

Annual Review & Summary Financial Statement

For the year ended 31 January 2021

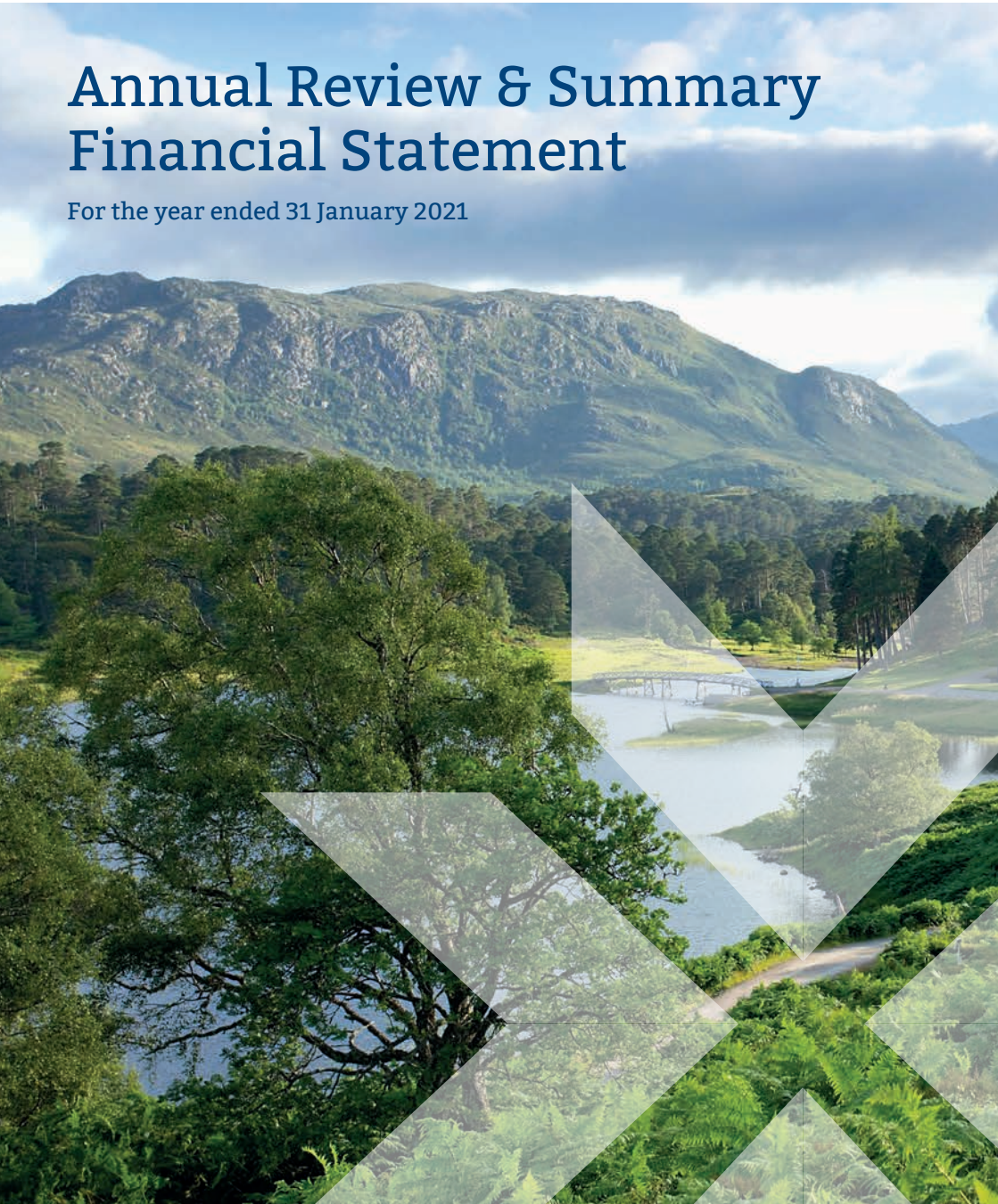




Image on front cover and above: Glen Affric, Inverness-shire.

*“One of the strongest
pillars of a trusted
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Throughout our
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PAUL DENTON
CHIEF EXECUTIVE

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Chairman's Report



“The Society’s results reflect its ongoing ability, in extraordinary circumstances, to attract increased membership.”

RAYMOND ABBOTT
CHAIRMAN

BUILDING SOCIETIES DURING EXCEPTIONAL TIMES

“Living through history” is how many will remember 2020. The COVID-19 pandemic has forever changed societies around the world, and I want to express my heartfelt sympathy to every member who has lost family, friends or experienced financial hardship. I believe we are on the path to, literally, brighter days and feel confident about the year ahead.

In my statement last year, I mentioned that our business plans would adapt as needed. I am very pleased, though not surprised given the quality of Society colleagues, that we responded, adapted and maintained the essential provisions of access to cash and mortgage arrangements during the year. It is to the credit of Paul Denton, our Chief Executive, his leadership team and everyone across the Society, that looking after members’ needs went uninterrupted.

I am equally pleased to report a very strong year of performance, which Paul will cover in more detail in his foreword. These results reflect not just the trust and value that existing members place in us, but the inherent strength of the Scottish Building Society brand in attracting new members as well.

These results demonstrate what the Society is capable of, even during extreme conditions, and our plans for the years ahead aim to build on this excellent foundation.

