment to excellent service for our members, allied with our strong financial position, will hold us in good stead.

The continued support of our members is paramount to the success of any mutual organisation. On behalf of the Board, thank you to all our members for your continued support.

RAYMOND ABBOTT
CHAIRMAN
31 March 2020

Chief Executive's Review

"I am pleased to report that our mortgage and savings balances saw continued growth in 2019, leading to another year of increased income."

GROWING A SUSTAINABLE SOCIETY

I am delighted to be writing my first foreword as Chief Executive of the Society. It is a special privilege to lead this business, with its unique status as the oldest remaining building society in the world. I would like to thank Mark Thomson, my predecessor, for the contribution he made in leading the Society for the last seven years and for his steadfast management of our financial stability during what was, and remains, a tough economic climate.

When I joined in July 2019, I knew that the business was operating well, however, I was also mindful that to fulfil our growth strategy required some changes to our operations and leadership team. There were a number of leadership changes in the latter half of 2019 and I am confident that the team now in place has the expertise and drive to take the Society toward its next growth phase.

BUSINESS PERFORMANCE

I am pleased to report that our mortgage and savings balances saw continued growth in 2019, leading to another year of increased income. Our membership increased to around 33,000 to the end of January 2020, which is an important factor in maintaining sustainable business. It was also a year of transition which, due to some one-off costs, impacted on our overall profits. We made a strong profit before tax of £628k, increasing our overall reserves. Our performance in growing balances in the second half of 2019 and into early 2020 has given us excellent momentum and we are aiming to maintain that in the coming year.

OPERATING ENVIRONMENT

As Raymond covered in his foreword, the social and economic impacts of the coronavirus (COVID-19) pandemic are severe and will be felt for years to come. Post the emergency measures, which were introduced as I was writing this foreword, our industry will need to adapt rapidly and appropriately in order to help customers achieve stability again. As a Society, we have implemented a number of contingency measures, including homeworking and reduced branch opening hours, to protect colleagues and members and also ensure we can continue to provide critical services such as access to savings and supporting members in financial difficulties.

It has been a common trend in recent years that footfall in branches has been declining as customers make more and more use of digital services to manage their finances. Physical branches are still a key part of our operations and will remain so, however, we have reduced the total number of agencies that we operate across Scotland. Whilst this is regrettable, we do need to balance the needs of our members with operating efficiently and effectively across the country.

BUILDING THE BRAND

In the second half of 2019, we invested in increasing our brand awareness. As a Society, we are proud of our Scottish roots and heritage. One of our biggest activities in 2019 was the opening of our branch in Glasgow. We relocated to a prime address on Queen Street, where the footfall is high and our signage and branding really does stand out on the street. I spent time in the Glasgow branch and it was very pleasing to welcome new members to our new location.

We increased our presence on social media – Twitter, Facebook and LinkedIn to engage with our audiences and promote both our commercial and community

£0.6
million pre-tax profit for 2020

£7.6
million mortgage asset growth

Glasgow branch opening


Sponsorship of the SWPL

engagement stories. These activities help increase our reach, through sharing, as well as increase the numbers of people who follow us on these channels. We also began TV advertising again, promoting our Retirement Interest Only Mortgage, as TV remains a powerful way to create name awareness with audiences.

SPONSORSHIP

Our sponsorship of the Scottish Women's Premier League has been a fantastic success story, both in terms of brand awareness for us, but more so in the growth and expansion of women's football in Scotland. With BBC Alba now covering some of this season's games and around 17,000 taking part in football at various levels from school to league, I think this is a massive progression and a source of real inspiration for girls and young women looking to participate in the game.

MORTGAGES

Mortgage lending is one of our core strengths – we are a building society in both purpose and definition. So it is only right that we respond to the impacts felt by our members as a result of the coronavirus pandemic. Our commitment throughout will be to look after our members, to be fair and understanding of their individual circumstances. These are principles that have been at the core of the Society since it was formed in 1848 and I believe they will serve us well going forward in 2020.

Innovation is key to our growth in the mortgage market. We launched new products to market in late 2019: the Entrepreneur Mortgage and the Holiday Let Mortgage. Each aims to meet the needs of specific types of customer, with lending criteria and options flexible enough to meet unique needs too. I was particularly pleased that we were amongst the first lenders to participate in the Scottish Government's £150m incentive fund to assist first time buyers in securing their first home.

SAVINGS

Our savings balances increased by 4.5% in 2019, slightly ahead of market growth. I was pleased that we again added value for our members by paying interest rates above the market average and, in many cases, offering best-in-market rates too. We estimate that we have added over £1.25m of member value in this way because of our building society status – we have no shareholders and so no dividends to pay or maintain with returns going to our members in the form of attractive savings rates or increased society reserves.

We offer a variety of savings products to customers, and we need to make sure our proposition reflects their current and future needs. Innovation, modernisation and listening to our members are crucial to this. In January, we launched our first Online Savings bond to complement our online savings range. In contrast, some of our older savings products have become somewhat cumbersome in their design and operation, relative to the market and our newer products. Our Loyalty Cash ISA is one product that we are simplifying: we will reduce the number of interest level tiers and, at the same time, we are simplifying the account opening process too.

One question members have been asking me is whether we will continue to issue passbooks for our savings products. I understand how popular these are for the majority of our savings members and can assure everyone that we are keeping them. Although digital is increasingly the new normal for many savers, I am committed to our business offering choice and convenience for members.

LOOKING FORWARD

Reflecting on 2019, we have made progress in making the Society more effective and efficient. However, our focus in 2020 will be to support members and colleagues alike through the next phases of the coronavirus pandemic. I have taken a great deal of confidence from the capability, capacity and resourcefulness within the business during an uncertain year, but it is our collective resilience that is key to our sustainable future. There is a huge amount of work ahead of us and I have no doubts that we possess the skills, expertise and determination needed to get through it.

My thanks go to all colleagues in the Society and to our members for the continued support in what has been, so far, an extraordinary year.

PAUL DENTON
CHIEF EXECUTIVE
31 March 2020

Society Key Results

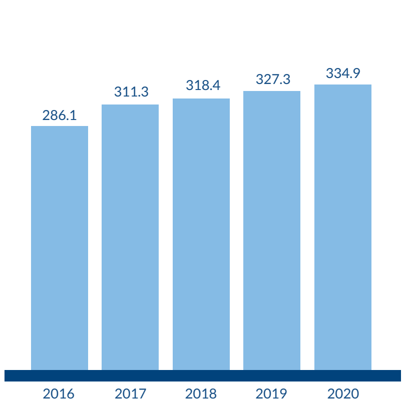
"As a Building Society, our principal purpose is to provide mortgages for homeowners funded by savings raised from our members, whilst ensuring our financial strength is maintained, as evidenced by strong capital and liquidity measures.

Total Assets
£431.4 million
(2019: £425.1m)

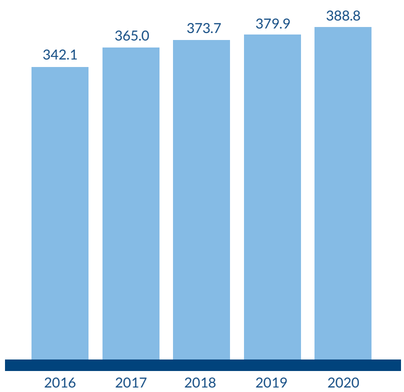
Liquid Assets
£94.3 million
(2019: £96.0m)

Profit before tax
£0.6 million
(2019: £1.0m)

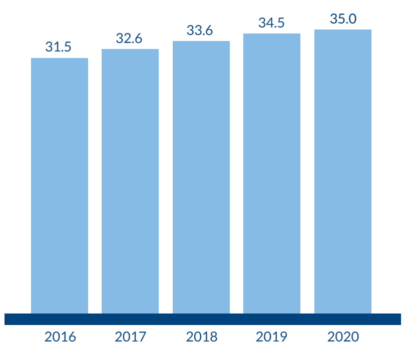
MORTGAGE BALANCES (£m)



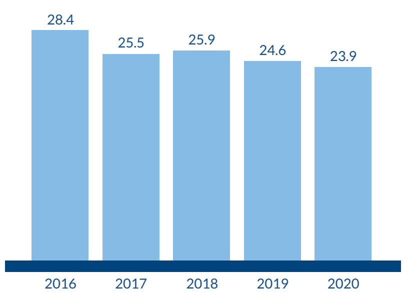
SAVINGS BALANCES (£m)



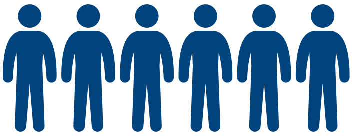
CAPITAL (RESERVES) (£m)



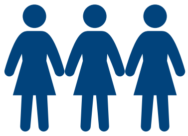
LIQUID ASSETS
(as % of Shares & Deposits)



2019 Member Survey



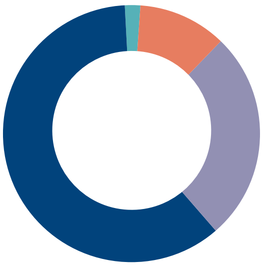
60% male



30% female

10% did not answer

85% agree or strongly agree that the overall service they receive from the Society is **EXCELLENT**

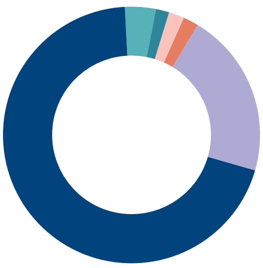


87% agree or strongly agree that they **trust the Society as a provider of financial products**

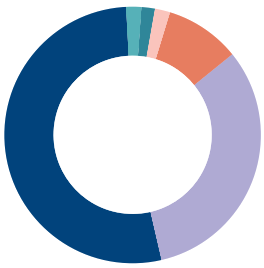
81% agree or strongly agree that they **believe the Society is financially strong**

79% agree or strongly agree that they **would recommend the Society to friends and family**

77% agree or strongly agree that **products offered by the Society meet their financial needs**



91% agree or strongly agree that **staff at the Society are helpful, professional and efficient**



85% agree or strongly agree that **the Society acts in their interests**

Strongly Agree | Agree | Neither Disagree or Agree | Disagree | Strongly Disagree | Not answered

Communication preference

Post | Email | Website | Social Media | Text Message | Other | Not answered

Directors' Report

INTRODUCTION

The Directors present their 171st Annual Report, together with the Annual Accounts and Annual Business Statement, for the year ended 31 January 2020.

OUR PURPOSE

As a Building Society, our principal purpose is to provide mortgages for homeowners funded by savings raised from our members, whilst ensuring our financial strength is maintained, as evidenced by strong capital and liquidity measures.

BUSINESS REVIEW

The Business Review is covered in the Chairman's Report and Chief Executive's Review on pages 2 to 5.

PROFIT AND CAPITAL

Profit for the year before tax amounted to £0.63million (2019: £1.03million) representing a good performance in a year of transition, coupled with challenging market conditions in which our mortgage book grew by 2.3% (2019: 2.8%). We have continued to provide attractive savings rates and increased our reserves to provide scope for further innovation in how we serve members.

The Society is required to set out its capital position, risk exposures, risk assessment processes and Total Capital Requirement in its Pillar 3 disclosures document which is available on the Society's website or from the Society's Finance Director.

LIQUIDITY

Total cash and investments at 31 January 2020 amounted to £94.3million (2019: £96.0million) which represented 23.9% (2019: 24.6%) of total shares and borrowings. The Society's continuing aim is to maintain an appropriate level of liquidity at all times. Funding is invested mainly in mortgage assets with sufficient liquid assets for risk management purposes and in accordance with regulatory requirements.

INTEREST RATES

The Bank of England Bank Rate remained at 0.75% throughout the year and similarly the Society's Standard Variable Rate for mortgages has remained unchanged.

In line with Our Loyalty Promises, we aim to provide our members with the best available interest rates throughout the term of their relationship with us. However, we do need to balance this with continued pricing pressures on mortgages and the need to maintain appropriate levels of liquidity. This is why we took the difficult decision to reduce interest rates on a number of our savings products with effect from 1 May 2019. Following the decision by the Bank of England to reduce its Bank Rate to 0.10% as an emergency measure in response to the COVID-19 outbreak, we are reviewing our Savings Rates across our products, as well as the Standard Variable Rate for Mortgages.

We remain focused on ensuring products are fair and transparent and that savers receive long-term value throughout their relationship with us.

MORTGAGE ARREARS AND FORBEARANCE

At 31 January 2020 the Society had only seven mortgage accounts in arrears for 12 months or more (2019: five). The total arrears outstanding on these accounts was £81,555 (2019: £50,395) and the aggregate capital balance was £494,598 (2019: £315,992). No properties were taken into possession during the year (2019: none).

The Society uses a number of forbearance measures to assist those borrowers who are, or could be, approaching a point of experiencing financial difficulty. Such measures include agreeing a temporary payment concession in order to reduce the borrowers' financial pressures. We expect borrowers to resume normal payments once they become able to do so. As at 31 January 2020 there were 33 cases benefiting from the Society's forbearance measures (2019: 31) with total outstanding capital balances of £2.3million (2019: £2.0million). The Society makes provisions for any expected loss resulting from accounts in arrears in accordance with the Board approved policy.

KEY FINANCIAL PERFORMANCE INDICATORS 2016-2020

	2016	2017	2018	2019	2020
Mortgage Assets (£m)	286.1	311.3	318.4	327.3	334.9
Mortgage Asset Growth (%)	1.2	8.8	2.3	2.8	2.3
Total Assets (£m)	388.9	409.2	420.2	425.1	431.4
Asset Growth (%)	2.8	5.2	2.7	1.2	1.5
Share Balances (£m)	342.1	365.0	373.7	379.9	388.8
Liquidity (%)	28.4	25.5	25.9	24.6	23.9
Net Interest Margin (%)	1.68	1.57	1.62	1.64	1.65
Profit Before Tax (£m)	1.3	1.3	1.3	1.0	0.6
Reserves (£m)	31.5	32.6	33.6	34.5	35.0
Gross Capital (%)	8.9	8.7	8.7	8.8	8.9

All figures are unconsolidated on the basis of materiality except 2016 and 2017 which are Group figures.

KEY PERFORMANCE INDICATORS

The Board and management monitor a range of performance indicators to assess the ongoing health of the Society. The financial indicators are shown in the table above – and some are also shown graphically on page 6. Their significance is explained as:

Mortgage Assets: One of the key reasons for the Society's existence is to promote home ownership through mortgage lending. During the past year Mortgage Assets have increased by 2.3%.

Total Assets: Consisting primarily of Mortgage Assets and Liquid Assets, these have increased by 1.5%.

Asset Growth/Mortgage Asset Growth: The annual increase in the Society's Total Assets and Mortgage Assets, shown as a percentage.

