

Answers to Members' questions

This document covers the key subject areas raised in questions submitted by Members, updated to reflect the position at the end of June 2021.

Society Finances

Is the Society still in a very healthy financial state?

In what has been an extraordinary year, the Society has continued to grow its mortgage and savings balances against a backdrop of continued economic uncertainty. Throughout, the Society maintained a strong and profitable financial position throughout 2020 and has continued to do so in 2021.

The Society regularly conducts stress testing exercises covering a number of scenarios. All scenarios modelled show that we continue to be well placed to withstand any further shocks in the financial markets and the wider economy.

Is the money from savers spent entirely on residential mortgages? Where do you invest the Society's funds?

The vast majority of the money received from savers is lent out to individuals as funds for residential mortgages.

The remainder of the Society's funds are held as 'liquid assets' which have to be available at immediate or short notice so that they can be used to repay savers. These funds are therefore invested largely with the Bank of England, and some with high-street banks and other financial institutions.

What steps are you taking to manage costs?

Costs are under constant review within the Society to make sure they remain appropriate. A full review of physical presence has been undertaken in the past 12 months with the decision being taken to exit the Society's agency model. The remaining six branches work as operational centres ensuring an efficient structure. In addition, the Society has doubled its mortgage lending in the past 12 months without increasing staffing costs.

We have also continued to invest in technology to further develop our service to members, keep member data safe and to provide members with additional services such as online capability as well as supporting remote working for colleagues throughout the lockdown and beyond.

It is also important that we continue to attract and retain suitably qualified and experienced staff, both to help us develop the business and to help us cope with key areas of additional regulation.

In the "Summary Financial Statements" Borrowings increased in 2021 from £6.3 million to £51.5 million. From whom, and at what interest rate, was the additional £45.2 million borrowed?

During the year, the Society accessed the Bank of England's Term Funding scheme for the first time, which provides access to medium term funding at an interest rate equal to Bank of England Base Rate. £40m was drawn under this facility in the year. The balance relates to balances held from Local Authorities at commercial deposit rates.

Board of Directors

What are the criteria used in the appointment of Non-Executive Directors – number, method of selection, length of appointment etc. – and who vets prospective appointees?

The Society believes it must maintain a balance between the number of Non- Executive Directors and the workload required of it. The process for appointment of Non-Executive Directors is summarised in the Corporate Governance section of the Report & Accounts. The process is overseen by the Society's Nomination & Remuneration Committee which carefully considers the final shortlist before making a recommendation to the full Board – and successful candidates may also be subject to additional vetting and approval by the financial services regulators, who expect Non-Executives to have a reasonable knowledge of how the sector operates.

What efforts are being made to encourage greater diversity on the Board, including more women, and people from ethnic minorities?

The Society is keen to support diversity at all levels within the organisation and, when vacancies arise, applications are encouraged from all suitably qualified candidates, based on the specific skills and experience required. When recruiting for the most recent Non-Executive vacancies, following a clear and impartial process involving a professional search agency, appointments were made entirely on merit, with no bias regarding gender or ethnic origin.

How much time/number of meetings do Non-Executive Directors spend on Society business and how many meetings has each Non-Executive Director attended in the last year?

A detailed record of Directors' attendance at formal meetings is shown in full in the Report & Accounts and in the Annual Review booklet. Attendance at Board & Committee meetings will average approximately two days a month in total and at least as much time again is normally taken by each Non-Executive Director in preparation for the meetings.

Non-Executive Directors must be able to demonstrate that there is no conflict with other roles and that they can allocate sufficient time to their role at the Society.

Directors also attend external conferences, courses and seminars over the course of the year, resulting in a time commitment of at least 3-4 days per month. The time commitment for the Chairman and Vice Chairman is considerably more.

How well do Non-Executive Directors understand the business?

Where Directors refer to holding fellowship of a professional institute, are they qualified by examination?

All of the current Board members have appropriate professional qualifications. Our Board has an abundance of experience in the financial services industry and fully understands the Society's business and the markets in which we operate.

Should all Directors stand for re-election every year?

Under the Society's Rules, Directors must stand for re-election at least every three years, but the combined effect of different aspects of the Rules means that often Directors will stand more frequently than that.

In the interests of good governance and having regard to the provisions of the revised UK Corporate Governance Code 2018, it is expected that, where appropriate, Directors will stand for re-election at each AGM.

Remuneration

Should Directors have been awarded a pay rise in what has been a challenging year for the economy and wider society?