ADAPTING TO CHANGE

One positive aspect of how extreme circumstances can drive change is the rapid adoption of technology to allow us to carry out jobs, provide education and, of course, make financial plans. Digital will play an increasing role in the Society's operations, building on the launch of the SBS Online service, to offer a variety of savings and mortgage products to members no matter where they live in Scotland.

THE BOARD AND OUR ANNUAL GENERAL MEETING

Despite the challenges of conducting Board business during a pandemic, we met regularly during the year. Often these meetings were done virtually and it was a learning experience for us all to adapt our ways of working whilst ensuring we carried out our respective duties.

We are approaching our Annual General Meeting, which we will again hold as a virtual meeting on 26 May which members are invited to join remotely. We felt as a Board that safety was paramount even as all the signs point to an eventual easing of restrictions as the COVID-19 vaccination programme continues at pace.

Alan Webster retired from the Board at our last AGM and I'd like to thank him for his service. Neil Easson, Finance Director, will stand for election to the Board as an Executive Director. All other members of the Board will stand for re-election.

We will not be asking you to vote on our Charity of the Year this time. Given the prolonged lockdowns and restrictions last year, we felt it only fair to extend our relationship with Alzheimer Scotland until 2022.

Full details of how to register and 'attend' the AGM will be in the Notice of Meeting, which will be sent out with your AGM packs at the end of April.

2021 AND BEYOND

The Society is in an excellent position. We have a very strong base from which to progress in 2021, all thanks to the efforts of the entire team. The Board are confident that the business plan will provide the correct blueprint from which to grow the savings and mortgage balances as well as grow our membership. I believe mutual societies continue to play a vital role in financial service and, importantly, in the communities where they operate. Thank you for your continued support.

RAYMOND ABBOTT
CHAIRMAN
25 March 2021

Chief Executive's Review



“My thanks go to the entire team for their hard work and dedication in helping us continue to be ‘Scotland’s Building Society’.”

PAUL DENTON
CHIEF EXECUTIVE

AN EXTRAORDINARY YEAR

There is no doubt that 2020 will forever be remembered for COVID-19 and I join Raymond in expressing my own sympathies for members who have lost loved ones or experienced financial difficulties over the past year. As a member-based Society, I believe we have done everything possible to support our members during these unprecedented times. Accordingly, I would like to acknowledge and thank my colleagues in the Society for their resilience and dedication throughout 2020.

As an essential service – providing access to cash from savings accounts and helping members with their mortgage arrangements – we faced uncertainty in March last year when the first COVID-19 lockdown was announced. However, our branches remained open, our telephone lines staffed and we adapted our operations speedily, safely and securely.

I am also very pleased to report that, because of the careful management of our costs and resources, we had no need to participate in any of the Government support schemes and that we kept all our colleagues fully employed throughout. We have learned quickly from our collective experience and I believe we are now a more efficient business as a result.

£0.8m

pre-tax profit for 2021

£74.2m

mortgage asset growth

BUSINESS PERFORMANCE

When I joined the Society in June 2019, I was hugely encouraged by the potential of our brand and the opportunity for the business to grow. With the support of the Board, I initiated a change programme focused on our leadership capability, brand awareness and operational effectiveness. I am now pleased to report that, even against the extraordinary events of 2020, we have seen a record year for growth in both mortgages and savings balances.

The reduction in the Bank of England Bank Rate created pressure on our margins. However, due to strong mortgage growth and tight control of costs, our Operating Profit for the year increased by 120% to £971k. With an uncertain economic outlook we prudently increased our impairment provisions, however, despite these our Profit before tax for the year increased by 34% to £840k.

I am particularly proud of the fact that the growth in profits is a direct result of increased mortgage lending and that our savings members still benefit from market leading rates, particularly on our Loyalty ISA.

MORTGAGES

Over the past year, we have repositioned our mortgage proposition away from 'niche and bespoke' to 'personal and flexible'. This has enabled us to increase net lending, particularly within the mainstream market, without increasing our risk appetite or extending our product range.

We are also proud that this business growth has been achieved within the boundaries of the 'local' building society as we only lend in Scotland on residential property. For me, this is a very strong message and positive characteristic of being a mutual – staying true to your heritage and serving the communities within which you operate.

Of course, the past year has not just been about growth. We acted quickly – as did all lenders – to support existing members impacted financially by COVID-19. We implemented the mortgage payment deferral, so that eligible members could take a 'break' of up to six months, from their monthly mortgage payment.

In line with other lenders, we helped over 500 members in this regard. I'm pleased to confirm that the vast majority are now back on a more stable financial footing. As a Society, we will always be there for members who need assistance through difficult times.

RETAIL SAVINGS

Whilst low interest rates are disappointing for savers, our strategy has rewarded loyalty whilst attracting a record £58m growth in retail savings balances. Over the past 12 months, we reduced our savings rates, on average, by less than the 0.65% reduction of Bank Rate in March. Throughout the year, we have maintained above-market rates on our three main savings products: Instant Access, Loyalty ISA, and Fixed Rate Bonds.

continued over...

Chief Executive's Review *continued*

OPERATIONS

As mentioned in my introduction, the challenges presented by COVID-19 were unprecedented. As a business that operates bricks-and-mortar branches and offers face-to-face advice and service, we needed to adapt quickly in order to safely maintain service to members. We operated our branch network on reduced hours, following all Government advice on social distancing and hygiene, before flexing our opening hours as and when the local restrictions allowed.

