Annual Report & Accounts

For the year ended 31 January 2022

SCOTTISH BUILDING SOCIETY

"We may have a long history, and uphold the traditional values our members appreciate, but we continue to face forward as we deliver them, mindful of our future but grounded in what got us to where we are today."

PAUL DENTON
CHIEF EXECUTIVE

CONTENTS

Accounts

SCOTTISH
BUILDING SOCIETY

Chairman's Report

"It is with great pride that, after two long years dealing with the operational and economic challenges resulting from the pandemic, we are able to report another excellent set of results."

RAYMOND ABBOTT
CHAIRMAN

EXCEPTIONAL PERFORMANCE DURING EXCEPTIONAL TIMES

In my Chairman's Report written at the beginning of the COVID-19 pandemic in March 2020 I expressed my confidence that "our propositions and commitment to excellent service for our members, allied with our strong financial position" would hold us in good stead to deal with the uncertain times ahead. It is with great pride that, after two long years dealing with the operational and economic challenges resulting from the pandemic, we are able to report another excellent set of results that truly reflects the hard work and dedication of our colleagues, alongside the unstinting support of our members throughout the pandemic.

Paul will cover our performance in more detail in his foreword, but I am delighted to report that, despite a highly competitive market, the Society has had another year of strong growth across both mortgages and savings balances which, together with strong financial management, has resulted in the achievement of record profits for the future benefit of the Society. As a member based organisation that has limited sources of additional capital, profitability is important to enable the Society to support future growth and investment in the new technology, products and services that are required to remain relevant in a fast-changing environment.

These results demonstrate what the Society is capable of, even during exceptional times, and our plans for the years ahead aim to build on these excellent foundations.

SUPPORTING OUR MEMBERS

Our colleagues have continued to respond and adapt to the pandemic conditions, with many continuing to work from home for the majority of the year. We recognise the challenges that homeworking brings and look forward to being able to welcome our colleagues back into the office on a more regular basis where the benefits of increased collaboration and communication

should result in both a better working experience for colleagues and an even better customer experience for our members.

In our branches, colleagues have continued to cope admirably with the challenges of providing face to face service during a global pandemic, showing great flexibility and dedication to providing a high level of service.

We were also pleased to be able to hold two face to face events this year where members of the Board and senior leadership team were able to hear feedback directly from members. This was extremely valuable and we look forward to being able to hold more of these sessions in the year ahead.

THE BOARD AND OUR ANNUAL GENERAL MEETING

After 15 months of conducting Board meetings virtually using video technology, it was fantastic to be able to all get back around the table in person for our strategy meeting in June. While much of our Board business was conducted on either a virtual or hybrid model, it is invaluable to be able to meet in person for key events.

After holding our last two Annual General Meetings (AGM) virtually, we are optimistic that this year we will be able to meet in person. COVID-19 restrictions dependent, we plan to hold the AGM at 2pm on 25 May at The Corinthian Club 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 at the end of April.

It has been our pleasure to support Alzheimer Scotland as the Society's 'Charity of the Year' for the past two years. Members will be given the opportunity to vote for a charity to support for the next year as part of the AGM process.

In June 2021 I was delighted to welcome Sean Gilchrist to the Board. Sean has strong IT and digital experience, both of which are extremely useful given the investment the Society is making in these areas.

There will be further changes to the Board later this year. Jack Ogston and Margaret MacKay will step down at this year's AGM after 9 years and 5 years respectively with the Society. I would like to record the Board's thanks to both for their involvement with the Society and, on a personal note, for being of great support to me as Chairman.

The last change will be the appointment of a new Chair, as I plan to retire towards the end of the year. The Society is progressing well with the search for a new Chair and I hope to be able to announce my successor at the AGM.

2022 AND BEYOND

As we begin to live with COVID-19 and the worst economic fears such as high unemployment and negative interest rates subside, these are inevitably replaced by new uncertainties, with high inflation, rising interest rates and the potential global economic consequences of the conflict in Ukraine bringing new challenges. In my first Chairman's statement in 2018 I commented that despite ongoing uncertainties I was "positive about the Society's ability to remain strong and relevant". Due to an unwavering commitment to our purpose and an enormous effort across the Society, particularly over the last two extremely challenging years, I have never been more confident that this is the case. The Society is in an excellent position from which to progress in 2022 and the Board are confident that the business plan will provide the correct blueprint from which to continue to grow our membership and succeed as a mutual.

Thank you for your continued support.

RAYMOND ABBOTT
CHAIRMAN
25 March 2022

Chief Executive's Review

"The Society this year has reported record annual profit before tax of £2.35m based on strong lending growth and an improved business operating model."

PAUL DENTON
CHIEF EXECUTIVE

POWERED BY PURPOSE

At Scottish Building Society we are as true to our purpose today as we were back in 1848 when we were originally established.

As a mutual society, we reward our savers with fair interest rates whilst responsibly using those funds to provide flexible mortgage lending, enabling local people to buy their main home.

The environment has changed over the years and the numbers may be a little bigger, but that simple strategy has helped the Society survive and thrive towards its 175th anniversary next year.

We are proud to be the world's oldest remaining building society and we are also very proud to be your Society.

SUSTAINABLE FUTURE

We may have a long history, and uphold the traditional values our members appreciate but we continue to face forward as we deliver them, mindful of our future but grounded in what got us to where we are today. I'm very pleased to update you on our progress towards delivering what I believe is a sustainable future:

Financial

The Society this year has reported record annual profit before tax of £2.35m based on strong lending growth and an improved business operating model.

Despite the historic low base rate, we have continued to pay savings rates above the market average, whilst our income has benefitted by growing our mortgage balances more than 36% in the last two years. We are now helping more members buy their homes than ever before.

As a mutual and unlike the high street banks, we do not have shareholders so all profits are retained in the business, allowing us to invest in new digital technologies, improve our member experience and increase our capital base to support future growth.

Resilience

In an increasingly connected global environment where vast amounts of data moves around at incredible speed, it's important we look after our technology, your information and the dependencies we have on other organisations. I'm pleased to report that, in line with regulatory requirements, the Society has completed a full review this year of our key processes, material contracts and core technology. We are confident in our current position and will now build on this over the coming years to ensure the Society's core infrastructures remain fit for purpose within a modern financial services environment.

£2.35m
pre-tax profit for 2022

£44.5m
mortgage assets growth

Climate

As we welcomed the world to Scotland for COP26, it sharpened our focus further on how we can support our members as a responsible lender both now and in the future.

Firstly, we have independently assessed our entire lending book for future 'physical risks' associated with climate change and are reasonably assured that future flooding and coastal erosion will have limited impact on the properties within our current mortgage book. Of course, we are not complacent in this regard and recognise that data regularly updates so we remain vigilant on the appropriateness of any security we hold.

Secondly, and I believe more importantly at this time, we are preparing to support all our members to improve the energy efficiency of their homes and meet any forthcoming government guidelines.

As a personal and flexible lender we are able to consider lending requests for home improvements for either new purchases or existing borrowers. This can include solar panels, heat pumps, Electric Vehicle charge points, thermal insulation, new windows and many more.

We recognise that every property is different and your requirements are uniquely personal to you, as is our approach to every application!

Finally, we know how important climate change is to all our members, and that's why we will continue to partner with Trees for Life in supporting the regeneration of the Scottish Highlands through our own actions, and also by introducing a new savings account in 2022 where members can also make a positive difference.

Brand

The Society has experienced strong growth in the past two years which is reflected in our aspirations for the future. We know we have more to do around our brand recognition and we will invest further in this over the coming years to raise awareness of both our brand and purpose.

During 2021 we partnered with Edinburgh Rugby as their main sponsor at an exciting time in their history as they approach their 150th anniversary. We share many core values and benefit from joint community projects that attract interest from across Scotland as well as the increased profile we gain from sponsorship activities.

MEMBER BASED ORGANISATION

We were delighted to be recognised as 'Building Society of the Year' for the third consecutive year at the Scottish Mortgage Awards in 2021. I'd just like to thank all our colleagues who have worked tirelessly over the past two years to maintain and improve the high levels of service enjoyed by our members.

We recognise that members value choice and the option of both traditional face to face contact as well as the convenience of digital technology. That's why we've been investing in our branches, with our new 'relationship centre' design first piloted in Aberdeen now being rolled out across the other branches in 2022, alongside improvements in our online capability.

In the past year our savings balances grew by 6% which is in line with the market, with an ever increasing proportion of new business coming through our online channel. However, I understand that many members also like getting their passbooks updated in branch or by post and I can assure you we won't be changing them. We are always mindful that we are an organisation run for the benefit of our members.

PROUD OF OUR PEOPLE

As Chief Executive, there are many things I have been proud of over the past year but none so much as when we received the results of our colleague feedback from the 'Financial Services Culture Board'. It has been a difficult two years with hybrid working, lockdowns and economic uncertainty, yet our colleague engagement has increased significantly throughout that period and the Society now ranks 1st among our peers on key areas such as Resilience, Responsiveness, Shared Purpose, Leadership and Customer Focus.

I will not pretend we offer the most advanced technology nor do we have the largest footprint across Scotland, but I can say with great confidence that we are a people centric organisation offering a personal service that we're very proud of and I know our members value highly.

Thank you to all my colleagues across the Society, you have been outstanding once again!

LOOKING FORWARD

As Raymond mentioned within his Chairman's update, we will see a change in our Board next year and we will likely face the economic uncertainty of higher inflation and rising interest rates, however I am confident that with the talent of our colleagues, our investment in technologies and our unwavering commitment to our purpose the Society will go into its 175th year better positioned than ever before.

Thank you for your membership over the past year and we look forward to supporting you with all your savings and mortgage needs in 2022.

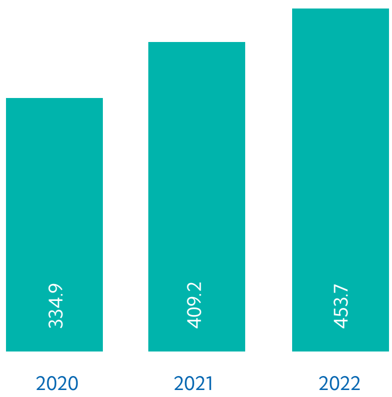
PAUL DENTON
CHIEF EXECUTIVE
25 March 2022

Society Key Results

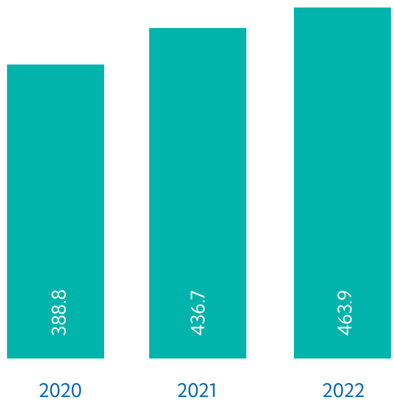
Our principal purpose is to help people buy their homes with funds raised from our members' savings accounts – whilst ensuring our financial strength is maintained with strong capital and liquidity measures.

