Annual Report & Accounts

For the year ended 31 January 2023

SCOTTISH BUILDING SOCIETY | 175 YEARS


Welcome to
SCOTTISH
BUILDING SOCIETY

CELEBRATING 175 YEARS

Annual Report & Accounts

For the year ended 31 January 2023

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SCOTTISH BUILDING SOCIETY

Chair's Report

Thriving through continued political and economic turbulence

In my first year as Chair, and as the Society reaches a milestone 175th anniversary, I am pleased to report that we have had another excellent performance, with strong profits and continued balance sheet growth, supported by the rising interest rate environment and sound financial management.

The Society's capital and liquidity position remains strong and continued profitability is important to support future growth and investment in the new technology, products and services that are planned for the continued modernisation of the Society.

In a year where the economic environment has been dominated by uncertainty and the cost of living crisis, these results demonstrate the inherent strength of the Scottish Building Society brand, and, as the Society enters its 175th year, provide an excellent platform to continue to build from in the years ahead.

Supporting our members and communities

As we moved into a phase of 'living with COVID' at the beginning of our financial year, it was great to welcome our colleagues back into the office on a more regular basis and return to a more normal operating environment to serve our members. We will continue to evolve our working practices to ensure we realise the benefits of the new technology and increased flexibility implemented during the pandemic.

We have upgraded a number of our Relationship Centres to provide a more open and welcoming environment for members, and we aim to complete the modernisation of our network with the relocation of our Edinburgh Relationship Centre to a new city centre site later this year.

We recognise the challenges that the increased cost of living and rising interest rates bring to all our members, particularly those with mortgages. While arrears levels have remained stable, we have increased resources to ensure that we have appropriately trained colleagues available to support members who may be experiencing financial difficulty.

After many years of historically low interest rates, the Bank of England increased its base rate on eight consecutive occasions to 3.50% at the end of our financial year. In response we have increased savings rates across our product range a number of times throughout the year, and, with further interest rate increases already announced in 2023, we will continue to review our rates to ensure we retain a compelling proposition for savers while balancing the impact on our mortgage members.

As a mutual organisation, we recognise the importance of supporting the communities in which we operate and encourage colleagues to volunteer with local charitable organisations and support our charity of the year, Maggies, through fundraising. To mark our 175th year the Society has set up a charitable foundation, in partnership with Foundation Scotland, with an initial donation of £175,000, to support good causes in our local communities.

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In a year where the economic environment has been dominated by uncertainty and the cost of living crisis, these results demonstrate the inherent strength of the Scottish Building Society brand, and, as the Society enters its 175th year, provide an excellent platform to continue to build from in the years ahead."

Ian Wilson
Chair

The Board and our Annual General Meeting

There have been several changes in the Board this year and I am pleased that we have managed this through an orderly transition, including from our previous Chair, Raymond Abbott, to myself. I would like to record my thanks to Raymond for his support through this process, and also for his outstanding service to the Society over a nine year period on the Board, including the last five years as Chair. Raymond deserves great credit for steering the Society through a particularly turbulent period, where it has taken the opportunity to grow and invest in modernising its operations. Raymond leaves the Society in a strong position to move forward with the next phase of its journey.

With Margaret MacKay and Jack Ogston stepping down from the Board in May 2022, we are delighted to welcome Andrew Lee and Rosemary Hilary to the Board. Both Andrew and Rosemary bring a wealth of experience from the wider financial services sector and a strong alignment with our mutual values to the Board and I look forward to working with them.

After holding our previous two Annual General Meetings virtually, we were delighted to be able to meet in person again at our 2022 AGM in Glasgow. We are planning to hold our 2023 AGM on 17 May 2023 at the Edinburgh City Chambers, where, as well as the formal business of the AGM, we will celebrate our 175th anniversary. 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 during April.

Looking forward

Since joining the Society as Chair in September 2022, I have been impressed with the strength of the leadership team and the dedication of colleagues to serving our members. On behalf of the Board I would like to take this opportunity to thank Paul and the team for all their hard work.

While there are undoubtedly economic challenges ahead, the Society faces into these challenges in a strong financial position, with a highly capable team which I am confident will continue to make excellent progress towards the Society's strategic goals.

Thank you for your continued support.

Ian Wilson
Chair
30 March 2023

Chief Executive's Review

£3.3m	£112.3m	£42.4m	£26.5m
pre-tax profit for 2023	gross mortgage lending	net mortgage lending	savings growth

A proud history

This year we celebrate our 175th anniversary and amongst many activities planned across the year, we have commissioned a book to document our history since 1848. It makes for an informative and enjoyable read, but perhaps most interesting is the common thread of purpose which flows through the years.

The Society was originally formed as Edinburgh Friendly Property Investment Company and like many similar societies founded at the time its purpose was to enable members to collectively save and to allow individual members to borrow monies to fund the purchase of a home.

Our purpose has not changed in 175 years and as we report another year of strong growth for both savings and mortgages, I'm proud to also report that is actually all we do. We just happen to believe we do them both very well and so apparently do others...

...In 2022 we were named Building Society of the Year at the Scottish Mortgage Awards for the 4th consecutive year, whilst our mortgage intermediary partners separately awarded us 5 stars which is the highest recognition for a mortgage lender.

Our savings members consistently describe us as 'friendly' and 'helpful' amongst many other compliments you can see in the word cloud on page 7 and our overall rating for customer satisfaction in the year was 95.9%.

Preparing for the future

Whilst our purpose remains as relevant as ever, the environment within which we operate is ever changing and I am particularly pleased with the investments we have made this year to continuously improve the service we provide for our growing membership.

If you appreciate traditional face-to-face relationships we have now refurbished our Glasgow, Aberdeen, Inverness, Troon and Galashiels offices. We have removed the transactional cashier counters, replacing them with soft furnished lounge areas where you can relax and speak with colleagues who understand your needs. We will also be relocating our Edinburgh Relationship Centre to a new city centre location in 2023, which will also reflect this new design.

Our telephony service has been enhanced so you can quickly get through to an appropriate member of the Society team who can answer your questions or enquiry.

For those who prefer digital, we have updated and relaunched our website to present information more effectively and without unnecessary navigation through numerous pages. We have also launched a mobile application to communicate with new mortgage borrowers and enable e-signature.

We know you like to engage with us in different ways, so whether you love your passbook or prefer the convenience of going online, we can accommodate your choice of relationship.

Resilience has never been so important

We have clearly done many things right over the years to sustain such a long history, however the 21st century is not a place for complacency and we have also been investing in many areas that are less visible. I am delighted to say that during the last eighteen months we have moved all our core systems into the 'cloud', increasing our operational resilience and overall systems and data security.

At the same time, we have significantly enhanced our approach to risk management across all the Society's processes and invested in new colleague capabilities to ensure we meet enhanced regulatory and legislative requirements. Our resilience has been tested robustly in recent years, from the operational challenges of COVID, the credit challenges of an economic downturn or the financial turmoil of unanticipated market disruptions. I have never been more confident in our ability to navigate through difficult times.

“

We are proud to have delivered such a strong performance this year, and as a mutual, profits are retained in the business to support future growth and importantly future investment to position the Society to remain modern, efficient and sustainable for the next 175 years.”

Paul Denton
Chief Executive

Support during cost of living challenges

We do recognise that these are more challenging times and as a mutual we are privileged to focus solely on our members without, dare I say, the distraction of shareholders. That is why our savings members typically enjoy higher rates than the high street banks and why we don't continuously update our product range. As a savings member we can't always guarantee that you have the best interest rate on the market, but we will aim to be one of the best among building societies and high street banks. We offer simple savings products whether you are looking for instant access, tax-free or a fixed term, with good rates and a great team to help you make the most of your savings.

For our mortgage members, I am pleased to advise that we have worked hard to limit the impact of rising interest rates, with our variable mortgage rates increasing on average by less than two thirds of the Bank of England rate rises since December 2021. We also work closely with members who find themselves in financial difficulty, and despite the increased economic challenges I am pleased to report that we have fewer members in arrears with their mortgage payments at this year end than we had a year ago. We are here to help where we can.

We also acknowledge that the Society's continuing financial success comes at a time when communities are finding it harder to access funds for local worthy causes and, as Ian has already mentioned, I am delighted that to celebrate our 175th anniversary we have launched a new charitable Trust Fund, with an initial contribution of £175,000 – our largest ever donation to charity. I look forward to sharing details of how the Scottish Building Society Foundation, which will be supported by Foundation Scotland, helps local communities across Scotland in 2023.

Continued strong performance

The Society has once again seen strong growth this year with mortgage growth of 9%, savings balances increasing by 6% and overall funding increasing by 9%, net of a £20m early partial repayment of our Term Funding from the Bank of England. Whilst we have seen net interest margins increase this year, as a result of a rising base rate, the underlying trend across the last three years has been simple sustainable growth. The balance sheet is now c.50% larger than it was in 2020 supporting more members to own their homes and rewarding more members for their savings.

