SCOTTISH BUILDING SOCIETY

Annual Report & Accounts

For the year ended 31 January 2024

Powered by purpose

POWERED BY PURPOSE

For 175 years, Scottish Building Society has never deviated from its original purpose of helping people save money, to help people buy homes. This simple ethos – now called mutuality – is as relevant today as it was in 1848 when the Society was established.

We are and always have been owned and run for the benefit of you, our members. Everyone who opens a savings account or has a mortgage with us becomes a member. We don't have external shareholders and we are only accountable to our members, which means that unlike many other financial institutions we don't have dividends to pay. Any surplus profits are retained in the Society to invest in our future and remain financially strong, and to keep our products as competitive as possible.

And it's not just our members that benefit. Giving back to the local communities in which we serve has been at our very heart since the beginning. To mark our milestone 175th anniversary last year, we launched the Scottish Building Society Foundation in partnership with Foundation Scotland. With an initial funding of £175,000, we have provided grants to many fantastic charities and community initiatives across Scotland in the past 12 months – with many more to come.

We encourage all members to play an active part in the Society, and to help shape its future. From our AGM in May where you can use your member vote and meet the Board, colleagues and other members, to local member events and fundraising efforts, there's always something to be involved in.

Our colleagues love to meet our members, and are always happy to help. We aim to provide you with a great choice of simple and straightforward financial products, backed up by our friendly customer service. Our personal, flexible approach means we take the time to get to know you properly, and we will always consider your individual circumstances when you get in touch.

We're proud of our people, proud to support our members and communities, proud of our Society.

I'm pleased to say that we have delivered strong profits in the past year which will all be retained and invested in the business for the benefit of members."

Paul Denton
Chief Executive

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CHAIR'S REPORT

Strong growth in a milestone year

As the Society reaches the end of its milestone 175th anniversary year, I am delighted to report another excellent set of results, with strong balance sheet growth and continued profit momentum.

With rising interest rates and high inflation particularly impacting the mortgage market, we are pleased to have grown our mortgage portfolio by 8%, and our retail savings portfolio by 17%, welcoming around 2,700 new members to the Society.

The strong profit performance further increases the Society's capital base which is important to support future membership growth, for investment in new technology, products and services, and allows the Society to continue to support our members and the communities in which we operate.

Continued investment for the future

During the year, we completed the refurbishment of our Galashiels Relationship Centre and relocated our Edinburgh Relationship Centre to a prominent site in the city centre. This completed the programme of renewing our Relationship Centres, and it has been a pleasure to welcome a good number of members to various events over the year.

As the UK continued its battle against inflation, the Bank of England increased base rate five times during our financial year to reach 5.25% in August 2023. We recognise the challenges that these rising interest rates bring to all our members, particularly those with mortgages, and continue to ensure they are supported fully with access to trained staff who can assist with a range of forbearance options if required. The Society signed up to the UK government Mortgage Charter launched in summer 2023 to reassure borrowers that we are committed to supporting members who may be experiencing financial difficulty.

For our savings members we have increased savings rates across our product range several times during the year to retain a competitive proposition. We launched a new Saver Plus limited access product in September, which has already proved to be very popular with members and have also introduced preferential fixed savings rates for existing members to recognise continued loyalty and support.

As a mutual organisation, we recognise the importance of supporting the communities in which we operate and encourage colleagues to volunteer with local charitable organisations. To mark our 175th year, the Society set up a charitable foundation in partnership with Foundation Scotland, with an initial donation of £175,000 to support good causes across Scotland. During the year the foundation ran two successful funding rounds, awarding grants to 17 charities across Scotland. We are pleased with this progress in the first year of operation of the foundation and have plans for further enhancements in 2024.

The Board and our Annual General Meeting

As I reported last year, there were a number of changes in the Board during 2022, so it has been good to have a year of stability in 2023 allowing the Board to contribute collectively and effectively on strategy, performance and governance of the Society.

An undoubted highlight of our 175th anniversary year was our AGM, held at Edinburgh City Chambers on 17 May 2023. I would like to record my thanks to all the members who attended and the colleagues who put so much hard work into ensuring this was both an AGM from a governance perspective and a real celebration of the Society's history.

We are planning to hold our 2024 AGM on 29 May 2024 at the Trades House in Glasgow. Full details of how to register and attend the AGM will be in the Notice of Meeting, which will be sent out with your AGM packs towards the end of April.

Confidence looking forward

Our improved operating performance and strong capital position give us confidence that we can continue to invest in modernising and improving the efficiency of the Society, to further grow our membership and our ability to make a positive contribution to the communities in which we operate.

We are, however, not complacent. While interest rates are widely expected to have peaked and inflation has more than halved from its high levels in 2022, the UK economy moved into recession at the end of 2023. Moreover, with several geopolitical tensions and conflicts around the world likely to impact on our domestic economy, we expect further challenges in 2024.

I extend my sincere thanks to Paul, his leadership team, and all colleagues across the Society for their hard work and commitment during the last year which enables us to move forward with purpose towards the Society's strategic goals.

Lastly, to all our members, thank you for your continued support.

Ian Wilson
Chair
28 March 2024

"An undoubted highlight of our 175th anniversary year was our AGM. I would like to record my thanks to all the members who attended and the colleagues who put so much hard work into ensuring this was both an AGM from a governance perspective and a real celebration of the Society's history."

Ian Wilson
Chair

"It is an absolute pleasure to be part of this Society, of your Society!"

Paul Denton
Chief Executive

CHIEF EXECUTIVE'S REVIEW

A special AGM to remember

I am once again delighted to report on another successful year for Scottish Building Society, both from a financial viewpoint but also after a year of celebrations for our 175th anniversary. It has been an absolute pleasure meeting so many members across a variety of events. Whilst I did enjoy the launch event for our new Relationship Centre in Edinburgh, a members' evening in Troon and also hosting members at the main sponsors table for Edinburgh Rugby, the highlight of the year was without doubt our 2023 AGM at Edinburgh City Chambers.

With the highest attendance for decades, we were able to update on strong progress in 2022 before reflecting back over the past 175 years. As the world's oldest remaining building society we unveiled a book reflecting on our history and the wider story of Mutuals. We also enjoyed a specially commissioned poem for the occasion as well as many other activities on the day. I'd like to thank everyone who attended and I hope to see you all again at our AGM this year in Glasgow.

The year in review

The past year has been another difficult one for many with the continued challenges of the cost of living crisis. Throughout the year we've been mindful of the economic environment and once again we've done everything we can to reward our members with highly competitive savings rates and affordable mortgage lending.

I've said before and I'm happy to repeat, at Scottish Building Society we only do two things – Savings and Mortgages. I believe we do them very well, and it's a pleasure to report that last year was the highest annual increase in savings balances that we've ever seen at Scottish Building Society. This flowed through to the Society's balance sheet which also saw the largest annual increase in our history!

Savings

The Savings market has been extremely competitive over the past year as changes in the Bank of England base rate and also the introduction of the new Consumer Duty regulation played through. I'm proud to say that we are comfortable that we meet the principles of the new regulation, with easy to understand products and fair pricing for all customers, new and existing.

Over the last few years we have expanded our savings range to include a Fixed Rate ISA and a new limited access Saver Plus account. These have proved very popular with our members and have seen strong growth since launch. We have held firm with our commitment to passbook savings accounts and despite some banks moving away from passbooks, I can reassure you that we understand how important these are to many of our members.

Digital experience

We also understand the importance of investing in digital capability and also in cyber security to take advantage of new technologies and to protect against unwanted threats. Over the past year we have adopted new practices to enhance the safety of our systems, processes and data. We've also agreed with the Board a plan to improve the digital experience for new and existing members which we aim to implement over the next twelve months.

Continued strong performance

It is important that the Society generates revenue to continue to invest and as a mutual organisation we need to be profitable to sustain the required capital. I'm pleased to say that we have delivered strong profits in the past year which will all be retained and invested in the business for the benefit of members rather than paid out to shareholders.

The profit last year and over recent years reflects the strong growth of the Society's balance sheet which is now more than 70% larger than in 2020. This enables the Society to lend to more members, with mortgage lending now more than £540m, mainly in our heartland of Scotland.

CHIEF EXECUTIVE'S REVIEW

Mortgages

We recognise that many borrowers have seen their mortgage payments increase as their fixed interest rate deals expired or their variable rate increased. Over the past two years the Bank of England base rate has increased by 5.15%, however we have only increased our Standard Variable Rate for mortgages by 3.55%. Equally we have always sought to offer existing members a competitive rate on maturity of their deal and it's encouraging to note that during the year more than 80% of members chose a new product and stayed with Scottish Building Society.

We understand the worries that many members have around their mortgage payments so were happy to sign up immediately to the UK Mortgage Charter last summer. We will always be empathetic and understanding whenever a member has financial difficulties and it is comforting to note that despite rising interest rates and a larger mortgage portfolio, we now have fewer members in arrears than at the end of January 2022.

Whilst there is some way to go within the UK housing market before confidence fully returns, there are green shoots emerging in early 2024 that are encouraging and we look forward to continuing to support existing and new members in owning their own home.

Committed to supporting our communities

Over the past year we have sought to play our part in the communities we operate within and you will be able to read about some of these in the following pages. Our Chair has already covered the support our newly launched Scottish Building Society Foundation has provided to many worthy causes across Scotland, but beyond financial support we also seek to make a difference in the education of young people across Scotland. Our Tackle Maths initiative with Edinburgh Rugby has been hugely successful in the past year and I've had the pleasure of observing for myself the benefits and fun this has provided for many.

We also recognise that we have a significant part to play in environmental matters, on both a corporate level and as a mutual in support of our members. This year we have provided more detail in the Annual Report on our own carbon footprint and our commitment to reduce this going forward. In addition, and increasingly over the past year, I have attended many events and discussions on how Scottish Building Society can support homeowners to improve the energy efficiency of their own homes.

To help members better understand the options available for improving their home energy efficiency, we recently partnered with Snugg. Members are invited to visit Snugg's website and type in a few details about their home to receive a free energy-saving plan, to help reduce carbon emissions and fuel bills. It's just one small way we can help prepare our members for a greener future. For more details, go to www.scottishbs.co.uk/snugg

For many years, our personalised approach to underwriting lending has sought to understand the individual needs of our members and the unique aspects of the properties they own. This approach is well suited to helping members who wish to finance their home improvements, whether it's for a new kitchen, extension or for modern heating and energy solutions.

Thank you to colleagues

Finally, as I reflect on another successful year of growth, member satisfaction and prudential management, I would like to say a huge thank you to all colleagues at the Society. It is always heartening to read the many kind comments that come in from members on how helpful our people are. It is also pleasing to see the scores from our annual colleague survey. Carried out by independent workplace engagement specialists, Best Companies, we have been described as 'Outstanding'. It is an absolute pleasure to be part of this Society, of your Society!

Paul Denton
Chief Executive
28 March 2024

Pre-tax profit for 2024

£4.0m

(2023: £3.3m)

Gross mortgage lending

£110.0m

(2023: £112.3m)

Net mortgage lending

£39.4m

(2023: £42.4m)

Savings growth

£72.8m

(2023: £26.5m)

SOCIETY KEY RESULTS

Total assets	Liquidity ratio	Profit before tax
£740.7m	27.9%	£4.0m
(2023: £644.6m)	(2023: 22.4%)	(2023: £3.3m)

Mortgage balances

2024	£535.5m
2023	£496.1m
2022	£453.7m

Retail savings balances*

2024	£490.9m
2023	£418.2m
2022	£391.7m*

Capital reserves

2024	£43.1m
2023	£40.1m
2022	£37.4m

Profit before tax

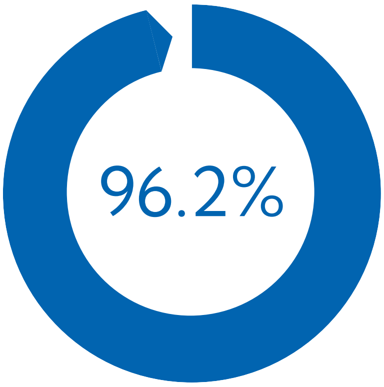
2024	£4.0m
2023	£3.3m
2022	£2.4m

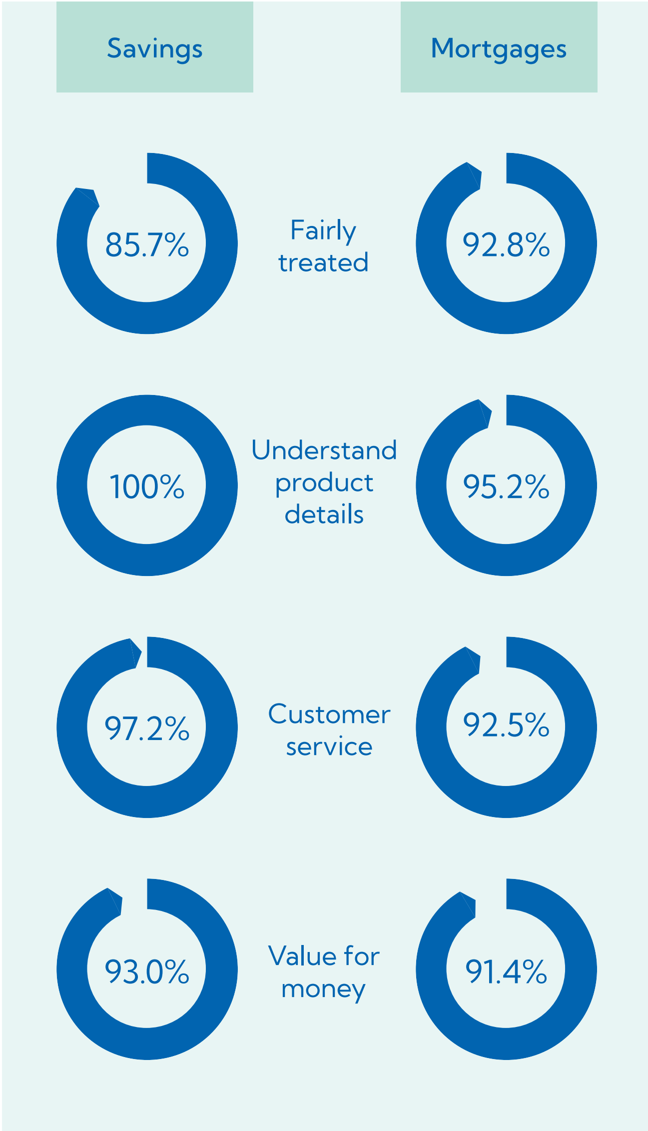
*Retail Savings Balances is an alternative performance measure which reflects 31 Jan 2022 share balances adjusted to exclude Solicitor Client Accounts following changes to the product Terms and Conditions in April 2022.