Total assets	Liquid assets	Profit before tax
£592.8m	£132.8m	£2.4m
(2021: £525.7m)	(2021: £113.8m)	(2021: £0.8m)

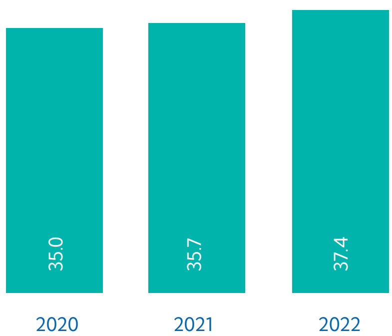
Mortgage balances (£m)



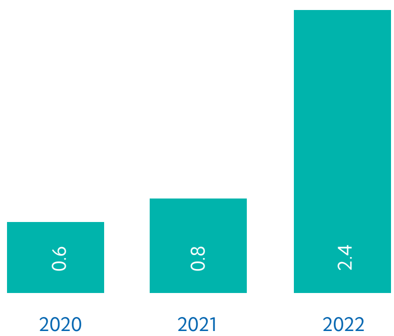
Savings balances (£m)



Capital reserves (£m)



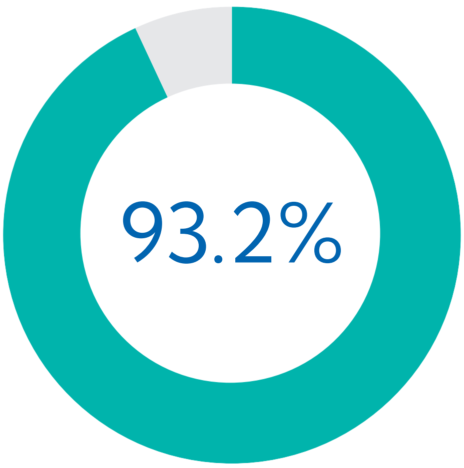
Profit before tax (£m)

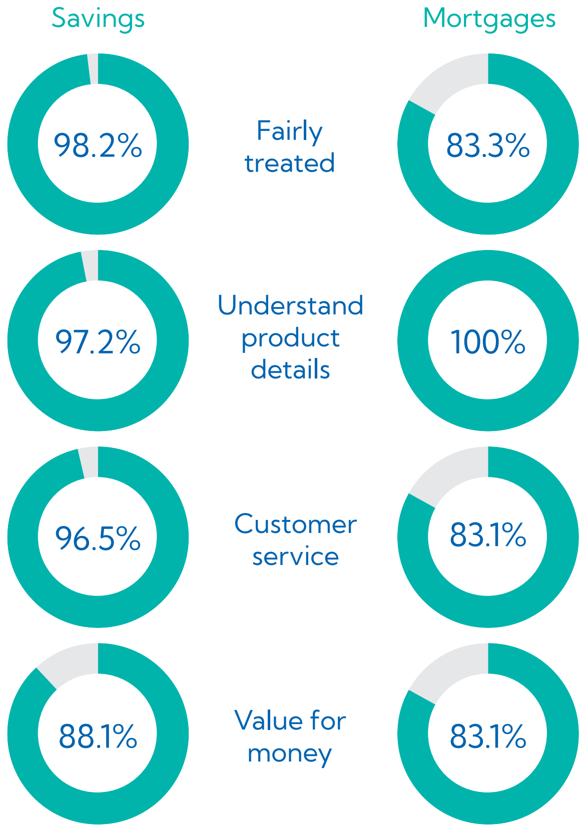


View of the Society

Smart Money People

We are delighted with the fantastic ratings our members gave us on independent financial services review website, Smart Money People.[†] We achieved an overall rating of 93.2% for customer service.





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

Our colleagues

Our colleagues took part in the 2021 Financial Services Culture Board survey, which measures employee sentiment from banks and building societies across the UK. Despite a challenging year of hybrid working and economic uncertainty, we were immensely proud to see our colleague engagement increase significantly in 2021, and the Society now ranks 1st among our peers on important areas such as resilience, responsiveness and shared purpose.

†Data taken from 148 member responses submitted to Smart Money People, 01/02/2021 to 31/01/2022. 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

OPENING OF ABERDEEN BRANCH

Our brand new Aberdeen Branch opened in June 2021, and promises a warm welcome for our North East members. With its stylish interior, the design of the new office aims to encourage visitors to pop in and conduct their business in the comfort of an inviting, open space. While we have had a strong presence in Aberdeen for many years, it's exciting to open our doors in such a central location on the corner of Union Street and Holburn Street. At a time when people are increasingly looking for greater choice, by investing in a physical presence to support our digital services we're demonstrating how well we understand the market and our members' needs.

SCOTTISH MORTGAGE AWARDS WIN

We are very proud that we scooped up 'Building Society of the Year' for the third year in a row at the Scottish Mortgage Awards. The win is a testament to the hard work of our talented team. The awards ceremony took place at the Balmoral Hotel in Edinburgh in October 2021, and celebrated the best of the Scottish property finance market. More good news – our CEO Paul Denton was also awarded Business Leader of the Year!

MEMBERS' EVENTS

In December 2021, we held two special events in Glasgow and Edinburgh where members had the opportunity to ask questions and find out more about the Society. Hosted by our Chairman Raymond Abbott and CEO Paul Denton, both events were a great success and we hope to organise more like these in the near future.

NEW BRANDING AND WEBSITE

In January 2022, we were delighted to launch a dynamic new look for our brand which reflects the energy, confidence and member-first approach of our business. At the same time, our new website went live.

With its bold design update, our website showcases that we are as relevant now as when we were founded in 1848. Above all, the site has been designed with members in mind. It provides quick and easy access to everything our members may need – from secure access to online services where they can manage their accounts online, through to the location and opening hours of our offices, and everything in between.

ENVIRONMENT AND SUSTAINABILITY

As a business, we want to do all we can to protect our planet for the generations to come. Here's a quick glimpse of what we got up to in 2021...

Reducing our carbon footprint

To support Trees for Life's pioneering conservation work in the Caledonian Forest, we set up our Carbon Challenge. Society colleagues took up the challenge to see who could reduce their carbon footprint the most by making simple lifestyle changes, such as cycling to work rather than taking the car. To thank all colleagues who took part, we set up our very own grove in the north of Scotland. This little spot in the Caledonian Forest has its own dedicated bio-diverse area where natural moorland and trees will grow, and help many native species and wildlife to flourish.

Climate change impact partnership

Flood losses in Europe are expected to increase fivefold by 2050, according to the European Environment Agency. In 2021, we embarked on a ground-breaking partnership with leading European climate change analysts Ambiental to assess flood risks in our mortgage portfolio. It is important that we secure the future of our business, and the modelling work draws on Ambiental's expertise to forecast risks to our portfolio for up to 50 years.

LENDING OUR SUPPORT

Charity of the year

We continued to support our charity of the year, Alzheimer Scotland, in 2021. In May, a group of five Society colleagues challenged themselves to walk 800 miles in four weeks to help raise money for the charity. Having set a fundraising target of £1,000, they were delighted to race past that and raised over £4,000 in donations. The Society then matched that amount, giving the team an impressive total of over £8,000 for Alzheimer Scotland. Further fundraising efforts by colleagues together with the Society's donation to match AGM votes took our total to over £12,000.

Edinburgh Rugby

During 2021 we became Main Club Partner with Edinburgh Rugby, in a new four-season sponsorship deal. The partnership is the biggest sponsorship agreement in the history of both our organisations. The club's support for its local community was central in our decision, and fits perfectly with our own approach of giving back. The Society now features on match jerseys and training shirts, along with prominent branding at the club's brand new stadium at BT Murrayfield.

Ceres Highland Games

The Ceres Highland Games, first held in 1314, finally went ahead in 2021 with help from the Society. As the world's oldest building society, we are a good match as main sponsor! The event is run by volunteers, and is free to attend, however, last year's championship was closed to the public due to COVID-19 restrictions. That didn't stop an exciting competition taking place at Montrave Estate in Fife and the organisers are planning a strong return in 2022 once restrictions have eased.

Directors' Report

INTRODUCTION

The Directors present their 173rd Annual Report, together with the audited Annual Accounts and Annual Business Statement, for the year ended 31 January 2022.

OUR PURPOSE

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

BUSINESS REVIEW

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

COVID-19

The COVID-19 pandemic has again heavily influenced the year, albeit the measures put in place across the Society during 2020 ensured that we could continue to support our members' mortgage and savings needs while ensuring our colleagues remain safe, on a largely 'business as usual' basis.

A strong housing market, supported by tax incentives, a shortage in supply of homes for sale and a continued reassessment of housing needs maintained demand for mortgages, which has resulted in another year of strong mortgage book growth for the Society.

Meanwhile, the recovery of the economy and lower than feared unemployment following the end of the furlough scheme in September 2021 mean that, so far, 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 further waves of infection caused by new variants of the virus and the rising costs of living.

PROFIT AND CAPITAL

Profit for the year before tax amounted to £2.35million (2021: £0.84million) representing a record performance by the Society. The mortgage book grew by 10.9% (2021: 22.2%) and despite the continued low interest rate environment we have continued to provide an attractive home for savings and increased our reserves to provide scope for future growth and innovation in how we serve members.

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

LIQUIDITY

Total cash and investments at 31 January 2022 amounted to £132.8million (2021: £113.8million) which represented 24.0% (2021: 23.3%) of total shares and borrowings. The Society's continuing aim is to maintain an appropriate level of liquidity at all times. Funding is invested mainly in mortgage assets with sufficient liquid assets for risk management purposes and in accordance with regulatory requirements.

INTEREST RATES

The Bank of England increased its Bank Rate to 0.25% in December 2021 and to 0.50% in February 2022 in response to rising inflation. As a result, we increased interest rates across the majority of our savings accounts from 1 March 2022 as well as increasing our Standard Variable Rate for mortgages.

Following the decision by the Bank of England in March 2022 to increase its Bank Rate further to 0.75%, we are reviewing the savings rates across our products, as well as the Standard Variable Rate for mortgages.

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

MORTGAGE ARREARS AND FORBEARANCE

As part of the financial support package in response to COVID-19 by the Government and set out by the Financial Conduct Authority (FCA), the Society granted payment deferrals for a period of up to 6 months to a total of 514 customers in the period since the commencement of the scheme in March 2020. Following the closure of this scheme on 31 July 2021, any customers in financial difficulty are supported through the Society's normal forbearance measures.

The Society uses a range of forbearance measures to assist those borrowers who are experiencing financial difficulty. As at 31 January 2022 there were 40 cases benefiting from the Society's forbearance measures (2021: 51) with total outstanding capital balances of £2.6million (2021: £4.1million). The Society makes provisions for any expected loss resulting from accounts in arrears in accordance with the Board-approved policy.