We are proud to have delivered such a strong performance this year, and as a mutual, profits are retained in the business to support future growth and importantly future investment to position the Society to remain modern, efficient and sustainable for the next 175 years.

Changing of the guard

This year has seen a number of changes on our Board and I would like to welcome Ian, Rosemary and Andrew to the Society. I look forward to working with you all over the coming years.

I would also like to add my own personal thanks to Raymond Abbott who retired from the Board in November 2022. The relationship between the Chair and CEO is an important one in any successful organisation. I will miss Raymond's counsel and advice, his challenge where appropriate but above all his support at all times as we safely guided the Society through the COVID, cost of living and political crises of recent years. I wish him a long and happy retirement, safe in the knowledge of the positive difference he made during his nine years on the Board.

And finally

I say this often to our colleagues but I feel it worthy of noting in our annual report that their hard work and enthusiasm for the Society is greatly appreciated. We are a people business on all levels and the sense of purpose from all of them which I have the pleasure to see on a daily basis is the true underlying differentiation that will continue to take us on our journey, not only as the world's oldest remaining building society but also to fulfil our strategic ambition to become the most admired building society.

To our loyal members and to those who joined the Society this year, I say a heartfelt thank you for your support as we continue to grow. Just as it was back in 1848, our simple purpose is to reward you for saving to secure your future and to enable your dream of home ownership.

Paul Denton
Chief Executive
30 March 2023

Society Key Results

Total assets

£644.6m

(2022: £592.8m)

Liquidity ratio

22.4%

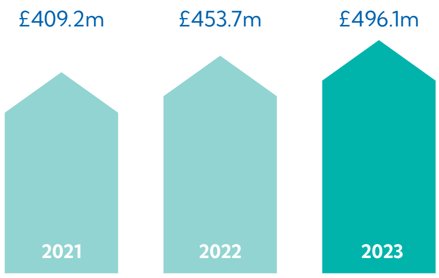
(2022: 24.0%)

Profit before tax

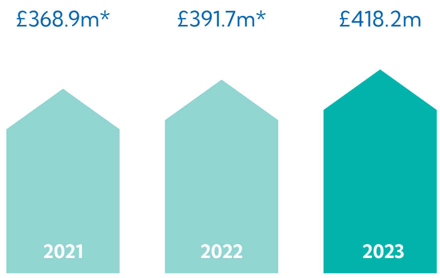
£3.3m

(2022: £2.4m)

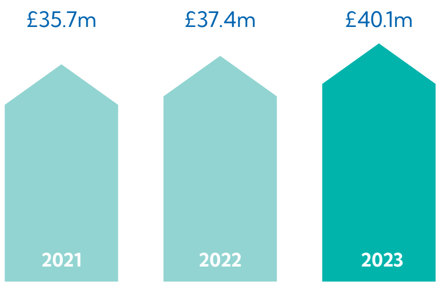
Mortgage balances



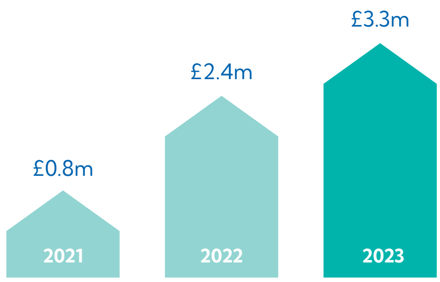
Retail savings balances*



Capital reserves



Profit before tax



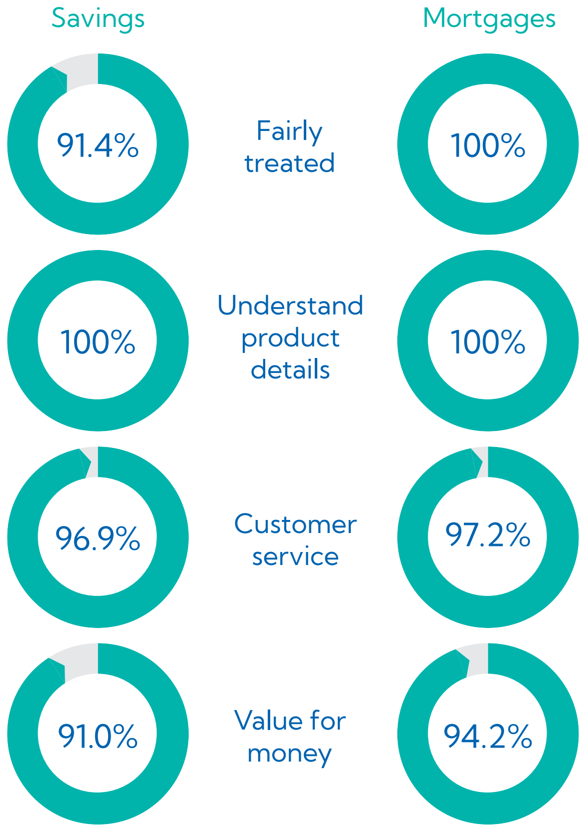
*Retail Savings Balances is an alternative performance measure which reflects 31 Jan 2021 and 2022 share balances adjusted to exclude Solicitor Client Accounts following changes to the product Terms and Conditions in April 2022.

Our Members

Smart Money People

We are delighted with the fantastic ratings our members gave us on independent financial services review website, Smart Money People.† Covering a 12-month period from February 2022, we achieved an overall rating of 95.9% for customer satisfaction.

Customer satisfaction



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

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

Our Community & Colleagues

A brand new look for our Relationship Centres

Following the successful launch of our new Relationship Centres in Glasgow and Aberdeen in recent years, we commenced a programme to refresh our remaining centres in 2022. The ambitious refits are part of a significant investment, underlining our continued commitment to Scotland's high streets. Our aim is to create welcoming spaces for our members, and a relaxed environment for them to make important financial decisions.

To celebrate the improvements, we invited our Troon and Inverness members to special launch events where our senior team shared insights into future plans and activities at the Society. The events were a great opportunity for the team to meet with our members, and we hope to arrange more of these networking events soon.

The refurbishment of our Galashiels Relationship Centre was completed in March 2023 and we are relocating our Edinburgh site to the city centre in summer 2023. We look forward to inviting members to see their fantastic new look.

Our Colleagues

The Society is committed to creating a positive and inclusive work environment where colleagues feel valued and rewarded. We are immensely proud of the feedback we received in our annual colleague engagement survey with the Financial Services Culture Board in which the Society placed 1st in eight of the nine characteristics. These results demonstrate that our colleagues feel connected to our purpose and ambition and are committed to achieving our success together.

We continue to foster a culture of open communication and feedback providing all colleagues with the ability to engage proactively in Society news and directly share their views and opinions through our regular 'Hi Society' virtual briefings. Additionally in September 2022, we were delighted to bring all colleagues together for our annual conference – this was our first face to face 'all colleague' event since early 2020.

Supporting wellbeing has and continues to be a priority, and in addition to our current wellbeing offering we launched a new "Let's Talk" initiative focused on providing colleagues with a broad range of knowledge, insight and resources around key wellbeing topics. The first event hosted in November 2022 was themed "Let's Talk Money" and provided colleagues with a broad range of guidance to support financial health.

Another win at the Scottish Mortgage Awards

We're very proud to receive yet another prestigious award. Held in October 2022, the Scottish Mortgage Awards presented us with the 'Building Society of the Year' award for the 4th year in a row! This win really means a lot to us, and inspires us to keep doing all we can to provide members with the best possible service, choice and value to help get more from their money.

We were awarded the FairLife Mark

Another landmark for us in 2022 came with the award of the FairLife Mark for our lending and savings products. The FairLife charity is raising standards in personal finance through a fair trading mark and by improving financial education. It awards its trademark logo – the FairLife Mark – to companies that price honestly and trade fairly with their customers. Profits from the charity fund financial education in schools, giving children the knowledge they need to make good financial decisions throughout their lives.

The FairLife Charity's commitment to fair and transparent finance standards mirrors that of Scottish Building Society. Our members will be aware of how much our values mean to us, and the importance we place on supporting all members and treating them with fairness and respect. It's why we're doubly proud to have been awarded the FairLife Mark.

Support for UK Savings Week

It was a great pleasure to support the first ever UK Savings Week in September 2022, in partnership with the Building Societies Association. UK Savings Week aims to raise awareness of the benefits of saving, and help everyone save if they can. We're keen to help start those important conversations, and get people talking about savings and encourage increased financial resilience in households across the country.

At the Society we're always looking for ways to help members make the most of their savings, and we'll be actively supporting this valuable event again this year.

Environment and sustainability

We recognise and understand the importance of protecting the planet and our environment for the generations to come. Here are some of the highlights from the last year.

