SCOTTISH BUILDING SOCIETY

Rewarding Membership

Annual Report & Accounts

For the year ended 31 January 2019

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For the year ended 31 January 2019

"The posting of another year's profits further strengthens the Society's reserves, which along with a strong liquidity position, meets our strategic aim of maintaining our financial strength – an important consideration to allow the Society to withstand any future shocks to the financial system."

MARK L THOMSON
CHIEF EXECUTIVE

Winner!
SCOTTISH MORTGAGE AWARDS
BUILDING SOCIETY OF THE YEAR 2019

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Chairman's Report

"We remain positive that our approach to member loyalty and service, allied with our strong financial position, will hold us in good stead."

RAYMOND ABBOTT
CHAIRMAN

"The Society is in a healthy financial position, with a strong capital base and appropriate levels of liquidity."

YOUR SOCIETY

The year to 31 January 2019 has been another successful one for the Society, which continues to be in a strong financial position. This has been achieved by continuing to keep members interests at the centre of everything we do and also enables us to invest for the future.

The financial results, which include a fifth consecutive year of mortgage book growth, are against a backdrop of a challenging property market and uncertain economic times. I believe that our continued strength and success is due to delivering on *Our Loyalty Promises* and the provision of excellent service to members.

I stated last year that we planned for improved IT systems and greater online capability which would help the Society deliver future growth and stability while remaining relevant to our current and future members. I am delighted that we successfully launched an Online Savings Account during 2018, and in 2019 we plan to begin a phased upgrade of our IT systems, which will include further enhancement of our online capabilities.

In 2018 we enhanced our marketing messages in print, TV and through sponsorship which have helped us grow our balance sheet. I hope many of you caught the TV adverts for our Retirement Interest Only Mortgage! Our partnership with Scottish women's football has gone from strength to strength and, through our support of local and national charities, I believe that we are reaching a wider audience to enable us to grow our membership.

We will continue to seek to deliver long-term value to our members through *Our Loyalty Promises*, with products and services which are relevant to our current and future membership. An important part of this is getting feedback from our members through customer panels, questions at the AGM and through our magazine, *Society*. This year the AGM will be held in Edinburgh and I hope you can attend, not only to hear more about your Society and its development and plans, but also to give the Board and my colleagues your feedback. Questions can be asked on the day or sent in advance. Details of how to submit questions are included in the AGM pack.

FINANCIAL OVERVIEW

The Society is in a healthy financial position, with a strong capital base and appropriate levels of liquidity. Profit before tax of £1.0m for the past year is slightly ahead of our plan.

The Board's aim is to maintain a level of profit that allows the Society to meet its loyalty promises through offering the best rates that it can while providing the capacity to make a meaningful investment for the future.

The Board plans to maintain this approach as we head through the upgrade of our IT systems and deliver products and services in a more digital manner. I repeat what I said last year that I expect profitability to dip during this period of investment but not at the expense of financial strength and stability. Remaining relevant to current and future members is of paramount importance to your Board and we look forward to delivering more online capability while maintaining our traditional passbooks.

THE BOARD

Those of you who attended the AGM at Hampden Park last year were introduced to Karyn Lamont who joined the Board in May 2018. Karyn chairs the Audit Committee and brings strong accounting and business experience to the Board.

After 11 years with the Society, David Peebles has stepped down from the Board. I would like to record the Board's thanks for his involvement with the Society and, on a personal note, for being of great help to me as Chairman.

A further change to the Board will be the departure later this year of Mark Thomson, the Society's Chief Executive. Mark joined the Society seven years ago and has brought his skill and expertise to the development of *Our Loyalty Promises*, financial stability and member engagement. I wish him well with his future career and thank him for leaving the Society in a strong position ready for the future demands.

The Board is making good progress with the search for a new Chief Executive and I expect to make an announcement on this appointment in the near future. I am hopeful that you will have the opportunity to meet our new Chief Executive at the AGM.

OUR PEOPLE

The delivery of excellent service, *Our Loyalty Promises*, product development and the IT transformation does not happen without the continued efforts of our management team, colleagues and agents. On behalf of the Board I would like to thank all of the Society team as they help take us forward with our goals and plans.

LOOKING FORWARD

It is almost impossible not to look forward without some level of unpredictability regarding economic conditions. We remain aware of the economic environments as we progress our plans and keep a "weather eye" on market conditions to assess possible impacts on the Society. We remain positive that our approach to member loyalty and service, 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 and the Board and I would like to thank you for that.

RAYMOND ABBOTT
CHAIRMAN

28 March 2019

Chief Executive's Review

> "Whilst our strategy remains to grow our business in a balanced, prudent, and controlled manner, the provision of long-term value to our members is at the very heart of what we do."

MARK L THOMSON
CHIEF EXECUTIVE

£1.0
million pre-tax profit for 2019

£8.9
million mortgage asset growth

"Our prime focus remains to provide long-term value to each of our members during the term of their relationship with us."

OUR PERFORMANCE

I am pleased to report another successful year for the world's oldest remaining building society, not just in terms of its financial performance, but also in its quest to provide long-term value and satisfaction to its members.

At over £1million, the Society's Profit Before Tax was just ahead of where it was projected in our Corporate Plan. The posting of another year's profits further strengthens the Society's reserves, which along with a strong liquidity position, meets our strategic aim of maintaining our financial strength – an important consideration to allow the Society to withstand any future shocks to the financial system.

Remaining profitable is also an important consideration for any Society wishing to invest in the right systems and people to keep it relevant in the markets in which it seeks to participate.

Over the financial year mortgage balances grew to £327million in an increasingly difficult and uncertain mortgage market. This was a period where the Society took steps to review a number of its operational processes as part of its continuous improvement activities aimed at maximising efficiency.

Feedback from our members continues to be very important to me, and I was delighted to learn that the results from the 2018 Member Survey were more favourable in each of the categories than those reported in my Annual Review last year. I was particularly pleased to learn that 88% of those who participated in the Member Survey agreed that the overall service they receive from the Society is excellent. This figure increased from 83% in the 2017 Member Survey and is testament to the many continuous improvement initiatives undertaken by my colleagues in branches and in Head Office with the aim of enhancing our members' experience.

Whilst our strategy remains to grow our business in a balanced, prudent, and controlled manner, the provision of long-term value to our members is at the very heart of what we do. By offering our best available rates to both our savers and our borrowers we aim to provide all members with long-term value over the term of their relationship with us. Trust is very important to me and the members of my Senior Management Team, and it was pleasing to note that 91% of those members taking part in our 2018 Member Survey agreed (or strongly agreed) that they trust the Society as a provider of financial products.

The Society was also recognised as *Building Society of the Year* by independent industry experts at the inaugural Scottish Mortgage Awards in March this year, which I believe demonstrates our continued relevance in the Scottish financial services sector.

MORTGAGES

Competition in the Scottish mortgage market continued over the past financial year with a number of new participants and much more competition in terms of price. It is against this backdrop that I am pleased to report an increase in mortgage balances of £8.9million over the year, an increase of 2.8%, which compares favourably with the 2.3% growth achieved in the previous financial year.

Continuing to treat all mortgage applicants as individuals is key to our member strategy and we have successfully opened the door to home ownership for a number of individuals who would otherwise have difficulty obtaining the mortgage finance they required. This approach is particularly important for those potential mortgage borrowers who may not fit the automated decision-making systems of most of the larger lenders, where the applicant's individual circumstances are rarely considered.

Over recent years, the Society's approach to mortgage assessment has been particularly important when lending to older people. It is clear from the popularity of our Retirement Interest Only Mortgage (which was added to our product range in July 2018) that the Society has been able to accommodate the later-life borrowing requirements of what has traditionally been an underserved section of the market.

As well as continuing to grow our mortgage book in a balanced and controlled manner, it is pleasing to note that the excellent credit quality of this portfolio was maintained, evidenced by the fact that no properties were repossessed by the Society over the course of the past financial year.

Chief Executive's Review (continued)

SAVINGS

Providing our savings members with our best available rates throughout the term of their relationship with us is one of *Our Loyalty Promises*, as is the availability of products that will reward our members' loyalty.

Our Loyalty Cash ISA product was introduced in 2015 and was designed to reward member loyalty by paying a higher rate of interest on Cash ISA funds depending on the length of time these funds remain with us. Over the course of the past financial year funding from this source increased by 8%.

Overall, savings balances over this period increased by £6.2million.

One of the Society's key deliverables over the financial year was to launch online functionality to enable existing (and new) members to transact on their accounts from the comfort of their own home without the need to present a passbook at a branch or agency office. Our Online Saver account was launched in July 2018 and is very much a first step in our journey towards adding a digital offering as an alternative to our other distribution channels.