At 31 January 2022 the Society had 23 mortgage accounts in arrears for 12 months or more (2021: 15). The total arrears outstanding on these accounts was £291,288 (2021: £190,678) and the aggregate capital balance was £1,783,811 (2021: £1,190,731). Two properties were taken into possession during the year (2021: none).

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 6. Their significance is explained as:

Mortgage Assets: One of the key reasons for the Society's existence is to promote home ownership through mortgage lending. During the past year Mortgage Assets have increased by 10.9%.

Total Assets: Consisting primarily of Mortgage Assets and Liquid Assets, these have increased by 12.8%.

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

Share Balances: Another key reason for the Society's existence: to encourage saving and investment. Savings balances have increased by 6.3% during the past year.

Liquidity: Total cash and investments held by the Society at the year-end, expressed as a percentage of shares and borrowings. This has increased by 0.7 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 0.15 percentage points in the year due to stable mortgage rates and lower funding costs.

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 £2.4m in the current year. The increase in PBT from £0.8m in the prior year reflects strong growth in income driven by increasing mortgage balances and the absence of material impairment charges as the economic environment stabilised, partly offset by higher investment related costs.

Reserves: The accumulated profits of the Society over more than 173 years of operation, which provide the capital which helps to maintain the Society's financial strength. These have increased by £1.7million 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 decreased by 0.5 percentage points reflecting the growth in liabilities in the year.

NON-FINANCIAL KEY PERFORMANCE INDICATORS

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

- 84% of mortgage borrowers reaching the end of their product incentive period have remained with the Society.
- Less than 1.4% of mortgage accounts have arrears greater than 1.5% of their mortgage balance.

KEY FINANCIAL PERFORMANCE INDICATORS 2018-2022

	2018	2019	2020	2021	2022
Mortgage Assets (£m)	318.4	327.3	334.9	409.2	453.7
Mortgage Asset Growth (%)	2.3	2.8	2.3	22.2	10.9
Total Assets (£m)	420.2	425.1	431.4	525.7	592.8
Asset Growth (%)	2.7	1.2	1.5	21.9	12.8
Share Balances (£m)	373.7	379.9	388.8	436.7	463.9
Liquidity (%)	25.9	24.6	23.9	23.3	24.0
Net Interest Margin (%)	1.62	1.64	1.65	1.57	1.72
Profit Before Tax (£m)	1.3	1.0	0.6	0.8	2.4
Reserves (£m)	33.6	34.5	35.0	35.7	37.4
Gross Capital (%)	8.7	8.8	8.9	7.3	6.8

All figures are unconsolidated on the basis of materiality.

Directors' Report

REGULATION AND COMPLIANCE

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

2021-22 has seen a relatively lower level of change than recent years, with the Society taking the necessary steps to ensure it is ready to meet the new regulatory requirements relating to operational resilience, completing the transition from LIBOR to SONIA, implementing some minor changes as a result of Brexit and enhancing our approach to managing the financial risks from climate change.

During 2022-23 the Society will continue to develop and enhance its approach to operational resilience as well as ensuring the risks from climate change are managed appropriately. 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 18 to 21.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

The COVID-19 pandemic has had a significant impact on the economy since March 2020, with falling levels of economic activity and the threat of rising unemployment, before recovering from mid-2021 as mass vaccinations were rolled out. As noted in last year's Annual Report, the COVID-19 pandemic could have materially impacted a number of the Society's principal risks, namely Business Risk, Operational Risk, Financial Risk and Credit Risk. Throughout the last year these risks have not developed in any material way. Whilst there continues to be the possibility of impacts, for example due to the removal of the Government support schemes, future lockdowns/restrictions or broader economic impacts, the Society continues to monitor the situation closely and implement contingency measures as appropriate.

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

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

CAPITAL REQUIREMENTS

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

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 place certain reporting obligations on financial institutions that are within the scope of CRD4. The purpose of the regulations is to provide clarity on the source of the Society's income and the location of its operations. The annual reporting requirements for the Society as at 31 January 2022 are provided on page 67.

GOING CONCERN

As part of the Society's forward planning process, the Directors have considered forecasts showing the Society's capital, liquidity and financial position for the next 12 months under normal operating conditions. They have also considered the potential effect on the Society's business, financial position, capital and liquidity under stressed operating conditions, specifically including a severe but plausible stress scenario incorporating the potential impact of the increased risks and uncertainties as a result of the ongoing COVID-19 pandemic and heightened economic uncertainty due to global events.

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

In April 2019 the Prudential Regulation Authority issued Supervisory Statement 3/19 "Enhancing banks' and insurers' approaches to managing the financial risks from climate change." Since then the Society has sought to better understand the risks posed by climate change and develop its future plans to manage and mitigate these risks.

The following sections summarise progress made and the Society's future plans.

Governance

The Society appreciates the far reaching nature of climate risk and is developing its governance and oversight to ensure that the risks from climate change are actively discussed at an appropriate level.

Progress made

- Climate change has been embedded in the Senior Management framework, with the Chief Executive Officer having responsibility for identifying and managing the financial risks from climate change.
- 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.

Future plans

- Continue to develop Board and Executive knowledge of climate risk and the impact on the Society.
- Ensure that appropriate resources with sufficient skills and expertise are provided to manage the financial risks from climate change.
- Continually identify and report on climate change exposure to the Society's Board and appropriate risk management committees.

Risk Management and Scenario Analysis

The Society aims to develop its risk management capabilities in relation to the identification, assessment and management of climate risk.

Progress made

- The risks from climate change, both physical risk and transition risk, have been incorporated within the Society's Risk Management Framework.
- During 2020 the Society engaged a specialist environmental assessment company to undertake a property by property analysis of the security held against its mortgage book to consider the risk of flooding and coastal erosion under different carbon emission scenarios over the period to 2050 and 2080. This exercise was repeated in 2021 and the results analysed for significant movements.
- Based on this analysis, an additional measure has been included within the Board's Risk Appetite Statement focussed on the physical risk of flooding within the Society's mortgage book. An initial assessment of this risk was also included within the Society's annual assessment of capital adequacy. On the basis of this assessment, the Board concluded that flood and coastal erosion did not pose a material risk to the Society and therefore no change was required to the Society's lending activities.

Future plans

- The Society intends to repeat this portfolio analysis periodically, as well as further developing its modelling capabilities to include transition risks, focussing initially on the energy performance rating of the mortgage book.
- Further enhance the Risk Management Framework, for example by identifying the circumstances that would trigger a review of the strategy for addressing the financial risks from climate change or identifying mitigants to reduce the risk.
- Keep abreast of emerging risks in this area, for example the potential impact of the Scottish Government's 'Heat in Homes' policy.

Directors' Report

Carbon Footprint

The Society aims to minimise the environmental impacts of all our operations by striving to reduce unnecessary consumption, to re-use and recycle where possible, to manage energy usage wisely and to promote the control of environmental issues at all levels.

The Society also aims to support members who wish to reduce the environmental impact of their homes or who wish to use their savings to support environmental causes.

Progress made

- We continue to use paper from sources approved by the Forestry Stewardship Council wherever possible, to recycle waste paper and other materials.
- Following the successful introduction of online voting facilities, we have reduced our impact on the environment by allowing members to opt to receive their AGM packs electronically.
- Our vehicle policy encourages the adoption of electric cars, and we have almost completed the conversion, with 80% of the fleet now consisting of electric vehicles.
- During 2021, the Society carried out a number of activities with colleagues to raise awareness of our carbon footprint and actions that could be taken to reduce it. As part of this we continue to work with Trees for Life – a charitable organisation with an objective of rewilding the Scottish Highlands.

Future plans

- While the Society already supports members wishing to fund environmental improvements to their homes through the provision of further advances, we intend to formalise this offering to support the retrofit of the existing housing stock through the development and launch of a 'Green mortgage' product.
- The Society plans to launch a 'Green savings' product that aims to provide a fair return to savers but also support the rewilding of the Scottish Highlands.
- Take further action to improve the Society's own carbon footprint through enhanced measurement and target setting, changes to operational behaviour and improvements to premises.

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 regularly monitored by the Board.

Customer Service and Conduct of Business

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

Donations and Community Support

The Society continues to support a charity of the year as voted for by members. In 2020, members voted to support Alzheimer Scotland. Alzheimer Scotland challenge misconceptions, tackle inequalities and fight for the rights of those impacted by dementia in Scotland. As the country's leading dementia charity, they aim to empower, educate and enable people living with dementia to live well with the disease, keeping them connected to their own community and networks.

Alzheimer Scotland offer a range of personalised support and choices. They provide a network of specialist Dementia Advisors, NHS Dementia Nurse Consultants, Dementia Research Centres, the 24-hour Freephone Dementia Helpline and numerous local support services, reminiscence programmes and Dementia Resource Centres in communities all across Scotland.

The Society makes charitable donations to reflect and encourage members' participation in the Society's Annual General Meetings each year. £1,485 was donated in 2021 to Alzheimer Scotland for postal and online votes received. In addition, fundraising totalling £5,418 was raised by Society colleagues through a variety of activities. This has been matched by the Society, increasing the total funds raised for Alzheimer Scotland to over £12,000.

We plan to hold this year's AGM on 25 May 2022. Further details will be communicated to members in April. A donation will be made to Alzheimer Scotland for every vote received, including postal and online.

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.

ELECTION OF DIRECTORS

Margaret MacKay and Jack Ogston will retire from the Board with effect from the AGM in May 2022. The following Directors are standing for election/re-election:

- **Sean Gilchrist** joined the Board in June 2021 and is seeking election in accordance with Rule 25(5).
- **All other directors** are choosing to retire and stand for re-election under Rule 26(1).

All of the above, being eligible under the Rules, offer themselves for election/re-election at the AGM to be held on 25 May 2022.

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

DIRECTORS

The following individuals were Directors of the Society during the year to 31 January 2022:

Non-Executive Directors

Raymond Abbott CA	Appointed June 2013 and Chairman since July 2017
John (Jack) Ogston FCBI	Appointed July 2013 and Vice-Chairman since July 2017 Senior Independent Director until November 2020
Margaret MacKay MSc DipM FCIPD	Appointed March 2017 and Chair of Nomination & Governance Committee and Remuneration Committee since January 2020 Appointed Senior Independent Director in November 2020
Kathryn (Karyn) Lamont CA	Appointed May 2018 and Chair of Audit Committee since November 2018
Andrew Hastings C.Dir FIB	Appointed July 2019 and Chair of Board Risk Committee since October 2019
Sheila Gunn LLB (Hons), Dip LP	Appointed November 2019
Sean Gilchrist ACBI	Appointed June 2021

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 66. 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.

COLLEAGUES

The Directors recognise the contribution that colleagues at all levels make to the continuing success of the Society and would once again like to record their appreciation for the efforts made by everyone, in what has been an exceptionally challenging 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 2022 was 16 (2021: 21).

INDEPENDENT AUDITORS

Our auditors, PricewaterhouseCoopers LLP (PwC), are willing to continue in office and the Board is happy to recommend their re-appointment as auditors. A resolution to that effect will be proposed for consideration at the Annual General Meeting to be held on 25 May 2022.