Telephony has played an increasing role in our operations and this became invaluable during the periods of lockdown. We successfully implemented a cloud telephony system at the end of 2020 that allows all colleagues to work more effectively remotely and, importantly, allows us to flex our capability to meet demand from customers and members who cannot easily travel to a branch.

Digital services have also played a bigger part in our distribution mix. We achieved a major milestone in January this year, with the successful launch of our new digital savings and mortgage service – SBS Online. This is significant for us in two ways. First, we are able to offer existing members a convenient, secure way to transact on their savings account and, for mortgages, view their balance and recent payments. Second, we now have an additional channel to attract new savings members from anywhere in Scotland without relying on physical branch or agency location.

Speaking of branches, I am delighted to announce that we are returning to Aberdeen with a new office expected to open in late Spring. We understand the importance of having a presence in key locations around Scotland where transport facilities are readily available so that customers and members can access face-to-face advice and service.

At the same time, we have taken the difficult decision to close our agency distribution channel by June this year. We have seen a marked decline in the use of agencies in recent years across Scotland and have written to all affected members with details of the other ways they can continue to manage their accounts with us. I would like to thank all agency partners who have supported the Society over the years.

COMMUNITY AND SUSTAINABILITY

It has been frustrating, though unavoidable, that our community activities have been restricted during 2020. We announced our national charity – Alzheimer Scotland – at our AGM last year, however, we have not been able to make the most of this valuable partnership. I am pleased to say that we will extend our links with Alzheimer Scotland for an extra year into 2022 and look forward to being able to help raise funds in 2021.

With Glasgow hosting COP26 this year, all eyes are on Scotland. Before COVID-19, there had been real progress in raising awareness of our collective impact on the environment and the

potentially irreversible effects of climate change. Although we are a relatively small business, we are acutely aware of our own environmental impact. We are now working with a fantastic organisation – Trees For Life and their goal to “rewild the Scottish Highlands”. They do fantastic work to propagate rare and hard to grow trees that are then replanted in the Highlands. Our contribution – which will also help to mitigate our carbon footprint – is especially rewarding as we are helping to restore some of the Highlands’ stunning and unique natural beauty.

LOOKING FORWARD TO THE YEAR AHEAD

One of the strongest pillars of a trusted brand is its history and heritage. Throughout our 173 years, we have weathered crises, wars, several recessions and now a generation-defining pandemic. In challenging times brands that are trusted, and can repay that trust, are the ones that last. I believe 2021 will be another very challenging year but the progress being made with COVID vaccination programmes very much signals that better days lie ahead.

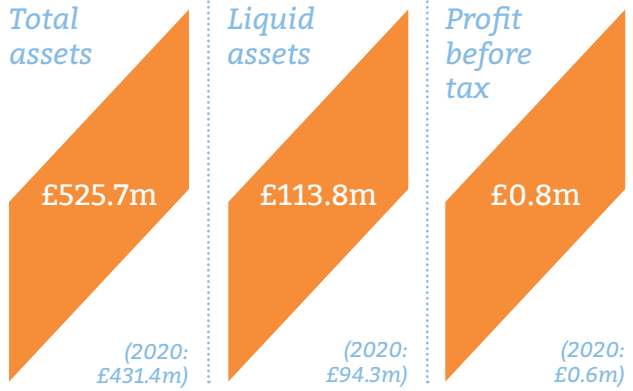
As a Society, we have adapted quickly whilst staying true to our purpose: to help members ‘build for the future’. My thanks go again to the entire team for their hard work, their dedication to providing the personal service we are known for and really living up to being “Scotland’s Building Society”.

PAUL DENTON
CHIEF EXECUTIVE
25 March 2021

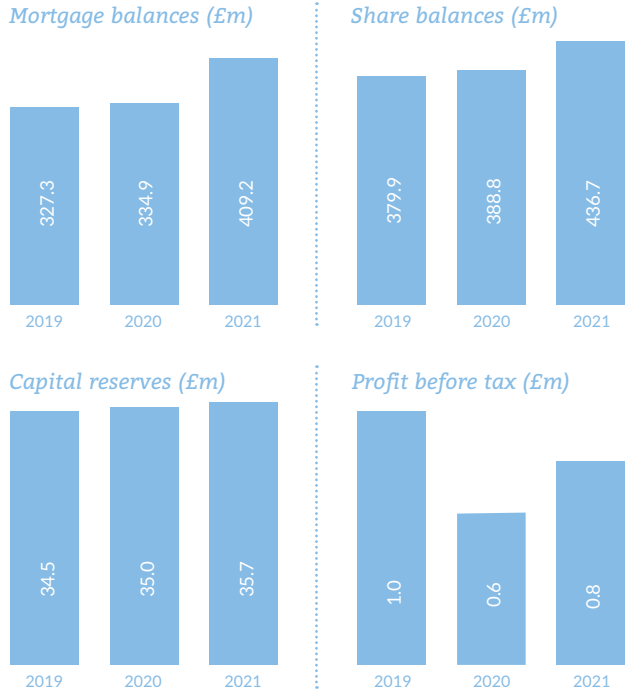
“We achieved a major milestone in January this year, with the successful launch of our new digital savings and mortgage service – SBS Online.”

