

Annual Review & Summary Financial Statement

For the year ended 31 January 2022





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

PAUL DENTON
CHIEF EXECUTIVE



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Chairman's Report



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

RAYMOND ABBOTT
CHAIRMAN

EXCEPTIONAL PERFORMANCE DURING EXCEPTIONAL TIMES

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

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

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

SUPPORTING OUR MEMBERS

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

In our branches, colleagues have continued to cope admirably with the challenges of providing face to face service during a



global pandemic, showing great flexibility and dedication to providing a high level of service.

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

THE BOARD AND OUR ANNUAL GENERAL MEETING

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

After holding our last two Annual General Meetings (AGM) virtually, we are optimistic that this year we will be able to meet in person. COVID-19 restrictions dependent, we plan to hold the AGM at 2pm on 25 May at The Corinthian Club in Glasgow. Full details of how to register and attend the AGM will be in the Notice of Meeting, which will be sent out with your AGM packs at the end of April.

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

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

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

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

2022 AND BEYOND

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

Thank you for your continued support.

RAYMOND ABBOTT
CHAIRMAN
25 March 2022

Chief Executive's Review



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

PAUL DENTON
CHIEF EXECUTIVE

POWERED BY PURPOSE

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

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

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

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

SUSTAINABLE FUTURE

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

Financial

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

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

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

£2.35m
pre-tax profit for 2022

£44.5m
mortgage assets growth

Resilience

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

Climate

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

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

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

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

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

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

Brand

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

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

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Chief Executive's Review

MEMBER BASED ORGANISATION

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

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

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

PROUD OF OUR PEOPLE

As Chief Executive, there are many things I have been proud of over the past year but none so much as when we received the results of our colleague feedback from the 'Financial Services Culture Board'. It has been a difficult two years with hybrid working, lockdowns

and economic uncertainty, yet our colleague engagement has increased significantly throughout that period and the Society now ranks 1st among our peers on key areas such as Resilience, Responsiveness, Shared Purpose, Leadership and Customer Focus.

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

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

LOOKING FORWARD

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

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

PAUL DENTON
CHIEF EXECUTIVE

25 March 2022

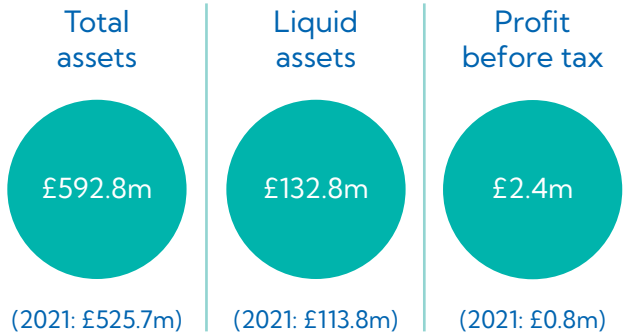
"I am confident that with the talent of our colleagues, our investment in technologies and our unwavering commitment to our purpose the Society will go into its 175th year better positioned than ever before."

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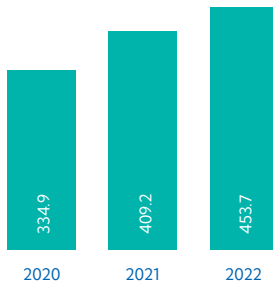


Society Key Results

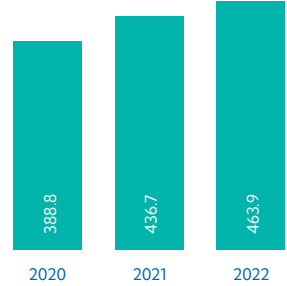
Our principal purpose is to help people buy their homes with funds raised from our members' savings accounts – whilst ensuring our financial strength is maintained with strong capital and liquidity measures.



