

Annual Report & Accounts **2022**

A warm welcome





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For more information on Scottish Friendly and its products
visit www.scottishfriendly.co.uk

Overview

“Scottish Friendly’s status as a mutual means that we are not driven by the needs of shareholders. Instead, our profits are distributed to enhance the investment return of our with-profits policies or invested to generate future profits. This resulted in an enhancement (the “Special Members’ Share”) of 1.2% to the returns credited to with-profits policies in our Main Fund.”



2022 Highlights

Transfer to Fund for Future Appropriations

2022 £3.6m

The transfer to the Fund for Future Appropriations represents the change in value attributable to members by Scottish Friendly over the course of the year. The transfer to the FFA of £3.6m (2021 transfer to £22.8m¹) includes a loss of £15.2m (2021: gain £16.7m) on the pension scheme. Removing this results in an increased year on year underlying transfer to FFA of £18.8m (2021: £6.1m¹).

2020  £8.8m


2021¹  £22.8m


2022  £3.6m

Investment Return²

(17.9)%

The return on asset shares within the Scottish Friendly Main With-Profits fund was (17.9)%. These investment returns contribute to bonuses we pay to our with-profits policyholders³. Negative returns over the year reflect the challenging macroeconomic environment, with rising interest rates, high inflation and geopolitical tensions all impacting the financial markets. The total return for with-profits members in the Main Fund is a reduction of (16.7)% including the enhancement in respect of the Special Members' Share of 1.2%. With-profits policy pay-outs are subject to our smoothing policy, which can help to reduce the impact of market volatility.

2020 3.4% 

2021 7.5% 

2022 (17.9)% 

¹ As restated. Details on the restatement are given in note 37.

² Investment return is the return in 2022 gross of charges and includes realised and unrealised gains. It is an alternative performance measure.

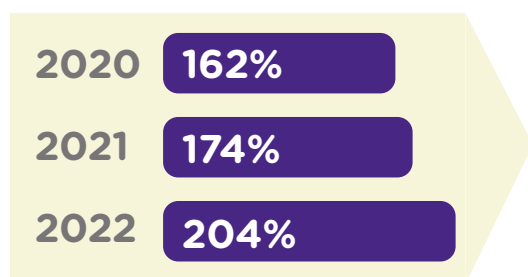
³ A With-Profits policyholder in our main fund receives a share of the transfer to the fund for future appropriations that Scottish Friendly makes each year, known as the 'Special Members' Share'

Financial Strength

204%

(Solvency II Pillar 1 capital)

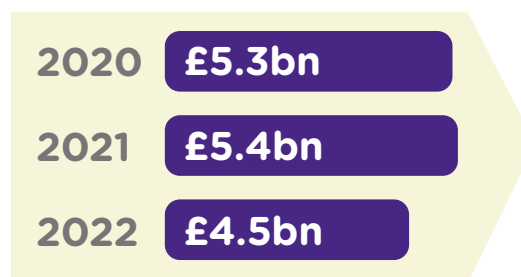
The solvency position (as measured by Solvency II Pillar 1 capital) of Scottish Friendly has increased, with a ratio of 204% at 31 December 2022, up by 30% from the previous year. The increased level reflects the reduction in capital requirements over the year, due primarily, to increased interest rates and is well above regulatory requirements, demonstrating continued financial strength.



Assets Under Management¹

£4.5bn

Total assets under management as at 31 December 2022 were £4.5bn, down from 2021 (£5.4bn). This reflects the challenging investment market during the year and the combined impact of premiums received from policyholders and claims paid out.



¹ Assets under management is an alternative performance measure and includes assets in the Scottish Friendly Investment Funds ICVC.



New Business Sales

£47.7m (APE)¹

New business sales are £47.7m up, 2% versus 2021 (£46.9m), a record level of sales. The results reflect strong performance on protection products sold through our partnerships, partially offset by a challenging market for savers as a result of the cost of living crisis.

2020 **£42.0m**

2021 **£46.9m**

2022 **£47.7m**

Number of Members

814,000

Everyone who has a policy with Scottish Friendly becomes a member and 2022 saw the total number of members increase by 38,000 to 814,000 from 776,000 in 2021.

This reflects the continued success of attracting new customers to Scottish Friendly and retaining existing customers.

2020 **745,000**

2021 **776,000**

2022 **814,000**

¹ Annual Premium Equivalent is an alternative performance measure and is gross of reinsurance (APE = Annual Premium Equivalent, calculated as the annual amount of regular premiums plus one tenth of the single premiums on business written during the year).

Chair's Statement

“The cost of living crisis has underlined the importance of providing accessible products to help our customers and their families to achieve financial wellbeing.”





External Environment

This year's report and accounts have been prepared in the context of a year that brought with it significant economic challenges, both in the UK and throughout the world. The return of high inflation, which began towards the end of 2021, for the first time in a generation was met with a series of increases to interest rates. This led to higher costs of living with the impact being felt by households right across the UK, most notably in the areas of energy, food and mortgages. This has adversely impacted many of our members and our colleagues and we recognise that these challenges will likely continue for some time to come.

In spite of this difficult market context, I am pleased to report a resilient set of results for the 2022 financial year.

At Scottish Friendly, we remain resolute in our dedication to serving and supporting our customers and their families through this continued period of instability by providing understandable and affordable products brought to life by our purpose.

Member Value

Scottish Friendly's status as a mutual means that we are not driven by the needs of shareholders. Instead, our profits are distributed to enhance the investment return of our with-profits policies or invested to generate future profits.

The benefits of this approach mean that we are able to pay additional bonuses to our with-profits policyholders over and above the investment returns

within the funds. In 2022, this resulted in us declaring an enhancement (the "Special Members' Share") of 1.2% (2021: 1.2%) to the returns credited to with-profits policies in our Main Fund.

Purpose and Strategy

Scottish Friendly prides itself on providing products and services that cater for everyone, regardless of age, regardless of income, or of any previous financial guidance or experience. During 2022, our colleagues developed and launched our refreshed purpose statement:

“Dedicated to helping you and your family achieve financial wellbeing through friendly products and customer care.”

The purpose reflects the important role Scottish Friendly can play in the lives of our customers and

encapsulates the passion and energy that our colleagues bring to their work.

Our defined strategy, to Diversify and Grow, is comprised of three core elements:

- Organic growth through our own brand product range and distribution channels;
- Forming new partnerships and launching new products with existing partners; and
- Acquisition and consolidation activity.

We believe this continued strategic focus ensures that we are able to remain dedicated to our purpose of helping our customers and their families to achieve financial wellbeing.

Corporate Governance

The strength of our governance processes enables us to respond to regulatory changes and developments in best practice. We are a member of the Association of Financial Mutuals and support and adopt its governance standards. Specific details are included in the Report on Corporate Governance on pages 42 to 69 of this Annual Report.

The Board

In April 2022, I was delighted that we were able to confirm the appointment of Stephen McGee as Chief Executive Officer (CEO), on which date he resigned his position as a Non-Executive Director.

Dermot Jenkinson retired from the Board at the AGM in April 2022 following a decade of service to the Society. I would like to thank Dermot on behalf of the Board for the wisdom and experience he brought to the benefit of all at Scottish Friendly. Kerr Luscombe assumed the role of Vice-Chair and Senior Independent Director with Gillian Watson becoming Chair of the Remuneration Committee and Mark Laidlaw, Chair of the Audit Committee.

Martin Pringle returned to the role of Chief Financial Officer (CFO) following Stephen's appointment as CEO, supporting him as he transitioned into his new role. Alan Rankine was subsequently appointed as CFO (Designate) and as an Executive Director with effect from 1 October 2022, with Martin stepping down from the Board on 31 October 2022 and from his role as CFO from 31 December 2022. All of us at Scottish Friendly owe a huge debt of gratitude and appreciation to Martin for his tireless commitment especially during these past two years and wish him every success for the future.

Neil Lovatt, Commercial Director, formally resigned from the Board on 18 January 2022 for health reasons. Neil has been instrumental in developing and delivering on our strategy with relentless passion and enthusiasm. On behalf of the Board I would like to thank Neil for his immense contribution and we all send our best wishes to him and his family.



“Our achievements were once again recognised with a number of prestigious industry awards.”

Our People and Our Delegates

2022 brought with it another year of change, alongside fresh challenges and uncertainties. Positive change came with the appointment of our new CEO, as well as other senior personnel to further strengthen our leadership team. In addition, a series of initiatives implemented to support and improve colleague wellbeing were made available, such as continued access to free private health insurance and employee assistance, as well as a dedicated Health Week providing one-to-one and group support on areas such as nutrition, alternative therapies and flu vaccines.

In common with many of our customers, our colleagues have been impacted by the current cost of living crisis. In response, we introduced two cost of living payments with the aim of supporting them and their families through these difficult times. In turn, they have remained fully focused on

providing support to our customers. My fellow Board colleagues are extremely grateful to each of them and appreciative of the critical role they play in seeking to deliver on the commitments we make within our purpose.

Our delegate system is central to the efficient governance of the organisation and, as in previous years, I would, again, personally like to thank our delegates for their continued support, enthusiasm and commitment throughout the past year.