Share Balances: Another key reason for the Society's existence: to encourage saving and investment. Savings balances have increased by 2.3% during the past year.

Liquidity: Total cash and investments held by the Society at the year-end, expressed as a percentage of shares and borrowings. This has decreased by 0.7 percentage points in the year but remains at a level well above regulatory requirements.

Net Interest Margin: The income generated by the Society from its operations, expressed as a percentage of mean total assets. This has increased by 0.01 percentage points in the year as we continue to provide long-term value to members.

Profit Before Tax: Ensuring that the Society makes sufficient profit to maintain its financial strength is a key requirement and this has been achieved with Profit Before Tax (PBT) of £0.6m in the current year. The reduction in PBT from £1.0m in the prior year reflects a period of restructuring plus investment in the Society's branch network and additional marketing, as the Society positions itself for future growth. As a mutual organisation the Society does not aim to maximise profit.

Reserves: The accumulated profits of the Society over more than 171 years of operation, which provide the capital which helps to maintain the Society's financial strength. These have increased by £0.5million in the year through the addition of the year's profit after tax.

Gross Capital: This ratio is expressed as a percentage of shares and borrowings and demonstrates the relationship between the Society's capital and its liabilities to investors. It reflects the continuing strength of the Society whilst remaining well within prudent guidelines. This has remained broadly unchanged during the year.

NON-FINANCIAL KEY PERFORMANCE INDICATORS

The Board also monitors a number of other indicators on a regular basis. Amongst these, it is pleasing to report that:

- 82% of mortgage borrowers reaching the end of their initial incentive period have remained with the Society.
- Less than 1.4% of mortgage accounts have arrears greater than 1.5% of their mortgage balance.

Directors' Report
continued

REGULATION AND COMPLIANCE

The Society is committed to maintaining high standards of compliance and continues to implement regulatory changes as required.

2019-20 has seen a lower level of change than recent years, with key activity relating to the continued embedding of changes arising from the Second Payment Services Directive (PSD2) and the General Data Protection Regulation (GDPR) which came into effect in 2018.

Similarly, 2020-21 will not require significant regulatory change, however the Society will closely monitor developments arising from Brexit and continue to input to industry discussions on matters such as improving operational resilience within Financial Services and enhancing our approach to managing financial risks from climate change. The Society has plans in place to ensure it is able to implement any changes required.

The Society is required to have regard to the principles laid down in the UK Corporate Governance Code. This is covered in more detail in the separate Corporate Governance Report on pages 16 to 20.

PRINCIPAL RISKS AND UNCERTAINTIES

The Society has a risk-aware strategy and maintains a comprehensive Risk Register reflecting the impact and likelihood of adverse events, which is regularly reviewed by the Board and covers all aspects of the business.

The principal business risks to which the Society is exposed are considered to be:

- **Credit Risk:** This relates to the risk that mortgage borrowers or treasury counterparties, to whom the Society has lent money, default on their obligation to pay. We seek to mitigate credit risk principally through the careful management of our underwriting policy and process, ensuring that all loans meet the criteria laid down in our Lending policy which is reviewed on a rolling basis at least annually and overseen by the Retail Credit Committee. The Society's exposure to treasury counterparties is carefully controlled in accordance with the limits set out in our Liquidity & Funding policy.
- **Interest Rate Risk:** This is the risk of the Society's financial position deteriorating as interest rates move over time and the failure to preserve interest rate margins arising from an increase in the cost of funds or a decrease in the earning capacity of assets. We seek to manage interest rate risk by matching the characteristics of mortgage and savings products and through the use of financial instruments within defined parameters set out in our Interest Rate Risk Management policy.
- **Liquidity Risk:** This relates to the Society's ability to meet its financial obligations as they fall due. The Society has policies in place to ensure it maintains sufficient funds in liquid form at all times and stress tests are carried out regularly to confirm that the Society can withstand normal and abnormal cash outflows.
- **Operational Risk:** This is the risk of a loss arising from inadequate or failed internal processes or systems, human error or external events, including cyber risk. Processes and systems are in place to minimise these risks and to maintain our operational resilience.
- **Conduct Risk:** The risk of the Society failing to treat its customers fairly, with resulting detriment to those customers. The Operational Risk Committee oversees the arrangements in place to ensure that the Society continues to keep the needs of its members at the heart of everything we do.
- **Strategic and Reputational Risk:** The risk of the Society entering unprofitable markets or offering unprofitable products. The Board has a duty to ensure that the Society makes an adequate amount of profit to maintain capital ratios at a sufficient level to provide long-term financial strength and stability for all members. This also includes risk arising from increased regulation by the financial services regulators.

The recent outbreak of COVID-19 presents a significant risk to global and domestic activity. This increases the level of risk and uncertainty in the Society's operating environment. In particular, increased risk is identified in the following areas:

- **Business Risk** – due to macro-economic disruption;
- **Operational Risk** – due to the heightened potential for business disruption;
- **Financial Risk** – due to recent reductions in the Bank of England Base rate which could impact the Society's interest rate margin;
- **Credit Risk** – due to the increased potential for borrowers to default on their mortgage, either through individual circumstances or broader economic consequences.

The Society is managing the situation closely, implementing contingency plans as appropriate, and will continue to monitor the broader economic impact of the outbreak on its mortgage customers.

A further risk stems from the continuing uncertainty inherent in the current economic environment and the impact of the UK's exit from membership of the European Union. The Society has carried out an initial evaluation of the impact of the UK's decision to leave the EU and will continue to monitor developments. The Society will continue to adopt a cautious approach in the coming financial year, seeking sustainable growth in order to maintain financial stability, whilst providing suitable mortgage and savings products to customers.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Society has a formal policy for the management of financial risk, including the arrangement of appropriate financial instruments to provide a hedge against identified exposures in fixed-rate lending. Particular risks including credit, liquidity and interest rate risk are considered in *Note 26* to the Accounts.

As a key component of the Society's management of financial risk, the Asset & Liability Committee (ALCO) meets at least monthly to make decisions within Board-prescribed parameters on product pricing, margin, hedging strategy and interest rate risk strategy. The ALCO reports to the Board Risk Committee, which in turn reports to the Board.

CAPITAL REQUIREMENTS

The Board has reviewed its risk assessment to meet the requirements of Basel III and the associated Capital Requirements Regulations and Directive (CRR/CRD4). The Society is required to conduct an assessment of the adequacy of its capital and resources, known as the Internal Capital Adequacy Assessment Process (ICAAP), which is regularly reviewed and revised to reflect the prevailing economic climate.

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 place certain reporting obligations on financial institutions that are within the scope of CRD4. The purpose of the regulations is to provide clarity on the source of the Society's income and the location of its operations. The annual reporting requirements for the Society as at 31 January 2020 are provided on page 71.

GOING CONCERN

As part of the Society's forward planning process, the Directors have considered forecasts showing the Society's capital, liquidity and financial position for the next 12 months under normal operating conditions. They have also considered the potential effect on the Society's business, financial position, capital and liquidity under stressed operating conditions, specifically including a severe but plausible stress scenario incorporating the potential impact of the increased risks and uncertainties as a result of the COVID-19 outbreak set out on page 10 of this report.

The Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason, the Accounts continue to be prepared on the going concern basis.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Society recognises that CSR is concerned with how businesses take account of the social, environmental and economic impacts of their operations. We seek to be a good corporate citizen in all aspects of our operations and activities and aim to be recognised as a socially responsible business by our members, our staff and the communities in which we operate. This is articulated in our Corporate Social Responsibility policy and regularly monitored by the Board.

Customer Service and Conduct of Business

The Society is committed to treating its members fairly and to acting with honesty and integrity in its relationships with members, regulators and the wider community. Continuous review and improvement is used to build on the high level of service throughout the Society and the many positive aspects already in place.

Donations and Community Support

The Society continues to provide support for local events in areas around its branches, as well as supporting designated charities in each of its five branches during the past year, as voted for by the local membership. These are:

The Highland Hospice (North of Scotland)

The Highland Hospice is the only provider of specialist palliative care in the Highlands and aims to support people living with an advancing, life shortening illness.

Breast Cancer Care (Glasgow & West of Scotland)

Breast Cancer Care combines the personal experiences of people affected by breast cancer with clinical expertise to support people living with the disease.

Troon Lifeboat RNLI (Troon & South West Scotland)

Troon Lifeboat RNLI saves lives at sea and provides, on call, a voluntary 24-hour lifeboat search & rescue service.

Galashiels Food Bank (Borders)

Galashiels Food Bank is operated by seven teams who distribute food parcels to those in need in the Borders region.

Maggie's Centre, Edinburgh (Edinburgh & East Scotland)

Maggie's Centre at the Western General in Edinburgh provides practical, emotional and social support for people with cancer, and their family and friends.

Directors' Report
continued

The Society makes charitable donations to reflect and encourage members' participation in the Society's Annual General Meetings each year. £1,280 was donated in 2019 to Maggie's Centre (Edinburgh & East Scotland) for postal and online votes received and for members who attended the AGM in person at The Royal College of Physicians of Edinburgh on 29 May. We plan to hold this year's AGM on 27 May 2020. Given the current restrictions in place as a result of the COVID-19 outbreak, we are considering our options on how to hold the meeting. Further details will be communicated to members in April. A donation will be made to our Glasgow branch's local charity, Breast Cancer Care Scotland, for every vote received, including postal and online.

The Society does not make donations for political purposes.

Environmental issues

The Society aims to minimise the environmental impacts of all our operations by striving to reduce unnecessary consumption, to re-use and recycle where possible, to manage energy usage wisely and to promote the control of environmental issues at all levels. We continue to use paper from sources approved by the Forestry Stewardship Council wherever possible, to recycle waste paper and other materials and to encourage our staff to be environmentally aware at all times. Our vehicle replacement policy includes a maximum CO2 emissions limit of 130g/km.

Following the successful introduction of online voting facilities, we have reduced our impact on the environment by allowing members to opt to receive future AGM packs electronically.

Employee Policies

The Society aims to create an environment in which all staff feel valued, where discriminatory behaviour is not tolerated and all employees are encouraged to enhance their skills through personal development and training programmes linked closely to their specific role and annual performance review.

DIRECTORS

The following individuals were Directors of the Society during the year to 31 January 2020:

Non-Executive Directors	
Raymond J Abbott CA	Appointed June 2013 and Chairman since July 2017
John C Ogston FCBI	Appointed July 2013 and Vice-Chairman and Chair of Nomination & Remuneration Committee from July 2017 until January 2020 Senior Independent Director since November 2018
Margaret MacKay MSc DipM FCIPD	Appointed March 2017 and Chair of Nomination & Remuneration Committee since January 2020
Simon M Pashby BA FCA	Appointed October 2014 and Chair of Board Risk Committee from August 2017 until October 2019 Retired as a Director November 2019
Alan Webster MSc FCBI	Appointed November 2017
Karyn Lamont CA	Appointed May 2018 and Chair of Audit Committee since November 2018
Andrew S Hastings C.Dir FIB	Appointed July 2019 and Chair of Board Risk Committee from October 2019
Sheila Gunn LLB (Hons), Dip LP	Appointed November 2019
Executive Directors	
Paul Denton MBA FCBI	Chief Executive Officer from July 2019 Chair of Operational Risk Committee from July 2019
Mark L Thomson FCBI	Chief Executive Officer until July 2019 Chair of Retail Credit Committee until July 2019 Chair of Operational Risk Committee until July 2019
Aileen Brown BA CA	Finance Director until December 2019 Chair of Asset and Liability Committee until December 2019

Details of the Directors' interests in the Society are disclosed in *Note 29* on page 69. None of the Directors had any beneficial interest in the Society's subsidiary undertaking, SBS Mortgages Limited, as at the year end. The Society maintains liability insurance cover for Directors and Officers as permitted by the Building Societies Act 1986.

ELECTION OF DIRECTORS

The following Directors are standing for election/re-election:

- **Paul Denton, Andrew Hastings and Sheila Gunn** have all joined the Board since the 2019 AGM and are retiring in accordance with Rule 25(4).
- **Raymond Abbott, Jack Ogston, Margaret MacKay and Karyn Lamont** are all choosing to retire and stand for re-election under Rule 26(1).

All of the above, being eligible under the Rules, offer themselves for election/re-election at the AGM to be held on 27 May 2020.

Biographies of all current Directors, including those seeking election/re-election, appear on pages 14 & 15.

STAFF AND AGENTS

The Directors recognise the contribution that staff at all levels make to the continuing success of the Society and would once again like to record their appreciation for the efforts made by everyone, particularly in what has been another very busy and challenging year.

The Directors also wish to acknowledge the assistance provided by our agency network that enables the Society to offer a counter service to members throughout Scotland, particularly in rural areas.

POST BALANCE SHEET EVENTS

The Directors do not consider that there have been any events since the year-end that have a material effect on the financial position of the Society as at 31 January 2020.

The outbreak of COVID-19 has resulted in the following events which increase the level of risk and uncertainty to the Society. The Directors consider these to be non-adjusting events as they are indicative of conditions that arose subsequent to 31 January 2020:

- A reduction to the Bank of England Bank Rate from 0.75% to 0.10% during March 2020, which impacts the Society's net interest margin;
- The introduction of industry wide forebearance measures in March 2020 to support mortgage customers in financial difficulty through the granting of payment holidays;
- Significant business disruption as a result of the Government's 'stay at home' measures which limit the Society's ability to achieve its business growth targets.

The Society has implemented business continuity measures and is taking mitigating actions to limit the impact of these events on future profitability.

SUPPLIER PAYMENT POLICY

The Society's continuing policy concerning the payment of its trade creditors is to pay within the agreed terms of credit, once the supplier has discharged their contractual obligations. The average number of days' credit taken to pay suppliers during the year ended 31 January 2020 was 18 (2019: 15).

INDEPENDENT AUDITORS

Our auditors PricewaterhouseCoopers LLP (PwC), are willing to continue in office and the Board is happy to recommend their re-appointment as auditors. A resolution to that effect will be proposed for consideration at the Annual General Meeting to be held on 27 May 2020.

By order of the Board

AILEEN E ROSE
SECRETARY
31 March 2020

Board of Directors

RAYMOND ABBOTT
CHAIRMAN

Raymond is a Chartered Accountant by profession and has worked in private equity and investment for over 25 years. As the former managing director of Alliance Trust Equity Partners he was responsible for strategic development. Previously he founded the UK venture investor Albany Ventures and prior to that was Director of Investment at British Linen Bank. Raymond also serves as Chairman of Foresight 4 VCT plc and Integrated Environmental Solutions Ltd. He therefore brings a wealth of financial experience to the Board. Raymond joined the Board in June 2013 and was appointed Society Chairman in July 2017 having previously been Vice-Chairman, Senior Independent Director and Chairman of the Nomination & Remuneration Committee.

