SCOTTISH BUILDING SOCIETY

REPORT AND ACCOUNTS

for the year ended 31 January 2016

Overview

The year to 31 January 2016 has been another successful one for the Scottish Building Society, with further strengthening of our financial position. This has been achieved while allocating a portion of our profitability to our members through a number of loyalty initiatives. The Board regards the mutual ownership of the Society by its members as being central to everything we do, and we are delighted that members are able to share our success in this way. In the year ahead we aim to provide further benefit to members in enhanced delivery of our products and services.

Financial Results

The economy of the UK continues to make progress, generally ahead of other European countries, and employment figures have been strong. However, the relatively low level of inflation and concerns regarding the global economy suggest that Bank of England Base Rate may remain at its record low of 0.5% for longer than might have been envisaged. Within Scotland we have seen concerns in the Aberdeen area resulting from the fall in oil prices. Uncertainty in the operating environment is never welcome, and we look forward to a period of stability, following last year's Scottish Referendum and the European Referendum on 23 June this year. The pre-tax profit of the Society at £1.3 million remains strong and compares favourably with previous years following introduction of our member loyalty initiatives on mortgage and savings accounts. Our capital position has strengthened further, remaining high in relation to our peer group of building societies. The costs associated with a demanding regulatory environment remain high, but your Society is very well positioned to enhance our service in the period ahead.

Mortgages and Savings

Bank of England Base Rate has now been at a record low for over seven years. As a mutual society we are very aware of the need for fair treatment of both our mortgage and saver members, and our rates on both sides of the balance sheet are reviewed regularly. Our management and staff have worked hard to simplify our product ranges, and both our products and pricing structures are designed to be simple, fair and transparent. Our network of branches and agents is reviewed on an ongoing basis to ensure efficient delivery of our service to members, and our operations will be enhanced in the period ahead through increased use of technology.

Member Communication

Our Annual General Meeting this year is again being held in the Borders, following successful meetings in recent years in Edinburgh, Perth, Inverness, Aberdeen, Glasgow and Troon. Relationships with members are being further developed through our regular *Society* magazine, customer feedback surveys, member forums and online member panel. There will be an opportunity for those attending the AGM to ask questions of the Board, and for those who cannot attend, we will continue to ask members to send in questions which will be answered either at the meeting or in the *Society* magazine.

Our People

Any organisation is only as good as its people, and we are proud that the entire body of staff has joined with the management team in contributing to a range of initiatives aimed at providing benefit to members as well as achieving further operating efficiency. Staff remuneration is performance related, and on behalf of the Board I would like to thank all our colleagues for their hard work and continued focus on service to members.

Looking Forward

Mark Thomson and his team have worked hard to establish a solid financial and operational platform to further improve our service, and in the period ahead members will see value flowing from various initiatives. We will continue to operate as a prudent lender and we will strive to maintain fairness to all members.

Rob Golbourn
Chairman

4 April 2016

OUR Loyalty Promises

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

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

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

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

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

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

Our Performance

I am delighted to report on another strong performance during my third year as Chief Executive of your Society. With Profit Before Tax at £1.3m (which is directly in line with our Five-Year Plan), we have once more strengthened our financial position over the past 12 months, a period which has seen some challenging market conditions.

Besides maintaining our financial strength, our primary focus over the past year has been to ensure we have the right products, customer service and disciplines in place so that we can continue to deliver long-term value to all members, whether they are savers or borrowers.

To assist with our message of what we believe constitutes long-term value, we launched our *Loyalty Promises* in the autumn 2015 edition of *Society* magazine. This set of six statements is designed to clearly articulate what all members should expect during their relationship with the Society, and it is against these promises that we will be able to demonstrate long-term value during each member's relationship with us.

To ensure the consistent delivery of our *Loyalty Promises* the members of my Senior Management Team have been engaged 'behind the scenes' in a wide range of activities to identify what we can do better to improve our internal processes, both in terms of us providing a better customer experience, and in seeking efficiencies that do not result in an increase in risk. Such improvements could only have been made following the enthusiastic engagement of our loyal members of staff, together, of course, with the valuable feedback we have received through our Member Forums, our Online Member Panel and our regular Member Surveys.

Mortgages

The past year has seen an increase in activity in the Scottish mortgage market with a number of the larger lenders, along with some new entrants to the market, competing for market share. Such intense competition, coupled with the current low interest rate environment, has seen rates fall over the past 12 months, causing many borrowers in the market in general to switch their mortgage to another provider for a more competitive rate.

Against this backdrop it is pleasing to report that the Society's mortgage assets grew over the year by £3.4m, particularly as the Society does not seek to compete on price. Our strength continues to be based upon our traditional approach to lending, where each application is assessed by an experienced professional. The employment of this operating model ensures we treat each applicant as an individual, both at inception and throughout the term of their relationship with us, as well as helping us to ensure the credit quality of our lending book remains high.

Gross mortgage lending of £51.3m, though marginally up on last year, is partially overshadowed by the amount of redemption activity in an increasingly competitive market. With this in mind we are currently deploying a revised retention strategy, which will be consistent with our *Loyalty Promises*, to ensure our borrowers fully understand the benefits of remaining with the Society over the longer term.

Savings

We fully appreciate that it remains difficult for savers to receive real returns on their investments during this sustained low interest environment and we continue to work hard to achieve a fair balance between the interests of both our savers and our mortgage borrowers. Despite a reasonably stable period for savings rates over the past year, the absence of the prospect of an imminent increase in Bank Rate has recently seen market rates for retail savings edge downwards.

As part of our desire to offer long-term value to our members, our *Loyalty Promises* state that we will offer our best available rates to our members throughout the term of their relationship with us. I believe we have achieved this over the past year by consciously allocating a portion of our profits to reward our loyal savers through maintaining rates across our product range that are generally above market rates – a fact that was recognised in your Society being 'Highly Commended' in the 'Best Savings Provider for Existing Customers' category at the annual savingschampion.co.uk awards.

In addition to maintaining our savings rates at a level above those generally available in the market, we will launch our *Loyalty Cash ISA* product on 6 April 2016. This new product is specifically designed to reward the loyalty of our savers by paying a higher rate of interest based on the length of time these savings have been with us. A harmonisation of existing ISAs, designed to reward those members with existing ISA balances, will be completed by 30 April 2016.

The Year Ahead

The coming year promises to be busy with the delivery of a number of regulatory projects, as well as those designed to deliver improvements to the way we operate. During this period we intend to progress our plans that should see us go online for both our savers and mortgage borrowers in 2017, whilst continuing to invest in both our branch and agency network.

Our key focus, however, will be on delivering long-term value to our members throughout the term of their relationship with us.

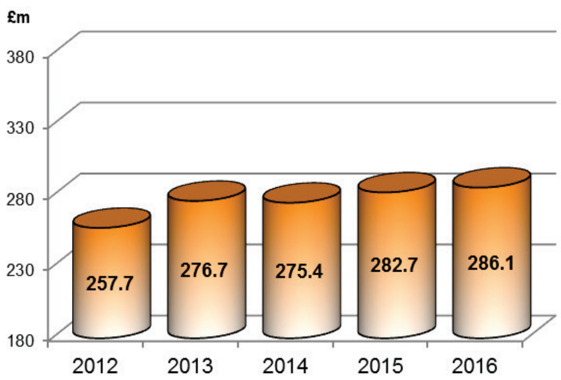
Mark L Thomson
Chief Executive

4 April 2016

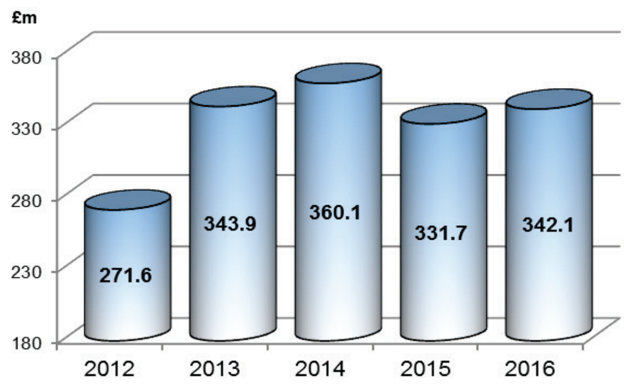
SCOTTISH BUILDING SOCIETY

Total Assets	Liquid Assets	Profit Before Tax
£388.9million	£100.9million	£1.3million

Mortgage Balances

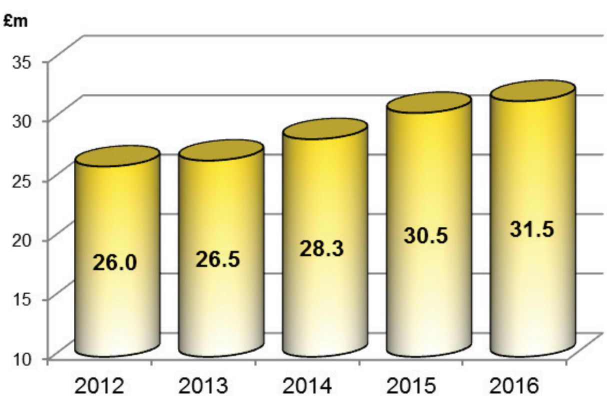


Savings Balances

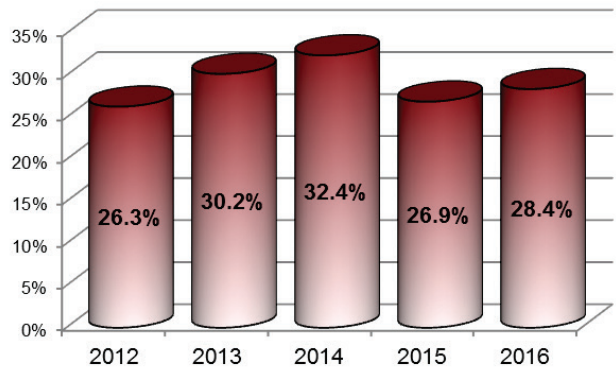


As a building society. our principal purpose is to provide mortgages for homeowners funded by savings raised from our members whilst ensuring our financial strength is maintained, as evidenced by strong Capital and Liquidity measures.

Capital (Reserves)



Liquid Assets
as % of Shares & Deposits



Figures for 2016 have been prepared under FRS 102 (with figures for 2015 restated for the effects of FRS 102 where appropriate).

Introduction

The Directors present their 167th Annual Report, together with the Annual Accounts and Annual Business Statement, for the year ended 31 January 2016.

Our Mission, Vision and Values Statements

The Society's Mission Statement is that "we aim to be the Building Society of choice for every stage in life".

Our Vision is "to remain Scottish, independent and mutual, providing a first class service and quality products for all members" and the values of the Society are:

- To provide professional and friendly service and to be clear and straightforward in all our communications with our members, who are both our customers and the owners of our business.
- To operate in accordance with the highest standards of integrity and transparency in all relationships with members, business partners and regulators.
- To earn the respect and trust of our members and to be socially responsible in everything we do.
- To maintain the Society's financial strength and stability and aim to be as cost-effective as possible.

Business Review

The Business Review is covered in the Chairman's Report and Chief Executive's Review on pages 1 to 4.

Profit and Capital

Profit for the year before tax amounted to £1.3million compared with £2.2million in 2014-15. This is a strong performance, having been achieved whilst allocating a portion of our profitability to our members through a number of loyalty promises and further strengthens our reserves as a platform for future growth and the provision of further member benefit. It also helps to ensure that the Society is well-placed for the stricter capital requirements due to come in under the latest Capital Requirements Directive (known as CRD4).

Gross capital and free capital as a percentage of shares and borrowings stood at 8.9% and 8.5% respectively at 31 January 2016 (2015: 8.8% and 8.3%).

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

Liquidity

Total cash and investments at 31 January 2016 amounted to £100.9million which represented 28.4% of total shares and borrowings, which compares with £93.2million (26.9%) at 31 January 2015. The Society's continuing aim is to maintain an appropriate level of liquidity at all times, in accordance with prudent management and regulatory requirements.

Interest Rates

Having fallen to an unprecedented 0.50% in March 2009, the Bank of England base rate has remained at that historical low since that date and, at the time of writing, there still remains no firm indication as to when rates might start to rise again. As a result the Society's Standard Variable Rate for mortgages has remained unchanged at 5.29% throughout the financial year. There have been some changes to rates applicable to individual mortgage and savings products to reflect market conditions or as part of the continuing process of harmonisation and simplification of products which has been highlighted in previous years' Reports. The first phase of this process was reported last year and saw rates increased in March 2014 for 8,750 Instant Access accounts. Customers with accounts where rates were to be reduced as part of this exercise were given advance notice of the change and their rates were adjusted in May 2015, albeit the reduction was slightly less than originally envisaged. A further phase is currently underway to harmonise rates for Individual Savings Accounts (ISAs), which also involves the launch of the Society's Loyalty Cash ISA. This process will mean rate increases for around 3,500 accounts and reductions for around 1,500 accounts.

