Annual Report & Accounts

For the year ended 31 January 2018

SCOTTISH BUILDING SOCIETY

Rewarding Membership

Report & Accounts

For the year ended 31 January 2018

"I am delighted to report on another healthy set of financial results for a year that has seen both residential mortgage assets and retail savings balances increase, with Profit Before Tax, at £1.30 million, directly in line with our five-year-plan."

MARK L THOMSON
CHIEF EXECUTIVE

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Chairman's Report

"We are positive about the Society's ability to remain strong and relevant and provide our members with attractive rates and excellent service."

RAYMOND ABBOTT
CHAIRMAN

"Your Society remains in a strong financial position with a healthy capital base and liquidity."

THE BOARD

As this is my first Chairman's report, I would like to take the opportunity to thank my predecessor Rob Golbourn who retired as Chairman last year. Rob served the society for eleven years, two of which as Chairman. He has been a great support to me throughout my period as a Director. Rob has always held the members' interests at heart as the society has evolved over the years and I know my fellow Board members echo my sentiments.

In a year of change on the Board of your Society we have seen the departure of Jim Coyle and the arrival of Margaret MacKay and Alan Webster. Whilst disappointing to lose Jim I am delighted that we have been able to appoint two experienced directors to help take the Society forward.

YOUR SOCIETY

The aim of the Society, through Our Loyalty Promises, is to provide our members with long term value through products and services which are relevant to our current and future membership. The Board debate around our plans and goals includes our members' interests at its core. An important part of this is getting feedback from our members through customer panels, feedback through questions for the AGM and through our magazine, Society.

Key to that feedback is the AGM where you have the opportunity to attend and meet your Board in person. As you may be aware we move the AGM venue around Scotland and this year we are at Hampden Park in Glasgow which we felt was a very appropriate location given our recent sponsorship of the Scottish Women's Premier League. Women's football is achieving significant growth in participation and attendance and we are delighted to be in association with them.

We hope you can attend the AGM, not only to hear about your Society, but also to give us feedback and hear some of the developments in our selected charities. Questions for the AGM can be asked on the day or sent in advance. Details of sending questions are included in the Notice calling the AGM.

FINANCIAL OVERVIEW

Your Society remains in a strong financial position with a healthy capital base and liquidity. Our aim is to maintain a level of profit that will support that position while allowing investment for the future, and to meet Our Loyalty Promises to members through enhanced mortgage and savings rates. Our pre-tax profit of £1.3million for the year to 31 January 2018 allows us to do this and is in line with our budgets and plans.

Looking to the future, the Board's intention is to maintain a balance between financial strength, investment in systems and technology and continuing to meet Our Loyalty Promises. In the coming years we plan for improved IT systems and greater online capability whilst meeting the challenges of increased regulation for the sector. These plans will see us maintaining our strong local presence across Scotland and the retention of passbooks, much loved by our members!

We are likely to see a drop in reported profitability in future years as we develop our systems and online presence, but we see this as necessary to build a strong platform for future growth and stability while remaining relevant to current and future members of the Society.

OUR PEOPLE

On behalf of the Board I want to thank all our management team, colleagues and agents for their continued commitment to the Society and achievement of its goals. I am sure these efforts will allow us to continue to achieve our goals as the Board and management team embark on the next stage of the Society's long-term development.

LOOKING FORWARD

Rob Golbourn mentioned in his report last year that "this is a time of uncertainty" and I think these words are just as relevant today. We are seeing the commencement of interest rate rises, the timing of which is not certain; the outcome of Brexit negotiations is unclear; and the growth in the economy has dipped since last year. That said, we are positive about the Society's ability to remain strong and relevant and provide our members with attractive rates and excellent service. I would like to thank members for their continued support.

RAYMOND ABBOTT
CHAIRMAN

28 March 2018

Chief Executive's Review

"As a proud mutual institution, the provision of long-term value to our members is at the very heart of our strategy."

MARK L THOMSON
CHIEF EXECUTIVE

£1.30
million pre-tax profit for 2018

£7.13
million mortgage asset growth

"By not seeking to maximise profit we are able to reduce our interest margin to provide loyalty benefits to both mortgage borrowers and to savers."

OUR PERFORMANCE

The Society's strategic aim to maintain its financial strength can only be achieved by the year-on-year delivery of strong financial results that place it not just in a position to withstand any future shocks to the financial system, but also enable it to invest in the people, processes and systems required to keep the Society relevant as a provider of savings and mortgage products.

It is against this backdrop that I am delighted to report on another healthy set of financial results for a year that has seen both residential mortgage assets and retail savings balances increase, with Profit Before Tax, at £1.30 million, directly in line with our five-year-plan.

The posting of another year's profits further strengthens the Society's reserves which, along with a solid liquidity coverage ratio, clearly demonstrates our financial strength. By not seeking to maximise profit we are able to reduce our interest margin to provide loyalty benefits to both mortgage borrowers and to savers.

As a proud mutual institution, the provision of long-term value to our members is at the very heart of our strategy. During my five-year tenure as Chief Executive of the world's oldest building society, I have endeavoured to work with my colleagues and other business partners to ensure we are doing our best to meet the needs of all our members in terms of the products we offer, the service we provide, and in the interest rates charged to borrowers and paid to savers.

Feedback from our members is very important to me, and I was delighted with the results of the most recent round of Member Survey Results, which once more reflects very well on my colleagues in terms of the delivery of our customer service proposition.

Whilst our strategy remains to grow our business in a balanced, prudent and controlled manner over the coming years, I am looking to our recent 3½-year sponsorship deal of the Scottish Women's Premier League to increase the profile of the Society which, incidentally, celebrated its 170th Anniversary in March 2018.

MORTGAGES

The past Financial Year has been one of increased competition in the Scottish mortgage market, at a time when an increasing number of mortgage borrowers were looking for the certainty of fixed rate products on the back of rumours of future interest rate rises.

During this highly competitive period, which has seen a number of new participants enter the Scottish market, it is pleasing to note the Society was able to increase its mortgage book by 2.35% without compromising either on credit quality or by needlessly sacrificing our interest margin.

Our well-established strategy of treating every applicant (and, indeed, every member) as an individual is one that has continued to work well, and we have successfully opened the door to home ownership to a number of individuals who would otherwise have had difficulty obtaining the mortgage finance they required. This approach is particularly important for those potential borrowers who may not fit the automated decision-making systems of the larger lenders, where the applicant's individual circumstances are rarely considered.

Our continued appetite for self-build mortgages, and the provision of mortgage finance to older borrowers are just two of the areas where we have been able to provide competitive products to what are often underserved sections of the market. Another area where we have had some success is in the provision of mortgages to younger borrowers who often need the support of their parents to take that important first step onto the housing ladder.

Investment in new processes and technology over the past year have enabled the Society to reduce its mortgage offer turnaround times, which I fully appreciate is important to keep us relevant to both new and existing members. The investment in online capability to allow all mortgage introducers to submit applications to us online has also been well received.

Chief Executive's Review (continued)

SAVINGS

I am pleased to report that our decision some years ago to only offer simple and straightforward savings products (with no limited-term bonuses or other gimmicks) has proven to be popular with our new and existing members, evidenced by the growth in our retail savings balances by over 4.5% during the year.

Despite the 0.25% increase in the Bank of England's Bank Rate in November 2017, I am very much aware that it continues to be difficult for savers to receive a real return on their investments during what continues to be a low interest rate environment.

Providing our savings members with fair rates throughout the term of their relationship with us is one of Our Loyalty Promises, as is the provision of fixed rate bonds, which are available exclusively to all savings and borrowing members.

Our Loyalty Cash ISA, which was introduced as part of our product harmonisation exercise, continues to be popular and seeks to reward those members who have trusted us to look after their tax-free savings over the years. This is just one of the ways we seek to reward the loyalty of our members.

LOOKING AHEAD

My senior management colleagues and I fully acknowledge that the Society's success very much depends on it remaining relevant to new and existing members in the years to come, and recognise the importance of a clearly articulated digital strategy, covering how we interact with our members online.

The ability to transact on their Society savings accounts online is something a number of our savings members have previously requested, though we readily accept that some members will still wish to transact through our network of branches and agencies throughout Scotland.

During the year ahead we will continue to look at ways to widen the services available both online and through our branch and agency network, and will also consider whether we should be represented in other locations throughout Scotland.

For those seeking to transact online, the Society has well-progressed plans to launch a simple online savings account in the first half of the year – this following extensive testing to ensure our members are suitably protected from cyber risk.

Further investment over the coming years will help the Society reach its full potential, whilst retaining its traditional values and focus on its members as individuals. This is something to which I, along with all my colleagues, remain committed, to ensure the delivery of long-term value to our members throughout the term of their relationship with Scottish Building Society.

MARK L THOMSON
CHIEF EXECUTIVE

28 March 2018

Member Survey Results 2017

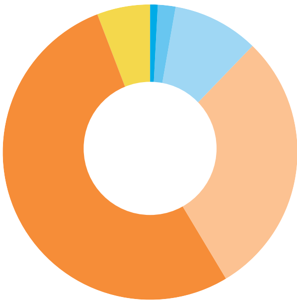
106 Member surveys completed

59% male

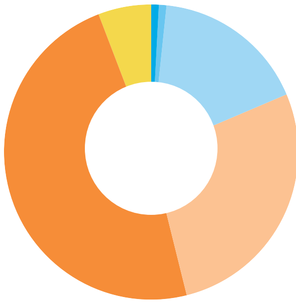
27% female

14% did not answer

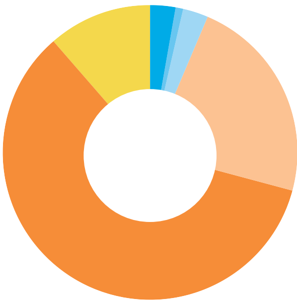
83% agree or strongly agree that the overall service they receive from the Scottish is EXCELLENT



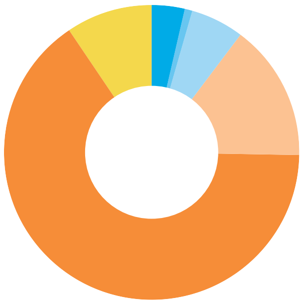
82% agree or strongly agree that they **trust the Scottish as a provider of financial products**