JOHN (JACK) OGSTON
VICE CHAIRMAN

Jack is a Fellow of the Chartered Banker Institute and spent 36 years in management positions with the Clydesdale Bank, latterly as Head of Corporate & Structured Finance in Scotland. He has significant board and lending experience. Jack joined the Board in 2013 and was elected Vice Chairman in July 2017. Jack is the Society's Senior Independent Director and Whistleblowing Champion.

MARGARET MACKAY

Margaret joined the Board in 2017. Margaret began her career with HBOS and has over 36 years' experience in PLC, AIM and family owned businesses. She has held Board level positions for the last 20 years and latterly was Managing Director, Scotland and Ireland Division, with Peel Ports. Margaret has a Masters Degree in Human Resource Management and is a Fellow of the Chartered Institute of Personnel and Development. She also has a Postgraduate Diploma in Marketing. Margaret has held several Non Executive roles and is currently a Trustee of The John Mather Trust. During the year, Margaret served as a member of the Board Risk Committee and now chairs the Nomination and Remuneration Committee.

ALAN WEBSTER

Alan is due to step down from the Board at the 2020 AGM having served the Society since 2017. He is a Chartered Banker and Fellow of the Chartered Banker Institute. He has a Masters Degree in Finance. Alan spent 34 years in Clydesdale Bank in a wide variety of managerial roles including Asset Finance, Credit and Treasury. Latterly he was Head of the Business Bank. He then moved to Scottish Widows Bank as Business Development Director. He became MD of SFCF Ltd based in Glasgow before taking up MD positions with Campbell Financial Services and then with Succession Wealth Management. He was also a non-executive director of Pharmacy Mutual Insurance. Alan brings a great wealth of knowledge and experience across most aspects of management, banking and financial services. Alan is a member of the Board Risk Committee.

KARYN LAMONT

Karyn joined the Board in May 2018. Karyn is a chartered accountant and former audit partner at PwC. She has over 25 years of experience and has provided audit and other services to a range of clients across the UK's financial services sector including a number of banks and building societies. Her specialist knowledge includes financial reporting, audit and controls, risk management, regulatory compliance and governance. Karyn is a member of the Board Risk Committee and chairs the Audit Committee. She is also a non executive director at the Scottish Investment Trust plc, the North American Income Trust plc, and iomart Group plc.

ANDREW HASTINGS

Andrew was appointed to the Board in July 2019 and chairs the Board Risk Committee. He is a Chartered Banker, Fellow of the Institute of Bankers in Ireland, a Chartered Director, and a Certified Bank Director. He began a 30 year career in banking with RBS and was CEO and Country Manager of BNP Paribas Ireland before becoming CEO of Barclays Bank Ireland plc. Andrew is currently a Board Member of the Electricity Supply Board, the Irish State-owned energy business. He is also an Independent Non-Executive Director of Pepper Finance Corporation (Ireland) DAC and an Independent Non-Executive Director of Elavon Financial Services DAC.

SHEILA GUNN

Sheila joined the Board in November 2019 and is a member of the Board Risk Committee. She began her career as a lawyer, and was a partner at Shepherd & Wedderburn for 12 years. She moved into financial services on her appointment to Ignis Asset Management, and was a non-executive director of Airdrie Savings Bank. She has undertaken a range of other non-executive appointments – she is currently Vice Chair of Wheatley Group and Chair of Wheatley Solutions, a member of the Independent Governance Committees of both Phoenix Life and Standard Life, a member of the Accounts Commission, on the board of the Chartered Banker Institute, and on the Ethics Board of the Institute of Chartered Accountants of Scotland.

PAUL DENTON
CHIEF EXECUTIVE OFFICER

A Fellow of the Chartered Banker Institute, Paul was appointed CEO in June 2019. Paul has more than 30 years' experience in the banking sector, having started his career with the Royal Bank of Scotland, graduating to head of trading for retail banking at RBS/NatWest. He moved to Co-op Bank in 2013 where he was responsible for the branch network, business banking and mortgage teams and led the transformation of the Platform mortgage intermediary business. Paul is a member of the UK Finance Mortgage Board.

Corporate Governance Report

The Directors are responsible for the governance of the Society, on behalf of the members, and are committed to best practice in corporate governance. During the year they had regard to the principles of the 2018 UK Corporate Governance Code ('the Code') published by the Financial Reporting Council which applies to listed companies and followed those elements considered appropriate and proportionate to the Society in line with the Building Societies Association Guidance on the Code.

BOARD LEADERSHIP AND COMPANY PURPOSE

The Board is responsible for ensuring the long-term sustainable success of the Society for its members. It sets the Society's strategic objectives, ensures sufficient resources are in place to meet those objectives and monitors performance against them. The Board also ensures the Society operates within an effective risk management framework.

The Board meets regularly with additional meetings as required. In 2019-20 there were twelve Board meetings, including a specific meeting to consider future strategy and the Corporate Plan. A table showing details of Directors' attendance during the year in relation to Board and Committee meetings appears on page 19 of this report.

There is a schedule of matters reserved for Board decisions and the Board has delegated certain responsibilities to the Committees described below, all of which report to the Board. Minutes of each Committee's meetings are distributed to all Board members and the Chair of each Committee provides a report at the next Board meeting. The terms of reference for all Board Committees are available on the Society's website. Membership of Committees is reviewed annually with the aim of leveraging each Director's particular expertise.

Audit Committee: This Committee met on four occasions during the year. The Committee monitors internal controls, financial reporting and regulatory compliance. It also reviews audit reports, monitors the effectiveness of the internal audit function and agrees the annual internal audit plan. It considers and recommends to the Board (for approval by the members) the appointment or re-appointment of the external auditors, and the policy on the engagement of the external auditors for non-audit services and approval of their fees. The Committee monitors the external auditors' independence, objectivity, competence and effectiveness. It also ensures that the systems of accounting, business control and management of information are adequate for the Society's needs.

At least annually the Committee meets with the internal and external auditors without the Executive Directors being present. As required by the Code, the Committee provides advice to the Board confirming that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy.

The Committee comprises three Non-Executive Directors who all have relevant financial experience. Karyn Lamont chairs the Committee. Other members during the year were Raymond Abbott and Simon Pashby. As such, the Society does not currently comply with the provision in the Code that the Chair of the Board should not be a member of the Committee, however, this is considered appropriate given the current composition and skills across the Board. Members of senior management attend by invitation, together with representatives from the internal and external auditors.

Board Risk Committee: The Board Risk Committee met eight times in the year. Andrew Hastings succeeded Simon Pashby as Chair of the Committee in October 2019. The other members of the Committee are Karyn Lamont, Alan Webster and Sheila Gunn. Members of senior management attend by invitation. The committee assists the Board in overseeing the Society's risk management and control framework; considers the Board Risk Appetite Statement, supporting metrics and stress testing outputs; and reviews Board policies and key prudential documentation from a risk perspective. The Committee is also responsible for oversight of risk monitoring and assurance, including reviewing the Society's key risk exposures against appetite, trends and concentrations.

In addition, the Committee oversees the Society's corporate insurance cover.

The three first line risk management Committees: Asset & Liability Committee; Retail Credit Committee; and Operational Risk Committee, all report to the Board Risk Committee which in turn reports to the Board through its minutes and summaries of its activities and recommendations.

Nomination & Remuneration Committee: This Committee reviews Board composition, skills, performance, director elections and succession planning for Board and senior management. It is responsible for remuneration policy and for making recommendations to the Board regarding general remuneration and contractual arrangements. The Committee also supervises the process for appointment of new Directors. During the year, in response to recommendations from an external Board evaluation, the Committee was reduced in size and now focuses separately on nomination and remuneration issues.

Margaret MacKay succeeded the Vice-Chairman Jack Ogston as Chair in January 2020. The other members of the Committee are Raymond Abbott and Jack Ogston. The Committee met five times in the year.

Further information can be found in the Directors' Remuneration Report on pages 21 & 22.

CULTURE

The Board monitors and assesses culture through a variety of sources including key performance metrics, feedback from internal and external audit, employee surveys and meeting employees from across the Society. During the year a dashboard capturing all the relevant sources was developed for reporting on culture to ensure this remains a key focus for the Board going forward.

ENGAGEMENT WITH STAKEHOLDERS

As a mutual organisation the Society does not have 'shareholders' as referred to in the Code, and the Society's saving and borrowing customers are also its members. The Society seeks the views of its members through membership surveys, members' forums, the Society newsletter and the AGM. Members are encouraged to attend the AGM, which is held in a different location each year to facilitate member engagement. This provides members with an opportunity to ask questions and voice their opinions. Responses to member questions are published on the Society's website.

In relation to employees, the Board has chosen not to rely on one of the methods of engagement set out in the Code. Instead the Board engages with employees through a combination of attendance of senior management at Board and Committee meetings, Board attendance at employee offsites, informal employee feedback sessions with the Chairman, employee surveys and monthly Q&A sessions hosted by the CEO. Points of focus identified in employee surveys are addressed by employee working groups. Given the Society's size, these arrangements are considered to provide an effective alternative.

WHISTLEBLOWING

The Society has arrangements in place for employees, contractors and temporary workers to raise concerns in confidence (and if they wish anonymously). The Society's Vice-Chairman and Senior Independent Director, Jack Ogston, is the Society's Whistleblowing Champion. He has responsibility for ensuring and overseeing the integrity, independence and effectiveness of the Society's policies and procedures on whistleblowing, including those to protect whistleblowers from victimisation. The Board reviews the Society's whistleblowing policy and reports at least annually.

DIVISION OF RESPONSIBILITIES: CHAIRMAN AND CHIEF EXECUTIVE OFFICER (CEO)

The offices of CEO and Chairman are distinct and held by different people. The CEO is responsible for managing the Society's business within the parameters set by the Board. The Chairman sets the direction and culture of the Board, facilitating effective contribution from Directors, maintaining constructive relations between Executive and Non-Executive Directors and ensuring that Directors receive accurate, timely and clear advice and information. The current Chairman (Raymond Abbott) was considered independent on his appointment in July 2017, having demonstrated clear commitment, experience, and capability since joining the Board in June 2013.

NON-EXECUTIVE DIRECTORS

Non-Executive Directors are required to have a full understanding of the risks in the business; to show commercial leadership within a framework of prudent and effective risk management controls; to provide an independent perspective, monitoring performance and resources; and to constructively challenge strategic proposals, whilst supporting the Executive management. The Non-Executive Directors meet regularly without the Executives present. The Board has appointed a Senior Independent Director, Jack Ogston, to provide support for the Chairman, an alternative route for communication from members and Society colleagues, and to carry out the appraisal of the Chairman, taking into account the views of the other Directors.

The Board consists of seven Non-Executive Directors plus the CEO and the Finance Director. Information relating to Directors is set out on pages 14 & 15. This demonstrates that the Society's Board has a balance of skills and experience appropriate for the Society and its strategy. Committee membership was refreshed during the year, following the Board evaluation.

The Board is satisfied that in terms of independence of character, judgement and robustness of challenge to the Society's Management, each Non-Executive Director is considered independent. Factors taken into account when assessing independence include length of service, material business relationships and whether the Director has recently been an employee of the Society.

The Society's vehicle advisers are Pike & Bambridge, a firm which is connected with the Society Vice-Chairman. There are no other current business relationships between the Society and firms connected with Directors. No ex-employees are or have been Non-Executive Directors.

Corporate Governance Report

continued

COMMITMENT

The Nomination & Remuneration Committee evaluates the ability of Non-Executive Directors to commit the time required for their role, prior to appointment. The letter of appointment sets out the expected time commitment and Directors undertake that they have sufficient time to meet those expectations. The formal appraisal process carried out by the Chairman each year also assesses whether Directors have demonstrated this ability during the year.

The attendance record of Board and Committee members during the year is set out opposite. This table does not reflect Directors' attendance at additional ad hoc meetings, seminars, conferences and courses during the year or time spent on preparation for meetings etc. Generally each Non-Executive Director spends a minimum of 2-3 days each month on Society business. The time commitment for the Chairman, Vice-Chairman and Committee Chairs is considerably more.

COMPOSITION, SUCCESSION AND EVALUATION: APPOINTMENTS TO THE BOARD

The Nomination and Remuneration Committee is responsible for succession planning for Executive and Non-Executive Director positions. As part of the annual evaluation process, the Committee considers the balance of skills and experience it requires, the requirements of the business, and recommends change where appropriate.

The Society values all aspects of diversity, including gender, and ensures that Non-Executive Director appointments are made on merit, based on the specific skills and experience required. Members have the right under the Society's Rules to nominate candidates for election to the Board. The Nomination & Remuneration Committee leads the recruitment process, although the final decision rests with the Board as a whole. This year particular consideration has been given to succession planning for Board and senior management to ensure there is a diverse pipeline to fill current and future requirements. This work will continue in the coming year.

As at the date of this report the percentage of women on the Board is 37.5%. Female representation on the Senior Management Team stands at 40%.

All Directors must meet the requirements of fitness and propriety and are subject to the Conduct Rules laid down by the regulators. Directors who are to hold certain roles e.g. Board Chairman, Chair of the Board Risk Committee and Chair of the Audit Committee are subject to formal regulatory approval.

During the year, Warren Partners were appointed to assist in the recruitment of a new CEO and Non-Executive Directors. Warren Partners have no other relationship with the Society and follow the executive search firms' Enhanced Voluntary Code of Conduct, an industry standard code to redress gender balance and promote best practice. The search and appointment process was comprehensive, including market mapping and interviews by Board members. Selection was based on objective criteria.

DEVELOPMENT

All new Directors receive induction training, and ongoing training is provided by attendance at courses and seminars organised by outside bodies, in particular the Building Societies Association. Training and development needs are identified as part of the annual appraisal of the Board's and individual Director's performance and effectiveness. The Secretary has specific responsibility for ensuring that Directors are provided with appropriate information and training.

INFORMATION AND SUPPORT

The Chairman ensures that the Board receives sufficient information to enable it to discharge its responsibilities. The quality and content of management information provided to the Board and Committees is constantly reviewed by Directors and management. The Secretary provides support on corporate governance matters and the Board has access to independent professional advice if required.

DIRECTORS' ATTENDANCE 2019-20

The table below shows the number of Board meetings attended by each Director and, for each of the Board Committees, the number of meetings and attendance by individuals as members of those Committees. The figures in brackets denote the number of meetings each Director was eligible to attend.