By order of the Board.

NEIL EASSON
FINANCE DIRECTOR
25 March 2022

Board of Directors

RAYMOND ABBOTT
CHAIRMAN

A Chartered Accountant by profession, Raymond has worked in private equity and investment for over 30 years. As the former managing director of Alliance Trust Equity Partners he was responsible for strategic development. Previously he founded the UK venture investor Albany Ventures and prior to that was Director of Investment at British Linen Bank. Raymond also serves as Chairman of Foresight Enterprise VCT plc and Integrated Environmental Solutions Ltd and is a non-executive Director of Schroder UK Public Private plc. Raymond joined the Board in June 2013 and was elected Chairman in July 2017.

JOHN (JACK) OGSTON
VICE CHAIRMAN

Jack is a Fellow of the Chartered Institute of Bankers in Scotland and spent 36 years in management positions with Clydesdale Bank, latterly as Head of Corporate & Structured Finance in Scotland. He has significant board and lending experience and is currently Chairman of Cancer Support Scotland. Jack joined the Board in 2013 and was elected Vice Chairman in July 2017.

MARGARET MACKAY

Margaret began her career with HBOS and has over 36 years' experience in PLC, AIM and family-owned businesses. Margaret has held Board level positions for the last 20 years and latterly was Managing Director, Scotland and Ireland Division, with Peel Ports. Margaret has a Masters Degree in Human Resource Management and is a Fellow of the Chartered Institute of Personnel and Development. She also has a Postgraduate Diploma in Marketing. Margaret joined the Board in 2017 and is currently also a Trustee of the John Mather Charitable Trust. Margaret chairs the Nomination & Governance Committee and the Remuneration Committee, and is the Society's Senior Independent Director and Whistleblowing Champion.

KATHRYN (KARYN) LAMONT

Karyn joined the Board in May 2018. 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 a number of banks and building societies. Her specialist knowledge includes financial reporting, audit and controls, risk management, regulatory compliance and governance. Karyn is a member of the Board Risk Committee and chairs the Audit Committee. She is also a non-executive director at the Scottish Investment Trust plc, the North American Income Trust plc, the Scottish American Investment Trust plc and iomart Group plc.

ANDREW HASTINGS

Andrew is a Chartered Banker, 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 currently a Board Member of the Electricity Supply Board, the Irish State-owned energy business. He is also an Independent non-executive director of Pepper Finance Corporation (Ireland) DAC and an Independent non-executive director of Elavon Financial Services DAC. Andrew chairs the Society's Board Risk Committee and is a member of the Audit Committee.

SHEILA GUNN

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 during the year was a member of the Independent Governance Committees of Phoenix Life, Standard Life and ReAssure Life. Sheila is also a member of the Accounts Commission and on the board of, and Chair of the Remuneration Committee of the Chartered Banker Institute.

SEAN GILCHRIST

Sean joined the Board in June 2021. His 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, and prior to this he was Chief Digital Officer of the Co-operative Bank leading their transformation to become the "digital ethical bank". Previously he has worked at both Lloyds and Barclays Banks leading, growing and transforming their digital services across the retail, wealth and corporate banking sectors. Sean also works with the Foreign, Commonwealth and Development Office helping them drive through their digital transformation, and Hanger 75, a Californian digital incubator.

PAUL DENTON
CHIEF EXECUTIVE OFFICER

Paul was appointed Chief Executive Officer in June 2019. He 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. Most recently he was Managing Director, Operations, of the UK's largest funeral business, Co-op Funeralcare. Paul was appointed as a Trustee of Chest, Heart & Stroke Scotland in 2021.

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 Asset and Liability Committee and Retail Credit Committee.

Corporate Governance Report

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

BOARD LEADERSHIP AND COMPANY PURPOSE

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

The Board meets regularly with additional meetings as required. In 2021-22 there were nine full formal Board meetings, including a specific meeting to consider future strategy and the Corporate Plan. A table showing details of Directors' attendance during the year in relation to full formal Board and Committee meetings appears on page 20 of this report.

A terms of reference document for the Board was approved in June 2021, which includes a schedule of matters reserved for Board decisions and the Board has delegated certain responsibilities to the Committees described below, all of which report to the Board. The Chair of each Committee provides a report at the next Board meeting. The terms of reference for all Board Committees are available on the Society's website. Membership of Committees is reviewed annually with the aim of leveraging each Director's particular expertise and managing succession.

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

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

The Committee comprises three Non-Executive Directors. Karyn Lamont, who has recent and relevant financial experience, chairs the Committee. Other members during the year included Raymond Abbott. As such, the Society does not currently comply with the provision in the Code that the Chair of the Board should not be a member of the Committee, however, this is considered appropriate given the current composition and skills across the Board. 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 and Jack Ogston. Executive Directors 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.

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

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

Nomination & Governance Committee: This Committee reviews Board composition, skills, performance, director elections and succession planning for Board and senior management. Margaret MacKay chairs the Committee and the other members of the Committee are Paul Denton, Karyn Lamont and Sheila Gunn. The Committee met five times in the year either in its current or previous form.

This Committee was created by the separation of the Nomination & Remuneration Committee in June 2021. The separation of the Committees became appropriate when, further to a review of membership, it was deemed appropriate for the Chief Executive to be involved in matters relating to Nomination including Board and Chair succession.

Remuneration Committee: This Committee is responsible for remuneration policy and for making recommendations to the Board regarding general remuneration and contractual arrangements. Margaret MacKay chairs the Committee and the other members of the Committee are Raymond Abbott and Sheila Gunn. The Committee met five times in the year.

Further information can be found in the Directors' Remuneration Report on pages 22 & 23.

CULTURE

The Board monitors and assesses culture through a variety of sources including key performance metrics, feedback from internal and external audit, Financial Services Culture Board employee surveys and meeting employees from across the Society as permitted by ongoing COVID-19 restrictions.

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, although the latter again took a less normal form in 2021 in recognition of the COVID-19 restrictions. Members are given the opportunity to ask questions and voice their opinions.

In relation to employees, opportunities to engage have been limited by the COVID-19 restrictions. 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 working groups. Given the Society's size, these arrangements are considered to provide an effective alternative.

WHISTLEBLOWING

The Society has arrangements in place for employees, contractors and temporary workers to raise concerns in confidence (and if they wish anonymously). The Society's Senior Independent Director, Margaret MacKay, is the Society's Whistleblowing Champion. She 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 Nomination & Governance Committee which reviews the Society's whistleblowing policy and reports at least annually.

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

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

NON-EXECUTIVE DIRECTORS

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

The Board consists of seven Non-Executive Directors plus the CEO and the Finance Director. Two of the Non-Executive Directors have decided to stand down from the Board at the 2022 AGM. Information relating to Directors is set out on pages 16 & 17. This demonstrates that the Society's Board has a balance of skills and experience appropriate for the Society and its strategy. Committee membership was refreshed during the year, following Board 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 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 current business relationships between the Society and firms connected with Directors. No ex-employees are or have been Non-Executive Directors.

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 Chairman each year also assesses whether Directors have demonstrated this ability during the year.

The attendance record of Board and Committee members during the year is set out on page 20. This table does not reflect Directors' attendance at additional ad hoc meetings, seminars, conferences and courses during the year or time spent on preparation for meetings etc. Generally each Non-Executive Director spends a minimum of 2-3 days each month on Society business. The time commitment for the Chairman, Vice-Chairman and Committee Chairs is considerably more.

Corporate Governance Report

COMPOSITION, SUCCESSION AND EVALUATION: APPOINTMENTS TO THE BOARD

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

The Society values all aspects of diversity, including gender, and ensures that Non-Executive Director appointments are made on merit, based on the specific skills and experience required. Members have the right under the Society's Rules to nominate candidates for election to the Board.

The Nomination & 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 for the vacancy. During the year, the Society utilised the services of independent recruitment specialists, Warren Partners, in the appointment of new Directors. This year particular consideration has been given to succession planning for Board and senior management to ensure there is a diverse pipeline to fill current and future requirements. This work will continue in the coming year.

As at the date of this report the percentage of women on the full Board is 33% with 43% of the Non-Executive Directors being female. Female representation on the Senior Management Team stands at 38%.

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

DEVELOPMENT

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

INFORMATION AND SUPPORT

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

EVALUATION

An internally facilitated Board and Committee evaluation was carried out in 2021 in order to monitor effectiveness and identify areas for review and improvement.

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

DIRECTORS' ATTENDANCE 2021-22

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
R Abbott	9(9)	4(4)		4(4)	5(5)
J Ogston	9(9)		6(6)	4(4)	4(4)
M MacKay	9(9)			5(5)	5(5)
K Lamont	9(9)	4(4)	6(6)	1(1)	
A Hastings	9(9)	4(4)	6(6)		
S Gunn	9(9)		2(3)	1(1)	1(1)
S Gilchrist	6(6)		3(3)		
P Denton	9(9)			2(2)	
N Easson	9(9)				

RE-ELECTION

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

AUDIT, RISK AND INTERNAL CONTROL RISK MANAGEMENT

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

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

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

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

FINANCIAL AND BUSINESS REPORTING

The Statement of Directors' Responsibilities on page 24 sets out the Board's responsibilities in relation to the Society's Annual Report and Accounts and the Directors' Report includes a statement regarding the Society's position as a going concern on page 13.

REMUNERATION

The Directors' Remuneration Report on pages 22 & 23 sets out the remuneration policies for Executive and Non-Executive Directors and explains how this meets the requirements of the Code.

RAYMOND ABBOTT
CHAIRMAN
25 March 2022

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 and colleagues annually, using data from comparable organisations and taking advice from external consultants when appropriate.

NON-EXECUTIVE DIRECTORS

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

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

EXECUTIVE DIRECTORS

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

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

Executive Directors in office as at 31 January 2022 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 2022	To 31 January 2021
R Abbott	£41,664	£40,750
J Ogston	£33,331	£32,600
M MacKay	£29,165	£28,718
K Lamont	£29,165	£28,525
A Hastings	£29,165	£28,525
S Gunn	£25,519	£24,959
S Gilchrist (appointed June 2021)	£14,857	–
A Webster (retired May 2020)	–	£7,915
Total	**£202,866**	**£191,992**

EXECUTIVE DIRECTORS

To 31 January 2022

	Salary	Bonus	Pension Contributions	Taxable Benefits	Total
P Denton	£216,019	£39,023	£6,481	£7,957	£269,480
N Easson	£144,357	£26,000	£4,331	£5,537	£180,225
Total	**£360,376**	**£65,023**	**£10,812**	**£13,494**	**£449,705**

To 31 January 2021

	Salary	Bonus	Pension Contributions	Taxable Benefits	Total
P Denton	£196,825	£38,000	£5,811	£7,319	£247,955
N Easson (appointed April 2020)	£110,583	–	£3,250	£4,533	£118,366
Total	**£307,408**	**£38,000**	**£9,061**	**£11,852**	**£366,321**

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

MARGARET MACKAY
CHAIR, REMUNERATION COMMITTEE
25 March 2022

Statement of Directors' Responsibilities

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

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

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

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

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

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

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

DIRECTORS' RESPONSIBILITIES FOR ACCOUNTING RECORDS AND INTERNAL CONTROLS

The Directors are responsible for ensuring that the Society:

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

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

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

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

The CBCR information comprises the information discussed below.