OUR MEMBERS

We are delighted with the fantastic ratings our members gave us via independent financial services review website, Smart Money People. Using a combination of online surveys and manual surveys completed in our Relationship Centres by members over a 12-month period, we achieved an overall rating of 96.2% for customer satisfaction†.

Customer satisfaction (Feb 2023–Jan 2024)





Here are the most common words our members use about the Society when giving their feedback to Smart Money People:

#	2023†	2022††
1	friendly	friendly
2	branch	service
3	service	helpful
4	helpful	branch
5	efficient	efficient
6	local	local
7	easy	easy
8	rate	professional
9	interest rate	quick
10	great	interest rate

Excellent Customer Reviews
4.77 stars from **1,358 reviews**

†Data taken from 877 member responses submitted to Smart Money People, 01/02/2023 to 31/01/2024. ††Data taken from 681 member responses submitted to Smart Money People, 01/02/2022 to 31/01/2023. Smart Money People is an independent consumer review website where people can review their bank or building society. For more information, go to www.smartmoneypeople.com

OUR COMMUNITY & COLLEAGUES

2023 was a very special year for Scottish Building Society as we marked our 175th anniversary. We held celebratory events for members across our Relationship Centres, commissioned a book to document our history, and invested in our communities through initiatives like Tackle Maths and the Scottish Building Society Foundation. Read on to find out more – it's been a very busy but extremely fulfilling 12 months.

2023 AGM

Our AGM was held on 17 May 2023 at the City Chambers in Edinburgh. It was wonderful to see so many members attending what was a real celebratory event, and both the Board and colleagues enjoyed meeting so many of you on this milestone occasion.

We were delighted to hand out copies of our newly published 175th anniversary history book, and were joined by the Edinburgh Makar, Hannah Lavery, who read us a specially commissioned poem that encapsulated mutuality and the role that Scottish Building Society has played in so many lives throughout our 175 years.

Investment in our Relationship Centres

In May 2023 we opened the doors of our new-look Galashiels Relationship Centre. The refurbishment has transformed the centre into a more welcoming and comfortable space for members to visit and speak to colleagues.

The investment in our high streets continued with the relocation of our Edinburgh Relationship Centre to a new, more central location in June 2023. Despite other banks closing high street branches, the Society remains committed to providing members with a choice of how they would like to engage with us. To officially mark the opening, we were delighted to welcome members to a special gin and whisky tasting event in September 2023.

In addition to investment in physical locations, we have appointed a manager in every Relationship Centre whose main role is to ensure our members continue to receive excellent service and to promote and increase awareness of the Society within the local community.

Our Colleagues

The Society is committed to creating a positive and inclusive culture in which all colleagues feel valued and rewarded, and in 2023 we were immensely proud to have received an Outstanding rating in our annual colleague survey with workplace engagement specialists 'Best Companies'. These results reflect our ongoing commitment to ensuring all colleagues feel valued as individuals in the Society and feel connected to our purpose and ambition. Maintaining our colleague engagement and their sense of belonging will continue to remain a key priority.

We are equally committed to fostering a culture of collaboration, ensuring we seek and value colleagues' views and opinions. In early 2023, this was evidenced through the launch of our Values and Behaviours Framework, which we developed in collaboration with colleagues. Our Values and Behaviours reflect our collective ambition to be true to our purpose, ambitious in our aspirations for the Society, and to underpin all our actions with kindness.

Our colleagues' wellbeing remains core to our culture and in 2023 we held a number of events reflecting a range of diverse topics including menopause, children's online safety and physical and mental health. We also enhanced our benefit offering introducing new pension and electric vehicle salary sacrifice schemes.

UK Savings Week

The Society once again supported UK Savings Week in September 2023, in partnership with the Building Societies Association. UK Savings Week aims to highlight the benefits of saving money, and encourage everyone to get into the habit of setting money aside, whatever the amount. We want to help those important conversations, get people talking about savings and hopefully improve financial resilience in households across the country.

In conjunction with this week, the Society launched a new savings account called Saver Plus, offering a higher rate of interest for those who want access to their money but don't need to dip into it too often.

"Our sponsorship of Edinburgh Rugby is firmly focused on community programmes and support for local clubs across Scotland."

Edinburgh Rugby

Our sponsorship of Edinburgh Rugby goes far beyond the players on the pitch. We have a firm focus on community programmes and support local rugby clubs right across Scotland.

- In May 2023 we launched a new initiative called Tackle Maths that takes maths out of the classroom and on to the rugby pitch. Our aim is to help primary school pupils understand how relevant and important financial literacy is in their everyday lives. We set a target in 2023 of helping at least 175 children, and so far over 300 pupils have had fun completing the programme at Edinburgh Rugby's Hive Stadium.
- Our ongoing Player of the Month initiative allows players to donate money from the Society to a cause of their choice. Darcy Graham chose to support Hawick Ambulance Station who provided vital services to his brother.
- Junior players got the chance of a lifetime to lead the first team out onto the pitch at the Hive Stadium as the Society's mascot.
- We held a fantastic competition for local clubs to win a once-in-a-lifetime opportunity of training with first team players.
- Rugby is a sport played by all ages and various abilities, and in November 2023 we held the first Scottish Building Society Inclusive Rugby Festival. Players from teams across Scotland came together to showcase their talents in a safe and positive environment, with many friendships being made along the way.

Ceres Highland Games

As the world's oldest remaining building society, we were proud to once again sponsor the Ceres Highland Games, the oldest free games in Scotland!

The early summer event is a hugely popular calendar fixture for the Fife community, attracting around 5,000 spectators. We provided funding that contributed towards the running of the event, and hosted a stall there on the day. Last year, as indeed every year, was a huge success for the local community and economy, and we are pleased to continue our sponsorship at the next games to be held in June 2024.

OUR COMMUNITY & COLLEAGUES

Scottish Building Society Foundation

As part of the 175th anniversary celebrations, the Society launched the Scottish Building Society Foundation in partnership with Foundation Scotland. With initial funds totalling £175,000, the objective of the foundation is to make awards to good causes throughout communities in Scotland. To date, 17 charities have received awards totalling almost £60,000. To illustrate the impact the awards are having, three of those charities have told us how the funding they have been given will make such a difference to the work they do in their communities.

In Glasgow, **The Halliday Foundation**, an organisation that works with some of the most deprived families in the city was awarded a grant to contribute to the salary of the full-time community café coordinator's post. This funding will allow local people to develop new friendships, embed existing connections, develop new skills, reduce isolation and increase mental wellbeing. Celebrating their award, the charity remarked:

"We are absolutely delighted to have been awarded £4,000 towards our project "Communitea". Thanks to the support, we will be able to provide activities which reduce social isolation, as well as providing low cost, healthy and nutritious meals to local community members and free meals for children."

Across the central belt in Edinburgh, the **Edinburgh Tool Library** are celebrating their 12-month award of £3,905 which will go towards supporting a project that will contribute to the development and delivery of a series of basic cycle maintenance courses, aimed at tackling transport poverty, promoting bicycle tool proficiency, and fostering self-reliance in the community. It is anticipated that around 75 residents will stand to directly benefit from project activities.

In the far North of Scotland, youth charity **Caithness KLICS** has been awarded a grant of £2,870 to keep their rural, young carers service operating. Grant monies will go towards the costs of continuing to run a minibus to enable young carers in the Caithness area to attend activities throughout the year. In this remote corner of Scotland, access to transport for young people with caring responsibilities is a recurring obstacle and this grant aims to ensure that young carers can access the support they need. In response to this award, project manager Wendy Thain said:

"We are thrilled to have been awarded the funding from the Scottish Building Society Foundation. The bus is such a vital part of KLICS, it allows us to ensure that our young carers have access to our service, that they get to and from KLICS safely and allows us to be able to take them on trips and outings. Having the bus also means that we can reach young carers in rural areas as well. A huge thank you from all the team and young carers at Caithness KLICS!"

"The objective of the foundation is to make awards to good causes throughout communities in Scotland."

SCOTTISH BUILDING SOCIETY — FOUNDATION —

Grants awarded in the year ended 31 January 2024

1. **Berwickshire Swap, Eyemouth**
Contribute to the cost of operational expenses to help deliver pop-up events and emergency parcel services for vulnerable families in the Scottish Borders.

2. **Bonnymuir Green Community Trust, Aberdeen**
Contribute to costs of upgrading and renovating the kitchen at the Trust café, called The Bonny Café.

3. **Caithness KLICS, Wick**
Cover the costs of continuing to run a minibus to enable young carers in the Caithness area to attend support sessions and activities.

4. **Carrick Rugby Football Club, South Ayrshire**
Contribute towards the salary of a part-time female development officer to develop the girls' section of the club and female rugby.

5. **Croy Public Hall, Inverness-shire**
Support the creation of a community cinema to benefit residents living in a rural area.

6. **Dr Bell's Family Centre, Edinburgh**
Support a community wild swimming programme that provides support and therapy to vulnerable parents in North Edinburgh.

7. **The Dyslexic Collective, Peebles**
Costs to help provide dyslexic support resources for pupils studying for their Higher exams at Peebles High School.

8. **Edinburgh Tool Library, Edinburgh**
Contribute to the delivery of basic cycle maintenance courses, aimed at tackling transport poverty, and fostering self-reliance in the community.

9. **Friends of Dundonald Castle, South Ayrshire**
Costs to help the community hub to remain open, providing warmth, hot food and companionship for vulnerable people in the area.

10. **Gala Fairydean Rovers FC Community Trust, Galashiels**
Contribute to the costs of providing and expanding the Para Football Plus project for adults with mental and physical disabilities.

11. **Glasgow Children's Holiday Scheme, Glasgow**
Costs to purchase items for welcome baskets provided to disadvantaged families who are gifted a stay at Wemyss Bay Holiday Park.

12. **Glencoe Folk Museum, Glencoe**
Support a 'pop-up' museum project with cultural and historical exhibitions across Lochaber and the wider Highlands.

13. **Highland Action for Little Ones, Inverness**
Support the distribution of winter clothing and footwear to young children whose families are experiencing economic difficulties.

14. **The Halliday Foundation, Glasgow**
Contribute to the salary of the community café co-ordinator's post, allowing local people to develop new friendships and reduce social isolation.

15. **Mearns Kirk Helping Hands, Newton Mearns**
Support the delivery of an elderly befriending scheme in Newton Mearns, reducing social isolation and loneliness.

16. **Safe, Strong and Free Project, Inverness**
Help support a series of educational school workshops across the Highlands to educate children on different forms of abuse.

17. **Strathspey Works – Grantown Remakery, Grantown-on-Spey**
Costs to help provide support to young people who are disengaged with education to develop skills in repair and refurbishment of furniture.

OUR COMMUNITY & COLLEAGUES

Gala Fairydean Rovers FC Community Trust meeting Galashiels Relationship Centre colleagues

2023 AGM at Edinburgh City Chambers

"It was wonderful to see so many members attending what was a real celebratory event."

Tackle Maths schools community programme

Edinburgh Rugby mascots

"Our sponsorship of Edinburgh Rugby goes far beyond the players on the pitch."

Scottish Building Society Inclusive Rugby Festival 2023


Troon Relationship Centre gin and whisky tasting event

“Despite other banks closing high street branches, the Society remains committed to providing members with a choice of how they would like to engage with us.”


Edinburgh Relationship Centre opening event


Ceres Highland Games 2023

Scottish Building Society 175th commemorative book

“UK Savings Week aims to highlight the benefits of saving money, and encourage everyone to get into the habit of setting money aside.”


UK Savings Week at our Glasgow Relationship Centre

Society colleagues fundraising for MoonWalk Scotland 2023

OUR ENVIRONMENT

The Board is committed to operating a sustainable business that works in a socially responsible and environmentally friendly way. It supports the transition to a greener economy by working with partners, stakeholders and colleagues to take action to manage the impacts of both the Society and its members.

The impact of climate change is taken very seriously by the Society, with the Finance Director having accountability for managing the financial risks from climate change and the Chief Executive Officer having overall responsibility for execution of climate plans.

Climate related risks

The principal risks to the Society's business in terms of climate change are the physical risks relating to properties held as security for lending, and the transitional risk as the Society adjusts to a low carbon economy. These risks are considered further in the following table:

Primary risk driver	Business model impacts	Current relevance	Timeframe
Physical Risks – the risk that physical damage arising from extreme weather events linked to climate change adversely impact the value of assets/security held by the Society.	· Reduction in value of collateral held as security due to flood, subsidence or coastal erosion. · Mortgaged properties become uninsurable or premiums unaffordable. · Damage to Society premises due to weather related events.	Low	Long term
Transition Risks – the risk that upgrades to homes/properties to meet new legislative requirements as part of transitioning to a low carbon economy are not completed, therefore adversely impacting the value of assets/security held by the Society.	· Changes in government policy (eg minimum Energy Performance Certificate (EPC) rating) lead to a fall in value of collateral held as security. · Failure of the Society to adapt to changing consumer preferences could result in reduced profitability. · Increased costs due to the rising cost of carbon and/or cost of carbon offsetting.	Medium	Long term

During 2022 the Society engaged a specialist environmental assessment company to undertake a property by property analysis of the security held against its mortgage book. This analysis considered the risk of flooding, subsidence and coastal erosion under different carbon emission scenarios over the period to 2080. It also considered transition risk as a result of potential energy efficiency remediation.