I should, of course, stress that the introduction of online functionality is not a move towards the demise of savings account passbooks, which we are aware are appreciated by a great number of our members.

LOOKING AHEAD

During my six-year tenure as Chief Executive, the Society has followed a course of continuous improvement activities to ensure it employs the right people and processes to meet the needs of its members, as well as those of its business partners.

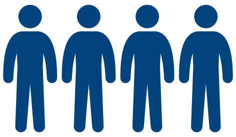
Though I plan to leave the Society in the summer of 2019, my successor will continue this journey, which will see the Society seek to enhance the possibilities of a new 'Digital Age' alongside providing the service levels and products (based upon traditional values, such as loyalty) our customers have come to expect.

Though the Society has clear plans in respect of what it is looking to achieve, it recognises the challenges that could arise through potential changes to both the economic and the political environment in which we operate, as well as those relating to cyber crime.

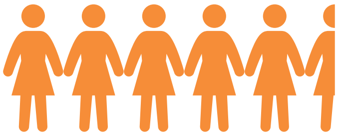
Our prime focus, in addition to maintaining the Society's financial strength, remains to provide long-term value to each of our members during the term of their relationship with us. At the same time, we ensure we invest in the technology to keep us relevant in those markets in which we seek to participate, and in the defences to keep our members funds and data safe.

MARK L THOMSON
CHIEF EXECUTIVE — 28 March 2019

Member Survey Results 2018



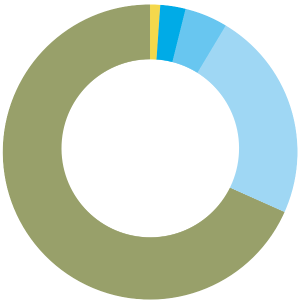
41% male



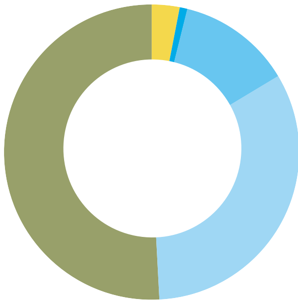
54% female

5% did not answer

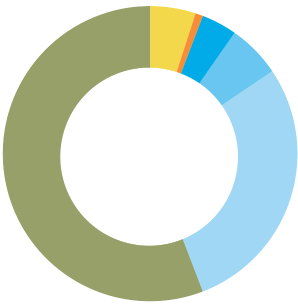
88% agree or strongly agree that the overall service they receive from the Society is EXCELLENT



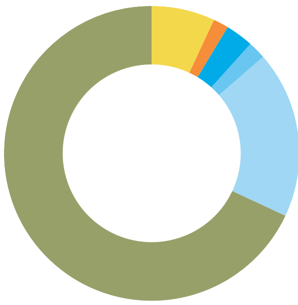
91%
agree or strongly agree that they **trust the Society as a provider of financial products**



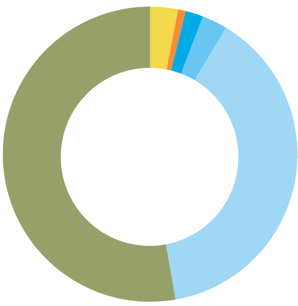
84%
agree or strongly agree that they **believe the Society is financially strong**



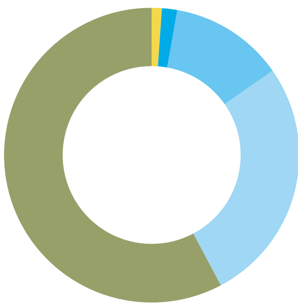
85%
agree or strongly agree that they **would recommend the Society to friends and family**



87%
agree or strongly agree that **any queries are dealt with quickly and efficiently**



91%
agree or strongly agree that **communications they receive from the Society are clear and easy to understand**



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

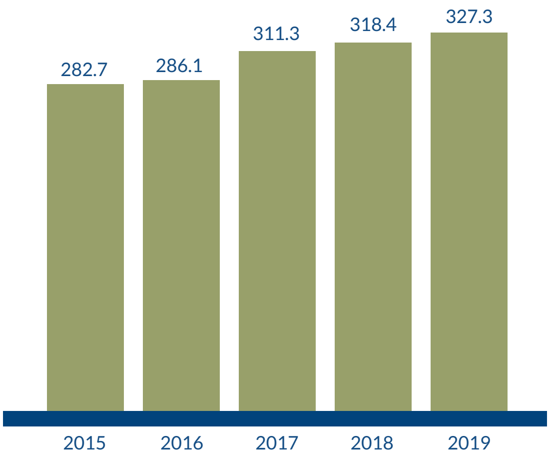
Society Key Results

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.

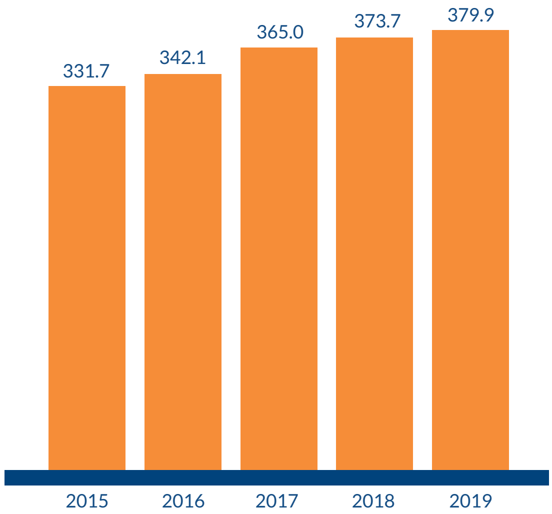
Total Assets
£425.1 million
(2018: £420.2m)

Liquid Assets
£96.0 million
(2018: £99.7m)

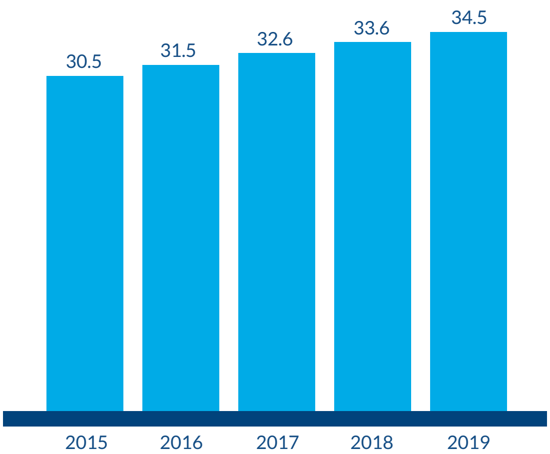
Profit before tax
£1.0 million
(2018: £1.3m)



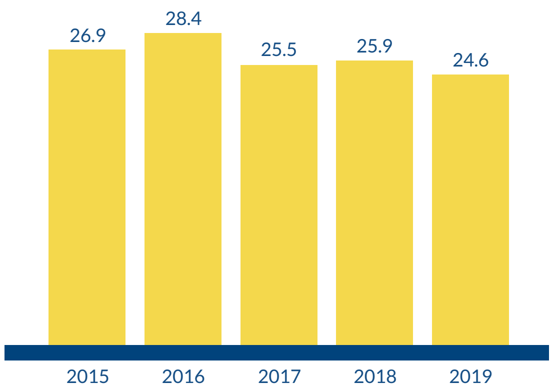
MORTGAGE BALANCES (£m)



SAVINGS BALANCES (£m)



CAPITAL (RESERVES) (£m)



LIQUID ASSETS (as % of Shares & Deposits)

Directors' Report

INTRODUCTION

The Directors present their 170th Annual Report, together with the Annual Accounts and Annual Business Statement, for the year ended 31 January 2019.

OUR MISSION

The Society's Mission Statement can be summarised as rewarding membership, as articulated in Our Loyalty Promises:

- We promise to provide you with access to member only products and exclusive offers from time to time, whether you are an existing saver or a borrower.
- We promise to make products available that will reward your loyalty to us.
- We promise only to offer products and services that are fair and are designed to provide you with long-term value.
- We promise to offer our best available rates to you throughout the term of your relationship with us.
- We promise to always allow you a say in what local charities the Society supports.
- We promise to treat you as an individual, both at the commencement of your relationship with us, and throughout.

BUSINESS REVIEW

The Business Review is covered in the Chairman's Report and Chief Executive's Review on pages 2 to 6.