The Directors of the Society are responsible for preparing the CBCR information for the year ended 31 January 2022 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 67;
- making judgements and estimates that are reasonable and prudent; and
- establishing such internal control as the Directors determine is necessary to enable the preparation of CBCR information that is free from material misstatement, whether due to fraud or error.

Independent Auditors' Report to the members of Scottish Building Society

Report on the audit of the annual accounts

OPINION

In our opinion:

- Scottish Building Society's annual accounts (the "annual accounts") give a true and fair view of the state of the Society's affairs as at 31 January 2022 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 2022; the Income Statement and the Statement of Other Comprehensive Income, the Cash Flows Statement, and the Statement of Changes in Members' Interests for the year then ended; and the notes to the annual 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 2021 to 31 January 2022.

OUR AUDIT APPROACH

Overview

Materiality

- £374,230 (2021: £356,550)
- 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 remotely 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
- 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 and its 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, management bias in significant accounting estimates and significant one-off or unusual transactions. Audit procedures performed included:

- Enquiring of management and those charged with governance including consideration of known or suspected non-compliance with laws and regulations and fraud;
- Reading key correspondence with the PRA and the FCA in relation to compliance with laws and regulations;
- Evaluation of the operating effectiveness and reviewing the results of management's internal controls designed to prevent and detect irregularities, in particular their controls around authorisation of payments and other third parties;
- Reviewing internal audit reports in so far as they related to the annual accounts;
- Reviewing relevant meeting minutes including those of the Audit and Risk Committees;
- Reviewing tax compliance with the involvement of our tax specialists in the audit;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing;
- Challenging assumptions and judgements made by management in forming significant accounting estimates, in particular those as described under the key audit matters below; and,
- Identifying and testing journal entries, in particular any journals posted by senior management and/or postings to unusual account combinations based on our understanding of business operations.

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.

Impact of COVID-19, which was a key audit matter last year, is no longer included because of the reduced uncertainty of the impact of COVID-19 in the current year as markets and economies continue to recover. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers An impairment provision of £428,000 (2021: £479,000) 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 £178,000 (2021: £136,000) and collective provision of £250,000 (2021: £343,000). 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 significant 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 accounting policies are detailed on pages 37 to 40 with detail about judgements in applying accounting policies and critical accounting estimates on page 40.	· 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 Assets and Liability Committee. · We tested the accuracy and completeness of underlying data used in the impairment calculations. · We tested the reconciliation of loans and advances to customers between underlying source systems and the allowance models. · We tested the mechanical accuracy of the model, by independently recalculating the impairment provisions for a sample of loans and advances to customers. · We performed sensitivity analysis to assess the impact of adopting different assumptions which could be considered reasonable based on our industry knowledge and experience. · We also performed testing to assess that loans meeting the defined risk criteria had been captured in the assessment of individual provisions. · We considered the appropriateness of the collective model methodologies and their ability to reflect the impact of COVID-19, and the relevant judgements and assumptions used in the determination of the modelled provisions for residential loans and advances to customers. · We assessed management's monitoring activity performed throughout the year to ensure that changes to customer behaviour are reflected in impairment provisioning calculations at year end. · We considered management's risk assessment of physical and transitional risks associated with climate change and potential impacts on the provisions. The results of management's risk assessment demonstrated that physical and transitional risks are not material for the Society. · We reviewed the adequacy of the disclosures in the annual accounts with a specific focus on the disclosure of critical estimates associated with impairment losses. From the evidence we obtained, we did not identify any exceptions.
Effective Interest Rate (EIR) The Society uses an Effective Interest Rate (EIR) model to adjust the recognition of fees, commissions and early redemption charges integral to its loans and advances to customers. The loans and advances to customers of £454m (2021: £409m) presented in the balance sheet include an EIR asset of £479,000 (2021: £390,000). An EIR income of £89,000 (2021: £18,000) was recorded in the Income Statement for the year ended 31 January 2022. The recognition of interest receivable using the EIR method requires judgement by management regarding the expected life of mortgage assets. The Management's associated accounting policies are detailed on page 37, with detail about judgements made, and critical accounting estimates formed, in applying accounting policies on page 40.	· We obtained an understanding of the basis of management's process for recognising interest income using the EIR method and identified the key data inputs and assumptions within management's calculation. · We tested the accuracy and completeness of underlying data used in the EIR calculations and identified no issues. · We tested the mechanical accuracy of the model, by independently recalculating the EIR adjustment from supporting data for a sample of loans and advances to customers. · We considered the Society's historical experience of redemptions when assessing the estimates of expected lives of mortgage assets. · We also performed sensitivity analysis over this assumption to consider how the Society's interest income recognition would change in the event of management applying different assumptions. Based on the work performed on the EIR model, we consider that the deferred fees held in the Statement of Financial Position and the EIR income were appropriate at year end.

Independent Auditors' Report to the members of Scottish Building Society

How we tailored the audit scope

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

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

Audit procedures were performed over all material account balances and financial information of the Society by a single audit team based in the UK.

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	£374,230 (2021: £356,550)
How we determined it	1% of Net Assets
Rationale for benchmark applied	We believe that net assets is the most appropriate benchmark to use for the Society, whose strategy is not one of profit maximisation. Regulatory capital is a key benchmark for management and regulators and hence we continue to use net assets, a GAAP enshrined proxy to regulatory capital, as our benchmark.

We 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 £280,673.

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 £18,700 (2021: £17,000) 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, operational resilience, regulatory metrics and the sector in which the Society operates;
- Evaluation of the reasonableness of the Society's corporate plan, covering a period to January 2024, including key assumptions and considering the outcome of stress tests incorporated within the plan;
- Evaluation of the Society's access to funding schemes;
- Consideration of the Society's corporate plan, ICAAP and ILAAP, regulatory correspondence and reports provided to governance forums, and audit of the total capital resources and liquidity financing facilities; and
- Assessing the appropriateness of the disclosures in the Annual Report.

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 2022 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 directors on 30 May 2018 to audit the annual accounts for the year ended 31 January 2019 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 January 2019 to 31 January 2022.

ALLAN MCGRATH (SENIOR STATUTORY AUDITOR)

**FOR AND ON BEHALF OF PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS AND STATUTORY AUDITORS
EDINBURGH**

25 March 2022


"The Society has had another year of strong growth across both mortgages and savings balances which, together with strong financial management, has resulted in the achievement of record profits."
RAYMOND ABBOTT
CHAIRMAN

Accounts

For the year ended 31 January 2022

Income Statement
for the year ended 31 January 2022

	Note	2022 £000	2021 £000
Interest receivable and similar income	*2*	**12,331**	10,622
Interest payable and similar charges	*3*	**(2,731)**	(3,087)
Net interest income		**9,600**	7,535
Fees and commissions receivable		**55**	54
Fees and commissions payable		**(42)**	(33)
Net gains from derivative financial instruments	*4*	**117**	14
Total Net Income		**9,730**	7,570
Administrative expenses	*5*	**(7,181)**	(6,311)
Depreciation and amortisation	*15, 16*	**(337)**	(288)
Operating Profit before movement in acquired assets, impairment losses and provisions		**2,212**	971
Impairment gains/(losses) on loans and advances	*12*	**50**	(161)
Net increase in value of acquired assets	*13*	**92**	30
Operating Profit before tax		**2,354**	840
Tax expense	*8*	**(492)**	(187)
Profit for the financial year	*24*	**1,862**	653

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

The accompanying notes on pages 37 to 66 form an integral part of the Accounts.

Statement of Other Comprehensive Income

for the year ended 31 January 2022

	Note	**2022 £000**	2021 £000
Profit for the financial year		**1,862**	653
Valuation (losses)/gains taken to reserves	*25*	**(124)**	36
Income tax on other comprehensive income	*25*	**30**	(5)
Total comprehensive income for the year		**1,768**	684

The accompanying notes on pages 37 to 66 form an integral part of the Accounts.

Statement of Financial Position

as at 31 January 2022

	Note	2022 £000	2021 £000
ASSETS			
Liquid Assets:			
Cash in hand and balances with Bank of England		**105,786**	100,179
Loans and advances to credit institutions	*9*	**4,873**	6,627
Debt securities	*10*	**22,139**	7,039
Derivative financial instruments	*21*	**3,387**	50
Loans and advances to customers	*11*	**453,650**	409,182
Investment in subsidiary undertaking	*14*	**-**	-
Tangible fixed assets	*15*	**2,298**	1,929
Intangible assets	*16*	**328**	244
Other assets	*17*	**345**	441
TOTAL ASSETS		**592,806**	525,691
LIABILITIES			
Shares	*18*	**463,900**	436,685
Amounts owed to credit institutions	*19*	**80,516**	41,004
Amounts owed to other customers	*20*	**9,428**	10,473
Derivative financial instruments	*21*	**13**	736
Other liabilities and accruals	*22*	**1,361**	1,028
Deferred tax liability	*23*	**165**	110
TOTAL LIABILITIES		**555,383**	490,036
RESERVES			
General reserves	*24*	**37,499**	35,637
Available-for-sale reserves	*25*	**(76)**	18
Total reserves attributable to members of the Society		**37,423**	35,655
TOTAL RESERVES AND LIABILITIES		**592,806**	525,691

These accounts were approved and authorised for issue by the Board of Directors on 25 March 2022 and were signed on its behalf by:

RAYMOND ABBOTT **CHAIRMAN**	**PAUL DENTON** **CHIEF EXECUTIVE**	**NEIL EASSON** **FINANCE DIRECTOR**

The accompanying notes on pages 37 to 66 form an integral part of the Accounts.

Statement of Changes in Members' Interests

for the year ended 31 January 2022

	General reserves 2022 £000	Available -for-sale reserves 2022 £000	Total 2022 £000	General reserves 2021 £000	Available -for-sale reserves 2021 £000	Total 2021 £000
As at 1 February	**35,637**	**18**	**35,655**	34,984	(13)	34,971
Total Comprehensive income for the year						
Profit for the financial year	**1,862**	**-**	**1,862**	653	–	653
Other comprehensive (expense)/income (see *Note 25*)	**-**	**(94)**	**(94)**	–	31	31
Total comprehensive income for the year	**1,862**	**(94)**	**1,768**	653	31	684
As at 31 January	**37,499**	**(76)**	**37,423**	35,637	18	35,655

The accompanying notes on pages 37 to 66 form an integral part of the Accounts.