The scenarios used for physical risks are based on the projected change in global greenhouse gas concentration as measured by Representative Concentration Pathway (RCP) levels. The scenario used for transition risk is derived from EPC ratings, and estimates the cost and valuation impacts of energy efficiency remediation. The scenarios are summarised in the following table:

	Early action	Late action	No action
RCP level	4.5	6.0	8.5
Emissions scenario	All countries implement the Paris Accord	All signatories implement the Paris Accord	Business as usual
Mean global warming	1.7 to 3.2 degrees	2.0 to 3.7 degrees	3.2 to 5.4 degrees

This analysis indicated that the Society has a low potential exposure to the impacts of physical risks, even under the most extreme climate scenario. Transition risks pose a greater potential risk to the Society as Scotland (and the UK) moves towards a lower carbon economy, potentially requiring homeowners to undertake expensive remediation work.

The exposure to climate risks is considered by the Board Risk Committee on a biennial basis and the results are included in the assessment of Capital Adequacy produced each year. An updated climate assessment is planned during the 2024/25 financial year.

Our journey to Net Zero

The Society's ambition is to achieve Net Zero by 2033, through a combination of reducing emissions as far as possible and offsetting the remainder through a certified offset scheme.

Carbon emissions come from three sources:

Scope 1

Direct emissions under the Society's control such as gas consumption and fuel used in the Society's vehicle fleet.

Scope 2

Secondary emissions under the Society's guidance such as energy consumption from electricity.

Scope 3

Indirect emissions under the Society's influence such as business travel, colleague commuting and the Society's broader supply chain.

During 2023, the Society worked with an external consultancy to update its baseline carbon footprint measurement to the year ended January 2023, which was considered a representative period given all COVID restrictions had been lifted. Informed by this exercise, the Society has created a carbon reduction plan to enable it to measure and track progress towards Net Zero in the coming years.

OUR ENVIRONMENT

Overall progress to date

The table below highlights the achievements to date and future activities the Society plans to undertake on its journey towards Net Zero:

Progress to date	Future plans
Strategy	
• Consideration of climate change in annual strategic planning.	• Continue to build Board and Executive knowledge of climate related impacts, engaging with different stakeholders leading to the development of a climate change strategy.
• Launch of partnership with Snugg providing online tools to members to create an energy saving plan to reduce carbon emissions and cut fuel bills, with links to grant and other funding options.	• Develop member communications to raise awareness of potential opportunities to improve the energy efficiency of their homes and the products the Society has available to support their funding.
Governance	
• Climate change has been embedded in the Senior Management framework, with the Finance Director having responsibility for identifying and managing the financial risks from climate change.	• Embed climate change considerations into all relevant Society policies and increase training and awareness among colleagues.
• Climate change has been incorporated within the Terms of Reference of the Board Risk and Retail Credit Committees to ensure this risk is considered as part of regular discussions.	• Continually identify and report on climate change exposure to the Society's Board and appropriate risk management committees.
Risk management and scenario analysis	
• The risks from climate change, both physical risk and transition risk, have been incorporated within the Society's Risk Management Framework.	• Keep abreast of emerging risks in this area, for example the potential impact of the Scottish Government's climate change plan for buildings.
• During 2022 the Society engaged a specialist environmental assessment company to undertake a property by property analysis of the security held against its mortgage book. This analysis considered the risk of flooding, subsidence and coastal erosion under different carbon emission scenarios over the period to 2080. It also considered transition risk as a result of potential energy efficiency remediation.	• The Society intends to repeat the portfolio analysis on a biennial basis, as well as further developing its modelling capabilities in a proportionate manner.

Progress to date	Future plans
Targets and metrics	
• The Society carbon footprint baseline was updated to 2022/23 using an external consultancy.	• Implement Net Zero plan with agreed actions and targets to support the Society's ambition to transition to Net Zero by 2033. • Develop systems and processes to measure and monitor carbon consumption on an ongoing basis.
• We continue to use paper from sources approved by the Forestry Stewardship Council wherever possible, to recycle waste paper and other materials.	• Embed a culture of zero waste through minimising consumption and maximising efficiency across the organisation.
• The refurbishment of our Relationship Centres and Head Office has improved energy efficiency through the installation of LED lighting.	• Migrate all electricity contracts to certified renewable energy tariffs. • Review long-term options to decarbonise premises. • Set targets to reduce energy consumption across the organisation.
• Our vehicle policy encourages the adoption of electric cars and we have now completed the conversion of our small vehicle fleet to hybrid or fully electric vehicles. • Electric vehicle charge points installed at Head Office. • Introduction of an electric vehicle salary sacrifice scheme in 2023 to encourage colleagues to switch to electric cars.	• Develop and implement a sustainable business travel policy across the organisation. • Introduce (where practical) initiatives to encourage the use of sustainable and active methods of travel.

"The Society has created a carbon reduction plan to enable it to measure and track progress towards Net Zero in the coming years."

Neil Easson
Finance Director

DIRECTORS' REPORT

Introduction

The Directors present their 175th Annual Report, together with the audited Annual Accounts and Annual Business Statement, for the year ended 31 January 2024.

Business objectives and activities

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

Business review and future developments

The business review and future developments are covered in the Chair's Report and Chief Executive's Review on pages 4 to 9.

Economic environment

It has once again been a year of significant economic uncertainty, both from a global and a domestic perspective.

Continued inflationary pressures have driven interest rates to a level not seen since 2008, contributing to a continued 'cost of living crisis' with mortgage members experiencing a sharp increase in monthly payments as lower fixed rate products mature.

The housing market remained relatively resilient particularly during the first half of 2023, which has resulted in another year of strong mortgage book growth for the Society. However, new mortgage business in the second half of the year has seen a slowdown due to affordability constraints and lower consumer confidence which we expect to continue into the first half of 2024.

With continued low levels of unemployment, we have not seen a deterioration in the credit quality of the mortgage book. However, we continue to monitor arrears closely for any impacts from rising mortgage interest rates and the increased cost of living.

Higher interest rates have contributed to an increase in savings balances, with savings members taking advantage of attractively priced fixed rate products amidst market expectations that interest rates may have peaked.

Profit

Profit for the year before tax amounted to £4.0m (2023: £3.3m) representing another record performance by the Society. The mortgage book grew by 8.0% (2023: 9.3%) and with the continued benefit of a rising interest rate environment we have been able to provide an increasingly attractive home for savings, with Retail Savings balances increasing by 17.4% (2023: 6.8%).

Capital

As a result of the Society's strong performance, reserves increased to £43.1m (2023: £40.1m). Capital reserves are held to provide a buffer against unexpected losses and to provide scope for future growth and innovation in how we serve members.

A measure of capital strength normally reported by Financial Institutions is Common Equity Tier 1 (CET1) ratio. This ratio measures the relationship between accumulated profits held in reserve and assets, weighted by the level of risk they are considered to carry. The Society's CET1 ratio remained strong at 18.7% (2023: 18.2%) and is substantially higher than the minimum requirement set by our Regulator.

Liquidity

Total cash and investments at 31 January 2024 amounted to £193.6m (2023: £134.7m) which represented 27.9% (2023: 22.4%) 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

In response to continued inflationary pressures, the Bank of England has implemented further increases in its Bank Rate since our last Annual Report, with Bank Rate increasing from 4.25% in March 2023 to 5.25% in March 2024. Maintaining the balance between rewarding savers and supporting mortgage borrowers is a key part of managing the Society, and we are pleased that we have been able to increase interest rates across all of our savings accounts during the year.

Alongside this we have mitigated the impact on mortgage members by only passing on around 70% of the Bank of England increase to our Standard Variable Rate for mortgages since the Bank of England began to increase Bank Rate in December 2021.

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

Mortgage arrears and forbearance

The Society uses a range of forbearance measures to assist those borrowers who are experiencing financial difficulty. As at 31 January 2024 there were 20 cases benefitting from the Society's forbearance measures (2023: 19) with total outstanding capital balances of £2.1m (2023: £1.8m). The Society makes provisions in accordance with the Board-approved policy for any expected loss resulting from accounts in arrears.

At 31 January 2024 the Society had 16 mortgage accounts in arrears for 12 months or more (2023: 18). The total arrears outstanding on these accounts was £259,724 (2023: £219,387) and the aggregate capital balance was £1,343,814 (2023: £1,262,356). There were no properties in possession at the year end (2023: two).

Management expenses

Management expenses include staff costs, IT and all other operating overheads. Together with depreciation and amortisation these represent the total costs for operation of the Society. The Board balances the requirement to control costs with the strategic imperative to attract and retain the appropriate calibre of people, and continues to invest to support the strategic objectives of the Society.

During the year, the absolute value of management expenses and depreciation increased by 18% to £10.5m (2023: £8.9m) due to a combination of salary and price inflation and continued investment in digital capability and IT security.

The ratio of management expenses as a percentage of average total assets is a measure of efficiency used within the building society sector. This metric increased to 1.52% (2023: 1.44%) as the Society invested in people and digital capability.

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 10. 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 8.0%.

Total Assets: Consisting primarily of Mortgage Assets and Liquid Assets held to meet potential outflows, these have increased by 14.9%.

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

Retail Savings Balances*: Another key reason for the Society's existence: to encourage saving and investment. Following a change to the product Terms and Conditions in April 2022, Solicitors Client Account balances are no longer included within Share Balances. The growth in Retail Savings Balances during the past year was 17.4%.

Liquidity: Total cash and investments held by the Society at the year-end, expressed as a percentage of shares and borrowings. This has increased by 5.5 percentage points in the year and remains at a level well above regulatory requirements.

Net Interest Margin: The income generated by the Society from its operations, expressed as a percentage of mean total assets. This has increased by 0.18 percentage points in the year due to the beneficial impact of a rising interest rate environment.

Profit Before Tax: Ensuring that the Society makes sufficient profit to maintain its financial strength is a key requirement and this has been achieved with Profit Before Tax (PBT) of £4.0m in the current year. The increase in PBT from £3.3m in the prior year reflects strong growth in income driven by increasing mortgage balances and the benefit of rising interest rates, partly offset by higher costs.

Reserves: The accumulated profits of the Society over more than 175 years of operation, which provide the capital which helps to maintain the Society's financial strength. These have increased by £3.0m 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 reduced by 0.5 percentage points in the year reflecting the growth in the Society's balance sheet.

Key Financial Performance Indicators 2020-2024

	2020	2021	2022	2023	2024
Mortgage Assets (£m)	334.9	409.2	453.7	496.1	535.5
Mortgage Asset Growth (%)	2.3	22.2	10.9	9.3	8.0
Total Assets (£m)	431.4	525.7	592.8	644.6	740.7
Asset Growth (%)	1.5	21.9	12.8	8.7	14.9
Retail Savings Balances (£m)*	312.1*	368.9*	391.7*	418.2	490.9
Liquidity (%)	23.9	23.3	24.0	22.4	27.9
Net Interest Margin (%)	1.65	1.57	1.72	1.97	2.15
Profit Before Tax (£m)	0.6	0.8	2.4	3.3	4.0
Reserves (£m)	35.0	35.7	37.4	40.1	43.1
Gross Capital (%)	8.9	7.3	6.8	6.7	6.2

All figures are unconsolidated on the basis of materiality.

*Retail Savings Balances is an alternative performance measure which reflects 31 Jan 2020-2022 share balances adjusted to exclude Solicitor Client Accounts following changes to the product Terms and Conditions in April 2022.

DIRECTORS' REPORT

Non-financial key performance indicators

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

- 82% of mortgage borrowers reaching the end of their product incentive period have remained with the Society (2023: 88%).
- 1.10% of mortgage accounts have arrears greater than 1.5% of their mortgage balance (2023: 1.25%).
- The Society achieved a 96.2% overall rating for customer satisfaction (2023: 95.9%).

Regulation and compliance

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

2023-24 has seen a higher level of change than recent years, with the Society taking the necessary steps to meet the new regulatory requirements relating to Consumer Duty by the 31 July 2023 deadline. The Society has also continued to develop its approach to Operational Resilience as well as managing the risks from climate change.

During 2024-25 the Society will implement the changes required to meet the Consumer Duty rules in relation to closed products by the 31 July 2024 deadline, as well as continuing to develop and enhance its approach to operational resilience ahead of the 31 March 2025 regulatory deadline. In addition the Society will take the necessary steps to ensure compliance with Confirmation of Payee rules in relation to payments and consider any appropriate changes arising from the Prudential Regulation Authority's new Small Domestic Deposit-Taker rules in relation to Liquidity and Capital management, in conjunction with potential changes to the regulatory framework arising from pronouncements in relation to Basel 3.1. The Society closely monitors regulatory developments and has plans in place to ensure it is able to implement any changes required.

The Society is required to have regard to the principles laid down in the UK Corporate Governance Code. This is covered in more detail in the separate Corporate Governance Report on pages 30 to 33.