To get started on SBS Online, visit www.thesbsonline.co.uk and register your details.

Society Key Results



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

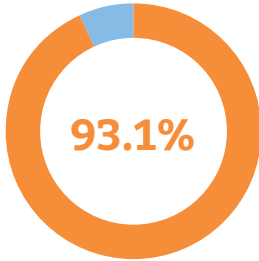


View of the Society

OUR MEMBERS

We're delighted with the fantastic ratings our members gave us on independent financial services review website, Smart Money People.[†] We achieved an overall rating of 93.1% for customer service.

Customer satisfaction

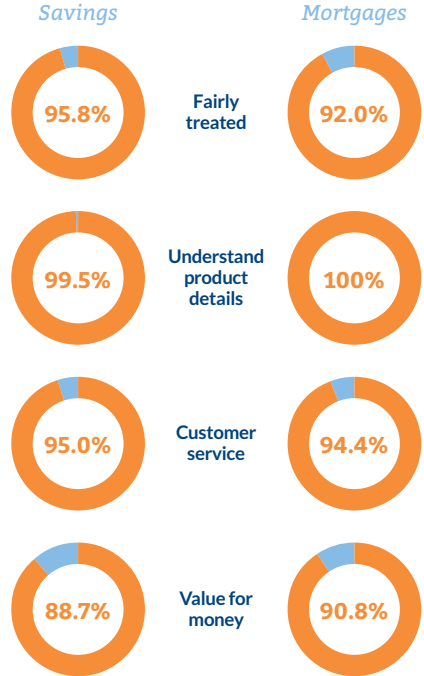


OUR STAFF

Our colleagues took part in the 2020 Banking Standards Board engagement survey, which measures employee sentiment from banks and building societies across the UK. One of the results from the nationwide survey showed that the Society ranked first out of 29 firms when it came to employees' perception of operating ethically.



Smart Money People



Here are the most common words our members use when giving their feedback on the Society:



[†]Data taken from 283 member responses submitted to Smart Money People, 01/02/2020 to 31/01/2021. 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



OUR BRANCHES

When the first national lockdown was announced on 23 March 2020, all non-essential shops, schools and other services were closed. Access to cash and the need to maintain mortgage payment services were classed as essential, and so we quickly adapted to operating in a lockdown.

This was new territory for our business, however, we followed the Scottish Government guidance on safety and social distancing to help keep our members, and our colleagues, safe.



NEW! SBS ONLINE

We launched our new digital accounts service – SBS Online – in January after a successful pilot with members. You can add existing savings accounts, open a new savings account and view your mortgage balances quickly and easily.

It's now available to all members, just go to www.thesbsonline.co.uk and register your details.



SUPPORTING TREES FOR LIFE

Environmental sustainability has always been important to us – from reducing, recycling and re-using resources, to managing our energy wisely. We are also committed to supporting our local communities, and try to give something back to them whenever we can.

With this in mind, we're delighted to be working with a wonderful Scottish charity called Trees for Life. For over 25 years they've been working to restore the ancient Caledonian Forest. Over many centuries of use, this once great woodland has been sadly depleted. Trees for Life are working to restore the forest to its natural glory. They propagate rare and difficult to grow trees, and then replant them in the beautiful Highlands. This new, wild forest is helping to reduce the impacts of climate change by storing carbon, preventing flooding and erosion. The trees aren't the only residents of the revitalised forest – it's also an amazing biodiverse habitat, where wildlife and plants can flourish.

And it's not just the environment that's benefitting from the valuable work of Trees for Life. They're also helping to provide employment, and giving thousands of people the opportunity to experience and be inspired by the beauty of nature, right on our doorstep. To find out more about Trees for Life, visit www.treesforlife.org.uk



SPONSORING EDINBURGH RUGBY

As part of our community work, we became shirt and pitch side sponsors for Edinburgh Rugby. It's a great way to show support for the local community, encourage sport across age groups and create brand awareness as the matches are broadcast online.



SCOTTISH WOMEN'S FOOTBALL

We have been proud sponsors of the Scottish Women's Premier League since August 2017. It's been a fantastic experience supporting all levels of the game, from grassroots to the professional teams. Our Player Of The Month vote helped showcase the outstanding young players across the League teams.

This season will be our last as sponsors and we would like to thank the team at Scottish Women's Football for their support and, of course, every one of the players!



OUR CHARITY OF THE YEAR: ALZHEIMER SCOTLAND

Our members voted for Alzheimer Scotland to be our Charity of the Year at our last AGM. Unfortunately, the COVID-19 pandemic meant almost all of our planned fundraising couldn't take place in 2020. So we've decided to keep Alzheimer Scotland as our Charity of the Year until 2022.

"It has been frustrating, though unavoidable, that our community activities have been restricted during 2020... I am pleased to say that we will extend our links with Alzheimer Scotland for an extra year into 2022 and look forward to being able to help raise funds in 2021."

PAUL DENTON
CHIEF EXECUTIVE

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 2021 or available to read or download from our website www.scottishbs.co.uk from the same date.

Summary Directors' Report

OUR PURPOSE

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

BUSINESS REVIEW

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

COVID-19

The COVID-19 pandemic has dominated the year, with our key focus being to ensure we continue to support our members' essential mortgage and savings needs while ensuring our colleagues remain safe.

The unprecedented economic contraction and uncertainty surrounding the length of the impact has impacted a large number of our members, many of whom we are pleased to have been able to support by granting mortgage payment deferrals.