Outlook

At the time of writing, whilst inflation remains stubbornly high, there are signs that it will reduce as the year progresses. However, geopolitical tensions remain which, as we all know, could result in continued uncertainty and instability.

David Huntley Chair

3 April 2023

CEO's Review

“As a mutual society, we have a strong sense of purpose, and believe that we can make a difference to the lives of our customers.”





2022 Highlights

I am delighted to be reporting on the annual report and accounts of Scottish Friendly for the first time as CEO. The support I have received from across the business has been incredible, with an overriding determination to serve our customers combined with a commitment to the long-term success of the Society.

On behalf of Scottish Friendly, I would like to thank Martin Pringle, Chief Financial Officer, Neil Lovatt, Commercial Director, and Ian Neilson, Operations Director, for their support, dedication and significant contribution to Scottish Friendly and wish them all the best for the future.

I have been delighted with the calibre of individuals we have been able to attract to take the place of Martin, Neil and Ian. Alexander Manas recently joined us as Commercial Director and Stephen Campbell will join as Chief Operating Officer in May. Meanwhile Alan Rankine and Scott McNeill were internally promoted to CFO and Chief Actuary respectively. The fact that we have been able to both recruit externally and promote from within demonstrates the attractiveness of Scottish Friendly and our ability to nurture and develop our own people.

We continue to live in uncertain times, with ongoing challenges facing the UK and global economies and the rising cost of living and high inflation continuing to affect households and our customers. However, our own research and experience shows that, regardless of these concerns, there is still an intention among many to

continue to save, invest and protect where they are able to do so. Despite the challenges that we continue to face, I am happy to report that our strategy continues to deliver value for our members.

Our ambition for Scottish Friendly is to be the UK's leading mutual insurer. This ambition is based around how it feels to work at Scottish Friendly, how we serve our purpose and the products and services we provide for our customers.

We want Scottish Friendly to be a great place to work and, whilst we have received strong feedback in the past from colleagues through our own internal surveys, last year we decided to participate in the external 'Best Companies Survey' which is recognised and benchmarked across the UK. I am delighted to say that 80% of colleagues completed the survey and we were awarded with a 'One to Watch' status.

Receiving feedback from so many colleagues gives us confidence that the results are fully reflective of how it feels to work for Scottish Friendly and achieving 'One to Watch' is a great start. We have taken the feedback from the survey and put plans in place to improve, particularly around training and development opportunities.

We acknowledge that some service levels have at times been below the level we would like to deliver for our customers due to challenges we've faced internally dealing with higher absence and colleague turnover

combined with external workforce shortages across the economy. We continue to recruit, and I am pleased to report that both absence rates and turnover are falling. We are dedicated to creating a culture where we continuously learn in order to become even stronger and believe that the best way that we can determine how to do this is to listen to our colleagues. We have a distinguished organisation, and the people within it make it that way. We also understand the importance of not only celebrating success, but learning and improving when things don't go so well.

With all of this in mind, we have made, and will continue to make investment across the business to further enhance our business operations through improvements in technological and security infrastructure, together delivering cost management efficiencies which will all be to the benefit of our members. We know there remains more to be done and there is a comprehensive plan in place to move us forward through 2023 and beyond.

Business Performance

Scottish Friendly has a three-strand approach to our strategy: organic growth through our own brand product range and distribution channels; forming new partnerships and launching new products with existing partners; and acquisition and consolidation activity.

Own Brand

Scottish Friendly's e-business and direct marketing activity delivered lower sales than the previous year for the first time in well over a decade. With the backdrop of economic uncertainty and the cost of living crisis, 2022 was a challenging year impacting on people's ability to save and invest for their futures.

Whilst ISA sales have reduced, people have continued to invest what they can for their children, through our JISA product. As we move through 2023, we expect the landscape to remain challenging. Increases in cost of living will continue to have an impact and we will continue to work hard to be there to help people do what they can, when they can, in a difficult climate. We expect, as the economy recovers, both our new customer numbers and the amounts saved to grow.

In 2023, we will re-launch our Over 50s product to help customers to protect their families. Paper-based marketing will again reduce as we invest more in digital marketing and a new website will help to continue improve customer experience.

Partnerships

Scottish Friendly's term life assurance partners had a strong year in general with an increase on sales from the previous year from £25.0m to £29.6m. This was against a relatively flat market where competition increased, demonstrating the value Scottish Friendly and our partners bring to this market.



The funeral planning market underwent significant reform with the introduction of regulation which saw several providers exit the market amid widespread sector consolidation. This had an impact on the whole market, as did the fall in consumer confidence when certain providers ceased trading. In recent months confidence has begun to return and performance has lifted.

Increases in living costs put households under pressure to review expenditure. However we have seen customers continue to protect what they love ahead of other expenditure and are confident that consumers will continue to do so in 2023.

Acquisitions and Consolidation

Scottish Friendly has had and continues to have a long and proven track record of acquiring and integrating large books of insurance business. We continue to look for the right opportunities in this space and other value generative acquisition opportunities. However, we remain selective in our approach, with all opportunities having to be clearly aligned with our strategic objectives, helping to leverage our current strengths, and providing long-term

sustainable growth in value for our members.

Environmental, Social and Governance

As a mutual society, we have a strong sense of purpose and believe that we can make a difference to the lives of our customers.

Our roots, stretching back 160 years, are founded in helping communities achieve financial wellbeing; helping people take better control of their finances, in an organisation run for and owned by its members.

We consider the long-term future for our members and their families when it comes to our business, our investments and generally, what is in the best interest of the Society. We deliver this through investing responsibly, building strong links with the community, supporting self-reliance, and being a voice for those that are largely ignored by the rest of our industry.

Our Environmental, Social and Governance (ESG) framework supports these activities. For more detail we have a dedicated section on our ESG commitments on pages 20 to 27.

The Regulatory Environment

Throughout 2022, enhancements to policies, processes and systems have been made to ensure continued compliance with requirements of our regulators the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

Particular areas of focus have included:

- **Consumer Duty** – assessing regulatory requirements and supporting planning to implement changes. A new duty setting higher and clearer standards of consumer protection across financial services.
- **Operational resilience** – Implementation of new requirements and expectations to strengthen operational resilience.
- **Stronger nudge to pension guidance** - rules to increase take-up of guidance from Pension Wise.
- **Investment Firms Prudential Regime** – Implementation of the new prudential regime for FCA investment firms (Scottish Friendly Assets Managers Limited).

Results

Scottish Friendly delivered a solid set of results against a backdrop of market volatility and continued uncertainty. Total sales were £47.7 million APE, compared to £46.9 million in 2021, representing a record level.

Of the 2022 total, protection sales were £29.6 million (2021: £25.0 million) and savings and investments, which includes Scottish Friendly own brand, whole of life and savings partners, amounted to £18.1 million (2021: £21.9 million). Included within savings and investments, Scottish Friendly own brand sales decreased in 2022 to £14.3 million (2021: £18.4 million) reflecting the challenges of the cost of living crisis on the ability of customers to save.

Earned premiums increased to £198.8 million (2021 restated¹: £188.5 million). Net premium income (after reinsurance) from insurance contracts increased to £126.3 million (2021 restated⁵: £120.8 million). The ratio of administration expenses to total renewal premiums decreased to 8.5% (2021: 8.7%). The Net Transfer to the Fund for Future Appropriations for the year was £3.6 million (2021 restated¹: £22.8 million) representing an increase to the surplus available to distribute to our with profits customers or used to grow the business.

Our assets under management reduced over the year from £5.4bn to £4.5bn. This reflected both customer movements over the year, the expected run-off of the business

¹ Refer to note 37



transferred from Canada Life in 2019, and the challenging investment market environment.

Customer membership increased from 776,000 in 2021 to 814,000 in 2022. Scottish Friendly has responsibility for more than one million policies across more than 350 product lines.

Financial Position

2022 has been an exceptionally volatile year within the financial markets. The performance of the FTSE All Share Total Return Index finished with a modest increase of 0.35% over the year, with the S&P 500 TR Index falling 18.1%. The FTSE Actuaries UK Conventional Gilts All Stocks index reduced by 25.4% over the year, against a backdrop of rising inflation and interest rates and the loss of market confidence following the mini-budget in September 2022.

The challenging external financial market resulted in negative investment returns of (17.9)% being attributed to the asset shares within the Scottish Friendly Main with- profits fund for 2022, compared to 7.5% in 2021. However, the with-profits policies in that fund did benefit from additional enhancements in respect of the Special Members Share of 1.2% (2021: 1.2%).

Despite the challenging economic conditions, our solvency ratio has remained strong, increasing by 30% over the year to 204%. We closely monitor and actively manage the risks facing our business. We also undertake extensive stress and scenario testing,

to determine the impact of a series of adverse events occurring concurrently and the results of this are reported to the Board annually. This confirmed that even in very stressed scenarios we are comfortably able to meet our regulatory capital requirements. This means that our customers can be confident in our ability to meet our promises to them, as they fall due, today and in the future.