Principal risks and uncertainties

The Society has a risk-aware strategy and maintains a comprehensive Risk Register reflecting the potential impact and likelihood of adverse events, which is regularly reviewed by the Board Risk Committee 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. Our Lending policy 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 and financial crime. Processes and systems are in place to minimise these risks and to maintain our operational resilience.
- **Conduct Risk:** The risk the Society's culture, behaviours, products, services and/or approach to business lead to unfair or inappropriate outcomes for 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 Business Risk:** The risk of loss or reduced earnings due to inappropriate senior management or Board actions caused by unprepared or misjudged strategic decisions, and/or the implementation of those decisions.
- **Climate Change Risk:** This is the risk to the Society arising from climate change which is recognised in terms of both Physical and Transition risks. Physical risks include increased risk of flooding, subsidence and coastal erosion arising from extreme weather events or longer term shifts in climate, impacting on the value of, and longer term ability to insure, mortgaged properties. Transition risks arise from factors such as policy and regulation, and changing customer preferences resulting from the adjustment to a lower carbon economy. The Society is aware of these risks in respect of both credit risk management and strategy, and will continue to develop its risk management approach.

The Society also continues to monitor both national and global events, as well as emerging risks, and consider what, if any, impact these may have on the Society and our members.

Financial risk management objectives and policies

The Board has overall responsibility for ensuring the Society maintains adequate financial resources, both in terms of capital and liquidity, through review and approval of both the Society Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP).

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

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

Capital requirements

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

Stress testing

Stress testing is a risk management tool used by the Society to understand the impact of severe but plausible scenarios on its business performance. Stress testing is an intrinsic part of the ICAAP and ILAAP processes, with the scenarios used in these tests agreed by the Board ahead of the assessments being carried out.

During the year, the Board receives outputs from stress tests on the mortgage portfolio, including the impact of a severe economic downturn including falling house prices, changes to interest rates, and increasing levels of unemployment.

Liquidity stress tests are performed on a regular basis with results reported to the ALCO. These stress tests help identify any shortfalls in the Society's levels of liquidity in a range of scenarios.

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 12 months following the signing of the accounts under normal operating conditions. They have also considered the potential effect on the Society's business, financial position, capital and liquidity under stressed operating conditions, specifically including a severe but plausible stress scenario incorporating the potential impact of the ongoing geopolitical and economic uncertainty resulting in high inflation and volatility in interest rates.

Having reviewed these forecasts alongside the Society's ICAAP and ILAAP documents, 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.

Environment

The Society recognises that climate change is a critical issue at both global and local levels and is committed to making positive progress towards 'Net Zero' in a proportionate way.

During the year, the Society has continued to develop its understanding of the risks posed by climate change. This work will inform the setting of a climate change strategy and the development of its future plans to manage and mitigate these risks. Further detail is included on pages 18 to 21.

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 colleagues and the communities in which we operate. This is articulated in our Corporate Social Responsibility policy and monitored by the Board.

Consumer Duty and Conduct of Business

On 31 July 2023 the Financial Conduct Authority (FCA) introduced the new Consumer Duty regulations. The Duty is designed to raise standards in UK financial services firms and ensure they deliver good outcomes for their retail customers. As a Society we remain committed to delivering good service and outcomes for our members and acting with honesty and integrity in our relationships with members, regulators and the wider community. We seek to continuously review and improve on the high level of service throughout the Society and the many positive aspects already in place.

Donations and Community Support

In January 2023, to coincide with the Society's 175th anniversary, the Society set up a charitable fund to be known as the Scottish Building Society Foundation ('the SBS Foundation'). The fund has been set up in conjunction with Foundation Scotland who will administer the fund. An initial donation of £175,000 was made to the SBS Foundation in January 2023, from which a total of £59,519 has been utilised during the year to provide grants to support charitable purposes across Scotland.

The Society does not make donations for political purposes.

Employee Policies

The Society aims to create an environment in which all employees 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' REPORT

Directors

The following individuals were Directors of the Society during the year to 31 January 2024:

Non-Executive Directors	
Ian Wilson MSc MBA FCBI	Appointed September 2022 and Chair since November 2022
Andrew Hastings B.Admin C.Dir FIB	Appointed July 2019 and Chair of Board Risk Committee since October 2019 Appointed Vice-Chair in May 2022
Sheila Gunn LLB (Hons) Dip LP	Appointed November 2019 and Chair of the Nomination & Governance and Remuneration Committees since July 2022 Appointed Senior Independent Director in July 2022
Kathryn (Karyn) Lamont CA	Appointed May 2018 and Chair of Audit Committee since November 2018
Sean Gilchrist ACBI	Appointed June 2021
Andrew Lee BA (Hons) FCA	Appointed October 2022
Rosemary Hilary BSc (Hons) FCCA	Appointed November 2022
Executive Directors	
Paul Denton MBA FCBI	Chief Executive Officer from July 2019 Chair of Operational Risk Committee since July 2019
Neil Easson BA (Hons) CA	Finance Director from April 2020 Chair of Asset and Liability Committee since January 2019 Chair of Retail Credit Committee since June 2019

Details of the Directors' interests in the Society are disclosed in *Note 29* on page 78. 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

All Directors are choosing to retire and stand for re-election under Rule 26(1) and offer themselves for re-election at the Annual General Meeting (AGM) to be held on 29 May 2024.

Biographies of all current Directors appear on pages 28 & 29.

Colleagues

The Directors would like to thank colleagues for their continued contribution to the Society's success and for the valuable role they played in supporting our members this year.

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 2024 was 27 (2023: 20).

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 AGM to be held on 29 May 2024.

By order of the Board.

Neil Easson
Finance Director
28 March 2024

> "We remain committed to delivering good service and outcomes for our members and acting with honesty and integrity in our relationships with members, regulators and the wider community."

Neil Easson
Finance Director

BOARD OF DIRECTORS

Ian Wilson
Chair

A career Retail Banker, Ian has worked in UK financial services as both an Executive and Non-Executive Director for over 40 years. His focus has primarily been on Risk Management and Strategic Transformations including being part of the founding teams for a number of challenger banks. A Chartered Banker with an MBA from Edinburgh University and an MSc in Marketing, Ian is a Fellow and former Vice President of the Chartered Banker Institute. Currently, Ian is also a Non-Executive Director with Revolut Group and Kompasbank, an SME focused bank in Denmark.

Andrew Hastings
Vice-Chair

Andrew is a Chartered Banker, Fellow of the Institute of Bankers in Ireland, Chartered Director and a Certified Bank Director. After graduating from Dundee University, he began his career in banking with RBS in Ayr and later served as CEO and Country Manager of BNP Paribas Ireland before becoming CEO of Barclays Bank Ireland plc. Andrew is also an Independent Non-Executive Director of Elavon Financial Services DAC. Andrew chairs the Society's Board Risk Committee, is a member of the Nomination & Governance Committee and is the Board Whistleblowing Champion.

Sheila Gunn
Senior Independent Director

Sheila began her career as a lawyer and was a partner at Shepherd & Wedderburn for 12 years. She moved into financial services on her appointment to Ignis Asset Management and was a Non-Executive Director of Airdrie Savings Bank. She has undertaken a range of other non-executive appointments and recently retired as a member of the Accounts Commission. Sheila also chairs the Society's Nomination & Governance Committee and the Remuneration Committee.

Kathryn (Karyn) Lamont

Karyn is a Chartered Accountant and former audit partner at PwC. She has over 30 years of experience and has provided audit and other services to a range of clients across the UK's financial services sector including to a number of banks and building societies. Her specialist knowledge includes financial reporting, audit and controls, risk management, regulatory compliance and governance. Karyn is a member of the Society's Board Risk Committee, the Remuneration Committee and chairs the Audit Committee. She is also a Non-Executive Director at the North American Income Trust plc, the Scottish American Investment Trust plc and iomart Group plc.

Sean Gilchrist

Sean's career spans over 30 years in the financial services industry, with more than 20 years in digital. Sean is currently the CEO of Nomo, a start-up digital bank serving customers from the GCC region in the Middle East. Prior to this he was Chief Digital Officer of the Co-operative Bank leading their transformation to become the "digital ethical bank" and has also worked at both Lloyds and Barclays Banks leading, growing and transforming their digital services across the retail, wealth and corporate banking sectors. Sean is also an advisor to Hanger 75, a California based digital incubator, and is the Society's Board Consumer Duty Champion.

Andrew Lee

Andrew has been a Senior Board Executive in the financial services industry for over 35 years and has served as CEO, CFO and CSO in several institutions which has included Retail Banking, Corporate Banking, Commercial Banking, Asset Finance and Wholesale Funding. Andrew is also a Trustee and Non-Executive Director of both St Andrew's Healthcare and Guy's & St Thomas' Foundation and a Guardian, Warden and Non-Executive of the Birmingham Assay Institution.

Rosemary Hilary

Rosemary's executive career began in retail banking and developed in a number of senior roles at the Bank of England and the Financial Services Authority. She transitioned back into retail banking, with TSB from 2013 to 2016, including as part of the team that led the IPO. Her specialist knowledge includes audit, risk, business model analysis and strategy. Rosemary is also a Non-Executive Director of St James's Place, Vitality Life and Health, and Willis. She is a Trustee of the King's Foundation. Her previous Non-Executive roles include the Pension Protection Fund, Record Currency Management and the homelessness charity Shelter.

Paul Denton
Chief Executive Officer

Paul has more than 30 years' experience in financial services and is a Trustee and Fellow of the Chartered Banker Institute. Paul began his career with the Royal Bank of Scotland holding various senior positions before moving to the Co-operative Bank as Director for Branch, Mortgages and Business Banking. Before joining the Society in June 2019, he was Managing Director, Operations, of the UK's largest funeral business, Co-op Funeralcare. Paul is also a director of Chest Heart and Stroke Scotland and is a member of the FCA Small Business Practitioner Panel.

Neil Easson
Finance Director

Neil is a Chartered Accountant with over 25 years' experience in financial services, having held a range of senior finance positions in Lloyds Banking Group. His role as Finance Director also includes responsibility for the Society's Retail Credit and Product Management teams. Neil joined the Society in January 2019 and was appointed to the Board in April 2020. Neil is Chair of the Society's Asset and Liability Committee and Retail Credit Committee. Neil was appointed as a Non-Executive Director of Museums Galleries Scotland in January 2024.

CORPORATE GOVERNANCE REPORT

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

The Directors are also mindful of the 'Edinburgh Reforms' announced by the Chancellor of the Exchequer in December 2022 which proposed amendments to the Building Societies Act 1986, along with other changes to financial regulation which will impact the Society, including a Private Members' Bill to amend the Building Societies Act 1986, which was introduced on 6 December 2023.

Board leadership and Society purpose

The Board is responsible for ensuring the long-term sustainable success of the Society for its members. It continues to centre strategic objectives around our members, ensures sufficient resources are in place to meet those objectives and monitors performance against them. The Board also ensures the Society operates within an effective risk management framework. As required, under the new Consumer Duty regulations, Sean Gilchrist was appointed as the Society's Consumer Duty Board Champion.

The Board meets regularly with additional meetings as required. In 2023-24 there were eight full formal Board meetings, and also a specific meeting with the Society's Leadership Team to consider future strategy and the Society plan. A table showing details of Directors' attendance during the year in relation to full formal Board and Committee meetings appears on page 33 of this report.

An updated terms of reference for the Board was approved in January 2024. The Board has delegated certain responsibilities to the Committees described below, all of which report to the Board. The Chair of each Committee provides a report at the subsequent Board meeting after each Committee meeting. The terms of reference for the Board and all Board Committees are available on the Society's website.

Membership of Committees is reviewed annually with the aim of leveraging each Director's particular expertise, broadening their knowledge of the Society and to manage succession planning.

Audit Committee: This Committee met on four occasions during the year. The Committee monitors internal controls and financial reporting. It also reviews audit reports, monitors the effectiveness of the internal audit function and approves the annual internal audit plan. It considers and recommends to the Board for approval the appointment or re-appointment of the external auditors, and the policy on the engagement of the external auditors for non-audit services including the approval of their fees. The Committee monitors the external auditors' independence, objectivity, competence and effectiveness. It also ensures that the systems of accounting, business control and management of information are adequate for the Society's needs. Having served for five years, a new senior external audit partner was appointed during the year.

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

The Committee comprises four Non-Executive Directors. Karyn Lamont, who has recent and relevant financial experience, chairs the Committee. In 2023-24 the other members of the Committee were Andrew Hastings, Rosemary Hilary and Andrew Lee. From 1 February 2024, Andrew Hastings stepped down from the Audit Committee and joined the Nomination & Governance Committee. Executive Directors and members of senior management attend by invitation, together with representatives from the internal and external auditors.

Board Risk Committee: The Board Risk Committee met six times in the year. Andrew Hastings chairs the Committee. The other members of the Committee are Karyn Lamont, Sean Gilchrist, Rosemary Hilary and Andrew Lee. Executive Directors, the Chief Risk Officer and members of senior management attend by invitation. The Committee assists the Board in overseeing the Society's risk management and control framework; considers the Board Risk Appetite Statement, supporting metrics and stress testing outputs; and reviews Board policies and key prudential documentation from a risk perspective. The Committee is also responsible for oversight of risk monitoring and assurance, including reviewing the Society's key risk exposures against appetite, trends and concentrations and identifying emerging risks through horizon scanning.

In addition, the Committee oversees the Society's corporate insurance cover, the Society's change programme and regulatory compliance, including the implementation of the new Consumer Duty rules and monitoring the Society's Consumer Duty dashboard evidencing the delivery of good customer outcomes.

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

Nomination & Governance Committee: This Committee reviews Board composition, skills, performance, director elections and succession planning for Board and senior management. In 2023-24 Sheila Gunn chaired the Committee, with the other members of the Committee being Paul Denton, Rosemary Hilary and Andrew Lee. The Committee met four times in the year. Subject to regulatory approval, Ian Wilson will take over as Chair of the Nomination & Governance Committee in 2024, with Sheila Gunn and Andrew Hastings as members.

Remuneration Committee: This Committee is responsible for remuneration policy and for making recommendations to the Board regarding general remuneration and contractual arrangements. In 2023-24 Sheila Gunn chaired the Committee and the other members of the Committee were Rosemary Hilary and Andrew Lee. The Committee met four times in the year. Karyn Lamont became a member of the Remuneration Committee on 1 February 2024.