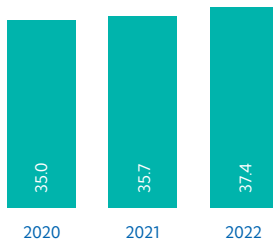
Mortgage balances (£m)



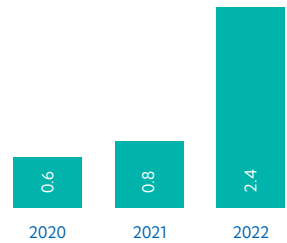
Savings balances (£m)



Capital reserves (£m)



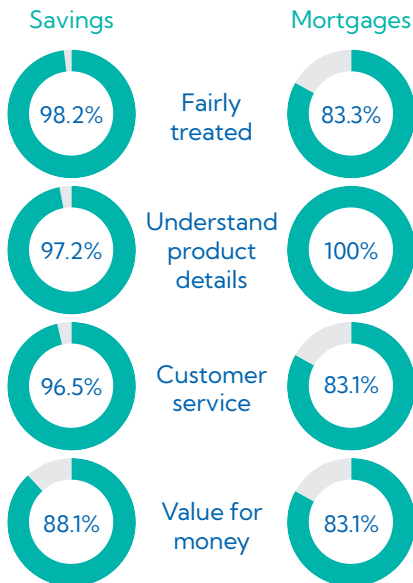
Profit before tax (£m)



View of the Society

Smart Money People

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



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



Our colleagues

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



[†]Data taken from 148 member responses submitted to Smart Money People, 01/02/2021 to 31/01/2022. Smart Money People is an independent consumer review website where people can review their bank or building society. For more information, go to www.smartmoneypeople.com

Our Community



OPENING OF ABERDEEN BRANCH

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

SCOTTISH MORTGAGE AWARDS WIN

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



MEMBERS' EVENTS

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

NEW BRANDING AND WEBSITE

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

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



ENVIRONMENT AND SUSTAINABILITY

Reducing our carbon footprint

To support Trees for Life's pioneering conservation work in the Caledonian Forest, we set up our Carbon Challenge in 2021. Society colleagues took up the challenge to see who could reduce their carbon footprint the most by making simple lifestyle changes, such as cycling to work rather than taking the car. To thank all colleagues who took part, we set up our very own grove in the north of Scotland. This little spot in the Caledonian Forest has its own dedicated bio-diverse area where natural moorland and trees will grow, and help many native species and wildlife to flourish.

Climate change impact partnership

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

LENDING OUR SUPPORT

Charity of the year

We continued to support our charity of the year, Alzheimer Scotland, in 2021. In May, a group of five Society colleagues challenged themselves

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

Edinburgh Rugby

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

Ceres Highland Games

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

Summary Financial Statement

This financial statement is a summary of information in the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available to members and depositors free of charge on request at every office of Scottish Building Society from 1 May 2022 or available to read or download from our website www.scottishbs.co.uk from the same date.

Summary Directors' Report

OUR PURPOSE

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

BUSINESS REVIEW

The Business Review is covered in the Chairman's Report and Chief Executive's Review on pages 2 to 7.

COVID-19

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

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

Meanwhile, the recovery of the economy and lower than feared unemployment following the end of the furlough scheme in September 2021 mean that, so far, we have not seen a deterioration in the credit quality of the mortgage book. However, we continue to monitor arrears closely for any impacts from further waves of infection caused by new variants of the virus and the rising costs of living.

PROFIT AND CAPITAL

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

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

LIQUIDITY

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

INTEREST RATES

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

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

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

MORTGAGE ARREARS AND FORBEARANCE

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

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

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

KEY PERFORMANCE INDICATORS

The Board and management monitor a range of performance indicators to assess the ongoing health of the Society. The financial indicators are shown in the table on the next page – and some are also shown graphically on page 8. Their significance is explained as:

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

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

Asset Growth/Mortgage Asset Growth:

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

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

Liquidity: Total cash and investments held by the Society at the year-end, expressed as a percentage of shares and borrowings. This has increased by 0.7 percentage points in the year and remains at a level well above regulatory requirements.