There is a full Directors' Remuneration Report in the Annual Review and Summary Financial Statement. Directors salaries are reviewed annually at the Remuneration Committee with the payments to the Executive and Non-Executive Directors being determined by reference to a number of factors including market reviews, responsibilities and the quantum of time spent on society business. As in previous years, the increase in fees paid to Non-Executive Directors in 2020 was in line with the increases in salaries for senior management and staff on the back of a recent independent third party review.

Financial Services have been identified as Essential Services and all colleagues (Board members included) have seen a considerable increase in workload as a result of COVID-19 as the Society continues to support those members who requested mortgage payment holidays, and also with mortgage offers. These are extraordinary times and the Board is committed to providing sound leadership and direction to ensure the continued success of the Society.

Do Non-Executive Directors still get paid if they don't turn up to meetings?

The fees paid to Non-Executive Directors relate, not just to attendance at meetings, but all work connected to their role such as attendance at external events and preparation for meetings. Wherever possible, meeting schedules are arranged well in advance to ensure Non-Executive Directors availability. On occasion, however, it may not be possible for them to attend a meeting due to unforeseen and unavoidable circumstances.

Why should the Executive Directors receive a bonus payment? Do staff at other levels receive any element of performance related pay?

The remuneration package for the Executive Directors is in line with senior management in similar organisations. It has been designed to follow good Corporate Governance practice in that some of the remuneration – described as a bonus in the Report & Accounts – is determined by the performance of the Society and by their own personal performance against a number of pre-agreed objectives. This ensures that their personal interests are aligned with those of the Society. As explained in the Remuneration Report, these objectives are carefully balanced to ensure that no single factor can unduly influence the level of bonus payable. All Society employees are eligible for bonus payments related to individual performance against specified objectives and a formal scheme for performance related pay was introduced across the Society in 2016. The remuneration for all Society colleagues reflects their contribution to the business.

Do other employees receive the same level of pension contribution as the Directors?

The Society operates a non-contributory pension scheme for all employees (including Executive Directors) and the level of contribution is individually agreed as part of the employee's overall remuneration package.

In line with the Corporate Governance Code 2018, going forward, the pension contribution rates for new Executive Directors will be aligned with those available to the workforce.

Non-Executive Directors are not eligible to receive pension contributions.

Have you considered making the pension scheme contributory for all, as there can't be many non-contributory schemes left?

The Society considers the non-contributory nature of its pension scheme to be an integral and attractive part of the overall remuneration package offered to all staff.

What is the pay of the highest and lowest paid members of staff and how is this arrived at?

The salaries paid to the Executive Directors are published in the Annual Review & Summary Financial Statement sent to all members and available on the Society's website. All staff are paid the Real Living Wage or above.

We regularly benchmark our salaries against those for comparable roles, paid by similar sized businesses in the finance sector to ensure that the overall remuneration package for all colleagues remains competitive.

External Auditors

How long is it since the role of external auditor was put out to tender and when will this be repeated?

The Society believes it is good governance to periodically invite tenders from suitable firms for appointment as the Society's external auditors. A competitive tendering exercise was conducted during 2017, as a result of which the Board proposed that PricewaterhouseCoopers LLP be appointed as the Society's external auditors. The appointment of PricewaterhouseCoopers LLP was approved at the AGM.

Why did the Society appoint one of the 'Big Four' accountancy firms as the Society's external auditor rather than a smaller firm?

PricewaterhouseCoopers LLP was considered to be very cost effective in terms of fees, and have considerable experience and expertise in the building society sector. This expertise, particularly in relation to the regulatory framework which applies to building societies, is important to us and to the financial services regulators.

Do the auditors do any work for the Society that would compromise their independence?

The Audit Committee is responsible for conducting an annual review of the Auditor's independence and objectivity. It is our policy that our external auditors should not provide non audit services other than on an exceptional basis.

Interest Rates

Are savings rates likely to rise in the near future as they have been very low for a long while?

Our aim is to provide you with long-term value by offering a range of products at competitive rates. The climate of historically low interest rates has lasted a long time and we believe that will continue for the future. We always look to balance the need to stay financially stable with the need for competitive savings and mortgage rates.

Member Loyalty

Could the Society offer a bonus on top of interest on bonds etc. or some other form of loyalty reward for longstanding members? Will you consider a prize draw for members?

Our current approach is to grow our membership, and to maintain that relationship for a long time, by always offering competitive rates of interest. Our personal approach and dedication to excellent service means that we do enjoy a high level of members staying with us and taking our new mortgages or savings accounts with us.

Savings Products

Why have you withdrawn the Loyalty Cash ISA?

Member feedback was that the Loyalty Cash ISA had created the need to have separate passbooks for most subscription years. As a result, we decided to launch a new branch ISA product– Cash ISA – where members will be able to use one passbook for multiple years. We also have a new E-ISA for members who prefer to transact online

How can I ensure that I am kept informed about the Society's products?

