

## **Scottish Building Society Board Terms of Reference**

**To be read in conjunction with the Memorandum & Rules. In the event of a contradiction between documents, the Memorandum & Rules has precedent.**

### **1. The Role of the Board**

- a) According to the Combined Code of Corporate Governance, the Board is collectively responsible for the success of the Society.
- b) The Board's role is to set the Society's culture and values, business strategy and risk appetite, to review performance, and ensure that the necessary resources are in place for the Society to meet its objectives.
- c) The Board also has a general duty to ensure that the Society operates within its Society Rules, relevant laws, rules and guidance issued by relevant regulatory authorities and that proper accounting records and effective systems of internal control are established, maintained, documented and audited.
- d) In carrying out its role, the Board aims to ensure that excellent service is delivered to the members and customers whilst maintaining the interests of colleagues and all stakeholders, providing overall direction to the Society and taking collective responsibility for the Society's long term success.

### **2. Membership**

- a) Under the rules, the business of the Society and any business that the Society proposes to carry on shall be under the direction of a Board of Directors consisting of not more than 12 nor less than 4 members (subject to Rule 25(b) which governs the situation should the number of directors fall below 4 at any time).
- b) A clear majority of the Board should be Non-Executive.
- c) Members of the Board shall be appointed by the Board, on the recommendation of the Nomination & Governance Committee. Not less than a third of directors shall be subject to either annual election or re-election by the Society's members at the Annual General Meeting. The Society's members also have a right to nominate candidates for election to the Board. The majority of Board members shall be independent Non-Executive Directors.
- d) The Board shall appoint the Chairperson, the Vice Chairperson and the Chief Executive, the former two roles being elected at the first Board meeting after every Annual General Meeting. The Chairperson and Vice Chairperson holds office until the commencement of the first meeting of the Board held after the next Annual General Meeting, unless either shall cease in the meantime to be a Director or shall resign the office.
- e) At the time of appointment as Chairperson, the Director concerned shall be an independent Non-Executive Director. In the absence of the Chairperson and/or the Vice Chairperson, the remaining members present shall elect one of themselves to chair the meeting.

- f) Only members of the Board have the right to attend Board meetings. Other individuals such as other members of the Executive or Management team, or representatives from Internal or External Audit may be invited to attend as and when appropriate and necessary.

### **3. Secretary**

- a) The Society Secretary or his or her nominee shall act as the Secretary of the Board.

### **4. Quorum for Board Discussions**

- a) As provided in Rule 16, 3 directors present at any Board meeting, whether in person or by telephone or video link, shall form a quorum, subject to the provisions of Rule 25(6). A duly convened meeting of the Board at which a quorum is present shall be competent to exercise all or any of the authorities, powers, and discretions vested in or exercisable by the Board.
- b) In addition to having a minimum of 3 directors present, a voting majority of Non-Executive Directors must be present unless otherwise agreed by the Chairperson.

### **5. Board Meeting Governance**

- a) As provided in Rule 16, the Board shall meet for the despatch of business as often as it shall find necessary, with expectations of a minimum of 8 full and formal Board meetings and 1 additional Strategy meeting a year at appropriate times and otherwise as required.
- b) The Secretary of the Board in accordance with the schedule agreed shall call meetings of the Board. Additional meetings may be called by any Board member or at the request of the Chief Executive if he or she considers it necessary.
- c) Unless otherwise agreed, and with reference to the requirements of Rule 16(4), notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Board and any other person required to attend, no later than five working days before the date of the meeting. Supporting papers shall be sent to Board members and to other attendees as appropriate, at the same time.
- d) At each meeting, the Board shall review and evaluate any potential or actual conflict of interest of the Board members.
- e) Questions arising at a meeting shall be resolved by a majority of votes and, in the case of equal votes, the Chairperson of the meeting shall have a second or casting vote.
- f) At least once a year, the Non-Executive Directors should meet without the presence of Executive Directors.
- g) At least once a year, led by the Senior Independent Director, the Non-Executive Directors should meet without the presence of the Chairperson.

### **6. Minutes of meetings**

- a) The Secretary shall minute the proceedings of all meetings of the Board, including recording the names of those present and in attendance.
- b) Draft minutes of the Board meetings shall be circulated promptly to the Chairperson of the Board. Once approved, minutes should be circulated to all other members of the Board unless it would be inappropriate to do so.

- c) Final signed copies of the minutes of the meetings of the Board should be maintained for the Society's records.