Trees for Life

As part of our sustainability efforts, we are proud to continue our partnership with conservation charity, Trees for Life. The charity focuses on helping to rewild the Scottish Highlands and support its rich biodiversity. Members of our senior leadership team visited the Caledonian Forest in the Highlands last year to join in and get 'hands on' with planting trees.

Member newsletter

A number of our members indicated that they wanted to receive their member newsletter in paper form rather than digitally. We posted it out to members in September, and are pleased to hear that many enjoyed reading it. For the first time we printed the newsletter on 100% recycled paper – and even the outer packaging was completely recyclable too. We also created a digital version which is available on our website, and the next edition will be available in both formats.

Making the switch to electric cars

As more of us change to electric vehicles guided by the government's targets for electric vehicles by 2030, we're helping to make the switch as easy as possible. In October we installed electric charging points at our Head Office to help support our colleagues who drive electric cars.

Lending our support

Charity of the year: Maggie's

We continued to support our charity of the year, Maggie's, with fundraising activities in 2022. A team of colleagues from the Society climbed Ben Lomond in August, smashing their fundraising target. This year, colleagues are participating in the MoonWalk in September, and walking the distance from John O'Groats to Land's End as part of a virtual challenge. The Society has pledged to match-fund all donations.

Edinburgh Rugby

This is our second season as Edinburgh Rugby's main partner, however the sponsorship is far more than the logo on the jersey. We worked with the community team at Edinburgh Rugby and were excited to hold competitions to provide an unforgettable experience for young community teams to train with Hamish Watson and Darcy Graham. Boys and girls from clubs who attended came from Ellon, Stonehaven, Edinburgh, Troon and Motherwell. We also offered children the chance to walk out onto the pitch with the team before some key matches.

In September in partnership with Edinburgh Rugby and children's charity Rays of Sunshine, we held a very special day out for a young Edinburgh Rugby fan. Jackson Taylor, a season ticket holder, had his wish come true when he got the opportunity to meet the players, and was invited to lead them onto the pitch with the match ball at Dam Health Stadium for the first pre-season game.

Ceres Highland Games

The Ceres Highland Games in Fife are believed to be the oldest free games in Scotland. They have been held at the Bow Butts site on the Ceres Village Green every June since 1314, except for during the war, the 1746 Act of Proscription and, latterly, COVID-19 lockdowns.

Scottish Building Society holds the title of the world's oldest remaining building society, so this is a perfect event for us to get behind and support with the running costs. It's a hugely important part of the local community and hundreds of spectators turned out to cheer on competitors last year. We are delighted to continue our sponsorship for the next games due to take place on 24 June 2023.

Celebrating 175 years: Introducing the Scottish Building Society Foundation

2023 is a very special year for us as we celebrate our 175th anniversary. Although times may have changed since 1848, our mission to help our members save money and buy their home has remained consistent.

We'll be holding events and competitions throughout the year to mark this amazing milestone. As part of these celebrations, we are also proud to announce the establishment of the Scottish Building Society Foundation. The initial fund totals £175,000, and in partnership with Foundation Scotland we will make awards to good causes throughout communities in Scotland. As this is such a great opportunity to support a number of charity and community initiatives, it will replace our charity of the year initiative. We're really looking forward to giving back to the communities that have supported us over the years.

Directors' Report

Introduction

The Directors present their 174th Annual Report, together with the audited Annual Accounts and Annual Business Statement, for the year ended 31 January 2023.

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 Chair's Report and Chief Executive's Review on pages 2 to 5.

Economic environment

While the specific challenges brought about by the COVID-19 pandemic have receded during the year as restrictions have eased and life has returned to a 'new normal', it has again been a year of significant economic uncertainty, both from a global and a domestic perspective.

The tragic events unfolding in Ukraine drove global energy prices sharply higher, further increasing inflationary pressures and fueling a 'cost of living crisis' with inflation, as well as interest rates, reaching a level many of our members have never experienced.

The housing market has however remained buoyant during 2022, which has resulted in another year of strong mortgage book growth for the Society.

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

Profit and capital

Profit for the year before tax amounted to £3.3m (2022: £2.4m) representing a record performance by the Society. The mortgage book grew by 9.3% (2022: 10.9%) and with the benefit of a rising interest rate environment we have been able to provide an increasingly attractive home for savings and increased our reserves to £40.1m (2022: £37.4m). Capital reserves are held to provide a buffer against unexpected losses and to provide scope for future growth and innovation in how we serve members.

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 2023 amounted to £134.7m (2022: £132.8m) which represented 22.4% (2022: 24.0%) of total shares and borrowings. The Society's continuing aim is to maintain an appropriate level of liquidity at all times. Funding is invested mainly in mortgage assets with sufficient liquid assets for risk management purposes and in accordance with regulatory requirements.

Interest rates

In response to rising inflation, the Bank of England has implemented eight increases in its Bank Rate since our last Annual Report with Bank Rate increases from 0.75% in March 2022 to 4.25% in March 2023. Maintaining the balance between rewarding savers and supporting mortgage borrowers is a key part of managing the Society, and we are pleased that we have been able to increase interest rates across all of our savings accounts throughout the year while mitigating the impact on mortgage members by only passing on around 65% of the Bank of England increase to our Standard Variable Rate for mortgages.

Following the decision by the Bank of England in March 2023 to increase its Bank Rate further to 4.25%, 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

The Society uses a range of forbearance measures to assist those borrowers who are experiencing financial difficulty. As at 31 January 2023 there were 19 cases benefitting from the Society's forbearance measures (2022: 40) with total outstanding capital balances of £1.8m (2022: £2.6m). The Society makes provisions for any expected loss resulting from accounts in arrears in accordance with the Board-approved policy.

At 31 January 2023 the Society had 18 mortgage accounts in arrears for 12 months or more (2022: 23). The total arrears outstanding on these accounts was £219,387 (2022: £291,288) and the aggregate capital balance was £1,262,356 (2022: £1,783,811). Two properties were taken into possession during the year (2022: two).

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 9.3%.

Total Assets: Consisting primarily of Mortgage Assets and Liquid Assets held to meet potential outflows, these have increased by 8.7%.

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

Retail Savings Balances*: Another key reason for the Society's existence: to encourage saving and investment. Following a change to the product Terms and Conditions in April 2022, Solicitors Client Account balances are no longer included within Share Balances. Excluding these balances from the opening position, the underlying growth in Retail Savings Balances* during the past year was 6.8%.

Liquidity: Total cash and investments held by the Society at the year-end, expressed as a percentage of shares and borrowings. This has decreased by 1.6 percentage points in the year but remains at a level well above regulatory requirements.

Net Interest Margin: The income generated by the Society from its operations, expressed as a percentage of mean total assets. This has increased by 0.25 percentage points in the year due to the beneficial impact of a rising interest rate environment.

Profit Before Tax: Ensuring that the Society makes sufficient profit to maintain its financial strength is a key requirement and this has been achieved with Profit Before Tax (PBT) of £3.3m in the current year. The increase in PBT from £2.4m in the prior year reflects strong growth in income driven by increasing mortgage balances and the benefit of rising interest rates, partly offset by higher costs.

Reserves: The accumulated profits of the Society over more than 174 years of operation, which provide the capital which helps to maintain the Society's financial strength. These have increased by £2.7m in the year through the addition of the year's profit after tax.

Gross Capital: This ratio is expressed as a percentage of shares and borrowings and demonstrates the relationship between the Society's capital and its liabilities to investors. It reflects the continuing strength of the Society whilst remaining well within prudent guidelines. This has reduced by 0.1 percentage points in the year reflecting the growth in the Society's balance sheet.

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:

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

Key Financial Performance Indicators 2019-2023

	2019	2020	2021	2022	2023
Mortgage Assets (£m)	327.3	334.9	409.2	453.7	496.1
Mortgage Asset Growth (%)	2.8	2.3	22.2	10.9	9.3
Total Assets (£m)	425.1	431.4	525.7	592.8	644.6
Asset Growth (%)	1.2	1.5	21.9	12.8	8.7
Retail Savings Balances (£m)*	298.0*	312.1*	368.9*	391.7*	418.2
Liquidity (%)	24.6	23.9	23.3	24.0	22.4
Net Interest Margin (%)	1.64	1.65	1.57	1.72	1.97
Profit Before Tax (£m)	1.0	0.6	0.8	2.4	3.3
Reserves (£m)	34.5	35.0	35.7	37.4	40.1
Gross Capital (%)	8.8	8.9	7.3	6.8	6.7

All figures are unconsolidated on the basis of materiality.

*Retail Savings Balances is an alternative performance measure which reflects 31 Jan 2019-2022 share balances adjusted to exclude Solicitor Client Accounts following changes to the product Terms and Conditions in April 2022.

Directors' Report

Regulation and compliance

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

2022-23 has seen a relatively lower level of change than recent years, with the Society taking the necessary steps to meet the new regulatory requirements relating to Operational Resilience and Consumer Duty as well as continuing to enhance our approach to managing the financial risks from climate change.