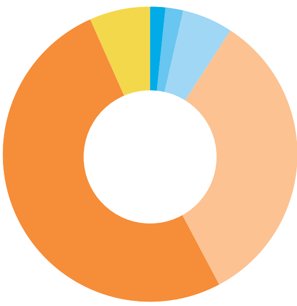
75% agree or strongly agree that they **believe the Scottish is financially strong**



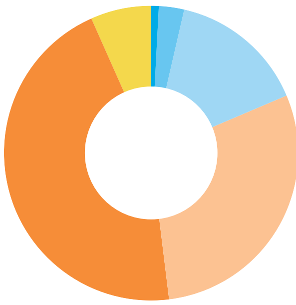
82% agree or strongly agree that they **find staff at the Scottish helpful, professional and efficient**



80% agree or strongly agree that **any queries are dealt with quickly and efficiently**



84% agree or strongly agree that **communications they receive from the Scottish are clear and easy to understand**



75% agree or strongly agree that **the Scottish acts in their interests**

Strongly Agree | Agree | Neither Disagree or Agree | Disagree | Strongly Disagree | Not answered

Communication preference

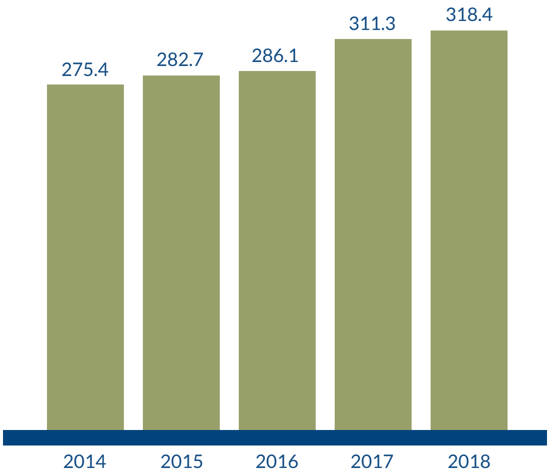
Society Key Results

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

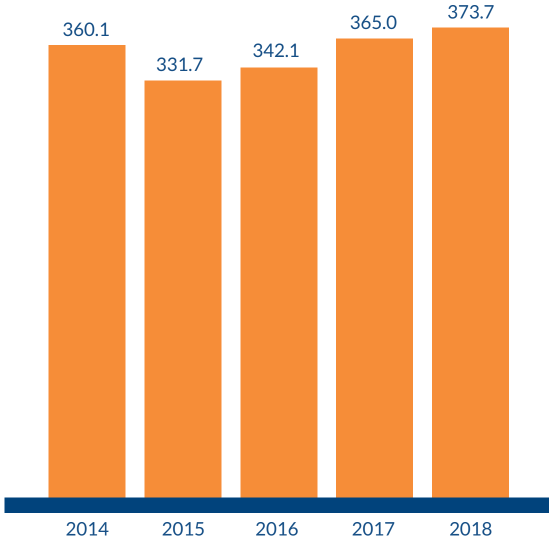
Total Assets
£420.2 million

Liquid Assets
£99.7 million

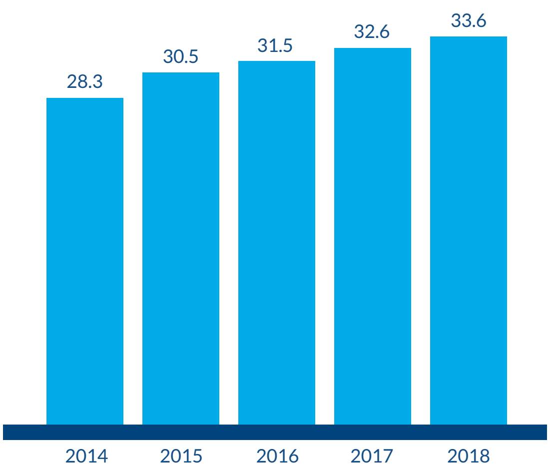
Profit before tax
£1.30 million



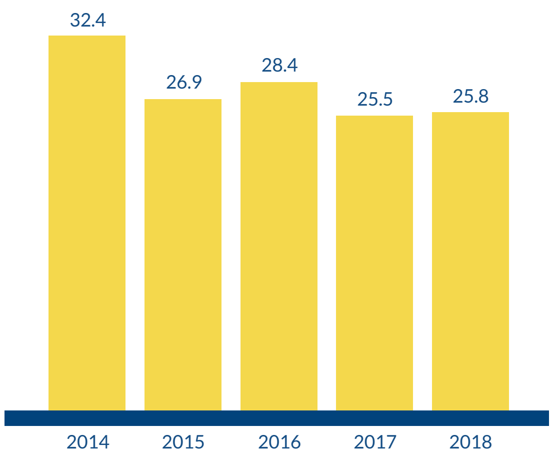
MORTGAGE BALANCES (£m)



SAVINGS BALANCES (£m)



CAPITAL (RESERVES) (£m)



LIQUID ASSETS (as % of Shares & Deposits)

Figures for 2015 and onwards have been prepared under FRS 102, with figures for 2014 prepared under UK GAAP.

Directors' Report

INTRODUCTION

The Directors present their 169th Annual Report, together with the Annual Accounts and Annual Business Statement, for the year ended 31 January 2018.

OUR MISSION

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

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

BUSINESS REVIEW

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

PROFIT AND CAPITAL

Profit for the year before tax amounted to £1.30million (2017: £1.27million) representing another strong performance with steady growth in our mortgage book of 2.3% (2017: 8.8%). We have continued to invest in our loyalty initiatives and increased our reserves to provide scope for further innovation in how we serve members.

Following an independent valuation an impairment charge reduced the value of the Society's Head Office from £1,057,000 to £875,000, this being an appropriate carrying value for the premises at 31 January 2018.

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

LIQUIDITY

Total cash and investments at 31 January 2018 amounted to £99.7million (2017: £95.9million) which represented 25.9% (2017: 25.5%) of total shares and borrowings. The Society's continuing aim is to maintain an appropriate level of liquidity at all times. Funding is invested mainly in mortgage assets with sufficient liquid assets for risk management purposes and in accordance with regulatory requirements.

INTEREST RATES

The Bank of England Bank Rate increased to 0.50% on 2 November 2017, this being the first rate increase since July 2007. As a result the Society's Standard Variable Rate for mortgages increased, although we chose to pass on only 0.10% of the 0.25% increase.

The Society's savings rates have generally been higher than those offered elsewhere in the market for a sustained period, and after careful consideration the decision was made to increase rates by 0.15% for most savings products.

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

MORTGAGE ARREARS AND FORBEARANCE

At 31 January 2018 the Society had only four mortgage accounts in arrears for 12 months or more (2017: nine). The total arrears outstanding on these accounts was £31,845 (2017: £70,264) and the aggregate capital balance was £269,429 (2017: £849,159). Four properties were taken into possession during the year (2017: three).

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 2018 there were 34 cases benefiting from the Society's forbearance measures (2017: 50) with total outstanding capital balances of £2.2million (2017: £3.3million). The Society makes provisions for any expected loss resulting from accounts in arrears in accordance with the Board approved policy.

KEY PERFORMANCE INDICATORS

The Board and management monitor a range of performance indicators to assess the ongoing health of the Society. The financial indicators are shown in the table below – and some are also shown graphically on page 9. Their significance is explained as:

Total Assets: Consisting primarily of Mortgage Assets and Liquid Assets, these have increased by 2.7%.

Mortgage Assets: One of the key reasons for the Society's existence is to promote home ownership through mortgage lending. During the past year Mortgage Assets have increased by 2.3%.

Share Balances: Another key reason for the Society's existence: to encourage saving and investment. Savings balances have been increased by 2.4% during the past year.

Reserves: The accumulated profits of the Society over more than 169 years of operation, which provide the capital which helps to maintain the Society's financial strength. These have increased by £1million in the year through the addition of the year's profit after tax.

Net Interest Margin: The income generated by the Society from its operations, expressed as a percentage of mean total assets. This has increased slightly by 0.5 percentage points in the year as we continue to provide long-term value to members.

Liquidity: Total cash and investments held by the Society at the year-end, expressed as a percentage of shares and borrowings. This has increased by 0.4% 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 remained broadly unchanged 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.

KEY FINANCIAL PERFORMANCE INDICATORS 2014-2018

	2014	2015	2016	2017	2018
Total Assets	£397.2m	£378.2m	£388.9m	£409.2m	£420.2m
Mortgage Assets	£275.4m	£282.7m	£286.1m	£311.3m	£318.4m
Share Balances	£360.1m	£331.7m	£342.1m	£365.0m	£373.7m
Reserves	£28.3m	£30.5m	£31.5m	£32.6m	£33.6m
Net Interest Margin	1.71%	1.70%	1.68%	1.57%	1.62%
Liquidity	32.4%	26.9%	28.4%	25.5%	25.9%
Gross Capital	7.7%	8.8%	8.9%	8.7%	8.7%
Asset Growth	2.4%	(4.9%)	2.8%	5.2%	2.7%
Mortgage Asset Growth	(0.5%)	2.6%	1.2%	8.8%	2.3%

Figures for 2015 and onwards have been prepared under FRS 102, with figures for 2014 prepared under UK GAAP. All figures are Group figures except 2018 which are unconsolidated on the basis of materiality.

NON-FINANCIAL KEY PERFORMANCE INDICATORS

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

- 78% of mortgage borrowers reaching the end of their initial incentive period have remained with the Society.
- Less than 1.3% of mortgage accounts have arrears greater than 1.5% of their mortgage balance.

Directors' Report (continued)

REGULATION AND COMPLIANCE

The Society has continued to ensure that it remains compliant with changes to regulation affecting the way in which we operate.

Previous reports have referred to implementation of the Senior Managers & Certification Regime. Further aspects of the Regime came into force at various points during the year and work continued throughout 2017 to implement and embed these changes. We also ensured that the Society was ready for the increase in the Financial Services Compensation Scheme Deposit Protection Limit and the introduction of the Fourth EU Money Laundering Directive to UK law.

Further regulatory changes are due to come into force during 2018. In particular, the General Data Protection Regulation will establish a new legal framework for the protection of personal data in the EU with effect from May 2018. Work to prepare for the new framework has been ongoing throughout 2017 and will continue into 2018.