The Society's long-term goal continues to be to generate member value through efficient and prudent management and the ongoing process to harmonise and simplify savings products will result (when fully completed) in a clear, simple range of products where all accounts on the same terms will receive the same rate of interest.

Mortgage Arrears and Forbearance

At 31 January 2016 the Group had only eight mortgage accounts in arrears for 12 months or more (2015: nine). The total arrears outstanding on these accounts was £77,051 (2015: £77,627) and the aggregate capital balance was £763,767 (2015: £712,509). Two properties were taken into possession during the year (2015: five, one of which was surrendered by the borrower voluntarily).

The Society uses a number of forbearance measures to assist those borrowers who are, or could be, approaching a point of experiencing financial difficulty. Such measures include agreeing a temporary payment concession in order to reduce the borrowers' financial pressures. We expect borrowers to resume normal payments once they become able to do so. As at 31 January 2016 there were 58 cases benefiting from the Society's forbearance measures (2015: 59) with total outstanding capital balances of £4.0million (2015: £4.1million). The Society makes provisions for any expected loss resulting from accounts in arrears in accordance with the Board approved policy.

Key Performance Indicators

The Board and management monitor a range of performance indicators to assess the ongoing health of the Society. The financial indicators are shown in the table below – and some are also shown graphically on page 5. Their significance is explained as:

Total Assets: Consisting primarily of Mortgage Assets and Liquid Assets, these have increased by 2.8%.

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 1.2%.

Share Balances: Another key reason for the Society's existence: to encourage saving and investment. Savings balances have been increased by 3.1% during the past year.

Reserves: The accumulated profits of the Society over more than 167 years of operation, which provide the capital which helps to maintain the Society's financial strength. These have increased by £1.0million in the year through the addition of the year's profits.

Net Interest Margin: The income generated by the Society from its operations, expressed as a percentage of mean total assets. This has decreased by 0.02 percentage points in the year.

Liquidity: Total cash and investments held by the Society at the year-end, expressed as a percentage of shares and borrowings. This has increased by 1.5 percentage points in the year and remains at a level well above regulatory requirements.

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 increased by 0.1 percentage points during the year.

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

Group Key Financial Performance Indicators 2012-2016

	2012	2013	2014	2015	2016
Total Assets	£342.7m	£387.8m	£397.2m	£378.2m	£388.9m
Mortgage Assets	£257.7m	£276.7m	£275.4m	£282.7m	£286.1m
Share Balances	£271.6m	£343.9m	£360.1m	£331.7m	£342.1m
Reserves	£26.0m	£26.5m	£28.3m	£30.5m	£31.5m
Net Interest Margin	1.73%	1.65%	1.71%	1.70%	1.68%
Liquidity	26.3%	30.2%	32.4%	26.9%	28.4%
Gross Capital	8.2%	7.4%	7.7%	8.8%	8.9%
Asset Growth	2.9%	13.2%	2.4%	(4.9%)	2.8%
Mortgage Asset Growth	9.0%	7.0%	(0.5%)	2.6%	1.2%

Figures for 2016 have been prepared under FRS 102 (with figures for 2015 restated for the effects of FRS 102 where appropriate).

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:

- More than 75% of mortgage borrowers reaching the end of their initial incentive period have remained with the Society.
- Customer complaints remain relatively low, with only 44 formal complaints registered during the year, of which 93% were resolved within four weeks of receipt.
- Less than 2% of mortgage accounts have arrears greater than 1.5% of their mortgage balance.

Regulation and Compliance

The continual change to the regulatory landscape within which the Society operates has been mentioned in Reports in previous years and the past year has been no exception. The three biggest regulatory projects during the past year have covered the following areas:

- Accounting requirements: As highlighted under the heading of Accounting Policies in the Notes to the Accounts beginning on page 26, the Society's Financial Statements this year have been prepared under Financial Reporting Standard 102 (FRS 102) for the first time.
- Mortgage regulation: Last year's Report highlighted the need for the Society to prepare for implementation of the EU Mortgage Credit Directive (MCD). This project was managed throughout the year and the Society was ready to apply the new rules from 1 February 2016, to ensure that pipeline mortgage business would be fully compliant when the Directive came fully into force from 21 March.
- Individual accountability: Both the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) made rules in July 2015 to implement a new Senior Managers & Certification Regime (SM&CR) designed to strengthen the accountability of individuals at Board and senior management level within banks, building societies and insurers. These rules apply from 7 March 2016 and the Society has ensured that it was able to meet these requirements.

There were also changes to rules regarding the Financial Services Compensation Scheme and the operation of savings accounts, some of which do not come fully into force until the end of this year. Further work is also required to fully embed both MCD and SM&CR requirements during the current year. We are also aware that further regulatory changes have already been announced or are in the pipeline to be implemented during the coming year.

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 14 to 17.

Principal Risks and Uncertainties

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

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

- **Credit Risk:** This relates to the risk that mortgage borrowers or treasury counterparties, to whom the Society has lent money, default on their obligation to pay. We seek to mitigate credit risk principally through the careful management of our underwriting policy and process, ensuring that all loans meet the criteria laid down in our Lending policy which is reviewed on a rolling basis at least annually and overseen by the Retail Credit Committee. The Society's exposure to treasury counterparties is carefully controlled in accordance with the limits set out in our Liquidity 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 Liquidity and Financial Risk Management policies.
- **Liquidity Risk:** This relates to the Society's ability to meet its financial obligations as they fall due. The Society has policies in place to ensure it maintains sufficient funds in liquid form at all times and stress tests are carried out regularly to confirm that the Society can withstand normal and abnormal cash outflows.
- **Operational Risk:** This is the risk of a loss arising from inadequate or failed internal processes or systems, human error or external events, including cyber risk. Processes and systems are in place to minimise these risks.
- **Strategic and Reputational Risk:** The risk of the Society entering unprofitable markets or offering unprofitable products. The Board has a duty to ensure that the Society makes an adequate amount of profit to maintain capital ratios at a sufficient level to provide long-term financial strength and stability for all members. This also includes risk arising from increased regulation by the financial services regulators.
- **Conduct Risk:** The risk of the Society failing to treat its customers fairly, with resulting detriment to those customers. The Conduct 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.

A further risk stems from the continuing uncertainty inherent in the current economic environment and the impact of the outcome of the referendum on the UK's membership of the European Union. There are also additional risks arising from (a) the impact of regulatory changes already mentioned and (b) the potential for further contributions to the FSCS levy which would impact upon the Society's capital and ability to compete over a period of time.

The Society will continue to adopt a cautious approach in the coming financial year, seeking moderate managed growth in order to maintain financial stability, whilst providing suitable mortgage and savings products to customers.

Financial Risk Management Objectives and Policies

The Society has a formal policy for the management of financial risk, including the arrangement of appropriate financial instruments to provide a hedge against identified exposures in fixed-rate lending. Particular risks including credit, liquidity and interest rate risk are considered in Note 27 to the Accounts.

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

Capital Requirements

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

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 which came into effect on 1 January 2014 place certain reporting obligations on financial institutions that are within the scope of CRD4. The purpose of the regulations is to provide clarity on the source of the Society's income and the location of its operations. The annual reporting requirements for the Society as at 31 January 2016 are provided in Note 31 to the Accounts.

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 three years under normal operating conditions. They have also considered the potential effect on the Society's business, financial position, capital and liquidity under stressed operating conditions.

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

Corporate Social Responsibility (CSR)

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

Customer Service and Conduct of Business

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

Donations and Community Support

The Society continues to provide support for local events in areas around its branches, as well as supporting designated charities in each of its six branch areas during the past year, as voted for by the local membership. New charities are in place for 2016, again chosen by local members. These are:

- **Alzheimer Scotland (Inverness & Aberdeen):** The charity provides a wide range of specialist services for people with dementia and their carers, offering personalised support services, community activities, information and advice, at every stage of the dementia journey.
- **Sick Kids Friends Foundation (Edinburgh):** The Foundation's aim is to transform the experiences of children and young people in hospital so they can be a child first and a patient second. The hospital itself is due to move to its new location on the outskirts of Edinburgh in 2017.
- **Lavender Touch (Galashiels):** The charity raises funds to help support people living with cancer in the Scottish Borders, working closely with NHS Borders and helping to provide links between the therapists, healthcare professionals and Borders Macmillan Centre.

- **Breast Cancer Care (Glasgow):** The charity raises funds to enable every person affected by breast cancer to get the best treatment, support and information – from 'day one'.
- **Combat Stress (Troon):** The veterans' mental charity, it was originally founded following the First World War. One of its three residential treatment centres is at Hollybush House in Ayrshire.

In addition to the designated charities, we have also provided local sponsorship throughout the year, including acting as a collection point for the Cash for Kids Mission Christmas Appeal.

The Society makes charitable donations to reflect and encourage members' participation in the Society's Annual General Meetings each year. £1,250 was donated in 2015 to St Columba's Hospice in Edinburgh for postal and online votes received and for members who attended in person at the AGM in Edinburgh. This year's AGM will be held at Abbotsford, Sir Walter Scott's former home near Galashiels, on 25 May and a donation will be made to Lavender Touch, made up of £2 for every voting member attending and 50p for every postal and online vote received.

The Society does not make donations for political purposes.

Environmental Issues

The Society aims to minimise the environmental impacts of all our operations by striving to reduce unnecessary consumption, to re-use and recycle where possible, to manage energy usage wisely and to promote the control of environmental issues at all levels. We continue to use paper from sources approved by the Forestry Stewardship Council wherever possible, to recycle waste paper and other materials and to encourage our staff to be environmentally aware at all times.

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

Employee Policies

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

Directors

The following individuals were Directors of the Society during the year to 31 January 2016:

Non-Executive Directors

Robert Golbourn MBA FCIBS	*Chairman (from June 2015)* *Vice-Chairman, Senior Independent Director and Chairman of Nomination & Remuneration Committee (until June 2015)*
Raymond J Abbott CA	*Vice-Chairman, Senior Independent Director and Chairman of Nomination & Remuneration Committee (from June 2015)* *Chairman of Audit Committee (until October 2015)*
David Peebles MSc DipM FCIBS MCT	*Chairman of Audit Committee (from October 2015)* *Chairman of Assets & Liabilities Committee (until October 2015)*
Alexa H Henderson BSc CA	*Chairman (until June 2015)*
John C Ogston FCIBS	*Chairman of Retail Credit Committee*
Simon M Pashby BA FCA	*Chairman of Operational Risk Committee*
James Coyle BAcc CA FCIBS *appointed 1 March 2015*	*Chairman of Assets & Liabilities Committee (from October 2015)*

Executive Director

Mark L Thomson FCIBS	*Chief Executive* *Chairman of Conduct Risk Committee*

None of the Directors had any beneficial interest in the Society's subsidiary undertaking, SBS Mortgages Limited, as at the year end. The Society maintains liability insurance cover for Directors and Officers as permitted by the Building Societies Act 1986.

Election of Directors

The following Directors are standing for re-election:

- **Robert (Rob) Golbourn** is retiring under Rule 24(1)(j), having reached the age of 70 and having been approved as eligible for re-election by resolution of the Board. The Board acknowledges his extensive experience and continuing valuable contribution as a Non-executive Director and as Chairman in coming to that decision.
- **Alexa Henderson** and **David Peebles** are retiring in accordance with the Board's policy regarding Non-executive Directors who have been in office for more than nine years. This requires that they seek re-election by the members at the next AGM and then at least every two years, subject to having been assessed by the Board as continuing to be independent in character and judgement.
- **Raymond Abbott** is retiring under Rule 26, which requires a proportion of the remaining Directors to retire from office by rotation each year.

All of the above, being eligible under the Rules, offer themselves for re-election at the Annual General Meeting to be held on 25 May 2016.

Biographies of all current Directors, including those seeking re-election, appear on pages 12 & 13.

Staff and Agents

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

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

Post Balance Sheet Events

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

Supplier Payment Policy

The Society's continuing policy concerning the payment of its trade creditors is to pay within the agreed terms of credit, once the supplier has discharged their contractual obligations. The average number of days' credit taken to pay suppliers during the year ended 31 January 2016 was ten (2015: ten).

Auditor

Our auditor, KPMG LLP, is willing to continue in office and the Board is happy to recommend their re-appointment as auditor. A resolution to that effect will be proposed for consideration at the Annual General Meeting to be held on 25 May 2016.