Outlook

We continue to navigate the aftermath of the pandemic and rising living costs affecting many UK households and our customers. With inflated energy and mortgage costs in particular and recessionary pressures, we are under no illusion that challenging times will continue for the foreseeable future. One certainty during this period is that Scottish Friendly will continue to focus our efforts on helping individuals and their families achieve financial wellbeing through friendly products and customer care.

We continue to remain well capitalised, with our 2022 financial results demonstrating our agility, flexibility and commitment to navigate through the challenges that we continue to face here in the UK. We have experienced many economic cycles over our 160 year history and have a proven track record of resilience through taking a long-term approach. This continues to serve us well, enabling us to protect our members during short-term turbulence while putting robust measures in place to enhance our asset base for the future.

We recognise the challenges that lie ahead and, although the future remains uncertain, we are confident in our ability to navigate through the challenges that remain.

Finally, I would like to thank our Chair, the Board, Executive Committee and all of our colleagues for their hard work and unwavering commitment during this period.

Stephen McGee CEO

3 April 2023

Our Purpose

“Dedicated to helping you and your family achieve financial wellbeing through friendly products and customer care.”



Our ambition

“To become the UK’s leading financial mutual insurer.”

Our values



We’re in this together

- We collaborate and value each other’s opinions
- We’re a small team with a big impact
- We support each other to thrive and grow



We care about our customers

- Our customers are at the heart of everything we do
- We’re committed to doing the right thing for our customers
- We listen to and learn from our customers



We keep moving forward

- We always see change as an opportunity
- Our progress is based on careful management of our risks
- We have the courage to test new ideas and learn from them

Delivering value to our members





Member focused

Scottish Friendly is a mutual which means that we are not driven by the needs of shareholders. Instead, we are owned by, and run for, the benefit of our members. Profits we make are distributed to our members or reinvested to generate further value in future years.

- **Our mutual ethos** – we aim to serve the full breadth of the market and make it easy for people to engage with financial services. We aim to offer products that are simple and accessible even for those with smaller amounts to invest.
- **Focus on our members** – as a mutual we don't pay shareholder dividends. Therefore, we're able to focus on providing value for our members. This includes our Special Members' Share enhancement of 1.2% (2021: 1.2%) on with-profits policies in our Main Fund.
- **Effective governance** – there are currently 30 Delegate positions (25 filled), elected to represent geographic constituencies representing all our 814,000 members. They meet regularly with the Board and Executive to discuss company performance and strategy. They are empowered to approve

key company decisions on behalf of all members.

- **Long standing** – we have been helping people plan for their futures since 1862 and are proud to be one of the largest mutual life offices in the UK.
- **Award winning** – we are proud of the products we offer and believe they add value to our members and future members. In 2022 we won Best UK Mutual Insurer at the Capital Finance International awards and Best Junior ISA Provider at the Investment Life and Pensions Moneyfacts awards, both for the third consecutive year. In addition, we won Most Innovative Mutual Insurer and Best Junior ISA Provider at the Global Brands Magazine awards and were highly commended for best financial protection provider at the What Mortgage awards.
- **Digital technologies** - we continue to invest more in digital marketing and developing our website in addition to continuing to add new functionality to our mobile app, ensuring our members can manage their investments on the move, wherever they are, 24 hours a day.

ESG Report





Our Focus on Sustainability

As an insurer and asset owner, we recognise that we're part of an industry that can use its influence to drive real change. As a mutual that has been helping people for 160 years, we have a deep-rooted sense of duty. Our purpose is being 'dedicated to helping you and your family achieve financial wellbeing through friendly products and customer care.' and we know that our responsibility is wider than the provision of insurance benefits. It is important that we help to shape a better world for our customers, our people and the communities where we live, both now and in the future. This includes being mindful of our impact on the environment and communities in which we operate and seeking to reduce this.

This section provides a summary of Scottish Friendly's ESG ambition and performance for the year ended 31 December 2022.

ESG Ambition

Our ESG ambition is to do the right thing in the UK financial services sector by acting on climate change, building stronger, more resilient

communities and operating as a sustainable business. We aim to deliver our ambition in the way we conduct ourselves, the products we offer, the responsible investments we make, our commitment to our people and our ability to influence others.

Environment Climate Action

In March 2022, we set an ambition to become a Net Zero carbon business by 2050. To deliver this plan requires action on both our investments, which account for most of our current emissions, and in how we run and operate our business. This requires coordinated action across our industry, but also clear leadership and action by ourselves. We have split our efforts into two strands – own operations, doing as much of what we can that is within our control, and investments, where we acknowledge there is a longer road ahead.

Our progress against our own direct operations and investments is as follows:

Own Operations

We have achieved a 16% reduction in our location-based carbon emissions against our 2021 baseline. Greenhouse gas emissions are categorised into three scopes. Scope 1 covers direct emissions generated from within our operations. Scope 2 covers emissions from purchased energy to power our operations. Scope 3 includes all other indirect emissions that occur within our value chain, including

the suppliers we work with and investment assets held.

We are focused on making the scope 1 and 2 emissions from our own operations net zero carbon by 2030 and have worked with a specialist partner to help identify a pathway to this outcome and to monitor progress.

Our objectives to achieve net zero carbon for our Scope 1 and Scope 2 emissions are to:



Governance and Strategy 01

- Optimise our building services and ensure they are operating as efficiently as possible.
- Procure 100% green energy from natural renewable sources.
- Implement a Carbon and Energy Management System to drive, measure and report on the progress of the carbon reduction opportunities.



Building Upgrades 02

- Improve the thermal properties of the building envelope to reduce heatloss.
- Install secondary glazing.
- Improve metering and reporting of energy.



Low Carbon heat 03

- Transition away from fossil fuelled heating systems to low carbon, energy efficient heat pumps.



This year we have implemented the governance and strategy strand of our glide path to net zero. This has involved procuring 100% renewable green energy (on an offsetting basis) for the majority of our building's energy supply, creating a comfort policy, maintaining a heat banding that is both comfortable for colleagues and energy efficient and creating a system for monitoring our energy usage in 2023.

We are now looking for ways to reduce energy consumption by exploring potential updates to our building. A Climate Action Group consisting of colleagues from across the business has been established and their next step is not only to identify ways to reduce energy, but also to consider waste reduction through improving our recycling. They have introduced a colleague survey that aims to help the business consider our impact on the environment when we travel for work. The Climate Action Group is supported by an ESG Steering Group consisting of members of the leadership team.

Our next actions and targets are to:

- Scope and consider undertaking building upgrades.
- Explore how we can reduce scope 3 emissions, which includes all other indirect emissions that occur within our value chain.
- Better understand and manage our wider environmental footprint and impact, including improvements in recycling and exploring ways to reduce water consumption and paper usage.

Our organisation's carbon emissions for the period 1st January 2022 to 31st December 2022 reflects emissions from our Glasgow office for which we are directly responsible.

We reported our total emissions against our 2021 baseline year using the financial control boundary. Our methodology aligns with Defra's Environmental reporting guidelines (2019) and uses the government's greenhouse gas reporting conversion factors (2022) to quantify emissions. For the purposes of evaluating performance to date we have compared our emissions on a like for like basis against last year. Further information can be found in the table on page 24.

Emissions source	2022	2021	Change	% Change
Direct Emissions from Stationary Combustion - Natural Gas Consumption				
Total Scope 1 (tCO ₂ e)	93.58	107.80	(14.23)	(13.2)%
Indirect Emissions from Purchased Electricity				
Total Scope 2 (tCO ₂ e) - Location Based	43.42	54.08	(10.65)	(19.7)%
Total Scope 2 (tCO ₂ e) - Market Based	0.43	7.35	(6.92)	(94.2)%
Total Scope 1 & 2 (tCO ₂ e) - Location Based	137.00	161.88	(24.88)	(15.4)%
Total Scope 1 & 2 (tCO ₂ e) - Market Based	94.01	115.15	(21.15)	(18.4)%
Energy Consumption by source (kWh)				
	2022	2021	Change	% Change
Electricity	221,258	253,650	(32,392)	(12.8)%
Gas	512,638	588,580	(75,942)	(12.9)%
Total	733,896	842,230	(108,334)	(12.9)%

This year our total energy consumption has decreased by 12.9% despite the increase in the number of people using our facilities as lockdown restrictions eased. Our carbon emissions have

also decreased by 15.4% against last year due to the procurement of renewable energy for most of the electricity we use.

Notes: The emissions factors from the UK government-produced '2022 conversion factor guidance' has been used to calculate our scope 1 and 2 emissions. Reporting covers the financial year 2022 and reflects emissions from our Glasgow office for which we are directly responsible. GHG emissions are categorised into three scopes. Scope 1 covers direct emissions generated from within our operations. Scope 2 covers emissions from purchased energy to power our operations. Scope 3 includes all other indirect emissions that occur within our value chain. Location-based: A location-based method reflects the average emissions intensity of grids on which energy consumption occurs. Market-based: A market-based method reflects emissions from electricity that companies have purposefully chosen.



Investments

A key element of our approach to ESG on investments is understanding the ESG footprint of the companies that we invest in. To date, our core focus has been in considering the implications of such factors on the investment portfolio.