The Society is required to have regard to the principles laid down in the UK Corporate Governance Code. This is covered in more detail in the separate Corporate Governance Report on pages 18 to 22.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

- **Credit Risk:** This relates to the risk that mortgage borrowers or treasury counterparties, to whom the Society has lent money, default on their obligation to pay. We seek to mitigate credit risk principally through the careful management of our underwriting policy and process, ensuring that all loans meet the criteria laid down in our Lending policy which is reviewed on a rolling basis at least annually and overseen by the Retail Credit Committee. The Society's exposure to treasury counterparties is carefully controlled in accordance with the limits set out in our Liquidity 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 UK's exit from membership of the European Union. The Society has carried out an initial evaluation of the impact of the UK's decision to leave the EU and will continue to monitor developments. The risk currently identified is the possibility of change in the regulatory environment and we consider that there would be adequate time to respond to any such changes. There are also additional risks arising from (a) the impact of regulatory changes already mentioned and (b) the potential for further contributions to the FSCS levy which would impact upon the Society's capital and ability to compete over a period of time. The Society will continue to adopt a cautious approach in the coming financial year, seeking moderate managed growth in order to maintain financial stability, whilst providing suitable mortgage and savings products to customers.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

CAPITAL REQUIREMENTS

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

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 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 2018 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 branches during the past year, as voted for by the local membership. New charities are in place for 2018, again chosen by local members. These are:

Maggie's Centre, Edinburgh (Edinburgh and East Scotland)

Maggie's Edinburgh is at the Western General Hospital and offers professional support to people with cancer and their loved ones.

Scottish Association for Mental Health (SAMH) (Glasgow and West Scotland)

Founded in 1923 and operating in communities to provide a range of mental health support and services.

Combat Stress (South West)

For almost a century, Combat Stress has helped former servicemen and women deal with issues like trauma, anxiety, depression and post-traumatic stress disorder.

The Oxygen Works, Inverness (North Scotland)

After four years of fundraising, with help from friends, the Centre was purpose-built in 1992 by a group of local people living with Multiple Sclerosis (MS).

Borders Children's Charity (Borders)

This charity exists to help children aged 0-18, living in the Scottish Borders, by relieving poverty, sickness and distress, and advancing education.

Directors' Report (continued)

The Society makes charitable donations to reflect and encourage members' participation in the Society's Annual General Meetings each year. £1,000 was donated in 2017 to Ravelrig Riding for the Disabled (Edinburgh & East Scotland) for postal and online votes received and for members who attended the AGM in person at Surgeons' Hall, Edinburgh on 31 May. This year's AGM will be held at Hampden Park, Glasgow on 30 May and a donation will be made to Scottish Association for Mental Health (SAMH) (Glasgow and West Scotland), made up of £2 for every voting member attending and 50p for every postal and online vote received.

The Society does not make donations for political purposes.

Environmental issues

The Society aims to minimise the environmental impacts of all our operations by striving to reduce unnecessary consumption, to re-use and recycle where possible, to manage energy usage wisely and to promote the control of environmental issues at all levels. We continue to use paper from sources approved by the Forestry Stewardship Council wherever possible, to recycle waste paper and other materials and to encourage our staff to be environmentally aware at all times. Our vehicle replacement policy includes a maximum CO2 emissions limit of 130g/km.

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

Employee Policies

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

DIRECTORS

The following individuals were Directors of the Society during the year to 31 January 2018:

Non-Executive Directors

Robert Golbourn MBA FCIBS	Chairman until July 2017 Retired as a Director October 2017
Raymond J Abbott CA	Chairman from July 2017 Vice-Chairman, Senior Independent Director and Chairman of Nomination & Remuneration Committee until July 2017
David Peebles MSc DipM FCIBS FCT	Chairman of Audit Committee Senior Independent Director from July 2017
Margaret MacKay MSc DipM FCIPD	Appointed March 2017
John C Ogston FCIBS	Vice-Chairman and Chairman of Nomination & Remuneration Committee from July 2017 Chairman of Retail Credit Committee
Simon M Pashby BA FCA	Chairman of Board Risk Committee
James Coyle BAcc CA FCIBS	Retired as a Director May 2017
Alan Webster MSc FCIBS	Appointed November 2017

Executive Directors

Mark L Thomson FCIBS	Chief Executive Chairman of Operational Risk Committee
Aileen Brown BA CA	Finance Director Chairman of Asset and Liability 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 election/re-election:

- **Margaret MacKay** has joined the Board since the 2017 Annual General Meeting and is retiring in accordance with Rule 25(4).
- **Alan Webster** has joined the Board since the 2017 Annual General Meeting and is retiring in accordance with Rule 25(4).
- **David Peebles** and **Simon Pashby** are 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 election/re-election at the Annual General Meeting to be held on 30 May 2018.

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

STAFF AND AGENTS

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

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

POST BALANCE SHEET EVENTS

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

SUPPLIER PAYMENT POLICY

The Society's continuing policy concerning the payment of its trade creditors is to pay within the agreed terms of credit, once the supplier has discharged their contractual obligations. The average number of days' credit taken to pay suppliers during the year ended 31 January 2018 was 23 (2017: 18).

AUDITOR

Our auditor, KPMG LLP, has completed this year's audit for the Society and a resolution to appoint PricewaterhouseCoopers LLP (PwC) will be proposed for consideration at the Annual General Meeting to be held on 30 May 2018.

By order of the Board

AILEEN E ROSE
SECRETARY

28 March 2018

Board of Directors

Raymond Abbott is a Chartered Accountant by profession and has worked in private equity and investment for over twenty-five years. As the former managing director of Alliance Trust Equity Partners he was responsible for strategic development. Previously he founded the UK venture investor Albany Ventures and prior to that was Director of Investment at British Linen Bank. Raymond also serves as Chairman of Foresight 4 plc and Integrated Environmental Solutions Ltd. He therefore brings a wealth of financial experience to the Board. Raymond joined the Board in June 2013 and was appointed Society Chairman in July 2017 having previously been Vice-Chairman, Senior Independent Director and Chairman of the Nomination & Remuneration Committee.

John (Jack) Ogston joined the Board in July 2013 and is the Society Vice-Chairman, Chairman of the Nomination & Remuneration Committee and also 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.

David Peebles joined the Board in 2006 and is currently Chairman of the Audit Committee and Senior Independent Director (having previously chaired the Asset & Liability 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 Fellow 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 treasury consultancy advice to a diverse group of financial services organisations worldwide.

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

Margaret MacKay joined the Board in 2017. Margaret began her career with HBOS and has over 36 years' experience in PLC, AIM and family owned businesses. Margaret has held Board level positions for the last 20 years and latterly was Managing Director, Scotland and Ireland Division, with Peel Ports. Margaret has a Masters Degree in Human Resource Management and is a Fellow of the Chartered Institute of Personnel and Development. She also has a Postgraduate Diploma in Marketing. Margaret has held several Non Executive roles and is currently a Trustee of The John Mather Trust.

Alan Webster joined the Board in November 2017. Alan is a Chartered Banker and Fellow of the Chartered Institute of Bankers in Scotland. He has a Masters Degree in Finance. Alan spent 34 years in Clydesdale Bank in a wide variety of managerial roles including Asset Finance, Credit and Treasury. Latterly he was Head of the Business Bank. He then moved to Scottish Widows Bank as Business Development Director. He became MD of SFCF Ltd based in Glasgow before taking up MD positions with Campbell Financial Services and then with Succession Wealth Management. He was also a non-executive director of Pharmacy Mutual Insurance. Alan brings a great wealth of knowledge and experience across most aspects of management, banking and financial services.

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 Operational Risk Committee.

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

Corporate Governance Report

The Directors are responsible for the governance of the Society, on behalf of the members, and are committed to good practice in Corporate Governance. They have regard to the principles of the UK Corporate Governance Code for listed companies issued in June 2016 ('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 2017-18 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 21 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 six occasions during the year and is chaired by an independent Director. The Committee considers regulatory compliance matters and adequacy of internal controls. It also reviews audit reports, monitors the effectiveness of the internal audit function and agrees the annual internal audit plan. It considers and recommends to the Board (for approval by the members) the appointment or re-appointment of the external auditor, and the policy on the engagement of the external auditor for non-audit services and approval of their fees. The Committee also monitors the external auditor's 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 auditor 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.

During 2017 the Audit Committee conducted a competitive tender process for the external auditor and this resulted in the resolution to appoint PwC at the AGM.

The Committee comprises three Non-Executive Directors who all have relevant financial experience. David Peebles chairs the Committee; other members during the year were Raymond Abbott and Simon Pashby. Members of senior management attend by invitation, together with representatives from the internal and external auditors.

Board Risk Committee: During the first half of the year the Society further developed its risk management arrangements by migrating to a "three lines of defence" framework.

The framework comprises first line arrangements including day-to-day focus such as policies, procedures, delegated mandates and management committees. The second line arrangements consist of the Board Risk Committee, the Risk and Compliance Team and the Heads of Risk and Compliance. The third line of defence is the Audit Committee and the external and internal auditors.

The Asset & Liability Committee, the Retail Credit Committee and the Operational Risk Committee, which had previously operated as Board Sub-Committees became management (first line) Committees. All three Committees now report to a Board Risk Committee, which is a Board Sub-Committee to provide second line oversight with membership being three Non-Executive Directors. The Board Risk Committee met seven times in the year and is chaired by Simon Pashby. The other members are David Peebles and Margaret MacKay. Members of the Senior Management Team attend by invitation. The remit includes responsibility for oversight of the Society's Risk Control Framework and Risk Management; consideration of the Board Risk Appetite Statement, supporting metrics and stress testing outputs; review of Board policies and key prudential documentation from a risk perspective.

In addition, the Board Risk Committee is also responsible for oversight of the delivery of appropriate Risk Monitoring and Assurance and ensuring appropriate follow-up of results. Corporate Insurance cover is overseen by the Committee. The Committee reports to the Board through its minutes and summaries of its activities and recommendations.

Nomination & Remuneration Committee: This Committee reviews Board constitution, skills, performance, succession plans and Director elections and is responsible for remuneration policy for all Directors and for making recommendations to the Board regarding general remuneration and contractual arrangements. It also supervises the process for appointment of new Directors. All the Non-Executive Directors are members of the Committee, which is chaired by the Vice-Chairman, Jack Ogston. The Chief Executive attends by invitation but takes no part in any discussion of his own remuneration. There were six meetings during the year.