By order of the Board

Andrew J W Tristram
Secretary

4 April 2016

Robert (Rob) Golbourn is a Fellow and former Member of Council of the Chartered Institute of Bankers in Scotland. He spent 30 years with Clydesdale Bank, in various management positions and later in senior roles including Regional Manager, Treasurer and Head of Credit. In 1994 he joined Scottish Widows, then an independent mutual, to set up a new banking subsidiary which grew to become a well-established operator in the direct and intermediary markets. He retired as Managing Director of Scottish Widows Bank in 2003. Rob keeps well up to date with financial sector issues through a wide network of contacts established throughout his career. He joined the Board in 2006 and was appointed Society Chairman in June 2015, having previously been Vice-Chairman, Senior Independent Director and Chairman of the Nomination & Remuneration Committee and of the Audit Committee.

Raymond Abbott is a Chartered Accountant by profession and has worked in private equity and investment for over twenty years. As the former managing director of Alliance Trust Equity Partners he was responsible for strategic development. Previously he founded the UK venture investor Albany Ventures and prior to that was Director of Investment at British Linen Bank. Raymond also serves as Chairman of Foresight 3 plc and Galleria Holdings Limited. He therefore brings a wealth of financial experience to the Board. Raymond joined the Board in June 2013 and is currently Vice-Chairman, Senior Independent Director and Chairman of the Nomination & Remuneration Committee.

David Peebles joined the Board in 2006 and is currently Chairman of the Audit Committee, having previously chaired the Assets & Liabilities Committee. He is a Fellow of the Chartered Institute of Bankers in Scotland and a Chartered Banker. He has a Postgraduate Diploma and a Masters Degree in Marketing and is also a member of the Association of Corporate Treasurers. As a former bank Treasurer he has an in-depth knowledge of Risk and Balance Sheet management. David is Managing Director of XM International Associates Ltd which provides consultancy advice to a diverse group of financial services organisations worldwide.

Alexa Henderson joined the Society's Board in 2001 and stepped down as Chairman of the Society in June 2015 after four years in that role. Alexa qualified as a Chartered Accountant and worked with KPMG and Arthur Andersen in Edinburgh and Melbourne, primarily in financial services audit. On returning to Edinburgh she joined the WM Company, provider of information services to investment funds. As a past Director of the WM Company, previously a Bankers Trust then Deutsche Bank subsidiary, and as Trustee of their company pension scheme, Alexa has experience in investment, compliance, financial and general management which she brings to the board of Scottish Building Society. Alexa was appointed to the Board of Adam & Company during 2012 and chairs their Audit Committee. She also holds non-executive directorships with James Walker (Leith) Ltd, Dunedin Smaller Companies Investment Trust plc and F&C UK Real Estate Investments Limited.

John (Jack) Ogston joined the Board in July 2013 and chairs the Retail Credit Committee. Jack is a Fellow of the Chartered Institute of Bankers in Scotland, having spent 36 years with Clydesdale Bank, including a number of management positions and latterly as Head of Corporate & Structured Finance in Scotland. He has significant board and lending experience and is currently a non-executive director of Vehicle Professionals Ltd, Constant Progress Ltd, Equator Capital Ltd and Toward Technology Ltd.

Simon Pashby is a Chartered Accountant with almost 30 years' experience working in financial services, 15 years as an audit partner responsible for signing audit opinions for regulated firms. He trained with Price Waterhouse and then joined KPMG in New Zealand, returning to the UK in 1990 to live in Edinburgh. He has experience of advising a wide range of organisations on risk, regulation and controls. Simon retired in 2012 and now works as an independent non-executive director, and maintains his current financial knowledge as a Fellow of the Institute of Chartered Accountants. He is also Vice Chairman of the Medical Protection Society, a members' mutual fund which provides indemnity services to the medical profession, where he chairs the audit and risk committee. Simon joined the Board in October 2014 and currently chairs the Operational Risk Committee.

James (Jim) Coyle was appointed to the Board in March 2015 and currently chairs the Assets & Liabilities Committee (ALCO). Jim is a non-executive director of HSBC Bank plc and Marks & Spencer Financial Services plc, Chairman of HSBC Trust Company (UK) Limited and Chairman of the Audit Committee of Honeycomb Investment Trust plc. He is a Fellow of the Chartered Institute of Bankers in Scotland, on the Council of the Institute of Chartered Accountants of Scotland and a member of the Financial Reporting Council's Financial Reporting Review Panel and Monitoring Committee. Jim retired from Lloyds Banking Group in mid-2015, where he had been Group Financial Controller and previously a Divisional Finance Director and a Director of Scottish Financial Enterprise and Chairman of the Audit Committee of Vocalink plc.

Mark Thomson was appointed as Chief Executive on 1 May 2013, having joined the Society in April 2012 in the role of Chief Operating Officer and been appointed to the Board in October 2012. He is a Fellow of the Chartered Institute of Bankers in Scotland and a Chartered Banker. During his career of 30-plus years, Mark has worked in a variety of roles in retail banking, including 16 years at Scottish Widows Bank, where his responsibilities included credit risk management and compliance, as well as a wide range of operational activities. Mark was appointed to the Board of Scottish Widows Bank in January 2006 as Credit Director - a position he held until joining the Society. Mark currently chairs the Society's Conduct Risk Committee and the Management ALCO.

The Directors are responsible for the governance of the Society, on behalf of the members, and are committed to good practice in Corporate Governance. They have regard to the principles of the UK Corporate Governance Code for listed companies issued in September 2014 ('the Code') as it applies to building societies, in accordance with the expectation of the regulators.

The Role of the Board

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

The full Board meets regularly with additional meetings as required. In 2015-16 there were eleven Board meetings, including a specific meeting to consider future strategy and the Corporate Plan. A table showing details of Directors' attendance during the year in relation to Board and Committee meetings appears on page 16 as part of this report.

There is a schedule of matters reserved for Board decision and the Board has delegated certain responsibilities to the Committees described below, all of which report to the Board. Minutes of each Committee's meetings are distributed to all Board members and the Chairman of each Committee provides a report at the Board meeting following any meeting of that Committee. The terms of reference for all Committees are available on the Society's website and the membership of committees is reviewed annually. The Society maintains liability insurance cover for Directors and Officers.

Audit Committee: This Committee met on four occasions during the year and is chaired by an independent Director. The Chief Executive, other members of management and internal and external auditors attend by invitation only. The Committee considers regulatory compliance matters and adequacy of internal controls. It also reviews audit reports, monitors the effectiveness of the internal audit function and agrees the annual internal audit plan. It considers and recommends to the Board (for approval by the members) the appointment or re-appointment of the external auditors, and the policy on the engagement of the external auditors for non-audit services and approval of their fees. The Committee also monitors the external auditors' independence, objectivity, competence and effectiveness. It also ensures that the systems of accounting, business control and management of information are adequate for the Society's needs. At least annually the Committee meets with the external auditors without members of the Management team being present. As required by the Code, the Committee provides advice to the Board confirming that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy.

The Committee comprises three Non-Executive Directors who all have relevant financial experience. Raymond Abbott chaired the Committee for three of the meetings held during the year and was then succeeded by David Peebles from the end of October; other members during the year were Rob Golbourn (for three of the meetings) and Simon Pashby. The Society Chairman and members of senior management attend by invitation, together with representatives from the internal and external auditors.

Assets & Liabilities Committee (ALCO): This Committee held nine meetings during the year and its remit includes monitoring capital and liquidity, balance sheet structure, financial risk management, pricing of new and existing products, and monitoring of treasury activities – including counterparties, interest rate risk and basis risk and performance against the Society's overall Financial Risk Appetite. It also oversees the work of the Management ALCO, which meets monthly.

The Committee comprises three Non-Executive Directors, together with the Chief Executive and Head of Finance. The Committee was chaired by David Peebles until the end of October 2015 and by Jim Coyle thereafter; other Non-Executive members during the year were Alexa Henderson and Raymond Abbott. Other members of senior management and the Finance team attend by invitation.

Retail Credit Committee: This Committee provides Board oversight of retail credit risk. Membership currently consists of two Non-Executive Directors (Jack Ogston and Rob Golbourn) and the Chief Executive, and meetings are attended by the Head of Lending together with other relevant staff as necessary. David Peebles was also a member of the Committee until October 2015. Jack Ogston chairs the Committee.

The Committee held seven meetings during the year and its remit includes reviewing lending policies, monitoring of mortgage market conditions from a credit risk perspective, reviewing the credit quality and risk profile of the mortgage book, assessing credit risks associated with new and existing mortgage products, overviewing lending decisions, monitoring arrears and reviewing specific and general loss provisions and general oversight of performance against the Society's Credit Risk Appetite. Any recommendations for changes to policies are referred to the Board for approval.

Nomination & Remuneration Committee: This Committee reviews Board constitution, skills, performance, succession plans and Director elections and is responsible for remuneration policy for all Directors and for making recommendations to the Board regarding general remuneration and contractual arrangements. It also supervises the process for appointment of new Directors. All the Non-Executive Directors are members of the Committee, which is chaired by the Senior Independent Director (Rob Golbourn until June 2015 and Raymond Abbott thereafter). The Chief Executive attends by invitation but takes no part in any discussion of his own remuneration. There were four meetings during the year.

Conduct Risk Committee: This Committee has been established by the Board to provide assurance that members (or potential members) are being treated fairly and consistently and that Conduct Risks are being appropriately managed by monitoring performance against the Society's Conduct Risk Appetite. The Committee is chaired by the Chief Executive, and consists of one Non-Executive Director (Alexa Henderson until October 2015; Rob Golbourn thereafter), the Chief Operating Officer, the Head of Lending and the Secretary & Head of Compliance. Other members of the Management team attend as required. The Committee held six meetings during the year.

Operational Risk Committee: This Committee's primary role is to monitor performance against the Society's Operational Risk Appetite and the Committee met on seven occasions during the year. It is chaired by a Non-Executive Director, Simon Pashby and its membership includes the Chief Executive, the Chief Operating Officer, the Head of Finance, the Head of Lending, the Head of Sales and the Secretary & Head of Compliance. Other managers attend as required.

Division of Responsibilities: Chairman and Chief Executive

The offices of Chief Executive and Chairman are distinct and held by different people. The Chief Executive is responsible for managing the Society's business within the parameters set by the Board. The Chairman sets the direction and culture of the Board, facilitating effective contribution from Directors, maintaining constructive relations between Executive and Non-Executive Directors and ensuring that Directors receive accurate, timely and clear advice and information. The current Chairman (Rob Golbourn) was considered independent on his appointment in June 2015, having demonstrated clear commitment, experience, and capability since joining the Board in October 2006.

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 Chief Executive present. The Board has appointed a Senior Independent Director, Raymond Abbott, to provide support for the Chairman and an alternative route for communication from members and Society colleagues. His main responsibilities are to chair the Nomination & Remuneration Committee and to carry out the appraisal of the Chairman, taking into account the views of the other Directors.

The Composition of the Board

The Board currently consists of seven Non-Executive Directors plus the Chief Executive, providing a balance of skills and experience appropriate for the requirements of the business. The Board is satisfied that in terms of independence of character, judgement and robustness of challenge to the Society's Management, each Non-Executive Director is considered independent. Factors taken into account when assessing independence include length of service, material business relationships and whether the Director has recently been an employee of the Society.

Although Alexa Henderson, Rob Golbourn and David Peebles have been Non-Executive Directors for more than nine years, the Board is satisfied that their length of service does not impair their independence and that they all continue to bring valuable knowledge and experience to the Society.

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

Appointments to the Board

The Society values all aspects of diversity, including gender, and ensures that Non-Executive Director appointments are made on merit, based on the specific skills and experience required. Vacancies are advertised within the Society's membership and more widely where appropriate. Members have the right under the Society's Rules to nominate candidates for election to the Board. The Nomination & Remuneration Committee leads the recruitment process, although the final decision rests with the Board as a whole.

All Directors must meet the requirements of fitness and propriety laid down by the regulators and all Directors must be approved by the regulators in order to fulfil their controlled function as a Director.

Commitment

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

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

Directors' Attendance 2015-16

The table below shows the number of Board meetings attended by each Director and, for each of the Board Committees, the number of meetings and attendance by individuals as members of those Committees.

The figures in brackets denote the number of meetings each Director was eligible to attend.