Quantifying the impact of climate change is an emerging practice, with inherent uncertainty in the quality of available data. It is challenging to obtain consistent asset data from our investment managers and quantify the impact of carbon emissions from our scope 3 category financial investments. As such, we like many financial services organisations are continuing to gather information in support of scoping a plan within the next year that has clear and measurable objectives and timescales in order that we can meet our 2050 net zero ambition.

As part of our climate change commitments we:

- require key investment managers to report to us on ESG performance.
- monitor the overall ESG rating of investments and work with

key investment managers to improve these.

- encourage our investment managers to exercise their voting rights on all eligible investments, and make sure their voting supports appropriate action on ESG issues.

We require our investment managers to be signatories to the UN Principles of Responsible Investment ("UN PRI") and UK Stewardship Code or have plans in place to achieve this. For any new mandates awarded to any fund manager will require that these are already in place.

Social Building Stronger Communities

With our roots firmly founded in helping people in communities to support themselves, Scottish Friendly is proud to continue our tradition of community involvement. The charities and organisations we support are Action for Children, Scottish Book Trust and Developing the Young Workforce.

Our overall ambition is to create opportunities for financial inclusion for as many young people as we can.



In doing this, we hope we can improve the lives and outlook of young people, particularly those who most need it, which can benefit the family unit and help the wider community prosper. Please refer to our separate **Sustainability Report** on our website to find out more.

Customers

We operate for our customers' benefit. One of the biggest long-term financial

goals for most is saving and investing enough for the future. We have a responsibility to provide solutions that help our customers achieve their financial goals. A key part of this involves understanding customer needs and to help people plan more effectively and make good choices with life savings.

Scottish Friendly has made it simple for our customers to start investing and manage their financial future





on-line and have a range of easy-to-use on-line guides designed to make the world of finance a little bit clearer. We continue to focus on finding out about more ways we can help our customers. We do this through listening to our customers, identifying improvements and conducting market research. During 2022, we conducted a series of internal 'listening sessions' to focus on how we can improve customer experience. We also listen to our members views through delegates, who are elected by and represent our members.

Colleagues

We want to make sure that Scottish Friendly is a great place to work for all our colleagues and in 2022 we were delighted to be nominated as a 'One to Watch' company in the externally benchmarked Best Companies survey.

Our colleague Values and Promises have been launched through a variety of channels through 2021 and 2022.

A hybrid working arrangement means colleagues are in the office with greater regularity, whilst also gaining from the advantage of the material benefits from home working. In 2022 a series of activities for Mental Health Awareness Week and Health Week designed to support our colleague's well-being were well received. We have a free Employee Assistance Programme (EAP) that gives a wealth of support and help, from counselling

sessions through to financial advice, health advice and help with life events.

Suppliers

We aim to conduct business with our suppliers in a sustainable and ethical manner. As part of our climate change commitments, we will achieve net zero in our supply chain by 2050.

Our supplier policy contains requirements for suppliers to be assessed for employment, business standards and ESG standards.

Diversity and Inclusion

Our culture welcomes diversity of all types and we treat all colleagues equally, regardless of their sex, race, ethnic origin, religion, age, sexual orientation, or physical ability. Our colleagues can thrive and be themselves at work, regardless of their background, identity, or circumstance. We aim to be an employer of choice and one that represents our local community. We ensure we all enjoy a positive work environment, with every individual taking personal responsibility for upholding the spirit and integrity of our Diversity, Equality and Inclusion policy.

Governance

Our Governance

An important part of ESG is how we are governed. Please refer to the Report on Corporate Governance on pages 42 to 69 to find out more.

Governance

Scottish Friendly continues to embrace best practice in corporate governance and is committed to and adopts the principles of the AFM Corporate Governance Code for Mutual Insurers



Directors

David C Huntley BA, FIA

Chair

Appointed as a Director in January 2013. Chair of the Nomination Committee and member of the Remuneration Committee. Chair of the Scottish Friendly Assurance subsidiary companies: Scottish Friendly Asset Managers Limited, Scottish Friendly Insurance Services Limited, S.L. Insurance Services Limited (until December 2022), SFIS (Nominees) Limited, M&GM Assurance (Trustees) Limited and SF Pension Managers & Trustees Limited. Non-Executive Director of Hampden & Co plc. Former Chair of FIL Life Insurance Limited, Senior Independent Director of Loughborough Building Society, Managing Director of Pearl Life, CEO of Scottish Re and Swiss Re Life and Health Australia.

Kerr Luscombe BSc, FFA

Vice-Chair and Senior Independent Director (from 27 April 2022)

Appointed as a Director in June 2015. Appointed as Vice-Chair and Senior Independent Director in April 2022, Member of the Audit Committee, Risk Committee, Remuneration Committee, Nomination Committee and With-Profits Committee. Retired as a Director of the Scottish Friendly Assurance subsidiary companies in April 2022: Scottish Friendly Asset Managers Limited, Scottish Friendly Insurance Services Limited, S.L. Insurance Services Limited (until April 2022), SFIS (Nominees) Limited, M&GM Assurance (Trustees) Limited and SF Pension Managers & Trustees Limited. Fellow of the Institute and Faculty of Actuaries with extensive experience at Board level in the life insurance industry. Previously a Director of Royal London Group and also held finance Directorships at both Lloyds Banking Group and Santander's life insurance businesses. Currently an Independent Member of the With-Profits Committee at Aegon UK and Chair of the With-Profits Committees at Phoenix Group and Standard Life.

Anja M Balfour BSc (Hons), ASIP

Appointed as a Director in April 2018. Chair of the Investment Committee and member of the With-Profits Committee. Appointed as a Director of the Scottish Friendly Assurance subsidiary companies in April 2022: Scottish Friendly Asset Managers Limited, Scottish Friendly Insurance Services Limited, S.L. Insurance Services Limited (until December 2022), SFIS (Nominees) Limited, M&GM Assurance (Trustees) Limited and SF Pension Managers & Trustees Limited. Currently Chair of The Global Smaller Companies Trust Plc and Non-Executive Director of AVI Global Trust plc. Former Chair of Schroder Japan Growth Fund plc.

Gillian Watson

Appointed as a Director in April 2018. Appointed as Chair of the Remuneration Committee in April 2022 and member of the Audit Committee. Currently Managing Director and Head of Energy & Renewables at Noble & Co and Chair of DC25 Ltd, Martin Currie Global Portfolio Trust and char.gy Ltd. Also holds Non-Executive Director position at Stratera Energy Ltd and is a Trustee of the Boswell Trust.

**Susan Beckett BSc (Hons)**

Appointed as a Director in September 2020. Chair of Risk Committee and member of the Audit Committee and Investment Committee. Former Chief Risk Officer for RBC Brewin Dolphin and held senior leadership positions at global firms including Schroders, JP Morgan, Barclays Global Investors, BlackRock, Kleinwort Benson, and the BT Pension Scheme. Non-Executive Director and Chair of the Board Risk Committee for RBC Brewin Dolphin (Ireland) Ltd. Appointed as Director of Scottish Friendly Asset Managers Limited in September 2020 and as a Director of the Scottish Friendly Assurance Society subsidiary companies in April 2022: Scottish Friendly Insurance Services Limited, S.L. Insurance Services Limited (until December 2022), SFIS (Nominees) Limited, M&GM Assurance (Trustees) Limited and SF Pension Managers & Trustees Limited.

Mark Laidlaw BSc (Hons), FFA

Appointed as a Director in September 2021. Appointed as Chair of the Audit Committee in April 2022 and member of the Risk Committee and With-Profits Committee. A qualified actuary with over 30 years' experience in the insurance sector across life insurance, general insurance, pensions and asset management. Held a number of roles in the UK and in Europe including CFO of Aegon UK, Global Head of Solvency II for Aegon nv and Corporate Strategy Director of LV. Now retired from full time executive work and is focused on Non-Executive Directorships and is currently a director of Kilter Finance, London CIV, Chair of the Audit and Risk Committee of Omnilife, as well as being a Trustee of the LV pension scheme and a member of the investment committee of TPT.

Stephen McGee BSc, FFA

CEO (from 18 April 2022)

Appointed as a Director in September 2021. Member of the Risk Committee, Nomination Committee and Investment Committee. Appointed as a Director of the Scottish Friendly Assurance subsidiary companies in April 2022: Scottish Friendly Asset Managers Limited, Scottish Friendly Insurance Services Limited, S.L. Insurance Services Limited (until December 2022), SFIS (Nominees) Limited, M&GM Assurance (Trustees) Limited and SF Pension Managers & Trustees Limited.

Fellow of the Institute and Faculty of Actuaries with extensive experience at Board level in the life insurance industry. Previously the CFO at Aegon UK from 2016 and also held senior positions at a number of financial institutions including Chief Actuary at Lloyds Banking Group and Head of Actuarial at Phoenix Group.

Alan Rankine BSc, FFA

CFO Designate (1 October 2022) and CFO (from 1 January 2023)

Joined Scottish Friendly as Chief Actuary in July 2018. Appointed as a Director in October 2022, as Chief Financial Officer (Designate). A qualified actuary with over 15 years' experience in the life insurance industry. Member of the Investment Committee. Appointed as a Director of Scottish Friendly Asset Managers Limited in December 2022 and the Scottish Friendly Assurance Society subsidiary companies: Scottish Friendly Insurance Services Limited, SFIS (Nominees) Limited, M&GM Assurance (Trustees) Limited and SF Pension Managers & Trustees Limited in January 2023.