## **7. Division of Responsibilities**

- a) There should be a clear division of responsibilities at the head of the Society between the running of the Board and the Chief Executive's responsibility for the running of the business. No one individual should have unchallenged powers of decision.
- b) The offices of Chairperson and Chief Executive are distinct and held by different people.
- c) The day to day & general supervision of the business is delegated to the Chief Executive who in turn delegates to other Society colleagues.

## **8. Matters reserved to the Board**

- a) The Board has a formal schedule of matters that are reserved to it, and it has delegated authority to four Board Committees, as detailed in the appendix.
- b) The following matters must not be delegated and remain the responsibility of the Directors:
  - i. Major investment decisions of a type not previously undertaken.
  - ii. Entering material contractual agreements with agents and other outside bodies.
  - iii. Responsibilities under BSA 1986, other appropriate legislation and regulations.
  - iv. Appointment of Chief Executive.
  - v. Appointment of Non-Executive Directors.
  - vi. Appointment of Board Committees.
- c) In managing the authorities delegated to the Board Committees, the Board shall receive from each of the Board Committee Chairs a report on proceedings after each meeting on key decisions and discussions within its duties and responsibilities.
- d) The Board Committee Chairs should perform a periodic assessment of whether responsibilities included in the Matters Reserved for the Board and Terms of Reference documents have been achieved. The results of this exercise should be reported to the Board and appropriate action should be taken where it is identified that responsibilities have not been realised.
- e) The Committees are authorised to make whatever recommendations deemed appropriate on any area within its remit where action or improvement is needed.
- f) The Board will receive a report at each meeting confirming which policies have been reviewed and approved by the Board Committees in the interim period between Board meetings. Tracked versions of Policies will be maintained on VBR in order for non-committee members to understand the approved amendments and challenge where appropriate.

## **9. Annual responsibilities**

- a) The Board shall arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference in order that changes are made in line with the developing risk environment and good practice and recommend any changes it considers necessary.

- b) The Board shall consider on an annual basis and, if appropriate, conduct an externally facilitated Board Effectiveness Review in line with the UK Corporate Governance Code recommendations.
- c) The Board is committed to maintaining open and co-operative ongoing dialogue with the Prudential Regulation Authority and the Financial Conduct Authority.
- d) The Board periodically considers and approves the Terms of Reference for each of the Board Committees.
- e) The Board Chairperson should attend the annual general meeting to answer member questions on the Board's activities.

#### **10. Other matters**

- a) The Board will be provided with access to sufficient resources in order to carry out its duties, including access to the Society Secretary for assistance as required.
- b) Appropriate and timely training shall be provided, both in the form of an induction programme for new directors and on an on-going basis for all directors. This includes but is not restricted to the Society Colleague Mandatory Training modules.
- c) Directors are authorised to seek any information required from any employee of the Society in order to perform their duties.
- d) The Board and its Committees are authorised to obtain, at the Society's expense, external legal or other professional advice on any matter within its authority.

Date of approval  
June 2021

	Matter Reserved	Reviewing Committee	Decision Making Forum
<b>1</b>	<b>Strategy and Management</b>		
A	Responsibility for the overall leadership of the Society and setting the Society's purpose and standards.		Board
B	Setting the Society's Culture and Values and making related decisions.		Board
C	Monitoring and assessing the development of the Society's Culture including oversight of colleague engagement surveys and subsequent actions, reporting to Board where decisions are necessary.		RemCo
D	Approval of the Society's strategic plan and performance in relation to it.		Board
E	Approvals of the annual operating and capital expenditure budgets and any material changes to them.		Board
F	Oversight of the Society's operations ensuring: <ul style="list-style-type: none"> <li>• competent and prudent management;</li> <li>• sound planning;</li> <li>• maintenance of internal control systems;</li> <li>• adequate accounting and other records;</li> <li>• compliance with statutory and regulatory obligations; and</li> <li>• the fair treatment of customers including vulnerable customers.</li> </ul>	NomCo BRC AC/BRC AC AC BRC	Board
G	Review of performance in the light of the Society's strategic aims, objectives, business plans and budgets and ensuring that any necessary corrective action is taken		Board
H	Extension of the Society's activities into new business or geographic areas.	BRC	Board
I	Any decision to cease to operate all or any material part of the Society's business	BRC	Board
<b>2</b>	<b>Structure and Capital</b>		
A	Changes relating to the Society's capital structure except those that are included in the ICAAP or a later Board-approved plan and do not breach a Board Risk Appetite trigger.	BRC	Board
B	Major changes to the Society's legal structure, including, but not limited to a change to the Society's status as a building society, a proposed change in the name of the Society, any acquisitions and disposals of shares which are material relative to the size of the group in question, takeover, transfer or merger offer.	BRC	Board
C	Changes to the management and control structure.	BRC	Board
D	Approval of: <ul style="list-style-type: none"> <li>• Any single issuance of wholesale debt, including senior non preferred issuance, equivalent (any issuance below this amount may be approved by two Executive Directors)</li> <li>• Any single tier 1 qualifying debt capital instruments</li> </ul>	AC	Board