Net Interest Margin: The income generated by the Society from its operations, expressed as a percentage of mean total assets. This has increased by 0.15 percentage points in the year due to stable mortgage rates and lower funding costs.

Profit Before Tax: Ensuring that the Society makes sufficient profit to maintain its financial strength is a key requirement and this has been achieved with Profit Before Tax (PBT) of £2.4m in the current year. The increase in PBT from £0.8m in the prior year reflects strong growth in income driven by increasing mortgage balances and the absence of material impairment charges as the economic environment stabilised, partly offset by higher investment related costs.

Reserves: The accumulated profits of the Society over more than 173 years of operation, which provide the capital which helps to maintain the Society's financial strength. These have increased by £1.7million in the year through the addition of the year's profit after tax.

Gross Capital: This ratio is expressed as a percentage of shares and borrowings and demonstrates the relationship between the Society's capital and its liabilities to investors. It reflects the continuing strength of the Society whilst remaining well within prudent guidelines. This has decreased by 0.5 percentage points reflecting the growth in liabilities in the year.

Summary Financial Statement

NON-FINANCIAL KEY PERFORMANCE INDICATORS

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

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

KEY FINANCIAL PERFORMANCE INDICATORS 2018-2022

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

All figures are unconsolidated on the basis of materiality.

REGULATION AND COMPLIANCE

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

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

During 2022-23 the Society will continue to develop and enhance its approach to operational resilience as well as ensuring the risks from

climate change are managed appropriately.

The Society closely monitors regulatory developments and has plans in place to ensure it is able to implement any changes required.

The Society is required to have regard to the principles laid down in the UK Corporate Governance Code. This is covered in more detail in the separate Corporate Governance Report on pages 29 to 32.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

- **Strategic and Reputational Risk:** The risk of the Society entering unprofitable markets or offering unprofitable products. The Board has a duty to ensure that the Society makes an adequate amount of profit to maintain capital ratios at a sufficient level to provide long-term financial strength and stability for all members. This also includes risk arising from increased regulation by the financial services regulators.
- **Climate Change Risk:** This is the risk to the Society arising from climate change which is recognised in terms of both Physical and Transition risks. Physical risks include increased risk of flooding, subsidence and coastal erosion arising from extreme weather events or longer term shifts in climate, impacting on the value of, and longer term ability to insure, mortgaged properties. Transition risks arise from factors such as policy and regulation, and changing customer preferences resulting from the adjustment to a lower carbon economy. The Society is increasingly aware of these risks in respect of both credit risk management and strategy, and will continue to develop its risk management approach.

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

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

Summary Financial Statement

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

CAPITAL REQUIREMENTS

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

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 place certain reporting obligations on financial institutions that are within the scope of CRD4. The purpose of the regulations is to provide clarity on the source of the Society's income and the location of its operations. The annual reporting requirements for the Society as at 31 January 2022 are provided on page 67 of the Annual Report and 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 12 months under normal operating conditions. They have also considered the potential effect on the

Society's business, financial position, capital and liquidity under stressed operating conditions, specifically including a severe but plausible stress scenario incorporating the potential impact of the increased risks and uncertainties as a result of the ongoing COVID-19 pandemic and heightened economic uncertainty due to global events.

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

ENVIRONMENT

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

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

Governance

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

Progress made

- Climate change has been embedded in the Senior Management framework, with the Chief Executive Officer having responsibility for identifying and managing the financial risks from climate change.
- Climate change has been incorporated within the Terms of Reference of the Board Risk and Retail Credit Committees to ensure this risk is considered as part of regular discussions.

Future plans

- Continue to develop Board and Executive knowledge of climate risk and the impact on the Society.

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

Risk Management and Scenario Analysis

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

Progress made

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

Future plans

- The Society intends to repeat this portfolio analysis periodically, as well as further developing its modelling capabilities to include transition risks, focussing initially on the energy performance rating of the mortgage book.
- Further enhance the Risk Management Framework, for example by identifying the circumstances that would trigger a review of the strategy for addressing the financial risks

from climate change or identifying mitigants to reduce the risk.