During 2023-24 the Society will implement the changes required by the Financial Conduct Authority's new Consumer Duty rules by the 31 July 2023 deadline, as well as continuing to develop and enhance its approach to operational resilience, and 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 potential impact and likelihood of adverse events, which is regularly reviewed by the Board Risk Committee and covers all aspects of the business.

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

- **Credit Risk:** This relates to the risk that mortgage borrowers or treasury counterparties, to whom the Society has lent money, default on their obligation to pay. We seek to mitigate credit risk principally through the careful management of our underwriting policy and process, ensuring that all loans meet the criteria laid down in our Lending policy 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 the Society's culture, behaviours, products, services and/or approach to business lead to unfair or inappropriate outcomes for customers. The Operational Risk Committee oversees the arrangements in place to ensure that the Society continues to keep the needs of its members at the heart of everything we do.
- **Strategic and Business Risk:** The risk of loss or reduced earnings due to inappropriate senior management or Board actions caused by unprepared or misjudged strategic decisions, and/or the implementation of those decisions.
- **Climate Change Risk:** This is the risk to the Society arising from climate change which is recognised in terms of both Physical and Transition risks. Physical risks include increased risk of flooding, subsidence and coastal erosion arising from extreme weather events or longer term shifts in climate, impacting on the value of, and longer term ability to insure, mortgaged properties. Transition risks arise from factors such as policy and regulation, and changing customer preferences resulting from the adjustment to a lower carbon economy. The Society is aware of these risks in respect of both credit risk management and strategy, and will continue to develop its risk management approach.

The Society also continues to monitor both national and global events 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.

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 ongoing geopolitical and economic uncertainty resulting in high inflation and volatility in interest rates.

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

Environment

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

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

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 Finance Director 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 build Board and Executive knowledge of climate related impacts, engaging with different stakeholders leading to the development of a climate change strategy.
- 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 continually develop its risk management capabilities in relation to the identification, assessment and management of climate risk within its lending portfolio.

Progress made

- The risks from climate change, both physical risk and transition risk, have been incorporated within the Society's Risk Management Framework.
- During 2022 the Society engaged a specialist environmental assessment company to undertake a property by property analysis of the security held against its mortgage book to consider the risk of flooding, subsidence and coastal erosion under different carbon emission scenarios over the period to 2080. This analysis also considered transition risk as a result of potential energy efficiency remediation.
- This analysis indicated that the Society has a low potential exposure to the impacts of physical risks, even under the most extreme climate scenario. Transition risks pose a greater potential risk to the Society as Scotland (and the UK) move towards a lower carbon economy, potentially requiring homeowners to undertake expensive remediation work.

Future plans

- The Society intends to repeat this portfolio analysis periodically, as well as further developing its modelling capabilities in a proportionate manner.
- 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 Buildings' strategy.

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 now completed the conversion of our small vehicle fleet which now consists entirely of electric vehicles.
- During 2022, the Society carried out volunteering activities 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 will continually review our product offering to ensure it best supports the retrofit of the existing housing stock.
- 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 continued to support a charity of the year as voted for by members. In 2022, members voted to support Maggie's. Maggie's is a charity providing free cancer support and information in centres across the UK and online.

During the year, fundraising totalling £2,167 was raised by Society colleagues through a variety of activities. This has been matched by the Society, increasing the total funds raised for Maggies to over £4,000.

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

We plan to hold this year's AGM on 17 May 2023. Further details will be communicated to members in April.

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

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

- **Ian Wilson**, **Andrew Lee** and **Rosemary Hilary** joined the Board during 2022 and are 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 17 May 2023.

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 2023:

Non-Executive Directors	
Ian Wilson MSc MBA FCBI	Appointed September 2022 and Chair since November 2022
Andrew Hastings C.Dir FIB	Appointed July 2019 and Chair of Board Risk Committee since October 2019 Appointed Vice-Chair in May 2022
Sheila Gunn LLB (Hons) Dip LP	Appointed November 2019 and Chair of the Nomination & Governance and Remuneration Committees since July 2022 Appointed Senior Independent Director in July 2022
Kathryn (Karyn) Lamont CA	Appointed May 2018 and Chair of Audit Committee since November 2018
Sean Gilchrist ACBI	Appointed June 2021
Andrew Lee BA (Hons) FCA	Appointed October 2022
Rosemary Hilary BSc (Hons) FCCA	Appointed November 2022
Raymond Abbott CA	Appointed June 2013 and Chair from July 2017 Retired as a Director and Chair in November 2022
John (Jack) Ogston FCBI	Appointed July 2013 and Vice-Chair from July 2017 Senior Independent Director until November 2020 Retired as a Director in May 2022
Margaret MacKay MSc DipM FCIPD	Appointed March 2017 and Chair of Nomination & Governance Committee and Remuneration Committee from January 2020 Senior Independent Director from November 2020 Retired as a Director in May 2022
Executive Directors	
Paul Denton MBA FCBI	Chief Executive Officer from July 2019 Chair of Operational Risk Committee since July 2019
Neil Easson BA (Hons) CA	Finance Director from April 2020 Chair of Asset and Liability Committee since January 2019 Chair of Retail Credit Committee since June 2019

Details of the Directors' interests in the Society are disclosed in *Note 29* on page 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 another 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 2023 was 20 (2022: 16).

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 17 May 2023.

By order of the Board.

Neil Easson
Finance Director
30 March 2023

Board of Directors

Ian Wilson
Chair

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

Andrew Hastings
Vice-Chair

Andrew is a Chartered Banker, Fellow of the Institute of Bankers in Ireland, Chartered Director and a Certified Bank Director. After graduating from Dundee University, he began his career in banking with RBS in Ayr and later served as CEO and Country Manager of BNP Paribas Ireland before becoming CEO of Barclays Bank Ireland plc. Andrew is currently 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
Senior Independent Director

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

Kathryn (Karyn) Lamont

Karyn is a Chartered Accountant and former audit partner at PwC. She has over 30 years of experience and has provided audit and other services to a range of clients across the UK's financial services sector including 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 Ediston Property Investment Company plc, the North American Income Trust plc, the Scottish American Investment Trust plc and iomart Group plc.

Sean Gilchrist

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

Andrew Lee

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

Rosemary Hilary

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

Paul Denton
Chief Executive Officer

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

Neil Easson
Finance Director

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

The Directors are also mindful of the 'Edinburgh Reforms' announced by the Chancellor of the Exchequer in December 2022 which proposed amendments to the Building Societies Act 1986, along with other changes to financial regulation which will impact the Society.

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 2022-23 there were ten 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 21 of this report.

An updated terms of reference for the Board was approved in January 2023, which includes a schedule of matters reserved for Board decisions. The Board has delegated certain responsibilities to the Committees described below, all of which report to the Board. The Chair of each Committee provides a report at the subsequent Board meeting after each Committee meeting. The terms of reference for all Board Committees are available on the Society's website.

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

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

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

The Committee comprises four Non-Executive Directors. Karyn Lamont, who has recent and relevant financial experience, chairs the Committee. The other members of the Committee are Andrew Hastings, Rosemary Hilary and Andrew Lee. Following the retirement of Raymond Abbott, the Society is now compliant with the provision in the Code that the Chair of the Board should not be a member of the Committee. Executive Directors and members of senior management attend by invitation, together with representatives from the internal and external auditors.

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

In addition, the Committee oversees the Society's corporate insurance cover and regulatory compliance as well as the Society's change programme, including the implementation of the new Consumer Duty rules. Sean Gilchrist has been appointed as the Society's consumer duty champion.

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

Nomination & Governance Committee: This Committee reviews Board composition, skills, performance, director elections and succession planning for Board and senior management. With effect from 1 January 2023, Sheila Gunn chairs the Committee and the other members of the Committee are Paul Denton, Rosemary Hilary and Andrew Lee. The Committee met four times in the year.

Remuneration Committee: This Committee is responsible for remuneration policy and for making recommendations to the Board regarding general remuneration and contractual arrangements. With effect from 1 January 2023, Sheila Gunn chairs the Committee and the other members of the Committee are Rosemary Hilary and Andrew Lee. The Committee met four 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.

Engagement with stakeholders

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

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

Whistleblowing

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

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

The offices of CEO and Chair are distinct and held by different people. The CEO is responsible for managing the Society's business within the parameters set by the Board. The Chair sets the direction and culture of the Board, facilitating effective contribution from Directors, maintaining constructive relations between Executive and Non-Executive Directors and ensuring that Directors receive accurate, timely and clear advice and information. The current Chair, Ian Wilson, was considered independent on his appointment, having demonstrated clear commitment, experience, and capability during the recruitment process.

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, Sheila Gunn, to provide support for the Chair, an alternative route for communication from members and Society colleagues, and to carry out the appraisal of the Chair, taking into account the views of the other Directors.