DIVISION OF RESPONSIBILITIES: CHAIRMAN AND CHIEF EXECUTIVE

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

NON-EXECUTIVE DIRECTORS

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

Corporate Governance Report (continued)

THE COMPOSITION OF THE BOARD

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

Although David Peebles has been a Non-Executive Director for more than nine years, the Board is satisfied that his length of service does not impair his independence and that he continues to bring valuable knowledge and experience to the Society.

The Society's vehicle advisers are Pike & Bambridge, a firm which is connected with the Society Vice-Chairman. There are no other current business relationships between the Society and firms connected with Directors. No ex-employees are or have been Non-Executive Directors.

APPOINTMENTS TO THE BOARD

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

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

COMMITMENT

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

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

DEVELOPMENT

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

INFORMATION AND SUPPORT

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

DIRECTORS' ATTENDANCE 2017-18

The table below shows the number of Board meetings attended by each Director and, for each of the Board Committees, the number of meetings and attendance by individuals as members of those Committees. The figures in brackets denote the number of meetings each Director was eligible to attend.

	Board	Audit Committee	Board Risk Committee (from August 2017)	Retail Credit Committee (until June 2017)	Nomination & Remuneration Committee
R Golbourn	7 (7)			3 (3)	4 (4)
R J Abbott	10 (11)	6 (6)			6 (6)
J C Ogston	11 (11)			3 (3)	6 (6)
D Peebles	11 (11)	6 (6)	7 (7)		6 (6)
S M Pashby	11 (11)	6 (6)	7 (7)		6 (6)
M Mackay	9 (10)		7 (7)		5 (5)
J Coyle	3 (3)				2 (2)
A Webster	3 (3)				2 (2)
M L Thomson	11 (11)			2 (3)	
A Brown	11 (11)				

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

The Statement of Directors' Responsibilities on page 25 sets out the Board's responsibilities in relation to the Society's Annual Report and Accounts and the Directors' Report includes a statement regarding the Society's position as a going concern on page 13.

Corporate Governance Report (continued)

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is collectively responsible for determining strategies for risk management and control. Senior management are responsible for designing, operating and monitoring risk management and internal control processes through the respective risk management committees that report 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 23 & 24 sets out the remuneration policies for Executive and Non-Executive Directors and explains how this meets the requirements of the UK Corporate Governance Code.

DIALOGUE WITH SHAREHOLDERS

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

CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM)

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

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

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

RAYMOND ABBOTT
CHAIRMAN

28 March 2018

Directors' Remuneration Report

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

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

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

PROCEDURE FOR DEVELOPING POLICY ON EXECUTIVE & INDIVIDUAL DIRECTOR REMUNERATION

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

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

NON-EXECUTIVE DIRECTORS

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

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

EXECUTIVE DIRECTORS

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

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

The Society makes a minimum contribution of 20% of salary to the Executive Directors' private pension arrangements and they also receive a further taxable benefit comprising a Society car, or car allowance.

SERVICE CONTRACTS

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

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

Directors' Remuneration Report (continued)

NON-EXECUTIVE DIRECTORS

Fees only

	To 31 January 2018	To 31 January 2017
R J Abbott	£30,650	£25,583
J Coyle	£7,333	£21,583
R Golbourn (retired October 2017)	£22,944	£34,583
A H Henderson (retired November 2016)	–	£17,917
M Mackay (appointed March 2017)	£20,542	–
J C Ogston	£24,225	£21,393
S M Pashby	£22,375	£21,583
D Peebles	£24,375	£22,750
A Webster (appointed November 2017)	£5,625	–
Total	**£158,069**	**£165,392**

EXECUTIVE DIRECTORS

To 31 January 2018

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

To 31 January 2017

	Salary	Bonus	Pension Contributions	Taxable Benefits	Total
M L Thomson	£141,103	£26,598	£28,221	£6,001	£201,923
A Brown (appointed 1 Aug 2016)	£68,929	–	£13,786	£3,225	£85,940
Total	**£210,032**	**£26,598**	**£42,007**	**£9,226**	**£287,863**

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

JACK OGSTON
CHAIRMAN, NOMINATION & REMUNERATION COMMITTEE

28 March 2018

Statement of Directors' Responsibilities

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

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

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

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

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

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

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

DIRECTORS' RESPONSIBILITIES FOR ACCOUNTING RECORDS AND INTERNAL CONTROLS

The Directors are responsible for ensuring that the Society:

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

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

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

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

The CBCR information comprises the information discussed below.

The Directors of the Society are responsible for preparing the CBCR information for the year ended 31 January 2018 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

1. OUR OPINION IS UNMODIFIED

We have audited the Society Annual Accounts of Scottish Building Society for the year ended 31 January 2018 which comprise the Income Statement, Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Members' Interests and Cash Flow Statement, and the related notes, including the accounting policies in Note 1.

In our opinion the Annual Accounts:

- give a true and fair view of the state of affairs of the Society as at 31 January 2018 and of the income and expenditure of the Society for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland;* and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as auditor by the members during 1990. The period of total uninterrupted engagement is at least the 28 years ended 31 January 2018.

We have fulfilled our ethical responsibilities under, and we remain independent of the Society in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the Annual Accounts and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the Annual Accounts as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT continued

	The risk	Our response
Loan portfolio impairment ◀▶ Impairment provisions (£352k; 2017: £360k) Refer to pages 37-38 (accounting policy) and page 46 (financial disclosures)	**Subjective estimate** Impairments cover loans specifically identified as impaired and a collective impairment of all other loans for those impairments incurred but not yet specifically identified. The Directors judge individual impairments by reference to loans that have current or historical arrears or forbearance flagging characteristics. The collective provision is based on a calculation that, due to the Society's limited loss experience, requires the application of management judgement and the application of overlays. The impairment calculation is most sensitive to movements, loan to value ratios, forced sales discount and the application of management overlay.	**Our procedures included:** • **Test of control:** We tested the key controls over the monitoring and reporting of credit risk with respect to identified impaired loans. • **Tests of detail:** We tested the provision attached to a sample of individually impaired loans, by reference to collateral valuations, to critically assess the individual impairment estimate. • **Benchmarking assumptions:** We considered the rationale and calculation of management overlays and compared the resulting provision levels to external data. • **Sensitivity analysis:** We assessed the collective calculation and specific individual impairments for their sensitivities to changes in the key assumptions by performing stress testing to help us assess the reasonableness of the assumptions and identify areas of potential additional focus. • **Historical comparison:** We critically assessed the Society's level of provision against our understanding and knowledge of the Society's historical experience. • **Assessing transparency:** Assessing the adequacy of the Society's disclosures about the degree of estimation involved in arriving at the provision. **Our results** • We found the resulting estimate of the loan portfolio impairment provision to be acceptable (2017: acceptable).
Effective interest rate income recognition ◀▶ EIR income £11k, 2017: £11k; year end EIR asset £473k, 2017: £484k Refer to page 35 (accounting policy)	**Subjective estimate** Using an Excel model, interest earned and fees earned and incurred on loans are recognised using the effective interest rate ('EIR') method that spreads directly attributable cash flows over the expected lives of the loans. The Directors apply judgement in deciding and assessing the expected repayment profiles used to determine the EIR period. The most critical element of judgement in this area is the estimation of the future redemption profiles of the loans. This is informed by product mix and past customer behaviour of when loans are repaid.	**Our procedures included:** • **Sensitivity analysis:** We assessed the model and any individual adjustments for its sensitivity to changes in the key assumptions by considering different profiles to help us assess the reasonableness of the assumptions used and identify areas of potential additional focus. • **Historical comparison:** We assessed the reasonableness of the model's expected repayment profiles assumptions against historical experience of loan lives based on customer behaviour, product mix and recent performance. • **Assessing transparency:** We assessed the adequacy of the Society's disclosures about the degree of estimation involved in arriving at the interest income recognised. **Our results** • We found the resulting estimate of the EIR to be acceptable (2017: acceptable).

3. OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the Annual Accounts as a whole was set at £154k (2017: £168k), determined with reference to a benchmark of interest receivable, of which it represents 1.5% (2017: 1.5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £7.7k (2017: £8.5k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above.

4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the Annual Accounts. We have nothing to report in these respects.

5. WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT

The Directors are responsible for the other information presented in the Annual Report together with the Annual Accounts. Our opinion on the Annual Accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Annual Accounts audit work, the information therein is materially misstated or inconsistent with the Annual Accounts or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Annual Business Statement and Directors' Report

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 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.

6. WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Building Societies Act 1986, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

7. RESPECTIVE RESPONSIBILITIES

Directors' responsibilities

As explained more fully in their statement set out on page 25, the Directors are responsible for: the preparation of Annual Accounts which give a true and fair view; such internal control as they determine is necessary to enable the preparation of Annual Accounts that are free from material misstatement, whether due to fraud or error; assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Annual Accounts as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Annual Accounts. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the Annual Accounts.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Society's regulatory correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related building society legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital and liquidity and certain aspects of building society legislation recognising the financial and regulated nature of the society's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the Directors and other management and inspection of regulatory correspondence.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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.

PHILIP MERCHANT (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF KPMG LLP, STATUTORY AUDITOR
CHARTERED ACCOUNTANTS
SALTIRE COURT
20 CASTLE TERRACE
EDINBURGH EH1 2EG

28 March 2018

Accounts

For the year ended 31 January 2018

Income Statement

	Notes	2018 £000	2017 £000
Interest receivable and similar income	*2*	**10,559**	10,994
Interest payable and similar charges	*3*	**(3,831)**	(4,776)
Net interest income		**6,728**	6,218
Fees and commissions receivable		**78**	74
Fees and commissions payable		**(40)**	(25)
Net gains from derivative financial instruments	*4*	**13**	5
Total Net Income		**6,779**	6,272
Administrative expenses	*5*	**(5,015)**	(4,910)
Depreciation and amortisation	*15, 16*	**(249)**	(271)
Operating Profit before movement in acquired assets, impairment losses and provisions		**1,515**	1,091
Net increase in value of acquired assets	*13*	**66**	199
Impairment (losses)/gains on loans and advances	*12*	**(74)**	44
Impairment of Land & Buildings	*15*	**(182)**	-
Provisions for liabilities - FSCS levy	*24*	**(28)**	(59)
Operating Profit		**1,297**	1,275
Distribution of reserves from subsidiary entity	*14*	**-**	1,561
Profit before tax		**1,297**	2,836
Tax expense	*8*	**(252)**	(211)
Profit for the financial year	*25*	**1,045**	2,625

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.