PROFIT AND CAPITAL

Profit for the year before tax amounted to £1.03million (2018: £1.30million) representing another strong performance with steady growth in our mortgage book of 2.8% (2018: 2.3%). We have continued to invest in our loyalty initiatives 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 2019 amounted to £96.0million (2018: £99.7million) which represented 24.6% (2018: 25.9%) 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 increased to 0.75% on 2 August 2018. As a result the Society's Standard Variable Rate for mortgages increased, although we chose to pass on only 0.15% of the 0.25% increase.

The Society's savings rates have generally been higher than those offered elsewhere in the market for a sustained period, and after careful consideration the decision was made to increase rates by 0.20% for most savings products.

In line with Our Loyalty Promises we focus on ensuring products remain fair and transparent and that all savers receive long-term value throughout their relationship with us.

MORTGAGE ARREARS AND FORBEARANCE

At 31 January 2019 the Society had only five mortgage accounts in arrears for 12 months or more (2018: four). The total arrears outstanding on these accounts was £50,395 (2018: £31,845) and the aggregate capital balance was £315,992 (2018: £269,429). No properties were taken into possession during the year (2018: four).

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 2019 there were 31 cases benefiting from the Society's forbearance measures (2018: 34) with total outstanding capital balances of £2.0million (2018: £2.2million). The Society makes provisions for any expected loss resulting from accounts in arrears in accordance with the Board approved policy.

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 below – and some are also shown graphically on page 9. 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 2.8%.

Total Assets: Consisting primarily of Mortgage Assets and Liquid Assets, these have increased by 1.2%.

Asset Growth/Mortgage Asset Growth: The annual increase (decrease) 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 been increased by 1.7% 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 1.3 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 slightly by 0.02 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 PBT of £1.0m in the current year. The reduction in PBT from £1.3m in the prior year reflects investment in the Society's online capability and additional investment in marketing. As a mutual organisation the Society does not aim to maximise profit.

Reserves: The accumulated profits of the Society over more than 170 years of operation, which provide the capital which helps to maintain the Society's financial strength. These have increased by £0.9million 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.

KEY FINANCIAL PERFORMANCE INDICATORS 2015-2019

	2015	2016	2017	2018	2019
Mortgage Assets	£282.7m	£286.1m	£311.3m	£318.4m	£327.3m
Mortgage Asset Growth	2.6%	1.2%	8.8%	2.3%	2.8%
Total Assets	£378.2m	£388.9m	£409.2m	£420.2m	£425.1m
Asset Growth	(4.9%)	2.8%	5.2%	2.7%	1.2%
Share Balances	£331.7m	£342.1m	£365.0m	£373.7m	£379.9m
Liquidity	26.9%	28.4%	25.5%	25.9%	24.6%
Net Interest Margin	1.70%	1.68%	1.57%	1.62%	1.64%
Profit Before Tax	£2.2m	£1.3m	£1.3m	£1.3m	£1.0m
Reserves	£30.5m	£31.5m	£32.6m	£33.6m	£34.5m
Gross Capital	8.8%	8.9%	8.7%	8.7%	8.8%

All figures are Group figures except 2018 and 2019 which are unconsolidated on the basis of materiality.

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:

- 84% 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 has continued to implement regulatory changes as required.

2018-19 has seen two key changes, namely the introduction of the Second Payment Services Directive (PSD2) and the General Data Protection Regulation (GDPR). The provisions of PSD2 take effect in several stages and most of those relevant to the Society came into force in January 2018; we were ready for these and will implement further provisions as required throughout 2019. GDPR took effect in May 2018 and we made a number of changes to prepare for it, including the introduction of a new Data Protection Policy, which will continue to be embedded as the year progresses.

Whilst 2019-20 will not require the same degree of regulatory change, the Society will closely monitor developments arising from Brexit and continue to input to industry discussions on matters such as the Financial Conduct Authority (FCA)'s proposal to introduce a 'Basic Savings Rate', to be set individually by firms for their instant-access savings accounts and ISAs. Further publications on this topic are expected throughout 2019 and the Society will assess any changes required accordingly.

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 18 to 22.

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.

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 risk currently identified is the possibility of change in the regulatory environment and we consider that there would be adequate time to respond to any such changes. There are also additional risks arising from (a) the impact of regulatory changes already mentioned and (b) the potential for further contributions to the FSCS levy which would impact upon the Society's capital and ability to compete over a period of time. The Society will continue to adopt a cautious approach in the coming financial year, seeking moderate managed 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 27 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 2019 are provided on page 72.

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.

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 six branches during the past year, as voted for by the local membership. New charities are in place for 2019, again chosen by local members. 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. £1,000 was donated in 2018 to Scottish Association for Mental Health (SAMH) (Glasgow & West Scotland) for postal and online votes received and for members who attended the AGM in person at Hampden Park, Glasgow on 30 May. This year's AGM will be held at The Royal College of Physicians of Edinburgh on 29 May 2019 and a donation will be made to Maggie's Centre, (Edinburgh & East Scotland) made up of £2 for every voting member attending and 50p for every postal and online vote received.

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 2019:

Non-Executive Directors

Raymond J Abbott CA	Appointed June 2013 and Chairman from July 2017
David Peebles MSc DipM FCBI FCT	Chairman of Audit Committee until October 2018 Senior Independent Director until October 2018 Retired as a Director October 2018
Margaret MacKay MSc DipM FCIPD	Appointed March 2017
John C Ogston FCBI	Appointed July 2013 and Vice-Chairman and Chairman of Nomination & Remuneration Committee from July 2017 Senior Independent Director since November 2018
Simon M Pashby BA FCA	Appointed October 2014 and Chairman of Board Risk Committee from August 2017
Alan Webster MSc FCBI	Appointed November 2017
Karyn Lamont CA	Appointed May 2018 and Chair of Audit Committee from November 2018

Executive Directors

Mark L Thomson FCBI	Chief Executive Chairman of Retail Credit Committee Chairman of Operational Risk Committee
Aileen Brown BA CA	Finance Director Chairman of Asset and Liability Committee

Details of the Directors' interests in the Society are disclosed in Note 30 on page 70. 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:

- **Karyn Lamont** joined the Board on 30 May 2018 and is retiring in accordance with Rule 25(4).
- **Raymond Abbott, Margaret MacKay, Jack Ogston, Simon Pashby, Mark Thomson and Alan Webster** 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 Annual General Meeting to be held on 29 May 2019.

Biographies of all current Directors, including those seeking election/re-election, appear on pages 16 & 17.

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.

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 2019 was 15 (2018: 23).

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 29 May 2019.

By order of the Board

AILEEN E ROSE
SECRETARY

28 March 2019

Board of Directors

Raymond Abbott is a Chartered Accountant by profession and has worked in private equity and investment for over twenty-five 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 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 and is currently Chairman of Vehicle Professionals Ltd. Jack joined the Board in 2013 and was elected Vice Chairman in July 2017. Jack chairs the Nomination and Remuneration Committee and is the Society's Senior Independent Director and Whistleblowing Champion.

Simon Pashby is a Chartered Accountant and former audit partner with 30 years' experience working in financial services. Simon retired from KPMG in 2012 and now works as an independent non-executive director, and maintains his current financial knowledge as a Fellow of the Institute of Chartered Accountants. He is Vice Chairman of The Medical Protection Society Limited, a members' mutual fund which provides indemnity services to the medical profession, where he chairs the audit and risk committee, and a non-executive director of MPI (London) Limited. Simon is also a non-executive director of the Shepherds Friendly Society Limited where he chairs the audit committee. Simon joined the Board in October 2014 and chairs the Board Risk Committee.

Margaret MacKay joined the Board in 2017. Margaret began her career with HBOS and has over 36 years' experience in PLC, AIM and family owned businesses. Margaret 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.

Alan Webster joined the Board in November 2017. Alan 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.

Karyn Lamont 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 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 was appointed to the Board in May 2018 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.

Mark Thomson was appointed as Chief Executive on 1 May 2013, having joined the Society in April 2012 in the role of Chief Operating Officer and been appointed to the Board in October 2012. He is a Fellow of the Chartered Banker Institute. During his career of 35 years, Mark has worked in a variety of roles in retail banking, including 16 years at Scottish Widows Bank, where his responsibilities included credit risk management and compliance, as well as a wide range of operational activities. Mark was appointed to the Board of Scottish Widows Bank in January 2006 as Credit Director – a position he held until joining the Society. Mark currently chairs the Society's Operational Risk Committee and Retail Credit Committee. He also chairs the Northern Association of Building Societies' Executive Committee.