	Board	Audit Committee	Board Risk Committee	Nomination & Remuneration Committee
R J Abbott	12(12)	4(4)		5(5)
J C Ogston	11(12)			5(5)
S M Pashby	10(10)	4(4)	6(7)	4(4)
M MacKay	12(12)		3(3)	5(5)
A Webster	12(12)		8(8)	4(4)
K Lamont	12(12)	4(4)	8(8)	4(4)
A Hastings	6(6)		4(4)	1(1)
S Gunn	1(2)		1(1)	
P Denton	6(6)			
M L Thomson	6(6)			
A Brown	0(12)			

EVALUATION

A comprehensive, externally facilitated Board and Committee evaluation was carried out in the first half of 2019 by Genius Boards Limited. Genius Boards Limited has no other connections with the Society. The evaluation involved observing Board and Committee meetings over a period of three months and individual interviews with Directors and senior management. A report with its findings was provided to the Nomination & Remuneration Committee for review in September 2019 and a sub-committee was established to implement the recommendations. The review commented positively on the Society's culture, transparency, inclusivity and sustainability. Recommendations focused on enhancing the operation of the Board and Committees, including changes to composition, key competencies and board information, all of which have been implemented for the coming year.

Separately, the Chairman & Vice-Chairman review the performance of the CEO. Non-Executive Directors are evaluated by the Chairman using questions based on the FRC Guidance on Board Effectiveness. The Chairman is evaluated by the Senior Independent Director, taking into account the views of the other Directors.

RE-ELECTION

The Society's Rules require that Directors are submitted for election at the AGM following their appointment to the Board. All Directors are required by the Society's Rules to seek re-election if they have not been elected at either of the two previous AGMs. Directors may also submit themselves for re-election voluntarily. In the interests of good governance and having regard to the provisions of the Code, it is expected that, where appropriate, a combination of these rules will result in the Directors standing for election or re-election at each AGM. The Nomination & Remuneration Committee considers and makes a recommendation to the Board whether each Non-Executive Director should be submitted for re-election, bearing in mind that Director's continued independence and contribution to Board deliberations.

Corporate Governance Report
continued

AUDIT, RISK AND INTERNAL CONTROL
RISK MANAGEMENT

The Board is collectively responsible for determining strategies for risk management and control. The Society's risk management framework adopts a "three lines of defence" model which is regularly reviewed by the Board Risk Committee and Audit Committee. This comprises:

- first line (day-to-day risk taking and management) including day-to-day focus such as policies, procedures, delegated mandates, and management risk committees.
- second line (advice, oversight and challenge) consisting of the Board Risk Committee, the Chief Risk Officer and the Risk and Compliance Team.
- third line (independent assurance) comprising the Audit Committee and the external and internal auditors.

The role, membership and work of the Audit Committee is set out earlier in this report.

The Society has a strong compliance culture and the Board is satisfied that the Society's systems are effective and appropriate to the scale and complexity of the Society's business.

FINANCIAL AND BUSINESS REPORTING

The Statement of Directors' Responsibilities on page 23 sets out the Board's responsibilities in relation to the Society's Annual Report and Accounts and the Directors' Report includes a statement regarding the Society's position as a going concern on page 11.

REMUNERATION

The Directors' Remuneration Report on pages 21 & 22 sets out the remuneration policies for Executive and Non-Executive Directors and explains how this meets the requirements of the Code.

RAYMOND ABBOTT
CHAIRMAN
31 March 2020

Directors' Remuneration Report

The purpose of this report is to inform members of the Society, in line with the relevant provisions of the Code, of the policy for determining the remuneration of Executive and Non-Executive Directors. The Society has adopted a Remuneration Policy which meets the applicable requirements of the Remuneration Code issued by the financial services regulators.

A statement of all Directors' Remuneration is included within this report and also appears in the Annual Review & Summary Financial Statement, issued annually to all members. An advisory vote on Directors' Remuneration is included in the AGM agenda.

As a mutual organisation, the Society has no share option scheme and none of the Directors has any beneficial interest in, or any rights to subscribe for, shares in or debentures of any connected undertaking of the Society.

PROCEDURE FOR DEVELOPING POLICY ON EXECUTIVE & INDIVIDUAL DIRECTOR REMUNERATION

The Board has overall responsibility for overseeing arrangements for remuneration. This is done through the Nomination & Remuneration Committee.

The Committee reviews remuneration for Directors and staff annually, using data from comparable organisations and taking advice from external consultants when appropriate.

NON-EXECUTIVE DIRECTORS

The level of fees payable to Non-Executive Directors is assessed annually using market information and data from comparable organisations. The fees payable to the Chairman and Vice-Chairman reflect the additional responsibilities of these positions.

Fees for Non-Executive Directors are non-pensionable and Non-Executive Directors do not participate in any bonus or incentive schemes or receive any other benefits apart from reimbursement of expenses incurred in the execution of their duties as Directors.

EXECUTIVE DIRECTORS

The basic salaries of the CEO and Finance Director are reviewed annually by reference to jobs carrying similar responsibilities in comparable organisations and by reference to market conditions and personal performance.

Their contracts with the Society include a non-pensionable executive bonus scheme which is payable dependent on the Society's performance and the individual's personal performance measured against a number of specific objectives, including strategy, business performance, risk management and corporate governance. No single factor can therefore unduly influence the amount of bonus payable. Bonus payments are not guaranteed and are reviewed each year.

Executive Directors in office as at 31 January 2020 are entitled to receive pension contributions to their private pension arrangements, although depending on their individual circumstances they may be paid a pension replacement amount. Pension contribution rates are aligned with those available to the workforce. Executive Directors also receive a further taxable benefit comprising a Society car, or car allowance.

SERVICE CONTRACTS

Executive Directors have service contracts with the Society which can be terminated by either side giving six months' notice.

Non-Executive Directors do not have service contracts but serve under letters of appointment subject to election by the Society's members.

Directors' Remuneration Report

continued

NON-EXECUTIVE DIRECTORS

Fees only

	To 31 January 2020	To 31 January 2019
R J Abbott	£40,000	£35,200
J C Ogston	£32,000	£26,200
M MacKay	£24,500	£22,500
A Webster	£24,500	£22,500
K Lamont (appointed May 2018)	£28,000	£15,673
A Hastings (appointed July 2019)	£15,346	-
S Gunn (appointed November 2019)	£6,125	-
S M Pashby (retired November 2019)	£23,333	£22,500
D Peebles (retired October 2018)	-	£18,375
Total	**£193,804**	**£162,948**

EXECUTIVE DIRECTORS

To 31 January 2020

	Salary	Bonus	Pension Contributions	Taxable Benefits	Total
P Denton (appointed July 2019)	£118,141	-	£3,544	£4,394	£126,079
M L Thomson (retired July 2019)	£78,409	£31,364	£15,682	£3,883	£129,338
A Brown (retired December 2019)*	£76,647	£12,444	£21,799	£5,884	£116,774
Total	**£273,197**	**£43,808**	**£41,025**	**£14,161**	**£372,191**

*Aileen Brown also received a final payment on her resignation as Finance Director amounting to £109,530.

To 31 January 2019

	Salary	Bonus	Pension Contributions	Taxable Benefits	Total
M L Thomson	£155,676	£30,450	£31,135	£7,551	£224,812
A Brown	£119,939	£15,249	£23,988	£5,524	£164,700
Total	**£275,615**	**£45,699**	**£55,123**	**£13,075**	**£389,512**

Pension contributions paid by the Society were in respect of money-purchase pension schemes or cash allowances in lieu of pension.

MARGARET MACKAY
CHAIR, NOMINATION & REMUNERATION COMMITTEE
31 March 2020

Statement of Directors' Responsibilities

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, THE ANNUAL BUSINESS STATEMENT, THE DIRECTORS' REPORT AND THE ANNUAL ACCOUNTS

The Directors are responsible for preparing the Annual Report, Annual Business Statement, Directors' Report and the Annual Accounts in accordance with applicable law and regulations.

The Building Societies Act 1986 ("the Act") requires the Directors to prepare Society Annual Accounts for each financial year. Under that law they have elected to prepare the Society Annual Accounts in accordance with UK Accounting Standards including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

The Society Annual Accounts are required by law to give a true and fair view of the state of affairs of the Society as at the end of the financial year and of the income and expenditure of the Society for the financial year.

In preparing these Annual Accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Annual Accounts;
- assess the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

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

DIRECTORS' RESPONSIBILITIES FOR ACCOUNTING RECORDS AND INTERNAL CONTROLS

The Directors are responsible for ensuring that the Society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society, in accordance with the Act;
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of Annual Accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of Annual Accounts may differ from legislation in other jurisdictions.

DIRECTORS' RESPONSIBILITIES IN RELATION TO THE COUNTRY-BY-COUNTRY REPORTING (CBCR) INFORMATION

The CBCR information comprises the information discussed below.

The Directors of the Society are responsible for preparing the CBCR information for the year ended 31 January 2020 in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013. In preparing the CBCR information, the Directors are responsible for:

- interpreting the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013;
- determining the acceptability of the basis of preparation of the CBCR information set out on page 71;
- making judgements and estimates that are reasonable and prudent; and
- establishing such internal control as the Directors determine is necessary to enable the preparation of CBCR information that is free from material misstatement, whether due to fraud or error.

Independent Auditors' Report

Report on the audit of the annual accounts

OPINION

In our opinion, Scottish Building Society's (the "Society") annual accounts (the "annual accounts"):

- give a true and fair view of the state of the Society's affairs as at 31 January 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the annual accounts, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the statement of financial position as at 31 January 2020; the income statement and statement of other comprehensive income, the cash flow statement, and statement of changes in members' interests for the year then ended; the accounting policies; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the annual accounts 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

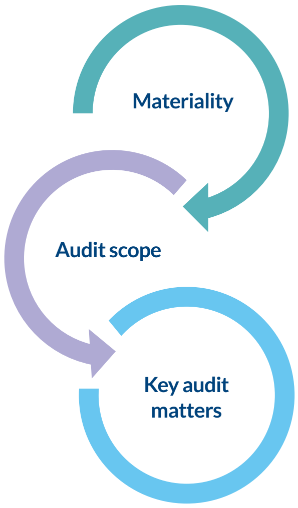
We remained independent of the Society in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK, which includes the FRC's Ethical Standard applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Society.

Other than those disclosed in note 5 to the annual accounts, we have provided no non-audit services to the Society in the period from 1 February 2019 to 31 January 2020.

OUR AUDIT APPROACH

Overview



Materiality

- Overall materiality: £350,000 (2019: £345,000), based on 1% of net assets.

Audit scope

- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the annual accounts as a whole, taking into account the accounting processes and controls in place.
- All of the Society's activities are in the United Kingdom.
- We conducted all our work in Edinburgh using one audit team.

Key audit matters

- Impairment of loans and advances to customers.
- Revenue recognition.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the annual accounts. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Society and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the Building Society Act 1986, regulations of the Prudential Regulatory Authority and the Financial Conduct Authority and UK tax legislation and we considered the extent to which non-compliance might have a material effect on the annual accounts. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates.

Audit procedures performed by the engagement team included, but were not limited to:

- Enquiring of management and those charged with governance including consideration of known or suspected non-compliance with laws and regulations and fraud;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Evaluation of the operating effectiveness and reviewing the results of management's internal controls designed to prevent and detect irregularities, in particular their controls around authorisation of payments and other third parties;
- Reviewing internal audit reports in so far as they related to the annual accounts;
- Reviewing relevant meeting minutes including those of the Risk Committee;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of claim payments;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment of loans and advances to customers (see related key audit matter below); and identifying and testing journal entries meeting certain risk-based criteria, including unusual or unexpected account combinations.

There are inherent limitations in the audit procedures described above 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 would become aware of it. Also, 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 or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the annual accounts of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Independent Auditors' Report
continued

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers An impairment provision of £310,000 (2019: £369,000) is recognised by the Society against loans and advances to customers. The loans and advances represent mortgages secured against residential property or land. The total impairment provision comprises individual provisions of £90,000 (2019: £81,000) and collective provision of £220,000 (2019: £288,000). Individual provisions are determined based on loans which meet certain risk criteria (e.g. arrears, bankruptcy) with collective provisions capturing the risk across the remaining portfolio relating to impairment events which have been incurred but not yet identified at the balance sheet date. The determination of impairment provisions requires the use of several assumptions incorporating a significant level of judgement, particularly given the low levels of losses experienced historically. Key assumptions relate to the probability of default and loss given default (including forced sales discount). The Society's impairment provision balances are detailed within Note 12. Management's associated accounting policies are detailed on pages 37 to 41 with detail about judgements in applying accounting policies and critical accounting estimates on page 41.	We understood, evaluated and challenged the appropriateness of the key assumptions used in determining impairment provisions. We have understood and tested key controls in relation to the approval of impairment provisions by management. We tested the accuracy and completeness of underlying data used in the impairment calculations and identified no issues. We tested the reconciliation of loans and advances between underlying source systems and the allowance models. We tested the mechanical accuracy of the model, by independently recalculating the impairment provisions for a sample of mortgages. We performed sensitivity analysis to assess the impact of adopting different assumptions which could be considered reasonable based on our industry knowledge and experience. We also performed testing to ensure that loans meeting the defined risk criteria had been captured in the assessment of individual provisions. We consider that the impairment provisions are within an acceptable range.
Revenue recognition The Society uses an Effective Interest Rate (EIR) model to adjust the recognition of fees, commissions and early redemption charges integral to its mortgage balances. The loans and advances to customers of £334mn (2019: £327mn) presented in the balance sheet include an EIR asset of £408,000 (2019: £414,000). An EIR income of £7,000 (2019: £59,000) was recorded in the income statement for the year ended 31 January 2020. The recognition of interest receivable using the EIR method requires judgement by management regarding the expected life of mortgage assets. The Society's associated accounting policies are detailed on page 37, with detail about judgements made, and critical accounting estimates formed, in applying accounting policies on page 41.	We understood the basis of management's process for recognising interest income using the EIR method and identified the key data inputs and assumptions within management's calculation. We tested the accuracy and completeness of underlying data used in the EIR calculations and identified no issues. We tested the mechanical accuracy of the model, by independently recalculating the effective interest rate adjustment from supporting data for a sample of mortgage products. We considered the Society's historical experience of redemptions when assessing the estimates of expected lives of mortgage assets. We also performed sensitivity analysis over this assumption to consider how the Society's interest income recognition would change in the event of management applying different assumptions. Based on the work performed on the EIR model, we consider that the deferred fees held in the Balance Sheet and the EIR income were appropriate at year end.