More positively, the pent up demand supported by tax incentives and a once in a lifetime reassessment of housing needs increased demand for mortgages in the second half of the year, which has resulted in record mortgage book growth for the Society.

PROFIT AND CAPITAL

Profit for the year before tax amounted to £0.84million (2020: £0.63million) representing an excellent performance in an extremely challenging year. The mortgage book grew by 22.2% (2020: 2.3%) and despite the market-wide reduction in interest rates we have continued to provide an attractive home for savings and

increased our reserves to provide scope for further 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 or from the Society's Finance Director.

LIQUIDITY

Total cash and investments at 31 January 2021 amounted to £113.8million (2020: £94.3million) which represented 23.3% (2020: 23.9%) 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. During the year, the Society joined the Bank of England Term Funding Scheme (TFSME) to enhance funding sources and continue to support the mortgage market.

INTEREST RATES

The Bank of England reduced its Bank Rate to 0.10% in March 2020 as an emergency measure in response to the COVID-19 outbreak. As a result, and in line with the market, we reduced interest rates across the majority of our savings accounts from 15 May 2020 as well as reducing our 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

Following the announcement of the financial support package in response to COVID-19 by the Government and set out by the Financial

Conduct Authority (FCA), the Society quickly responded to members' requests for mortgage payment deferrals. During the year, payment deferrals for a period of up to 6 months were granted to 509 customers. 20 of these payment deferrals were still in force at 31 January 2021.

Where members can afford to re-start their mortgage payments it is in their best interests to do so, but some may need additional support over a longer period. The FCA has extended the time limit to apply for a payment deferral to the end of March 2021.

The Society also uses a range of forbearance measures to assist those borrowers who are experiencing financial difficulty. As at 31 January 2021 there were 51 cases, excluding COVID-19 related mortgage payment deferrals, benefiting from the Society's forbearance measures (2020: 33) with total outstanding capital balances of £4.1million (2020: £2.3million). The Society makes provisions for any expected loss resulting from accounts in arrears in accordance with the Board-approved policy.

At 31 January 2021 the Society had 15 mortgage accounts in arrears for 12 months or more (2020: seven). The total arrears outstanding on these accounts was £190,678 (2020: £81,555) and the aggregate capital balance was £1,190,731 (2020: £494,598). No properties were taken into possession during the year (2020: none).

KEY PERFORMANCE INDICATORS

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

Mortgage Assets: One of the key reasons for the Society's existence is to promote home ownership through mortgage lending. During the past year Mortgage Assets have increased by 22.2%.

Total Assets: Consisting primarily of Mortgage Assets and Liquid Assets, these have increased by 21.9%.

Asset Growth/Mortgage Asset Growth:

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

Share Balances: Another key reason for the Society's existence: to encourage saving and investment. Savings balances have increased by 12.3% during the past year.

Liquidity: Total cash and investments held by the Society at the year-end, expressed as a percentage of shares and borrowings. This has decreased by 0.6 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 decreased by 0.08 percentage points in the year due to the impact of the lower Bank of England Bank Rate and a larger balance sheet size.

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 £0.8m in the current year. The increase in PBT from £0.6m in the prior year reflects strong growth in income driven by increasing mortgage balances, partly offset by higher operational costs to support the increased volumes and increased impairment provisions reflecting the uncertain economic environment.

Reserves: The accumulated profits of the Society over more than 172 years of operation, which provide the capital which helps to maintain the Society's financial strength. These have increased by £0.7million in the year through the addition of the year's profit after tax.

Gross Capital: This ratio is expressed as a percentage of shares and borrowings and demonstrates the relationship between the Society's capital and its liabilities to investors. It reflects the continuing strength of the Society whilst remaining well within prudent guidelines. This has decreased by 1.6 percentage points reflecting the growth in liabilities in the year.

Summary Financial Statement *continued*

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:

- 82% of mortgage borrowers reaching the end of their initial incentive period have remained with the Society.
- Less than 1.4% of mortgage accounts have arrears greater than 1.5% of their mortgage balance.

Key Financial Performance Indicators 2017-2021

	2017	2018	2019	2020	2021
Mortgage Assets (£m)	311.3	318.4	327.3	334.9	409.2
Mortgage Asset Growth (%)	8.8	2.3	2.8	2.3	22.2
Total Assets (£m)	409.2	420.2	425.1	431.4	525.7
Asset Growth (%)	5.2	2.7	1.2	1.5	21.9
Share Balances (£m)	365.0	373.7	379.9	388.8	436.7
Liquidity (%)	25.5	25.9	24.6	23.9	23.3
Net Interest Margin (%)	1.57	1.62	1.64	1.65	1.57
Profit Before Tax (£m)	1.3	1.3	1.0	0.6	0.8
Reserves (£m)	32.6	33.6	34.5	35.0	35.7
Gross Capital (%)	8.7	8.7	8.8	8.9	7.3

All figures are unconsolidated on the basis of materiality except 2017 which are Group figures.

REGULATION AND COMPLIANCE

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

2020-21 has seen a lower level of change than recent years, with a number of planned changes delayed due to the COVID-19 pandemic.

Similarly, 2021-22 will not require significant regulatory change, however the Society will closely monitor developments arising from Brexit and continue to input to industry discussions on matters such as improving operational resilience within Financial Services and enhancing our approach to managing financial risks from climate change as well as completing the transition from LIBOR to SONIA.