Further information can be found in the Directors' Remuneration Report on pages 34 & 35.

Culture

The Board monitors and assesses culture through a variety of sources including key performance metrics, feedback from internal and external audit, employee surveys and meeting employees from across the Society.

Engagement with stakeholders

As a mutual organisation the Society does not have 'shareholders' as referred to in the Code, and the Society's saving and borrowing customers are also its members. The Society seeks the views of its members through membership surveys, members' forums, the Society newsletter and the AGM. Members are given the opportunity to ask questions and voice their opinions.

In the normal course of business, the Board chooses not to rely on one of the methods of engagement set out in the Code. Instead the Board engages with employees through a combination of attendance of senior management at Board and Committee meetings, Board attendance at employee off-site events, informal employee feedback sessions and employee surveys. Points of focus identified in employee surveys are addressed by employee focus groups. Given the Society's size, these arrangements are considered to provide an effective alternative.

Whistleblowing

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

Division of responsibilities: Chair and Chief Executive Officer (CEO)

The offices of CEO and Chair are distinct and held by different people. The CEO is responsible for managing the Society's business within the parameters set by the Board. The Chair 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.

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 CEO and Leadership Team. The Non-Executive Directors meet regularly without the Executives present. The Board has appointed a Senior Independent Director, Sheila Gunn, to provide support to the Chair, an alternative route for communication from members and Society colleagues, and to carry out the appraisal of the Chair, taking into account the views of the other Directors.

The Board consists of seven Non-Executive Directors plus the CEO and the Finance Director. Information relating to Directors is set out on pages 28 & 29. The Society's Board has a balance of skills and experience appropriate for the Society and its strategy. Committee membership was refreshed for the beginning of the new financial year, following the completion of an externally facilitated Board Effectiveness Review and in the interest of managing succession.

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, including the Chair, 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.

There are no material business relationships between the Society and firms connected with Directors. No former employees are, or have been, Non-Executive Directors.

CORPORATE GOVERNANCE REPORT

Commitment

The Nomination & Governance 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 Board Chair 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 on page 33. This table does not reflect Directors' attendance at additional ad hoc meetings, seminars, conferences and courses during the year or time spent on preparation for meetings etc. Generally each Non-Executive Director spends a minimum of 2-3 days each month on Society business. The time commitment for the Chair, Vice-Chair and Committee Chairs is considerably more.

Composition, succession and evaluation: Appointments to the Board

The Nomination & Governance Committee is responsible for succession planning for Executive and Non-Executive Directors. As part of the annual evaluation process, the Committee considers the balance of skills and experience required, the requirements of the business, and recommends change where appropriate.

The Society values all aspects of diversity and inclusion 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.

In the event of a Board vacancy, the Nomination & Governance Committee leads the recruitment process with the support of a number of recruitment agencies, although the final decision rests with the Board as a whole. This process is tailored to meet the requirements of each particular vacancy and the method of attracting candidates is adapted depending on the nature of the skills required. The Nomination & Governance Committee remains focused on succession planning for Board and senior management to ensure a diverse pipeline to fill future requirements. This work will continue in the coming year.

As at the date of this report the percentage of women on the full Board is 33% with 43% of the Non-Executive Directors being female. Female representation on the Senior Management Team stands at 25%.

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 such as the Board Chair, Chair of the Board Risk Committee and Chair of the Audit Committee are subject to formal regulatory approval.

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 Chair 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 can seek independent professional advice if required.

Evaluation

The Chair reviews the performance of the CEO and Non-Executive Directors annually. The Chair is evaluated by the Senior Independent Director, taking into account the views of the other Directors.

Board Effectiveness Review

In the autumn of 2023, an externally facilitated Board Effectiveness Review was conducted by Thorburn McAlister. This was the first external Board Effectiveness Review for a number of years. Overall, the Board is pleased to report that the review considers it to be high performing and risk centric with a high overall effectiveness score.

Directors' attendance 2023-24

The table below shows the number of full, formal Board meetings attended by each Director and, for each of the Board Committees, the number of full, formal 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. The total number of meetings does not include the Annual General Meeting.

	Board	Audit Committee	Board Risk Committee	Nomination & Governance Committee	Remuneration Committee
I Wilson	8(8)				
A Hastings	8(8)	4(4)	6(6)		
S Gunn	8(8)			4(4)	4(4)
K Lamont	7(8)	4(4)	6(6)		
S Gilchrist	8(8)		6(6)		
A Lee	8(8)	4(4)	6(6)	3(4)	3(4)
R Hilary	8(8)	4(4)	6(6)	4(4)	4(4)
P Denton	8(8)			4(4)	
N Easson	8(8)				

Re-election

The Society's Rules require that Directors are submitted for election at the AGM following their appointment to the Board. All Directors are required by the Society's Rules to seek re-election if they have not been elected at either of the two previous AGMs. Directors may also submit themselves for re-election voluntarily. In the interests of good governance and having regard to the provisions of the Code, all Directors now stand for election or re-election at every AGM. The Nomination & Governance 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.

Risk management and internal control

The Board is collectively responsible for determining strategies for risk management and internal 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 (design and implementation of internal control framework) including day-to-day focus such as policies, procedures, delegated mandates, and management risk committees.
- second line (advice, oversight and challenge) consisting of the Board Risk Committee, the Chief Risk Officer and the Risk and Compliance Team.
- third line (independent assurance) comprising the Audit Committee and the external and internal auditors.

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

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

Financial and business reporting

The Statement of Directors' Responsibilities on page 36 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 25.

Remuneration

The Directors' Remuneration Report on pages 34 & 35 sets out the remuneration policies for Executive and Non-Executive Directors and explains how this meets the requirements of the Code.

Ian Wilson
Chair
28 March 2024

DIRECTORS' REMUNERATION REPORT

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

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

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

Procedure for developing policy on executive & individual director remuneration

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

The Committee reviews remuneration for Directors 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 Chair, Vice-Chair and Committee Chairs reflect the additional responsibilities of these positions.

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

Executive Directors

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

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

Executive Directors in office as at 31 January 2024 are entitled to receive pension contributions to their private pension arrangements, although depending on their individual circumstances they may be paid a pension replacement amount. Pension contribution rates are aligned with those available to the workforce. Executive Directors also receive a further taxable benefit comprising a Society car, or car allowance.

Service contracts

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

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

Non-Executive Directors

Fees only

	To 31 January 2024	To 31 January 2023
I Wilson (appointed September 2022)	£44,930	£17,915
A Hastings	£36,687	£33,086
S Gunn	£32,100	£29,240
K Lamont	£32,100	£30,368
S Gilchrist	£26,824	£25,376
R Hilary (appointed November 2022)	£26,824	£6,417
A Lee (appointed October 2022)	£26,824	£7,503
R Abbott (retired November 2022)	–	£36,070
J Ogston (retired May 2022)	–	£11,169
M MacKay (retired May 2022)	–	£9,773
Total	**£226,289**	**£206,917**

Executive Directors

To 31 January 2024

	Salary	Bonus	Pension Contributions	Taxable Benefits	Total
P Denton	£261,454	£48,643	£1,277	£13,453	£324,827
N Easson	£164,333	£30,574	£4,930	£5,563	£205,400
Total	**£425,787**	**£79,217**	**£6,207**	**£19,016**	**£530,227**

To 31 January 2023

	Salary	Bonus	Pension Contributions	Taxable Benefits	Total
P Denton	£240,358	£43,469	£7,207	£7,965	£298,999
N Easson	£151,087	£29,049	£4,529	£5,545	£190,210
Total	**£391,445**	**£72,518**	**£11,736**	**£13,510**	**£489,209**

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

Sheila Gunn
Chair, Remuneration Committee
28 March 2024

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.

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 annual accounts (the "annual accounts") give a true and fair view of the state of the Society's affairs as at 31 January 2024 and of the Society's income and expenditure and cash flows for the year then ended;
- the annual accounts 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
- the annual accounts 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 & Accounts (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 January 2024; the Income Statement and the Statement of Other Comprehensive Income, the Cash Flow Statement, and the Statement of Changes in Members' Interests for the year then ended; and the notes to the accounts, which include a description of the significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' 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 2023 to 31 January 2024.

Our audit approach

Overview

Materiality

- £430,000 (2023: £401,260) – Society annual accounts
- Based on 1% of net assets

Scoping

- We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the annual accounts as a whole, taking into account the accounting processes and controls in place.
- Audit procedures were performed over all material account balances and financial information by a single audit team based in the UK.
- 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.

Key audit matters

- Impairment of loans and advances to customers
- Calculation of effective interest rate (EIR)

The scope of our audit

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF SCOTTISH BUILDING SOCIETY

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the annual accounts section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Society/industry, we identified that the principal risks of non-compliance with laws and regulations related to, but are not limited to, breaches of regulations of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the annual accounts. We also considered those laws and regulations that have a direct impact on the annual accounts such as the Building Societies Act 1986. We evaluated management's incentives and opportunities for fraudulent manipulation of the annual accounts (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial performance and management bias in critical accounting estimates. Audit procedures performed included:

- Enquiries of management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Assessment of matters reported on the Society's whistleblowing helpline and the results of management's investigation of such matters;
- Review of internal audit reports throughout the year, in so far as they related to the annual accounts;
- Review of correspondence with, and reports to, the PRA and the FCA;
- Reviewing tax compliance with the involvement of our tax specialists in the audit;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Challenging assumptions and judgements made by management in forming significant accounting estimates; and,
- Identifying and testing higher risk journal entries.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.

Key audit matters

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

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

Impairment of loans and advances to customers

An impairment provision of £675,000 (2023: £592,000) is recognised by the Society against loans and advances to customers. The loans and advances to customers represent mortgages secured against residential property or land.

The total impairment provision comprises individual provisions of £390,000 (2023: £309,000) and collective provision of £285,000 (2023: £283,000). Individual provisions are determined based on loans and advances to customers which meet certain risk criteria (e.g. arrears, bankruptcy) with collective provisions calculated across the remaining portfolio.

The determination of impairment provisions requires the use of several assumptions incorporating a level of judgement, particularly given the low levels of losses experienced historically.

The Society's impairment provision balances are detailed within *Note 12*. Management's associated principal accounting policies are detailed on pages 51 to 52 with detail about judgements in applying accounting policies and critical accounting judgements and estimates on page 52.

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- We obtained an understanding, evaluated and challenged the appropriateness of the key assumptions used in determining impairment provisions.
- We assessed and tested key controls in relation to the approval of impairment provisions by the Retail Credit Committee.
- We performed testing to assess that loans and advances to customers meeting the defined risk criteria had been captured in the assessment of individual provisions.
- We considered the appropriateness of the collective model methodologies, and the relevant judgements and assumptions used in the determination of the modelled provisions for loans and advances to customers.
- We performed sensitivity analysis to assess the impact of adopting different assumptions and other macro-economic factors which could be considered reasonable based on our industry knowledge and experience.
- We reviewed the adequacy of the disclosures in the annual accounts with a specific focus on the disclosure of critical accounting estimates associated with impairment losses.
- To support our evaluation of the key audit matter, we tested the accuracy and completeness of underlying data used in the impairment calculations and the mechanical accuracy of the model, by independently recalculating the impairment provisions for loans and advances to customers.

Based on the procedures performed, we did not identify any exceptions.

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Calculation of effective interest rate (EIR)

The loans and advances to customers of £536m (2023: £496m) presented in the Statement of Financial Position include an EIR adjustment (asset) of £765,000 (2023: £747,000). An EIR adjustment (income) of £17,000 (2023: £268,000) was recorded in the Income Statement for the year ended 31 January 2024.

The recognition of interest receivable using the EIR method requires judgement by management regarding the expected life of mortgage assets.

The Management's associated principal accounting policies are detailed on page 52, with detail about critical accounting judgements and estimation formed, in applying principal accounting policies on page 52.

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- We obtained an understanding of the basis of management's process for recognising interest income using the EIR method and identified the key data input and assumptions within management's calculation.
- We considered and tested the Society's historical experience of redemptions when assessing the estimates of expected lives of mortgage assets.
- We 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.
- In support of our audit of the key audit matter, we tested the accuracy and completeness of underlying data used in the EIR calculations and tested the mechanical accuracy of the model, by independently recalculating the EIR adjustment from supporting data for loans and advances to customers.

Based on the procedures performed, we did not identify any exceptions.

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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 the United Kingdom, 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 by a single audit team based in the UK.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF SCOTTISH BUILDING SOCIETY

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process management adopted to assess the extent of the potential impact of climate risk on the Society's financial statements and support the disclosures made in relation to climate change in the Annual Report & Accounts.

In addition to enquiries with management, we also:

- Read the Society's documented Climate Change Risk Assessment and considered whether it was consistent with information obtained during the audit;
- Considered the exposure of the Society's mortgage portfolio to physical and transition risks by examining the output of assessments performed by management's expert; and
- Considered the consistency of the disclosures in relation to climate change within the Annual Report & Accounts with the financial statements and our knowledge obtained from our audit.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole, or our key audit matters for the year ended 31 January 2024.

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	£430,000 (2023: £401,260)
How we determined it	1% of Net Assets
Rationale for benchmark applied	We consider that Net Assets is the most appropriate benchmark to use for the Society, whose strategy is not one of profit maximisation. Regulatory capital is a key benchmark for management and regulators and hence we continue to use net assets, a Generally Accepted Accounting Principles ('GAAP') proxy to regulatory capital, as our benchmark.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £322,500 (2023: £300,945).

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £21,500 (2023: £20,063) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance, regulatory metrics and the sector in which the Society operates;
- Evaluation of management's going concern assessment, including consideration of the impact of the current economic environment;
- Evaluation of the reasonableness of the Society's forecasts, including liquidity and regulatory capital risk over the going concern period;
- Review of regulatory correspondence and reports provided to governance forums; and
- Evaluation of the appropriateness of the disclosures in the Annual Report & Accounts.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from the date on which the annual accounts are authorised for issue.