- Keep abreast of emerging risks in this area, for example the potential impact of the Scottish Government's 'Heat in Homes' policy.

Carbon Footprint

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

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

Progress made

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

Future plans

- While the Society already supports members wishing to fund environmental improvements to their homes through the provision of further advances, we intend to formalise this offering to support the retrofit of the existing housing stock through the development and launch of a 'Green mortgage' product.

Summary Financial Statement

- The Society plans to launch a 'Green savings' product that aims to provide a fair return to savers but also support the rewilding of the Scottish Highlands.
- Take further action to improve the Society's own carbon footprint through enhanced measurement and target setting, changes to operational behaviour and improvements to premises.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

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

Customer Service and Conduct of Business

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

Donations and Community Support

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

Alzheimer Scotland offer a range of personalised support and choices. They provide a network of specialist Dementia Advisors, NHS Dementia Nurse Consultants, Dementia Research Centres,

the 24-hour Freephone Dementia Helpline and numerous local support services, reminiscence programmes and Dementia Resource Centres in communities all across Scotland.

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

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

The Society does not make donations for political purposes.

Employee Policies

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

ELECTION OF DIRECTORS

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

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

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

Biographies of all current Directors, including those seeking election/re-election, appear on pages 26 to 28.

DIRECTORS

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

Non-Executive Directors

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

Executive Directors

Paul Denton MBA FCBI	Chief Executive Officer from July 2019 Chair of Operational Risk Committee since July 2019
Neil Easson BA (Hons) CA	Finance Director from April 2020 Chair of Asset and Liability Committee since January 2019 Chair of Retail Credit Committee since June 2019

Details of the Directors' interests in the Society are disclosed in Note 29 on page 66 of the Annual Report and Accounts. None of the Directors had any beneficial interest in the Society's subsidiary undertaking, SBS Mortgages Limited, as at the year-end. The Society maintains liability insurance cover for Directors and Officers as permitted by the Building Societies Act 1986.

COLLEAGUES

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

SUPPLIER PAYMENT POLICY

The Society's continuing policy concerning the payment of its trade creditors is to pay within the agreed terms of credit, once the supplier has discharged their contractual obligations. The average number of days' credit taken to pay suppliers during the year ended 31 January 2022 was 16 (2021: 21).

INDEPENDENT AUDITORS

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

Summary Financial Statement

Summary of Key Financial Results & Ratios

	2022	2021
SOCIETY RESULTS FOR THE YEAR	£000	£000
Net interest receivable	9,600	7,535
Other income and charges	130	35
Administrative expenses	(7,518)	(6,599)
Operating profit before movements in acquired assets, impairment losses and FSCS levy	2,212	971
Net increase in value of acquired assets	92	30
Impairment gains/(losses)	50	(161)
Operating profit before tax	2,354	840
Taxation	(492)	(187)
Profit for the year	1,862	653

SOCIETY FINANCIAL POSITION AT END OF YEAR

	£000	£000
ASSETS		
Liquid assets	132,798	113,845
Derivative financial instruments	3,387	50
Mortgages	453,650	409,182
Fixed and other assets	2,971	2,614
Total Assets	592,806	525,691

LIABILITIES

	£000	£000
Shares	463,900	436,685
Borrowings	89,944	51,477
Derivative financial instruments	13	736
Other liabilities	1,526	1,138
Reserves	37,423	35,655
Total Liabilities & Reserves	592,806	525,691

SUMMARY OF KEY FINANCIAL RATIOS

	%	%
Gross capital as percentage of Shares & borrowings	6.76	7.30
Liquid assets as percentage of Shares & borrowings	23.98	23.32
Profit for the year as percentage of mean total assets	0.33	0.14
Management expenses as percentage of mean total assets	1.34	1.38

The Summary Financial Statement is prepared on an unconsolidated basis.