The Society 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 28 to 31.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

The continuing COVID-19 pandemic presents a significant risk to global and domestic activity. This increases the level of risk and uncertainty in the Society's operating environment. In particular, increased risk is identified in the following areas:

- **Business Risk** – due to macro-economic disruption;
- **Operational Risk** – due to the heightened potential for business disruption;
- **Financial Risk** – due to reductions in the Bank of England Base rate which could impact the Society's interest rate margin;
- **Credit Risk** – due to the increased potential for borrowers to default on their mortgage, either through individual circumstances or broader economic consequences.

Summary Financial Statement *continued*

The Society is managing the situation closely, has implemented operational contingency plans where appropriate, and will continue to monitor the broader economic impact of the outbreak on its mortgage customers.

A further risk stems from the continuing uncertainty inherent in the current economic environment and the impact of the UK's exit from membership of the European Union. The Society has carried out an initial evaluation of the impact of the exit terms agreed in December 2020 and will continue to monitor developments. The Society will continue to adopt a cautious approach in the coming financial year, seeking sustainable growth in order to maintain financial stability, whilst providing suitable mortgage and savings products to customers.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

CAPITAL REQUIREMENTS

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

Process (ICAAP), which is regularly reviewed and revised to reflect the prevailing economic climate.

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 place certain reporting obligations on financial institutions that are within the scope of CRD4. The purpose of the regulations is to provide clarity on the source of the Society's income and the location of its operations. The annual reporting requirements for the Society as at 31 January 2021 are provided on page 73 of the Annual Report and Accounts.

GOING CONCERN

As part of the Society's forward planning process, the Directors have considered forecasts showing the Society's capital, liquidity and financial position for the next 12 months under normal operating conditions. They have also considered the potential effect on the Society's business, financial position, capital and liquidity under stressed operating conditions, specifically including a severe but plausible stress scenario incorporating the potential impact of the increased risks and uncertainties as a result of the COVID-19 pandemic set out on page 15 of this report.

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

CORPORATE SOCIAL RESPONSIBILITY (CSR)

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

Customer Service and Conduct of Business

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

Donations and Community Support

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

Alzheimer Scotland offer a range of personalised support and choices. They provide a network of specialist Dementia Advisors, NHS Dementia Nurse Consultants, Dementia Research Centres, the 24-hour Freephone Dementia Helpline and numerous local support services, reminiscence programmes and Dementia Resource Centres in communities all across Scotland.

The Society makes charitable donations to reflect and encourage members' participation in the Society's Annual General Meetings each year. £1,381 was donated in 2020 to Breast Cancer Care for postal and online votes received. We plan to hold this year's AGM on 26 May 2021. Given the ongoing restrictions in place as a result of the COVID-19 pandemic, we plan to conduct the AGM on a virtual basis. Further details will be communicated to members in April. A donation will be made to Alzheimer Scotland for every vote received, including postal and online.

The Society does not make donations for political purposes.

Environmental issues

The Society aims to minimise the environmental impacts of all our operations by striving to reduce unnecessary consumption, to re-use and recycle where possible, to manage energy usage wisely and to promote the control of environmental issues at all levels. We continue to use paper from sources approved by the Forestry Stewardship Council wherever possible, to recycle waste paper and other materials and to encourage our staff to be environmentally aware at all times.

Our vehicle replacement policy includes a maximum CO² emissions limit of 120g/km and we have begun the process of converting the Society's vehicle fleet to electric, with 20% of the fleet now consisting of electric vehicles.

During the year, the Society carried out an exercise to measure its carbon footprint for the first time. Following this exercise the Society mitigated its carbon footprint by donating to Trees for Life – a charitable organisation with an objective of rewilding the Scottish Highlands.

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

Employee Policies

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

Summary Financial Statement *continued*

DIRECTORS

The following individuals were Directors of the Society during the year to 31 January 2021:

Non-Executive Directors

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

Executive Directors

Paul Denton MBA FCBI	Chief Executive Officer from July 2019 Chair of Operational Risk Committee since July 2019
Neil Easson BA 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 30 on page 72 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.

ELECTION OF DIRECTORS

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

- **Neil Eason** joined the Board in April 2020 and is seeking election in accordance with Rule 25(5).
- **All other directors** are choosing to retire and stand for re-election under Rule 26(1).

All of the above, being eligible under the Rules, offer themselves for election/re-election at the AGM to be held on 26 May 2021.

Biographies of all current Directors, including those seeking election/re-election, appear on pages 26 & 27.

STAFF

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

POST BALANCE SHEET EVENTS

The Directors do not consider that there have been any events since the year-end that have a material effect on the financial position of the Society as at 31 January 2021.

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 2021 was 21 (2020: 18).

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 26 May 2021.