Cash Flows Statement

for the year ended 31 January 2022

	2022 £000	2021 £000
Cash flows from operating activities		
Profit before tax	**2,354**	840
Adjustments for		
Depreciation, amortisation and impairment	**337**	288
Loss on disposal of fixed assets	**5**	1
(Decrease)/Increase in impairment of loans and advances	**(50)**	161
Total	**2,646**	1,290
Changes in operating assets and liabilities		
(Increase) in other assets	**(3,241)**	(141)
(Decrease)/Increase in other liabilities and accruals	**(400)**	546
(Increase) in loans and advances to customers	**(44,417)**	(74,407)
Increase in shares	**27,215**	47,887
Increase in amounts owed to credit institutions and other customers	**38,467**	45,169
Decrease in loans and advances to credit institutions	**909**	7,618
Taxation paid	**(398)**	(92)
Net cash flows from operating activities	**18,135**	26,580
Cash flows from investing activities		
Purchase of debt securities	**(15,210)**	(15,580)
Sale and maturity of debt securities	**(14)**	38,600
Purchase of tangible fixed assets	**(582)**	(546)
Disposal of tangible fixed assets	**1**	1
Purchase of intangible assets	**(214)**	(128)
Net cash flows (used in)/generated from investing activities	**(16,019)**	22,347
Net Increase/(decrease) in cash and cash equivalents	**4,762**	50,217

	2021 £000	Cash Flows £000	2022 £000
Cash and cash equivalents			
Cash in hand and balances with the Bank of England	**100,179**	**5,607**	**105,786**
Loans and advances to credit institutions – repayable on demand	**5,718**	**(845)**	**4,873**
Loans and advances to credit institutions – less than 3 months maturity	**-**	**-**	**-**
	105,897	**4,762**	**110,659**

	2020 £000	Cash Flows £000	2021 £000
Cash in hand and balances with the Bank of England	45,149	55,030	100,179
Loans and advances to credit institutions – repayable on demand	3,531	2,187	5,718
Loans and advances to credit institutions – less than 3 months maturity	7,000	(7,000)	–
	55,680	50,217	105,897

The accompanying notes on pages 37 to 66 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. Ahead of the discontinuation of the London Interbank Offered Rate ("LIBOR") as a published benchmark on 31 December 2021, the Society transitioned all of its remaining LIBOR swaps to SONIA having adopted the FRS102 / IAS39 amendments to hedging rules (issued by the FRC in December 2019). As at the year-end the Society had no remaining exposures to LIBOR linked financial instruments.

Financial liabilities

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

Derecognition

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

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

Measurement

Amortised cost measurement

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

Fair value measurement

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

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

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

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

Identification and measurement of impairment

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

Objective evidence that financial assets are impaired includes:

a. significant financial difficulty of the borrower or issuer;

b. default or 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.

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 Flows 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 Flows 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 in which they are made.

Provisions

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

Critical accounting judgements and estimation uncertainty

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

a. *Impairment losses on loans and advances to customers* – the Society reviews its mortgage portfolio regularly to assess impairment. In determining whether an impairment loss should be recorded, the Society is required to exercise a degree of judgement. Impairment provisions are calculated using arrears experience, credit risk characteristics and expected cashflows. Estimates are applied to determine prevailing market conditions and customer behaviour. To the extent that default rates differ from those estimated by 100%, the impairment provisions on loans and advances would change by an estimated £43,000.

b. *Expected mortgage life* – in determining the expected life of mortgage assets, for the purposes of the effective interest rate calculation, the Society uses historical and forecast redemption data as well as management judgement. The accuracy of the estimated expected life would therefore be affected by unexpected changes to these assumptions. A 10% increase in the total mortgage life would result in an increase in the value of loans on the Statement of Financial Position by approximately £1,194,000.

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

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

   A change in the yield curve of 1% would change the total net fair value of derivative financial instruments by £3,527,000. However this would be largely offset by movements in the fair value of the hedged assets.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2022 £000	2021 £000
On loans fully secured on residential property	**12,223**	10,295
On other loans	**431**	463
Net expense on derivatives designated in hedging relationships	**(441)**	(412)
Net expense on derivatives designated as fair value through profit and loss	**(34)**	(50)
On debt securities:		
– interest and other income	**37**	151
On other liquid assets:		
– interest and other income	**115**	175
	12,331	10,622

Included within loans fully secured on residential property is £46,875 (2021: £27,404) in respect of interest income on impaired loans.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2022 £000	2021 £000
On shares held by individuals	**2,641**	3,019
On other shares	**3**	4
On deposits and other borrowings	**87**	64
	2,731	3,087

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

	2022 £000	2021 £000
Derivatives in designated fair value hedge relationships	**3,990**	(235)
Adjustment to hedged items in fair value hedge accounting relationships	**(3,943)**	260
Derivatives not in designated fair value hedge relationships	**70**	(11)
	117	14

Notes to the Accounts

5. ADMINISTRATIVE EXPENSES

	2022 £000	2021 £000
Staff costs	**4,231**	4,062
Other expenses	**2,950**	2,249
Administrative expenses	**7,181**	6,311

Included in other expenses are the following charges:		
– Property leasing costs	**58**	54
– Remuneration of auditors (excl. VAT):		
Audit of the Annual Accounts under FRS 102	**83**	79
COVID-19 prior year scope changes	**–**	5
Audit related services	**21**	3

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**	
	2022	2021	**2022**	2021
Head Office	**43**	41	**5**	6
Branches/Distribution	**27**	23	**7**	9
	70	64	**12**	15

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

	2022 £000	2021 £000
Wages and salaries	**3,568**	3,431
Social security costs	**354**	345
Pension costs	**309**	286
	4,231	4,062

7. DIRECTORS' REMUNERATION

Individual Directors' remuneration of £652,571 (2021: £558,313) is detailed in the Directors' Remuneration Report on pages 22 & 23.

8. TAX EXPENSE

	2022 £000	2021 £000
Current Tax		
Corporation tax charge for the year at 19.00% (2021: 19.00%)	**407**	154
Adjustment in respect of prior year	**-**	-
Total current tax charge for the year	**407**	154
Deferred tax		
Deferred tax charge for the year *(Note 23)*	**85**	33
Total tax charge for the year	**492**	187

Current tax has been provided at the rate of 19%. For the year ended 31 January 2022 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 19%; the differences are explained below:

	2022 £000	2021 £000
Profit on ordinary activities before taxation	**2,354**	840
Profit on ordinary activities before taxation multiplied by the statutory rate of corporation tax of 19.00% (2021: 19.00%)	**447**	160
Effects of:		
Expenses not deductible for corporation tax purposes	**25**	19
Capital allowance – super-deduction	**(26)**	-
Effect of change of tax rate on deferred tax	**46**	8
Adjustment in respect of prior year	**-**	-
Total tax charge for the year	**492**	187

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

	Current tax 2022 £000	Deferred tax 2022 £000	Total tax 2022 £000	Current tax 2021 £000	Deferred tax 2021 £000	Total tax 2021 £000
Recognised in Income Statement	**407**	**85**	**492**	154	33	187
Recognised in other comprehensive income	**-**	**(30)**	**(30)**	1	4	5
Total Tax	**407**	**55**	**462**	155	37	192

A tax credit of £30,000 (2021: charge of £5,000) has been recognised in the available-for-sale reserves.

Notes to the Accounts

9. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	2022 £000	2021 £000
Accrued interest	**-**	-
Repayable on demand	**4,873**	5,718
In not more than three months	**-**	-
In more than three months but not more than one year	**-**	-
Non-defined maturity	**-**	909
	4,873	6,627

10. DEBT SECURITIES

	2022 £000	2021 £000
Floating rate notes	**7,042**	7,039
UK Treasury Gilts	**15,097**	-
	22,139	7,039
Debt securities have remaining maturities as follows:		
Accrued interest	**111**	3
In not more than one year	**15,120**	-
In more than one year	**6,908**	7,036
	22,139	7,039
Transferable debt securities comprise:		
Listed	**22,006**	7,022
Unlisted	**-**	-
Unamortised premia	**133**	17
	22,139	7,039
Market Value of listed debt securities	**22,139**	7,039
Movements during the year of debt securities:		
At 1 February	**7,039**	30,123
Additions	**15,210**	15,580
Disposals and maturities	**-**	(38,563)
Accrued interest	**72**	(127)
Amortisation	**(58)**	(10)
Net (losses)/gains from changes in fair value recognised in other comprehensive income	**(124)**	36
As at 31 January	**22,139**	7,039

11. LOANS AND ADVANCES TO CUSTOMERS

	2022 £000	2021 £000
Loans fully secured on residential property	**447,090**	397,408
Loans fully secured on land	**9,833**	11,103
Fair value adjustment for hedged risk	**(3,273)**	671
	453,650	409,182

Maturity Analysis

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

	2022 £000	2021 £000
On call and at short notice	**748**	617
In not more than three months	**4,882**	4,245
In more than three months but not more than one year	**14,507**	12,394
In more than one year but not more than five years	**77,782**	73,539
In more than five years	**356,159**	318,866
	454,078	409,661
Less allowance for impairment *(Note 12)*	**(428)**	(479)
	453,650	409,182

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

The Society has pledged as collateral £102.9m (2021: £96.3m) 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 2022 £000	Collective Impairment 2022 £000	Total 2022 £000
Loans fully secured on residential property:			
At 1 February	**136**	**343**	**479**
Amounts written off during the year, net of recoveries	**(1)**	**-**	**(1)**
Charge/(credit) for the year	**43**	**(93)**	**(50)**
As at 31 January	**178**	**250**	**428**

	Individual Impairment 2021 £000	Collective Impairment 2021 £000	Total 2021 £000
Loans fully secured on residential property:			
At 1 February	90	220	310
Amounts written off during the year, net of recoveries	8	–	8
Charge/(credit) for the year	38	123	161
As at 31 January	136	343	479

As a result of the impact of COVID-19 and the increased economic uncertainty, the Directors included an overlay to the collective assessment of impairment as at 31 January 2021 to ensure that adequate provisions were held against losses that may have been incurred but not identified at the year-end. This overlay amounted to £150,000 and was estimated assuming an additional 1% of the Society's borrowers default on their mortgage. Following an improvement in underlying economic conditions in the last 12 months, this default assumption has been reduced to 0.25% resulting in a reduction in the overlay to £50,000 as at 31 January 2022. Partially offsetting this £100,000 release was £7,000 of other movements resulting in a net decrease in the collective provision of £93,000.

