

CELEBRATING
175
YEARS



Annual Review & Summary Financial Statement

For the year ended 31 January 2023



SCOTTISH
BUILDING SOCIETY

175
YEARS

Welcome to



SCOTTISH

BUILDING SOCIETY





Annual Review & Summary Financial Statement

For the year ended 31 January 2023

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Chair's Report

Thriving through continued political and economic turbulence

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

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

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

Supporting our members and communities

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

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

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

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

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



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

Ian Wilson
Chair



The Board and our Annual General Meeting

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

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

After holding our previous two Annual General Meetings virtually, we were delighted to be able to meet in person again at our 2022 AGM in Glasgow. We are planning to hold our 2023 AGM on 17 May 2023 at the Edinburgh City Chambers, where, as well as the formal business of the AGM, we will celebrate our 175th anniversary. Full details of how to register and attend the AGM will be in the Notice of Meeting, which will be sent out with your AGM packs during April.

Looking forward

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

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

Thank you for your continued support.

Ian Wilson
Chair
30 March 2023

Chief Executive's Review

A proud history

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

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

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

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

Our savings members consistently describe us as 'friendly' and 'helpful' amongst many other compliments you can see in the word cloud on page 9 and our overall rating for customer satisfaction in the year was 95.9%.

Preparing for the future

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

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

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

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

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



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

Paul Denton
Chief Executive



Resilience has never been so important

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

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

Support during cost of living challenges

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

£3.3m

pre-tax profit
for 2023

£112.3m

gross mortgage
lending

£42.4m

net mortgage
lending

£26.5m

savings
growth

continued over

Chief Executive's Review

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

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

Continued strong performance

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

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



Thank you for your support as we continue to grow. Just as it was back in 1848, our simple purpose is to reward you for saving to secure your future and to enable your dream of home ownership.”

Paul Denton
Chief Executive

Changing of the guard

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

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

And finally

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

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

Paul Denton
Chief Executive
30 March 2023

Society Key Results

Total assets

£644.6m

(2022: £592.8m)

Liquidity ratio

22.4%

(2022: 24.0%)

Profit before tax

£3.3m

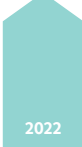
(2022: £2.4m)

Mortgage balances

£409.2m

£453.7m

£496.1m



Retail savings balances*

£368.9m*

£391.7m*

£418.2m



Capital reserves

£35.7m

£37.4m

£40.1m



Profit before tax

£0.8m

£2.4m

£3.3m

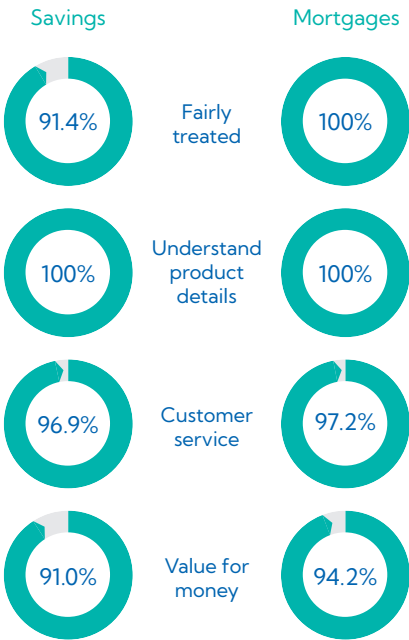
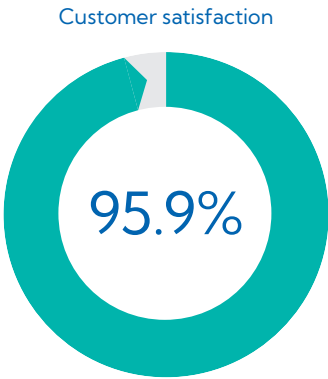


*Retail Savings Balances is an alternative performance measure which reflects 31 Jan 2021 and 2022 share balances adjusted to exclude Solicitor Client Accounts following changes to the product Terms and Conditions in April 2022.

Our Members

Smart Money People

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



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



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

Our Community & Colleagues

A brand new look for our Relationship Centres

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

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

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

Our Colleagues

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

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

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

Another win at the Scottish Mortgage Awards

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





We were awarded the FairLife Mark

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

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

Support for UK Savings Week

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

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

Environment and sustainability

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

Trees for Life

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

Member newsletter

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

continued over

Our Community & Colleagues

Making the switch to electric cars

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

Lending our support

Charity of the year: Maggie's

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

Edinburgh Rugby

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

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

Ceres Highland Games

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

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

Celebrating 175 years: Introducing the Scottish Building Society Foundation

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

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



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 2023 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 Chair's Report and Chief Executive's Review on pages 2 to 7.