	Matter Reserved	Reviewing Committee	Decision Making Forum
	<ul style="list-style-type: none"> <li>An annual renewal of any programme of long-term debt by the Society (provided that any supplement to any such programme for the purpose of updating the disclosure on the Society following the release of annual accounts may be approved by two executive directors).</li> </ul>		
<b>3</b>	<b>Financial Reporting and Controls</b>		
A	Approval of the half-yearly report, any interim management statements and any preliminary announcement of the final results.	AC	Board
B	Approval of the annual report and accounts, including the corporate governance statement and directors' remuneration report.	AC	Board
C	Approval of any significant changes in accounting policies or practices	AC	Board
D	Approval of treasury policies.	BRC	Board
E	Approval of material unbudgeted capital or operating expenditures above £100,000 – in line with the requirements of the Procurement Policy.	BRC	Board
<b>4</b>	<b>Internal Controls and Principal Risks</b>		
A	Ensuring maintenance of a sound system of internal control and risk management (includes the following).		BRC/AC
B	Receiving reports on, and reviewing the effectiveness of, the Society's risk and control processes to support its strategy and objectives.		BRC
C	Approving procedures for the detection of fraud and the prevention of bribery.		AC
D	Approval of the Enterprise Risk Management Framework and the Board Risk Appetite Statement.	BRC	Board
E	Approval of the Society's internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery Plan prior to submission to the Regulator.	BRC	Board
F	Review of the results of the Society's Reverse Stress Testing following approval of the design by ALCO.	BRC	Board
G	Approval of the Treasury Risk Policy Statement	BRC	Board
H	Approval of the Lending Policy Statement	BRC	Board
I	Approval of the Model Risk Policy Statement		BRC
J	Receiving Health and Safety reporting including confirmation concerning the incidence of any reportable incidents.	BRC	Board
K	Annual review of a report from the Money Laundering Reporting Officer on the Society's compliance with regulatory requirements.		Board
L	Oversight of arrears and losses as managed and escalated from the Retail Credit Committee	BRC	Board
<b>5</b>	<b>Contracts</b>		

	Matter Reserved	Reviewing Committee	Decision Making Forum
A	Approval of initial spend for major capital projects and oversight over execution and delivery.	AC	Board
B	Monitoring of major capital projects.	BRC	Board
C	Contracts which are material strategically or by reason of size, entered into by the Society in the ordinary course of business, for example bank borrowings above £5 million and acquisitions or disposals of fixed assets (including intangible assets such as intellectual property) above £100,000 inclusive of VAT. This includes contracts for goods, services, asset acquisition or disposal including buildings, but excluding contracts for employment or HR service contracts.	BRC/AC	Board
D	Contracts of the Society not in the ordinary course of business, for example foreign currency transactions above £100,000; and any acquisitions or disposals or borrowing/facility agreements above £5 million.		Board
E	Initial approval for projects and programmes to move to the definition and design stage and programmes to move to each delivery tranche. Subsequently the Board will approve programmes to move to each delivery tranche and will ratify drawdown of funding for on-track projects and programmes. It will also act as the escalation point should a project or programme fall outside agreed tolerances for cost, quality or timeliness.		BRC Board
F	Acquisition of any external mortgage portfolio.	BRC	Board
<b>6</b>	<b>Communication</b>		
A	Ensuring a satisfactory dialogue with members based on the mutual understanding of objectives.		Board
B	Approval of resolutions and corresponding documentation to be put forward to shareholders at a General meeting.		Board
C	Approval of press releases concerning recovery and resolution.		Board
D	Approval of material submissions to regulatory authorities and responses to regulatory correspondence addressed to the Board.		Board
<b>7</b>	<b>Board Membership and other appointments</b>		
A	Changes to the structure, size and composition of the board.	NomCo	Board
B	Ensuring adequate succession planning for the board and senior management so as to maintain an appropriate balance of skills and experience within the Society and on the board, ensuring such plans promote diversity of gender, social and ethnic backgrounds.	NomCo	Board
C	Approving the following appointments, extensions in office or removal:		
	<ul style="list-style-type: none"> <li>Chair of the Board</li> </ul>	NomCo	Board
	<ul style="list-style-type: none"> <li>Vice Chairperson</li> </ul>	NomCo	Board