Aileen Brown joined the Board as Finance Director in August 2016. A Chartered Accountant, Aileen brings broad experience at board and senior management level to the role. Most recently she was Interim Finance Director at Scottish Friendly and prior to that was Group Chief Financial Officer and Company Secretary with Braveheart Investment Group plc. Aileen has held Board level positions in a variety of sectors and worked in corporate finance and professional services including five years with Ernst & Young. Aileen chairs the Society's Asset & Liability Committee.

Corporate Governance Report

The Directors are responsible for the governance of the Society, on behalf of the members, and are committed to good practice in corporate governance. During the year they had regard to the principles of the 2016 version of the UK Corporate Governance Code ('the Code' issued by the Financial Reporting Council) as it applies to building societies, in accordance with the expectation of the regulators. The board will have regard to the principles of the revised Corporate Governance Code published in July 2018 for the financial year commencing 1 February 2019.

THE ROLE OF THE BOARD

The principal functions of the Board are to set the Society's strategy, as articulated in the Corporate Plan and annual business plans agreed by the Board, to ensure that the necessary financial and human resources are in place for the Society to meet its objectives, and to review management performance. The Board is responsible for succession planning for both Executive and Non-Executive Director positions. As part of its annual evaluation process, the Board considers the balance of skills and experience it requires, the requirements of the business, and recommends change where appropriate.

The full Board meets regularly with additional meetings as required. In 2018-19 there were ten 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 21 is part of this report.

There is a schedule of matters reserved for Board decision 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 Chairman of each Committee provides a report at the Board meeting following any meeting of that Committee. The terms of reference for all Board Committees are available on the Society's website and the membership of committees is reviewed annually. The Society maintains liability insurance cover for Directors and Officers.

Audit Committee: This Committee met on three occasions during the year and is chaired by an Independent Non-Executive Director. The Committee considers regulatory compliance matters and adequacy of internal controls. 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 also 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 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. David Peebles chaired the Committee until his retiral from the board on 31 October 2018. Karyn Lamont was appointed Chair of the Committee with effect from 1 November 2018. Other members during the year were Raymond Abbott and Simon Pashby. Members of senior management attend by invitation, together with representatives from the internal and external auditors.

Board Risk Committee: The Board Risk Committee met ten times in the year. The Committee is chaired by Simon Pashby and comprises, David Peebles (until 31 October 2018), Margaret MacKay and, with effect from 1 November 2018, Karyn Lamont and Alan Webster. Members of the Senior Management Team attend by invitation. The committee's remit includes responsibility for oversight of the Society's Risk Control Framework and Risk Management; consideration of the Board Risk Appetite Statement, supporting metrics and stress testing outputs; review of Board policies and key prudential documentation from a risk perspective; The Committee is also responsible for oversight of the delivery of appropriate Risk Monitoring and Assurance and ensuring appropriate follow-up results.

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

The three first line 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 constitution, skills, performance, succession plans and Director elections and is responsible for remuneration policy for all Directors and for making recommendations to the Board regarding general remuneration and contractual arrangements. It also supervises the process for appointment of new Directors. All the Non-Executive Directors are members of the Committee, which is chaired by the Vice-Chairman, Jack Ogston. The Executive Directors attend by invitation but take no part in any discussion of their own remuneration. There were three meetings during the year.

DIVISION OF RESPONSIBILITIES: CHAIRMAN AND CHIEF EXECUTIVE

The offices of Chief Executive and Chairman are distinct and held by different people. The Chief Executive 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.

Corporate Governance Report (continued)

THE COMPOSITION OF THE BOARD

The Board currently consists of six Non-Executive Directors plus the Chief Executive and the Finance Director, providing a balance of skills and experience appropriate for the requirements of the business. 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.

APPOINTMENTS TO THE BOARD

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.

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, Chairman of the Board Risk Committee and Chairman of the Audit Committee are subject to formal regulatory approval.

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 and the Chairman's time commitment is considerably more.

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 2018-19

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	10(10)	3(3)		3(3)
J C Ogston	8(10)			2(3)
D Peebles	8(8)	3(3)	8(8)	3(3)
S M Pashby	10(10)	3(3)	9(10)	3(3)
M Mackay	10(10)		10(10)	3(3)
A Webster	10(10)		2(2)	3(3)
K Lamont	7(7)		2(2)	2(2)
M L Thomson	10(10)			
A Brown	7(10)			

EVALUATION

The Chairman & Vice-Chairman review the performance of the Chief Executive annually. 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. The Board evaluates its overall performance and that of each Committee. This process is used to improve the effectiveness of Directors and the Board collectively.

RE-ELECTION

The Society's Rules require that Directors are submitted for election at the Annual General Meeting (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 revised UK Corporate Governance Code 2018, 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.

FINANCIAL AND BUSINESS REPORTING

The Statement of Directors' Responsibilities on page 25 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 13.

Corporate Governance Report (continued)

RISK MANAGEMENT AND INTERNAL CONTROL

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 Heads of Risk and Compliance and the Risk and Compliance Teams.
- third line (independent assurance) comprising the Audit Committee and the external and internal auditors.

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.

REMUNERATION

The Directors' Remuneration Report on pages 23 & 24 sets out the remuneration policies for Executive and Non-Executive Directors and explains how this meets the requirements of the UK Corporate Governance Code.

DIALOGUE WITH SHAREHOLDERS

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.

CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM)

Each year the Society sends details of the AGM to those members who are eligible to vote. The AGM is held in a different location each year to encourage member attendance and participation. Resolutions include the election of Directors and a separate advisory vote on the Directors' Remuneration Report.

Members are encouraged to exercise their right to vote and a donation to charity is made for each vote cast either in person or by proxy. Members are provided with forms and prepaid envelopes which enable them to appoint a proxy to vote on their behalf if they are unable to attend in person. Proxy voting can also be conducted via a secure website. The proxy form and website provide the opportunity to formally abstain in respect of any resolutions, should the member so wish. The receipt and counting of proxy votes is conducted by independent scrutineers.

At the AGM a poll is called in relation to each resolution and the proxy votes cast are included in the result. The results are subsequently disclosed on the Society's website. Members who cannot attend the meeting are encouraged to submit questions in writing.

RAYMOND ABBOTT
CHAIRMAN

28 March 2019

Directors' Remuneration Report

The purpose of this report is to inform members of the Society, in line with the relevant provisions of the UK Corporate Governance 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, which is chaired by the Senior Independent Director. All Non-Executive Directors are members of the Committee and the Chief Executive attends meetings and the Finance Director acts as secretary of the Committee. The Executives take no part in discussions on their own remuneration.

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 Chief Executive 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.

The Society makes a maximum contribution of 20% of salary to the Executive Directors' private pension arrangements and they 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 2019	To 31 January 2018
R J Abbott	£35,200	£30,650
J Coyle (retired May 2017)	–	£7,333
R Golbourn (retired October 2017)	–	£22,944
M Mackay (appointed March 2017)	£22,500	£20,542
J C Ogston	£26,200	£24,225
S M Pashby	£22,500	£22,375
D Peebles (retired October 2018)	£18,375	£24,375
K Lamont (appointed May 2018)	£15,673	–
A Webster (appointed November 2017)	£22,500	£5,625
Total	**£162,948**	**£158,069**

EXECUTIVE DIRECTORS

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**

To 31 January 2018

	Salary	Bonus	Pension Contributions	Taxable Benefits	Total
M L Thomson	£150,437	£29,200	£30,087	£6,522	£216,246
A Brown	£116,725	£8,921	£23,345	£5,482	£154,473
Total	**£267,162**	**£38,121**	**£53,432**	**£12,004**	**£370,719**

All pension contributions paid by the Society were in respect of money-purchase pension schemes.

JACK OGSTON
CHAIRMAN, NOMINATION & REMUNERATION COMMITTEE

28 March 2019

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 2019 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 CBRC information set out on page 72;
- 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 to the members of Scottish Building Society

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 2019 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 2019; 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; and the notes to the annual accounts.

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

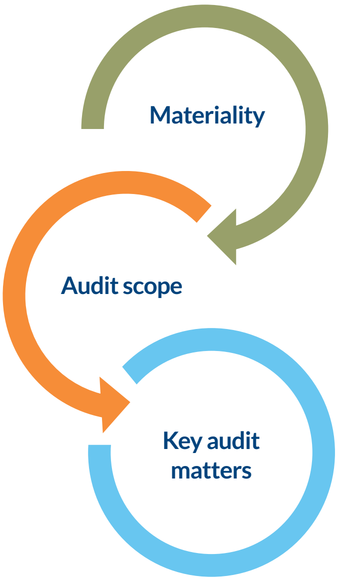
We remained independent of the Society in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK, which includes the FRC's Ethical Standard applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with 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 2018 to 31 January 2019.