Key audit matter	How our audit addressed the key audit matter
Impact of COVID-19 subsequent event As set out in Note 30, subsequent to the balance sheet date and up to the point of reporting there has been a global pandemic of a new strain of Coronavirus (COVID-19) which has caused significant economic disruption. This outbreak and subsequent spread of the virus does not provide additional evidence about the situation that existed at 31 January 2020, and it is therefore a non-adjusting subsequent event. Subsequent to the year end, management have assessed the financial and operational impacts of COVID-19 on the Society which include: • preparing an updated going concern assessment which models the expected downturn in the economy as a result of COVID-19 together with further downside scenarios; • considering the output of this updated assessment on the Society's forecast liquidity and capital position along with mitigating actions which may be taken; and • monitoring the ongoing operational impact on the Society's business, including outsourced arrangements. Following the consideration of this assessment, the Directors continue to believe that it is appropriate to adopt the going concern basis in preparing the annual report and have made relevant disclosures on pages 10 & 11 of the annual report explaining the factors they have considered.	We considered management's approach to assessing the impact of COVID-19 on the Society and its financial statements by performing the following procedures: • We assessed management's conclusion that this is a non-adjusting subsequent event and the related disclosures set out in Note 30 to the financial statements; • We evaluated management's updated going concern assessment, including the modelled downside scenarios, the ongoing operational impact and assessed management's key assumptions; • We assessed the impact of the revised cash flows on the Society's forecast liquidity and capital positions and the mitigating actions which may be taken by management; • We attended the Audit Committee meeting which considered the COVID-19 impacts in advance of reporting; and • We evaluated management's disclosures in the annual report and checked the consistency of the disclosures with our knowledge of the Society based on our audit. Based on the work performed and the evidence obtained, we consider that the disclosures made within the annual accounts in respect of COVID-19 to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the annual accounts as a whole, taking into account the structure of the Society, the accounting processes and controls, and the industry in which it operates.

The Society has no active subsidiaries and all of the Society's activities are undertaken in Scotland, in a single line of business being the provision of mortgages and savings products to members and other customers. The accounting records for the Society are located at the Society's head office in Edinburgh.

Audit procedures were performed over all material account balances and financial information of the Society. All audit procedures were conducted from the Society's head office in Edinburgh, performed by a single audit team.

We tested and examined information using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to form our own judgements. We obtained audit evidence by testing the effectiveness of controls, substantive procedures or a combination of both.

Independent Auditors' Report

continued

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the annual accounts as a whole.

Based on our professional judgement, we determined materiality for the annual accounts as a whole as follows:

Overall materiality	£350,000 (2019: £345,000)
How we determined it	1% of net assets
Rationale for benchmark applied	We believe that net assets is the most appropriate benchmark to use for the Society, whose strategy is not one of profit maximisation. Regulatory capital is a key benchmark for management and regulators and hence we continue to use net assets, a GAAP enshrined proxy to regulatory capital, as our benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £17,000 (2019: £17,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the annual accounts is not appropriate; or
- the directors have not disclosed in the annual accounts any identified material uncertainties that may cast significant doubt about the Society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the annual accounts are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Society's ability to continue as a going concern.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the annual accounts and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the annual accounts or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Annual Business Statement and Directors' Report we also considered whether the disclosures required by the Building Societies Act 1986 have been included.

Building Societies Act 1986 – Opinion on Annual Business Statement and Directors' Report

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

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the year ended 31 January 2020 is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS AND THE AUDIT

Responsibilities of the directors for the annual accounts

As explained more fully in the Statement of Directors' Responsibilities set out on page 23, the directors are responsible for the preparation of the annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 annual accounts.

A further description of our responsibilities for the audit of the annual accounts is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

BUILDING SOCIETIES ACT 1986 EXCEPTION REPORTING

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have no exceptions to report arising from this responsibility.

APPOINTMENT

Following the recommendation of the audit committee, we were appointed by the directors on 30 May 2018 to audit the annual accounts for the year ended 31 January 2019 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 January 2019 to 31 January 2020.

ALLAN MCGRATH (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS AND
STATUTORY AUDITORS
EDINBURGH
31 March 2020


BT

Accounts

For the year ended 31 January 2020

Income Statement
for the year ended 31 January 2020

	Note	**2020 £000**	2019 £000
Interest receivable and similar income	*2*	**11,350**	10,982
Interest payable and similar charges	*3*	**(4,304)**	(4,047)
Net interest income		**7,046**	6,935
Fees and commissions receivable		**46**	34
Fees and commissions payable		**(26)**	(27)
Net gains/(losses) from derivative financial instruments	*4*	**(55)**	(8)
Total Net Income		**7,011**	6,934
Administrative expenses	*5*	**(6,130)**	(5,717)
Restructuring costs	*5*	**(215)**	-
Depreciation and amortisation	*15, 16*	**(225)**	(222)
Operating Profit before movement in acquired assets, impairment losses and provisions		**441**	995
Impairment gains/(losses) on loans and advances	*12*	**59**	(10)
Net increase in value of acquired assets	*13*	**44**	39
Reversal of previous impairment of Land & Buildings	*15*	**76**	-
Provisions for liabilities - FSCS levy	*23*	**8**	8
Operating Profit and Profit before tax		**628**	1,032
Tax expense	*8*	**(116)**	(201)
Profit for the financial year	*24*	**512**	831

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

The accompanying notes on pages 37 to 70 form an integral part of the financial statements.

Statement of Other Comprehensive Income
for the year ended 31 January 2020

	Note	**2020 £000**	2019 £000
Profit for the financial year		**512**	831
Valuation (losses)/gains taken to reserves	*25*	**-**	1
Income tax on other comprehensive income	*25*	**(1)**	-
Total comprehensive income for the year		**511**	832

The accompanying notes on pages 37 to 70 form an integral part of the financial statements.

Statement of Financial Position
as at 31 January 2020

	Note	2020 £000	2019 £000
ASSETS			
Liquid Assets:			
Cash in hand and balances with Bank of England		**45,149**	50,220
Loans and advances to credit institutions	*9*	**19,058**	17,668
Debt securities	*10*	**30,123**	28,100
Derivative financial instruments	*20*	**10**	145
Loans and advances to customers	*11*	**334,936**	327,264
Investment in subsidiary undertaking	*14*	**-**	-
Tangible fixed assets	*15*	**1,585**	1,212
Intangible assets	*16*	**204**	166
Other assets	*17*	**340**	322
TOTAL ASSETS		**431,405**	425,097
LIABILITIES			
Shares	*18*	**388,798**	379,937
Amounts owed to other customers	*19*	**6,308**	9,779
Derivative financial instruments	*20*	**475**	96
Other liabilities and accruals	*21*	**780**	764
Deferred tax liability	*22*	**73**	54
Provisions for liabilities	*23*	**-**	7
TOTAL LIABILITIES		**396,434**	390,637
RESERVES			
General reserves	*24*	**34,984**	34,472
Available-for-sale reserves	*25*	**(13)**	(12)
Total reserves attributable to members of the Society		**34,971**	34,460
TOTAL RESERVES AND LIABILITIES		**431,405**	425,097

These accounts were approved and authorised for issue by the Board of Directors on 31 March 2020 and were signed on its behalf by:

RAYMOND ABBOTT
CHAIRMAN

KARYN LAMONT
DIRECTOR

PAUL DENTON
CHIEF EXECUTIVE

The accompanying notes on pages 37 to 70 form an integral part of the financial statements.

Statement of Changes in Members' Interests
as at 31 January 2020

	General reserves 2020 £000	Available -for-sale reserves 2020 £000	Total 2020 £000	General reserves 2019 £000	Available -for-sale reserves 2019 £000	Total 2019 £000
As at 1 February	**34,472**	**(12)**	**34,460**	33,641	(13)	33,628
Total Comprehensive income for the year						
Profit for the financial year	**512**	**-**	**512**	831	-	831
Other comprehensive income/(expense) *(see Note 25)*	**-**	**(1)**	**(1)**	-	1	1
Total comprehensive income for the year	**512**	**(1)**	**511**	831	1	832
As at 31 January	**34,984**	**(13)**	**34,971**	34,472	(12)	34,460

The accompanying notes on pages 37 to 70 form an integral part of the financial statements.

Cash Flow Statement
for the year ended 31 January 2020

	2020 £000	2019 £000
Cash flows from operating activities		
Profit before tax	**628**	1,032
Adjustments for		
Depreciation, amortisation and impairment	**149**	222
Loss/(Profit) on disposal of fixed assets	**2**	(22)
Increase/(decrease) in impairment of loans and advances	**(59)**	17
Total	**720**	1,249
Changes in operating assets and liabilities		
Decrease in other assets	**117**	96
Increase in other liabilities and accruals and provisions for liabilities	**290**	131
(Increase) in loans and advances to customers	**(7,613)**	(8,841)
Increase in shares	**8,861**	6,227
(Decrease) in amounts owed to credit institutions and other customers	**(3,471)**	(2,014)
(Increase)/decrease in loans and advances to credit institutions	**(3,483)**	988
Taxation paid	**-**	(458)
Net cash flows from operating activities	**(5,299)**	(3,871)
Cash flows from investing activities		
Purchase of debt securities	**(30,014)**	(27,006)
Sale and maturity of debt securities	**27,991**	23,971
Purchase of tangible fixed assets	**(464)**	(46)
Disposal of tangible fixed assets	**6**	22
Purchase of intangible assets	**(104)**	(102)
Net cash flows from investing activities	**(2,585)**	(3,161)
Net (decrease) in cash and cash equivalents	**(7,164)**	(5,783)

	2019 £000	Cash Flow	2020 £000
Cash and cash equivalents			
Cash in hand and balances with the Bank of England	**50,220**	**(5,071)**	**45,149**
Loans and advances to credit institutions - repayable on demand	**4,624**	**(1,093)**	**3,531**
Loans and advances to credit institutions - less than 3 months maturity	**8,000**	**(1,000)**	**7,000**
	62,844	**(7,164)**	**55,680**

	2018 £000	Cash Flow	2019 £000
Cash in hand and balances with the Bank of England	59,140	(8,920)	50,220
Loans and advances to credit institutions - repayable on demand	5,487	(863)	4,624
Loans and advances to credit institutions - less than 3 months maturity	4,000	4,000	8,000
	68,627	(5,783)	62,844

The accompanying notes on pages 37 to 70 form an integral part of the financial statements.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The Accounts have been prepared in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102"), as issued in September 2015, including the recognition and measurement provisions of International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* (as adopted for use in the European Union), as permitted by section 11 of FRS 102.

The financial statements are presented in Sterling (£). There are no foreign currency transactions.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these annual accounts.

Judgements made by the Directors in the application of these accounting policies that have significant effect on the annual accounts and estimates, with a significant risk of material adjustment in the next year, are discussed in this note.

Accounting convention

The annual accounts are prepared on a going concern basis under the historic cost convention as modified by the fair value revaluation of available-for-sale assets, derivatives and hedged items.

Consolidation

The Society has one subsidiary undertaking – SBS Mortgages Limited – which is dormant and has share capital and an intercompany loan of £1. The Society has elected not to consolidate the financial results on the basis of materiality. The Accounts are, therefore, presented on a single-entity basis for the Society.

Interest

Interest income and expense is recognised in the income statement and statement of other comprehensive income using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period), to the carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Society estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the income statement and statement of other comprehensive income includes:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis;
- interest on available-for-sale investment securities calculated on an effective interest rate basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability, such as arrangement fees, are included in the measurement of the effective interest rate as explained above.

Other fees and commission income, such as transaction charges, are recognised as the related services are performed.

Leases

Assets held under finance leases are recognised as assets of the Society at their fair value or, if lower, at the present value of the minimum lease payments, determined at the inception of the lease. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised immediately in the income statement.

Rental charges under operating leases are charged to the income statement evenly over the life of the lease.

Notes to the Accounts (continued)

Taxation

Tax on the income statement for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in statement of other comprehensive income, in which case it is recognised directly in statement of other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the period end, and any adjustment to tax payable in respect of previous years.

Provision for deferred tax is made, using the liability method, on a non-discounted basis for taxation at the relevant rate in respect of all items where there is a timing difference between their treatment for accounts and taxation purposes except where, in the opinion of the Directors, it is likely that tax assets would not be recoverable in the foreseeable future.

Financial instruments

Recognition

The Society initially recognises loans and advances, deposits, and debt securities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Society becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through the income statement, transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial assets

The Society classifies its financial assets into one of the following categories:

- *Loans and receivables*

'Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Society does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

- *Available-for-sale*

'Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprises debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in the income statement using the effective interest method. Impairment losses are recognised in the income statement.

Other fair value changes, other than impairment losses, are recognised in statement of other comprehensive income and presented in the available-for-sale reserve within reserves. When the investment is sold, the gain or loss accumulated in equity is reclassified to the income statement.

- *At fair value through profit and loss*

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

On initial designation of the hedge, the Society formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Society makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%.

- *Held to maturity*

There are no financial assets held to maturity.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves). If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into the income statement using the effective interest method over the remaining life of the hedged item.

The UK regulators have reiterated their intention to transition from the London Inter-Bank Offered Rate ("LIBOR") to Sterling Overnight Index Average ("SONIA") as an alternative benchmark by the end of 2021. The Society is directly impacted through exposure to LIBOR linked assets and liabilities therefore the Society has early adopted the FRS102 / IAS 39 amendments to hedging rules (issued by the FRC in December 2019) which provide relief from uncertainties relating to IBOR benchmark reform. Adoption of the amendments enable the Society to avoid any unnecessary discontinuation of existing LIBOR hedge accounting relationships during the period of uncertainty. Planning is currently under way to manage the impact of this transition.

Financial liabilities

The Society classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through the income statement.

Derecognition

The Society derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Society neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Society derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Measurement

Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

'Fair value' is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

When available, the Society measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

If there is no quoted price in an active market, then the Society uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Society determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Identification and measurement of impairment

At each reporting date, the Society assesses whether there is objective evidence that financial assets not carried at fair value through the income statement are impaired. A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

a. significant financial difficulty of the borrower or issuer;

b. default or delinquency by a borrower;

c. the restructuring of a loan or advance by the Society on terms that the Society would not consider otherwise;

Notes to the Accounts (continued)

d. indications that a borrower or issuer will enter bankruptcy;

e. the disappearance of an active market for a security; or

f. observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Society considers evidence of impairment for loans and advances at both a specific asset and a collective level. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

A collective provision is made against a group of loans and advances where there is objective evidence based on the Society's experience that credit losses have been incurred, but not yet identified, at the reporting date. Where certain emerging impairment characteristics are considered significant but have not been included as part of the impairment calculation, management may elect to apply an overlay to the calculated impairment provision to ensure that the Society has sufficient impairment provisions at the Statement of Financial Position date.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Interest on impaired financial assets is recognised at the effective interest rate for the relevant loan. To the extent that interest is not expected to be recovered, an allowance for this is included in the provisions for impairment losses.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value.