	Matter Reserved	Reviewing Committee	Decision Making Forum
	<ul style="list-style-type: none"> <li>Senior Independent Director</li> </ul>	NomCo	Board
	<ul style="list-style-type: none"> <li>Chief Executive</li> </ul>	NomCo	Board
	<ul style="list-style-type: none"> <li>Executive Directors including Finance Director</li> </ul>	NomCo	Board
	<ul style="list-style-type: none"> <li>Society Secretary</li> </ul>	NomCo	Board
	<ul style="list-style-type: none"> <li>Chief Internal Auditor</li> </ul>	AC	Board
	<ul style="list-style-type: none"> <li>Chief Risk Officer</li> </ul>	BRC	Board
	<ul style="list-style-type: none"> <li>External Auditor</li> </ul>	AC	Board
D	Appointment of the senior independent director to provide a sounding board for the Chairperson and to serve as intermediary for the other directors when necessary.	NomCo	Board
E	Membership and Chairperson of board committees.	NomCo	Board
F	Continuation in office of directors at the end of their term of office, when they are due to be re-elected by members at the AGM and otherwise as appropriate.	NomCo	Board
G	Continuation in office of any director at any time, including the suspension or termination of service of an executive director as an employee of the company, subject to the law and their service contract.	NomCo	Board
H	Appointment or removal of the Society Secretary.	NomCo	Board
I	Appointment, reappointment or removal of the external auditor to be put to members for approval in general meeting, following the recommendation of the audit committee.	AC	Board
J	Ownership and management of the relationship with the Internal Audit service provider.	AC	Board
K	Appointments to boards of subsidiaries.		Board
<b>8</b>	<b>Remuneration</b>		
A	Determining the remuneration policy and the introduction and management of incentive plans for the directors, Society Secretary and other senior leaders.	RemCo	Board
B	Determining the remuneration of the non-executive directors, subject to the procedure set out in the Society's Remuneration Policy.	RemCo	Board
C	Approval of major changes to the rules of the Society's pensions schemes.	RemCo	Board
<b>9</b>	<b>Delegation of Authority</b>		



	Matter Reserved	Reviewing Committee	Decision Making Forum
A	The division of responsibilities between the Chairperson, the Chief Executive and other executive directors, which should be clearly established, set out in writing and agreed by the Board.		Board
B	Approval of the delegated levels of authority, including the Chief Executive's authority limits (which must be in writing) and those in relation to financial commitment.		Board
C	Establishing Board committees and approving their membership, chairperson and terms of reference, and approving material changes thereto.		Board
D	Receiving reports from Board Committees on their activities.		Board
E	Mandating counter-signatories to the affixing of the Society's seal to documents.		Board
<b>10</b>	<b>Corporate Governance</b>		
A	Undertaking a formal and rigorous annual review of its own performance, that of its committees and individual directors, and the division of responsibilities.		Board
B	Undertaking on an annual basis: <ul style="list-style-type: none"> <li>• A review of the Society's Management Responsibilities Map</li> <li>• Approval of the Senior Manager Fitness and Propriety Policy</li> <li>• Oversight of the ongoing FCA/PRA conduct rules and the Fit and Propriety Policy</li> <li>• Oversight of the Annual Director Appraisal Process</li> </ul>		NomCo NomCo NomCo NomCo
C	Determining the independence of non-executive directors in light of their character, judgment and relationships.	NomCo	Board
D	Considering the balance of interests between members, employees, customers and the community.		Board
E	Review of the Society's overall governance arrangements including whether its Rules are fit for purpose.	BRC	Board
F	Review of the adequacy and effectiveness of the Society's arrangements for stakeholder engagement.		Board
G	Receiving reports on the views of the Society's members.		Board
H	Establish and monitor the effectiveness of the Society's arrangements for engaging with and participation from Society Colleagues.		NomCo
I	Authorising actual or potential conflicts of interest where permitted by the Society's Rules.		Board
J	Review of the adequacy of arrangements for employees to raise matters of concern in confidence and consideration of the annual whistleblowing report – to be escalated to Board as appropriate.		NomCo
<b>11</b>	<b>Policies</b>		
	<b>Approval of review of existing policies, specifically:</b>		