	Board	Audit Committee	Assets & Liabilities Committee	Retail Credit Committee	Operational Risk Committee	Conduct Risk Committee	Nomination & Remuneration Committee
R J Abbott	10(11)	4(4)	6(7)	-	-	1(1)	4(4)
J Coyle	9(9)	-	2(2)	-	-	-	4(4)
R Golbourn	9(11)	3(3)	-	5(7)	-	2(2)	4(4)
A H Henderson	11(11)	-	9(9)	-	-	3(5)	4(4)
J C Ogston	9(11)	-	-	7(7)	-	-	3(4)
S M Pashby	11(11)	4(4)	-	-	7(7)	-	4(4)
D Peebles	11(11)	1(1)	9(9)	2(5)	-	-	4(4)
M L Thomson	11(11)	-	9(9)	6(7)	7(7)	6(6)	-

Development

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

Information and Support

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

Evaluation

The Chairman & Vice-Chairman review the performance of the Chief Executive annually. Non-Executive Directors are evaluated by the Chairman using questions based on the FRC Guidance on Board Effectiveness. The Chairman is evaluated by the Senior Independent Director, taking into account the views of the other Directors. The Board evaluates its overall performance and that of each Committee. This process is used to improve the effectiveness of Directors and the Board collectively.

Re-election

The Society's Rules require that Directors are submitted for election at the Annual General Meeting (AGM) following their appointment to the Board. All Directors are required by the Society's Rules to seek re-election if they have not been elected at either of the two previous AGMs. Directors may also submit themselves for re-election voluntarily. The Nomination & Remuneration Committee considers and makes a recommendation to the Board whether each Non-Executive Director should be submitted for re-election, bearing in mind that Director's continued independence and contribution to Board deliberations. The UK Corporate Governance Code specifies that any Director serving for longer than nine years should be subject to annual re-election by the members. The Board considers that annual re-election is not appropriate for the Society, as compliance with the requirements under the Society's Rules has tended to mean Directors standing for re-election every two years.

Financial and Business Reporting

As highlighted in the Directors’ Report on page 8 and explained more fully in the Notes to the Accounts on page 26, the Society has adopted the new accounting standard FRS 102 for the first time this year, resulting in restatement of certain figures for the previous year.

The Statement of Directors' Responsibilities on page 20 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 9.

Risk Management and Internal Control

The Board is collectively responsible for determining strategies for risk management and control. Senior management are responsible for designing, operating and monitoring risk management and internal control processes through the Risk Management Committee that reports directly to the Board each month. The Board reviews the adequacy of these processes and the Internal Audit function provides independent and objective assurance that the processes are appropriate and effectively applied. The Society has a strong compliance culture and the Board is satisfied that the Society’s systems are effective and appropriate to the scale and complexity of the Society’s business.

Remuneration

The Directors' Remuneration Report on pages 18 & 19 sets out the remuneration policies for Executive and Non-Executive Directors and explains how this meets the requirements of the UK Corporate Governance Code.

Dialogue with Shareholders

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

Constructive Use of the Annual General Meeting (AGM)

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

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

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

Rob Golbourn
Chairman 4 April 2016

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

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

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

Procedure for Developing Policy on Executive & Individual Director Remuneration

The Board has overall responsibility for overseeing arrangements for remuneration. This is done through the Nomination & Remuneration Committee, which is chaired by the Senior Independent Director. All Non-Executive Directors are members of the Committee and the Chief Executive attends meetings and acts as secretary of the Committee but takes no part in discussions on his own remuneration.

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

Non-Executive Directors

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

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

Executive Director

The Chief Executive’s basic salary is reviewed annually by reference to jobs carrying similar responsibilities in comparable organisations and by reference to market conditions and personal performance.

His contract with the Society includes a non-pensionable executive bonus scheme which is payable dependent on the Society's performance and personal performance measured against a number of specific objectives set by the Board, including strategy, business performance, risk management and corporate governance. No single factor can therefore unduly influence the amount of bonus payable. Bonus payments to the Chief Executive are not guaranteed and are reviewed each year.

The Society makes a minimum contribution of 20% of salary to the Chief Executive’s private pension arrangements and he also receives a further taxable benefit comprising a Society car.

Service Contracts

The Chief Executive has a service contract 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 2016	**To 31 January 2015**
R J Abbott	£23,083	£20,267
J Coyle (appointed 1 March 2015)	£19,050	-
R Golbourn	£30,033	£24,320
A H Henderson	£26,275	£33,440
J C Ogston	£20,480	£20,267
S M Pashby (appointed 15 October 2014)	£20,750	£6,120
D Peebles	£20,750	£20,267
M R Sibbald (retired 28 October 2014)	-	£15,167
Total	**£160,421**	**£139,848**

The fees shown for Mr Ogston were paid through a third-party service company.

Executive Director

To 31 January 2016					
	Salary	Bonus	Pension Contributions	Taxable Benefits	Total
M L Thomson	£132,990	£26,000	£26,598	£4,726	£190,314

To 31 January 2015					
	Salary	Bonus	Pension Contributions	Taxable Benefits	Total
M L Thomson	£130,000	£20,000	£26,000	£3,914	£179,914

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

Raymond Abbott
Chairman, Nomination & Remuneration Committee

4 April 2016

Directors' responsibilities for preparing 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 Group and Society Annual Accounts for each financial year. Under that law they are required to prepare the Group and Society Annual Accounts in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland.

The Group and Society Annual Accounts are required by law and International Financial Reporting Standards (IFRS) as adopted in the EU to give a true and fair view of the state of affairs of the Group and of the Society; the Building Societies Act 1986 provides in relation to such Annual Accounts that references in the relevant part of that Act to Annual Accounts giving a true and fair view are references to their achieving a fair presentation.

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

- select suitable accounting policies and then apply them consistently;
- make adjustments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK Accounting Standards;
- prepare the Annual Accounts on the going concern basis, unless it is inappropriate to presume that the Group and Society will continue in business.

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 Group.

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society, in accordance with the Act; and
- 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 both the Prudential Regulation Authority and the Financial Conduct Authority under the Financial Services and Markets Act 2000 (as amended).

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group 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 2016 in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013. In preparing the CBCR Information, the Directors are responsible for:

- interpreting the requirements of the Capital Requirements (country-by-country reporting) regulations 2013;
- determining the acceptability of the basis of preparation of the CBRC information set out in Note 31;
- 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 AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH BUILDING SOCIETY

We have audited the Group and Society Annual Accounts of Scottish Building Society for the year ended 31 January 2016 set out on pages 22 to 59. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 20, the Directors are responsible for the preparation of Annual Accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the Annual Accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Annual Accounts

A description of the scope of an audit of annual accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Annual Accounts

In our opinion the Annual Accounts:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and of the Society as at 31 January 2016 and of the income and expenditure of the Group and of the Society for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;
- the information given in the Directors' Report for the financial year for which the Annual Accounts are prepared 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

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

Catherine Burnet (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
20 Castle Terrace
Edinburgh

4 April 2016

INCOME STATEMENT
for the year ended 31 January 2016

	Notes	Group 2016 £000	Group 2015 £000 Re-stated	Society 2016 £000	Society 2015 £000 Re-stated
Interest receivable and similar income	2	**11,756**	12,328	**11,699**	12,269
Interest payable and similar charges	3	**5,326**	5,727	**5,326**	5,727
Net interest income		**6,430**	6,601	**6,373**	6,542
Fees and commissions receivable		**80**	140	**80**	140
Fees and commissions payable		**34**	33	**34**	33
Net gains/(losses) from derivative financial instruments	4	**46**	(6)	**46**	(6)
Total Net Income		**6,522**	6,702	**6,465**	6,643
Administrative expenses	5	**4,633**	4,303	**4,578**	4,248
Depreciation and amortisation	15,16	**293**	256	**293**	256
Operating Profit before movement in acquired assets, impairment losses and provisions		**1,596**	2,143	**1,594**	2,139
Net increase in value of acquired assets	13	**18**	439	**18**	439
Impairment losses on loans and advances	12	**116**	106	**116**	106
Provisions for liabilities – FSCS levy	24	**164**	248	**164**	248
Operating Profit and Profit before tax		**1,334**	2,228	**1,332**	2,224
Tax expense	8	**223**	396	**223**	395
Profit for the financial year	25	**1,111**	1,832	**1,109**	1,829

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

OTHER COMPREHENSIVE INCOME
for the year ended 31 January 2016

	Notes	Group 2016 £000	Group 2015 £000 Re-stated	Society 2016 £000	Society 2015 £000 Re-stated
Profit for the financial year		**1,111**	1,832	**1,109**	1,829
Valuation (losses)/gains taken to reserves	26	**(67)**	18	**(67)**	18
Income tax on other comprehensive income	26	**14**	(5)	**14**	(5)
Total comprehensive income for the period		**1,058**	1,845	**1,056**	1,842

Throughout these Accounts, figures for 2016 have been prepared under FRS 102 (with figures for 2015 restated for the effects of FRS 102 where appropriate).

STATEMENT OF FINANCIAL POSITION
at 31 January 2016

SCOTTISH BUILDING SOCIETY

	Notes	Group 2016 £000	Group 2015 £000 Re-stated	Society 2016 £000	Society 2015 £000 Re-stated
ASSETS					
Liquid Assets:					
Cash in hand and balances with Bank of England		**40,141**	52,145	**40,141**	52,145
Loans and advances to credit institutions	9	**20,959**	8,385	**20,959**	8,385
Debt securities	10	**39,785**	32,675	**39,785**	32,675
Loans and advances to customers	11	**286,051**	282,732	**285,024**	281,660
Investment in subsidiary undertaking	14	**-**	-	**10**	10
Property, plant and equipment	15	**1,634**	1,811	**1,634**	1,811
Intangible assets	16	**130**	196	**130**	196
Other assets	17	**222**	251	**222**	251
TOTAL ASSETS		**388,922**	378,195	**387,905**	377,133
LIABILITIES					
Shares	18	**342,072**	331,726	**342,072**	331,726
Amounts owed to credit institutions	19	**-**	2,502	**-**	2,502
Amounts owed to other customers	20	**13,483**	11,622	**13,483**	11,622
Derivative financial instruments	21	**362**	537	**362**	537
Other liabilities and accruals	22	**1,362**	1,093	**1,906**	1,590
Deferred tax liability	23	**62**	136	**62**	136
Provisions for liabilities	24	**95**	151	**95**	151
TOTAL LIABILITIES		**357,436**	347,767	**357,980**	348,264
RESERVES					
General reserves	25	**31,532**	30,421	**29,971**	28,862
Available-for-sale reserves	26	**(46)**	7	**(46)**	7
Total reserves attributable to members of the Society		**31,486**	30,428	**29,925**	28,869
TOTAL RESERVES AND LIABILITIES		**388,922**	378,195	**387,905**	377,133

These accounts were approved by the Board of Directors on 4 April 2016 and were signed on its behalf by:

Rob Golbourn
Chairman

Raymond Abbott
Vice Chairman

Mark L Thomson
Chief Executive

Group	General reserves 2016 £000	Available -for-sale reserves 2016 £000	Total 2016 £000	General reserves 2015 £000 Re-stated	Available -for-sale reserves 2015 £000 Re-stated	Total 2015 £000 Re-stated
As at 1 February 2015, as previously stated	30,421	7	30,428	28,289	-	28,289
Adjustments on transition to FRS 102	-	-	-	300	(6)	294
As at 1 February 2015, re-stated	30,421	7	30,428	28,589	(6)	28,583
Total comprehensive income for the period						
Profit or loss	1,111	-	1,111	1,832	-	1,832
Other comprehensive income (see Note 26)	-	(53)	(53)	-	13	13
Total comprehensive income for the period	1,111	(53)	1,058	1,832	13	1,845
As at 31 January 2016	31,532	(46)	31,486	30,421	7	30,428

Society	General reserves 2016 £000	Available -for-sale reserves 2016 £000	Total 2016 £000	General reserves 2015 £000 Re-stated	Available -for-sale reserves 2015 £000 Re-stated	Total 2015 £000 Re-stated
As at 1 February 2015, as previously stated	28,862	7	28,869	26,733	-	26,733
Adjustments on transition to FRS 102	-	-	-	300	(6)	294
As at 1 February 2015, re-stated	28,862	7	28,869	27,033	(6)	27,027
Total comprehensive income for the period						
Profit or loss	1,109	-	1,109	1,829	-	1,829
Other comprehensive income (see Note 26)	-	(53)	(53)	-	13	13
Total comprehensive income for the period	1,109	(53)	1,056	1,829	13	1,842
As at 31 January 2016	29,971	(46)	29,925	28,862	7	28,869

GROUP CASH FLOW STATEMENT
for the year ended 31 January 2016

SCOTTISH BUILDING SOCIETY

	2016 £000	2015 £000 Re-stated
Cash flows from operating activities		
Profit before tax	1,334	2,228
Adjustments for		
Depreciation and amortisation	293	256
Loss/(profit) on disposal of property, plant and equipment	1	(16)
Increase in impairment of loans and advances	116	50
Total	1,744	2,518
Changes in operating assets and liabilities		
Decrease in prepayments, accrued income and other assets	31	254
(Decrease) in accruals, deferred income and other liabilities	(68)	(643)
(Increase) in loans and advances to customers	(3,435)	(7,087)
Increase/(decrease) in shares	10,302	(27,561)
(Decrease)/increase in amounts owed to credit institutions and other customers	(654)	7,012
(Increase)/decrease in loans and advances to credit institutions	(12,000)	18,000
Taxation paid	(118)	(192)
Net cash flows from operating activities	(5,942)	(10,217)
Cash flows from investing activities		
Purchase of debt securities	(63,126)	(29,027)
Sale and maturity of debt securities	55,906	29,572
Purchase of property, plant and equipment	(28)	(208)
Disposal of property, plant and equipment	-	28
Purchase of intangible assets	(23)	(67)
Net cash flows from investing activities	(7,271)	298
Net (decrease) in cash and cash equivalents	(11,469)	(7,401)

Cash and cash equivalents	2015 £000	Cash Flow	2016 £000
Cash in hand and balances with the Bank of England	52,145	(12,004)	40,141
Loans and advances to credit institutions - repayable on demand	2,360	535	2,895
	54,505	(11,469)	43,036

	2014 £000	Cash Flow	2015 £000
Cash in hand and balances with the Bank of England	54,153	(2,008)	52,145
Loans and advances to credit institutions - repayable on demand	7,753	(5,393)	2,360
	61,906	(7,401)	54,505

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.