OUR AUDIT APPROACH

Overview



Materiality

Overall materiality of £345,000 based on 1% of net assets.

Audit scope

Audit procedures were performed over all material account balances and financial information.

All audit procedures were conducted from the Society's head office in Edinburgh, performed by a single 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.

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; reviewing correspondence with regulatory authorities; meeting and holding discussions with regulators; reviewing internal audit reports in so far as they related to the annual accounts; 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.

Independent auditors' report to the members of Scottish Building Society

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.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers Refer to Note 1 for Accounting policies page 39 and Critical accounting judgments and estimation uncertainty page 41. An impairment provision of £369,000 (2018: £352,000) 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 £81,000 (2018: £52,000) and collective provision of £288,000 (2018: £300,000). 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).	We understood, evaluated and challenged the appropriateness of the key assumptions used in determining impairment provisions. We also performed sensitivity analysis to assess the impact of adopting different assumptions which could be considered reasonable based on our industry knowledge and experience. 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 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 Refer to Note 1 for Accounting policies page 37 and Critical accounting judgments and estimation uncertainty page 41. Loans and advances to customers are held at amortised cost and interest receivable is recognised using the effective interest rate ("EIR") method. EIR expense of £59,000 (2018: £11,000) and an EIR asset of £414,000 (2018: £473,000) has been recognised by the Society in relation to loans and advances to customers. The recognition of interest receivable using the EIR method requires judgement by management regarding the expected life of mortgage assets.	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 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. We tested the accuracy and completeness of underlying data used in the EIR calculations and identified no issues. We consider that the EIR expense and asset are within an acceptable range.

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.

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	£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 use net assets, a GAAP 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 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

CONCLUSIONS RELATING TO GOING CONCERN

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw 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.

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.

Independent auditors' report to the members of Scottish Building Society

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 Society 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 2019 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 Directors' Responsibilities Statement set out on page 25, 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 one year.

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

28 March 2019

Accounts

For the year ended 31 January 2019

Income Statement
for the year ended 31 January 2019

	Note	2019 £000	2018 £000
Interest receivable and similar income	*2*	**10,982**	10,559
Interest payable and similar charges	*3*	**(4,047)**	(3,831)
Net interest income		**6,935**	6,728
Fees and commissions receivable		**34**	78
Fees and commissions payable		**(27)**	(40)
Net gains/(losses) from derivative financial instruments	*4*	**(8)**	13
Total Net Income		**6,934**	6,779
Administrative expenses	*5*	**(5,717)**	(5,015)
Depreciation and amortisation	*15, 16*	**(222)**	(249)
Operating Profit before movement in acquired assets, impairment losses and provisions		**995**	1,515
Impairment losses on loans and advances	*12*	**(10)**	(74)
Net increase in value of acquired assets	*13*	**39**	66
Impairment of Land & Buildings	*15*	**-**	(182)
Provisions for liabilities - FSCS levy	*24*	**8**	(28)
Operating Profit and Profit before tax		**1,032**	1,297
Tax expense	*8*	**(201)**	(252)
Profit for the financial year	*25*	**831**	1,045

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 2019

	Note	**2019** **£000**	2018 £000
Profit for the financial year		**831**	1,045
Valuation gains/(losses) taken to reserves	*26*	**1**	(13)
Income tax on other comprehensive income	*26*	**-**	3
Total comprehensive income for the year		**832**	1,035

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

Statement of Financial Position
as at 31 January 2019

	Note	2019 £000	2018 £000
ASSETS			
Liquid Assets:			
Cash in hand and balances with Bank of England		**50,220**	59,140
Loans and advances to credit institutions	*9*	**17,668**	15,519
Debt securities	*10*	**28,100**	25,065
Derivative financial instruments	*21*	**145**	267
Loans and advances to customers	*11*	**327,264**	318,440
Investment in subsidiary undertaking	*14*	**-**	-
Tangible fixed assets	*15*	**1,212**	1,327
Intangible assets	*16*	**166**	125
Other assets	*17*	**322**	296
TOTAL ASSETS		**425,097**	420,179
LIABILITIES			
Shares	*18*	**379,937**	373,710
Amounts owed to credit institutions	*19*	**-**	3,004
Amounts owed to other customers	*20*	**9,779**	8,789
Derivative financial instruments	*21*	**96**	2
Other liabilities and accruals	*22*	**764**	966
Deferred tax liability	*23*	**54**	52
Provisions for liabilities	*24*	**7**	28
TOTAL LIABILITIES		**390,637**	386,551
RESERVES			
General reserves	*25*	**34,472**	33,641
Available-for-sale reserves	*26*	**(12)**	(13)
Total reserves attributable to members of the Society		**34,460**	33,628
TOTAL RESERVES AND LIABILITIES		**425,097**	420,179

These accounts were approved and authorised for issue by the Board of Directors on 28 March 2019 and were signed on its behalf by:

RAYMOND ABBOTT
CHAIRMAN

JACK OGSTON
VICE CHAIRMAN

MARK L THOMSON
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 2019

	General reserves 2019 £000	Available -for-sale reserves 2019 £000	Total 2019 £000	General reserves 2018 £000	Available -for-sale reserves 2018 £000	Total 2018 £000
As at 1 February	**33,641**	**(13)**	**33,628**	32,596	(3)	32,593
Total Comprehensive income for the year						
Profit for the financial year	**831**	**-**	**831**	1,045	-	1,045
Other comprehensive income/(expense) *(see Note 26)*	**-**	**1**	**1**	-	(10)	(10)
Total comprehensive income for the year	**831**	**1**	**832**	1,045	(10)	1,035
As at 31 January	**34,472**	**(12)**	**34,460**	33,641	(13)	33,628

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 2019

	2019 £000	2018 £000
Cash flows from operating activities		
Profit before tax	**1,032**	1,297
Adjustments for		
Depreciation, amortisation and impairment	**222**	432
(Profit) on disposal of fixed assets	**(22)**	(16)
Increase/(decrease) in impairment of loans and advances	**17**	(8)
Total	**1,249**	1,705
Changes in operating assets and liabilities		
Decrease/(increase) in other assets	**96**	(180)
Increase/(decrease) in other liabilities and accruals and provisions for liabilities	**131**	(526)
(Increase) in loans and advances to customers	**(8,841)**	(7,119)
Increase in shares	**6,227**	8,985
(Decrease)/increase in amounts owed to credit institutions and other customers	**(2,014)**	1,309
Decrease in loans and advances to credit institutions	**988**	3,000
Taxation paid	**(458)**	(106)
Net cash flows from operating activities	**(3,871)**	5,363
Cash flows from investing activities		
Purchase of debt securities	**(27,006)**	(29,029)
Sale and maturity of debt securities	**23,971**	30,543
Purchase of tangible fixed assets	**(46)**	(71)
Disposal of tangible fixed assets	**22**	19
Purchase of intangible assets	**(102)**	(67)
Net cash flows from investing activities	**(3,161)**	1,395
Net (decrease)/increase in cash and cash equivalents	**(5,783)**	8,463

	2018 £000	Cash Flow	2019 £000
Cash and cash equivalents			
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**

	2017 £000	Cash Flow	2018 £000
Cash in hand and balances with the Bank of England	46,150	12,990	59,140
Loans and advances to credit institutions - repayable on demand	3,014	2,473	5,487
Loans and advances to credit institutions - less than 3 months maturity	11,000	(7,000)	4,000
	60,164	8,463	68,627

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

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.

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.

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;

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 £19,000.

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 £843,000.

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 £1,270,000. 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

	2019 £000	2018 £000
On loans fully secured on residential property	**9,916**	9,758
On other loans	**448**	557
Net expense on derivatives designated in hedging relationships	**(34)**	(174)
Net expense on derivatives designated as fair value through profit and loss	**2**	-
On debt securities:		
- interest and other income	**217**	153
On other liquid assets:		
- interest and other income	**433**	265
	10,982	10,559

Included within loans fully secured on residential property is £12,582 (2018: £4,330) in respect of interest income on impaired loans.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2019 £000	2018 £000
On shares held by individuals	**3,999**	3,796
On other shares	**19**	15
On deposits and other borrowings	**29**	20
	4,047	3,831

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

	2019 £000	2018 £000
Derivatives in designated fair value hedge relationships	**(212)**	295
Adjustment to hedged items in fair value hedge accounting relationships	**208**	(282)
Derivatives not in designated fair value hedge relationships	**(4)**	-
	(8)	13

5. ADMINISTRATIVE EXPENSES

	2019 £000	2018 £000
Staff costs *(Note 6)*	**3,278**	3,018
Other expenses	**2,439**	1,997
	5,717	5,015
Included in other expenses are the following charges:		
- Property leasing costs	**57**	68
- Remuneration of auditors (excl. VAT):		
Audit of the Annual Accounts under FRS 102	**65**	70
Other services pursuant to legislation	**2**	15

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	
	2019	2018	**2019**	2018
Head Office	**38**	34	**7**	8
Branch offices	**20**	19	**12**	11
	58	53	**19**	19

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

	2019 £000	2018 £000
Wages and salaries	**2,671**	2,459
Social security costs	**281**	264
Pension costs	**326**	295
	3,278	3,018

Notes to the Accounts (continued)

7. DIRECTORS' REMUNERATION

Individual Directors' remuneration of £552,000 (2018: £529,000) is detailed in the Directors' Remuneration Report on pages 23 & 24.