Executive

Stephen McGee BSc, FFA

(from 18 April 2022)
Chief Executive Officer

Alan Rankine BSc, FFA

(from 1 January 2023)
Chief Financial Officer

Aileen Abernethy BSc, MSci

(from 17 January 2023)
Head of Operational Control
and Conduct Risk

Gen Humphreys BSc, FFA, CERA

Chief Risk Officer

Jill Mackay BA (Hons)

Head of Marketing

Alexander Manas

(from 14 November 2022)
Commercial Director

Damian McGeown BSc

(from 20 September 2022
until 1 May 2023)
Interim Head of IT and Change

Stephen Percival BSc (Hons), FFA

(until 14 November 2022)
Interim Commercial Director

Pam Simmons BA, FCIPD

HR Director and
Company Secretary

Directors' Report

The Directors have pleasure in submitting their Annual Report and Accounts for the year ended 31 December 2022. This report should be read in conjunction with the Strategic Report on pages 6 to 27.





Business objectives and activities

The principal activity of Scottish Friendly Assurance Society Limited ("Scottish Friendly") is the transaction of long-term insurance business in the United Kingdom. In accordance with the Friendly Societies Act 1992, the Directors confirm that all activities carried on during the year by Scottish Friendly are believed to have been within its powers.

Scottish Friendly is authorised by the Prudential Regulatory Authority and regulated by the FCA and the Prudential Regulatory Authority. It has five wholly owned subsidiaries, (collectively with Scottish Friendly "the Group"): Scottish Friendly Asset Managers Limited, Scottish Friendly Insurance Services Limited, SFIS (Nominees) Limited, M&GM Assurance (Trustees) Limited and SF Pension Managers & Trustees Limited. An application to strike-off S.L. Insurance Services Limited was made to Companies House in August 2022 and this was successfully concluded in December 2022.

Scottish Friendly Asset Managers Limited is authorised and regulated by the Financial Conduct Authority and conducts the business of managers for transactions in Scottish Friendly ISAs, Junior ISAs and Child Trust Funds. The principal activity of Scottish Friendly Insurance Services Limited is the provision of administration services and was de-regulated in October 2022. Following an application to de-authorise from the FCA, SFIS (Nominees) Limited is currently dormant.

MGM Assurance (Trustees) Limited and SF Pension Managers & Trustees Limited are the trustee entities for the oversight of certain closed pensions schemes. Scottish Friendly Investment Funds ICVC, an OEIC (Open Ended Investment Company), provides the stocks and shares component of the Scottish Friendly ISA and Child Trust Fund.

All of the above are registered in Scotland, other than MGM Assurance (Trustees) Limited and SF Pension Managers & Trustees Limited which are registered in England and Wales.

Governance and Board Review

An independent review of Board effectiveness was undertaken in 2021. The independent review scope was to assess the Scottish Friendly Board effectiveness, whilst taking into account UK regulatory requirements, Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) expectations, industry experience and good practice, as well as the Association of Financial Mutuals (AFM) Corporate Governance Code.

There were some particular areas examined and commented on in detail; namely; Board composition and diversity; Board culture and dynamics; the role and contribution of Non-Executive Directors; evidence of oversight and challenge; Board and Risk Committee decision making; interaction between the Board and its committees; Board support and the role of the Company Secretary;

succession planning; appropriateness of Board processes; Board and Risk Committee papers and examples of recent significant decisions that the Board has made (as evidenced through a sample of case studies).

The report conclusions albeit in summary were that diversity of the Board was good in that three out of the six Non-Executive Directors were female and future succession for vacancies was attempting to address broader diversity characteristics; the technical expertise in the Board was broad with a clear process in place to identify gaps and an extended specialist team and Executive team to draw from; the Board and management committee governance structure was a typical structure that it concluded was working well, as were the meetings themselves and the With Profits Committee (WPC) provided additional actuarial scrutiny.

The recording of minutes, actions and papers was of good quality and challenge and contribution was robust and wide and varied at governance meetings. Some actions which the report suggested management consider were: how legal expertise can be attained as required, which has been fulfilled by retained relationships and provides access to a broad range of legal expertise; having a more formal approach to documenting the independence of NEDs as well as letters of engagement for those appointments; consider how technical papers can be more concise; operational Management Information (MI) be reviewed to ensure it is

providing the information the Board require; and a more formal approach to training of the Board is undertaken.

All of the actions included within the report have been concluded by the end of the year, with additional enhancements to be made during 2023.

Directors and Chief Executive Officer

The current Directors of Scottish Friendly, including the CEO, are listed on pages 29 to 32. Further information on the Board is set out in the Report on Corporate Governance on pages 42 to 69.

Statement of Solvency

In the opinion of Scottish Friendly's Head of Actuarial and the Board, Scottish Friendly had the required margin of solvency as prescribed in the Solvency II regulatory requirements as at 31 December 2022 and throughout the year.

Going Concern Basis

The Board is satisfied that Scottish Friendly has adequate resources to continue in business for at least 12 months from the date of approval of the financial statements and that, therefore, it is appropriate to adopt the going concern basis in preparing the financial statements as detailed in note 2 to the financial statements.

Thus, the Board considers that Scottish Friendly has adequate resources to continue in business for the foreseeable future. In making this



assessment, the Board has considered the above statement of solvency from the Head of Actuarial, which is further supported by actuarial valuation and solvency reporting made to the Board on a regular basis, including the Own Risk and Solvency Assessment (ORSA) as described in the longer term viability statement.

It is also noted that the Group maintains substantial cash reserves to cover anticipated policy outflows and further contingency is available in that the majority of the investments are held in readily realisable investment vehicles.

Longer Term Viability Statement

Scottish Friendly invests for long term capital growth and as such members rely on the stability of the Group over the longer term. This is reflected in the analysis of the principal risks within the Corporate Governance section of this report. Key risks have been analysed and disclosed, as well as the framework put in place to manage and mitigate these risks.

The Risk Management Framework is integrated within the solvency and capital management activity, in particular the ORSA. The ORSA requires Scottish Friendly to consider the risks arising from the agreed strategic priorities, how much capital is needed to protect the business against those risks over the business planning period in the context of the agreed risk appetite, and how resilient the Scottish Friendly business model is under stressed conditions.

This analysis involves testing a number of projections of the capital position under a range of severe but plausible adverse scenarios covering a period of five years. These include economic and demographic scenarios as well as specific scenarios covering climate change, operational failures and counterparty defaults. This enables management to take any necessary actions to manage risks and ensure the adequate level of capital is held, in line with Scottish Friendly's risk appetite.

Reverse stress testing results demonstrate the business is sustainable in the medium to longer term. It would require an implausibly extreme combination of market shocks before the solvency position remained below 100% for a sustained period. In each of the scenarios modelled the projections demonstrate that appropriate levels of capital would remain under both the base and reasonably foreseeable stress scenarios, and Scottish Friendly is comfortably able to cover its regulatory capital requirement without taking any additional management actions. Contingency actions are reviewed annually or more frequently if required.

Overall, this allows the Board to make an assessment of Scottish Friendly's viability to continue operations and meet its obligations over a five-year time period. This period reflects the Scottish Friendly planning cycle.

Based on the robust assessment of the principal risks, the Directors have a reasonable expectation that Scottish

Friendly will be able to continue in operation and meet its liabilities as they fall due over that five-year period.

Tax Strategy

The board is responsible for ensuring the tax obligations of Scottish Friendly are understood, complied with and managed in a sustainable, responsible and transparent manner. Our tax strategy ensures we pay our taxes in line with our legal obligations, through open, transparent and collaborative relationship with the tax authorities, and we manage our risks in line with our risk management framework. Scottish Friendly has published its tax strategy on its website and this can be found at: <https://www.scottishfriendly.co.uk/tax-strategy>

Colleagues

We work hard to ensure when we recruit colleagues from all walks of life and experiences. We recruit and reward individuals based on their skills, performance and potential — regardless of race, gender, sexual orientation, gender identity or expression, lifestyle, age, educational background, nationality, religion or physical ability.

Our People function facilitates an overall framework that ensures colleague conversations take place frequently between managers and their teams, however, we reinforce and supplement this with independently chaired monthly people ambassador meetings attended by a network of representatives from across the business. In addition, regular

anonymous colleague surveys are issued throughout the year and are independently reviewed. In 2022 we participated in the externally accredited Best Companies Survey for the first year. Scottish Friendly were awarded a 'One to Watch' status as part of this process which was a result of good engagement scores. Our colleague results and feedback are shared locally with functional teams, supported by the people ambassadors and the Executive, to agree action plans for improvements. All of this is overseen by the people function to ensure there is a continuous loop of feedback.

We have invested in supporting our people, particularly since 2020 when an HR function was introduced to the business. This function has continued to grow since then and works with our managers and leaders to ensure they have the skills and capability to support our colleagues who in turn support our customers. Having launched our company values in 2021, we have subsequently introduced our colleague promises, both of which can be found on our website.