In the transition to FRS 102 from the old United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), the Group and Society have made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected the financial position and financial performance of the Group is provided in Note 32.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemptions have been taken in these annual accounts:

- Business combinations – business combinations that took place prior to the transition date 1 February 2014 have not been restated
- Separate annual accounts – the carrying amount of the Society's cost of investment in its subsidiary undertaking is its deemed cost at the transition date 1 February 2014

The parent Society is included in the consolidated annual accounts, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent Society annual accounts have been applied:

- No separate parent Society Cash Flow Statement with related notes is included

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these annual accounts. On first time adoption of FRS 102, the Group and Society has not retrospectively changed its accounting under old UK GAAP for derecognition of financial assets and liabilities before the transition date 1 February 2014, hedge accounting for any hedging relationships that no longer existed at the transition date 1 February 2014, or for accounting estimates or discontinued operations.

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 Note 1.

Change in accounting policy/prior period adjustment

In these annual accounts the Group has changed its accounting policies in the following areas:

- Derivative financial instruments stated at fair value, with fair value changes recognised immediately in profit or loss.
- 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.
- Following clarification of the accounting treatment for levies, the FSCS levy is now only recognised when the activity that triggers payment occurs.
- Certain investment securities are stated at fair value, with fair value changes recognised through reserves.

The effect of the above changes on opening and closing general reserves in the comparative year ending 31 January 2015 is disclosed in Note 32.

Accounting convention

The annual accounts are prepared under the historical cost convention as modified by the fair value revaluation of available-for-sale assets, derivatives and hedged items.

Basis of consolidation

The Group Accounts include the accounts of the Society and its subsidiary undertaking made up to 31 January each year. The investment in subsidiary undertaking is carried at cost less provision for impairment.

Interest

Interest income and expense is recognised in the income statement and 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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

When calculating the effective interest rate, the Group 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 other comprehensive income includes:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on available-for-sale investment securities calculated on an effective interest 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 above.

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

Leases

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

Assets held by the Group for use in operating leases are included as property, plant and equipment. Rents receivable under operating leases are recognised in the income statement as they fall due.

Taxation

Tax on the profit or loss 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 other comprehensive income, in which case it is recognised directly in 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 balance sheet date, 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 Group 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 Group 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 profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial assets

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

- *Loans and receivables*

'Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group 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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

• *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 profit or loss using the effective interest method. Impairment losses are recognised in profit or loss.

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

• *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 profit or loss. 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 Group 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 Group 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 profit or loss. 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 profit or loss using the effective interest method over the remaining life of the hedged item.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

Derecognition

The Group 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 Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group 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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

Objective evidence that financial assets are impaired includes:

a. significant financial difficulty of the borrower or issuer;
b. default or delinquency by a borrower;
c. the restructuring of a loan or advance by the Group on terms that the Group 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 Group considers evidence of impairment for loans and advances at both a specific asset and a collective level. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

A collective provision is made against a group of loans and advances where there is objective evidence based on the Group'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 Group has sufficient impairment provisions at the Statement of Financial Position date.

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

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

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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 Group include:

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

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

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

Impairment losses are recognised in profit or loss 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 profit or loss.

Cash and cash equivalents

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

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

Property, plant and equipment

i) The cost of additions and major alterations to office premises, equipment and fixtures and fittings is capitalised.

ii) The cost of freehold premises is written off over 50 years on a straight-line basis. No depreciation is provided on freehold land.

The cost of other fixed assets is written off over their estimated useful lives as follows:

The cost of tenant's improvements to leasehold premises is written off over 5 years on a straight-line basis.

Office equipment and motor vehicles are depreciated over 4 to 10 years on a straight-line basis.

Intangible assets

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

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

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

Pension costs

The Society operates defined contribution pension schemes administered by two British life companies, the funds of which are separate from those of the Society. Contributions are charged to revenue in the year in which they are made and are included in management expenses.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised in the balance sheet 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.

Where the parent Society enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Society treats the guarantee contract as a contingent liability in its individual annual accounts until such time as it becomes probable that the Society will be required to make a payment under the guarantee.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 January 2016 is set out below:

a. *Impairment losses on loans and advances to customers* – the Group reviews its mortgage portfolio regularly to assess impairment. In determining whether an impairment loss should be recorded, the Group is required to exercise a degree of judgement. Impairment provisions are calculated using arrears experience, credit risk characteristics and expected cashflows. Estimates are applied to determine prevailing market conditions and customer behaviour. To the extent that default rates differ from that estimated by 10%, the impairment provisions on loans and advances would change by an estimated £23,000.

b. *Expected mortgage life* – in determining the expected life of mortgage assets, the Group uses historical and forecast redemption data as well as management judgement. The accuracy of the provision would therefore be affected by unexpected changes to these assumptions. A 10% increase in the life profile of mortgage assets would result in an increase in the value of loans on the Statement of Financial Position by approximately £682,000.

c. *Fair value of derivatives and financial assets* – the Group 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 £229,000.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	Group		Society	
	2016	2015	**2016**	2015
	£000	£000 Re-stated	**£000**	£000 Re-stated
On loans fully secured on residential property	**10,717**	11,371	**10,660**	11,312
On other loans	**695**	743	**695**	743
Net expense on financial instruments	**(335)**	(466)	**(335)**	(466)
On debt securities:				
- interest and other income	**369**	430	**369**	430
On other liquid assets:				
- interest and other income	**310**	250	**310**	250
	11,756	12,328	**11,699**	12,269

Included within loans fully secured on residential property is £23,000 (2015: £28,000) in respect of interest income on impaired loans.

3. INTEREST PAYABLE AND SIMILAR CHARGES

Group & Society	2016 £000	2015 £000 Re-stated
On shares held by individuals	5,232	5,680
On other shares	8	9
Net income on financial instruments	-	(19)
On deposits and other borrowings	86	57
	5,326	5,727

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

Group & Society	2016 £000	2015 £000 Re-stated
Derivatives in designated fair value hedge relationships	175	(331)
Adjustments to hedged items in fair value hedge accounting relationships	(129)	325
Derivatives not in designated fair value hedge relationships	-	-
	46	(6)

5. ADMINISTRATIVE EXPENSES

	Group		Society	
	2016 £000	2015 £000 Re-stated	2016 £000	2015 £000 Re-stated
Staff costs (Note 6)	2,635	2,588	2,635	2,588
Other expenses	1,998	1,715	1,943	1,660
	4,633	4,303	4,578	4,248
Included in other expenses are the following charges:				
- property leasing costs	79	79	79	79
- remuneration of auditors (excl. VAT):				
audit of the Annual Accounts under FRS 102	63	39	62	38
other services	5	20	-	20

Audit fees for 2016 include additional fees in relation to the transition from UK GAAP to FRS 102.

6. STAFF NUMBERS AND COSTS

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

	Full time		Part time	
	2016	2015	**2016**	2015
Head Office	**29**	28	**6**	7
Branch offices	**23**	23	**13**	9
	52	51	**19**	16

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

	2016 **£000**	2015 £000
Wages and salaries	**2,173**	2,139
Social security costs	**211**	204
Pension costs	**251**	245
	2,635	2,588

7. DIRECTORS' REMUNERATION

Group & Society	**2016** **£000**	2015 £000
For services as Non-Executive Directors	**160**	140
For Executive services	**164**	154
Pension contributions	**27**	26
	351	320

Individual Directors' remuneration is detailed in the Directors' Remuneration Report on pages 18 & 19.

8. TAX EXPENSE

	Group 2016 £000	Group 2015 £000 Re-stated	Society 2016 £000	Society 2015 £000 Re-stated
Current tax				
Corporation tax charge for the year at 20.16% (2015: 21.3%)	**297**	399	**297**	398
Adjustment in respect of prior year	**-**	(3)	**-**	(3)
Total current tax charge for the year	**297**	396	**297**	395
Deferred tax				
Deferred tax charge/(credit) for the year (Note 23)	**(74)**	-	**(74)**	-
Total tax charge for the year	**223**	396	**223**	395

The main rate of UK corporation tax is 21% from 1 April 2014 and 20% from 1 April 2015. Further reductions to 19% from 1 April 2017 and 18% from 1 April 2020 were substantively enacted on 26 October 2015. The substantive enactment of these rate reductions has been reflected in the computation of the net deferred tax liability recognised by the Society with account taken of the tax rates that will apply when the various timing differences are expected to reverse.

The tax assessed for the year differs from the statutory rate of corporation tax in the UK of 20.16%; the differences are explained below:

	Group 2016 £000	Group 2015 £000	Society 2016 £000	Society 2015 £000
Profit on ordinary activities before taxation	**1,334**	2,228	**1,332**	2,224
Profit on ordinary activities multiplied by the statutory rate of corporation tax of 20.16% (2015: 21.3%)	**269**	475	**269**	474
Effects of:				
Expenses not deductible for corporation tax purposes	**10**	10	**10**	10
Effect of change of tax rate on deferred tax	**1**	(7)	**1**	(7)
Loss relief arising from merger with Century Building Society	**(57)**	(79)	**(57)**	(79)
Adjustment in respect of prior year	**-**	(3)	**-**	(3)
Total tax charge for the year	**223**	396	**223**	395

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

Group	Current tax 2016 £000	Deferred tax 2016 £000	Total tax 2016 £000	Current tax 2015 £000	Deferred tax 2015 £000	Total tax 2015 £000
Recognised in income statement	297	(74)	223	396	-	396
Recognised in other comprehensive income	(14)	-	(14)	-	5	5
Total tax	**283**	**(74)**	**209**	**396**	**5**	**401**

Society	Current tax 2016 £000	Deferred tax 2016 £000	Total tax 2016 £000	Current tax 2015 £000	Deferred tax 2015 £000	Total tax 2015 £000
Recognised in income statement	297	(74)	223	395	-	395
Recognised in other comprehensive income	(14)	-	(14)	-	5	5
Total tax	**283**	**(74)**	**209**	**395**	**5**	**400**

9. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

Group & Society	2016 £000	2015 £000 Re-stated
Accrued interest	64	25
Repayable on demand	2,895	2,360
In not more than three months	10,000	5,000
In more than three months but not more than one year	8,000	1,000
	20,959	8,385

10. DEBT SECURITIES

Group & Society	2016 £000	2015 £000 Re-stated
Treasury bills	5,982	-
Certificates of deposit	30,307	29,175
Floating rate notes	3,496	3,500
	39,785	32,675
Debt securities have remaining maturities as follows:		
Accrued interest	124	165
In not more than one year	36,189	32,502
In more than one year	3,533	-
	39,846	32,667
Transferable debt securities (excluding accrued interest) comprise:		
Listed	3,500	3,500
Unlisted	36,184	29,000
Unamortised premia	38	2
	39,722	32,502
Market value of listed debt securities	3,497	3,500
Movements during the year of debt securities:		
At 1 February 2015	32,511	33,047
Additions	63,126	29,027
Disposals and maturities	(55,906)	(29,572)
Net (losses)/gains from changes in fair value recognised in other comprehensive income	(60)	9
As at 31 January 2016	39,671	32,511