Economic environment

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

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

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

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

Profit and capital

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

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

Liquidity

Total cash and investments at 31 January 2023 amounted to £134.7m (2022: £132.8m) which represented 22.4% (2022: 24.0%) of total shares and borrowings. The Society's continuing aim is to maintain an appropriate level of liquidity at all times. Funding is invested mainly in mortgage assets with sufficient liquid assets for risk management purposes and in accordance with regulatory requirements.

Interest rates

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

Summary Financial Statement

by only passing on around 65% of the Bank of England increase to our Standard Variable Rate for mortgages.

Following the decision by the Bank of England in March 2023 to increase its Bank Rate further to 4.25%, we are reviewing the savings rates across our products, as well as the Standard Variable Rate for mortgages.

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

Mortgage arrears and forbearance

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

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

Key performance indicators

The Board and management monitor a range of performance indicators to assess the ongoing health of the Society. The financial indicators are shown in the table 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 9.3%.

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

Asset Growth/Mortgage Asset Growth:

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

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

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

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

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

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

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

Non-financial key performance indicators

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

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

Key financial performance indicators 2019–2023

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

All figures are unconsolidated on the basis of materiality.

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

Regulation and compliance

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

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

During 2023–24 the Society will implement the changes required by the Financial Conduct

Authority's new Consumer Duty rules by the 31 July 2023 deadline, as well as continuing to develop and enhance its approach to operational resilience, and ensuring the risks from climate change are managed appropriately. The Society closely monitors regulatory developments and has plans in place to ensure it is able to implement any changes required.

The Society is required to have regard to the principles laid down in the UK Corporate Governance Code. This is covered in more detail in the separate Corporate Governance Report on pages 29 to 33.

Summary Financial Statement

Principal risks and uncertainties

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

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

- **Credit Risk:** This relates to the risk that mortgage borrowers or treasury counterparties, to whom the Society has lent money, default on their obligation to pay. We seek to mitigate credit risk principally through the careful management of our underwriting policy and process, ensuring that all loans meet the criteria laid down in our Lending policy which is reviewed on a rolling basis at least annually and overseen by the Retail Credit Committee. The Society's exposure to treasury counterparties is carefully controlled in accordance with the limits set out in our Liquidity & Funding policy.
- **Interest Rate Risk:** This is the risk of the Society's financial position deteriorating as interest rates move over time and the failure to preserve interest rate margins arising from an increase in the cost of funds or a decrease in the earning capacity of assets. We seek to manage interest rate risk by matching the characteristics of mortgage and savings products and through the use of financial instruments within defined parameters set out in our Interest Rate Risk Management policy.
- **Liquidity Risk:** This relates to the Society's ability to meet its financial obligations as they fall due. The Society has policies in place to ensure it maintains sufficient funds in liquid form at all times and stress tests are carried out regularly to confirm that the Society can withstand normal and abnormal cash outflows.
- **Operational Risk:** This is the risk of a loss arising from inadequate or failed internal processes or systems, human error or external events, including cyber risk and financial crime. Processes and systems are in place to minimise these risks and to maintain our operational resilience.
- **Conduct Risk:** The risk the Society's culture, behaviours, products, services and/or approach to business lead to unfair or inappropriate outcomes for customers. The Operational Risk Committee oversees the arrangements in place to ensure that the Society continues to keep the needs of its members at the heart of everything we do.
- **Strategic and Business Risk:** The risk of loss or reduced earnings due to inappropriate senior management or Board actions caused by unprepared or misjudged strategic decisions, and/or the implementation of those decisions.
- **Climate Change Risk:** This is the risk to the Society arising from climate change which is recognised in terms of both Physical and Transition risks. Physical risks include increased risk of flooding, subsidence and coastal erosion arising from extreme weather events or longer term shifts in climate, impacting on the value of, and longer term ability to insure, mortgaged properties. Transition risks arise from factors such as policy and regulation, and changing customer preferences resulting from the adjustment to a lower carbon economy. The Society is aware of these risks in respect of both credit risk management and strategy, and will continue to develop its risk management approach.

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

Financial risk management objectives and policies

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

Going concern

As part of the Society's forward planning process, the Directors have considered forecasts showing the Society's capital, liquidity and financial position for the next 12 months under normal operating conditions. They have also considered the potential effect on the Society's business, financial position, capital and liquidity under stressed operating conditions, specifically including a severe but plausible stress scenario incorporating the potential impact of the ongoing geopolitical and economic uncertainty resulting in high inflation and volatility in interest rates.