2022 has been a particularly challenging year for our people given the cost of living crisis and the movements in the employment market resulting in the highest turnover the UK has seen in many years. Throughout this we have maintained focus on listening to our colleagues via our internal surveys where 89% of our contributors said they were proud to work for Scottish Friendly. We want to make sure that Scottish Friendly



continues to be a great place to work for all our colleagues and in 2022 we were delighted to be nominated as a 'One to Watch' company in the externally benchmarked Best Companies survey. Following the survey a series of listening sessions took place, designed to hear what we can do better for our customers, with outputs being rolled up into detailed action plans within teams. As part of our talent strategy to attract people from differing backgrounds, we recruited four graduates and three apprentices in 2022, whilst also working in conjunction with Developing Young Workforce Glasgow, who specifically support communities with a lower socially mobile demographic with the aim of attracting talented young people to join our organisation.

Modern Slavery Act

The Modern Slavery Act 2015 (Slavery Act) requires a commercial organisation over a certain size to publish a slavery and human trafficking statement for each financial year. This statement can be found on Scottish Friendly's website. Scottish Friendly is committed to the eradication of human trafficking and slavery. Slavery and human trafficking are abuses of a person's freedom and rights. We are totally opposed to such abuses in our direct operations, our indirect operations and our supply chain as a whole. We consider that the greatest risk of slavery and human trafficking would be in our supply chain, where operational and managerial oversight

is out of our direct control, and we expect our partners to operate in line with our corporate values.

Policy on Complaints by Customers

Scottish Friendly's complaints procedures, detailing the action to be taken in the event of a complaint being received from a member, are documented in Scottish Friendly's Memorandum and Rules, Complaints Manual and Compliance Manual. There is provision for an arbiter to be appointed. In the event that Scottish Friendly is unable to resolve a complaint to the member's satisfaction, the member is made aware of the option to refer to the Financial Ombudsman Service.

Policyholders and Members

As at 31 December 2022, Scottish Friendly had 1,437,000 (2021: 1,413,000) policies and estimated the number of members to be 814,000 (2021: 776,000).

Post Balance Sheet Events

In March 2023, the Trustees of the Staff Pension Scheme completed a "buy-in", whereby insurance policies were purchased as investments to match the expected costs of meeting the pension liabilities. This is disclosed in note 38.

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which Scottish Friendly's auditors are unaware, and each Director has taken all the steps he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that Scottish Friendly's auditors are aware of that information.

Statement of Directors' Responsibilities in Respect of the Directors' Report and The Accounts

The directors are responsible for preparing the Annual Report & Accounts and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the society financial statements in accordance with United Kingdom Generally Accepted Accounting

Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and society and of the income and expenditure of the group and society for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and society will continue in business.



The directors are responsible for safeguarding the assets of the group and society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and society's transactions and disclose with reasonable accuracy at any time the financial position of the group and society and enable them to ensure that the financial statements comply with the Friendly Societies Act 2006.

The directors are responsible for the maintenance and integrity of the society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

In accordance with Scottish Friendly's Rules, PricewaterhouseCoopers LLP will offer themselves for re-appointment as auditors at the forthcoming Annual General Meeting.

The Strategic Report and Directors' Report are approved by order of the Directors.

Stephen McGee

CEO

3 April 2023

Report on Corporate Governance

As a mutual organisation, Scottish Friendly is committed to maintaining accountability to its members. All members are represented by elected Delegates and the Board meets with the Delegates at least twice a year. In addition, members can raise matters directly via the Member Relations function.



As a further part of that commitment to accountability, Scottish Friendly continues to embrace best practice in corporate governance and is committed to the principles of the AFM Corporate Governance Code for Mutual Insurers (“the Code”).

In line with the principle of ‘apply and explain’ set out in the Code, this report describes Scottish Friendly’s compliance throughout the period with the principles and provisions of the Code.

The Directors consider that, throughout the period under review, Scottish Friendly has applied the relevant

principles and complied with the relevant provisions of the Code as amplified by guidance published by the Association of Financial Mutuals (AFM) in response to the Code.

The AFM asks members to demonstrate in their annual reports how they applied the Code’s six high level principles and how that has contributed to better corporate governance.

These are detailed below:

AFM Corporate Governance Code Principles

Principle One Purpose and Leadership

“An effective Board promotes the purpose of an organisation, and ensures its values, strategy and culture align with that purpose.”

How Scottish Friendly Applies the Principles

- With the appointment of a new CEO in April 2022, a strategic review was undertaken by the CEO on behalf of, and in consultation with the Board. A new purpose statement has been developed by the People Ambassadors for the firm, led by an Executive sponsor. This is a process which was utilised in the development of our company values and embodies our culture of openness and listening to our people. Additionally, it ensures the values and purpose align, allowing management and the Board to align the strategy.
- Our strategy is well-embedded, with formal review points regularly and a more substantive review every three years. 2022 sees us in the third and

AFM Corporate Governance Code Principles

Principle One Purpose and Leadership

“An effective Board promotes the purpose of an organisation, and ensures its values, strategy and culture align with that purpose.”

How Scottish Friendly Applies the Principles

final year of the current review cycle. The next review will be led by the Commercial Director through 2023, encompassing both Management and Board input.

- The annual Business Plan to meet this strategic plan continues to be developed each year by the Executive which is reviewed and approved annually by the Board at the year end. At the same time, the broader and longer term strategic plan is also reviewed to ensure alignment, with any necessary updates being incorporated.
- To ensure we are living up to the purpose, culture and values set, the Board has had an annual deep-dive session on people since the appointment of a Human Resources team. In addition, the review of people metrics, such as turnover and absence in the monthly MI pack and anonymous colleague surveys provide evidence of whether these values are being delivered within the business. Internal colleague surveys have been undertaken since 2019 and have consistently reported in excess of 80% of respondents being proud to work for Scottish Friendly, in 2022 this was reported as 89%. A further externally accredited Best Companies survey was undertaken in 2022, and the firm was recognised as having ‘One to Watch’ status with good engagement. Through all of these mechanisms the Board is satisfied it is able to ensure values, strategy and culture align to the purpose however this is continually monitored throughout the year.



AFM Corporate Governance Code Principles

Principle Two Board Composition

“Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual Directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the organisation.

Principle Three Director Responsibilities

“The board and individual Directors should have a clear understanding of their accountability and responsibilities. The board’s policies and procedures should support effective decision-making and independent challenge.”

How Scottish Friendly Applies the Principles

- A succession and skills review of the Board takes place on an annual basis and recruitment of any new members prioritises any gaps in skills as well as diversity. The external review conducted in 2021 assessed these skills and composition and they were satisfied by the results. Of the current NED composition, three out of the six are female, with the succession plan recognising any vacancies would attempt to further review and broaden diversity. Each Board member has a detailed and personalised induction as well as an annual review of individual performance and effectiveness and independence by the Chair. The Chair’s performance is reviewed by the SID with contribution sought from the Non-Executive Directors.
- The individual statements of responsibilities as well as performance as a Director are assessed by the Chair as part of the Senior Manager certification regime annual review, for any new appointments a comprehensive induction is undertaken with a review of completion at the end of this by the Chair.
- The Memorandum and Rules set out the policies and practices which apply to Scottish Friendly, in accordance with the Friendly Societies Act 1992 and these are all shared and understood by the Board. Additionally, since 2021 we have had an annual review with external legal advisors on the responsibilities and accountabilities of being a Board

AFM Corporate Governance Code Principles

Principle Three Director Responsibilities

“The board and individual Directors should have a clear understanding of their accountability and responsibilities. The board’s policies and procedures should support effective decision-making and independent challenge.”

Principle Four Opportunity and Risk

“A board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.”

How Scottish Friendly Applies the Principles

member and any changes necessary for corporate governance.

- There are detailed Statements of responsibility in place for each of the SMFs on the Board and these are reviewed quarterly at the risk committee and attested to annually by each member, as well as being assessed by the Chair.
- Scottish Friendly has established a framework of internal controls for the management of risk within its business and to safeguard the interests of its members. The system is designed to manage the risk of failure to achieve business objectives, and to provide reasonable assurance against material mis-statement or loss.
- A strategic plan detailing how the organisation creates and preserves value over the next five years is prepared annually and approved by the Board. This, along with the Business Plan and ORSA, details how opportunities are assessed in line with our long-term strategy and risk appetite.



AFM Corporate Governance Code Principles

Principle Five Remuneration

“A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.”

Principle Six Stakeholder Relationships and Engagement

“Directors should foster effective stakeholder relationships aligned to the organisation’s purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.”

How Scottish Friendly Applies the Principles

- Our Remuneration Committee and Policy defines our remuneration strategy and ensures that it is aligned to the sustainable success of the business. An annual review takes place of both the terms of reference for the committee and the remuneration policy. External benchmarking reviews are included in order to determine whether any regulatory or best practice updates should be made.
- In 2022 the Terms of Reference (TOR) of the Remuneration committee was reviewed in detail against other financial services business, and as a result the scope and terms were extended. These changes were incorporated into the review of the Remuneration policy.
- Our remuneration policy is available on the Scottish Friendly website.