The accompanying notes form an integral part of the financial statements.

Other Comprehensive Income

	Notes	**2018** **£000**	2017 £000
Profit for the financial year		**1,045**	2,625
Valuation (losses)/gains taken to reserves	*10*	**(13)**	53
Income tax on other comprehensive income	*8*	**3**	(10)
Total comprehensive income for the year		**1,035**	2,668

The accompanying notes form an integral part of the financial statements.

Statement of Financial Position

	Notes	2018 £000	2017 £000
ASSETS			
Liquid Assets:			
Cash in hand and balances with Bank of England		**59,140**	46,150
Loans and advances to credit institutions	*9*	**15,519**	23,096
Debt securities	*10*	**25,065**	26,610
Derivative financial instruments	*21*	**267**	58
Loans and advances to customers	*11*	**318,440**	311,313
Investment in subsidiary undertaking	*14*	**-**	-
Tangible fixed assets	*15*	**1,327**	1,625
Intangible assets	*16*	**125**	123
Other assets	*17*	**296**	257
TOTAL ASSETS		**420,179**	409,232
LIABILITIES			
Shares	*18*	**373,710**	365,007
Amounts owed to credit institutions	*19*	**3,004**	-
Amounts owed to other customers	*20*	**8,789**	10,490
Derivative financial instruments	*21*	**2**	89
Other liabilities and accruals	*22*	**966**	933
Deferred tax liability	*23*	**52**	62
Provisions for liabilities	*24*	**28**	58
TOTAL LIABILITIES		**386,551**	376,639
RESERVES			
General reserves	*25*	**33,641**	32,596
Available-for-sale reserves	*26*	**(13)**	(3)
Total reserves attributable to members of the Society		**33,628**	32,593
TOTAL RESERVES AND LIABILITIES		**420,179**	409,232

These accounts were approved by the Board of Directors on 28 March 2018 and were signed on its behalf by:

RAYMOND ABBOTT
CHAIRMAN

JACK OGSTON
VICE CHAIRMAN

MARK L THOMSON
CHIEF EXECUTIVE

The accompanying notes form an integral part of the financial statements.

Statement of Changes in Members' Interests

	General reserves 2018 £000	Available-for-sale reserves 2018 £000	Total 2018 £000	General reserves 2017 £000	Available-for-sale reserves 2017 £000	Total 2017 £000
As at 1 February 2017	**32,596**	**(3)**	**32,593**	29,971	(46)	29,925
Total Comprehensive income for the year						
Profit or loss	**1,045**	**-**	**1,045**	2,625	-	2,625
Other comprehensive income *(see Note 26)*	**-**	**(10)**	**(10)**	-	43	43
Total comprehensive income for the year	**1,045**	**(10)**	**1,035**	2,625	43	2,668
As at 31 January 2018	**33,641**	**(13)**	**33,628**	32,596	(3)	32,593

The accompanying notes form an integral part of the financial statements.

Cash Flow Statement

	2018 £000	2017 £000
Cash flows from operating activities		
Profit before tax	**1,297**	2,836
Adjustments for		
Depreciation, amortisation and impairment	**432**	271
(Profit) on disposal of fixed assets	**(16)**	-
(Decrease)/increase in impairment of loans and advances	**(8)**	(168)
Distribution of reserves from subsidiary entity	**-**	(1,561)
Total	**1,705**	1,378
Changes in operating assets and liabilities		
Increase/(decrease) in prepayments, accrued income and other assets	**(180)**	(72)
(Decrease) in accruals, deferred income and other liabilities	**(526)**	(757)
(Increase) in loans and advances to customers	**(7,119)**	(25,094)
Increase in shares	**8,985**	23,014
Increase/(decrease) in amounts owed to credit institutions and other customers	**1,309**	(2,987)
(Increase)/decrease in loans and advances to credit institutions	**3,000**	(1,000)
Taxation paid	**(106)**	(288)
Net cash flows from operating activities	**5,363**	(7,184)
Cash flows from investing activities		
Purchase of debt securities	**(29,029)**	(27,016)
Sale and maturity of debt securities	**30,543**	40,205
Purchase of tangible fixed assets	**(71)**	(190)
Disposal of tangible fixed assets	**19**	12
Purchase of intangible assets	**(67)**	(77)
Net cash flows from investing activities	**1,395**	12,934
Net increase/(decrease) in cash and cash equivalents	**8,463**	7,128

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

	2016 £000	Cash Flow	2017 £000
Cash in hand and balances with the Bank of England	40,141	6,009	46,150
Loans and advances to credit institutions - repayable on demand	2,895	119	3,014
Loans and advances to credit institutions - less than 3 months maturity	10,000	1,000	11,000
	53,036	7,128	60,164

The accompanying notes form an integral part of the financial statements.

1. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

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

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

Judgements made by the Directors in the application of these accounting policies that have significant effect on the annual accounts and estimates, with a significant risk of material adjustment in the next year, are discussed in *Note 1*.

Accounting convention

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

Consolidation

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

Interest

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

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

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

Interest income and expense presented in the income statement and 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

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

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

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

Assets held by the Society for use in operating leases are included as tangible fixed assets. 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 period end, and any adjustment to tax payable in respect of previous years.

Provision for deferred tax is made, using the liability method, on a non-discounted basis for taxation at the relevant rate in respect of all items where there is a timing difference between their treatment for accounts and taxation purposes except where, in the opinion of the Directors, it is likely that tax assets would not be recoverable in the foreseeable future.

Financial instruments

Recognition

The Society initially recognises loans and advances, deposits, and debt securities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Society becomes a party to the contractual provisions of the instrument.

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

Classification

Financial assets

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

- *Loans and receivables*

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

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

- *Available-for-sale*

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

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

- *Held to maturity*

There are no financial assets held to maturity.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in 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 Society 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 Society derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Society neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

Measurement

Amortised cost measurement

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

Fair value measurement

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Society determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in 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 Society 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 Society on terms that the Society would not consider otherwise;

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

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

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

The Society considers evidence of impairment for loans and advances at both a specific asset and a collective level. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

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

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

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

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

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

The main options offered by the Society include:

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

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

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

Impairment losses are recognised in 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 has been prepared using the indirect method.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Assets held under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Buildings – 50 years
- Plant and equipment – 5 years
- Fixtures and fitting – 10 years
- Motor vehicles – 3-4 years

Intangible assets

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

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

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

Pension costs

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

Provisions

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

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 2018 is set out below:

a. *Impairment losses on loans and advances to customers* – the Society reviews its mortgage portfolio regularly to assess impairment. In determining whether an impairment loss should be recorded, the Society is required to exercise a degree of judgement. Impairment provisions are calculated using arrears experience, credit risk characteristics and expected cashflows. Estimates are applied to determine prevailing market conditions and customer behaviour. To the extent that default rates differ from that estimated by 10%, the impairment provisions on loans and advances would change by an estimated £2,000.

b. *Expected mortgage life* – in determining the expected life of mortgage assets, the Society 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 total mortgage life would result in an increase in the value of loans on the Statement of Financial Position by approximately £598,600.

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

- Derivative financial instruments – calculated by discounted cashflow models using yield curves that are based on observable market data

- Available-for-sale investments – measured at fair value using market prices

A change in the yield curve of 1% would change the total net fair value of derivative financial instruments by £989,200. However this would be largely offset by movements in the fair value of the hedged assets.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2018 £000	2017 £000
On loans fully secured on residential property	**9,758**	10,101
On other loans	**557**	632
Net expense on financial instruments	**(174)**	(326)
On debt securities:		
- interest and other income	**153**	259
On other liquid assets:		
- interest and other income	**265**	328
	10,559	10,994

Included within loans fully secured on residential property is £4,330 (2017: £7,500) in respect of interest income on impaired loans.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2018 £000	2017 £000
On shares held by individuals	**3,796**	4,705
On other shares	**15**	7
Net income on financial instruments	**-**	–
On deposits and other borrowings	**20**	64
	3,831	4,776

4. NET GAINS FROM DERIVATIVE FINANCIAL INSTRUMENTS

	2018 £000	2017 £000
Derivatives in designated fair value hedge relationships	**295**	341
Adjustment to hedged items in fair value hedge accounting relationships	**(282)**	(326)
Derivatives not in designated fair value hedge relationships	**-**	(10)
	13	5

5. ADMINISTRATIVE EXPENSES

	2018 £000	2017 £000
Staff costs *(Note 6)*	**3,018**	2,991
Other expenses	**1,997**	1,919
	5,015	4,910
Included in other expenses are the following charges:		
- Property leasing costs	**68**	77
- Remuneration of auditors (excl. VAT):		
Audit of the Annual Accounts under FRS 102	**70**	50
Other services pursuant to legislation	**15**	8

6. STAFF NUMBERS AND COSTS

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

	Full time		Part time	
	2018	2017	**2018**	2017
Head Office	**34**	36	**8**	6
Branch offices	**19**	18	**11**	14
	53	54	**19**	20

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

	2018 £000	2017 £000
Wages and salaries	**2,459**	2,475
Social security costs	**264**	240
Pension costs	**295**	276
	3,018	2,991

7. DIRECTORS' REMUNERATION

Individual Directors' remuneration of £529,000 (2017: £453,000) is detailed in the Directors' Remuneration Report on pages 23 & 24.

8. TAX EXPENSE

	2018 £000	2017 £000
Current Tax		
Corporation tax charge for the year at 19.16% (2017: 20.00%)	**251**	216
Adjustment in respect of prior year	**5**	(1)
Total current tax charge for the year	**256**	215
Deferred tax		
Deferred tax charge/(credit) for the year (*Note 23*)	**(4)**	(4)
Total tax charge for the year	**252**	211

The main rate of UK corporation tax is 19% from 1 April 2017. A further reduction to 17% from 1 April 2020 which was substantively enacted on 15 September 2016. The substantive enactment of this rate reduction has been reflected in the computation of the net deferred tax liability recognised by the Society with account taken of the tax rates that will apply when the various timing differences are expected to reverse.