Matter Reserved	Reviewing Committee	Decision Making Forum
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A	Approval of Contracts		EXCO
B	Board Risk Appetite Statement	BRC	Board
C	Business Resilience		BRC
D	Colleague Code of Conduct [in progress]		NomCo
E	Compliance		AC
F	Corporate Governance		Board
G	Corporate Plan		Board
H	Corporate Social Responsibility		NomCo
I	Cyber Risk Policy	BRC	Board
J	Data Protection Policy	BRC	Board
K	Equality & Diversity		NomCo
L	Execution Only		Board
M	Expenses		EXCO
N	Financial Crime (incl. Anti-Money Laundering and Anti Bribery)	BRC	Board
O	Flexible Working and Hybrid Working Location		EXCO
P	Health and Safety Policy		BRC
Q	ICAAP	BRC	Board
R	ILAAP (incl. Contingency Funding Plan)	BRC	Board
S	Information Security		BRC
T	Interest Rate Risk	BRC	Board
U	IT Policy		EXCO
V	IT Resilience		BRC
W	Liquidity & Funding	BRC	Board
X	Mergers & Acquisitions		Board
Y	Model Governance		AC

Matter Reserved		Reviewing Committee	Decision Making Forum
Z	Operational Resilience (Operational Resilience Framework, Cyber Risk, Third Party Supplier, Health & Safety, Personal & Office Security (incl. Hostage))	BRC	Board
AA	Personal Office & Security Policy		EXCO
BB	Procurement		EXCO
CC	Product Governance		BRC
DD	Product Pricing		BRC
EE	Recovery Plan	BRC	Board
FF	Regulatory Reporting	AC	Board
GG	Remuneration		RemCo
HH	Resolution Pack	BRC	Board
II	SM&CR Compliance (Regulatory References, Credit Checks, Criminal Records Checks and Fitness & Propriety Assessment, Hand over Policy)		Nom
JJ	Social Media		EXCO
KK	Third Party Supplier Policy		BRC
LL	Vulnerable Consumers	BRC	Board
MM	Whistleblowing		NomCo
NN	Lending Policy	BRC	Board
	<ul style="list-style-type: none"> <li>Retail Credit Risk Appetite and Infrastructure</li> </ul>		
	<ul style="list-style-type: none"> <li>Standard Criteria for Mortgage Lending</li> </ul>		
	<ul style="list-style-type: none"> <li>Further Advances</li> </ul>		
	<ul style="list-style-type: none"> <li>Financial Difficulties</li> </ul>		
	<ul style="list-style-type: none"> <li>Personal Guarantees</li> </ul>		
	<ul style="list-style-type: none"> <li>Interest Only</li> </ul>		
	<ul style="list-style-type: none"> <li>Mortgage Indemnity Insurance</li> </ul>		
	<ul style="list-style-type: none"> <li>Review of Arrears and Losses</li> </ul>		

	Matter Reserved	Reviewing Committee	Decision Making Forum
	<ul style="list-style-type: none"> <li>Assisted Schemes (Right-to-Buy &amp; LIFT)</li> </ul>		
	<ul style="list-style-type: none"> <li>Loss &amp; Provisioning Policy</li> </ul>		
	<ul style="list-style-type: none"> <li>Acceptable Property Types &amp; Locations</li> </ul>		
	<ul style="list-style-type: none"> <li>Retirement Interest Only Mortgage</li> </ul>		
	<ul style="list-style-type: none"> <li>Self-Build</li> </ul>		
	<ul style="list-style-type: none"> <li>Professional Mortgages</li> </ul>		
	<ul style="list-style-type: none"> <li>Valuations</li> </ul>		
	<ul style="list-style-type: none"> <li>Lending into Retirement</li> </ul>		
	<ul style="list-style-type: none"> <li>Delegated Lending Mandates</li> </ul>		
	<ul style="list-style-type: none"> <li>Property Insurance (including Flood Insurance)</li> </ul>		
	<ul style="list-style-type: none"> <li>Management Information</li> </ul>		
	<ul style="list-style-type: none"> <li>Guest House Mortgages</li> </ul>		
	<ul style="list-style-type: none"> <li>Commercial Lending</li> </ul>		
	<ul style="list-style-type: none"> <li>Affordability</li> </ul>		
	<ul style="list-style-type: none"> <li>Buy to Let</li> </ul>		
	<ul style="list-style-type: none"> <li>Non-UK Employment / Residency / Non-sterling Remuneration</li> </ul>		
<b>12</b>	<b>Other</b>		
A	The making of political donations.		AC
B	Approval of the appointment of the Society's principal professional advisers.		Board
C	Prosecution, commencement, defence or settlement of litigation, or an alternative dispute resolution mechanism involving above £250,000 or being otherwise material to the interests of the Society in relation to reputational or financial impact.	BRC	Board
D	Approval of the overall levels of insurance for the Society including directors' & officers' liability insurance.	AC	Board
E	Any decision likely to have a material impact on the Society from any perspective, including, but not limited to, financial, operational, strategic or reputational.		Board
F	This schedule of matters reserved for board decisions.		Board