Summary Financial Statement *continued*

Summary of Key Financial Results & Ratios

SOCIETY RESULTS FOR THE YEAR	2021	2020
	£000	£000
Net interest receivable	7,535	7,046
Other income and charges	35	(35)
Administrative expenses	(6,599)	(6,355)
Restructuring costs	-	(215)
Operating profit before movements in acquired assets, impairment losses and FSCS levy	971	441
Net increase in value of acquired assets	30	44
Impairment (losses) / gains	(161)	59
Reversal of previous impairment of Land & Buildings	-	76
Provision for FSCS levy	-	8
Operating profit before tax	840	628
Taxation	(187)	(116)
Profit for the year	653	512
SOCIETY FINANCIAL POSITION AT END OF YEAR		
ASSETS		
Liquid assets	113,845	94,330
Derivative financial instruments	50	10
Mortgages	409,182	334,936
Fixed and other assets	2,614	2,129
Total Assets	525,691	431,405
LIABILITIES		
Shares	436,685	388,798
Borrowings	51,477	6,308
Derivative financial instruments	736	475
Other liabilities	1,138	853
Reserves	35,655	34,971
Total Liabilities & Reserves	525,691	431,405
SUMMARY OF KEY FINANCIAL RATIOS		
	2020	2020
	%	%
Gross capital as percentage of Shares & borrowings	7.30	8.85
Liquid assets as percentage of Shares & borrowings	23.32	23.87
Profit for the year as percentage of mean total assets	0.14	0.12
Management expenses as percentage of mean total assets	1.38	1.53

The Summary Financial Statement is prepared on an unconsolidated basis.

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

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

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

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

Approved by the Board of Directors on 25 March 2021.

RAYMOND ABBOTT
CHAIRMAN

PAUL DENTON
CHIEF EXECUTIVE

NEIL EASSON
FINANCE DIRECTOR

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

We have examined the Summary Financial Statement of Scottish Building Society (the 'Society') set out on pages 20 & 21, which comprises the Society's result for the year ended 31 January 2021, financial position as at 31 January 2021 and summary of key financial ratios.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

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

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

BASIS OF OPINION

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

OPINION

In our opinion the Summary Financial Statement is consistent with the full Annual Report and Accounts, the Annual Business Statement and the Directors' Report of Scottish Building Society for the year ended 31 January 2021 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made under it.

PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS
AND STATUTORY AUDITORS
EDINBURGH
25 March 2021

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 Nomination & Remuneration Committee.

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

NON-EXECUTIVE DIRECTORS

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

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

EXECUTIVE DIRECTORS

The basic salaries of the 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 2021 are entitled to receive pension contributions to their private pension arrangements, although depending on their individual circumstances they may be paid a pension replacement amount. Pension contribution rates are aligned with those available to the workforce. Executive Directors also receive a further taxable benefit comprising a Society car, or car allowance.

SERVICE CONTRACTS

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

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

Directors' Remuneration Report *continued*

NON-EXECUTIVE DIRECTORS

Fees only

	To 31 January 2021	To 31 January 2020
R J Abbott	£40,750	£40,000
J C Ogston	£32,600	£32,000
M MacKay	£28,718	£24,500
K Lamont	£28,525	£28,000
A Hastings (appointed July 2019)	£28,525	£15,346
S Gunn (appointed November 2019)	£24,959	£6,125
A Webster (retired May 2020)	£7,915	£24,500
S M Pashby (retired November 2019)	-	£23,333
Total	£191,992	£193,804

EXECUTIVE DIRECTORS

To 31 January 2021

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

To 31 January 2020

	Salary	Bonus	Pension Contributions	Taxable Benefits	Total
P Denton (appointed July 2019)	£118,141	-	£3,544	£4,394	£126,079
M L Thomson (retired July 2019)	£78,409	£31,364	£15,682	£3,883	£129,338
A Brown (retired December 2019)*	£76,647	£12,444	£21,799	£5,884	£116,774
Total	£273,197	£43,808	£41,025	£14,161	£372,191

*Aileen Brown also received a final payment on her resignation as Finance Director amounting to £109,530.

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

MARGARET MACKAY

CHAIR, NOMINATION & REMUNERATION COMMITTEE

25 March 2021

Board of Directors



RAYMOND ABBOTT
CHAIRMAN

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



JOHN (JACK) OGSTON
VICE CHAIRMAN

Jack is a Fellow of the Chartered Institute of Bankers in Scotland and spent 36 years in management positions with Clydesdale Bank, latterly as Head of Corporate & Structured Finance in Scotland. He has significant board and lending experience and is currently Chairman of Cancer Support Scotland and a non-executive director of Constant Progress Ltd, Equator Capital Ltd and Toward Technology Ltd. Jack joined the Board in 2015 and was elected Vice Chairman in July 2017.



MARGARET MACKAY

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



KARYN LAMONT

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



ANDREW HASTINGS

Andrew is a Chartered Banker, Fellow of the Institute of Bankers in Ireland, a Chartered Director and a Certified Bank Director. He began a 30 year career in banking with RBS and was CEO and Country Manager of BNP Paribas Ireland before becoming CEO of Barclays Bank Ireland plc. Andrew is currently a Board Member of the Electricity Supply Board, the Irish State-owned energy business. He is also an Independent non-executive director of Pepper Finance Corporation (Ireland) DAC and an Independent non-executive director of Elavon Financial Services DAC. Andrew chairs the Board Risk Committee.



SHEILA GUNN

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



PAUL DENTON
CHIEF EXECUTIVE
OFFICER

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



NEIL EASON
FINANCE DIRECTOR

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

Summary Corporate Governance Report

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

BOARD LEADERSHIP AND COMPANY PURPOSE

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

The Board meets regularly with additional meetings as required. In 2020-21 there were ten full formal Board meetings, including a specific meeting to consider future strategy and the Corporate Plan. There were a number of additional, informal meetings in-between full Board meetings in recognition of the management of the global COVID-19 pandemic and related societal lockdowns. A table showing details of Directors' attendance during the year in relation to full formal Board and Committee meetings appears on page 31 of this report.