The effectiveness of the Remuneration committee is reviewed annually.

- Engagement with stakeholders is undertaken through a variety of mechanisms for example, colleague engagement surveys, focus groups, dedicated partnership liaison team and outsourcing services meetings. Any issues from these would flow upwards into the regular Executive and Board reporting.
- The Board have individually and collectively spent time in the office meeting and talking to management teams and colleagues through 2022, specifically spending time with our contact centre colleagues to understand the day to day operational pressures.

AFM Corporate Governance Code Principles

Principle Six Stakeholder Relationships and Engagement

“Directors should foster effective stakeholder relationships the organisation’s purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.”

How Scottish Friendly Applies the Principles

- In addition to the stakeholder engagement gained from the above, the Board considered the feedback provided by colleagues via the August customer listening sessions and approved the resultant management recommendation to invest more resources in customer facing roles for 2023.
- The annual review of the people function also provides the Board with an additional mechanism to understand stakeholder views.
- Our Members Relations section on the website provides customers with information on areas such as fund prices, investments and takeovers and acquisitions.

Scottish Friendly is subject to the Senior Managers & Certification Regime (SM&CR) operated by the PRA and FCA to improve culture, governance and accountability within financial services firms.

The Board is satisfied that individual responsibilities have been reviewed, documentation updated, and certification of relevant staff undertaken to ensure compliance with the SM&CR.

The Board

The Board met formally on nine occasions in 2022. There is a schedule of regular reports which the Board considers and which is agreed at least annually. Reports are provided to Board members in advance of

the Board and Board Committee meetings. Apologies were received from Directors on three occasions.

The Directors’ attendance at Board and Committee meetings is set out in the table on page 51 (figures in brackets are the total number of meetings held during each Director’s tenure).

The matters considered by the Board, and on which it receives regular reports, cover financial, business conduct, operational and risk matters, including:

- financial performance against budget, data and analysis relating to business volumes, and reports on investment strategy and performance;



- risk management, through the Risk Management Framework; (see Risk Management, below);
- actuarial matters including solvency and capital requirements;
- operational reports on customer service and colleague matters; and
- business conduct information, including performance on the six outcomes of the Treating Customers Fairly initiative.

	Board Meetings	Audit Committee	Risk Committee	Remuneration Committee	Investment Committee	Nomination Committee	With-Profits Committee
David C Huntley	9 (9)	-	-	6 (6)	1 (1)	5 (5)	-
Dermot J Jenkinson	3 (3)	2 (2)	-	1 (1)	-	1 (1)	-
Kerr Luscombe	9 (9)	4 (4)	5 (5)	6 (6)	-	4 (4)	5 (5)
Anja Balfour	8 (9)	-	0 (1)	-	4 (4)	-	5 (5)
Gillian Watson	8 (9)	4 (4)	-	6 (6)	-	-	-
Susan Beckett	9 (9)	4 (4)	5 (5)	-	2 (3)	-	-
Mark Laidlaw	8 (9)	4 (4)	2 (4)				4 (4)
Stephen McGee	9 (9)	-	5 (5)	-	4 (4)	4 (4)	-
Martin Pringle	7 (7)	-	-	-	2 (3)	1 (1)	-
Alan Rankine	3 (3)				4 (4)		

Although many of the powers regarding business conduct, operational management and day-to-day activities of Scottish Friendly are delegated to Executive Management, through the CEO, there is a formal schedule of matters reserved to the Board for approval which includes specific aspects of the authorisation regime for bank accounts, changes to investment parameters and deals out with those parameters, transfers

of engagement, the budget and the distribution of surpluses and bonuses.

The Board also retains responsibility for a number of statutory duties relating to the prudent management of Scottish Friendly's activities; these include responsibility for maintaining required solvency and liquidity levels as well as maintenance of requisite accounting records and systems of control. The powers retained by the Board, and those delegated to the CEO

and to Board Committees, are reviewed at least annually by the Board.

The roles of the Chair and CEO are separate and their respective responsibilities have been agreed and documented.

Scottish Friendly has established a framework of internal controls for the management of risk within its business and to safeguard the interests of members. The framework is designed to manage the risk of failure to achieve business objectives, and to provide reasonable assurance against material misstatement or loss. Further information on Scottish Friendly's approach to Risk Management is set out below.

Risk Management

Scottish Friendly maintains a robust Risk Management Framework (RMF) that creates an effective risk management capability across the business. The operation of the RMF underpins both strategic aspects of risk management, such as the use of stress testing to inform strategic decision making, and the more operational aspects such as risk assessment and assurance.

Risk Management Framework

Risk Landscape

The Risk Universe categorises all the risks to which the business is exposed, providing a common language for risk across the business and a structure for assessing and reporting risk. There are three risk categories within the Risk Universe, with level 1 being the highest.

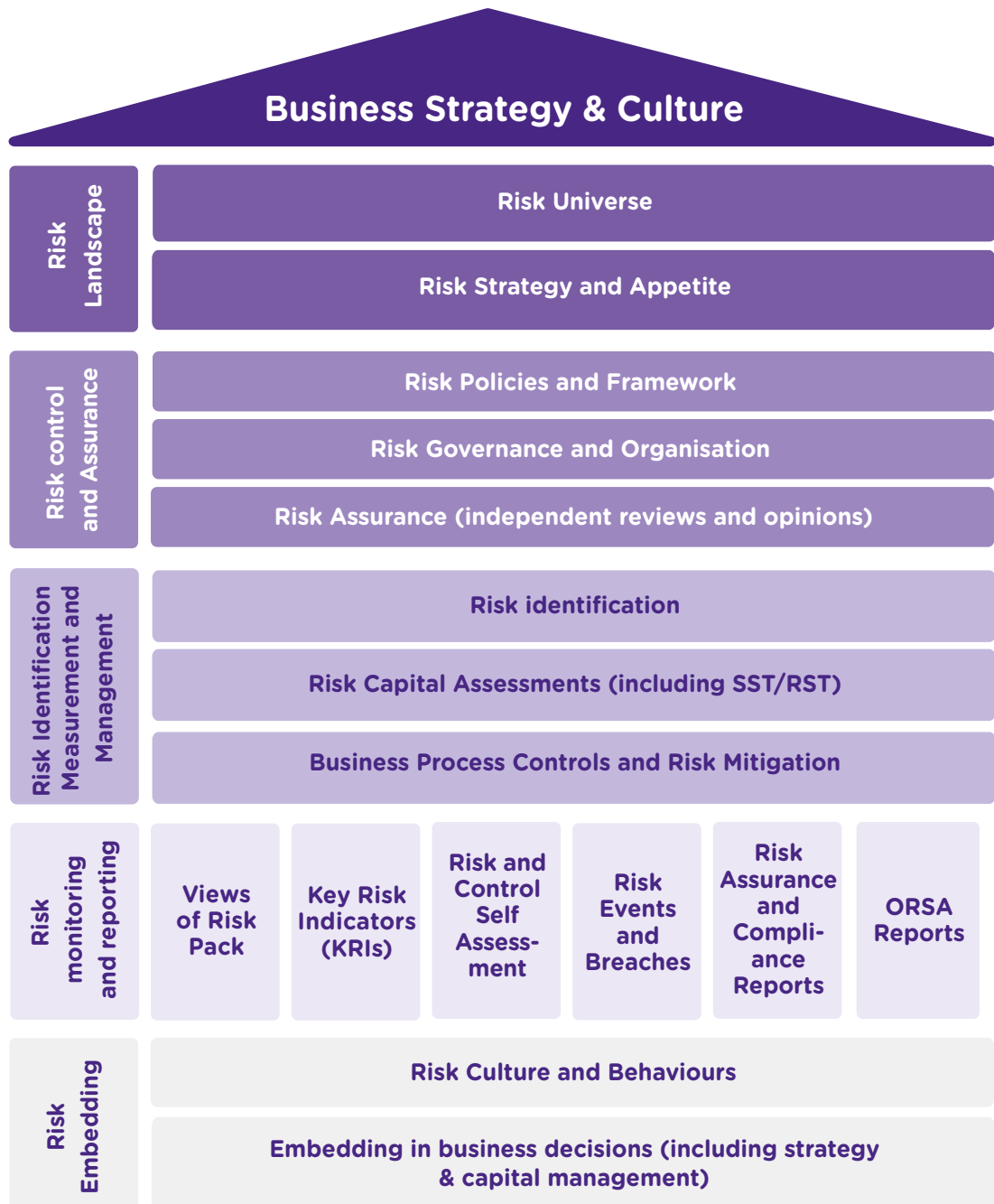
Board approved Risk Appetite Statements (RAS) are in place for each level 1 risk category; these set out the type and amount of risk which Scottish Friendly is willing to accept in pursuit of its strategic objectives and business strategy. When setting risk appetite the Board considers not only the strategic priorities at that point in time, but also what is proposed over the five-year business planning period.

The RAS also include a number of metrics, which allow the business to measure its position against risk appetite. For each of these metrics, a trigger and tolerance level has been defined; these are used to guide the extent to which management action is required, should the risk exposure change, based on an intervention ladder set out within the RMF.