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

Environment

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

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

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

Governance

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

Progress made

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

Future plans

- Continue to build Board and Executive knowledge of climate related impacts, engaging with different stakeholders leading to the development of a climate change strategy.
- Ensure that appropriate resources with sufficient skills and expertise are provided to manage the financial risks from climate change.
- Continually identify and report on climate change exposure to the Society's Board and appropriate risk management committees.

Summary Financial Statement

Risk Management and Scenario Analysis

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

Progress made

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

Future plans

- The Society intends to repeat this portfolio analysis periodically, as well as further developing its modelling capabilities in a proportionate manner.
- Further enhance the Risk Management Framework, for example by identifying the circumstances that would trigger a review of the strategy for addressing the financial risks from climate change or identifying mitigants to reduce the risk.
- Keep abreast of emerging risks in this area, for example the potential impact of the Scottish Government's 'Heat in Buildings' strategy.

Carbon Footprint

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

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

Progress made

- We continue to use paper from sources approved by the Forestry Stewardship Council wherever possible, to recycle waste paper and other materials.
- Following the successful introduction of online voting facilities, we have reduced our impact on the environment by allowing members to opt to receive their AGM packs electronically.
- Our vehicle policy encourages the adoption of electric cars, and we have now completed the conversion of our small vehicle fleet which now consists entirely of electric vehicles.
- During 2022, the Society carried out volunteering activities with Trees for Life – a charitable organisation with an objective of rewilding the Scottish Highlands.

Future plans

- While the Society already supports members wishing to fund environmental improvements to their homes through the provision of further advances, we will continually review our product offering to ensure it best supports the retrofit of the existing housing stock.
- Take further action to improve the Society's own carbon footprint through enhanced measurement and target setting, changes to operational behaviour and improvements to premises.

Corporate Social Responsibility (CSR)

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

Customer Service and Conduct of Business

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

Donations and Community Support

The Society continued to support a charity of the year as voted for by members. In 2022, members voted to support Maggie's. Maggie's is a charity providing free cancer support and information in centres across the UK and online.

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

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

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

The Society does not make donations for political purposes.

Employee Policies

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

Election of Directors

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

- **Ian Wilson, Andrew Lee and Rosemary Hilary** joined the Board during 2022 and are seeking election in accordance with Rule 25(5).
- **All other directors** are choosing to retire and stand for re-election under Rule 26(1).

All of the above, being eligible under the Rules, offer themselves for election/re-election at the AGM to be held on 17 May 2023.

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

Colleagues

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

Supplier Payment Policy

The Society's continuing policy concerning the payment of its trade creditors is to pay within the agreed terms of credit, once the supplier has discharged their contractual obligations. The average number of days' credit taken to pay suppliers during the year ended 31 January 2023 was 20 (2022: 16).

Independent auditors

Our auditors, PricewaterhouseCoopers LLP (PwC), are willing to continue in office and the Board is happy to recommend their re-appointment as auditors. A resolution to that effect will be proposed for consideration at the Annual General Meeting to be held on 17 May 2023.

Summary Financial Statement

Directors

The following individuals were Directors of the Society during the year to 31 January 2023:

Non-Executive Directors

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

Executive Directors

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

Details of the Directors' interests in the Society are disclosed in Note 29 on page 66 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.

Summary of Key Financial Results & Ratios

	2023	2022
SOCIETY RESULTS FOR THE YEAR	£000	£000
Net interest receivable	12,191	9,600
Other income and charges	205	130
Administrative expenses	(8,921)	(7,518)
Operating profit before movements in acquired assets and impairment losses	3,475	2,212
Net increase in value of acquired assets	13	92
Impairment (losses)/gains on loans and advances	(167)	50
Impairment of Land & Buildings	(35)	–
Operating profit before tax	3,286	2,354
Taxation	(643)	(492)
Profit for the year	2,643	1,862

SOCIETY FINANCIAL POSITION AT END OF YEAR	£000	£000
ASSETS		
Liquid assets	134,650	132,798
Derivative financial instruments	10,850	3,387
Mortgages	496,061	453,650
Fixed and other assets	3,003	2,971
Total Assets	644,564	592,806

LIABILITIES	£000	£000
Shares*	418,155	463,900
Borrowings*	182,799	89,944
Derivative financial instruments	939	13
Other liabilities	2,545	1,526
Reserves	40,126	37,423
Total Liabilities & Reserves	644,564	592,806

SUMMARY OF KEY FINANCIAL RATIOS	%	%
Gross capital as percentage of Shares & borrowings	6.67	6.76
Liquid assets as percentage of Shares & borrowings	22.41	23.98
Profit for the year as percentage of mean total assets	0.43	0.33
Management expenses as percentage of mean total assets	1.44	1.34

*The 2022 figure for Shares includes £72.2m of Solicitors Client Account balances. Following a change to the product Terms and Conditions in April 2022 these deposits have been re-classified in the 2023 figures from Shares to Borrowings.