The gross capital ratio measures the proportion which general reserves bear to liabilities (ie holders of shares and deposits). Capital consists of the profits accumulated by the Society over more than 170 years which represents continuing financial security for members and substantial protection from adverse market conditions in the future.

The liquid assets ratio measures the proportion of the Society's shares and borrowings which are held in the form of cash, short-term deposits and securities readily realisable into cash. Liquid assets are maintained at an appropriate level to meet investors' withdrawals from their accounts, to make new mortgage loans and to fund general business activities.

The profit/assets ratio measures the proportion which the profit after taxation for the year bears to the average balance of the assets held during the year. A society needs to make a reasonable level of profit each year in order to maintain a strong gross capital ratio thereby protecting investors' funds. The Directors believe the profit for the year is consistent with the aims of mutuality.

The ratio of management expenses to mean total assets measures the proportion which the Society's administrative expenses (including depreciation and amortisation) bears to the average of the Society's total assets at the start and end of the year.

Approved by the Board of Directors on 25 March 2022.

RAYMOND ABBOTT
CHAIRMAN

PAUL DENTON
CHIEF EXECUTIVE

NEIL EASSON
FINANCE DIRECTOR

Independent auditors' statement on the Summary Financial Statement to the members of Scottish Building Society

We have examined the Summary Financial Statement of Scottish Building Society (the 'Society') set out on pages 20 & 21, which comprises the Society's results for the year ended 31 January 2022, the financial position as at 31 January 2022 and summary of key financial ratios.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Summary Financial Statement, in accordance with the Building Societies Act 1986.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full Annual Accounts, the Annual Business Statement and the Directors' Report and its compliance with the relevant requirements of Section 76 of the Building Societies Act 1986 and the regulations made under it.

We also read the other information contained in the Annual Review and Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement. The other information comprises only the Chairman's Report, Chief Executive's Review, Society Key Results, View of the Society, Our Community, Summary Directors' Report, Directors' Remuneration Report and Summary Corporate Governance Report.

This statement, including the opinion, has been prepared for and only for the Society's members as a body in accordance with Section 76 of the Building Societies Act 1986 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

BASIS OF OPINION

Our examination involved agreeing the balances in the Summary Financial Statement to the full Annual Accounts. Our report on the Society's full Annual Accounts describes the basis of our audit opinion on those Annual Report and Accounts, the Annual Business Statement and the Directors' Report.

OPINION

In our opinion the Summary Financial Statement is consistent with the full Annual Report and Accounts, the Annual Business Statement and the Directors' Report of Scottish Building Society for the year ended 31 January 2022 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made under it.

PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS
AND STATUTORY AUDITORS
EDINBURGH
25 March 2022

Directors' Remuneration Report

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

A statement of all Directors' Remuneration is included within this report. An advisory vote on Directors' Remuneration is included in the AGM agenda.

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

PROCEDURE FOR DEVELOPING POLICY ON EXECUTIVE & INDIVIDUAL DIRECTOR REMUNERATION

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

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

NON-EXECUTIVE DIRECTORS

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

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

EXECUTIVE DIRECTORS

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

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

Executive Directors in office as at 31 January 2022 are entitled to receive pension contributions to their private pension arrangements, although depending on their individual circumstances they may be paid a pension replacement amount. Pension contribution rates are aligned with those available to the workforce. Executive Directors also receive a further taxable benefit comprising a Society car, or car allowance.

SERVICE CONTRACTS

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

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

Directors' Remuneration Report

NON-EXECUTIVE DIRECTORS

Fees only

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

EXECUTIVE DIRECTORS

To 31 January 2022

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

To 31 January 2021

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

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

MARGARET MACKAY
CHAIR, REMUNERATION COMMITTEE
25 March 2022

Board of Directors



RAYMOND ABBOTT
CHAIRMAN

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



JOHN (JACK) OGSTON
VICE CHAIRMAN

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



MARGARET MACKAY

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



KATHRYN (KARYN) LAMONT

Karyn joined the Board in May 2018. Karyn is a Chartered Accountant and former audit partner at PwC. She has over 30 years of experience and has provided audit and other services to a range of clients across the UK's financial services sector including a number of banks and building societies. Her specialist knowledge includes financial reporting, audit and controls, risk management, regulatory compliance and governance. Karyn is a member of the Board Risk Committee and chairs the Audit Committee. She is also a non-executive director at the Scottish Investment Trust plc, the North American Income Trust plc, the Scottish American Investment Trust plc and iomart Group plc.