The Board consists of seven Non-Executive Directors plus the CEO and the Finance Director. As planned, three of the Non-Executive Directors have stepped down from the Board since 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 the appointment of the new Chair 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 material business relationships between the Society and firms connected with Directors. No ex-employees are or have been Non-Executive Directors.

Corporate Governance Report

Commitment

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

The attendance record of Board and Committee members during the year is set out on page 21. This table does not reflect Directors' attendance at additional ad hoc meetings, seminars, conferences and courses during the year or time spent on preparation for meetings etc. Generally each Non-Executive Director spends a minimum of 2-3 days each month on Society business. The time commitment for the Chair, Vice-Chair and Committee Chairs is considerably more.

Composition, succession and evaluation: Appointments to the Board

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

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

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. During the year, the Society utilised the services of independent recruitment specialists, Warren Partners and Hill Coates Associates, in the appointment of new Directors. As noted last year, and given there were three Board vacancies in the previous twelve months, particular emphasis has been placed on succession planning for Board and senior management to ensure a diverse pipeline to fill future requirements. This work will continue in the coming year.

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

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

Development

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

Information and support

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

Evaluation

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

Directors' attendance 2022-23

The table below shows the number of full, formal Board meetings attended by each Director and, for each of the Board Committees, the number of full, formal meetings and attendance by individuals as members of those Committees. The figures in brackets denote the number of meetings each Director was eligible to attend. The total number of meetings does not include the Annual General Meeting.

	Board	Audit Committee	Board Risk Committee	Nomination & Governance Committee	Remuneration Committee
I Wilson	5(5)				
A Hastings	10(10)	6(6)	6(6)		
S Gunn	8(10)			4(4)	4(4)
K Lamont	10(10)	6(6)	6(6)	1(1)	
S Gilchrist	8(10)		6(6)	2(3)	2(3)
A Lee	4(4)	2(2)	1(1)		
R Hilary	3(3)	1(1)	1(1)	1(1)	1(1)
R Abbott	7(7)	4(5)			
J Ogston	3(3)		2(2)		
M MacKay	3(3)			1(1)	1(1)
P Denton	10(10)			4(4)	
N Easson	10(10)				

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.

Ian Wilson
Chair
30 March 2023

Directors' Remuneration Report

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

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

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

Procedure for developing policy on executive & individual director remuneration

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

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

Non-Executive Directors

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

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

Executive Directors

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

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

Executive Directors in office as at 31 January 2023 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 2023	To 31 January 2022
I Wilson (appointed September 2022)	£17,915	–
A Hastings	£33,086	£29,165
S Gunn	£29,240	£25,519
K Lamont	£30,368	£29,165
S Gilchrist (appointed June 2021)	£25,376	£14,857
R Hilary (appointed November 2022)	£6,417	–
A Lee (appointed October 2022)	£7,503	–
R Abbott (retired November 2022)	£36,070	£41,664
J Ogston (retired May 2022)	£11,169	£33,331
M MacKay (retired May 2022)	£9,773	£29,165
Total	**£206,917**	**£202,866**

Executive Directors

To 31 January 2023

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

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**

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

Sheila Gunn
Chair, Remuneration Committee
30 March 2023

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 2023 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 2023 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 2023; 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 2022 to 31 January 2023.

Our audit approach

Overview

Materiality

- £401,260 (2022: £374,230) – Society annual accounts
- Based on 1% of net assets

Scoping

- We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the annual accounts as a whole, taking into account the accounting processes and controls in place.
- Audit procedures were performed on a hybrid working environment over all material account balances and financial information by a single audit team based in the UK.
- We tested and examined information using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to form our own judgements.

Key audit matters

- Impairment of loans and advances to customers
- Calculation of Effective Interest Rate (EIR)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the annual accounts. In particular, we looked at where the directors made subjective judgements, for example in respect of critical accounting judgements and 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.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Society's annual accounts, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Society's annual accounts.

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 and management bias in critical accounting estimates. 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;
- Evaluating 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 critical 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.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers An impairment provision of £592,000 (2022: £428,000) 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 £309,000 (2022: £178,000) and collective provision of £283,000 (2022: £250,000). 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 critical level of judgement, particularly given the low levels of losses experienced historically. The Society's impairment provision balances are detailed within *Note 12*. Management's associated principal accounting policies are detailed on pages 37 to 40 with detail about judgements in applying accounting policies and critical accounting judgements and 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 and other macro-economic factors which could be considered reasonable based on our industry knowledge and experience. • We also performed testing to assess that loans and advances meeting the defined risk criteria had been captured in the assessment of individual provisions. • We considered the appropriateness of the collective model methodologies, and the relevant judgements and assumptions used in the determination of the modelled provisions for 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 impairment. 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. Based on the procedures performed, we did not identify any exceptions.
Calculation of 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 £496m (2022: £454m) presented in the Statement of Financial Position include an EIR adjustment (asset) of £747,000 (2022: £479,000). An EIR adjustment (income) of £268,000 (2022: £89,000) was recorded in the Income Statement for the year ended 31 January 2023. The recognition of interest receivable using the EIR method requires judgement by management regarding the expected life of mortgage assets. The Management's associated principal accounting policies are detailed on pages 37-40, with detail about critical accounting judgements and estimates formed, in applying principal 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 input 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 mortgage and saving 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	£401,260 (2022: £374,230)
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 Generally Accepted Accounting Principles ('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 £300,945 (2022: £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 £20,063 (2022: £18,700) 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 corporate plan;
- 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 2023 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 5 years, covering the years ended 31 January 2019 to 31 January 2023.

Allan McGrath (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
30 March 2023

Accounts

For the year ended 31 January 2023

"As the Society reaches a milestone 175th anniversary, I am pleased to report that we have had another excellent performance, with strong profits and continued balance sheet growth."

Ian Wilson
Chair

Income Statement

for the year ended 31 January 2023

	Note	**2023** **£000**	2022 £000
Interest receivable and similar income	*2*	**19,575**	12,331
Interest payable and similar charges	*3*	**(7,384)**	(2,731)
Net interest income		**12,191**	9,600
Fees and commissions receivable		**114**	55
Fees and commissions payable		**(61)**	(42)
Net gains from derivative financial instruments	*4*	**152**	117
Total Net Income		**12,396**	9,730
Administrative expenses	*5*	**(8,576)**	(7,181)
Depreciation and amortisation	*15, 16*	**(345)**	(337)
Operating Profit before movement in acquired assets, impairment losses and provisions		**3,475**	2,212
Impairment (losses)/gains on loans and advances	*12*	**(167)**	50
Net increase in value of acquired assets	*13*	**13**	92
Net Impairment of Land & Buildings	*15*	**(35)**	–
Operating Profit and Profit before tax		**3,286**	2,354
Tax expense	*8*	**(643)**	(492)
Profit for the financial year	*24*	**2,643**	1,862

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 2023

	Note	**2023 £000**	2022 £000
Profit for the financial year		**2,643**	1,862
Valuation gains/(losses) taken to reserves	*25*	**80**	(124)
Income tax on other comprehensive income	*25*	**(20)**	30
Total comprehensive income for the year		**2,703**	1,768

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

Statement of Financial Position

as at 31 January 2023

	Note	2023 £000	2022 £000
ASSETS			
Liquid Assets:			
Cash in hand and balances with Bank of England		**119,729**	105,786
Loans and advances to credit institutions	*9*	**7,904**	4,873
Debt securities	*10*	**7,017**	22,139
Derivative financial instruments	*21*	**10,850**	3,387
Loans and advances to customers	*11*	**496,061**	453,650
Investment in subsidiary undertaking	*14*	**-**	-
Tangible fixed assets	*15*	**2,295**	2,298
Intangible assets	*16*	**242**	328
Other assets	*17*	**466**	345
TOTAL ASSETS		**644,564**	592,806
LIABILITIES			
Shares	*18*	**418,155**	463,900
Amounts owed to credit institutions	*19*	**71,423**	80,516
Amounts owed to other customers	*20*	**111,376**	9,428
Derivative financial instruments	*21*	**939**	13
Other liabilities and accruals	*22*	**2,392**	1,361
Deferred tax liability	*23*	**153**	165
TOTAL LIABILITIES		**604,438**	555,383
RESERVES			
General reserves	*24*	**40,142**	37,499
Available-for-sale reserves	*25*	**(16)**	(76)
Total reserves attributable to members of the Society		**40,126**	37,423
TOTAL RESERVES AND LIABILITIES		**644,564**	592,806

These accounts were approved and authorised for issue by the Board of Directors on 30 March 2023 and were signed on its behalf by:

Ian Wilson
Chair

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 2023

	General reserves 2023 £000	**Available -for-sale reserves 2023 £000**	**Total 2023 £000**	General reserves 2022 £000	Available -for-sale reserves 2022 £000	Total 2022 £000
As at 1 February	**37,499**	**(76)**	**37,423**	35,637	18	35,655
Total Comprehensive income for the year						
Profit for the financial year	**2,643**	**-**	**2,643**	1,862	–	1,862
Other comprehensive income/(expense) (see *Note 25*)	**-**	**60**	**60**	–	(94)	(94)
Total comprehensive income for the year	**2,643**	**60**	**2,703**	1,862	(94)	1,768
As at 31 January	**40,142**	**(16)**	**40,126**	37,499	(76)	37,423

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

Cash Flows Statement

for the year ended 31 January 2023

	2023 £000	2022 £000
Cash flows from operating activities		
Profit before tax	**3,286**	2,354
Adjustments for		
Depreciation, amortisation and impairment	**380**	337
Loss on disposal of fixed assets	**3**	5
Increase/(Decrease) in impairment of loans and advances	**167**	(50)
Total	**3,836**	2,646
Changes in operating assets and liabilities		
(Increase) in other assets	**(7,584)**	(3,241)
Increase/(Decrease) in other liabilities and accruals	**1,899**	(400)
(Increase) in loans and advances to customers	**(42,578)**	(44,417)
(Decrease)/Increase in shares	**(45,745)**	27,215
Increase in amounts owed to credit institutions and other customers	**92,855**	38,467
Decrease in loans and advances to credit institutions	**-**	909
Taxation paid	**(617)**	(398)
Net cash flows (used in)/generated from operating activities	**(1,770)**	18,135
Cash flows from investing activities		
Purchase of debt securities	**-**	(15,210)
Sale/(purchase) and maturity of debt securities	**15,202**	(14)
Purchase of tangible fixed assets	**(247)**	(582)
Disposal of tangible fixed assets	**-**	1
Purchase of intangible assets	**(47)**	(214)
Net cash flows from/(used in) investing activities	**14,908**	(16,019)
Net Increase in cash and cash equivalents	**16,974**	4,762

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

	2021 £000	Cash Flows £000	2022 £000
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

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.

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

Classification

Financial assets

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

- *Loans and advances*

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

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

- *Available-for-sale*

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

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

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

- *At fair value through profit and loss*

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

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

- *Held to maturity*

There are no financial assets held to maturity.

Fair value hedges

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

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

Financial liabilities

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

Derecognition

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

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

Measurement

Amortised cost measurement

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

Fair value measurement

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

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

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

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

Identification and measurement of impairment

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

Objective evidence that financial assets are impaired includes:

a. significant financial difficulty of the borrower or issuer;

b. default or 3-month delinquency by a borrower;

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

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

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

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

The Society considers evidence of impairment for loans and advances at both an individual and collective level. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant (less than £5,000) are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

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

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

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

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

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

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

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

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

Notes to the Accounts

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

Cash and cash equivalents

For the purposes of the Cash 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 £65,000.

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 £2,043,000.

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 £4,916,000. However this would be largely offset by movements in the fair value of the hedged assets.

2. Interest receivable and similar income

	2023 £000	2022 £000
On loans fully secured on residential property	**15,221**	12,223
On other loans	**438**	431
Net income/(expense) on derivatives designated in hedging relationships	**1,629**	(441)
Net income/(expense) on derivatives designated as fair value through profit and loss	**177**	(34)
On debt securities:		
– interest and other income	**165**	37
On other liquid assets:		
– interest and other income	**1,945**	115
	19,575	12,331

Included within loans fully secured on residential property is £58,875 (2022: £46,875) in respect of interest income on impaired loans.

3. Interest payable and similar charges

	2023 £000	2022 £000
On shares held by individuals	**5,487**	2,641
On other shares	**2**	3
On deposits and other borrowings	**1,895**	87
	7,384	2,731

4. Net gains from derivative financial instruments

	2023 £000	2022 £000
Derivatives in designated fair value hedge relationships	**6,779**	3,990
Adjustment to hedged items in fair value hedge accounting relationships	**(6,740)**	(3,943)
Derivatives not in designated fair value hedge relationships	**113**	70
	152	117

Notes to the Accounts

5. Administrative expenses

	2023 £000	2022 £000
Staff costs	**5,008**	4,231
Other expenses, including restructuring costs	**3,568**	2,950
Administrative expenses	**8,576**	7,181

Included in other expenses are the following charges:		
– Property leasing costs	**47**	58
– Remuneration of auditors (excl. VAT):		
Audit of the Annual Accounts under FRS 102	**92**	83
Audit related services	**-**	21

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	
	2023	2022	**2023**	2022
Head Office	**52**	43	**4**	5
Relationship Centres/Distribution	**26**	27	**9**	7
	78	70	**13**	12

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

	2023 £000	2022 £000
Wages and salaries	**4,198**	3,568
Social security costs	**440**	354
Pension costs	**370**	309
	5,008	4,231

7. Directors' remuneration

Directors' remuneration of £696,126 (2022: £652,571) is detailed in the Directors' Remuneration Report on pages 22 & 23.

8. Tax expense

	2023 £000	2022 £000
Current Tax		
Corporation tax charge for the year at 19.00% (2022: 19.00%)	**678**	407
Adjustment in respect of prior year	**(3)**	–
Total current tax charge for the year	**675**	407
Deferred tax		
Deferred tax (credit)/charge for the year *(Note 23)*	**(32)**	85
Total tax charge for the year	**643**	492

Current tax has been provided at the rate of 19%. For the year ended 31 January 2023 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:

	2023 £000	2022 £000
Profit on ordinary activities before taxation	**3,286**	2,354
Profit on ordinary activities before taxation multiplied by the statutory rate of corporation tax of 19.00% (2022: 19.00%)	**624**	447
Effects of:		
Expenses not deductible for corporation tax purposes	**37**	25
Income not taxable	**(7)**	(26)
Effect of change of tax rate on deferred tax	**(8)**	46
Adjustment in respect of prior year	**(3)**	–
Total tax charge for the year	**643**	492

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

	Current tax 2023 £000	**Deferred tax 2023 £000**	**Total tax 2023 £000**	Current tax 2022 £000	Deferred tax 2022 £000	Total tax 2022 £000
Recognised in Income Statement	**675**	**(32)**	**643**	407	85	492
Recognised in other comprehensive income	**–**	**20**	**20**	–	(30)	(30)
Total Tax	**675**	**(12)**	**663**	407	55	462

A tax charge of £20,000 (2022: credit of £30,000) has been recognised in the available-for-sale reserves.

Notes to the Accounts

9. Loans and advances to credit institutions

	2023 £000	2022 £000
Accrued interest	**-**	-
Repayable on demand	**7,904**	4,873
In not more than three months	**-**	-
In more than three months but not more than one year	**-**	-
Non-defined maturity	**-**	-
	7,904	4,873

10. Debt securities

	2023 £000	2022 £000
Floating rate notes	**7,017**	7,042
UK Treasury Gilts	**-**	15,097
	7,017	22,139
Debt securities have remaining maturities as follows:		
Accrued interest	**34**	111
In not more than one year	**-**	15,120
In more than one year	**6,983**	6,908
	7,017	22,139
Transferable debt securities comprise:		
Listed	**7,009**	22,006
Unlisted	**-**	-
Unamortised premia	**8**	133
	7,017	22,139
Market Value of listed debt securities	**7,017**	22,139
Movements during the year of debt securities:		
At 1 February	**22,139**	7,039
Additions	**-**	15,210
Disposals and maturities	**(15,000)**	-
Accrued interest	**(77)**	72
Amortisation	**(125)**	(58)
Net gains/(losses) from changes in fair value recognised in other comprehensive income	**80**	(124)
As at 31 January	**7,017**	22,139

11. Loans and advances to customers

	2023 £000	2022 £000
Loans fully secured on residential property	**498,906**	447,090
Loans fully secured on land	**7,334**	9,833
Fair value adjustment for hedged risk	**(10,179)**	(3,273)
	496,061	453,650

Maturity Analysis

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

	2023 £000	2022 £000
On call and at short notice	**1,128**	748
In not more than three months	**4,374**	4,882
In more than three months but not more than one year	**13,313**	14,507
In more than one year but not more than five years	**79,622**	77,782
In more than five years	**398,216**	356,159
	496,653	454,078
Less allowance for impairment *(Note 12)*	**(592)**	(428)
	496,061	453,650

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

The Society has pledged as collateral £85.7m (2022: £102.9m) 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 2023 £000	Collective Impairment 2023 £000	Total 2023 £000
Loans fully secured on residential property:			
At 1 February	**178**	**250**	**428**
Amounts written off during the year, net of recoveries	**(3)**	**–**	**(3)**
Charge for the year	**134**	**33**	**167**
As at 31 January	**309**	**283**	**592**

	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

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:

	2023 £000	2022 £000
Further impairment of acquired assets	**–**	–
Increase in value of acquired assets	**13**	92
	13	92

14. Investment in subsidiary undertaking

During the year, the Society had a 100% (2022: 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 2023 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 2023, 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 2023 £000	Land & Buildings Short Leasehold 2023 £000	Office Equipment 2023 £000	Motor Vehicles 2023 £000	Total 2023 £000
Cost					
As at 1 February	2,340	316	1,346	90	4,092
Additions	–	–	247	–	247
Disposals	–	–	(565)	(14)	(579)
As at 31 January	2,340	316	1,028	76	3,760
Accumulated depreciation					
As at 1 February	673	76	1,021	24	1,794
Charged in year	47	33	103	29	212
Impairment	35	–	–	–	35
Disposals	–	–	(565)	(11)	(576)
As at 31 January	755	109	559	42	1,465
Net book value					
As at 31 January	1,585	207	469	34	2,295

15. Tangible fixed assets (continued)

	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

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

	2023 £000	2022 £000
As at 31 January	**1,585**	1,667

The net book value of motor vehicles includes an amount of £34,000 (2022: £65,000) in respect of assets held under finance leases.