The easiest way to find out our current product range is to visit our website at scottishbs.co.uk

Are there any plans to provide postal- only accounts offering enhanced rates?

The Society's savings accounts can be managed in person in our branches or by post. In addition, our Online Saver and E-ISA savings accounts are available online. Our aim is to offer competitive rates across all distribution channels.

Why does the Society not allow members to make payments to third parties from their savings accounts? Would you consider offering accounts with the facility to pay standing orders, and direct debits?

Given the recent increases and incidences of third party fraud generally, the Society took the decision not to allow payments to third parties. The Society has no plans to introduce accounts with the facility to pay standing orders and direct debits to third parties, principally due to the additional costs and compliance required around payment accounts. Our strategy is to be a provider of mortgage and savings products.

Will the introduction of online access for savers mean that passbook accounts will be discontinued?

Our online services will operate alongside our existing product offerings, giving members a choice of how they wish to interact with the Society.

There is no intention to withdraw passbook accounts, which will continue to operate on the same basis as they do now.

Can you reassure members that the introduction of any internet based services will not increase the risk of fraud and compensation costs?

The Society fully recognises the potential for increased risk from new ventures and will ensure that its processes are designed to minimise those risks.

However, the Society also recognises the risk of not remaining relevant to future generations of savers and borrowers and it is with this in mind that the decision to develop online services has been taken.

Given the increase in reported levels of hacking, what measures are in place to protect members' data and funds handled by outsourced IT firms?

To retain the integrity of our defences, we do not divulge the security measures we have in place. The security of our members' data is of utmost importance to the Society and we will use external expertise to ensure the highest security standards are in place to protect members' data and finances.

Branch and Agency Network

Are we likely to see the Society opening any new branches in the near future? Would you consider a new branch in a specific town?

We conducted a thorough review of our agency operations in 2019 and 2020, which resulted in the closure of all agency offices in June 2021. This decision was based on careful consideration of members' needs and the steady decline in traffic to these agencies over a prolonged period.

However, we do recognise the need to have a presence in key Scottish locations, and we opened a new office in Aberdeen on 1 June 2021 to serve the Aberdeen and surrounding area.

Will you consider opening branches or agencies in England? Can you give any indication of how much business comes from outside Scotland?

Expansion of the branch or agency network into England is not in our plans. Less than 15% of our savings business comes from outside Scotland and, as this is spread across the whole of the rest of the UK, there are no individual localities where there would be a sufficient concentration of business to make a branch or agency operation worthwhile.

Can you provide a map of Scotland showing the location of all the Society's branches?

The details of the six branches are included on the inside back page of the Summary Financial Statement. Members can also search for specific locations or view all branch locations using the Location Finder at www.scottishbs.co.uk

Mutuality

Will the Society stay mutual?

Each year, when the Board and management hold their Forward Planning session, one of the issues we consider is the future status of the Society. The conclusion each year to date has been to confirm that the future of the Scottish Building Society is as an independent mutual organisation. That conclusion has certainly proved to be the correct one, when one bears in mind that not one of the demutualised building societies has survived as an independent organisation.

Do you have any plans to merge with or take over other building societies to secure economies of scale?

The Society absorbed the smaller Century Building Society with effect from 1 February 2013 and is now the only building society headquartered in Scotland. We were delighted to welcome the former members of Century as members of the enlarged society at that time.

Your Board confirms that there have been no other approaches from any building society or other financial institution regarding a merger or takeover. If we ever did receive such an approach, the Board would have a duty to consider the proposal in the best interests of our members.

The Society's continued operating performance, coupled with our continuing strong financial position, has very much supported the Board's view that the future for Scottish Building Society is as an independent mutual organisation.

Would the Society consider alliances with credit unions?

The Society would consider an alliance with a credit union provided it was in the best interests of our members such as through the provision of other services that the Society does not currently offer.

Member Services

What steps do you take to identify vulnerable customers?

All our colleagues receive training on recognising and dealing with vulnerability to enable them to provide appropriate support.

Will the Society offer Open Banking?

The Society does not currently offer Open Banking but this will be kept under review.

AGM Arrangements

Why does the Society not email the AGM packs to members and promote online voting to save on printing and postage costs and to help the environment?

Online voting facilities have been available for a number of years and we are encouraged by the increasing number of members who choose to vote this way.

As part of the voting process we have been asking members to provide us with their email address and to indicate whether they wish to receive future AGM packs electronically, as we are conscious that this will help reduce our impact on the environment.

Following a successful trial of issuing AGM packs by email in 2018, we intend to continue to offer this option to those members who have indicated that they wish to receive their pack in this way.