ANDREW HASTINGS

Andrew is a Chartered Banker, Chartered Director and a Certified Bank Director. After graduating from Dundee University, he began his career in banking with RBS in Ayr and later served as CEO and Country Manager of BNP Paribas Ireland before becoming CEO of Barclays Bank Ireland plc. Andrew is currently a Board Member of the Electricity Supply Board, the Irish State-owned energy business. He is also an Independent non-executive director of Pepper Finance Corporation (Ireland) DAC and an Independent non-executive director of Elavon Financial Services DAC. Andrew chairs the Society's Board Risk Committee and is a member of the Audit Committee.



SHEILA GUNN

Sheila began her career as a lawyer and was a partner at Shepherd & Wedderburn for 12 years. She moved into financial services on her appointment to Ignis Asset Management and was a non-executive director of Airdrie Savings Bank. She has undertaken a range of other non-executive appointments and during the year was a member of the Independent Governance Committees of Phoenix Life, Standard Life and ReAssure Life. Sheila is also a member of the Accounts Commission and on the board of, and Chair of the Remuneration Committee of the Chartered Banker Institute.

continued over

Board of Directors



SEAN GILCHRIST

Sean joined the Board in June 2021. His career spans over 30 years in the financial services industry, with more than 20 years in digital. Sean is currently the CEO of Nomo, a start-up digital bank, and prior to this he was Chief Digital Officer of the Co-operative Bank leading their transformation to become the "digital ethical bank". Previously he has worked at both Lloyds and Barclays Banks leading, growing and transforming their digital services across the retail, wealth and corporate banking sectors. Sean also works with the Foreign, Commonwealth and Development Office helping them drive through their digital transformation, and Hanger 75, a Californian digital incubator.



PAUL DENTON CHIEF EXECUTIVE OFFICER

Paul was appointed Chief Executive Officer in June 2019. He has more than 30 years' experience in financial services and is a Trustee and Fellow of the Chartered Banker Institute. Paul began his career with the Royal Bank of Scotland holding various senior positions before moving to the Co-operative Bank as Director for Branch, Mortgages and Business Banking. Most recently he was Managing Director, Operations, of the UK's largest funeral business, Co-op Funeralcare. Paul was appointed as a Trustee of Chest, Heart & Stroke Scotland in 2021.



NEIL EASSON FINANCE DIRECTOR

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

Summary Corporate Governance Report

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

BOARD LEADERSHIP AND COMPANY PURPOSE

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

The Board meets regularly with additional meetings as required. In 2021-22 there were nine full formal Board meetings, including a specific meeting to consider future strategy and the Corporate Plan. A table showing details of Directors' attendance during the year in relation to full formal Board and Committee meetings appears on page 32 of this report.

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

Audit Committee: This Committee met on four occasions during the year. The Committee monitors internal controls, financial reporting and regulatory compliance. It also reviews audit reports, monitors the effectiveness of the internal audit function and agrees the annual internal audit plan. It considers and recommends

to the Board (for approval by the members) the appointment or re-appointment of the external auditors, and the policy on the engagement of the external auditors for non-audit services and approval of their fees. The Committee monitors the external auditors' independence, objectivity, competence and effectiveness. It also ensures that the systems of accounting, business control and management of information are adequate for the Society's needs.

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

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

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

Summary Corporate Governance Report

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

The three first line risk management

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

Nomination & Governance Committee:

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

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

Further information can be found in the Directors' Remuneration Report on pages 23 to 25.