Summary Financial Statement

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
30 March 2023.

Ian Wilson
Chair

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 21 & 22, which comprises the Society's results for the year ended 31 January 2023, the financial position as at 31 January 2023 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 Chair's Report, Chief Executive's Review, Society Key Results, Our Members, Our Community & Colleagues, 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 & Accounts, the Annual Business Statement and the Directors' Report.

Opinion

In our opinion the Summary Financial Statement is consistent with the full Annual Report & Accounts of Scottish Building Society for the year ended 31 January 2023 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
30 March 2023

Directors' Remuneration Report

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

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

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

Procedure for developing policy on executive & individual director remuneration

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

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

Non-Executive Directors

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

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

Executive Directors

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

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

Executive Directors in office as at 31 January 2023 are entitled to receive pension contributions to their private pension arrangements, although depending on their individual circumstances they may be paid a pension replacement amount. Pension contribution rates are aligned with those available to the workforce. Executive Directors also receive a further taxable benefit comprising a Society car, or car allowance.

Service contracts

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

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

Non-Executive Directors

Fees only

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

Executive Directors

To 31 January 2023

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

To 31 January 2022

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

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

Sheila Gunn
Chair, Remuneration Committee
 30 March 2023

Board of Directors



Ian Wilson
Chair

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



Andrew Hastings
Vice-Chair

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



Sheila Gunn
Senior Independent Director

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



Kathryn (Karyn) Lamont

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



Sean Gilchrist

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



Andrew Lee

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

continued over

Board of Directors



Rosemary Hilary

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



Paul Denton
Chief Executive Officer

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



Neil Easson
Finance Director

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

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.

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

Board leadership and company purpose

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

The Board meets regularly with additional meetings as required. In 2022-23 there were ten full formal Board meetings, including a specific meeting to consider future strategy and the Corporate Plan. A table showing details of Directors' attendance during the year in relation to full formal Board and Committee meetings appears on page 33 of this report.

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

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

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

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

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

Summary Corporate Governance Report

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

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

The three first line risk management

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

Nomination & Governance Committee:

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

Remuneration Committee: This Committee is responsible for remuneration policy and for making recommendations to the Board regarding general remuneration and contractual arrangements. With effect from 1 January 2023, Sheila Gunn chairs the Committee and the other

members of the Committee are Rosemary Hilary and Andrew Lee. The Committee met four times in the year.

Further information can be found in the Directors' Remuneration Report on pages 24 & 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.

Whistleblowing

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

Non-Executive Directors

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

The Board consists of seven Non-Executive Directors plus the CEO and the Finance Director. As planned, three of the Non-Executive Directors have stepped down from the Board since the 2022 AGM. Information relating to Directors is set out on pages 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 the appointment of the new Chair and in the interest of managing succession.

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

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

Commitment

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

The attendance record of Board and Committee members during the year is set out on page 33. This table does not reflect Directors' attendance at additional ad hoc meetings, seminars, conferences and courses during the year or time spent on preparation for meetings etc. Generally each Non-Executive Director spends a minimum of 2-3 days each month on Society business. The time commitment for the Chair, Vice-Chair and Committee Chairs is considerably more.

Composition, succession and evaluation: appointments to the Board

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

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

The Nomination & Governance Committee leads the recruitment process with the support of a number of recruitment agencies, although the final decision rests with the Board as a whole. This process is tailored to meet the requirements of each particular vacancy and the method of attracting candidates is adapted depending on the nature of the skills required. During the year, the Society utilised the services of independent recruitment specialists, Warren Partners and Hill Coates Associates, in the appointment of new Directors. As noted last year, and given there were three Board vacancies in the previous twelve months, particular emphasis has been placed on succession planning for Board and senior management to ensure a diverse pipeline to fill future requirements. This work will continue in the coming year.

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

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

Summary Corporate Governance Report

Development

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

Information and support

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

Evaluation

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

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 24 & 25 sets out the remuneration policies for Executive and Non-Executive Directors and explains how this meets the requirements of the Code.

Directors' Attendance 2022-23

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

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

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AB10 1YD

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Edinburgh
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IV1 1DG

TROON

27 Ayr Street
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SCOTTISH
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