11. LOANS AND ADVANCES TO CUSTOMERS

	Group		Society	
	2016	2015	**2016**	2015
	£000	£000 Re-stated	**£000**	£000 Re-stated
Loans fully secured on residential property	**270,405**	265,603	**269,378**	264,531
Loans fully secured on land	**15,293**	16,647	**15,293**	16,647
Fair value adjustment for hedged risk	**353**	482	**353**	482
	286,051	282,732	**285,024**	281,660

Maturity analysis

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

	Group		Society	
	2016	2015	**2016**	2015
	£000	£000 Re-stated	**£000**	£000 Re-stated
On call and at short notice	**439**	548	**439**	548
In not more than three months	**2,781**	2,626	**2,741**	2,615
In more than three months but not more than one year	**8,569**	7,761	**8,534**	7,727
In more than one year but not more than five years	**54,564**	52,792	**54,328**	52,540
In more than five years	**220,226**	219,417	**219,510**	218,642
	286,579	283,144	**285,552**	282,072
Less allowance for impairment (Note 12)	**(528)**	(412)	**(528)**	(412)
	286,051	282,732	**285,024**	281,660

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

12. ALLOWANCE FOR IMPAIRMENT

Group & Society	Individual impairment £000	Collective impairment £000	**Total £000**
Loans fully secured on residential property:			
At 1 February 2015, as re-stated	262	150	**412**
Amounts written off during year, net of recoveries	-	-	**-**
Charge/(credit) for the year	(34)	150	**116**
As at 31 January 2016	**228**	**300**	**528**

Group & Society	Individual Impairment £000 Re-stated	Collective impairment £000 Re-stated	**Total £000 Re-stated**
Loans fully secured on residential property:			
At 1 February 2014	200	160	360
Amounts written off during year, net of recoveries	(54)	-	(54)
Charge/(credit) for the year	116	(10)	106
As at 31 January 2015	262	150	412

13. MOVEMENTS IN VALUES OF ACQUIRED ASSETS

Group & Society	**2016 £000**	2015 £000
Further impairment of acquired assets	**(18)**	(56)
Increase in value of acquired assets	**36**	495
	18	439

14. INVESTMENT IN SUBSIDIARY UNDERTAKING

The Society has a 100% holding of the ordinary share capital in its sole subsidiary, SBS Mortgages Ltd, a company incorporated in Scotland under the Companies Act. The company's principal activity is mortgage lending.

The investment by the Society in its subsidiary during the year was as follows:

	Shares £000	Loan £000	**Total £000**
Cost at 1 February 2015	10	(498)	**(488)**
Lending in year	-	56	**56**
Repayments received	-	(102)	**(102)**
Cost at 31 January 2016	**10**	**(544)**	**(534)**

The inter-company creditor balance of £544,000 is shown under Other Liabilities and Accruals (Note 22).

15. PROPERTY, PLANT AND EQUIPMENT

Group & Society	Land & Buildings Freehold £000 Re-stated	Land & Buildings Short Leasehold £000 Re-stated	Office Equipment £000 Re-stated	Motor Vehicles £000 Re-stated	Total £000 Re-stated
Cost					
As at 1 February 2015	1,634	178	886	159	2,857
Additions	-	-	28	-	28
Disposals	-	-	(5)	-	(5)
As at 31 January 2016	1,634	178	909	159	2,880
Depreciation					
As at 1 February 2015	317	161	509	59	1,046
Charged in year	33	6	125	40	204
Disposals	-	-	(4)	-	(4)
As at 31 January 2016	350	167	630	99	1,246
Net book value					
As at 31 January 2016	**1,284**	**11**	**279**	**60**	**1,634**
As at 31 January 2015	1,317	17	377	100	1,811

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

	2016 £000	2015 £000
As at 31 January	**1,295**	1,334

16. INTANGIBLE ASSETS

Group & Society	Computer Software £000 Re-stated	Total £000 Re-stated
Cost		
As at 1 February 2015	548	548
Additions	23	23
Disposals	-	-
As at 31 January 2016	571	571
Amortisation		
As at 1 February 2015	352	352
Charged in year	89	89
Disposals	-	-
As at 31 January 2016	441	441
Net book value		
As at 31 January 2016	**130**	**130**
As at 31 January 2015	196	196

17. OTHER ASSETS

Group & Society	**2016 £000**	2015 £000
Prepayments and accrued income	**199**	223
Other debtors	**23**	28
	222	251

18. SHARES

Group & Society

	2016 £000	2015 £000
a) Held by individuals	**341,473**	331,074
Other shares	**599**	652
	342,072	331,726

b) Repayable from the date of the Financial Statements in the ordinary course of business as follows:

	2016 £000	2015 £000
Accrued interest	**2,447**	2,403
On demand	**288,035**	278,605
In not more than three months	**5,473**	3,700
In more than three months but not more than one year	**26,484**	26,479
In more than one year but not more than five years	**19,633**	20,539
	342,072	331,726

19. AMOUNTS OWED TO CREDIT INSTITUTIONS

Group & Society

Repayable from the date of the Financial Statements in the ordinary course of business as follows:

	2016 £000	2015 £000
Accrued interest	**-**	2
In not more than three months	**-**	2,500
In more than three months but not more than one year	**-**	-
	-	2,502

20. AMOUNTS OWED TO OTHER CUSTOMERS

Group & Society

Repayable from the date of the Financial Statements in the ordinary course of business as follows:

	2016 £000	2015 £000
Accrued interest	**29**	14
Repayable on demand	**12,390**	8,126
In not more than three months	**1,064**	3,429
In more than three months but not more than one year	**-**	53
	13,483	11,622

21. DERIVATIVE FINANCIAL INSTRUMENTS

Group & Society	Positive market value 2016 £000	Negative market value 2016 £000	Positive market value 2015 £000	Negative market value 2015 £000
Derivatives designated as fair value hedges:				
Interest rate swaps	**-**	**362**	-	537
As at 31 January 2016	**-**	**362**	-	537

22. OTHER LIABILITIES AND ACCRUALS

	Group		Society	
	2016 £000	2015 £000 Re-stated	**2016 £000**	2015 £000 Re-stated
Other liabilities comprise:				
Corporation tax	**168**	5	**168**	4
Income tax	**311**	301	**311**	301
Amounts due to subsidiary (Note 14)	**-**	-	**544**	498
Other creditors	**135**	215	**135**	215
Accruals and deferred income	**748**	572	**748**	572
	1,362	1,093	**1,906**	1,590

23. DEFERRED TAX

	2016 £000	2015 £000 Re-stated	**2016 £000**	2015 £000 Re-stated
Provided:				
Timing differences between capital allowances and depreciation	**69**	99	**69**	99
FRS 102 transitional adjustments	**(9)**	(11)	**(9)**	(11)
Recognised in other comprehensive income	**2**	2	**2**	2
Other timing differences	**-**	46	**-**	46
	62	136	**62**	136
As at 1 February 2015	**136**	131	**136**	131
Deferred tax charge/(credit) for the financial year (Note 8): - income statement	**(74)**	-	**(74)**	-
Deferred tax charge/(credit) for the financial year (Note 8): - other comprehensive income	**-**	5	**-**	5
As at 31 January 2016	**62**	136	**62**	136

A deferred tax asset amounting to £91,000 in relation to tax losses incurred by Century Building Society (CBS) as at 31 January 2013 (date of transfer of engagements) has not been recognised due to uncertainty that there will be future notional taxable profits in CBS available for offset.

24. PROVISIONS FOR LIABILITIES

Financial Services Compensation Scheme

Group & Society	**2016 £000**	2015 £000 Re-stated
As at 1 February 2015	**151**	147
Paid in year	**(220)**	(244)
Charge for the year	**164**	248
As at 31 January 2016	**95**	151

Financial Services Compensation Scheme

As a regulated UK deposit-taker, the Society, in common with all regulated UK deposit-takers, pays levies based on its share of deposits protected by the Financial Services Compensation Scheme (FSCS) to enable the scheme to meet claims against it. There are two FSCS levies – a management expenses levy ("MEL") and a compensation costs levy ("CCL"). The MEL covers the running costs of the scheme and the CCL covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

In September 2008 a claim was triggered against the FSCS by the transfer of Bradford & Bingley plc's retail deposit business to Abbey National plc. In October 2008 a further claim was triggered against the FSCS by the transfer of Kaupthing Singer and Friedlander's (KSF) internet deposit business (Kaupthing Edge) and Heritable Bank's (a subsidiary of Landsbanki hf) deposit business to ING Direct. The FSCS will also be liable to claims from depositors of Landsbanki hf and KSF whose balances have not been transferred to ING Direct but are covered by the FSCS. Additional claims arose relating to the default of London Scottish Bank plc in 2008 and Dunfermline Building Society in 2009.

In May 2013, the International Accounting Standards Board issued an interpretation to clarify the accounting treatment for levies in the financial statements of an entity subject to such levies. The interpretation explains that there is no obligation to recognise the liability for a levy until the activity that triggers payment occurs. Applying the interpretation to the FSCS levies, the liability should only be recognised after the trigger date of 1 April. As at the statement of financial position date, the MEL liability accrued relates to the twelve month period to 31 March 2016 triggered at 1 April 2015. No liability for the levies is recognised for scheme years beyond March 2016. Accordingly, the comparative year has been re-stated. The charge for the current year for the Group is £164,000 (2015 (re-stated): £248,000).

25. GENERAL RESERVES

	Group		Society	
	2016 £000	2015 £000 Re-stated	**2016 £000**	2015 £000 Re-stated
As at 1 February 2015, as previously stated	**30,421**	28,289	**28,862**	26,733
Adjustments on transition to FRS 102	**-**	300	**-**	300
As at 1 February 2015, re-stated	**30,421**	28,589	**28,862**	27,033
Profit for the year	**1,111**	1,832	**1,109**	1,829
As at 31 January 2016	**31,532**	30,421	**29,971**	28,862

26. AVAILABLE-FOR-SALE RESERVES

Group & Society	**2016 £000**	2015 £000 Re-stated
As at 1 February 2015, as previously stated	**7**	-
Adjustments on transition to FRS 102	**-**	(6)
As at 1 February 2015, re-stated	**7**	(6)
Valuation (losses)/gains recognised directly in other comprehensive income	**(53)**	13
As at 31 January 2016	**(46)**	7

27. FINANCIAL INSTRUMENTS

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

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

The Group's core business is to provide its members with financial products appropriate to their needs. The Group 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 Group 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 Assets & Liabilities Committee.

Financial instruments used by the Group 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 Group 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 Group does not undertake transactions for trading or speculative purposes.

27. FINANCIAL INSTRUMENTS (continued)

The Board approves the use of interest rate swaps in order to manage the Group's balance sheet risk exposures. These instruments are used to protect the Group 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 Group's involvement in the instruments, but does not represent its exposure to credit risk which is assessed by reference to the fair value.

Categories of financial assets and liabilities

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

Carrying values by category as at 31 January 2016	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	-	40,141	-	-	-	40,141
Loans and advances to credit institutions	20,959	-	-	-	-	20,959
Debt securities	-	-	39,785	-	-	39,785
Loans and advances to customers	286,051	-	-	-	-	286,051
Other assets	-	1,986	-	-	-	1,986
	307,010	**42,127**	**39,785**	**-**	**-**	**388,922**
Financial liabilities						
Shares	-	342,072	-	-	-	342,072
Amounts owed to credit institutions	-	-	-	-	-	-
Amounts owed to other customers	-	13,483	-	-	-	13,483
Derivative financial instruments	-	-	-	362	-	362
Other liabilities	-	1,519	-	-	-	1,519
Reserves	-	31,486	-	-	-	31,486
	-	**388,560**	**-**	**362**	**-**	**388,922**

There is no material difference between the above figures for the Group and those for the Society.

27. FINANCIAL INSTRUMENTS (continued)

Categories of financial assets and liabilities (continued)

Carrying values by category as at 31 January 2015	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	-	52,145	-	-	-	52,145
Loans and advances to credit institutions	8,385	-	-	-	-	8,385
Debt securities	-	-	32,675	-	-	32,675
Loans and advances to customers	282,732	-	-	-	-	282,732
Other assets	-	2,258	-	-	-	2,258
	291,117	**54,403**	**32,675**	**-**	**-**	**378,195**
Financial liabilities						
Shares	-	331,726	-	-	-	331,726
Amounts owed to credit institutions	-	2,502	-	-	-	2,502
Amounts owed to other customers	-	11,622	-	-	-	11,622
Derivative financial instruments	-	-	-	537	-	537
Other liabilities	-	1,380	-	-	-	1,380
Reserves	-	30,428	-	-	-	30,428
	-	**377,658**	**-**	**537**	**-**	**378,195**

There is no material difference between the above figures for the Group and those for the Society.