CULTURE

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

WHISTLEBLOWING

The Society has arrangements in place for employees, contractors and temporary workers to raise concerns in confidence (and if they wish anonymously). The Society's Senior Independent Director, Margaret MacKay, is the Society's Whistleblowing Champion. She has

responsibility for ensuring and overseeing the integrity, independence and effectiveness of the Society's policies and procedures on whistleblowing, including those to protect whistleblowers from victimisation. The Board has delegated oversight for whistleblowing to the Nomination & Governance Committee which reviews the Society's whistleblowing policy and reports at least annually.

NON-EXECUTIVE DIRECTORS

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

The Board consists of seven Non-Executive Directors plus the CEO and the Finance Director. Two of the Non-Executive Directors have decided to stand down from the Board at the 2022 AGM. Information relating to Directors is set out on pages 26 to 28. This demonstrates that the Society's Board has a balance of skills and experience appropriate for the Society and its strategy. Committee membership was refreshed during the year, following Board review and in the interest of managing succession.

The Board is satisfied that in terms of independence of character, judgement and robustness of challenge to the Society's Management, each Non-Executive Director is considered independent. Factors taken into account when assessing independence include length of service, material business relationships and whether the Director has recently been an employee of the Society.

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

COMMITMENT

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

The attendance record of Board and Committee members during the year is set out on page 32. This table does not reflect Directors' attendance at additional ad hoc meetings, seminars, conferences and courses during the year or time spent on preparation for meetings etc. Generally each Non-Executive Director spends a minimum of 2-3 days each month on Society business. The time commitment for the Chairman, Vice-Chairman and Committee Chairs is considerably more.

COMPOSITION, SUCCESSION AND EVALUATION: APPOINTMENTS TO THE BOARD

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

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

The Nomination & Governance Committee leads the recruitment process with the support of a number of recruitment agencies, although the final decision rests with the Board as a whole.

This process is tailored to meet the requirements of each particular vacancy and the method of attracting candidates is adapted depending on the nature of the skills required for the vacancy. During the year, the Society utilised the services of independent recruitment specialists, Warren Partners, in the appointment of new Directors. This year particular consideration has been given to succession planning for Board and senior management to ensure there is a diverse pipeline to fill current and future requirements. This work will continue in the coming year.

As at the date of this report the percentage of women on the full Board is 33% with 43% of the Non-Executive Directors being female. Female representation on the Senior Management Team stands at 39%.

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

DEVELOPMENT

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

INFORMATION AND SUPPORT

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

Summary Corporate Governance Report

EVALUATION

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

Separately, the Chairman and Vice-Chairman review the performance of the CEO.

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

RE-ELECTION

The Society's Rules require that Directors are submitted for election at the AGM following their appointment to the Board. All Directors are required by the Society's Rules to seek re-election if they have not been elected at

either of the two previous AGMs. Directors may also submit themselves for re-election voluntarily. In the interests of good governance and having regard to the provisions of the Code, it is expected that, where appropriate, a combination of these rules will result in the Directors standing for election or re-election at each AGM. The Nomination & Governance Committee considers and makes a recommendation to the Board whether each Non-Executive Director should be submitted for re-election, bearing in mind that Director's continued independence and contribution to Board deliberations.

REMUNERATION

The Directors' Remuneration Report on pages 23 to 25 sets out the remuneration policies for Executive and Non-Executive Directors and explains how this meets the requirements of the Code.

DIRECTORS' ATTENDANCE 2021-22

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

	Board	Audit Committee	Board Risk Committee	Nomination & Governance Committee	Remuneration Committee
R Abbott	9(9)	4(4)		4(4)	5(5)
J Ogston	9(9)		6(6)	4(4)	4(4)
M MacKay	9(9)			5(5)	5(5)
K Lamont	9(9)	4(4)	6(6)	1(1)	
A Hastings	9(9)	4(4)	6(6)		
S Gunn	9(9)		2(3)	1(1)	1(1)
S Gilchrist	6(6)		3(3)		
P Denton	9(9)			2(2)	
N Easson	9(9)				

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