8. TAX EXPENSE

	2019 £000	2018 £000
Current Tax		
Corporation tax charge for the year at 19.00% (2018: 19.16%)	**202**	251
Adjustment in respect of prior year	**(4)**	5
Total current tax charge for the year	**198**	256
Deferred tax		
Deferred tax credit for the year (*Note 23*)	**3**	(4)
Total tax charge for the year	**201**	252

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:

	2019 £000	2018 £000
Profit on ordinary activities before taxation	**1,032**	1,297
Profit on ordinary activities multiplied by the statutory rate of corporation tax of 19.00% (2018: 19.16%)	**196**	249
Effects of:		
Expenses not deductible for corporation tax purposes	**9**	48
Income not taxable	**-**	-
Effect of change of tax rate on deferred tax	**-**	-
Loss relief arising from merger with Century Building Society	**-**	(46)
Adjustment in respect of prior year	**(4)**	1
Total tax charge for the year	**201**	252

8. TAX EXPENSE (continued)

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

	Current tax 2019 £000	Deferred tax 2019 £000	Total tax 2019 £000	Current tax 2018 £000	Deferred tax 2018 £000	Total tax 2018 £000
Recognised in income statement	**198**	**3**	**201**	256	(4)	252
Recognised in other comprehensive income	**1**	**(1)**	**-**	3	(6)	(3)
Total Tax	**199**	**2**	**201**	259	(10)	249

A tax credit of nil (2018: credit £3,000) has been recognised in the available-for-sale reserves.

9. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	2019 £000	2018 £000
Accrued Interest	**44**	32
Repayable on demand	**4,624**	5,487
In not more than three months	**8,000**	4,000
In more than three months but not more than one year	**5,000**	6,000
	17,668	15,519

Notes to the Accounts (continued)

10. DEBT SECURITIES

	2019 £000	2018 £000
Certificates of Deposit	**24,094**	21,059
Floating rate notes	**4,006**	4,006
	28,100	25,065
Debt securities have remaining maturities as follows:		
Accrued interest	**111**	67
In not more than one year	**23,991**	20,997
In more than one year	**3,998**	4,001
	28,100	25,065
Transferable debt securities comprise:		
Listed	**4,000**	3,999
Unlisted	**24,092**	21,048
Unamortised premia	**8**	18
	28,100	25,065
Market Value of listed debt securities	**4,006**	4,006
Movements during the year of debt securities:		
At 1 February	**25,065**	26,610
Additions	**27,006**	29,029
Disposals and maturities	**(23,998)**	(30,519)
Accrued interest	**43**	(18)
Amortisation	**(17)**	(24)
Net gains/(losses) from changes in fair value recognised in other comprehensive income	**1**	(13)
As at 31 January	**28,100**	25,065

11. LOANS AND ADVANCES TO CUSTOMERS

	2019 £000	2018 £000
Loans fully secured on residential property	**315,505**	305,890
Loans fully secured on land	**11,806**	12,805
Fair value adjustment for hedged risk	**(47)**	(255)
	327,264	318,440

Maturity Analysis

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

	2019 £000	2018 £000
On call and at short notice	**540**	662
In not more than three months	**3,691**	3,025
In more than three months but not more than one year	**9,597**	10,983
In more than one year but not more than five years	**62,840**	60,446
In more than five years	**250,965**	243,676
	327,633	318,792
Less allowance for impairment *(Note 12)*	**(369)**	(352)
	327,264	318,440

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

12. ALLOWANCE FOR IMPAIRMENT ON LOANS AND ADVANCES

	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**

	Individual Impairment 2018 £000	Collective Impairment 2018 £000	Total 2018 £000
Loans fully secured on residential property:			
At 1 February	60	300	360
Amounts written off during the year, net of recoveries	(82)	-	(82)
Charge/(credit) for the year	74	-	74
As at 31 January	52	300	352

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:

	2019 £000	2018 £000
Increase in value of acquired assets	**39**	66
	39	66

14. INVESTMENT IN SUBSIDIARY UNDERTAKING

During the year, the Society had a 100% (2018: 100%) holding of the ordinary share capital in its sole subsidiary, SBS Mortgages Limited, a company incorporated in Scotland under the Companies Act. The subsidiary company was dormant for the full year to 31 January 2019 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 2019, SBS Mortgages Limited 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 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

15. TANGIBLE FIXED ASSETS (continued)

	Land & Buildings Freehold 2018 £000	Land & Buildings Short Leasehold 2018 £000	Office Equipment 2018 £000	Motor Vehicles 2018 £000	Total 2018 £000
Cost					
As at 1 February	1,634	178	1,068	148	3,028
Additions	-	-	21	50	71
Disposals	-	(28)	(109)	(70)	(207)
As at 31 January	1,634	150	980	128	2,892
Depreciation					
As at 1 February	383	173	729	118	1,403
Charged in year	33	1	120	30	184
Impairment	182	-	-	-	182
Disposals	-	(24)	(110)	(70)	(204)
As at 31 January	598	150	739	78	1,565
Net book value					
As at 31 January	1,036	-	241	50	1,327

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

	2019 £000	2018 £000
As at 31 January	**1,003**	1,036

The net book value of motor vehicles includes an amount of £60,000 (2018: £47,000) in respect of assets held under finance leases.

Depreciation charged in the year on these assets amounted to £25,000 (2018: £13,000).

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 requested on 29 January 2018 and carried out on 6 February 2018. 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 reduced from £1,057,000 to £875,000, resulting in an impairment charge in the prior year Income Statement of £182,000.

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 2019 £000	Computer Software 2018 £000
Cost		
As at 1 February	**679**	643
Additions	**102**	67
Disposals	**-**	(31)
As at 31 January	**781**	679
Amortisation		
As at 1 February	**554**	520
Charged in year	**61**	65
Disposals	**-**	(31)
As at 31 January	**615**	554
Net book value		
As at 31 January	166	125

17. OTHER ASSETS

	2019 £000	2018 £000
Prepayments and accrued income	**294**	263
Other debtors	**28**	33
	322	296

Notes to the Accounts (continued)

18. SHARES

	2019 £000	2018 £000
a) Held by individuals	**379,299**	372,857
Other shares	**638**	853
	379,937	373,710

b) Repayable from the date of the Financial Statements in the ordinary course of business as follows:	2019 £000	2018 £000
Accrued interest	**2,514**	2,086
On demand	**332,732**	329,064
In not more than three months	**9,435**	8,870
In more than three months but not more than one year	**17,536**	14,561
In more than one year but not more than five years	**17,720**	19,129
	379,937	373,710

19. AMOUNTS OWED TO CREDIT INSTITUTIONS

	2019 £000	2018 £000
Repayable from the date of the Financial Statements in the ordinary course of business as follows:		
Accrued interest	**-**	4
In not more than three months	**-**	2,000
In more than three months but not more than one year	**-**	1,000
	-	3,004

20. AMOUNTS OWED TO OTHER CUSTOMERS

	2019 £000	2018 £000
Repayable from the date of the Financial Statements in the ordinary course of business as follows:		
Accrued interest	**20**	13
Repayable on demand	**6,759**	6,776
In not more than three months	**3,000**	1,000
In more than three months but not more than one year	**-**	1,000
	9,779	8,789

21. DERIVATIVE FINANCIAL INSTRUMENTS

	Positive Market value 2019 £000	**Negative Market value 2019 £000**	Positive Market value 2018 £000	Negative Market value 2018 £000
Derivatives designated as fair value hedges:				
Interest rate swaps	**142**	**(89)**	267	(2)
Derivatives designated as fair value through profit and loss:				
Interest rate swaps	**3**	**(7)**	-	-
As at 31 January	**145**	**(96)**	267	(2)

22. OTHER LIABILITIES AND ACCRUALS

	2019 £000	2018 £000
Other Liabilities		
Corporation tax	**(6)**	254
Finance leases *(Note 29)*	**55**	42
Other creditors	**131**	168
Accruals and deferred income	**584**	502
	764	966

23. DEFERRED TAX LIABILITY

	2019 £000	2018 £000
Provided:		
Timing differences between capital allowances and depreciation	**65**	62
FRS 102 transitional adjustments	**(6)**	(7)
Recognised in other comprehensive income	**-**	1
Other timing differences	**(5)**	(4)
	54	52
As at 1 February	**52**	62
Deferred tax credit for the financial year *(Note 8)*: - income statement	**3**	(4)
Deferred tax credit for the financial year *(Note 8)*: - other comprehensive income	**(1)**	(6)
As at 31 January	**54**	52

24. PROVISIONS FOR LIABILITIES

Financial Services Compensation Scheme (FSCS)

	2019 £000	2018 £000
As at 1 February	**28**	58
Paid in year	**(13)**	(58)
(Credit)/charge for the year	**(8)**	28
As at 31 January	**7**	28

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.