In auditing the annual accounts, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the annual accounts is appropriate.

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

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

Reporting on other information

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

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

Based on our work undertaken in the course of the audit, the Building Societies Act 1986 requires us also to report certain opinions and matters as described below.

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 2024 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.

In light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the annual accounts and the audit

Responsibilities of the directors for the annual accounts

As explained more fully in the Statement of Directors' Responsibilities, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 Society 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 members 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 6 years, covering the years ended 31 January 2019 to 31 January 2024.

Heather Varley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
28 March 2024

Accounts

For the year ended 31 January 2024

"As the Society reaches the end of its milestone 175th anniversary year, I am delighted to report another excellent set of results, with strong balance sheet growth and continued profit momentum."

Ian Wilson
Chair

INCOME STATEMENT

for the year ended 31 January 2024

	Note	2024 £000	2023 £000
Interest receivable and similar income	2	**35,797**	19,575
Interest payable and similar charges	3	**(20,923)**	(7,384)
Net interest income		**14,874**	12,191
Fees and commissions receivable		**68**	114
Fees and commissions payable		**(83)**	(61)
Net (losses)/gains from derivative financial instruments	4	**(234)**	152
Total Net Income		**14,625**	12,396
Administrative expenses	5	**(10,179)**	(8,576)
Depreciation and amortisation	15, 16	**(358)**	(345)
Operating Profit before movement in acquired assets, impairment losses and provisions		**4,088**	3,475
Impairment losses on loans and advances	12	**(128)**	(167)
Net increase in value of acquired assets	13	**2**	13
Net Impairment of Land & Buildings	15	**-**	(35)
Operating Profit and Profit before tax		**3,962**	3,286
Tax expense	8	**(982)**	(643)
Profit for the financial year	24	**2,980**	2,643

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 49 to 78 form an integral part of the Accounts.

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 January 2024

	Note	**2024 £000**	2023 £000
Profit for the financial year		**2,980**	2,643
Valuation (losses)/gains taken to reserves	*25*	**(69)**	80
Income tax on other comprehensive (expense)/income	*25*	**17**	(20)
Total comprehensive income for the year		**2,928**	2,703

The accompanying notes on pages 49 to 78 form an integral part of the Accounts.

STATEMENT OF FINANCIAL POSITION

as at 31 January 2024

	Note	**2024 £000**	2023 £000
ASSETS			
Liquid Assets:			
Cash in hand and balances with Bank of England		**162,434**	119,729
Loans and advances to credit institutions	*9*	**9,533**	7,904
Debt securities	*10*	**21,624**	7,017
Derivative financial instruments	*21*	**6,781**	10,850
Loans and advances to customers	*11*	**535,502**	496,061
Investment in subsidiary undertaking	*14*	**-**	-
Tangible fixed assets	*15*	**2,803**	2,295
Intangible assets	*16*	**135**	242
Other assets	*17*	**1,889**	466
TOTAL ASSETS		**740,701**	644,564
LIABILITIES			
Shares	*18*	**490,933**	418,155
Amounts owed to credit institutions	*19*	**51,846**	71,423
Amounts owed to other customers	*20*	**150,152**	111,376
Derivative financial instruments	*21*	**2,035**	939
Other liabilities and accruals	*22*	**2,507**	2,392
Deferred tax liability	*23*	**174**	153
TOTAL LIABILITIES		**697,647**	604,438
RESERVES			
General reserves	*24*	**43,122**	40,142
Available-for-sale reserves	*25*	**(68)**	(16)
Total reserves attributable to members of the Society		**43,054**	40,126
TOTAL RESERVES AND LIABILITIES		**740,701**	644,564

These accounts were approved and authorised for issue by the Board of Directors on 28 March 2024 and were signed on its behalf by:

Ian Wilson
Chair

Paul Denton
Chief Executive

Neil Easson
Finance Director

The accompanying notes on pages 49 to 78 form an integral part of the Accounts.

STATEMENT OF CHANGES IN MEMBERS' INTERESTS

for the year ended 31 January 2024

	General reserves 2024 £000	Available -for-sale reserves 2024 £000	Total 2024 £000	General reserves 2023 £000	Available -for-sale reserves 2023 £000	Total 2023 £000
As at 1 February	**40,142**	**(16)**	**40,126**	37,499	(76)	37,423
Total Comprehensive income for the year						
Profit for the financial year	**2,980**	**-**	**2,980**	2,643	–	2,643
Other comprehensive (expense)/income (see *Note 25*)	**-**	**(52)**	**(52)**	–	60	60
Total comprehensive income for the year	**2,980**	**(52)**	**2,928**	2,643	60	2,703
As at 31 January	**43,122**	**(68)**	**43,054**	40,142	(16)	40,126

The accompanying notes on pages 49 to 78 form an integral part of the Accounts.

CASH FLOW STATEMENT

for the year ended 31 January 2024

	2024 £000	2023 £000
Cash flows from operating activities		
Profit before tax	**3,962**	3,286
Adjustments for		
Depreciation, amortisation and impairment	**358**	380
Loss on disposal of fixed assets	**2**	3
Increase in impairment of loans and advances	**128**	167
Total	**4,450**	3,836
Changes in operating assets and liabilities		
Decrease/(Increase) in other assets	**2,646**	(7,584)
Increase in other liabilities and accruals	**1,031**	1,899
(Increase) in loans and advances to customers incl. fair value hedge adjustment	**(39,569)**	(42,578)
Increase/(Decrease) in shares	**72,778**	(45,745)
Increase in amounts owed to credit institutions and other customers	**19,199**	92,855
(Increase)/Decrease in loans and advances to credit institutions	**–**	–
Taxation paid	**(764)**	(617)
Net cash flows from operating activities	**55,321**	(1,770)
Cash flows from investing activities		
Purchase of debt securities	**(14,676)**	–
Sale and maturity of debt securities	**–**	15,202
Purchase of tangible fixed assets	**(752)**	(247)
Disposal of tangible fixed assets	**1**	–
Purchase of intangible assets	**(10)**	(47)
Net cash flows from investing activities	**(15,437)**	14,908
Net Increase/(decrease) in cash and cash equivalents	**44,334**	16,974

	2023 £000	Cash Flows £000	2024 £000
Cash and cash equivalents			
Cash in hand and balances with the Bank of England	**119,729**	**42,705**	**162,434**
Loans and advances to credit institutions – repayable on demand	**7,904**	**1,629**	**9,533**
Loans and advances to credit institutions – less than 3 months maturity	**–**	**–**	**–**
	127,633	**44,334**	**171,967**

	2022 £000	Cash Flows £000	2023 £000
Cash in hand and balances with the Bank of England	105,786	13,943	119,729
Loans and advances to credit institutions – repayable on demand	4,873	3,031	7,904
Loans and advances to credit institutions – less than 3 months maturity	–	–	–
	110,659	16,974	127,633

The accompanying notes on pages 49 to 78 form an integral part of the Accounts.

NOTES TO THE ACCOUNTS

1. Principal Accounting Policies

Basis of preparation

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

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

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

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

Accounting convention

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

Consolidation

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

Interest

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

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

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

Interest income and expense presented in the Income Statement and Statement of Other Comprehensive Income includes:

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

Fees and commission

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

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

Leases

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

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

Rental charges under operating leases are charged to the Income Statement evenly over the life of the lease.

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 the Statement of Other Comprehensive Income, in which case it is recognised directly in the 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.

NOTES TO THE ACCOUNTS

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 advances*

'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 the Statement of Other Comprehensive Income and presented in the available-for-sale reserve within reserves. When the investment is sold, the gain or loss accumulated in equity is reclassified to the Income Statement.

- *At fair value through profit and loss*

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

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

- *Held to maturity*

There are no financial assets held to maturity.

Fair value hedges

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

The fair value of the Society's derivative financial instruments is measured against the Sterling Overnight Index Average ("SONIA") interest rate as the appropriate benchmark.

Financial liabilities

The Society classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or, in the case of derivative financial instruments, at 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 3-month 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 an individual and 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 (less than £5,000) 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 current 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.

NOTES TO THE ACCOUNTS

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 a period of up to 5 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 to which they relate.

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 those estimated by 100%, the impairment provisions on loans and advances would change by an estimated £285,000.

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 one month increase in the total mortgage life would result in an increase in the value of loans on the Statement of Financial Position by approximately £690,000.

2. Interest receivable and similar income

	2024 £000	2023 £000
On loans fully secured on residential property	**22,792**	15,221
On other loans	**496**	438
Net Income on derivatives designated in hedging relationships	**5,607**	1,629
Net Income on derivatives designated as fair value through profit and loss	**511**	177
On debt securities:		
– interest and other income	**690**	165
On other liquid assets:		
– interest and other income	**5,701**	1,945
	35,797	19,575

Included within loans fully secured on residential property is £116,073 (2023: £58,875) in respect of interest income on impaired loans.

3. Interest payable and similar charges

	2024 £000	2023 £000
On shares held by individuals	**15,381**	5,487
On other shares	**6**	2
On deposits and other borrowings	**5,536**	1,895
	20,923	7,384

4. Net (losses)/gains from derivative financial instruments

	2024 £000	2023 £000
Derivatives in designated fair value hedge relationships	**(5,261)**	6,779
Adjustment to hedged items in fair value hedge accounting relationships	**5,237**	(6,740)
Derivatives not in designated fair value hedge relationships	**(210)**	113
	(234)	152

NOTES TO THE ACCOUNTS

5. Administrative expenses

	2024 £000	2023 £000
Staff costs	**6,057**	5,008
Other expenses, including restructuring costs	**4,122**	3,568
Administrative expenses	**10,179**	8,576

Included in other expenses are the following charges:		
– Property leasing costs	**134**	47
– Remuneration of auditors (excl. VAT):		
Audit of the Annual Accounts under FRS 102	**99**	92
Audit related services	**-**	-

Auditors remuneration includes £1,500 in relation to the audit of Country-by-Country Reporting information (2023: £1,500).

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	
	2024	2023	**2024**	2023
Head Office	**54**	52	**7**	4
Relationship Centres/Distribution	**28**	26	**9**	9
	82	78	**16**	13

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

	2024 £000	2023 £000
Wages and salaries	**5,083**	4,198
Social security costs	**515**	440
Pension costs	**459**	370
	6,057	5,008

7. Directors' remuneration

Individual Directors' remuneration of £756,516 (2023: £696,126) is detailed in the Directors' Remuneration Report on pages 34 & 35.

8. Tax expense

	2024 £000	2023 £000
Current Tax		
Corporation tax charge for the year at 24.03% (2023: 19.00%)	**996**	678
Adjustment in respect of prior year	**(52)**	(3)
Total current tax charge for the year	**944**	675
Deferred tax		
Deferred tax charge/(credit) for the year *(Note 23)*	**38**	(32)
Total tax charge for the year	**982**	643

Current tax has been provided at the rate of 24.03%. For the year ended 31 January 2024 deferred tax was provided at a rate of 25% being the rate substantively enacted at the balance sheet date.

The tax assessed for the year differs from the statutory rate of corporation tax in the UK of 25%; the differences are explained below:

	2024 £000	2023 £000
Profit on ordinary activities before taxation	**3,962**	3,286
Profit on ordinary activities multiplied by the statutory rate of corporation tax of 24.03% (2023: 19.00%)	**952**	624
Effects of:		
Expenses not deductible for corporation tax purposes	**31**	37
Income not taxable	**(1)**	(7)
Effect of change of tax rate on deferred tax	**(1)**	(8)
Adjustment in respect of prior year	**1**	(3)
Total tax charge for the year	**982**	643

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

	Current tax 2024 £000	Deferred tax 2024 £000	Total tax 2024 £000	Current tax 2023 £000	Deferred tax 2023 £000	Total tax 2023 £000
Recognised in income statement	**944**	**38**	**982**	675	(32)	643
Recognised in other comprehensive income	**–**	**(17)**	**(17)**	–	20	20
Total Tax	**944**	**21**	**965**	675	(12)	663

A tax credit of £17,000 (2023: charge of £20,000) has been recognised in the available-for-sale reserves.

NOTES TO THE ACCOUNTS

9. Loans and advances to credit institutions

	2024 £000	2023 £000
Accrued interest	–	–
Repayable on demand	9,533	7,904
In not more than three months	–	–
In more than three months but not more than one year	–	–
Non-defined maturity	–	–
	9,533	7,904

10. Debt securities

	2024 £000	2023 £000
Floating rate notes	7,063	7,017
UK Treasury Gilts	14,561	–
	21,624	7,017
Debt securities have remaining maturities as follows:		
Accrued interest	103	34
In not more than one year	16,587	–
In more than one year	4,934	6,983
	21,624	7,017
Transferable debt securities comprise:		
Listed	22,010	7,009
Unlisted	–	–
Unamortised premia	(386)	8
	21,624	7,017
Market Value of listed debt securities	21,624	7,017
Movements during the year of debt securities:		
At 1 February	7,017	22,139
Additions	14,294	–
Disposals and maturities	–	(15,000)
Accrued interest	69	(77)
Amortisation	313	(125)
Net (losses)/gains from changes in fair value recognised in other comprehensive income	(69)	80
As at 31 January	21,624	7,017

11. Loans and advances to customers

	2024 £000	2023 £000
Loans fully secured on residential property	**535,335**	498,906
Loans fully secured on land	**6,071**	7,334
Fair value adjustment for hedged risk	**(5,904)**	(10,179)
	535,502	496,061

Maturity Analysis

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

	2024 £000	2023 £000
On call and at short notice	**1,187**	1,128
In not more than three months	**4,110**	4,374
In more than three months but not more than one year	**13,260**	13,313
In more than one year but not more than five years	**81,956**	79,622
In more than five years	**435,664**	398,216
	536,177	496,653
Less allowance for impairment *(Note 12)*	**(675)**	(592)
	535,502	496,061

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

The Society has pledged as collateral £70.5m (2023 £85.7m) of mortgages to the Bank of England under the Term Funding Scheme with additional incentives for SMEs (TFSME).