Loans and advances to customers in the above tables includes an amount of £353,000 (2015: £482,000) in relation to fair value adjustments in respect of hedged fixed-rate mortgages.

At the year end, the Group has loan commitments to customers of £20.7m (2015: £17.5m) measured at cost less impairment.

Valuation of financial instruments carried at fair value

The Group 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 Group'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 Group's Level 2 portfolio comprises interest rate swaps. The valuation of interest rate swaps is based on the 'present value' method. Expected interest cash flows are discounted using the prevailing LIBOR yield curves. The LIBOR yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the interest cash flows and maturities of the instruments.

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

27. FINANCIAL INSTRUMENTS (continued)

Valuation of financial instruments carried at fair value (continued)

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

Group & Society	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
31 January 2016				
Financial assets				
Debt securities	39,785	-	-	39,785
	39,785	-	-	39,785
Financial liabilities				
Derivative financial instruments	-	362	-	362
	-	362	-	362
31 January 2015				
Financial assets				
Debt securities	32,675	-	-	32,675
	32,675	-	-	32,675
Financial liabilities				
Derivative financial instruments	-	537	-	537
	-	537	-	537

27. FINANCIAL INSTRUMENTS (continued)

Credit risk

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

All loan applications are assessed with reference to the Group'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 Assets & Liabilities Committee is responsible for approving treasury counterparties.

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

Group & Society

	2016 £000	2015 £000
Cash in hand and with Bank of England	40,141	52,145
Loans and advances to credit institutions	20,959	8,385
Debt securities	39,785	32,675
Loans and advances to customers	286,051	282,732
Total Statement of Financial Position exposure	386,936	375,937
Statement of Financial Position – mortgage commitments	20,660	17,519

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 Group and Society against those assets.

Group & Society	2016			2015		
	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	263,499	14,747	-	262,353	15,106	-
Past due but not impaired						
[30 – 60 days]	4,294	433	-	2,502	77	-
[60 – 90 days]	901	-	-	608	110	-
[90 – 180 days]	1,322	-	-	905	-	-
[180 days+]	831	113	-	623	-	-
	7,348	546	-	4,638	187	-
Individually impaired						
Not past due	-	-	-	212	-	-
[30 – 60 days]	-	-	-	-	-	-
[60 – 90 days]	-	-	-	516	-	-
[90 – 180 days]	-	-	-	-	-	-
[180 days+]	439	-	-	77	-	-
[Possession]	-	-	-	57	-	-
	439	-	-	862	-	-
Allowance for impairment						
Individual	(228)	-	-	(262)	-	-
Collective	(300)	-	-	(150)	-	-
Total allowance for impairment	(528)	-	-	(412)	-	-

27. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

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

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

Group & Society	2016 £000	2015 £000
LTV		
Less than 50%	105,693	80,711
51%-70%	115,340	119,142
71%-90%	61,122	81,675
91%-100%	3,756	1,238
More than 100%	669	379
As at 31 January 2016	286,579	283,144

Forbearance

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

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

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

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

All forbearance arrangements are formally discussed with the borrower and reviewed by management prior to acceptance of the forbearance arrangement. By offering borrowers in financial difficulty the option of forbearance the group 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 arrangement are reviewed and discussed with the borrower on a regular basis to assess the on-going potential risk to the Group and the suitability of the arrangement for the borrower.

27. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

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

Group & Society	**2016 Number**	2015 Number
Temporary payment reductions	**4**	4
Payment plans	**54**	55
Capitalisations	**-**	-
Mortgage term extensions	**-**	
	58	59

Liquidity risk

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

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

Maturity analysis for financial assets and financial liabilities

The tables below set out the remaining contractual maturities of the Group'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.

Group as at 31 January 2016	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Non-defined maturity £000	Total £000
Financial assets							
Cash in hand and with Bank of England	40,132	-	-	-	-	9	40,141
Loans and advances to credit institutions	2,895	10,000	8,000	-	-	64	20,959
Debt securities	-	9,168	27,003	3,490	-	124	39,785
Loans and advances to customers	439	2,781	8,569	54,564	219,698	-	286,051
Other assets	-	-	-	-	-	1,986	1,986
	43,466	**21,949**	**43,572**	**58,054**	**219,698**	**2,183**	**388,922**
Financial liabilities							
Shares	288,035	5,473	26,484	19,633	-	2,447	342,072
Amounts owed to credit institutions	-	-	-	-	-	-	-
Amounts owed to other customers	-	13,454	-	-	-	29	13,483
Derivative financial instruments	-	-	-	-	-	362	362
Other liabilities	-	-	-	-	-	1,519	1,519
Reserves	-	-	-	-	-	31,486	31,486
	288,035	**18,927**	**26,484**	**19,633**	**-**	**35,843**	**388,922**

There is no material difference between the above figures for the Group and those for the Society.

27. FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

Group as at 31 January 2015	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Non-defined maturity £000	Total £000
Financial assets							
Cash in hand and with Bank of England	52,128	-	-	-	-	17	52,145
Loans and advances to credit institutions	2,360	5,000	1,000	-	-	25	8,385
Debt securities	-	13,498	19,012	-		165	32,675
Loans and advances to customers	548	2,626	7,761	52,792	219,005	-	282,732
Other assets	-	-	-	-	-	2,258	2,258
	55,036	**21,124**	**27,773**	**52,792**	**219,005**	**2,465**	**378,195**
Financial liabilities							
Shares	278,605	3,700	26,479	20,539	-	2,403	331,726
Amounts owed to credit institutions	-	2,500	-	-	-	2	2,502
Amounts owed to other customers	-	11,608	-	-	-	14	11,622
Derivative financial instruments	-	-	-	-	-	537	537
Other liabilities	-	-	-	-	-	1,380	1,380
Reserves	-	-	-	-	-	30,428	30,428
	278,605	**17,808**	**26,479**	**20,539**	**-**	**34,764**	**378,195**

There is no material difference between the above figures for the Group and those for the Society.

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

Group as at 31 January 2016	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	289,979	5,565	26,691	19,837	-	342,072
Amounts owed to credit institutions	-	-	-	-	-	-
Amounts owed to other customers	-	13,483	-	-	-	13,483
	289,979	**19,048**	**26,691**	**19,837**	**-**	**355,555**

Group as at 31 January 2015	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	280,656	3,740	26,648	20,682	-	331,726
Amounts owed to credit institutions	-	2,502	-	-	-	2,502
Amounts owed to other customers	-	11,622	-	-	-	11,622
	280,656	**17,864**	**26,648**	**20,682**	**-**	**345,850**

There is no material difference between the above figures for the Group and those for the Society.

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

27. FINANCIAL INSTRUMENTS (continued)

Market risk

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

The Group 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 Group 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 2016. Items are allocated to time bands by reference to the earlier of the next interest rate re-pricing date and the maturity date.

Group as at 31 January 2016	Three months or less £000	More than three months less than six months £000	More than six months less than one year £000	More than one year less than five years £000	More than five years £000	Non-interest bearing £000	Total £000
Financial assets							
Liquid assets	89,083	8,000	3,533	-	-	269	100,885
Loans and advances to customers	223,700	2,098	14,096	46,157	-	-	286,051
Property, plant and equipment	-	-	-	-	-	1,634	1,634
Intangible fixed assets	-	-	-	-	-	130	130
Other debtors	-	-	-	-	-	222	222
	312,783	**10,098**	**17,629**	**46,157**	**-**	**2,255**	**388,922**
Financial liabilities							
Shares	288,035	5,473	26,484	19,633	-	2,447	342,072
Amounts owed to credit institutions	-	-	-	-	-	-	-
Amounts owed to other customers	13,454	-	-	-	-	29	13,483
Derivative financial instruments	-	-	-	-	-	362	362
Other liabilities and accruals	-	-	-	-	-	1,424	1,424
Provisions for liabilities	-	-	-	-	-	95	95
Reserves	-	-	-	-	-	31,486	31,486
	301,489	**5,473**	**26,484**	**19,633**	**-**	**35,843**	**388,922**
Notional amount of interest rate swaps	39,000	-	(11,000)	(28,000)	-	-	-
Interest rate sensitivity gap	50,294	4,625	(19,855)	(1,476)	-	(33,588)	-
Cumulative gap	50,294	54,919	35,064	33,588	33,588	-	

There is no material difference between the above figures for the Group and those for the Society.

27. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

Group ***as at 31 January 2015***	Three months or less £000	More than three months less than six months £000	More than six months less than one year £000	More than one year less than five years £000	More than five years £000	Non-interest bearing £000	Total £000
Financial assets							
Liquid assets	59,359	1,000	32,502	-	-	344	93,205
Loans and advances to customers	214,446	8,238	6,325	53,723	-	-	282,732
Property, plant and equipment	-	-	-	-	-	1,811	1,811
Intangible fixed assets	-	-	-	-	-	196	196
Other debtors	-	-	-	-	-	251	251
	273,805	**9,238**	**38,827**	**53,723**	**-**	**2.602**	**378,195**
Financial liabilities							
Shares	282,305	10,755	15,724	20,539	-	2,403	331,726
Amounts owed to credit institutions	2,500	-	-	-	-	2	2,502
Amounts owed to other customers	11,555	53	-	-	-	14	11,622
Derivative financial instruments	-	-	-	-	-	537	537
Other liabilities and accruals	-	-	-	-	-	1,229	1,229
Provisions for liabilities	-	-	-	-	-	151	151
Reserves	-	-	-	-	-	30,428	30,428
	296,360	**10,808**	**15,724**	**20,539**	**-**	**34,764**	**378,195**
Notional amount of interest rate swaps	48,000	(5,000)	-	(43,000)	**-**	**-**	**-**
Interest rate sensitivity gap	25,445	(6,570)	23,103	(9,816)	**-**	(32,162)	**-**
Cumulative gap	25,445	18,875	41,978	32,162	32,162	**-**	

There is no material difference between the above figures for the Group and those for the Society.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group'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 £205,000 for one year (2015 £379,000).

28. CAPITAL STRUCTURE

The Group'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 Group's capital position to assess whether adequate capital is held to mitigate the risks faced in the course of the Group's business activities. The Group's actual capital position is reviewed against stated risk appetite which aims to maintain capital at a specific level above its Internal Capital Guidance (ICG).

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

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

Further information regarding the capital position and exposures is contained in the Group's Pillar III disclosure available on the Society's website.

29. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

a) Section 22 of the Building Societies Act 1986 was repealed with effect from 11 June 1996 and the Society therefore has no obligation to stand by its subsidiary in respect of liabilities incurred after this date. However it is the intention of the Board to continue to support fully its subsidiary undertaking.

b) At 31 January 2016, non-cancellable operating lease payments for land and buildings were:

Group & Society	**2016** **£000**	2015 £000 Re-stated
Within one year	**76**	82
Between one and five years	**182**	81
More than five years	**6**	-
	264	163

30. RELATED PARTIES

Transactions with key management personnel

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

	2016		2015	
	Number	**£000**	Number	£000
Loans and advances to customers	**1**	**151**	1	151
Deposits and share accounts	**15**	**133**	15	91

The aggregate amount outstanding at 31 January 2016 in respect of loans, transactions and arrangements made by the Society to Directors or persons connected with a Director was £150,745 and comprised one loan to one Director (2015: £150,747 comprising one loan to one Director) at normal commercial rates.

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

31. COUNTRY BY COUNTRY REPORTING

Scottish Building Society and its Subsidiary are both UK-registered entities, with 100% of their 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 2016 were:

Group & Society	**2016 £000**	2015 £000 Re-stated
Total operating income	**6,522**	6,702
Profit before tax	**1,334**	2,228
Tax paid in year	**118**	192
Public subsidies received	**Nil**	Nil
Average number of employees on FTE basis	**60**	61

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

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

32. EXPLANATION OF TRANSITION TO FRS 102 FROM UK GAAP

As stated in Note 1, these are the Group's and the Society's first Annual Accounts prepared in accordance with FRS 102.

The accounting policies set out in Note 1 have been applied in preparing the Annual Accounts for the year ended 31 January 2016 and the comparative information for the year ended 31 January 2015.

In preparing its FRS 102 balance sheet, the Group has adjusted amounts reported previously in Annual Accounts prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 102 has affected the Group's financial position is set out in the following tables and the notes that follow the tables.