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track.

The main options offered by the Society include:

- Temporary payment reductions;
- Payment plans;
- Capitalisations; and
- Mortgage term extensions.

Customers requesting a forbearance option will need to provide information to support the request which is likely to include a budget planner, statement of assets and liabilities, bank/credit card statements, payslips etc. in order that the request can be properly assessed. If the forbearance request is granted the account is monitored in accordance with our policy and procedures. At the appropriate time the forbearance option that has been implemented is cancelled, with the exception of capitalisation of arrears, and the customer's normal contractual payment is restored.

Loans that are subject to restructuring may only be classified as restructured and up-to-date once a specified number and/or amount of qualifying payments have been received. These qualifying payments are set at a level appropriate to the nature of the loan and the customer's ability to make the repayment going forward. Typically the receipt of twelve months' of qualifying payments is required. Loans that have been restructured and would otherwise have been past due or impaired are classified as renegotiated.

Impairment losses are recognised in the income statement and reflected in an allowance account against loans and receivables. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through the income statement.

Cash and cash equivalents

For the purposes of the Cash Flow Statement, cash comprises cash in hand and unrestricted loans and advances to credit institutions repayable on demand. Cash equivalents comprise highly liquid unrestricted investments that are readily convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

The Cash Flow Statement has been prepared using the indirect method.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Assets held under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Buildings – 50 years
- Plant and equipment – 4-5 years
- Fixtures and fitting – 10 years
- Motor vehicles – 3-4 years

Intangible assets

Intangible assets that are acquired by the Society are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation starts when the asset becomes available for operational use and is charged to the income statement on a straight-line basis over 4 years. The assets and the amortisation period are reviewed annually for impairment.

Computer software costs have been classified as intangible assets under FRS 102.

Pension costs

The Society operates defined contribution pension schemes administered by a British life company, the funds of which are separate from those of the Society. Contributions are charged to administrative expenses in the year in which they are made.

Provisions

A provision is recognised in the Statement of Financial Position when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Critical accounting judgements and estimation uncertainty

Information about critical accounting judgements and estimation uncertainties recognised within these financial statements are set out below:

a. *Impairment losses on loans and advances to customers* – the Society reviews its mortgage portfolio regularly to assess impairment. In determining whether an impairment loss should be recorded, the Society is required to exercise a degree of judgement. Impairment provisions are calculated using arrears experience, credit risk characteristics and expected cashflows. Estimates are applied to determine prevailing market conditions and customer behaviour. To the extent that default rates differ from that estimated by 10%, the impairment provisions on loans and advances would change by an estimated £13,000.

b. *Expected mortgage life* – in determining the expected life of mortgage assets, for the purposes of the effective interest rate calculation, the Society uses historical and forecast redemption data as well as management judgement. The accuracy of the estimated expected life would therefore be affected by unexpected changes to these assumptions. A 10% increase in the total mortgage life would result in an increase in the value of loans on the Statement of Financial Position by approximately £898,000.

c. *Fair value of derivatives and financial assets* – the Society employs the following techniques in determining the fair value of its derivatives and financial assets:

- Derivative financial instruments – calculated by discounted cashflow models using yield curves that are based on observable market data
- Available-for-sale investments – measured at fair value using market prices

A change in the yield curve of 1% would change the total net fair value of derivative financial instruments by £1,407,000. However this would be largely offset by movements in the fair value of the hedged assets.

Notes to the Accounts (continued)

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2020 £000	2019 £000
On loans fully secured on residential property	10,151	9,916
On other loans	505	448
Net expense on derivatives designated in hedging relationships	(54)	(34)
Net expense on derivatives designated as fair value through profit and loss	(7)	2
On debt securities:		
- interest and other income	268	217
On other liquid assets:		
- interest and other income	487	433
	11,350	10,982

Included within loans fully secured on residential property is £19,805 (2019: £12,582) in respect of interest income on impaired loans.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2020 £000	2019 £000
On shares held by individuals	4,232	3,999
On other shares	6	19
On deposits and other borrowings	66	29
	4,304	4,047

4. NET GAINS/(LOSSES) FROM DERIVATIVE FINANCIAL INSTRUMENTS

	2020 £000	2019 £000
Derivatives in designated fair value hedge relationships	(519)	(212)
Adjustment to hedged items in fair value hedge accounting relationships	458	208
Derivatives not in designated fair value hedge relationships	6	(4)
	(55)	(8)

5. ADMINISTRATIVE EXPENSES

	2020 £000	2019 £000
Staff costs, including restructuring costs *(Note 6)*	**4,037**	3,278
Other expenses, including restructuring costs	**2,308**	2,439
Administrative costs, including Restructuring costs	**6,345**	5,717

One-off costs of £215k were incurred during the year in relation to restructuring of roles within the Society. (£207k staff costs, £8k other expenses)

	2020	2019
Included in other expenses are the following charges:		
- Property leasing costs	**93**	57
- Remuneration of auditors (excl. VAT):		
Audit of the Annual Accounts under FRS 102	**67**	65
Other services pursuant to legislation	**2**	2

6. STAFF NUMBERS AND COSTS

The average number of persons employed by the Society (including Executive Directors) during the year was as follows:

	Full time		Part time	
	2020	2019	**2020**	2019
Head Office	**37**	38	**6**	7
Branch offices	**25**	20	**16**	12
	62	58	**22**	19

The aggregate costs of employment of these persons were as follows:

	2020 £000	2019 £000
Wages and salaries	**3,359**	2,671
Social security costs	**322**	281
Pension costs	**356**	326
	4,037	3,278

Notes to the Accounts (continued)

7. DIRECTORS' REMUNERATION

Individual Directors' remuneration of £566,000 (2019: £552,000) is detailed in the Directors' Remuneration Report on pages 21 & 22.

8. TAX EXPENSE

	2020 £000	2019 £000
Current Tax		
Corporation tax charge for the year at 19.00% (2019: 19.00%)	97	202
Adjustment in respect of prior year	-	(4)
Total current tax charge for the year	97	198
Deferred tax		
Deferred tax credit for the year (*Note 22*)	19	3
Total tax charge for the year	116	201

The main rate of UK corporation tax is 19% from 1 April 2017. A further reduction to 17% from 1 April 2020 was substantively enacted on 15 September 2016. The substantive enactment of this rate reduction has been reflected in the computation of the net deferred tax liability recognised by the Society with account taken of the tax rates that will apply when the various timing differences are expected to reverse.

The tax assessed for the year differs from the statutory rate of corporation tax in the UK of 19%; the differences are explained below:

	2020 £000	2019 £000
Profit on ordinary activities before taxation	628	1,032
Profit on ordinary activities multiplied by the statutory rate of corporation tax of 19.00% (2019: 19.00%)	119	196
Effects of:		
Expenses not deductible for corporation tax purposes	(1)	9
Income not taxable	-	-
Effect of change of tax rate on deferred tax	(2)	-
Loss relief arising from merger with Century Building Society	-	-
Adjustment in respect of prior year	-	(4)
Total tax charge for the year	116	201

8. TAX EXPENSE (continued)

The total tax charge is recognised as shown in the following table:

	Current tax 2020 £000	Deferred tax 2020 £000	Total tax 2020 £000	Current tax 2019 £000	Deferred tax 2019 £000	Total tax 2019 £000
Recognised in income statement	**97**	**19**	**116**	198	3	201
Recognised in other comprehensive income	**1**	**-**	**1**	1	(1)	-
Total Tax	**98**	**19**	**117**	199	2	201

A tax charge of £1,000 (2019:nil) has been recognised in the available-for-sale reserves.

9. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	2020 £000	2019 £000
Accrued Interest	**57**	44
Repayable on demand	**3,531**	4,624
In not more than three months	**7,000**	8,000
In more than three months but not more than one year	**8,000**	5,000
Non-defined maturity	**470**	-
	19,058	17,668

Notes to the Accounts (continued)

10. DEBT SECURITIES

	2020 £000	2019 £000
Certificates of Deposit	**26,122**	24,094
Floating rate notes	**4,001**	4,006
	30,123	28,100
Debt securities have remaining maturities as follows:		
Accrued interest	**130**	111
In not more than one year	**26,001**	23,991
In more than one year	**3,992**	3,998
	30,123	28,100
Transferable debt securities comprise:		
Listed	**3,992**	4,000
Unlisted	**26,120**	24,092
Unamortised premia	**11**	8
	30,123	28,100
Market Value of listed debt securities	**4,001**	4,006
Movements during the year of debt securities:		
At 1 February	**28,100**	25,065
Additions	**30,014**	27,006
Disposals and maturities	**(28,004)**	(23,998)
Accrued interest	**19**	43
Amortisation	**(6)**	(17)
Net gains/(losses) from changes in fair value recognised in other comprehensive income	**-**	1
As at 31 January	**30,123**	28,100

11. LOANS AND ADVANCES TO CUSTOMERS

	2020 £000	2019 £000
Loans fully secured on residential property	**323,303**	315,505
Loans fully secured on land	**11,222**	11,806
Fair value adjustment for hedged risk	**411**	(47)
	334,936	327,264

Maturity Analysis

The remaining maturity of loans and advances to customers as at the date of the balance sheet is as follows:

	2020 £000	2019 £000
On call and at short notice	**391**	540
In not more than three months	**3,078**	3,691
In more than three months but not more than one year	**10,939**	9,597
In more than one year but not more than five years	**63,513**	62,840
In more than five years	**257,325**	250,965
	335,246	327,633
Less allowance for impairment *(Note 12)*	**(310)**	(369)
	334,936	327,264

The maturity analysis above is based on contractual maturity not expected redemption levels.

Notes to the Accounts (continued)

12. ALLOWANCE FOR IMPAIRMENT ON LOANS AND ADVANCES

	Individual Impairment 2020 £000	Collective Impairment 2020 £000	Total 2020 £000
Loans fully secured on residential property:			
At 1 February	**81**	**288**	**369**
Amounts written off during the year, net of recoveries	**-**	**-**	**-**
Charge/(credit) for the year	**9**	**(68)**	**(59)**
As at 31 January	**90**	**220**	**310**

	Individual Impairment 2019 £000	Collective Impairment 2019 £000	Total 2019 £000
Loans fully secured on residential property:			
At 1 February	52	300	352
Amounts written off during the year, net of recoveries	7	-	7
Charge/(credit) for the year	22	(12)	10
As at 31 January	81	288	369

13. MOVEMENTS IN VALUES OF ACQUIRED ASSETS

Following the merger with the Century Building Society on 1 February 2013, the Society acquired assets which were subsequently subject to a fair value adjustment. Movements in the fair value adjustment of those assets during the year are as outlined below:

	2020 £000	2019 £000
Further impairment of acquired assets	**-**	-
Increase in value of acquired assets	**44**	39
	44	39

14. INVESTMENT IN SUBSIDIARY UNDERTAKING

During the year, the Society had a 100% (2019: 100%) holding of the ordinary share capital in its sole subsidiary, SBS Mortgages Ltd, a company incorporated in Scotland under the Companies Act. The subsidiary company was dormant for the full year to 31 January 2020 having sold its mortgage assets to the Society at book value and settled the intercompany loan via a dividend payment on 27 October 2016.

For the duration of the financial year, and as at 31 January 2020, SBS Mortgages Ltd had Share Capital of £1. The Society has elected not to consolidate the financial results on the basis of materiality.

15. TANGIBLE FIXED ASSETS

	Land & Buildings Freehold 2020 £000	Land & Buildings Short Leasehold 2020 £000	Office Equipment 2020 £000	Motor Vehicles 2020 £000	Total 2020 £000
Cost					
As at 1 February	1,634	150	988	96	2,868
Additions	-	315	149	-	464
Disposals	-	(5)	(76)	(35)	(116)
As at 31 January	1,634	460	1,061	61	3,216
Depreciation					
As at 1 February	631	150	838	37	1,656
Charged in year	33	8	89	29	159
Impairment	(76)	-	-	-	(76)
Disposals	-	(5)	(75)	(28)	(108)
As at 31 January	588	153	852	38	1,631
Net book value					
As at 31 January	1,046	307	209	23	1,585

Notes to the Accounts (continued)

15. TANGIBLE FIXED ASSETS (continued)

	Land & Buildings Freehold 2019 £000	Land & Buildings Short Leasehold 2019 £000	Office Equipment 2019 £000	Motor Vehicles 2019 £000	Total 2019 £000
Cost					
As at 1 February	1,634	150	980	128	2,892
Additions	-	-	8	38	46
Disposals	-	-	-	(70)	(70)
As at 31 January	1,634	150	988	96	2,868
Depreciation					
As at 1 February	598	150	739	78	1,565
Charged in year	33	-	99	29	161
Disposals	-	-	-	(70)	(70)
As at 31 January	631	150	838	37	1,656
Net book value					
As at 31 January	1,003	-	150	59	1,212

The net book value of freehold and leasehold property occupied by the Society for its own activities was as follows:

	2020 £000	2019 £000
As at 31 January	**1,046**	1,003

The net book value of motor vehicles includes an amount of £23,000 (2019: £59,000) in respect of assets held under finance leases.

Depreciation charged in the year on these assets amounted to £29,000 (2019: £29,000).

Property is subject to external valuation when management/directors believe factors have occurred which could impact on the carrying value of property assets. In giving consideration to the future use of the Society's Head Office premises, an independent valuation was carried out on 7 November 2019. As a result of the valuation provided, and considering the future use of the Head Office premises, the carrying value of the Society's Head Office was revised upward from £824,000 to £900,000, resulting in a £76,000 reversal of the £182,000 impairment charge previously recognised in the Income Statement to 31 January 2018. The Directors consider the valuation of £900,000 to be an appropriate carrying value for the premises at 31 January 2020.

The fair valuation report was prepared by a Royal Institute of Chartered Surveyors ("RICS") registered valuer in accordance with the RICS Valuation – Global Standards 2017 incorporating International Valuation Standards Council international valuation standards. The carrying value is based on the estimated market value and fair valuation, based on vacant possession, in an arms length transaction.