NOTES TO THE ACCOUNTS

12. Allowance for impairment on loans and advances

	Individual Impairment 2024 £000	Collective Impairment 2024 £000	Total 2024 £000
Loans fully secured on residential property:			
At 1 February	**309**	**283**	**592**
Amounts written off during the year, net of recoveries	**(45)**	**–**	**(45)**
Charge for the year	**126**	**2**	**128**
As at 31 January	**390**	**285**	**675**

	Individual Impairment 2023 £000	Collective Impairment 2023 £000	Total 2023 £000
Loans fully secured on residential property:			
At 1 February	178	250	428
Amounts written off during the year, net of recoveries	(3)	–	(3)
Charge for the year	134	33	167
As at 31 January	309	283	592

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:

	2024 £000	2023 £000
Further impairment of acquired assets	**–**	–
Increase in value of acquired assets	**2**	13
	2	13

14. Investment in subsidiary undertaking

During the year, the Society had a 100% (2023: 100%) holding of the ordinary share capital in its sole subsidiary, SBS Mortgages Ltd, a company incorporated in Scotland under the Companies Act. The subsidiary company was dormant for the full year to 31 January 2024 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 2024, SBS Mortgages Ltd had Share Capital of £1. The Society has elected not to consolidate the financial results on the basis of materiality.

15. Tangible fixed assets

	Land & Buildings Freehold 2024 £000	Land & Buildings Short Leasehold 2024 £000	Office Equipment 2024 £000	Motor Vehicles 2024 £000	Total 2024 £000
Cost					
As at 1 February	2,340	316	1,028	76	3,760
Additions	3	390	308	51	752
Disposals	(3)	-	(37)	(20)	(60)
As at 31 January	2,340	706	1,299	107	4,452
Accumulated depreciation					
As at 1 February	755	109	559	42	1,465
Charged in year	38	59	116	28	241
Impairment	-	-	-	-	-
Disposals	(1)	-	(36)	(20)	(57)
As at 31 January	792	168	639	50	1,649
Net book value					
As at 31 January	1,548	538	660	57	2,803

NOTES TO THE ACCOUNTS

15. Tangible fixed assets (continued)

	Land & Buildings Freehold 2023 £000	Land & Buildings Short Leasehold 2023 £000	Office Equipment 2023 £000	Motor Vehicles 2023 £000	Total 2023 £000
Cost					
As at 1 February	2,340	316	1,346	90	4,092
Additions	–	–	247	–	247
Disposals	–	–	(565)	(14)	(579)
As at 31 January	2,340	316	1,028	76	3,760
Accumulated depreciation					
As at 1 February	673	76	1,021	24	1,794
Charged in year	47	33	103	29	212
Impairment	35	–	–	–	35
Disposals	–	–	(565)	(11)	(576)
As at 31 January	755	109	559	42	1,465
Net book value					
As at 31 January	1,585	207	469	34	2,295

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

	2024 £000	2023 £000
As at 31 January	**1,548**	1,585

The net book value of motor vehicles includes an amount of £57,000 (2023: £34,000) in respect of assets held under finance leases.

Depreciation charged in the year on these assets amounted to £28,000 (2023: £29,000).

Property is subject to external valuation when management/directors believe factors have occurred which could impact on the carrying value of property assets. In giving consideration to the future use of the Society's Head Office and Relationship Centre premises, an independent valuation was carried out on 21 November 2022. As a result of the valuation provided, and considering the future use of the Head Office premises and the Relationship Centres, the carrying value of the Society's Head Office was revised upward from £817,000 to £923,000 in the year to 31 January 2023, while the Aberdeen and Inverness Relationship Centres were impaired by £141,000 in the year to 31 January 2023 from £681,000 to £540,000. The Directors consider these valuations to be an appropriate carrying value for the premises at 31 January 2024. Further details of the net impairment charge are as per the table below:

	2024 £000	2023 £000
Impairment of Relationship Centres	**-**	(141)
Reversal of previous Head Office impairment	**-**	106
	-	(35)

15. Tangible fixed assets (continued)

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 2024 £000	Computer Software 2023 £000
Cost		
As at 1 February	**1,151**	1,104
Additions	**10**	47
Disposals	**-**	–
As at 31 January	**1,161**	1,151
Accumulated amortisation		
As at 1 February	**909**	776
Charged in year	**117**	133
Disposals	**-**	–
As at 31 January	**1,026**	909
Net book value		
As at 31 January	**135**	242

17. Other assets

	2024 £000	2023 £000
Prepayments and accrued income	**1,884**	466
Other Debtors	**5**	–
	1,889	466

Prepayments and accrued income includes balances relating to the implementation of software provided under contractual arrangements as a service but not under the full ownership or control of the Society. These balances are amortised over the duration of the related contract.

NOTES TO THE ACCOUNTS

18. Shares

	2024 £000	2023 £000
a) Held by individuals	**490,757**	418,027
Other shares	**176**	128
	490,933	418,155
b) Repayable from the date of the Financial Statements in the ordinary course of business as follows:		
Accrued interest	**11,504**	4,307
On demand	**275,739**	276,363
In not more than three months	**45,465**	26,677
In more than three months but not more than one year	**78,511**	54,141
In more than one year but not more than five years	**79,714**	56,667
	490,933	418,155

19. Amounts owed to credit institutions

	2024 £000	2023 £000
Repayable from the date of the Financial Statements in the ordinary course of business as follows:		
Accrued interest	**295**	203
On demand	**5,551**	10,720
In not more than three months	**2,000**	–
In more than three months but not more than one year	**4,000**	500
In more than one year but not more than five years	**40,000**	60,000
	51,846	71,423

Included in the amounts above for 2024 is £40m (2023: £60m) borrowed from the Bank of England under the Term Funding Scheme with additional incentives for SMEs (TFSME).

On demand includes £5.6m of cash collateral received from swap counterparties under Bilateral Credit Support Annexes (2023: £10.7m), the duration of which is subject to movements in the fair value of interest rate swaps.

20. Amounts owed to other customers

	2024 £000	2023 £000
Repayable from the date of the Financial Statements in the ordinary course of business as follows:		
Accrued interest	**113**	35
Repayable on demand	**147,039**	108,341
In not more than three months	**3,000**	3,000
In more than three months but not more than one year	**–**	–
	150,152	111,376

21. Derivative financial instruments

	Assets 2024 £000	**Liabilities 2024 £000**	Assets 2023 £000	Liabilities 2023 £000
Derivatives designated as fair value hedges:				
Interest rate swaps	**6,738**	**(1,960)**	10,672	(939)
Derivatives designated as fair value through profit and loss:				
Interest rate swaps	**43**	**(75)**	178	–
As at 31 January	**6,781**	**(2,035)**	10,850	(939)

At 31 January 2024 the Society held £5.6m cash collateral in respect of derivative contracts (2023: £10.7m).

22. Other liabilities and accruals

	2024 £000	2023 £000
Other Liabilities		
Corporation tax	**403**	222
Finance leases *(Note 28)*	**51**	32
Other creditors	**1,105**	1,771
Accruals and deferred income	**948**	367
	2,507	2,392

NOTES TO THE ACCOUNTS

23. Deferred tax liability

	2024 £000	2023 £000
Provided:		
Timing differences between capital allowances and depreciation	**199**	162
FRS 102 transitional adjustments	**(1)**	(2)
Recognised in other comprehensive income	**(23)**	(6)
Other timing differences	**(1)**	(1)
	174	153
As at 1 February	**153**	165
Deferred tax charge/(credit) for the financial year *(Note 8):*		
– Income Statement	**38**	(32)
Deferred tax (credit)/charge for the financial year *(Note 8):*		
– other comprehensive income	**(17)**	20
As at 31 January	**174**	153

24. General reserves

	2024 £000	2023 £000
As at 1 February	**40,142**	37,499
Profit for the year	**2,980**	2,643
As at 31 January	**43,122**	40,142

25. Available-for-sale reserves

	2024 £000	2023 £000
As at 1 February	**(16)**	(76)
Valuation (losses)/gains recognised directly in other comprehensive income net of tax	**(52)**	60
As at 31 January	**(68)**	(16)

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

26. Financial instruments

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

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

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

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

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

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

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.

NOTES TO THE ACCOUNTS

26. Financial instruments (continued)

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 2024	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	-	162,434	-	-	-	162,434
Loans and advances to credit institutions	9,533	-	-	-	-	9,533
Debt securities	-	-	21,624	-	-	21,624
Derivative financial instruments	-	-	-	6,738	43	6,781
Loans and advances to customers	535,502	-	-	-	-	535,502
Other assets	-	4,827	-	-	-	4,827
	545,035	167,261	21,624	6,738	43	740,701
Financial liabilities and reserves						
Shares	-	490,933	-	-	-	490,933
Amounts owed to credit institutions	-	51,846	-	-	-	51,846
Amounts owed to other customers	-	150,152	-	-	-	150,152
Derivative financial instruments	-	-	-	1,960	75	2,035
Other liabilities	-	2,681	-	-	-	2,681
Reserves	-	43,054	-	-	-	43,054
	-	738,666	-	1,960	75	740,701

26. Financial instruments (continued)

Carrying values by category as at 31 January 2023	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	–	119,729	–	–	–	119,729
Loans and advances to credit institutions	7,904	–	–	–	–	7,904
Debt securities	–	–	7,017	–	–	7,017
Derivative financial instruments	–	–	–	10,672	178	10,850
Loans and advances to customers	496,061	–	–	–	–	496,061
Other assets	–	3,003	–	–	–	3,003
	503,965	122,732	7,017	10,672	178	644,564
Financial liabilities and reserves						
Shares	–	418,155	–	–	–	418,155
Amounts owed to credit institutions	–	71,423	–	–	–	71,423
Amounts owed to other customers	–	111,376	–	–	–	111,376
Derivative financial instruments	–	–	–	939	–	939
Other liabilities	–	2,545	–	–	–	2,545
Reserves	–	40,126	–	–	–	40,126
	–	643,625	–	939	–	644,564

Loans and advances to customers in the above table includes a £5.9m liability (2023: £10.2m 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 £14.4m (2023: £31.5m) measured at cost less impairment.

NOTES TO THE ACCOUNTS

26. Financial instruments (continued)

Valuation of financial instruments carried at fair value

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

Valuation techniques

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

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

Level 2 These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists and quoted prices are available for similar instruments in active markets. The Society's Level 2 portfolio comprises interest rate swaps. The valuation of interest rate swaps is based on the 'present value' method. Expected interest cash flows are discounted using the prevailing SONIA yield curve. The yield curve is 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 2024				
Financial assets				
Debt securities	**21,624**	**–**	**–**	**21,624**
Derivative financial instruments	**–**	**6,781**		**6,781**
	21,624	**6,781**	**–**	**28,405**
Financial liabilities				
Derivative financial instruments	**–**	**2,035**	**–**	**2,035**
	–	**2,035**	**–**	**2,035**
31 January 2023				
Financial assets				
Debt securities	7,017	–	–	7,017
Derivative financial instruments	–	10,850	–	10,850
	7,017	10,850	–	17,867
Financial liabilities				
Derivative financial instruments	–	939	–	939
	–	939	–	939

26. Financial instruments (continued)

Credit Risk

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

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

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

	2024 £000	2023 £000
Cash in hand and with Bank of England	**162,434**	119,729
Loans and advances to credit institutions	**9,533**	7,904
Debt securities	**21,624**	7,017
Derivative financial instruments	**6,781**	10,850
Loans and advances to customers	**535,502**	496,061
Total Statement of Financial Position exposure	**735,874**	641,561
Statement of Financial Position exposure commitments	**14,404**	31,472

Credit quality analysis of loans and advances to credit institutions, debt securities and derivative financial instruments

	AAA £000	**AA- £000**	**A+ £000**	**Total £000**
31 January 2024				
Loans and advances to credit institutions	**-**	**-**	**9,533**	**9,533**
Debt securities	**7,063**	**14,561**	**-**	**21,624**
Derivative financial instruments	**-**	**-**	**6,781**	**6,781**
	7,063	**14,561**	**16,314**	**37,938**
31 January 2023				
Loans and advances to credit institutions	-	-	7,904	7,904
Debt securities	7,017	-	-	7,017
Derivative financial instruments	-	-	10,850	10,850
	7,017	-	18,754	25,771

NOTES TO THE ACCOUNTS

26. Financial instruments (continued)

Credit Risk (continued)

Credit quality analysis of loans and advances to customers

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

	2024			2023		
	Loans fully secured on residential property £000	**Loans fully secured on land £000**	**Other loans £000**	Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000
Neither past due nor impaired	**523,642**	**6,071**	**-**	483,207	7,334	–
Past due but not impaired						
30 – 60 days	**1,020**	**-**	**-**	900	–	–
60 – 90 days	**915**	**-**	**-**	647	–	–
90 – 180 days	**1,271**	**-**	**-**	1,147	–	–
180 days+	**1,541**	**-**	**-**	1,987	–	–
	4,747	**-**	**-**	4,681	–	–
Individually impaired						
Not past due	**181**	**-**	**-**	219	–	–
30 – 60 days	**-**	**-**	**-**	–	–	–
60 – 90 days	**342**	**-**	**-**	–	–	–
90 – 180 days	**435**	**-**	**-**	530	–	–
180 days+	**759**	**-**	**-**	560	–	–
Possession	**-**	**-**	**-**	122	–	–
	1,717	**-**	**-**	1,431	–	–
Allowance for impairment						
Individual	**(390)**	**-**	**-**	(309)	–	–
Collective	**(285)**	**-**	**-**	(283)	–	–
Total allowance for impairment	**(675)**	**-**	**-**	(592)	–	–

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

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 following table 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.