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:

	2022 £000	2021 £000
Further impairment of acquired assets	**-**	(3)
Increase in value of acquired assets	**92**	33
	92	30

14. INVESTMENT IN SUBSIDIARY UNDERTAKING

During the year, the Society had a 100% (2021: 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 2022 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 2022, 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 2022 £000	Land & Buildings Short Leasehold 2022 £000	Office Equipment 2022 £000	Motor Vehicles 2022 £000	Total 2022 £000
Cost					
As at 1 February	1,980	316	1,220	71	3,587
Additions	360	-	165	57	582
Disposals	-	-	(39)	(38)	(77)
As at 31 January	2,340	316	1,346	90	4,092
Accumulated depreciation					
As at 1 February	626	43	954	35	1,658
Charged in year	47	33	106	26	212
Impairment	-	-	-	-	-
Disposals	-	-	(39)	(37)	(76)
As at 31 January	673	76	1,021	24	1,794
Net book value					
As at 31 January	1,667	240	325	66	2,298

Notes to the Accounts

15. TANGIBLE FIXED ASSETS (continued)

	Land & Buildings Freehold 2021 £000	Land & Buildings Short Leasehold 2021 £000	Office Equipment 2021 £000	Motor Vehicles 2021 £000	Total 2021 £000
Cost					
As at 1 February	1,634	460	1,061	61	3,216
Additions	346	–	165	35	546
Disposals	–	(144)	(6)	(25)	(175)
As at 31 January	1,980	316	1,220	71	3,587
Accumulated depreciation					
As at 1 February	588	153	852	38	1,631
Charged in year	38	34	106	22	200
Impairment	–	–	–	–	–
Disposals	–	(144)	(4)	(25)	(173)
As at 31 January	626	43	954	35	1,658
Net book value					
As at 31 January	1,354	273	266	36	1,929

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

	2022 £000	2021 £000
As at 31 January	**1,667**	1,354

The net book value of motor vehicles includes an amount of £65,000 (2021: £36,000) in respect of assets held under finance leases.

Depreciation charged in the year on these assets amounted to £26,000 (2021: £22,000).

Property is subject to external valuation when management/directors believe factors have occurred which could impact on the carrying value of property assets. In giving consideration to the future use of the Society's Head Office premises, an independent valuation was carried out on 7 November 2019. As a result of the valuation provided, and considering the future use of the Head Office premises, the carrying value of the Society's Head Office was revised upward from £824,000 to £900,000 in the year to 31 January 2020. The Directors consider the valuation of £900,000 to be an appropriate carrying value for the premises at 31 January 2022.

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 2022 £000	Computer Software 2021 £000
Cost		
As at 1 February	**925**	797
Additions	**214**	128
Disposals	**(35)**	–
As at 31 January	**1,104**	925
Accumulated amortisation		
As at 1 February	**681**	593
Charged in year	**125**	88
Disposals	**(30)**	–
As at 31 January	**776**	681
Net book value		
As at 31 January	**328**	244

17. OTHER ASSETS

	2022 £000	2021 £000
Prepayments and accrued income	**340**	424
Other Debtors	**5**	17
	345	441

Notes to the Accounts

18. SHARES

	2022 £000	2021 £000
a) Held by individuals	**463,301**	436,097
Other shares	**599**	588
	463,900	436,685
b) Repayable from the date of the Financial Statements in the ordinary course of business as follows:		
Accrued interest	**1,604**	1,686
On demand	**343,081**	319,859
In not more than three months	**34,370**	31,546
In more than three months but not more than one year	**47,204**	27,300
In more than one year but not more than five years	**37,641**	56,294
	463,900	436,685

19. AMOUNTS OWED TO CREDIT INSTITUTIONS

	2022 £000	2021 £000
Repayable from the date of the Financial Statements in the ordinary course of business as follows:		
Accrued interest	**16**	4
In not more than three months	**–**	1,000
In more than three months but not more than one year	**500**	–
In more than one year but not more than five years	**80,000**	40,000
	80,516	41,004

Included in the amounts above for 2022 is £80m (2021: £40m) borrowed from the Bank of England under the Term Funding Scheme with additional incentives for SMEs (TFSME).

20. AMOUNTS OWED TO OTHER CUSTOMERS

	2022 £000	2021 £000
Repayable from the date of the Financial Statements in the ordinary course of business as follows:		
Accrued interest	**6**	24
Repayable on demand	**1,322**	5,349
In not more than three months	**4,000**	3,000
In more than three months but not more than one year	**4,100**	2,100
	9,428	10,473

21. DERIVATIVE FINANCIAL INSTRUMENTS

	Positive Market value 2022 £000	Negative Market value 2022 £000	Positive Market value 2021 £000	Negative Market value 2021 £000
Derivatives designated as fair value hedges:				
Interest rate swaps	**3,323**	**(13)**	55	(736)
Derivatives designated as fair value through profit and loss:				
Interest rate swaps	**64**	**-**	(5)	–
As at 31 January	**3,387**	**(13)**	50	(736)

22. OTHER LIABILITIES AND ACCRUALS

	2022 £000	2021 £000
Other Liabilities		
Corporation tax	**164**	155
Finance leases *(Note 28)*	**59**	31
Other creditors	**400**	136
Accruals and deferred income	**738**	706
	1,361	1,028

Notes to the Accounts

23. DEFERRED TAX LIABILITY

	2022	2021
	£000	£000
Provided:		
Timing differences between capital allowances and depreciation	**203**	115
FRS 102 transitional adjustments	**(3)**	(3)
Recognised in other comprehensive income	**(26)**	4
Other timing differences	**(9)**	(6)
	165	110
As at 1 February	**110**	73
Deferred tax charge for the financial year *(Note 8):*		
– Income Statement	**85**	33
Deferred tax charge for the financial year *(Note 8):*		
– other comprehensive income	**(30)**	4
As at 31 January	**165**	110

24. GENERAL RESERVES

	2022	2021
	£000	£000
As at 1 February	**35,637**	34,984
Profit for the year	**1,862**	653
As at 31 January	**37,499**	35,637

25. AVAILABLE-FOR-SALE RESERVES

	2022 £000	2021 £000
As at 1 February	**18**	(13)
Valuation (losses)/gains recognised directly in other comprehensive income net of tax	**(94)**	31
As at 31 January	**(76)**	18

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.

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 2022	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	-	105,786	-	-	-	105,786
Loans and advances to credit institutions	4,873	-	-	-	-	4,873
Debt securities	-	-	22,139	-	-	22,139
Derivative financial instruments	-	-	-	3,323	64	3,387
Loans and advances to customers	453,650	-	-	-	-	453,650
Other assets	-	2,971	-	-	-	2,971
	458,523	108,757	22,139	3,323	64	592,806
Financial liabilities and reserves						
Shares	-	463,900	-	-	-	463,900
Amounts owed to credit institutions	-	80,516	-	-	-	80,516
Amounts owed to other customers	-	9,428	-	-	-	9,428
Derivative financial instruments	-	-	-	13	-	13
Other liabilities	-	1,526	-	-	-	1,526
Reserves	-	37,423	-	-	-	37,423
	-	592,793	-	13	-	592,806

26. FINANCIAL INSTRUMENTS (continued)

Carrying values by category as at 31 January 2021	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	–	100,179	–	–	–	100,179
Loans and advances to credit institutions	6,627	–	–	–	–	6,627
Debt securities	–	–	7,039	–	–	7,039
Derivative financial instruments	–	–	–	55	(5)	50
Loans and advances to customers	409,182	–	–	–	–	409,182
Other assets	–	2,614	–	–	–	2,614
	415,809	102,793	7,039	55	(5)	525,691
Financial liabilities and reserves						
Shares	–	436,685	–	–	–	436,685
Amounts owed to credit institutions	–	41,004	–	–	–	41,004
Amounts owed to other customers	–	10,473	–	–	–	10,473
Derivative financial instruments	–	–	–	736	–	736
Other liabilities	–	1,138	–	–	–	1,138
Reserves	–	35,655	–	–	–	35,655
	–	524,955	–	736	–	525,691

Loans and advances to customers in the above table includes a £3.3m liability (2021: £671,000 asset) 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 £19.8m (2021: £23.9m) 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 2022				
Financial assets				
Debt securities	**22,139**	**–**	**–**	**22,139**
Derivative financial instruments	**–**	**3,387**	**–**	**3,387**
	22,139	**3,387**	**–**	**25,526**
Financial liabilities				
Derivative financial instruments	**–**	**13**	**–**	**13**
	–	**13**	**–**	**13**
31 January 2021				
Financial assets				
Debt securities	7,039	–	–	7,039
Derivative financial instruments	–	50	–	50
	7,039	50	–	7,089
Financial liabilities				
Derivative financial instruments	–	736	–	736
	–	736	–	736

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:

	2022 £000	2021 £000
Cash in hand and with Bank of England	**105,786**	100,179
Loans and advances to credit institutions	**4,873**	6,627
Debt securities	**22,139**	7,039
Derivative financial instruments	**3,387**	50
Loans and advances to customers	**453,650**	409,182
Total Statement of Financial Position exposure	**589,835**	523,077
Statement of Financial Position exposure commitments	**19,758**	23,889

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.

	2022			2021		
	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	**438,649**	**9,833**	**–**	391,746	11,007	–
Past due but not impaired						
30 – 60 days	**878**	**–**	**–**	2,026	–	–
60 – 90 days	**701**	**–**	**–**	617	–	–
90 – 180 days	**716**	**–**	**–**	1,140	–	–
180 days+	**2,224**	**–**	**–**	2,380	–	–
	4,519	**–**	**–**	6,163	–	–
Individually impaired						
Not past due	**175**	**–**	**–**	43	–	–
30 – 60 days	**–**	**–**	**–**	88	–	–
60 – 90 days	**–**	**–**	**–**	–	–	–
90 – 180 days	**254**	**–**	**–**	564	–	–
180 days+	**549**	**–**	**–**	49	–	–
Possession	**99**	**–**	**–**	–	–	–
	1,077	**–**	**–**	744	–	–
Allowance for impairment						
Individual	**(178)**	**–**	**–**	(136)	–	–
Collective	**(250)**	**–**	**–**	(343)	–	–
Total allowance for impairment	**(428)**	**–**	**–**	(479)	–	–

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

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

The 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.

	2022 £000	2021 £000
LTV		
Less than 50%	**210,243**	176,714
51%-70%	**143,889**	123,986
71%-90%	**98,684**	102,463
91%-100%	**1,217**	6,427
More than 100%	**45**	71
As at 31 January	**454,078**	409,661

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.

As part of the UK-wide response to COVID-19, mortgage lenders were required to grant payment deferrals of up to 6 months at the request of the borrower. In the year to 31 January 2021, the Society granted COVID-19 payment deferrals to 509 customers, of which 20 were still in force at 31 January 2021. None remained in place at 31 January 2022.