Depreciation charged in the year on these assets amounted to £29,000 (2022: £26,000).

Property is subject to external valuation when management/directors believe factors have occurred which could impact on the carrying value of property assets. In giving consideration to the future use of the Society's Head Office and Relationship Centre premises, an independent valuation was carried out on 21 November 2022. As a result of the valuation provided, and considering their future use, the carrying value of the Society's Head Office and Relationship Centre premises were reduced by a net £35,000 resulting in an impairment charge in the Income Statement of £35,000. Further details of the net impairment charge are as per the table below:

	2023 £000	2022 £000
Impairment of Relationship Centres	**(141)**	–
Reversal of previous Head Office impairment	**106**	–
	(35)	

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 2023 £000	Computer Software 2022 £000
Cost		
As at 1 February	**1,104**	925
Additions	**47**	214
Disposals	**-**	(35)
As at 31 January	**1,151**	1,104
Accumulated Amortisation		
As at 1 February	**776**	681
Charged in year	**133**	125
Disposals	**-**	(30)
As at 31 January	**909**	776
Net book value		
As at 31 January	**242**	328

17. Other assets

	2023 £000	2022 £000
Prepayments and accrued income	**466**	340
Other Debtors	**-**	5
	466	345

18. Shares

	2023 £000	2022 £000
a) Held by individuals	**418,027**	463,301
Other shares	**128**	599
	418,155	463,900
b) Repayable from the date of the Financial Statements in the ordinary course of business as follows:		
Accrued interest	**4,307**	1,604
On demand	**276,363**	343,081
In not more than three months	**26,677**	34,370
In more than three months but not more than one year	**54,141**	47,204
In more than one year but not more than five years	**56,667**	37,641
	418,155	463,900

The 2022 figure for Shares held by individuals includes £72.2m of on demand Solicitors Client Account balances. Following a change to the product Terms and Conditions in April 2022 these deposits have been re-classified in the 2023 figures from Shares to Amounts owed to other customers *(Note 20)*.

19. Amounts owed to credit institutions

	2023 £000	2022 £000
Repayable from the date of the Financial Statements in the ordinary course of business as follows:		
Accrued interest	**203**	16
On demand	**10,720**	-
In not more than three months	**-**	-
In more than three months but not more than one year	**500**	500
In more than one year but not more than five years	**60,000**	80,000
	71,423	80,516

Included in the amounts above for 2023 is £60m (2022: £80m) borrowed from the Bank of England under the Term Funding Scheme with additional incentives for SMEs (TFSME).

On demand includes £10.7m of cash collateral received from swap counterparties under Bilateral Credit Support Annexes (2022: nil), the duration of which is subject to movements in the fair value of interest rate swaps.

20. Amounts owed to other customers

	2023 £000	2022 £000
Repayable from the date of the Financial Statements in the ordinary course of business as follows:		
Accrued interest	**35**	6
Repayable on demand	**108,341**	1,322
In not more than three months	**3,000**	4,000
In more than three months but not more than one year	**-**	4,100
	111,376	9,428

The 2023 figures above include £107.3m of on demand Solicitors Client Account balances. Following a change to the product Terms and Conditions in April 2022 these deposits have been re-classified in the 2023 figures from Shares *(Note 18)* to Amounts owed to other customers.

21. Derivative financial instruments

	Positive Market value 2023 £000	**Negative Market value 2023 £000**	Positive Market value 2022 £000	Negative Market value 2022 £000
Derivatives designated as fair value hedges:				
Interest rate swaps	**10,672**	**(939)**	3,323	(13)
Derivatives designated as fair value through profit and loss:				
Interest rate swaps	**178**	**-**	64	-
As at 31 January	**10,850**	**(939)**	3,387	(13)

At 31 January 2023 the Society held £10.7m cash collateral in respect of derivative contracts (2022: nil).

22. Other liabilities and accruals

	2023 £000	2022 £000
Other Liabilities		
Corporation tax	**222**	164
Finance leases *(Note 28)*	**32**	59
Other creditors	**1,771**	400
Accruals and deferred income	**367**	738
	2,392	1,361

Notes to the Accounts

23. Deferred tax liability

	2023 £000	2022 £000
Provided:		
Timing differences between capital allowances and depreciation	**162**	203
FRS 102 transitional adjustments	**(2)**	(3)
Recognised in other comprehensive income	**(6)**	(26)
Other timing differences	**(1)**	(9)
	153	165
As at 1 February	**165**	110
Deferred tax (credit)/charge for the financial year *(Note 8):*		
– Income Statement	**(32)**	85
Deferred tax charge/(credit) for the financial year *(Note 8):*		
– other comprehensive income	**20**	(30)
As at 31 January	**153**	165

24. General reserves

	2023 £000	2022 £000
As at 1 February	**37,499**	35,637
Profit for the year	**2,643**	1,862
As at 31 January	**40,142**	37,499

25. Available-for-sale reserves

	2023 £000	2022 £000
As at 1 February	**(76)**	18
Valuation gains/(losses) recognised directly in other comprehensive income net of tax	**60**	(94)
As at 31 January	**(16)**	(76)

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 2023	Held at amortised cost		Held at fair value			
	Loans and receivables £000	Financial assets and liabilities at amortised cost £000	Available-for-sale £000	Derivatives designated as fair value hedges £000	Unmatched derivatives £000	Total £000
Financial assets						
Cash in hand and with Bank of England	–	119,729	–	–	–	119,729
Loans and advances to credit institutions	7,904	–	–	–	–	7,904
Debt securities	–	–	7,017	–	–	7,017
Derivative financial instruments	–	–	–	10,672	178	10,850
Loans and advances to customers	496,061	–	–	–	–	496,061
Other assets	–	3,003	–	–	–	3,003
	503,965	122,732	7,017	10,672	178	644,564
Financial liabilities and reserves						
Shares	–	418,155	–	–	–	418,155
Amounts owed to credit institutions	–	71,423	–	–	–	71,423
Amounts owed to other customers	–	111,376	–	–	–	111,376
Derivative financial instruments	–	–	–	939	–	939
Other liabilities	–	2,545	–	–	–	2,545
Reserves	–	40,126	–	–	–	40,126
	–	643,625	–	939	–	644,564

26. Financial instruments (continued)

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

Loans and advances to customers in the above table includes a £10.2m liability (2022: £3.3m liability) in relation to fair value adjustments in respect of hedged fixed-rate mortgages

At the year end, the Society has loan commitments to customers of £31.5m (2022: £19.8m) measured at cost less impairment.

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 2023				
Financial assets				
Debt securities	**7,017**	**–**	**–**	**7,017**
Derivative financial instruments	**–**	**10,850**	**–**	**10,850**
	7,017	**10,850**	**–**	**17,867**
Financial liabilities				
Derivative financial instruments	**–**	**939**	**–**	**939**
	–	**939**	**–**	**939**
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

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:

	2023 £000	2022 £000
Cash in hand and with Bank of England	**119,729**	105,786
Loans and advances to credit institutions	**7,904**	4,873
Debt securities	**7,017**	22,139
Derivative financial instruments	**10,850**	3,387
Loans and advances to customers	**496,061**	453,650
Total Statement of Financial Position exposure	**641,561**	589,835
Statement of Financial Position exposure commitments	**31,472**	19,758

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.

	2023			2022		
	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	**483,207**	**7,334**	**–**	438,649	9,833	–
Past due but not impaired						
30 – 60 days	**900**	**–**	**–**	878	–	–
60 – 90 days	**647**	**–**	**–**	701	–	–
90 – 180 days	**1,147**	**–**	**–**	716	–	–
180 days+	**1,987**	**–**	**–**	2,224	–	–
	4,681	**–**	**–**	4,519	–	–
Individually impaired						
Not past due	**219**	**–**	**–**	175	–	–
30 – 60 days	**–**	**–**	**–**	–	–	–
60 – 90 days	**–**	**–**	**–**	–	–	–
90 – 180 days	**530**	**–**	**–**	254	–	–
180 days+	**560**	**–**	**–**	549	–	–
Possession	**122**	**–**	**–**	99	–	–
	1,431	**–**	**–**	1,077	–	–
Allowance for impairment						
Individual	**(309)**	**–**	**–**	(178)	–	–
Collective	**(283)**	**–**	**–**	(250)	–	–
Total allowance for impairment	**(592)**	**–**	**–**	(428)	–	–

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.