FSCS anticipate repayment of debt to Her Majesty's Treasury in early 2019 and the remaining provision held is in respect of the Society's share of claims triggered through FSCS in relation to Dial-A-Cab credit union defaulting in 2018.

25. GENERAL RESERVES

	2019 £000	2018 £000
As at 1 February	**33,641**	32,596
Profit for the year	**831**	1,045
As at 31 January	**34,472**	33,641

26. AVAILABLE-FOR-SALE RESERVES

	2019 £000	2018 £000
As at 1 February	**(13)**	(3)
Valuation gains/(losses) recognised directly in other comprehensive income	**1**	(10)
As at 31 January	**(12)**	(13)

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

27. 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.

27. 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 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 credit institutions	-	-	-	-	-	-
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**

27. FINANCIAL INSTRUMENTS (continued)

Carrying values by category as at 31 January 2018	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	-	59,140	-	-	-	59,140
Loans and advances to credit institutions	15,519	-	-	-	-	15,519
Debt securities	-	-	25,065	-	-	25,065
Derivative financial instruments	-	-	-	267	-	267
Loans and advances to customers	318,440	-	-	-	-	318,440
Other assets	-	1,748	-	-	-	1,748
	333,959	**60,888**	**25,065**	**267**	**-**	**420,179**
Financial liabilities and reserves						
Shares	-	373,710	-	-	-	373,710
Amounts owed to credit institutions	-	3,004	-	-	-	3,004
Amounts owed to other customers	-	8,789	-	-	-	8,789
Derivative financial instruments	-	-	-	2	-	2
Other liabilities	-	1,046	-	-	-	1,046
Reserves	-	33,628	-	-	-	33,628
	-	**420,177**	**-**	**2**	**-**	**420,179**

Loans and advances to customers in the above table includes a £47,000 liability (2018: £255,000 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 £16.4m (2018: £11.6m) measured at cost less impairment.

27. 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 yield curves. The LIBOR 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 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**
31 January 2018				
Financial assets				
Debt securities	25,065	-	-	25,065
Derivative financial instruments	-	267	-	267
	25,065	267	-	25,332
Financial liabilities				
Derivative financial instruments	-	2	-	2
	-	2	-	2

27. 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 approving treasury counterparties.

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

	2019 £000	2018 £000
Cash in hand and with Bank of England	**50,220**	59,140
Loans and advances to credit institutions	**17,668**	15,519
Debt securities	**28,100**	25,065
Derivative financial instruments	**145**	267
Loans and advances to customers	**327,264**	318,440
Total Statement of Financial Position exposure	**423,397**	418,431
Statement of Financial Position exposure commitments	**16,408**	11,644

27. 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.

	2019		2018	
	Loans fully secured on residential property	**Loans fully secured on land**	Loans fully secured on residential property	Loans fully secured on land
	£000	**£000**	£000	£000
Neither past due nor impaired	**311,607**	**11,806**	300,807	12,692
Past due but not impaired				
30 - 60 days	**1,265**	**-**	2,199	-
60 - 90 days	**862**	**-**	666	-
90 - 180 days	**645**	**-**	1,187	-
180 days+	**1,123**	**-**	1,042	113
	3,895	**-**	5,094	113
Individually impaired				
Not past due	**69**	**-**	86	-
30 - 60 days	**-**	**-**	-	-
60 - 90 days	**44**	**-**	-	-
90 - 180 days	**94**	**-**	-	-
180 days+	**118**	**-**	-	-
Possession	**-**	**-**	-	-
	325	**-**	86	
Allowance for impairment				
Individual	**(81)**	**-**	(52)	-
Collective	**(288)**	**-**	(300)	-
Total allowance for impairment	**(369)**	**-**	(352)	-

27. 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.

	2019 £000	2018 £000
LTV		
Less than 50%	**146,358**	139,050
51%-70%	**107,745**	111,325
71%-90%	**67,535**	62,848
91%-100%	**5,925**	5,499
More than 100%	**70**	70
As at 31 January	**327,633**	318,792

27. 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:

	2019	2018
Temporary payment reductions	**-**	-
Payment plans	**31**	34
Capitalisations	**-**	-
Mortgage term extensions	**-**	-
	31	34

27. 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 2019	On demand £000	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-defined maturity £000	Total £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 credit institutions	-	-	-	-	-	-	-
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**

27. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk (continued)

As at 31 January 2018	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	59,036	-	-	-	-	104	59,140
Loans and advances to credit institutions	5,487	4,000	6,000	-	-	32	15,519
Debt securities	-	-	20,997	4,001	-	67	25,065
Derivative financial instruments	-	-	-	-	-	267	267
Loans and advances to customers	662	3,025	10,983	60,446	243,676	(352)	318,440
Other assets	-	-	-	-	-	1,748	1,748
	65,185	7,025	37,980	64,447	243,676	1,866	420,179
Financial liabilities and Reserves							
Shares	329,064	8,870	14,561	19,129	-	2,086	373,710
Amounts owed to credit institutions	-	2,000	1,000	-	-	4	3,004
Amounts owed to other customers	6,776	1,000	1,000	-	-	13	8,789
Derivative financial instruments	-	-	-	-	-	2	2
Other liabilities	-	-	-	-	-	1,046	1,046
Reserves	-	-	-	-	-	33,628	33,628
	335,840	11,870	16,561	19,129	-	36,779	420,179

27. 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 2019	On demand £000	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	Total £000
Financial liabilities						
Shares	334,946	9,498	17,654	17,839	-	379,937
Amounts owed to credit institutions	-	-	-	-	-	-
Amounts owed to other customers	6,759	3,020	-	-	-	9,779
	341,705	**12,518**	**17,654**	**17,839**	**-**	**389,716**

As at 31 January 2018	On demand £000	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	Total £000
Financial liabilities						
Shares	330,911	8,920	14,643	19,236	-	373,710
Amounts owed to credit institutions	-	2,003	1,001	-	-	3,004
Amounts owed to other customers	6,776	1,013	1,000	-	-	8,789
	337,687	11,936	16,644	19,236	-	385,503

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

27. 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 2019. 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 2019	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	£000	£000	£000	£000	£000	£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 credit institutions	-	-	-	-	-	-
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	-	

27. FINANCIAL INSTRUMENTS (continued)

Market Risk (continued)

As at 31 January 2018	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:	68,523	26,997	4,001	-	203	99,724
Cash in hand with the Bank of England	59,036	-	-	-	104	59,140
Loans and Advances to credit institutions	9,487	6,000	-	-	32	15,519
Debt securities	-	20,997	4,001	-	67	25,065
Derivative financial instruments	-	-	-	-	267	267
Loans and advances to customers	237,978	11,731	68,731	-	-	318,440
Tangible fixed assets	-	-	-	-	1,327	1,327
Intangible fixed assets	-	-	-	-	125	125
Other assets	-	-	-	-	296	296
	306,501	38,728	72,732	-	2,218	420,179
Financial liabilities and reserves						
Shares	329,064	23,431	19,129	-	2,086	373,710
Amounts owed to credit institutions	2,000	1,000	-	-	4	3,004
Amounts owed to other customers	6,776	2,000	-	-	13	8,789
Derivative financial instruments	-	-	-	-	2	2
Other liabilities and accruals	-	-	-	-	1,018	1,018
Provision for liabilities	-	-	-	-	28	28
Reserves	-	-	-	-	33,628	33,628
	337,840	26,431	19,129	-	36,779	420,179
Notional amount of interest rate swaps	54,300	(4,000)	(50,300)	-	-	-
Interest rate sensitivity gap	22,961	8,297	3,303	-	(34,561)	-
Cumulative Gap	22,961	31,258	34,561	34,561	-	

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 £228,000 for one year (2018: £175,000).