Reconciliation of equity

		31 January 2014			**31 January 2015**		
Group	Note	Adopted UK GAAP £000	Effect of transition to FRS 102 £000	FRS 102 £000	**Adopted UK GAAP £000**	**Effect of transition to FRS 102 £000**	**FRS 102 £000**
Assets							
Liquid assets							
Cash in hand		54,153	-	54,153	52,145	-	52,145
Loans and advances to credit institutions		31,841	-	31,841	8,385	-	8,385
Debt securities	1	33,169	(11)	33,158	32,666	9	32,675
Loans and advances to customers	2-5	275,384	311	275,695	282,143	589	282,732
Property, plant and equipment	8	2,000	(217)	1,783	2,007	(196)	1,811
Intangible assets	8	-	217	217	-	196	196
Other debtors		685	-	685	251	-	251
Total assets		**397,232**	**300**	**397,532**	**377,597**	**598**	**378,195**
Liabilities							
Shares		360,085	-	360,085	331,726	-	331,726
Amounts owed to credit institutions		-	-	-	2,502	-	2,502
Amounts owed to other customers		7,098	-	7,098	11,622	-	11,622
Derivative financial instruments	6	-	206	206	-	537	537
Other liabilities		1,282	-	1,282	1,092	1	1,093
Deferred tax liability	10	53	78	131	77	59	136
Provisions for liabilities	7	425	(278)	147	382	(231)	151
Total liabilities		**368,943**	**6**	**368,949**	**347,401**	**366**	**347,767**
Reserves							
General reserves		28,289	300	28,589	30,196	225	30,421
Available-for-sale reserves		-	(6)	(6)	-	7	7
Total reserves attributable to members of the Society		**28,289**	**294**	**28,583**	**30,196**	**232**	**30,428**
Total reserves and liabilities		**397,232**	**300**	**397,532**	**377,597**	**598**	**378,195**

32. EXPLANATION OF TRANSITION TO FRS 102 FROM UK GAAP (continued)

Reconciliation of equity

Society	Note	31 January 2014 Adopted UK GAAP £000	Effect of transition to FRS 102 £000	FRS 102 £000	**31 January 2015** **Adopted UK GAAP £000**	**Effect of transition to FRS 102 £000**	**FRS 102 £000**
Assets							
Liquid assets							
Cash in hand		54,153	-	54,153	52,145	-	52,145
Loans and advances to credit institutions		31,841	-	31,841	8,385	-	8,385
Debt securities	1	33,169	(11)	33,158	32,666	9	32,675
Loans and advances to customers	2-5	274,266	311	274,577	281,071	589	281,660
Investment in subsidiary undertaking		10	-	10	10	-	10
Property, plant and equipment	8	2,000	(217)	1,783	2,007	(196)	1,811
Intangible assets	8	-	217	217	-	196	196
Other debtors		685	-	685	251	-	251
Total assets		**396,124**	**300**	**396,424**	**376,535**	**598**	**377,133**
Liabilities							
Shares		360,085	-	360,085	331,726	-	331,726
Amounts owed to credit institutions		-	-	-	2,502	-	2,502
Amounts owed to other customers		7,098	-	7,098	11,622	-	11,622
Derivative financial instruments	6	-	206	206	-	537	537
Other liabilities		1,730	-	1,730	1,589	1	1,590
Deferred tax liability	10	53	78	131	77	59	136
Provisions for liabilities	7	425	(278)	147	382	(231)	151
Total liabilities		**369,391**	**6**	**369,397**	**347,898**	**366**	**348,264**
Reserves							
General reserves		26,733	300	27,033	28,637	225	28,862
Available-for-sale reserves		-	(6)	(6)	-	7	7
Total reserves attributable to members of the Society		**26,733**	**294**	**27,027**	**28,637**	**232**	**28,869**
Total reserves and liabilities		**396,124**	**300**	**396,424**	**376,535**	**598**	**377,133**

32. EXPLANATION OF TRANSITION TO FRS 102 FROM UK GAAP (continued)

Reconciliation of profit for the year ended 31 January 2015

Group	Note	**Adopted UK GAAP £000**	**Effect of transition to FRS 102 £000**	**FRS 102 £000**
Interest receivable and similar income	3-5	12,138	190	12,328
Interest payable and similar charges	9	(4,641)	(1,086)	(5,727)
Net interest income		**7,497**	**(896)**	**6,601**
Fee and commissions receivable	3-5	57	83	140
Fees and commissions payable	9	(667)	634	(33)
Other Income	3-5	519	(519)	-
Net income from other financial instruments at fair value through profit and loss	6	-	(6)	(6)
Total net income		**7,406**	**(704)**	**6,702**
Administrative expenses	9	(4,909)	606	(4,303)
Depreciation and amortisation		(256)	-	(256)
Operating charges	4	(98)	98	-
Operating profit before impairment losses and provisions		**2,143**	**-**	**2,143**
Net increase in value of acquired assets		439	-	439
Impairment losses on loans and advances	2	(54)	(52)	(106)
Provisions for liabilities – FSCS levy	7	(201)	(47)	(248)
Profit before tax		**2,327**	**(99)**	**2,228**
Tax expense		(420)	24	(396)
Profit for the financial year		**1,907**	**(75)**	**1,832**
Other comprehensive income				
Valuation losses taken to reserves	**1**	**-**	**18**	**18**
Income tax on other comprehensive income	**1**	**-**	**(5)**	**(5)**
Total comprehensive income for the year		**-**	**13**	**13**

32. EXPLANATION OF TRANSITION TO FRS 102 FROM UK GAAP (continued)

Reconciliation of profit for the year ended 31 January 2015

Society	Note	**Adopted UK GAAP £000**	**Effect of transition to FRS 102 £000**	**FRS 102 £000**
Interest receivable and similar income	3-5	12,079	190	12,269
Interest payable and similar charges	9	(4,641)	(1,086)	(5,727)
Net interest income		**7,438**	**(896)**	**6,542**
Fee and commissions receivable	3-5	57	83	140
Fees and commissions payable	9	(667)	634	(33)
Other Income	3-5	519	(519)	-
Net income from other financial instruments at fair value through profit and loss	6	-	(6)	(6)
Total net income		**7,347**	**(704)**	**6,643**
Administrative expenses	9	(4,854)	606	(4,248)
Depreciation and amortisation		(256)	-	(256)
Operating charges	4	(98)	98	-
Operating profit before impairment losses and provisions		**2,139**	**-**	**2,139**
Net increase in value of acquired assets		439	-	439
Impairment losses on loans and advances	2	(54)	(52)	(106)
Provisions for liabilities – FSCS levy	7	(201)	(47)	(248)
Profit before tax		**2,323**	**(99)**	**2,224**
Tax expense		(419)	24	(395)
Profit for the financial year		**1,904**	**(75)**	**1,829**
Other comprehensive income				
Valuation losses taken to reserves	**1**	**-**	**18**	**18**
Income tax on other comprehensive income	**1**	**-**	**(5)**	**(5)**
Total comprehensive income for the year		**-**	**13**	**13**

32. EXPLANATION OF TRANSITION TO FRS 102 FROM UK GAAP (continued)

Notes:

As explained in Note 1, the Group has changed its accounting policies in the following areas as a result of the adoption of FRS 102, and also includes the recognition and measurement provisions of International Accounting Standard 39 *Financial Instruments: Recognition and Measurement (IAS 39)*:

1. **Available-for-sale investments**
   The Group uses available-for-sale investments comprising debt securities. Under FRS 102, these instruments are measured at fair value after initial recognition.

2. **Impairment losses on loans and advances to customers**
   Under UK GAAP, the Group held both specific and general provisions against mortgage balances. Individual assessments were made of all advances meeting one or more of a number of trigger points which were considered to be indicators of where a potential loss may arise. Specific provisions were made for the extent of the likely loss. General provisions were made in respect of advances where a specific provision had not been raised. Under FRS 102, the key difference is that future cash flows are discounted at the appropriate effective interest rate.

3. **Fees receivable on loans and advances to customers**
   Under UK GAAP, the Group recognised fees receivable on loans and advances to customers on a cash basis. Under FRS 102, these fees form part of the effective interest rate methodology.

4. **Fees payable on loans and advances to customers**
   Under UK GAAP, the Group recognised fees payable on loans and advances to customers on a cash basis. Under FRS 102, these fees form part of the effective interest rate methodology.

5. **Recognition of interest receivable**
   Under UK GAAP, the Group recognised interest income on loans and advances to customers on an accruals basis, using the interest rate applicable to the loan at that time. Under FRS 102, the Group is required to recognise income on loans and advances to customers, using the effective interest rate methodology. This has the effect of increasing the interest income for periods prior to the year ended 31 January 2016 and increasing the loans and advances to customers within the statement of financial position by the same amount, as the timing of receipt of interest received on certain discounted loans is brought forward.

6. **Derivative financial instruments**
   The Group uses interest rate swaps to manage balance sheet risk exposure which were off-balance sheet. Under FRS 102, these instruments are measured at mark-to-market through the income statement.

7. **Provision for the FSCS Levy**
   In addition to the changes under FRS 102, the Society has chosen to apply IFRIC 21: Levies which amends the trigger point for recognition of the FSCS levy from 31 December each year to the start of the FSCS scheme on 1 April each year. This has the effect of reducing the historic provision held.

8. **Reclassification of fixed assets**
   Under UK GAAP, the Group recognised both computer hardware and software costs within property, plant and equipment. Under FRS 102, computer software costs are required to be transferred to intangible assets. The fixed asset category has been separately disclosed on the face of the Statement of Financial Position and is detailed in Note 16. This is a presentational adjustment and there is no impact on reserves.

9. **Commissions**
   Under UK GAAP, certain commissions were disclosed within Fees and Commissions Payable and Administrative Expenses in prior years. Under FRS 102, these expenses have been accounted for under the effective interest rate methodology and included within Interest Payable and Similar Charges (Note 3). This is a presentational adjustment and there is no impact on reserves.

10. **Taxation**
    Taxation impact of above adjustments.

1. STATUTORY PERCENTAGES

		%	Statutory Limit %
a)	Lending limit	**5.53**	**25.0**
b)	Funding limit	**3.96**	**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

	2016 %	2015 Re-stated %
As a percentage of shares and borrowings:		
a) Gross capital	**8.87**	8.80
b) Free capital	**8.46**	8.26
c) Liquid assets	**28.37**	26.95
Profit after tax as a percentage of mean total assets	**0.29**	0.47
Profit after tax (excluding movement in acquired assets and FSCS levy after tax) as a percentage of mean total assets	**0.31**	0.41
Management expenses as a percentage of mean total assets	**1.28**	1.18

Explanation of terms

All of the above percentages are based on Group figures.

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 balance sheet.

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

Mean total assets represents the average of total assets shown in the relevant balance sheets. These amounted to £387,864 for 2015 (as re-stated), decreasing to £383,558 for 2016.

Management expenses represents the aggregate of administrative expenses and depreciation and amortisation.

3. DIRECTORS AND OTHER OFFICERS AS AT 31 JANUARY 2016

Directors

Name and Business Occupation	Date of Birth	Date of Appointment	Other Directorships
Raymond J Abbott Company Director	02.03.59	01.06.13	SBS Mortgages Ltd Foresight 3 VCT PLC Galleria Holdings Ltd
James Coyle Company Director	25.08.56	01.03.15	HSBC Bank PLC Marks & Spencer Financial Services PLC Honeycomb Investment Trust PLC
Robert Golbourn Banker	08.06.45	25.10.06	None
Alexa H Henderson Chartered Accountant	16.02.61	28.03.01	SBS Mortgages Ltd Adam & Company Group PLC Adam & Company PLC Adam & Company Investment Management Ltd James Walker (Leith) Ltd Dunedin Smaller Companies Investment Trust PLC F&C UK Real Estate Investments Ltd
John C Ogston Chartered Banker	28.04.57	01.07.13	Vehicle Professionals Ltd Constant Progress Ltd Equator Capital Ltd Toward Technology Ltd
Simon M Pashby Chartered Accountant	16.04.58	15.10.14	Medical Protection Society Ltd MPI (London) Ltd
David Peebles Company Director	14.02.62	25.10.06	XM International Associates Ltd
Mark L Thomson Building Society Chief Executive	22.04.66	12.10.12	SBS Mortgages Ltd

Documents may be served on any of the above-named Directors c/o KPMG LLP at the following address: Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EG

Executive Directors' Service Contracts

Mr Thomson has a rolling service contract with the Society dated 2 April 2012 which can be terminated by either party giving six months' notice.

Officers

Name	Business Occupation	Other Directorships
Andrew J W Tristram	Secretary & Head of Compliance	None
Alan Searl	Chief Operating Officer	None
Alison I Quilter	Head of IT	None
Andrew Moses	Head of Lending	None
Emily F Dixon	Head of Human Resources	None
Graeme L Chandler	Head of Finance	None
John H Lloyd	Head of Sales & Marketing	None
Kerra McKinnie	Head of Marketing & Communications	None
Kenny Mearns	Head of Risk	None