	2023 £000	2022 £000
LTV		
Less than 50%	**228,175**	210,243
51%-70%	**149,290**	143,889
71%-90%	**109,370**	98,684
91%-100%	**9,818**	1,217
More than 100%	**-**	45
As at 31 January	**496,653**	454,078

Forbearance

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

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

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

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

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

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

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

	2023	2022
Temporary payment reductions	**1**	3
Payment plans	**18**	37
Capitalisations	**-**	-
Mortgage term extensions	**-**	-
	19	40

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 2023	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Non-defined maturity	Total
	£000	£000	£000	£000	£000	£000	£000
Financial assets							
Cash in hand and with Bank of England	119,647	-	-	-	-	82	119,729
Loans and advances to credit institutions	7,904	-	-	-	-	-	7,904
Debt securities	-	-	-	6,983	-	34	7,017
Derivative financial instruments	-	-	-	-	-	10,850	10,850
Loans and advances to customers	1,128	4,374	13,313	79,622	398,216	(592)	496,061
Other assets	-	-	-	-	-	3,003	3,003
	128,679	4,374	13,313	86,605	398,216	13,377	644,564
Financial liabilities and reserves							
Shares	276,363	26,677	54,141	56,667	-	4,307	418,155
Amounts owed to credit institutions	10,720	-	500	60,000	-	203	71,423
Amounts owed to other customers	108,341	3,000	-	-	-	35	111,376
Derivative financial instruments	-	-	-	-	-	939	939
Other liabilities	-	-	-	-	-	2,545	2,545
Reserves	-	-	-	-	-	40,126	40,126
	395,424	29,677	54,641	116,667	-	48,155	644,564

26. Financial instruments (continued)

Liquidity Risk (continued)

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)

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

As at 31 January 2023	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Financial liabilities						
Shares	**279,239**	**26,955**	**54,704**	**57,257**	**–**	**418,155**
Amounts owed to credit institutions	**10,750**	**–**	**500**	**60,173**	**–**	**71,423**
Amounts owed to other customers	**108,344**	**3,032**	**–**	**–**	**–**	**111,376**
	398,333	**29,987**	**55,204**	**117,430**	**–**	**600,954**

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

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 2023. 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 2023	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Non-interest bearing £000	Total £000
Financial assets						
Liquid assets:	134,534	-	-	-	116	134,650
Cash in hand with Bank of England	119,647	-	-	-	82	119,729
Loans and advances to credit institutions	7,904	-	-	-	-	7,904
Debt securities	6,983	-	-	-	34	7,017
Derivative financial instruments	-	-	-	-	10,850	10,850
Loans and advances to customers	207,246	76,210	222,425	-	(9,820)	496,061
Tangible fixed assets	-	-	-	-	2,323	2,323
Intangible fixed assets	-	-	-	-	214	214
Other assets	-	-	-	-	466	466
	341,780	76,210	222,425	-	4,149	644,564
Financial liabilities						
Shares	303,041	54,141	56,667	-	4,306	418,155
Amounts owed to credit institutions	70,720	500	-	-	203	71,423
Amounts owed to other customers	111,341	-	-	-	35	111,376
Derivative financial instruments	-	-	-	-	939	939
Other liabilities and accruals	-	-	-	-	2,545	2,545
Provision for liabilities	-	-	-	-	-	-
Reserves	-	-	-	-	40,126	40,126
	485,102	54,641	56,667	-	48,154	644,564
Notional amount of interest rate swaps	205,400	(41,800)	(163,600)	-	-	-
Interest rate sensitivity gap	62,078	(20,231)	2,158	-	(44,005)	-
Cumulative Gap	62,078	41,847	44,005	44,005	-	

26. Financial instruments (continued)

Market Risk (continued)

As at 31 January 2022	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:	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	–	

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 £744,000 for one year (2022: £452,000).

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 6.67% (2022: 6.76%) and free capital was 6.30% (2022: 6.33%).

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:

	2023 £000	2022 £000
Within one year	**50**	50
Between one and five years	**13**	63
More than five years	**-**	-
	63	113

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

	2023 £000	2022 £000
Within one year	**23**	27
Between one and five years	**9**	32
More than five years	**-**	-
	32	59

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: £1,145,000 (2022: £940,000).

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:

	2023 **Number**	**£000**	2022 Number	£000
Loans and advances to customers	**3**	**487**	2	280
Deposits and share accounts	**34**	**274**	24	285

The aggregate amount outstanding at 31 January 2023 in respect of loans, transactions and arrangements made by the Society to Directors or persons connected with a Director was £323,058 (2022: £110,373) comprising secured mortgages to family members of two Directors at normal commercial rates and under the Society's standard terms and conditions.

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

30. Post balance sheet subsequent events

The Directors do not consider that there have been any events since the year-end that have a material effect on the financial position of the Society as at 31 January 2023.

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 2023 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 2023 in the Country-by-Country Report.

Basis for opinion

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

Independence

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

Emphasis of matter – basis of preparation

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

Conclusions relating to going concern

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

- A risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance, 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;
- 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 & Accounts.

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

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

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

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

Responsibilities for the country-by-country information and the audit

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

As explained more fully in the Directors' Responsibilities Statement set out on page 24, the directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation and accounting policies in the Country-by-Country Report to the country-by-country information, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

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

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

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

Country-by-Country Reporting
Independent auditors' report to the directors of Scottish Building Society

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 breaches of regulations of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA'), and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to 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 country-by-country information. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

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

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
30 March 2023

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 2023 were:

	2023 **£000**	2022 £000
Total operating income	**12,396**	9,730
Profit before tax	**3,286**	2,354
Tax paid in year	**617**	398
Public subsidies received	**-**	-
Average number of employees on FTE basis	**81**	75

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

	2023 %	2022 %	Statutory Limit %
a) Lending limit	**1.67**	2.25	25.0
b) Funding limit	**30.44**	16.35	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

	2023 %	2022 %
As a percentage of shares and borrowings:		
a) Gross capital	**6.67**	6.76
b) Free capital	**6.30**	6.33
c) Liquid assets	**22.41**	23.98
Profit after tax as a percentage of mean total assets	**0.43**	0.33
Management expenses as a percentage of mean total assets	**1.44**	1.34

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 £559,249k for 2022, increasing to £618,685k for 2023.

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

3. Directors as at 31 January 2023

Name and Business Occupation	Age	Date of Appointment	Other Directorships
Ian Wilson Chartered Banker	58	01.09.22	Revolut Group Holdings Ltd Revolut Ltd Revolut Newco UK Ltd Kompasbank a/s East Pier Advisory Ltd
Andrew Hastings Chartered Banker	59	01.07.19	Elavon Financial Services DAC Pepper Finance Corporation (Ireland) DAC
Sheila Gunn Company Director	59	01.11.19	Gunn Limited PSF Capital (Scotland) GP Limited
Kathryn (Karyn) Lamont Chartered Accountant	54	30.05.18	The North American Income Trust plc Scottish American Investment Company plc iomart Group plc Ediston Property Investment Company
Sean Gilchrist Chartered Banker	60	23.06.21	Amishane Limited
Andrew Lee	59	17.10.22	St Andrew's Healthcare Trust Solihull Masonic Temple Limited Guardian of the Wrought Iron Plate and Warden of the Birmingham Assay Office
Rosemary Hilary	67	01.11.22	Vitality Life Limited; Vitality Health Limited; Discovery Holdings Europe Ltd; and Vitality Corporate Service Ltd (all board and committee meetings are held together) Willis Ltd St James's Place plc and subsidiary St James's Place UK plc The Prince's Foundation
Paul Denton Building Society Chief Executive, Chartered Banker	52	01.07.19	SBS Mortgages Limited BSA Pension Trustees Limited Chest Heart & Stroke Scotland Limited KRFC Blues Limited Chartered Banker Institute Board of Trustees
Neil Easson Building Society Finance Director, Chartered Accountant	52	01.04.20	SBS Mortgages Limited

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

Relationship Centres

ABERDEEN
6 Alford Place
Aberdeen
AB10 1YD

EDINBURGH
20 Frederick Street
Edinburgh
EH2 2JR

NEW Opening soon

GLASGOW
78 Queen Street
Glasgow
G1 3DN

INVERNESS
71 Queensgate
Inverness
IV1 1DG

GALASHIELS
48 Bank Street
Galashiels
TD1 1EP

TROON
27 Ayr Street
Troon
KA10 6EB

scottishbs.co.uk

0333 207 4007

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