A terms of reference document for the Board was approved in September 2020, which includes a schedule of matters reserved for Board decisions and the Board has delegated certain responsibilities to the Committees described below, all of which report to the Board. Minutes of each Committee's meetings are distributed to all Board members and the Chair of each Committee provides a report at the next Board meeting. The terms of reference for all Board Committees are available on the Society's website. Membership of Committees is reviewed annually with the aim of leveraging each Director's particular expertise.

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

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

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

Board Risk Committee: The Board Risk Committee met seven times in the year. Andrew Hastings chairs the Committee. The other members of the Committee are Karyn Lamont, Sheila Gunn and Jack Ogston. Executive Directors and members of senior management

attend by invitation. The committee assists the Board in overseeing the Society's risk management and control framework; considers the Board Risk Appetite Statement, supporting metrics and stress testing outputs; and reviews Board policies and key prudential documentation from a risk perspective. The Committee is also responsible for oversight of risk monitoring and assurance, including reviewing the Society's key risk exposures against appetite, trends and concentrations.

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

The three first line risk management

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

Nomination & Remuneration Committee:

This Committee reviews Board composition, skills, performance, director elections and succession planning for Board and senior management. It is responsible for remuneration policy and for making recommendations to the Board regarding general remuneration and contractual arrangements.

The Committee also supervises the process for appointment of new Directors. The Committee focuses separately on nomination and remuneration issues.

Margaret MacKay chairs the Committee and the other members of the Committee are Raymond Abbott and Jack Ogston. The Committee met seven times in the year.

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

CULTURE

The Board monitors and assesses culture through a variety of sources including key performance metrics, feedback from internal and external audit, 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 Senior Independent Director, Margaret MacKay, is the Society's Whistleblowing Champion. She has responsibility for ensuring and overseeing the integrity, independence and effectiveness of the Society's policies and procedures on whistleblowing, including those to protect whistleblowers from victimisation. The Board reviews the Society's whistleblowing policy and reports at least annually.

NON-EXECUTIVE DIRECTORS

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

The Board consists of six Non-Executive Directors plus the CEO and the Finance Director. Information relating to Directors is set out on pages 26 & 27. This demonstrates that the Society's Board has a balance of skills and experience appropriate for the Society and its strategy. Committee membership was refreshed during the year, following Board review and in the interest of managing succession.

The Board is satisfied that in terms of independence of character, judgement and robustness of challenge to the Society's Management, each Non-Executive Director is considered independent. Factors taken into account when assessing independence include

Summary Corporate Governance Report

continued

length of service, material business relationships and whether the Director has recently been an employee of the Society.

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

COMMITMENT

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

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

COMPOSITION, SUCCESSION AND EVALUATION: APPOINTMENTS TO THE BOARD

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

The Society values all aspects of diversity, including gender, and ensures that Non-Executive

Director appointments are made on merit, based on the specific skills and experience required. Members have the right under the Society's Rules to nominate candidates for election to the Board.

The Nomination & Remuneration Committee is leading the recruitment process with the support of a number of recruitment agencies, although the final decision rests with the Board as a whole. This year particular consideration has been given to succession planning for Board and senior management to ensure there is a diverse pipeline to fill current and future requirements. This work will continue in the coming year.

As at the date of this report the percentage of women on the full Board is 37.5% with 50% of the Non-Executive Directors being female. Female representation on the Senior Management Team stands at 29%.

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

DEVELOPMENT

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

INFORMATION AND SUPPORT

The Chairman ensures that the Board receives sufficient information to enable it to discharge its responsibilities. The quality and content of management information provided to the Board and Committees is constantly reviewed

by Directors and management. The Secretary provides support on corporate governance matters and the Board has access to independent professional advice if required.

EVALUATION

A comprehensive, externally facilitated Board and Committee evaluation was carried out in the first half of 2019 by Genius Boards Limited. As a result, a full evaluation was not carried out in 2020 although the findings and actions from the 2019 review have remained an area of focus for the Board and Committees where relevant, including consideration of meeting agendas, committee composition and Board information. There will be an internally facilitated Board evaluation in 2021 in order to monitor progress and maintain sight of effectiveness.

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

DIRECTORS' ATTENDANCE 2020-21

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 & Remuneration Committee
R J Abbott	10(10)	5(5)		7(7)
J C Ogston	10(10)		4(5)	7(7)
M MacKay	10(10)			7(7)
A Webster	4(4)		2(2)	
K Lamont	10(10)	5(5)	7(7)	
A Hastings	10(10)	5(5)	7(7)	
S Gunn	10(10)		7(7)	
P Denton	10(10)			
N Easson	8(8)			

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 & Remuneration Committee considers and makes a recommendation to the Board whether each Non-Executive Director should be submitted for re-election, bearing in mind that Director's continued independence and contribution to Board deliberations.

REMUNERATION

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

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*NEW
Opening
soon*

0333 207 4007*
scottishbs.co.uk

*Lines are open 9am to 5pm Monday to Friday (10am on Wednesdays). Calls may be monitored and/or recorded.



Image: Glen Affric, Inverness-shire.
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