16. INTANGIBLE ASSETS

	Computer Software 2020 £000	Computer Software 2019 £000
Cost		
As at 1 February	**781**	679
Additions	**104**	102
Disposals	**(88)**	-
As at 31 January	**797**	781
Amortisation		
As at 1 February	**615**	554
Charged in year	**66**	61
Disposals	**(88)**	-
As at 31 January	**593**	615
Net book value		
As at 31 January	**204**	166

17. OTHER ASSETS

	2020 £000	2019 £000
Prepayments and accrued income	**313**	294
Other debtors	**27**	28
	340	322

Notes to the Accounts (continued)

18. SHARES

	2020 £000	2019 £000
a) Held by individuals	**388,176**	379,299
Other shares	**622**	638
	388,798	379,937
b) Repayable from the date of the Financial Statements in the ordinary course of business as follows:		
Accrued interest	**2,647**	2,514
On demand	**309,889**	332,732
In not more than three months	**36,934**	9,435
In more than three months but not more than one year	**19,134**	17,536
In more than one year but not more than five years	**20,194**	17,720
	388,798	379,937

19. AMOUNTS OWED TO OTHER CUSTOMERS

	2020 £000	2019 £000
Repayable from the date of the Financial Statements in the ordinary course of business as follows:		
Accrued interest	**13**	20
Repayable on demand	**6,295**	6,759
In not more than three months	**-**	3,000
In more than three months but not more than one year	**-**	-
	6,308	9,779

20. DERIVATIVE FINANCIAL INSTRUMENTS

	Positive Market value 2020 £000	**Negative Market value 2020 £000**	Positive Market value 2019 £000	Negative Market value 2019 £000
Derivatives designated as fair value hedges:				
Interest rate swaps	**5**	**(475)**	142	(89)
Derivatives designated as fair value through profit and loss:				
Interest rate swaps	**5**	**-**	3	(7)
As at 31 January	**10**	**(475)**	145	(96)

21. OTHER LIABILITIES AND ACCRUALS

	2020 £000	2019 £000
Other Liabilities		
Corporation tax	**93**	(6)
Finance leases *(Note 28)*	**21**	55
Other creditors	**137**	131
Accruals and deferred income	**529**	584
	780	764

Notes to the Accounts (continued)

22. DEFERRED TAX

	2020 £000	2019 £000
Provided:		
Timing differences between capital allowances and depreciation	**82**	65
FRS 102 transitional adjustments	**(5)**	(6)
Recognised in other comprehensive income	**-**	-
Other timing differences	**(4)**	(5)
	73	54
As at 1 February	**54**	52
Deferred tax credit for the financial year *(Note 8)*: - income statement	**19**	3
Deferred tax credit for the financial year *(Note 8)*: - other comprehensive income	**-**	(1)
As at 31 January	**73**	54

23. PROVISIONS FOR LIABILITIES

Financial Services Compensation Scheme (FSCS)

	2020 £000	2019 £000
As at 1 February	**-**	28
Received/(paid) in year	**8**	(13)
(Credit)/charge for the year	**(8)**	(8)
As at 31 January	**-**	7

In common with all regulated UK deposit takers, the Society pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford & Bingley plc, Kaupthing Singer and Friedlander, Heritable Bank plc, Landsbanki Islands hf, London Scottish Bank plc and Dunfermline Building Society.

Due to higher than expected recoveries, including settlement of the FSCS's claim in Kaupthing Singer & Friedlander, the Society received a rebate from FSCS of £8,000 in January 2020.

24. GENERAL RESERVES

	2020 £000	2019 £000
As at 1 February	**34,472**	33,641
Profit for the year	**512**	831
As at 31 January	**34,984**	34,472

25. AVAILABLE-FOR-SALE RESERVES

	2020 £000	2019 £000
As at 1 February	**(12)**	(13)
Valuation (losses)/gains recognised directly in other comprehensive income (net of tax)	**(1)**	1
As at 31 January	**(13)**	(12)

When an investment is sold, the gain or loss accumulated in equity is reclassified to the income statement.

26. FINANCIAL INSTRUMENTS

The Society uses financial instruments to invest liquid asset balances and raise wholesale funding. The Society also uses derivative financial instruments (derivatives) to manage the risks arising from its operations.

The Society uses derivatives for economic hedging purposes only. The Society does not run a trading book.

The Society's core business is to provide its members with financial products appropriate to their needs. The Society uses wholesale financial instruments to invest in liquid assets and to raise funds from wholesale money markets in support of its retail savings operations. These instruments also allow it to manage the financial risks arising from these business activities.

The Society has a well-established formal structure for managing financial risks which includes formal risk policies, risk limits, reporting structures, mandates and control procedures. This structure begins with the Board of Directors and its Asset & Liability Committee.

Financial instruments used by the Society for risk management purposes include derivative instruments. In accordance with the Building Societies Act 1986 such instruments are only used to limit the extent to which the Society will be affected by changes in interest rates.

As part of its responsibilities, the Board approves the use of specified instruments within approved limits and business activities. The Society does not undertake transactions for trading or speculative purposes.

Notes to the Accounts (continued)

26. FINANCIAL INSTRUMENTS (continued)

The Board approves the use of interest rate swaps in order to manage the Society's balance sheet risk exposures. These instruments are used to protect the Society from exposures arising principally from fixed-rate mortgage lending, and they could also be used against exposures arising from fixed-rate savings products and deposit funding if the need arose. The duration of the contracts is generally short to medium-term and their maturity profile reflects the nature of exposures arising from underlying business activities.

The notional principal of these instruments reflects the extent of the Society's involvement in the instruments, but does not represent its exposure to credit risk which is assessed by reference to the fair value.

Categories of financial assets and liabilities

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

Carrying values by category as at 31 January 2020	Held at amortised cost		Held at fair value			
	Loans and receivables	Financial assets and liabilities at amortised cost	Available-for-sale	Derivatives designated as fair value hedges	Unmatched derivatives	Total
	£000	£000	£000	£000	£000	£000
Financial assets						
Cash in hand and with Bank of England	-	45,149	-	-	-	45,149
Loans and advances to credit institutions	19,058	-	-	-	-	19,058
Debt securities	-	-	30,123	-	-	30,123
Derivative financial instruments	-	-	-	5	5	10
Loans and advances to customers	334,936	-	-	-	-	334,936
Other assets	-	2,129	-	-	-	2,129
	353,994	47,278	30,123	5	5	431,405
Financial liabilities and reserves						
Shares	-	388,798	-	-	-	388,798
Amounts owed to other customers	-	6,308	-	-	-	6,308
Derivative financial instruments	-	-	-	475	-	475
Other liabilities	-	853	-	-	-	853
Reserves	-	34,971	-	-	-	34,971
	-	430,930	-	475	-	431,405

26. FINANCIAL INSTRUMENTS (continued)

Carrying values by category as at 31 January 2019	Held at amortised cost		Held at fair value			
	Loans and receivables	Financial assets and liabilities at amortised cost	Available-for-sale	Derivatives designated as fair value hedges	Unmatched derivatives	Total
	£000	£000	£000	£000	£000	£000
Financial assets						
Cash in hand and with Bank of England	-	50,220	-	-	-	50,220
Loans and advances to credit institutions	17,668	-	-	-	-	17,668
Debt securities	-	-	28,100	-	-	28,100
Derivative financial instruments	-	-	-	142	3	145
Loans and advances to customers	327,264	-	-	-	-	327,264
Other assets	-	1,700	-	-	-	1,700
	344,932	51,920	28,100	142	3	425,097
Financial liabilities and reserves						
Shares	-	379,937	-	-	-	379,937
Amounts owed to other customers	-	9,779	-	-	-	9,779
Derivative financial instruments	-	-	-	89	7	96
Other liabilities	-	825	-	-	-	825
Reserves	-	34,460	-	-	-	34,460
	-	425,001	-	89	7	425,097

Loans and advances to customers in the above table includes a £411,000 asset (2019: £47,000 liability) in relation to fair value adjustments in respect of hedged fixed-rate mortgages.

At the year end, the Society has loan commitments to customers of £15.5m (2019: £16.4m) measured at cost less impairment.

Notes to the Accounts (continued)

26. FINANCIAL INSTRUMENTS (continued)

Valuation of financial instruments carried at fair value

The Society holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below).

Valuation techniques

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value:

Level 1 The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Society's Level 1 portfolio comprises debt securities for which traded prices are readily available.

Level 2 These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists and quoted prices are available for similar instruments in active markets. The Society's Level 2 portfolio comprises interest rate swaps. The valuation of interest rate swaps is based on the 'present value' method. Expected interest cash flows are discounted using the prevailing LIBOR and SONIA yield curves. The yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the interest cash flows and maturities of the instruments.

Level 3 These are valuation techniques for which one or more significant input is not based on observable market data. The Society currently does not hold any Level 3 instruments.

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

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
31 January 2020				
Financial assets				
Debt securities	**30,123**	**-**	**-**	**30,123**
Derivative financial instruments	**-**	**10**	**-**	**10**
	30,123	**10**	**-**	**30,133**
Financial liabilities				
Derivative financial instruments	**-**	**475**	**-**	**475**
	-	**475**	**-**	**475**
31 January 2019				
Financial assets				
Debt securities	28,100	-	-	28,100
Derivative financial instruments	-	145	-	145
	28,100	145	-	28,245
Financial liabilities				
Derivative financial instruments	-	96	-	96
	-	96	-	96

26. FINANCIAL INSTRUMENTS (continued)

Credit Risk

Credit risk is the risk that a borrower or counterparty will cause a financial loss for the Society by failing to discharge an obligation.

All loan applications are assessed with reference to the Society's lending policy. Changes to policy are recommended by the Retail Credit Committee and approved by the Board and loan applications are approved in accordance with delegated lending authorities. The Asset & Liability Committee is responsible for recommending treasury counterparties to the Board for approval.

The Society's maximum credit risk exposure is detailed in the table below:

	2020 £000	2019 £000
Cash in hand and with Bank of England	**45,149**	50,220
Loans and advances to credit institutions	**19,058**	17,668
Debt securities	**30,123**	28,100
Derivative financial instruments	**10**	145
Loans and advances to customers	**334,936**	327,264
Total Statement of Financial Position exposure	**429,276**	423,397
Statement of Financial Position exposure commitments	**15,500**	16,408

Notes to the Accounts (continued)

26. FINANCIAL INSTRUMENTS (continued)

Credit Risk (continued)

Credit quality analysis of loans and advances to customers

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Society against those assets.

	2020			2019		
	Loans fully secured on residential property	**Loans fully secured on land**	**Other loans**	Loans fully secured on residential property	Loans fully secured on land	Other loans
	£000	**£000**	**£000**	£000	£000	£000
Neither past due nor impaired	**319,109**	**11,222**	**-**	311,607	11,806	-
Past due but not impaired						
30 - 60 days	**1,800**	**-**	**-**	1,265	-	-
60 - 90 days	**251**	**-**	**-**	862	-	-
90 - 180 days	**971**	**-**	**-**	645	-	-
180 days+	**1,474**	**-**	**-**	1,123	-	-
	4,496	**-**	**-**	3,895	-	-
Individually impaired						
Not past due	**163**	**-**	**-**	69	-	-
30 - 60 days	**-**	**-**	**-**	-	-	-
60 - 90 days	**-**	**-**	**-**	44	-	-
90 - 180 days	**211**	**-**	**-**	94	-	-
180 days+	**45**	**-**	**-**	118	-	-
Possession	**-**	**-**	**-**	-	-	-
	419	**-**	**-**	325	-	-
Allowance for impairment						
Individual	**(90)**	**-**	**-**	(81)	-	-
Collective	**(220)**	**-**	**-**	(288)	-	-
Total allowance for impairment	**(310)**	**-**	**-**	(369)	-	-

26. FINANCIAL INSTRUMENTS (continued)

Credit Risk (continued)

The Society holds collateral against loans and advances to customers in the form of mortgages over residential property.

Individual assessments are made of all mortgage loans where objective evidence indicates that losses are likely (for example when loans are past due) or the property is in possession, or where fraud or negligence has been identified. Further consideration is given in *Note 1* to the Accounts.

The table below stratifies credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

The Society does not take physical possession of properties held as collateral and uses external agents to realise the value as soon as practicable to settle indebtedness. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

	2020 £000	2019 £000
LTV		
Less than 50%	**161,682**	146,358
51%-70%	**110,569**	107,745
71%-90%	**60,329**	67,535
91%-100%	**2,596**	5,925
More than 100%	**70**	70
As at 31 January	**335,246**	327,633

Notes to the Accounts (continued)

26. FINANCIAL INSTRUMENTS (continued)

Credit Risk (continued)

Forbearance

All temporary payment reductions are agreed for periods relevant to the borrower's circumstances. The arrangement will be subject to regular review with the aim of the borrower re-commencing the contractual monthly payment, together with repayment of the payment shortfall as soon as they are in a position to do so.

Payment plans are agreed to enable borrowers to reduce their arrears balances by an agreed amount per month which is paid in addition to their standard monthly repayment.

Capitalisation occurs where arrears are added to the capital balance outstanding for the purposes of re-structuring the loan.

The term of the mortgage is extended in order to reduce payments to a level which is affordable to the borrower based on their current financial circumstances.

All forbearance arrangements are formally discussed with the borrower and reviewed by management prior to acceptance of the forbearance arrangement. By offering borrowers in financial difficulty the option of forbearance the Society potentially exposes itself to an increased level of risk through prolonging the period of non-contractual payment and/or potentially placing the borrower into a detrimental position at the end of the forbearance period.

Regular monitoring of the level of and different types of forbearance activity are reported to the Retail Credit Committee on a quarterly basis. In addition, all forbearance arrangements are reviewed and discussed with the borrower on a regular basis to assess the on-going potential risk to the Society and the suitability of the arrangement for the borrower.

The table below details the number of forbearance cases applied as at the year-end:

	2020	2019
Temporary payment reductions	**-**	-
Payment plans	**33**	31
Capitalisations	**-**	-
Mortgage term extensions	**-**	-
	33	31

26. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk

Liquidity risk is the risk that the Society will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Society's policy is to maintain sufficient funds in a liquid form at all times to ensure that the Society can meet its liabilities as they fall due. The objective of liquidity is to help smooth mis-matches between maturing assets and liabilities and to provide a degree of protection against any unexpected developments that might arise.

Maturity analysis for financial assets and financial liabilities

The tables below set out the remaining contractual maturities of the Society's financial liabilities and financial assets. In practice, contractual maturities are not always reflected in actual experience. For example, loans and advances to customers tend to repay ahead of contractual maturity and customer deposits (for example shares) are likely to be repaid later than on the earliest date on which repayment can be required.