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

	2022	2021
Temporary payment reductions	**3**	13
Payment plans	**37**	38
Capitalisations	**-**	-
Mortgage term extensions	**-**	-
COVID-19 payment deferrals	**-**	20
	40	71

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 2022	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	105,702	-	-	-	-	84	105,786
Loans and advances to credit institutions	4,873	-	-	-	-	-	4,873
Debt securities	-	-	15,120	6,908	-	111	22,139
Derivative financial instruments	-	-	-	-	-	3,387	3,387
Loans and advances to customers	748	4,882	14,507	77,782	356,159	(428)	453,650
Other assets	-	-	-	-	-	2,971	2,971
	111,323	4,882	29,627	84,690	356,159	6,125	592,806
Financial liabilities and reserves							
Shares	343,081	34,370	47,204	37,641	-	1,604	463,900
Amounts owed to credit institutions	-	-	500	80,000	-	16	80,516
Amounts owed to other customers	1,322	4,000	4,100	-	-	6	9,428
Derivative financial instruments	-	-	-	-	-	13	13
Other liabilities	-	-	-	-	-	1,526	1,526
Reserves	-	-	-	-	-	37,423	37,423
	344,403	38,370	51,804	117,641	-	40,588	592,806

26. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk (continued)

As at 31 January 2021	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	100,087	–	–	–	–	92	100,179
Loans and advances to credit institutions	5,718	–	–	–	–	909	6,627
Debt securities	–	–	–	7,036	–	3	7,039
Derivative financial instruments	–	–	–	–	–	50	50
Loans and advances to customers	617	4,245	12,394	73,539	318,866	(479)	409,182
Other assets	–	–	–	–	–	2,614	2,614
	106,422	4,245	12,394	80,575	318,866	3,189	525,691
Financial liabilities and reserves							
Shares	319,859	31,546	27,300	56,294	–	1,686	436,685
Amounts owed to credit institutions	–	1,000	–	40,000	–	4	41,004
Amounts owed to other customers	5,349	3,000	2,100	–	–	24	10,473
Derivative financial instruments	–	–	–	–	–	736	736
Other liabilities	–	–	–	–	–	1,138	1,138
Reserves	–	–	–	–	–	35,655	35,655
	325,208	35,546	29,400	96,294	–	39,243	525,691

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 2022	**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	**344,271**	**34,489**	**47,368**	**37,772**	**–**	**463,900**
Amounts owed to credit institutions	**16**	**–**	**500**	**80,000**	**–**	**80,516**
Amounts owed to other customers	**1,328**	**4,000**	**4,100**	**–**	**–**	**9,428**
	345,615	**38,489**	**51,968**	**117,772**	**–**	**553,844**

As at 31 January 2021	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	321,099	31,669	27,405	56,512	–	436,685
Amounts owed to credit institutions	4	1,000	–	40,000	–	41,004
Amounts owed to other customers	5,373	3,000	2,100	–	–	10,473
	326,476	35,669	29,505	96,512	–	488,162

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 2022. 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 2022	**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:	117,483	15,120	-	-	195	132,798
Cash in hand with Bank of England	105,702	-	-	-	84	105,786
Loans and advances to credit institutions	4,873	-	-	-	-	4,873
Debt securities	6,908	15,120	-	-	111	22,139
Derivative financial instruments	-	-	-	-	3,387	3,387
Loans and advances to customers	215,960	53,833	187,162	-	(3,305)	453,650
Tangible fixed assets	-	-	-	-	2,298	2,298
Intangible fixed assets	-	-	-	-	328	328
Other assets	-	-	-	-	345	345
	333,443	68,953	187,162	-	3,248	592,806
Financial liabilities						
Shares	377,451	47,204	37,642	-	1,603	463,900
Amounts owed to credit institutions	80,000	500	-	-	16	80,516
Amounts owed to other customers	5,322	4,100	-	-	6	9,428
Derivative financial instruments	-	-	-	-	13	13
Other liabilities and accruals	-	-	-	-	1,526	1,526
Provision for liabilities	-	-	-	-	-	-
Reserves	-	-	-	-	37,423	37,423
	462,773	51,804	37,642	-	40,587	592,806
Notional amount of interest rate swaps	167,800	(30,500)	(134,800)	(2,500)	-	-
Interest rate sensitivity gap	38,470	(13,351)	14,720	(2,500)	(37,339)	-
Cumulative Gap	38,470	25,119	39,839	37,339	-	

26. FINANCIAL INSTRUMENTS (continued)

Market Risk (continued)

As at 31 January 2021	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:	113,750	–	–	–	95	113,845
Cash in hand with Bank of England	100,087	–	–	–	92	100,179
Loans and advances to credit institutions	6,627	–	–	–	–	6,627
Debt securities	7,036	–	–	–	3	7,039
Derivative financial instruments	–	–	–	–	50	50
Loans and advances to customers	222,575	35,313	150,918	–	376	409,182
Tangible fixed assets	–	–	–	–	1,929	1,929
Intangible fixed assets	–	–	–	–	244	244
Other assets	–	–	–	–	441	441
	336,325	35,313	150,918	–	3,135	525,691
Financial liabilities						
Shares	351,405	27,300	56,294	–	1,686	436,685
Amounts owed to credit institutions	41,000	–	–	–	4	41,004
Amounts owed to other customers	8,349	2,100	–	–	24	10,473
Derivative financial instruments	–	–	–	–	736	736
Other liabilities and accruals	–	–	–	–	1,138	1,138
Provision for liabilities	–	–	–	–	–	–
Reserves	–	–	–	–	35,655	35,655
	400,754	29,400	56,294	–	39,243	525,691
Notional amount of interest rate swaps	120,200	(22,000)	(97,200)	(1,000)	–	–
Interest rate sensitivity gap	55,771	(16,087)	(2,576)	(1,000)	(36,108)	–
Cumulative Gap	55,771	39,684	37,108	36,108	–	

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 £452,000 for one year (2021: £481,000).

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 6.76% (2021: 7.30%) and free capital was 6.33% (2021: 7.82%).

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

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

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

28. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

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

	2022 £000	2021 £000
Within one year	**50**	55
Between one and five years	**63**	133
More than five years	**-**	-
	113	188

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

	2022 £000	2021 £000
Within one year	**27**	16
Between one and five years	**32**	15
More than five years	**-**	-
	59	31

Notes to the Accounts

29. RELATED PARTIES

Key management personnel remuneration

Remuneration of the key management personnel, who are not Executive Directors, for the year was: £940,000 (2021: £851,000).

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:

	2022		2021	
	Number	**£000**	Number	£000
Loans and advances to customers	**2**	**280**	1	114
Deposits and share accounts	**24**	**285**	32	250

The aggregate amount outstanding at 31 January 2022 in respect of loans, transactions and arrangements made by the Society to Directors or persons connected with a Director was £110,373 (2021: £114,085) comprising secured mortgages to family members of one Director 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 2022. This includes the economic uncertainty arising from current geopolitical events as referenced within the Chairman's Report.

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 2022 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 2022 in the Country-by-Country Report.

BASIS FOR OPINION

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

Independence

We remained independent of the Society in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, 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 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, operational resilience, regulatory metrics and the sector in which the Society operates;
- Evaluation of the reasonableness of the Society's corporate plan, covering a period to January 2024, including key assumptions and considering the outcome of stress tests incorporated within the plan;
- Evaluation of the Society's access to funding schemes;
- Consideration of the Society's corporate plan, ICAAP and ILAAP, regulatory correspondence and reports provided to governance forums, and audit of the total capital resources and liquidity financing facilities; and
- Assessing the appropriateness of the disclosures in the Annual Report.

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 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 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.

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

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

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

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

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.

Country-by-Country Reporting

Independent auditors' report to the directors of Scottish Building Society

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

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

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 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 country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as 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 posting inappropriate journal entries to manipulate financial performance, management bias in significant accounting estimates and significant one-off or unusual transactions. Audit procedures performed included:

- Enquiring of management and those charged with governance including consideration of known or suspected non-compliance with laws and regulations and fraud;
- Reading key correspondence with the PRA and the FCA in relation to compliance with laws and regulations;
- Evaluation of the operating effectiveness and reviewing the results of management's internal controls designed to prevent and detect irregularities, in particular their controls around authorisation of payments and other third parties;
- Reviewing internal audit reports in so far as they related to the annual accounts;
- Reviewing relevant meeting minutes including those of the Audit and Risk Committees;
- Assessment of matters, if any, reported to the Audit Committee;
- Reviewing tax compliance with the involvement of our tax specialists in the audit;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing;
- Challenging assumptions and judgements made by management in forming significant accounting estimates, in particular those as described under the key audit matters below; and,
- Identifying and testing journal entries, in particular any journals posted by senior management and/or postings to unusual account combinations based on our understanding of business operations.

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

PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS AND STATUTORY AUDITORS
EDINBURGH

25 March 2022

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 2022 were:

	2022 **£000**	2021 £000
Total operating income	**9,730**	7,570
Profit before tax	**2,354**	840
Tax paid in year	**398**	92
Public subsidies received	**-**	-
Average number of employees on FTE basis	**75**	70

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 Flows 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

	2022 %	2021 %	Statutory Limit %
a) Lending limit	**2.25**	2.99	25.0
b) Funding limit	**16.35**	10.67	50.0

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

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

2. OTHER PERCENTAGES

	2022 %	2021 %
As a percentage of shares and borrowings:		
a) Gross capital	**6.76**	7.30
b) Free capital	**6.33**	6.93
c) Liquid assets	**23.98**	23.32
Profit after tax as a percentage of mean total assets	**0.33**	0.14
Profit after tax (excluding movement in acquired assets and FSCS levy) as a percentage of mean total assets	**0.32**	0.13
Management expenses as a percentage of mean total assets	**1.34**	1.38

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 £478,548k for 2021, increasing to £559,249k for 2022.

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

3. DIRECTORS AS AT 31 JANUARY 2022

Name and Business Occupation	Age	Date of Appointment	Other Directorships
Raymond Abbott Company Director	62	01.06.13	SBS Mortgages Limited Foresight Enterprise VCT plc Integrated Environmental Solutions Limited Schroder UK Public Private Trust plc
John (Jack) Ogston Chartered Banker	64	01.07.13	Cancer Support Scotland (Tak Tent)
Margaret MacKay Company Director	59	01.03.17	None
Kathryn (Karyn) Lamont Chartered Accountant	53	30.05.18	The Scottish Investment Trust plc The North American Income Trust plc iomart Group plc The Scottish American Investment Company plc S.I.T. Savings Limited
Andrew Hastings Chartered Banker	58	01.07.19	Electricity Supply Board Elavon Financial Services DAC Pepper Finance Corporation (Ireland) DAC
Sheila Gunn Company Director	58	01.11.19	Gunn Limited The Epaphras Trust
Sean Gilchrist Chartered Banker	59	23.06.21	Amishane Limited
Paul Denton Building Society Chief Executive	51	01.07.19	SBS Mortgages Limited BSA Pension Trustees Limited Chest, Heart & Stroke Scotland Limited
Neil Easson Building Society Finance Director	51	01.04.20	Caber Finance Consulting Limited

Our Branches

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6 Alford Place
Aberdeen
AB10 1YD

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193 Dalry Road
Edinburgh
EH11 2EF

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Galashiels
TD1 1EP

GLASGOW
78 Queen Street
Glasgow
G1 3DN

INVERNESS
71 Queensgate
Inverness
IV1 1DG

TROON
27 Ayr Street
Troon
KA10 6EB

0333 207 4007

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

scottishbs.co.uk