When two individuals living at the same address are both members, why can you not send one copy of the Annual Review to be shared, to make savings on materials and postage?

Unfortunately, the additional administration costs of doing so would outweigh any savings – and it might also involve us in making assumptions about relationships within a household which might not be appropriate. We are also obliged under The Building Societies Act to ensure that each member entitled to vote receives a separate voting form.

Can the AGM packs be issued earlier for those living overseas?

Owing to the legal requirements specifying what has to be included in the AGM mailing and the period within which the AGM must be held we cannot post the mailing significantly earlier. However, the notice of AGM is published on our website as soon as it is posted to members, along with copies of all the relevant documentation and members now have the option to receive their AGM pack by email, vote and submit questions online.

Your Board believes that this provides an opportunity for Directors to meet more members than might otherwise be the case and for members from across Scotland to participate in the running of their Society.

Has the Board considered varying the timing of the AGM, as many members are unable to attend midweek?

Membership engagement is highly important to the Society, and we endeavour to make arrangements that give as many members as possible the opportunity to attend our AGM.

Having again reviewed alternatives, the arrangements for this year's AGM followed the established pattern but we remain open to other suggestions and will consider all the various possibilities (including both timing and location) on a regular basis.

If you would like to provide feedback on the AGM (or if you have any general feedback or comments about the Society) you can do by emailing members@scotbs.co.uk, by writing to or telephoning Head Office (using the details at the back of this booklet), or in person at any Society branch.

Why do you not enclose up-to-date interest information with the AGM mailing?

The investors' statement mailing and the AGM mailing occur at around the same time (April each year) and information on rates is included with the statements rather than in the AGM mailing. The Society feels that the AGM pack should concentrate on information related to the meeting.

Have members ever been asked to approve donations to charity in connection with voting forms returned?

The power to make charitable donations is specifically covered in the Society's Memorandum & Rules – and so the principle has already been approved by members. This power is not exercised without careful consideration and the Society has involved members in choosing which charity to support as outlined in Society magazine issued in 2020.

Why isn't more donated to charity for proxy votes received online compared to those received by post? Encouraging members to vote online will save the Society money and help the environment.

We are keen to encourage as many of our members as possible to attend the AGM in person. For those unable to attend in person, however, we will review the amount we donate to charity for online and postal proxy votes for future AGMs.

Marketing

Why don't you advertise more (e.g. TV, newspapers)? There are people who have never heard of the Scottish Building Society.

The Society's spend on advertising is designed to allow us to achieve the volumes of both mortgage and savings business set out in our corporate plan.

Like many businesses, the impacts of COVID-19 have meant we have adjusted our marketing and media activity considerably over the last 18 months. However, we are putting together some exciting plans to promote the Society, in particular making more use of digital media to promote our product and services.

In each campaign that we run, we assess the impact of our activities to ensure they are in line with our strategic aim of growing our business in a balanced and controlled manner.

Politics and Scottish Independence

As the 2021 election result and related press coverage suggest that the question of Scottish independence has not been fully resolved, what assurances are there that funds from investors outside Scotland remain safe? What will happen to non-Scots investors if there is another referendum?

The Society will address any relevant issues if it becomes clear that another referendum is going to take place. In the meantime, all savers' funds held with the Society remain as safe as they have ever been, due both to the Society's financial strength and because they are covered by the Financial Services Compensation Scheme (subject to the limits of that scheme – £85,000 per individual saver with specific exceptions as set out in the FSCS Information Sheet available from branches or on the Society's website).

Does the Society engage with politics or political parties?

The Society is, and will remain, non-political and will always act in the interests of our Members, whilst ensuring we work within the legislative and regulatory framework.

COVID-19

What measure has the Society taken to ensure branches/ offices are safe for Members and colleagues?

As an essential service – we provide access to cash and mortgage payment services – we quickly put all physical distancing and safety procedures and equipment in place at our office locations. Although we could not provide face to face meetings for mortgage services, we arranged telephone appointments wherever possible. During periods of strict lockdown, we limited our opening times to keep both colleagues and members safe. Once these restrictions were lifted, we quickly resumed our usual opening hours.

How has the Society helped colleagues with their health and wellbeing during the last year?

Our colleagues' wellbeing has always been important, however, the rapid response needed to combat the spread of COVID-19 meant we had to move to a remote working model very quickly. We understood that for many colleagues this was disruptive and brought new challenges, including balancing work and home life when schools were closed and adapting to working alone. Maintaining contact, whether on video or by phone, was actively encouraged so that colleagues remained connected. Additionally, we provided access to online wellness resources, including Headspace and Health Assured.



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