28. 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 8.84% (2018: 8.73%) and free capital was 8.56% (2018: 8.43%).

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.

29. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

a) At 31 January 2019, non-cancellable operating lease payments for land and buildings were:

	2019 £000	2018 £000
Within one year	**54**	65
Between one and five years	**180**	267
More than five years	**66**	84
	300	416

b) At 31 January 2019, amounts payable under finance leases were:

	2019 £000	2018 £000
Within one year	**30**	18
Between one and five years	**25**	24
More than five years	**-**	-
	55	42

Notes to the Accounts (continued)

30. RELATED PARTIES

Key management personnel remuneration

Remuneration of the key management personnel, who are not Executive Directors, for the year was: £784,000 (2018: £766,000).

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:

	2019 Number	**£000**	2018 Number	£000
Loans and advances to customers	**2**	**198**	1	152
Deposits and share accounts	**49**	**401**	28	299

The aggregate amount outstanding at 31 January 2019 in respect of loans, transactions and arrangements made by the Society to Directors or persons connected with a Director was 2019: £157,714 (2018: £151,794) 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.

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

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

OPINION

In our opinion, Scottish Building Society's country-by-country information for the year ended 31 January 2019 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 2019 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 Society 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 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 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 Society's ability to continue as a going concern.

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 Directors' Responsibilities Statement set out on page 25, 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 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.

Country-by-Country Reporting (continued)

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 Society'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

28 March 2019

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 2019 were:

	2019 £000	2018 £000
Total operating income	**6,934**	6,779
Profit before tax	**1,032**	1,297
Tax paid in year	**458**	106
Public subsidies received	**Nil**	Nil
Average number of employees on FTE basis	**68**	63

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

	2019 %	2018 %	Statutory Limit %
a) Lending limit	**3.73**	4.11	25.0
b) Funding limit	**2.67**	3.28	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

	2019 %	2018 %
As a percentage of shares and borrowings:		
a) Gross capital	**8.84**	8.73
b) Free capital	**8.56**	8.43
c) Liquid assets	**24.63**	25.87
Profit after tax as a percentage of mean total assets	**0.20**	0.25
Profit after tax (excluding movement in acquired assets and FSCS levy) as a percentage of mean total assets	**0.18**	0.24
Management expenses as a percentage of mean total assets	**1.41**	1.31

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 £414,705k for 2018, increasing to £422,638k for 2019.

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

Annual Business Statement (continued)

3. DIRECTORS AS AT 31 JANUARY 2019

Name and Business Occupation	Age	Date of Appointment	Other Directorships
Raymond J Abbott Company Director	59	01.06.13	SBS Mortgages Limited Foresight 4 VCT PLC Integrated Environmental Solutions Limited
John C Ogston Chartered Banker	61	01.07.13	Vehicle Professionals Limited Constant Progress Limited Equator Capital Limited Toward Technology Limited
Simon M Pashby Chartered Accountant	60	15.10.14	The Medical Protection Society Limited MPI (London) Limited Shepherds Friendly Society Limited
Margaret MacKay Company Director	56	01.03.17	None
Alan Webster Chartered Banker	69	01.11.17	AWW Consultancy Services Limited
Karyn Lamont Chartered Accountant	50	30.05.18	Scottish Investment Trust plc North American Income Trust plc iomart Group plc
Mark L Thomson Building Society Chief Executive	52	12.10.12	SBS Mortgages Limited
Aileen Brown Building Society Finance Director	52	01.08.16	None

OUR Loyalty Promises

OUR LOYALTY PROMISES
OUR COMMITMENT TO OUR MEMBERS

We promise to provide you with access to ***member only products*** and exclusive offers from time to time, whether you are an existing saver or a borrower.

We promise to make products available that will ***reward your loyalty*** to us.

We promise only to offer products and services that are fair and are designed to provide you with ***long-term value.***

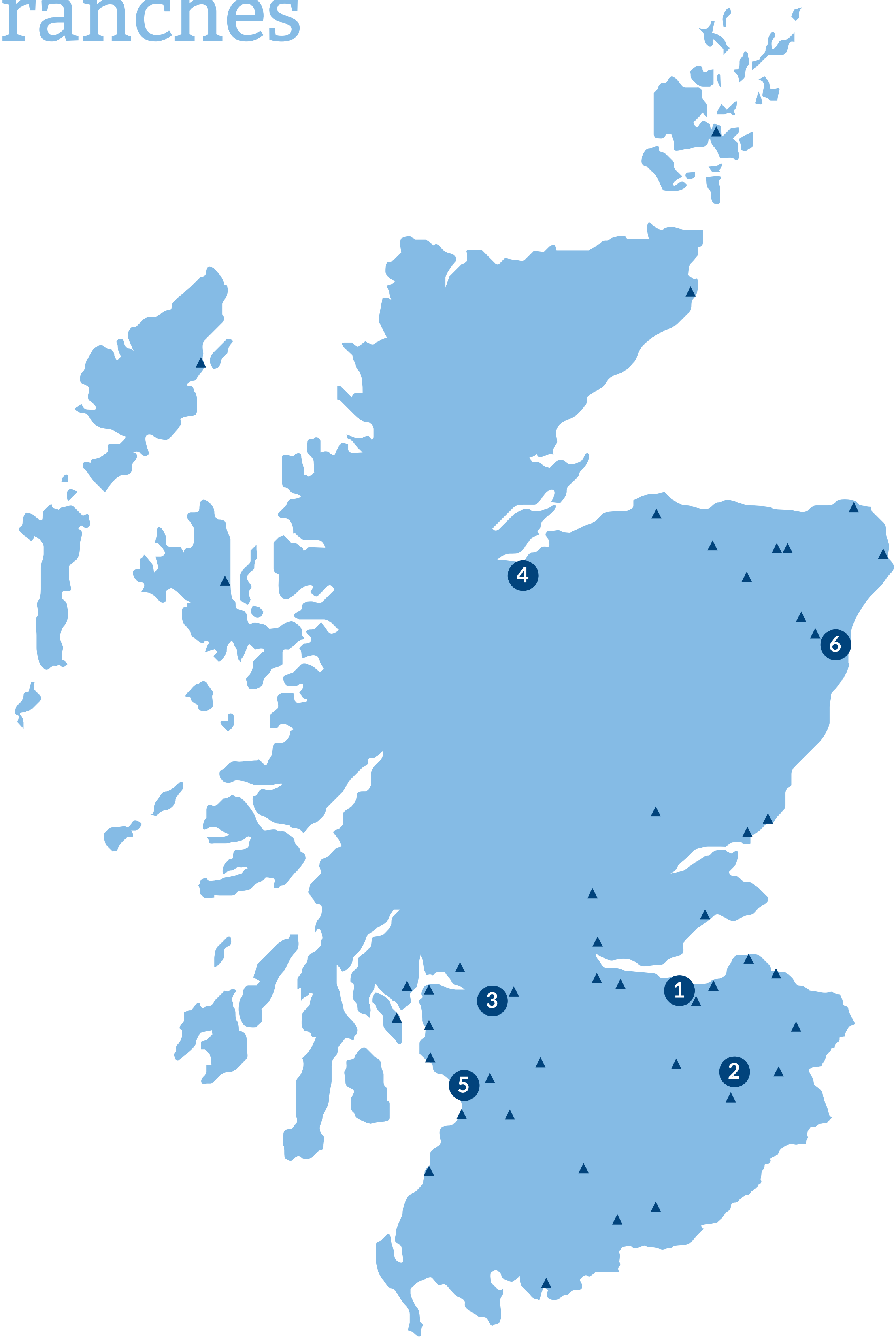
We promise to offer our ***best available rates*** to you throughout the term of your relationship with us.

We promise to always allow you a say in what ***local charities*** the Society supports.

We promise to ***treat you as an individual,*** both at the commencement of your relationship with us, and throughout.

SCOTTISH BUILDING SOCIETY
Rewarding Membership

Our Branches



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3 **GLASGOW**
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4 **INVERNESS**
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Inverness
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5 **TROON**
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Plus agency offices

▲ For a list of agency offices across Scotland, please call us or visit our website:

0131 313 7700
scottishbs.co.uk

SCOTTISH BUILDING SOCIETY

Rewarding Membership

Head Office: SBS House, 193 Dalry Road, Edinburgh EH11 2EF.

Scottish Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Register No. 206034). Member of the Building Societies Association and UK Finance.