The tax assessed for the year differs from the statutory rate of corporation tax in the UK of 19.16%; the differences are explained below:

Profit on ordinary activities before taxation	**1,297**	2,836
Profit on ordinary activities multiplied by the statutory rate of corporation tax of 19.16% (2017: 20%)	**249**	567
Effects of:		
Expenses not deductible for corporation tax purposes	**48**	11
Income not taxable	**-**	(312)
Effect of change of tax rate on deferred tax	**-**	(11)
Loss relief arising from merger with Century Building Society	**(46)**	(43)
Adjustment in respect of prior year	**1**	(1)
Total tax charge for the year	**252**	211

8. TAX EXPENSE (continued)

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

	Current tax 2018 £000	Deferred tax 2018 £000	Total tax 2018 £000	Current tax 2017 £000	Deferred tax 2017 £000	Total tax 2017 £000
Recognised in income statement	**256**	**(4)**	**252**	215	(4)	211
Recognised in other comprehensive income	**3**	**(6)**	**(3)**	6	4	10
Total Tax	**259**	**(10)**	**249**	221	-	221

A tax charge of £3,000 (2017: £10,000) has been recognised in the available-for-sale reserves.

9. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	2018 £000	2017 £000
Accrued Interest	**32**	82
Repayable on demand	**5,487**	3,014
In not more than three months	**4,000**	11,000
In more than three months but not more than one year	**6,000**	9,000
	15,519	23,096

10. DEBT SECURITIES

	2018 £000	2017 £000
Treasury bills	-	-
Certificates of Deposit	21,059	23,094
Floating rate notes	4,006	3,516
	25,065	26,610
Debt securities have remaining maturities as follows:		
Accrued interest	67	85
In not more than one year	20,997	23,009
In more than one year	4,001	3,516
	25,065	26,610
Transferable debt securities comprise:		
Listed	3,999	3,490
Unlisted	21,048	23,088
Unamortised premia	18	32
	25,065	26,610
Market Value of listed debt securities	4,006	3,516
Movements during the year of debt securities:		
At 1 February 2017	26,610	39,785
Additions	29,029	27,016
Disposals and maturities	(30,519)	(40,183)
Accrued interest	(18)	(39)
Amortisation	(24)	(22)
Net gains/(losses) from changes in fair value recognised in other comprehensive income	(13)	53
As at 31 January 2018	25,065	26,610

11. LOANS AND ADVANCES TO CUSTOMERS

	2018 £000	2017 £000
Loans fully secured on residential property	**305,890**	296,849
Loans fully secured on land	**12,805**	14,437
Fair value adjustment for hedged risk	**(255)**	27
	318,440	311,313

Maturity Analysis

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

	2018 £000	2017 £000
On call and at short notice	**662**	930
In not more than three months	**3,025**	3,025
In more than three months but not more than one year	**10,983**	9,513
In more than one year but not more than five years	**60,446**	59,198
In more than five years	**243,676**	239,007
	318,792	311,673
Less allowance for impairment *(Note 12)*	**(352)**	(360)
	318,440	311,313

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

12. ALLOWANCE FOR IMPAIRMENT ON LOANS AND ADVANCES

	Individual Impairment £000	Collective Impairment £000	Total £000
Loans fully secured on residential property:			
At 1 February 2017	60	300	360
Amounts written off during the year, net of recoveries	(82)	-	(82)
Charge/(credit) for the year	74	-	74
As at January 2018	**52**	**300**	**352**
Loans fully secured on residential property:			
At 1 February 2016	228	300	528
Amounts written off during the year, net of recoveries	(124)	-	(124)
Charge/(credit) for the year	(44)	-	(44)
As at January 2017	60	300	360

13. MOVEMENTS IN VALUES OF ACQUIRED ASSETS

Following the merger with the Century Building Society on 1 February 2013, the Society acquired assets which were subsequently subject to a fair value adjustment. Movements in the fair value adjustment of those assets during the year are as outlined below:

	2018 £000	2017 £000
Further impairment of acquired assets	-	(8)
Increase in value of acquired assets	**66**	207
	66	199

14. INVESTMENT IN SUBSIDIARY UNDERTAKING

During the year, the Society had 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 subsidiary company was dormant for the full year to 31 January 2018 having sold its mortgage assets to the Society at book value and settled the intercompany loan via a dividend payment on 27 October 2016.

For the duration of the financial year, and as at 31 January 2017, SBS Mortgages Ltd had Share Capital of £1. The Society has elected not to consolidate the financial results on the basis of materiality.

15. TANGIBLE FIXED ASSETS

	Land & Buildings Freehold £000	Land & Buildings Short Leasehold £000	Office Equipment £000	Motor Vehicles £000	Total £000
Cost					
As at 1 February 2017	1,634	178	1,068	148	3,028
Additions	-	-	21	50	71
Disposals	-	(28)	(109)	(70)	(207)
As at 31 January 2018	1,634	150	980	128	2,892
Depreciation					
As at 1 February 2017	383	173	729	118	1,403
Charged in year	33	1	120	30	184
Impairment	182	-	-	-	182
Disposals	-	(24)	(110)	(70)	(204)
As at 31 January 2018	598	150	739	78	1,565
Net book value					
As at 31 January 2018	**1,036**	**-**	**241**	**50**	**1,327**
As at 31 January 2017	1,251	5	339	30	1,625

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

	2018 £000	2017 £000
As at 31 January	**1,036**	1,256

The net book value of motor vehicles includes an amount of £47,000 (2017: £9,000) in respect of assets held under finance leases. Depreciation charged in the year on these assets amounted to £13,000 (2017: £Nil).

Property is subject to external valuation when management / directors believe factors have occurred which could impact on the carrying value of property assets. In giving consideration to the future use of the Society's Head Office premises, an independent valuation was requested on 29 January 2018 and carried out on 6 February 2018. As a result of the valuation provided, and considering the future use of the Head Office premises, the carrying value of the Society's Head Office was reduced from £1,057,000 to £875,000, resulting in an impairment charge in the Income Statement of £182,000. The Directors consider the valuation of £875,000 to be an appropriate carrying value for the premises at 31 January 2018.

The fair valuation report was prepared by a Royal Institute of Chartered Surveyors ("RICS") registered valuer in accordance with the RICS Valuation – Global Standards 2017 incorporating International Valuation Standards Council international valuation standards. The carrying value is based on the estimated market value and fair valuation, based on vacant possession, in an arms length transaction.

16. INTANGIBLE ASSETS

	Computer Software £000
Cost	
As at 1 February 2017	643
Additions	67
Disposals	(31)
As at 31 January 2018	679
Amortisation	
As at 1 February 2017	520
Charged in year	65
Disposals	(31)
As at 31 January 2018	554
Net book value	
As at 31 January 2018	**125**
As at 31 January 2017	123

17. OTHER ASSETS

	2018 £000	2017 £000
Prepayments and accrued income	**263**	226
Other debtors	**33**	31
	296	257

18. SHARES

	2018 £000	2017 £000
a) Held by individuals	**372,857**	364,217
Other shares	**853**	790
	373,710	365,007

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

	2018 £000	2017 £000
Accrued interest	**2,086**	2,368
On demand	**329,064**	312,196
In not more than three months	**8,870**	6,315
In more than three months but not more than one year	**14,561**	25,936
In more than one year but not more than five years	**19,129**	18,192
	373,710	365,007

19. AMOUNTS OWED TO CREDIT INSTITUTIONS

	2018 £000	2017 £000
Repayable from the date of the Financial Statements in the ordinary course of business as follows:		
Accrued interest	**4**	-
In not more than three months	**2,000**	-
In more than three months but not more than one year	**1,000**	-
	3,004	-

20. AMOUNTS OWED TO OTHER CUSTOMERS

	2018 £000	2017 £000
Repayable from the date of the Financial Statements in the ordinary course of business as follows:		
Accrued interest	**13**	23
Repayable on demand	**6,776**	7,467
In not more than three months	**1,000**	3,000
In more than three months but not more than one year	**1,000**	-
	8,789	10,490

21. DERIVATIVE FINANCIAL INSTRUMENTS

	Positive Market value 2018 £000	**Negative Market value 2018 £000**	Positive Market value 2017 £000	Negative Market value 2017 £000
Derivatives designated as fair value hedges:				
Interest rate swaps	**267**	**(2)**	58	(79)
Derivatives designated as fair value through profit and loss:				
Interest rate swaps	**-**	**-**	-	(10)
As at 31 January 2018	**267**	**(2)**	58	(89)

22. OTHER LIABILITIES AND ACCRUALS

	2018 £000	2017 £000
Other Liabilities		
Corporation tax	**254**	101
Finance leases *(Note 29)*	**42**	9
Other creditors	**168**	118
Accruals and deferred income	**502**	705
	966	933

23. DEFERRED TAX

	2018 **£000**	2017 £000
Provided:		
Timing differences between capital allowances and depreciation	**62**	63
FRS 102 transitional adjustments	**(7)**	(8)
Recognised in other comprehensive income	**1**	7
Other timing differences	**(4)**	-
	52	62
As at 1 February 2017	**62**	62
Deferred tax charge/(credit) for the financial year *(Note 8)*: - income statement	**(4)**	(4)
Deferred tax charge/(credit) for the financial year *(Note 8)*: - other comprehensive income	**(6)**	4
As at 31 January 2018	**52**	62

24. PROVISIONS FOR LIABILITIES

Financial Services Compensation Scheme

	2018 £000	2017 £000
As at 1 February 2017	**58**	95
Paid in year	**(58)**	(96)
Charge for the year	**28**	59
As at 31 January 2018	**28**	58

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 CCL liability accrued relates to the twelve month period to 31 March 2018 triggered at 1 April 2017. No liability for the levies is recognised for scheme years beyond March 2018. The current year charge for the Society is £28,000 (2017: £59,000).