As at 31 January 2020	**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**	**Non-defined maturity**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Financial assets							
Cash in hand and with Bank of England	45,043	-	-	-	-	106	45,149
Loans and advances to credit institutions	3,531	7,000	8,000	-	-	527	19,058
Debt securities	-	-	26,001	3,992	-	130	30,123
Derivative financial instruments	-	-	-	-	-	10	10
Loans and advances to customers	391	3,078	10,939	63,513	257,325	(310)	334,936
Other assets	-	-	-	-	-	2,129	2,129
	48,965	10,078	44,940	67,505	257,325	2,592	431,405
Financial liabilities and reserves							
Shares	309,889	36,934	19,134	20,194	-	2,647	388,798
Amounts owed to other customers	6,295	-	-	-	-	13	6,308
Derivative financial instruments	-	-	-	-	-	475	475
Other liabilities	-	-	-	-	-	853	853
Reserves	-	-	-	-	-	34,971	34,971
	316,184	36,934	19,134	20,194	-	38,959	431,405

Notes to the Accounts (continued)

26. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk (continued)

As at 31 January 2019	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	Non-defined maturity	Total
	£000	£000	£000	£000	£000	£000	£000
Financial assets							
Cash in hand and with Bank of England	50,097	-	-	-	-	123	50,220
Loans and advances to credit institutions	4,624	8,000	5,000	-	-	44	17,668
Debt securities	-	-	23,991	3,998	-	111	28,100
Derivative financial instruments	-	-	-	-	-	145	145
Loans and advances to customers	540	3,691	9,597	62,840	250,965	(369)	327,264
Other assets	-	-	-	-	-	1,700	1,700
	55,261	11,691	38,588	66,838	250,965	1,754	425,097
Financial liabilities and reserves							
Shares	332,732	9,435	17,536	17,720	-	2,514	379,937
Amounts owed to other customers	6,759	3,000	-	-	-	20	9,779
Derivative financial instruments	-	-	-	-	-	96	96
Other liabilities	-	-	-	-	-	825	825
Reserves	-	-	-	-	-	34,460	34,460
	339,491	12,435	17,536	17,720	-	37,915	425,097

26. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk (continued)

The tables below show the Society's gross contractual cash flows payable under financial liabilities:

As at 31 January 2020	**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**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Financial liabilities						
Shares	**312,014**	**37,187**	**19,265**	**20,332**	**-**	**388,798**
Amounts owed to other customers	**6,308**	**-**	**-**	**-**	**-**	**6,308**
	318,322	**37,187**	**19,265**	**20,332**	**-**	**395,106**

As at 31 January 2019	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
	£000	£000	£000	£000	£000	£000
Financial liabilities						
Shares	334,946	9,498	17,654	17,839	-	379,937
Amounts owed to other customers	6,759	3,020	-	-	-	9,779
	341,705	12,518	17,654	17,839	-	389,716

The analysis of gross contractual cash flows differs from the maturity analysis above due to the inclusion of accrued interest.

Notes to the Accounts (continued)

26. FINANCIAL INSTRUMENTS (continued)

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Society is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The Society manages this exposure through the use of financial instruments within defined parameters to provide a hedge against identified exposure in fixed-rate lending.

The table below summarises these re-pricing mismatches as at 31 January 2020. Items are allocated to time bands by reference to the earlier of the next interest rate re-pricing date and the maturity date.

As at 31 January 2020	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Non-interest bearing £000	Total £000
Financial assets						
Liquid assets:	56,044	34,001	3,992	-	293	94,330
Cash in hand with the Bank of England	45,043	-	-	-	106	45,149
Loans and advances to credit institutions	11,001	8,000	-	-	57	19,058
Debt securities	-	26,001	3,992	-	130	30,123
Derivative financial instruments	-	-	-	-	10	10
Loans and advances to customers	211,171	43,028	80,737	-	-	334,936
Tangible fixed assets	-	-	-	-	1,585	1,585
Intangible fixed assets	-	-	-	-	204	204
Other assets	-	-	-	-	340	340
	267,215	77,029	84,729	-	2,432	431,405
Financial liabilities						
Shares	346,823	19,134	20,194	-	2,647	388,798
Amounts owed to other customers	6,295	-	-	-	13	6,308
Derivative financial instruments	-	-	-	-	475	475
Other liabilities and accruals	-	-	-	-	853	853
Provision for liabilities	-	-	-	-	-	-
Reserves	-	-	-	-	34,971	34,971
	353,118	19,134	20,194	-	38,959	431,405
Notional amount of interest rate swaps	83,700	(18,500)	(65,200)	-	-	-
Interest rate sensitivity gap	(2,203)	39,395	(665)	-	(36,527)	-
Cumulative Gap	(2,203)	37,192	36,527	36,527	-	

26. FINANCIAL INSTRUMENTS (continued)

Market Risk (continued)

As at 31 January 2019	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Non-interest bearing £000	Total £000
Financial assets						
Liquid assets:	62,721	28,991	3,998	-	278	95,988
Cash in hand with the Bank of England	50,097	-	-	-	123	50,220
Loans and advances to credit institutions	12,624	5,000	-	-	44	17,668
Debt securities	-	23,991	3,998	-	111	28,100
Derivative financial instruments					145	145
Loans and advances to customers	220,103	23,784	83,377	-	-	327,264
Tangible fixed assets	-	-	-	-	1,212	1,212
Intangible fixed assets	-	-	-	-	166	166
Other assets	-	-	-	-	322	322
	282,824	52,775	87,375	-	2,123	425,097
Financial liabilities						
Shares	332,732	26,971	17,720	-	2,514	379,937
Amounts owed to other customers	6,759	3,000	-	-	20	9,779
Derivative financial instruments	-	-	-	-	96	96
Other liabilities and accruals	-	-	-	-	818	818
Provision for liabilities	-	-	-	-	7	7
Reserves	-	-	-	-	34,460	34,460
	339,491	29,971	17,720	-	37,915	425,097
Notional amount of interest rate swaps	79,200	(19,500)	(59,700)	-	-	-
Interest rate sensitivity gap	22,533	3,304	9,955	-	(35,792)	-
Cumulative Gap	22,533	25,837	35,792	35,792	-	

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Society's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100-basis point parallel fall or rise in the yield curve in a 12-month period. A 1% rate change will result in a net interest income change of £96,000 for one year (2019: £228,000).

Notes to the Accounts (continued)

27. CAPITAL STRUCTURE

Gross capital is defined as general reserves as shown in the Society's Statement of Financial Position, and free capital as the aggregate of gross capital and collective impairment provisions less tangible and intangible fixed assets. The Directors ensure that a satisfactory level of capital is maintained to protect the Society against adverse market movements or changes in economic conditions.

At the year end the ratio of gross capital as a percentage of total shares and deposit liabilities was 8.85% (2019: 8.84%) and free capital was 8.46% (2019: 8.56%).

The Society's policy is to maintain a strong capital base to maintain member, creditor and market confidence and to sustain future development of the business. The formal ICAAP (Internal Capital Adequacy Assessment Process) assists the Board with management of capital. Through its annual Corporate Plan the Board monitors the Society's capital position to assess whether adequate capital is held to mitigate the risks faced in the course of the Society's business activities. The Society's actual capital position is reviewed against stated risk appetite and against its regulatory Total Capital Requirement (TCR).

The Society's capital requirements are set and monitored by the Prudential Regulation Authority (PRA).

There were no reported breaches of capital requirements during the year.

28. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

a) At 31 January 2020, non-cancellable operating lease payments for land and buildings were:

	2020 £000	2019 £000
Within one year	**61**	54
Between one and five years	**301**	180
More than five years	**-**	66
	362	300

b) At 31 January 2020, amounts payable under finance leases were:

	2020 £000	2019 £000
Within one year	**14**	30
Between one and five years	**7**	25
More than five years	**-**	-
	21	55

29. RELATED PARTIES

Key management personnel remuneration

Remuneration of the key management personnel, who are not Executive Directors, for the year was: £782,000 (2019: £784,000).

Transactions with Directors and key management personnel

In the normal course of business, Directors, key management personnel, and their close family members, transacted with the Society. The year end balances of transactions with key management personnel, and their close family members, are as follows:

	2020 Number	**£000**	2019 Number	£000
Loans and advances to customers	**3**	**374**	2	198
Deposits and share accounts	**33**	**200**	49	401

The aggregate amount outstanding at 31 January 2020 in respect of loans, transactions and arrangements made by the Society to Directors or persons connected with a Director was 2020: £333,575 (2019: £157,714) comprising secured mortgages to family members of one Director at normal commercial rates and under the Society's standard terms and conditions.

The Society's vehicle advisers are Pike & Bambridge, a firm which is connected with the Society Vice-Chairman. All related financial transactions are with independent leasing companies, carried out on arms length basis. There were no financial transactions during the year or liabilities at year end to Pike & Bambridge. There are no other current business relationships between the Society and firms connected with Directors.

A Register of loans and transactions subsisting between the Society and its Directors (and connected persons) is maintained. This Register is available for inspection by any member of the Society at the Society's Head Office for a period of fifteen days prior to the Annual General Meeting and at the Annual General Meeting.

30. SUBSEQUENT EVENTS

The Directors do not consider that there have been any events since the year-end that have a material effect on the financial position of the Society as at 31 January 2020.

The outbreak of COVID-19 has resulted in the following events which increase the level of risk and uncertainty to the Society. The Directors consider these to be non-adjusting events as they are indicative of conditions that arose subsequent to 31 January 2020:

- A reduction to the Bank of England Bank Rate from 0.75% to 0.10% during March 2020, which impacts the Society's net interest margin;
- The introduction of industry wide forebearance measures in March 2020 to support mortgage customers in financial difficulty through the granting of payment holidays;
- Significant business disruption as a result of the Government's 'stay at home' measures which limit the Society's ability to achieve its business growth targets.

The Society has implemented business continuity measures and is taking mitigating actions to limit the impact of these events on future profitability.

Notes to the Accounts (continued)

31. REGISTERED OFFICE

The Scottish Building Society is incorporated in Scotland, UK under the Building Societies Act 1986.

The address of the Society's registered office, which is also the head office, is:

Scottish Building Society
SBS House
193 Dalry Road
Edinburgh
EH11 2EF

Country-by-Country Reporting

Report on the audit of the country-by-country information

OPINION

In our opinion, Scottish Building Society's (the ''Society'') country-by-country information for the year ended 31 January 2020 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 January 2020 in the Country-by-Country Report.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information 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 remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

EMPHASIS OF MATTER - BASIS OF PREPARATION

In forming our opinion on the country-by-country information, which is not modified, we draw attention to the Country-by-Country Report which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is not appropriate; or
- the directors have not disclosed in the country-by-country information any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the country-by-country information is authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Society's trade, customers, suppliers and the wider economy.

Country-by-Country Reporting (continued)

RESPONSIBILITIES FOR THE COUNTRY-BY-COUNTRY INFORMATION AND THE AUDIT

Responsibilities of the directors for the country-by-country information

As explained more fully in the Statement of Directors' Responsibilities set out on page 23, the directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation in the Country-by-Country Report, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, 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.

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 this country-by-country information.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the company's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS
AND STATUTORY AUDITORS
EDINBURGH
31 March 2020

COUNTRY-BY-COUNTRY REPORT

Scottish Building Society is a UK-registered entity, with 100% of its activities within the UK.

The Society's total operating income, profit before tax, tax on profit, public subsidies received and the number of full time equivalent employees during the year to 31 January 2020 were:

	2020 £000	2019 £000
Total operating income	**7,011**	6,934
Profit before tax	**628**	1,032
Tax paid in year	**-**	458
Public subsidies received	**Nil**	Nil
Average number of employees on FTE basis	**73**	68

The country-by-country information has been prepared on the following basis:

- Total operating income represents Total Net Income for the Society as disclosed in the Income Statement.
- Profit before tax represents Profit before tax as disclosed in the Income Statement.
- Tax paid in year represents actual corporation tax payments made during the year as disclosed in the Society Cash Flow Statement.
- Number of employees on an FTE basis is representative of the average number of persons employed by the Society as disclosed in *Note 6* to the Accounts.

Annual Business Statement

1. STATUTORY PERCENTAGES

	2020 **%**	2019 %	Statutory Limit %
a) Lending limit	**3.57**	3.73	25.0
b) Funding limit	**1.75**	2.67	50.0

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986. The Lending limit measures the proportion of business assets not in the form of loans fully secured on residential property and the Funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

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

2. OTHER PERCENTAGES

	2020 **%**	2019 %
As a percentage of shares and borrowings:		
a) Gross capital	**8.85**	8.84
b) Free capital	**8.46**	8.56
c) Liquid assets	**23.87**	24.63
Profit after tax as a percentage of mean total assets	**0.12**	0.20
Profit after tax (excluding movement in acquired assets and FSCS levy) as a percentage of mean total assets	**0.11**	0.18
Management expenses as a percentage of mean total assets	**1.53**	1.41

Explanation of terms

Shares and borrowings represents the total of shares, amounts owed to credit institutions and amounts owed to other customers (all including accrued interest).

Gross capital is the general reserves as shown in the Statement of Financial Position.

Free capital represents gross capital and collective impairment allowance less tangible fixed assets and intangible assets.

Mean total assets represents the average of total assets shown in the relevant Statements of Financial Position. These amounted to £422,638k for 2019, increasing to £428,251k for 2020.

Management expenses represents the aggregate of administrative expenses, depreciation, amortisation and impairment of fixed assets.

3. DIRECTORS AS AT 31 JANUARY 2020

Name and Business Occupation	Age	Date of Appointment	Other Directorships
Raymond J Abbott Company Director	60	01.06.13	SBS Mortgages Limited Foresight 4 VCT PLC Integrated Environmental Solutions Limited Schroder UK Public Private Trust plc
John C Ogston Chartered Banker	62	01.07.13	Constant Progress Limited Equator Capital Limited Toward Technology Limited
Margaret MacKay Company Director	57	01.03.17	None
Alan Webster Chartered Banker	70	01.11.17	AWW Consultancy Services Limited
Karyn Lamont Chartered Accountant	51	30.05.18	Scottish Investment Trust plc North American Income Trust plc iomart Group plc The Scottish American Investment Company plc
Andrew Hastings Chartered Banker	56	01.07.19	Electricity Supply Board Elavon Financial Services DAC Pepper Finance Corporation (Ireland) DAC Carrick Laurel Consulting Ltd
Sheila Gunn Company Director	56	01.11.19	Wheatley Housing Group Limited Wheatley Enterprises Limited Wheatley Solutions Limited The Wheatley Foundation Limited Lowther Homes Limited YourPlace Property Management Limited Standard Life Assurance Limited Phoenix Life Assurance Limited / Phoenix Life Limited Gunn Limited
Paul Denton Building Society Chief Executive	49	01.07.19	SBS Mortgages Limited

Our Branches

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193 Dalry Road
Edinburgh
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GALASHIELS
48 Bank Street
Galashiels
TD1 1EP

Tel: 01896 753682

GLASGOW
78 Queen Street
Glasgow
G1 3DN

Tel: 0141 248 6111

INVERNESS
71 Queensgate
Inverness
IV1 1DG

Tel: 01463 234423

TROON
27 Ayr Street
Troon
KA10 6EB

Tel: 01292 315506

Plus agency offices

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SCOTTISH BUILDING SOCIETY