26. Financial instruments (continued)

Credit Risk (continued)

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.

	2024 £000	2023 £000
LTV		
Less than 50%	**239,412**	228,175
51%-70%	**168,791**	149,290
71%-90%	**117,790**	109,370
91%-100%	**10,184**	9,818
More than 100%	**-**	-
As at 31 January	**536,177**	496,653

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 restructuring 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:

	2024	2023
Temporary payment reductions	**1**	1
Payment plans	**19**	18
Capitalisations	**-**	-
Mortgage term extensions	**-**	-
	20	19

NOTES TO THE ACCOUNTS

26. Financial instruments (continued)

Liquidity Risk

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

The Society's policy is to maintain sufficient funds in a liquid form at all times to ensure that the Society can meet its liabilities as they fall due. The objective of liquidity is to help smooth mismatches 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 2024	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	162,348	-	-	-	-	86	162,434
Loans and advances to credit institutions	9,533	-	-	-	-	-	9,533
Debt securities	-	-	16,587	4,934	-	103	21,624
Derivative financial instruments	-	43	344	6,360	34	-	6,781
Loans and advances to customers	1,187	4,110	13,260	81,956	435,664	(675)	535,502
Other assets	-	-	-	-	-	4,827	4,827
	173,068	4,153	30,191	93,250	435,698	4,341	740,701
Financial liabilities and reserves							
Shares	275,739	45,465	78,511	79,714	-	11,504	490,933
Amounts owed to credit institutions	5,551	2,000	4,000	40,000	-	295	51,846
Amounts owed to other customers	147,039	3,000	-	-	-	113	150,152
Derivative financial instruments	-	-	-	2,029	6	-	2,035
Other liabilities	-	-	-	-	-	2,681	2,681
Reserves	-	-	-	-	-	43,054	43,054
	428,329	50,465	82,511	121,743	6	57,647	740,701

26. Financial instruments (continued)

Liquidity Risk (continued)

As at 31 January 2023	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	119,647	–	–	–	–	82	119,729
Loans and advances to credit institutions	7,904	–	–	–	–	–	7,904
Debt securities	–	–	–	6,983	–	34	7,017
Derivative financial instruments	–	74	997	9,779	–	–	10,850
Loans and advances to customers	1,128	4,374	13,313	79,622	398,216	(592)	496,061
Other assets	–	–	–	–	–	3,003	3,003
	128,679	4,448	14,310	96,384	398,216	2,527	644,564
Financial liabilities and reserves							
Shares	276,363	26,677	54,141	56,667	–	4,307	418,155
Amounts owed to credit institutions	10,720	–	500	60,000	–	203	71,423
Amounts owed to other customers	108,341	3,000	–	–	–	35	111,376
Derivative financial instruments	–	–	–	939	–	–	939
Other liabilities	–	–	–	–	–	2,545	2,545
Reserves	–	–	–	–	–	40,126	40,126
	395,424	29,677	54,641	117,606	–	47,126	644,564

NOTES TO THE ACCOUNTS

26. Financial instruments (continued)

Liquidity Risk (continued)

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

As at 31 January 2024	**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	**275,739**	**45,465**	**78,511**	**79,714**	**-**	**479,429**
Amounts owed to credit institutions	**5,551**	**2,000**	**4,000**	**40,000**	**-**	**51,551**
Amounts owed to other customers	**147,039**	**3,000**	**-**	**-**	**-**	**150,039**
	428,329	**50,465**	**82,511**	**119,714**	**-**	**681,019**

As at 31 January 2023	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	276,363	26,677	54,141	56,667	–	413,848
Amounts owed to credit institutions	10,720	–	500	60,000	–	71,220
Amounts owed to other customers	108,341	3,000	–	–	–	111,341
	395,424	29,677	54,641	116,667	–	596,409

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

26. Financial instruments (continued)

Market Risk

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

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

The table below summarises these re-pricing mismatches as at 31 January 2024. 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 2024	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:	178,889	9,579	4,934	-	189	193,591
Cash in hand with Bank of England	162,348	-	-	-	86	162,434
Loans and advances to credit institutions	9,533	-	-	-	-	9,533
Debt securities	7,008	9,579	4,934	-	103	21,624
Derivative financial instruments	-	-	-	-	6,781	6,781
Loans and advances to customers	268,096	44,251	228,506	-	(5,351)	535,502
Tangible fixed assets	-	-	-	-	2,803	2,803
Intangible fixed assets	-	-	-	-	135	135
Other assets	-	-	-	-	1,889	1,889
	446,985	53,830	233,440	-	6,446	740,701
Financial liabilities						
Shares	321,204	78,511	79,714	-	11,504	490,933
Amounts owed to credit institutions	47,551	4,000	-	-	295	51,846
Amounts owed to other customers	150,039	-	-	-	113	150,152
Derivative financial instruments	-	-	-	-	2,035	2,035
Other liabilities and accruals	-	-	-	-	2,681	2,681
Reserves	-	-	-	-	43,054	43,054
	518,794	82,511	79,714	-	59,682	740,701
Notional amount of interest rate swaps	185,300	(19,300)	(161,000)	(5,000)	-	-
Interest rate sensitivity gap	113,491	(47,981)	(7,274)	(5,000)	(53,236)	-
Cumulative Gap	113,491	65,510	58,236	53,236	-	

NOTES TO THE ACCOUNTS

26. Financial instruments (continued)

Market Risk (continued)

As at 31 January 2023	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:	134,534	–	–	–	116	134,650
Cash in hand with Bank of England	119,647	–	–	–	82	119,729
Loans and advances to credit institutions	7,904	–	–	–	–	7,904
Debt securities	6,983	–	–	–	34	7,017
Derivative financial instruments	–	–	–	–	10,850	10,850
Loans and advances to customers	207,246	76,210	222,425	–	(9,820)	496,061
Tangible fixed assets	–	–	–	–	2,323	2,323
Intangible fixed assets	–	–	–	–	214	214
Other assets	–	–	–	–	466	466
	341,780	76,210	222,425	–	4,149	644,564
Financial liabilities						
Shares	303,041	54,141	56,667	–	4,306	418,155
Amounts owed to credit institutions	70,720	500	–	–	203	71,423
Amounts owed to other customers	111,341	–	–	–	35	111,376
Derivative financial instruments	–	–	–	–	939	939
Other liabilities and accruals	–	–	–	–	2,545	2,545
Provision for liabilities	–	–	–	–	–	–
Reserves	–	–	–	–	40,126	40,126
	485,102	54,641	56,667	–	48,154	644,564
Notional amount of interest rate swaps	205,400	(41,800)	(163,600)	–	–	–
Interest rate sensitivity gap	62,078	(20,231)	2,158	–	(44,005)	–
Cumulative Gap	62,078	41,847	44,005	44,005	–	

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 £1,100,000 for one year (2023: £744,000).

27. Capital structure

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

At the year end the ratio of gross capital as a percentage of total shares and deposit liabilities was 6.21% (2023: 6.67%) and free capital was 5.83% (2023: 6.30%).

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.

As at 31 January 2024, the Society's Total Capital Requirement (TCR) was 8% of Risk Weighted Assets (RWAs) plus regulatory capital buffers. The Society's capital resources were as outlined below:

	Note	**2024 £000**	2023 £000
Common Equity Tier 1 Capital			
General reserves	*24*	**43,122**	40,142
Available for sale reserve	*25*	**(68)**	(16)
Prudent valuation adjustment		**(22)**	(7)
Intangible assets	*16*	**(135)**	(242)
Total common equity tier 1 capital		**42,897**	39,877
Tier 2 Capital			
Collective provision	*12*	**285**	283
Total regulatory capital		**43,182**	40,160

28. Guarantees and other financial commitments

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

	2024 £000	2023 £000
Within one year	**145**	50
Between one and five years	**665**	13
More than five years	**441**	–
	1,251	63

NOTES TO THE ACCOUNTS

28. Guarantees and other financial commitments (continued)

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

	2024 £000	2023 £000
Within one year	**20**	23
Between one and five years	**32**	9
More than five years	**-**	-
	52	32

29. Related parties

Key management personnel remuneration

Remuneration of the key management personnel, who are not Executive Directors, for the year was: £1,453,000 (2023: £1,145,000).

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:

	2024 Number	**£000**	2023 Number	£000
Loans and advances to customers	**4**	**626**	3	487
Deposits and share accounts	**39**	**597**	34	274

The aggregate amount outstanding at 31 January 2024 in respect of loans, transactions and arrangements made by the Society to Directors or persons connected with a Director was £467,379 (2023: £323,058) comprising secured mortgages to family members of two Directors at normal commercial rates and under the Society's standard terms and conditions.

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

30. Post balance sheet subsequent events

The Directors do not consider that there have been any events since the year-end that have a material effect on the financial position of the Society as at 31 January 2024.

31. Registered office

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

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

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

COUNTRY-BY-COUNTRY REPORTING

Independent auditors' report to the directors of Scottish Building Society

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 2024 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 2024 in the Country-by-Country Report.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Emphasis of matter – basis of preparation

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

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance, regulatory metrics and the sector in which the Society operates;
- Evaluation of management's going concern assessment, including consideration of the impact of the current economic environment;
- Evaluation of the reasonableness of the Society's forecasts, including liquidity and regulatory capital over the going concern period;
- Review of regulatory correspondence and reports provided to governance forums; and
- Evaluation of the appropriateness of the disclosures in the Annual Report & Accounts.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

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

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

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 81, 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 and accounting policies in the Country-by-Country Report to the country-by-country information, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

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

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

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

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

COUNTRY-BY-COUNTRY REPORTING

Independent auditors' report to the directors of Scottish Building Society

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.

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

Based on our understanding of the Society and its industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory principles, such as those governed by the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA'), and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries to manipulate financial performance and the application of management bias in significant accounting estimates. Audit procedures performed included:

- Enquiries of management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Assessment of matters reported on the Society's whistleblowing helpline and the results of management's investigation of such matters;
- Review of internal audit reports throughout the year, in so far as they related to the annual accounts;
- Review of correspondence with, and reports to, the PRA and the FCA;
- Reviewing tax compliance with the involvement of our tax specialists in the audit;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Challenging assumptions and judgements made by management in forming significant accounting estimates; and,
- Identifying and testing higher risk journal entries.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. 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.

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

Use of this report

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

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
28 March 2024

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 2024 in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013. In preparing the CBCR information, the Directors are responsible for:

- interpreting the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013;
- determining the acceptability of the basis of preparation of the CBCR information set out on page 79;
- 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.

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 2024 were:

	2024 **£000**	2023 £000
Total operating income	**14,625**	12,396
Profit before tax	**3,962**	3,286
Tax paid in year	**764**	617
Public subsidies received	**-**	-
Average number of employees on FTE basis	**92**	81

The country-by-country information has been prepared under FRS102 and 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

	2024 %	2023 %	Statutory Limit %
a) Lending limit	**1.62%**	1.67	25.0
b) Funding limit	**29.18**	30.44	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

	2024 %	2023 %
As a percentage of shares and borrowings:		
a) Gross capital	**6.21**	6.67
b) Free capital	**5.83**	6.30
c) Liquid assets	**27.94**	22.41
Profit after tax as a percentage of mean total assets	**0.43**	0.43
Management expenses as a percentage of mean total assets	**1.52**	1.44

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 £618,685k for 2023, increasing to £692,633k for 2024.

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

3. Directors as at 31 January 2024

Name and Business Occupation	Age	Date of Appointment	Other Directorships
Ian Wilson Chartered Banker	59	01.09.22	Revolut Group Holdings Ltd Revolut Ltd Revolut Newco UK Ltd Kompasbank a/s East Pier Advisory Ltd
Andrew Hastings Chartered Banker	60	01.07.19	Elavon Financial Services DAC
Sheila Gunn Company Director	60	01.11.19	Gunn Limited
Kathryn (Karyn) Lamont Chartered Accountant	55	30.05.18	The North American Income Trust plc Scottish American Investment Company plc iomart Group plc
Sean Gilchrist Chartered Banker	61	23.06.21	Amishane Limited
Andrew Lee	60	17.10.22	St Andrew's Healthcare Guy's and St Thomas' Foundation Solihull Masonic Temple Limited Guardian of the Wrought Iron Plate and Warden of the Birmingham Assay Office
Rosemary Hilary	68	01.11.22	Vitality Life Limited; Vitality Health Limited; Discovery Holdings Europe Ltd; and Vitality Corporate Service Ltd (all board and committee meetings are held together) Willis Ltd St James's Place plc and subsidiary St James's Place UK plc The King's Foundation
Paul Denton Building Society Chief Executive, Chartered Banker	53	01.07.19	SBS Mortgages Limited BSA Pension Trustees Limited Chest Heart & Stroke Scotland Limited KRFC Blues Limited Chartered Banker Institute Board of Trustees
Neil Easson Building Society Finance Director, Chartered Accountant	53	01.04.20	SBS Mortgages Limited Museum Galleries Scotland

Documents may be served on the above named directors at the Society's Registered Office address: Scottish Building Society, SBS House, 193 Dalry Road, Edinburgh, EH11 2EF.

RELATIONSHIP CENTRES

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Aberdeen
AB10 1YD

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48 Bank Street
Galashiels
TD1 1EP

INVERNESS
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Inverness
IV1 1DG

GLASGOW
78 Queen Street
Glasgow
G1 3DN

EDINBURGH
20 Frederick Street
Edinburgh
EH2 2JR

TROON
27 Ayr Street
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0333 207 4007

Lines are open 9am to 5pm Monday to Friday (10am on Wednesdays).
Calls may be monitored and/or recorded.

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

SCOTTISH BUILDING SOCIETY