25. GENERAL RESERVES

	2018 £000	2017 £000
As at 1 February 2017	**32,596**	29,971
Profit for the year	**1,045**	2,625
As at 31 January 2018	**33,641**	32,596

26. AVAILABLE-FOR-SALE RESERVES

	2018 £000	2017 £000
As at 1 February 2017	**(3)**	(46)
Valuation (losses)/gains recognised directly in other comprehensive income	**(10)**	43
As at 31 January 2018	**(13)**	(3)

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

27. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

27. FINANCIAL INSTRUMENTS (continued)

The Board approves the use of interest rate swaps in order to manage the Society's balance sheet risk exposures. These instruments are used to protect the Society from exposures arising principally from fixed-rate mortgage lending, and they could also be used against exposures arising from fixed-rate savings products and deposit funding if the need arose. The duration of the contracts is generally short to medium-term and their maturity profile reflects the nature of exposures arising from underlying business activities.

The notional principal of these instruments reflects the extent of the Society's involvement in the instruments, but does not represent its exposure to credit risk which is assessed by reference to the fair value.

Categories of financial assets and liabilities

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

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

27. FINANCIAL INSTRUMENTS (continued)

Carrying values by category as at 31 January 2017

	Held at amortised cost		Held at fair value			
	Loans and receivables	Financial assets and liabilities at amortised cost	Available-for-sale	Derivatives designated as fair value hedges	Unmatched derivatives	Total
	£000	£000	£000	£000	£000	£000
Financial assets						
Cash in hand and with Bank of England	-	46,150	-	-	-	46,150
Loans and advances to credit institutions	23,096	-	-	-	-	23,096
Debt securities	-	-	26,610	-	-	26,610
Derivative financial instruments	-	-	-	58	-	58
Loans and advances to customers	311,313	-	-	-	-	311,313
Other assets	-	2,005	-	-	-	2,005
	334,409	**48,155**	**26,610**	**58**	**-**	**409,232**
Financial liabilities						
Shares	-	365,007	-	-	-	365,007
Amounts owed to credit institutions	-	-	-	-	-	-
Amounts owed to other customers	-	10,490	-	-	-	10,490
Derivative financial instruments	-	-	-	79	10	89
Other liabilities	-	1,053	-	-	-	1,053
Reserves	-	32,593	-	-	-	32,593
	-	**409,143**	**-**	**79**	**10**	**409,232**

Loans and advances to customers in the above tables includes an amount of £(255,000) (2017: £27,000) in relation to fair value adjustments in respect of hedged fixed-rate mortgages.

At the year end, the Society has loan commitments to customers of £11.6m (2017: £16.2m) measured at cost less impairment.

27. FINANCIAL INSTRUMENTS (continued)

Valuation of financial instruments carried at fair value

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

Valuation techniques

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

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

Level 2 These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists and quoted prices are available for similar instruments in active markets. The Society's Level 2 portfolio comprises interest rate swaps. The valuation of interest rate swaps is based on the 'present value' method. Expected interest cash flows are discounted using the prevailing LIBOR yield curves. The LIBOR yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the interest cash flows and maturities of the instruments.

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

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

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
31 January 2018				
Financial assets				
Debt securities	**25,065**	**-**	**-**	**25,065**
Derivative financial instruments	**-**	**267**	**-**	**267**
	25,065	**267**	**-**	**25,332**
Financial liabilities				
Derivative financial instruments	**-**	**2**	**-**	**2**
	-	**2**	**-**	**2**
31 January 2017				
Financial assets				
Debt securities	26,610	-	-	26,610
Derivative financial instruments	-	58	-	58
	26,610	58	-	26,668
Financial liabilities				
Derivative financial instruments	-	89	-	89
	-	89	-	89

27. FINANCIAL INSTRUMENTS (continued)

Credit Risk

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

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

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

	2018 £000	2017 £000
Cash in hand and with Bank of England	**59,140**	46,150
Loans and advances to credit institutions	**15,519**	23,096
Debt securities	**25,065**	26,610
Derivative financial instruments	**267**	58
Loans and advances to customers	**318,440**	311,313
Total Statement of Financial Position exposure	**418,431**	407,227
Statement of Financial Position exposure commitments	**11,644**	16,188

27. FINANCIAL INSTRUMENTS (continued)

Credit Risk (continued)

Credit quality analysis of loans and advances to customers

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

	2018			2017		
	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	**300,807**	**12,692**	**-**	290,786	14,095	-
Past due but not impaired						
30 - 60 days	**2,199**	**-**	**-**	3,089	148	-
60 - 90 days	**666**	**-**	**-**	484	-	-
90 - 180 days	**1,187**	**-**	**-**	1,772	-	-
180 days+	**1,042**	**113**	**-**	1,214	194	-
	5,094	**113**	**-**	6,559	342	-
Individually impaired						
Not past due	**86**	**-**	**-**	46	-	-
30 - 60 days	**-**	**-**	**-**	-	-	-
60 - 90 days	**-**	**-**	**-**	-	-	-
90 - 180 days	**-**	**-**	**-**	-	-	-
180 days+	**-**	**-**	**-**	45	-	-
Possession	**-**	**-**	**-**	96	-	-
	86			187	-	-
Allowance for impairment						
Individual	**(52)**	**-**	**-**	(60)	-	-
Collective	**(300)**	**-**	**-**	(300)	-	-
Total allowance for impairment	**(352)**	**-**	**-**	(360)	-	-

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.

	2018 £000	2017 £000
LTV		
Less than 50%	**139,050**	123,929
51%-70%	**111,325**	114,045
71%-90%	**62,848**	70,827
91%-100%	**5,499**	2,588
More than 100%	**70**	284
As at 31 January 2018	**318,792**	311,673

27. FINANCIAL INSTRUMENTS (continued)

Credit Risk (continued)

Forbearance

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

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

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

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

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

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

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

	2018	2017
Temporary payment reductions	-	2
Payment plans	**34**	48
Capitalisations	-	-
Mortgage term extensions	-	-
	34	50

27. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk

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

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

Maturity analysis for financial assets and financial liabilities

The tables below set out the remaining contractual maturities of the Society's financial liabilities and financial assets. In practice, contractual maturities are not always reflected in actual experience. For example, loans and advances to customers tend to repay ahead of contractual maturity and customer deposits (for example shares) are likely to be repaid later than on the earliest date on which repayment can be required.

As at 31 January 2018	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Non-defined maturity	Total
	£000	£000	£000	£000	£000	£000	£000
Financial assets							
Cash in hand and with Bank of England	59,036	-	-	-	-	104	59,140
Loans and advances to credit institutions	5,487	4,000	6,000	-	-	32	15,519
Debt securities	-	-	20,997	4,001	-	67	25,065
Derivative financial instruments	-	-	-	-	-	267	267
Loans and advances to customers	662	3,025	10,983	60,446	243,676	(352)	318,440
Other assets	-	-	-	-	-	1,748	1,748
	65,185	**7,025**	**37,980**	**64,447**	**243,676**	**1,866**	**420,179**
Financial liabilities							
Shares	329,064	8,870	-	14,561	19,129	2,086	373,710
Amounts owed to credit institutions	-	2,000	1,000	-	-	4	3,004
Amounts owed to other customers	6,776	1,000	1,000	-	-	13	8,789
Derivative financial instruments	-	-	-	-	-	2	2
Other liabilities	-	-	-	-	-	1,046	1,046
Reserves	-	-	-	-	-	33,628	33,628
	335,840	**11,870**	**2,000**	**14,561**	**19,129**	**36,779**	**420,179**

27. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk (continued)

As at 31 January 2017	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	46,135	-	-	-	-	15	46,150
Loans and advances to credit institutions	3,014	11,000	9,000	-	-	82	23,096
Debt securities	-	3,000	20,000	3,525	-	85	26,610
Derivative financial instruments	-	-	-	-	-	58	58
Loans and advances to customers	930	3,025	9,513	59,198	239,007	(360)	311,313
Other assets	-	-	-	-	-	2,005	2,005
	50,079	**17,025**	**38,513**	**62,723**	**239,007**	**1,885**	**409,232**
Financial liabilities							
Shares	312,196	6,315	-	25,936	18,192	2,368	365,007
Amounts owed to credit institutions	-	-	-	-	-	-	-
Amounts owed to other customers	7,467	3,000	-	-	-	23	10,490
Derivative financial instruments	-	-	-	-	-	89	89
Other liabilities	-	-	-	-	-	1,053	1,053
Reserves	-	-	-	-	-	32,593	32,593
	319,663	**9,315**	**-**	**25,936**	**18,192**	**36,126**	**409,232**

27. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk (continued)

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

As at 31 January 2018	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Financial liabilities						
Shares	330,911	8,920	14,643	19,236	-	373,710
Amounts owed to credit institutions	-	2,003	1,001	-	-	3,004
Amounts owed to other customers	6,776	1,013	1,000	-	-	8,789
	337,687	**11,936**	**16,644**	**19,236**	**-**	**385,503**

As at 31 January 2017	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	314,235	6,356	26,105	18,311	-	365,007
Amounts owed to credit institutions	-	-	-	-	-	-
Amounts owed to other customers	-	10,490	-	-	-	10,490
	314,235	**16,846**	**26,105**	**18,311**	**-**	**375,497**

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

27. FINANCIAL INSTRUMENTS (continued)

Market Risk

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

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

The table below summarises these re-pricing mismatches as at 31 January 2018. Items are allocated to time bands by reference to the earlier of the next interest rate re-pricing date and the maturity date.

As at 31 January 2018	Three months or less £000	More than three months but not more than six months £000	More than six months less than one year £000	More than one year but not less than five years £000	More than five years £000	Non-interest bearing £000	Total £000
Financial assets							
Liquid assets	64,523	4,000	26,997	4,001	-	203	99,724
Derivative financial instruments	-	-	-	-	-	267	267
Loans and advances to customers	237,978	2,546	9,185	68,731	-	-	318,440
Property, plant and equipment	-	-	-	-	-	1,327	1,327
Intangible fixed assets	-	-	-	-	-	125	125
Other debtors	-	-	-	-	-	296	296
	302,501	**6,546**	**36,182**	**72,732**	**-**	**2,218**	**420,179**
Financial liabilities							
Shares	329,064	8,870	14,561	19,129	-	2,086	373,710
Amounts owed to credit institutions	2,000	1,000	-	-	-	4	3,004
Amounts owed to other customers	6,776	1,000	1,000	-	-	13	8,789
Derivative financial instruments	-	-	-	-	-	2	2
Other liabilities and accruals	-	-	-	-	-	1,018	1,018
Provision for liabilities	-	-	-	-	-	28	28
Reserves	-	-	-	-	-	33,628	33,628
	337,840	**10,870**	**15,561**	**19,129**	**-**	**36,779**	**420,179**
Notional amount of interest rate swaps	54,300	-	(4,000)	(50,300)	-	-	-
Interest rate sensitivity gap	18,961	(4,324)	16,621	3,303	-	(34,561)	-
Cumulative Gap	18,961	14,637	31,258	34,561	34,561	-	

27. FINANCIAL INSTRUMENTS (continued)

Market Risk (continued)

As at 31 January 2017	Three months or less £000	More than three months but not more than six months £000	More than six months less than one year £000	More than one year but not less than five years £000	More than five years £000	Non-interest bearing £000	Total £000
Financial assets							
Liquid assets	49,149	14,000	29,000	3,525	-	182	95,856
Derivative financial instruments	-	-	-	-	-	58	58
Loans and advances to customers	245,839	17,108	8,691	39,675	-	-	311,313
Property, plant and equipment	-	-	-	-	-	1,625	1,625
Intangible fixed assets	-	-	-	-	-	123	123
Other debtors	-	-	-	-	-	257	257
	294,988	**31,108**	**37,691**	**43,200**	**-**	**2,245**	**409,232**
Financial liabilities							
Shares	312,196	6,315	25,936	18,192	-	2,368	365,007
Amounts owed to credit institutions	-	-	-	-	-	-	-
Amounts owed to other customers	7,467	3,000	-	-	-	23	10,490
Derivative financial instruments	-	-	-	-	-	89	89
Other liabilities and accruals	-	-	-	-	-	933	933
Deferred tax liability	-	-	-	-	-	62	62
Provision for liabilities	-	-	-	-	-	58	58
Reserves	-	-	-	-	-	32,593	32,593
	319,663	**9,315**	**25,936**	**18,192**	**-**	**36,126**	**409,232**
Notional amount of interest rate swaps	40,000	(5,500)	(8,000)	(26,500)	-	-	-
Interest rate sensitivity gap	15,325	16,293	3,755	(1,492)	-	(33,881)	-
Cumulative Gap	15,325	31,618	35,373	33,881	33,881	-	

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Society's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100-basis point parallel fall or rise in the yield curve in a 12-month period. A 1% rate change will result in a net interest income change of £175,000 for one year (2017: £256,300).

28. CAPITAL STRUCTURE

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

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

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

29. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

a) At 31 January 2018, non-cancellable operating lease payments for land and buildings were:

	2018 £000	2017 £000
Within one year	**65**	65
Between one and five years	**267**	137
More than five years	**84**	-
	416	202

b) At 31 January 2018, amounts payable under finance leases were:

	2018 £000	2017 £000
Within one year	**18**	3
Between one and five years	**24**	6
More than five years	**-**	-
	42	9

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 Society. The year end balances of transactions with key management personnel, and their close family members, are as follows:

	2018 Number	**£000**	2017 Number	£000
Loans and advances to customers	**1**	**152**	1	151
Deposits and share accounts	**28**	**299**	14	254

The aggregate amount outstanding at 31 January 2018 in respect of loans, transactions and arrangements made by the Society to Directors or persons connected with a Director was £151,794 comprising one secured mortgage to a family member of one Director at normal commercial rates and on the Society's standard terms and conditions (2017: £150,818).

The Society's vehicle advisers are Pike & Bambridge, a firm which is connected with the Society Vice-Chairman. All related financial transactions are with independent leasing companies, carried out on an arms length basis. There were no financial transactions during the year or liabilities at year end to Pike & Bambridge. There are no other current business relationships between the Society and firms connected with Directors.

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

31. COUNTRY BY COUNTRY REPORTING

Scottish Building Society is a UK-registered entity, with 100% of its activities within the UK.

The Society's total operating income, profit before tax, tax on profit, public subsidies received and the number of full time equivalent employees during the year to 31 January 2018 were:

	2018 £000	2017 £000
Total operating income	**6,779**	6,311
Profit before tax	**1,297**	1,275
Tax paid in year	**106**	288
Public subsidies received	**Nil**	Nil
Average number of employees on FTE basis	**63**	63

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

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

32. REGISTERED OFFICE

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

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

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

Annual Business Statement

1. STATUTORY PERCENTAGES

	%	Statutory Limit %
a) Lending limit	4.11	25.0
b) Funding limit	3.28	50.0

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

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

2. OTHER PERCENTAGES

	2018 %	2017 %
As a percentage of shares and borrowings:		
a) Gross capital	**8.73**	8.68
b) Free capital	**8.43**	8.33
c) Liquid assets	**25.87**	25.53
Profit after tax as a percentage of mean total assets	**0.25**	0.27
Profit after tax (excluding movement in acquired assets and FSCS levy after tax) as a percentage of mean total assets	**0.24**	0.23
Management expenses as a percentage of mean total assets	**1.31**	1.31

Explanation of terms

The above percentages for 2018 are on a Society basis whilst 2017 percentages are on a Group basis.

Shares and borrowings represents the total of shares, amounts owed to credit institutions and amounts owed to other customers (all including accrued interest).

Gross capital is the general reserves as shown in the Statement of Financial Position.

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

Mean total assets represents the average of total assets shown in the relevant Statements of Financial Position. These amounted to £399,077k for 2017, increasing to £414,705k for 2018.

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

3. DIRECTORS AS AT 31 JANUARY 2018

Name and Business Occupation	Age	Date of Appointment	Other Directorships
Raymond J Abbott Company Director	58	01.06.13	SBS Mortgages Limited Foresight 4 VCT PLC Integrated Environmental Solutions Limited
John C Ogston Chartered Banker	60	01.07.13	Vehicle Professionals Limited Constant Progress Limited Equator Capital Limited Toward Technology Limited
David Peebles Company Director	55	25.10.06	XM International Associates Limited
Simon M Pashby Chartered Accountant	59	15.10.14	The Medical Protection Society Limited MPI (London) Limited Shepherds Friendly Society Limited
Margaret MacKay Company Director	55	01.03.17	None
Alan Webster Chartered Banker	68	01.11.17	AWW Consultancy Services Limited
Mark L Thomson Building Society Chief Executive	51	12.10.12	SBS Mortgages Limited
Aileen Brown Building Society Finance Director	51	01.08.16	None

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

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.***

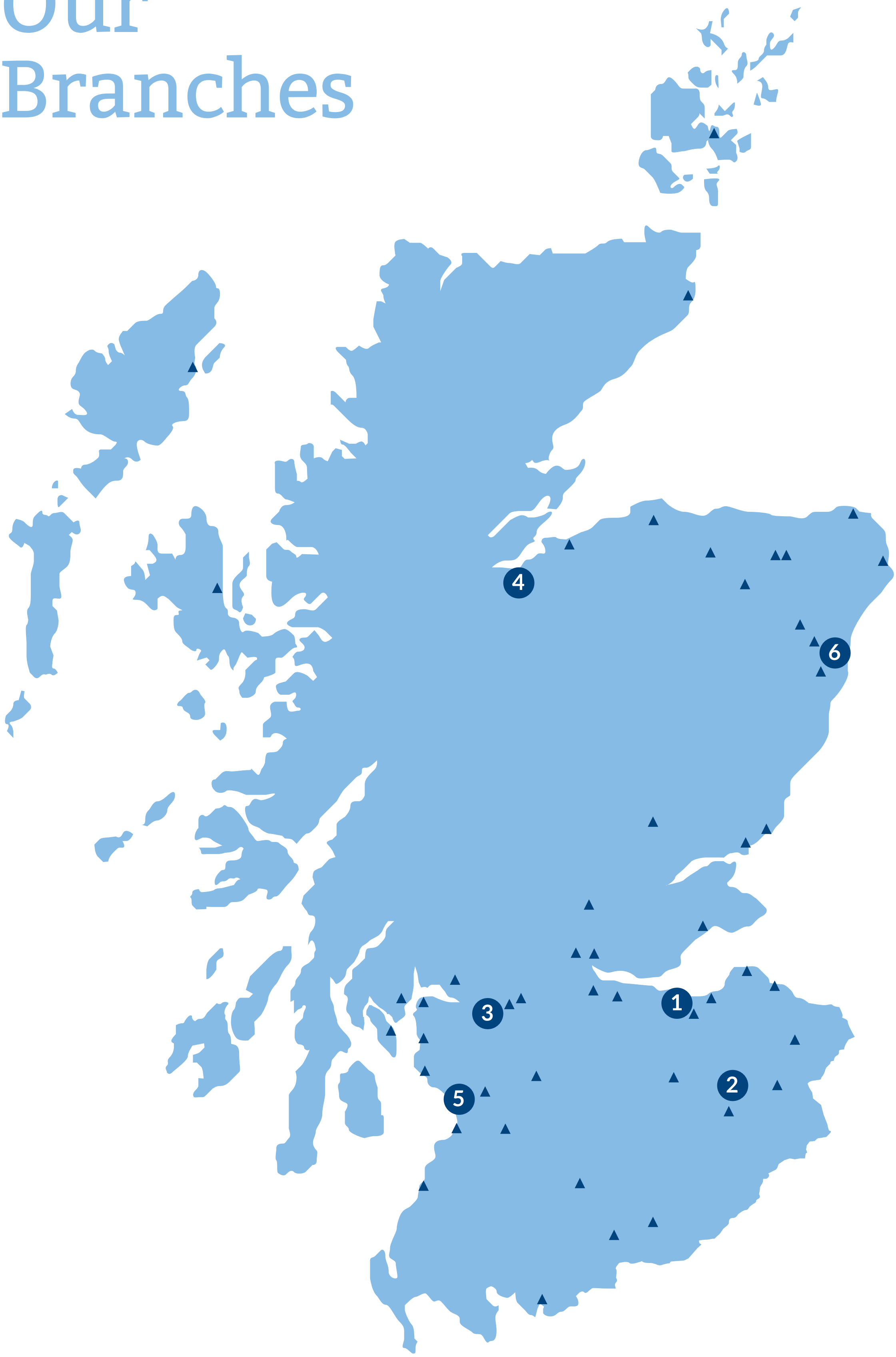
We promise to offer our ***best available rates*** to you throughout the term of your relationship with us.

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.

SCOTTISH BUILDING SOCIETY
Rewarding Membership

Our Branches



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Plus agency offices

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scottishbs.co.uk

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SCOTTISH BUILDING SOCIETY

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