Risk Management Framework

SST = Stress and Scenario Testing RST = Reverse Stress Testing



Risk Control and Assurance

A number of risk policies and risk frameworks are in place and owned by the Chief Risk Officer; these define the principles and standards for managing key risks across the business. Each risk policy has been allocated an Executive Risk Owner (ERO) who is responsible for demonstrating compliance with the standards across the company on an ongoing basis. The Risk Function provide oversight and challenge of this process.

Risk Identification, Measurement and Management

Current and emerging risks are identified using a variety of techniques, including business risk self-assessments, risk workshops, horizon scanning and forward-looking Key Risk Indicators (KRIs).

A key component in the measurement of risk is the Pillar 2 capital assessment, which ensures Scottish Friendly has sufficient capital to support the risks taken in the course of delivering its business activities. Solvency appetite is primarily assessed with reference to the Pillar 2 solvency coverage ratio.

The annual ORSA cycle involves a forward-looking projection of the business' capital resources and capital requirements over a five-year time horizon, with consideration

given to strategic and business plans. This projection also involves an assessment of whether the level of capital coverage is within Scottish Friendly's solvency risk appetite as well as the associated limits/ triggers. Stress and scenario testing is used to test the impact of adverse scenarios on the capital coverage and business viability. Reverse stress testing is also completed as part of the annual ORSA cycle.

An ongoing process of Risk Controls Self- Assessment (RCSA) is in place for monitoring and managing inherent and residual risk exposures. A key element of the RCSA process is the identification of current and forward looking risks and the management of risk through the assessment of the performance of key controls. This process is performed at both a functional and at a consolidated corporate-wide level and is the mechanism for identifying, assessing and reporting the key risks from a strategic perspective. The output of the RCSA process is captured in the Functional and Corporate Risk Registers.

Risk management and mitigation measures are identified and implemented (e.g., reinsurance, capital management plans) by EROs to maintain risk exposure within appetite. The measures in place are in accordance with relevant Risk Policies with oversight from the Risk Function.



Risk Monitoring and Reporting

As part of the regular cycle of risk reporting, the Risk Function is responsible for consolidation of information from the preceding components of the risk management framework. This is used to inform a number of regular risk reports which are communicated through appropriate governance structures.

The reports include reporting on the Risk Function's view of the position against risk appetite, as well as other relevant data points such as risk events and breaches. This risk reporting is used to inform decision making, facilitate risk monitoring and ensuring pro-active action is taken to remain within risk appetite.

Risk Embedding

A strong firm-wide risk culture is a key element of effective risk management. Scottish Friendly aims to deliver a culture of risk awareness through desired behaviours, key business decisions, day-to-day operations and change management.

Risk Governance:

The overall accountability for risk within the business ultimately rests with the Board.

The Board has delegated some responsibilities for risk to the Audit Committee of the Board, to assist the Board in reviewing the systems of internal controls and the external financial reports of the business, and to the Risk Committee of the Board (BRC), to provide focused support and advice on risk governance and to assist the Board in reviewing the systems for managing all aspects of the risk universe. On behalf of the Board, the BRC also conducts an annual assessment of the effectiveness of the Risk function.

In addition, the Executive Risk Committee (ERC) is the primary forum for Executive oversight and challenge of the risk and control environment across the business and is chaired by the Chief Risk Officer. All Executives are responsible for the identification, assessment, management and control of risks in their respective areas, delegating such parts of this responsibility to appropriate managers or other individuals where appropriate. Each Executive is required to report on their respective area to the ERC on at least a quarterly basis.

Three Lines of Defence Model

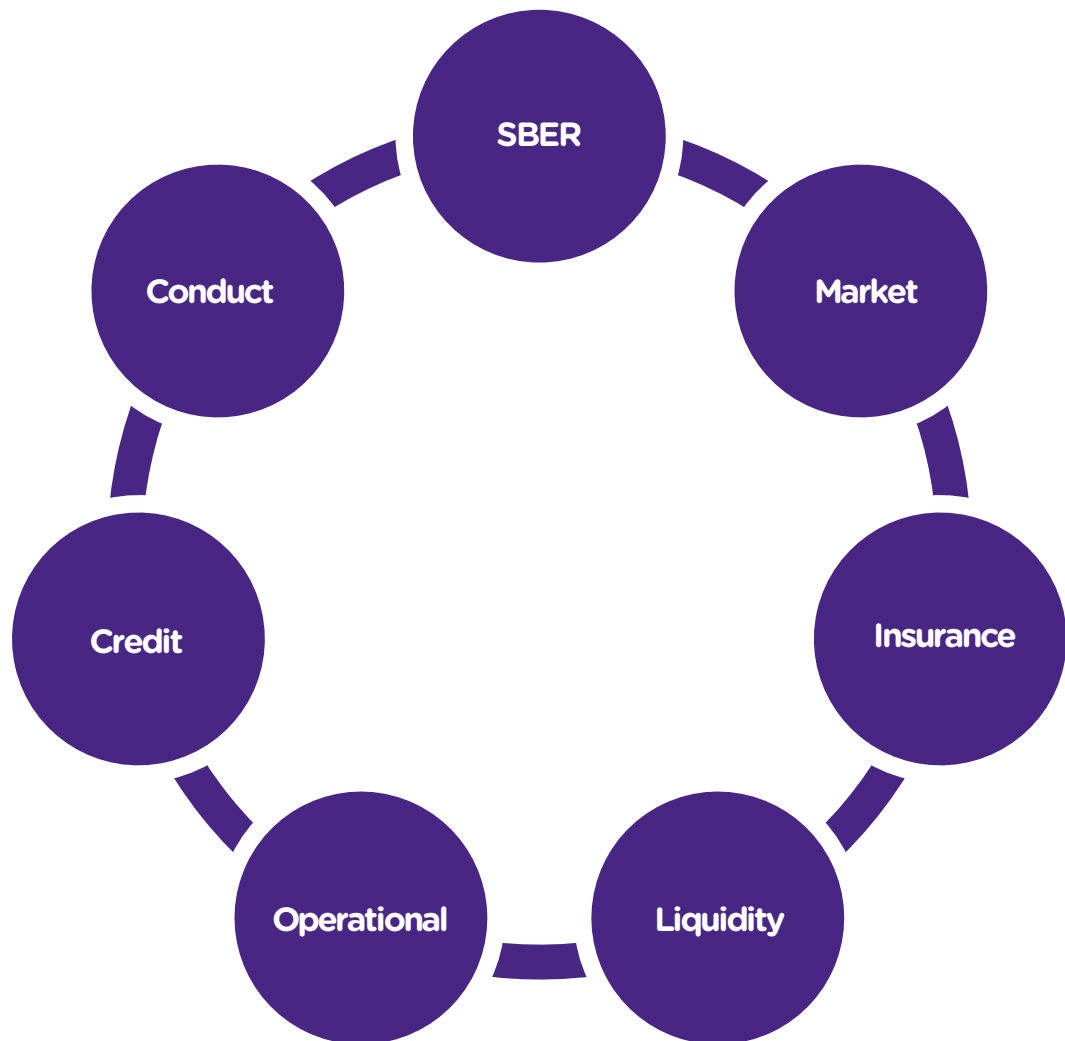
Scottish Friendly operates a 'three lines of defence model' in the management of risk so that there are clearly defined roles and responsibilities within our Risk Management Framework:

1. The First Line of Defence is the operational areas across Scottish Friendly which are responsible for the identification and management of day-to-day risks and controls across the business. The management of risks, monitoring of risks and the reporting of breaches of risk appetite are the responsibility of each Executive Risk Owner. In addition, the governance structure includes first line oversight committees. These meetings are chaired by the relevant Executive and membership include the Risk and Compliance function.
2. The Risk Function is part of the Second Line of Defence, reporting to the Chief Risk Officer, Executive Risk Committee and Board Risk Committee. The Risk Function has a clear mandate which is set by the Board and reviewed annually. The primary activities of the Risk Function include the design and oversight of the Risk Management Framework, oversight of the identification and management of risk by the business, independent risk reviews, ownership of the quarterly risk and control self-assessment process, the ORSA methodology and ORSA processes, and promotion a risk-aware culture across the organisation. The Chief Risk Officer is responsible for the Compliance Function (SMF16) supported by the Senior Compliance and Financial Crime Manager. Responsibilities of the Function include preparing and delivering of the Board Risk Committee annual compliance plan, assessing the system and controls in place to prevent non-compliance with the regulatory requirements including financial crime and other provisions applicable to the business, monitor and track regulatory developments and to provide policy guidance and support to the First Line.
3. The Third Line of Defence is independent assurance of the adequacy and effectiveness of our risk and control environment, and this is provided by the Internal Audit Function which delivers a cyclical and prioritised programme of risk based audits covering all aspects of work undertaken in the First and Second Line business areas over a period of years.



Principal Risks

The seven Level 1 risks are described below, alongside a description of the key activities undertaken by Scottish Friendly to mitigate and manage the risk:



Risk	Description
1. Strategic, Business Environment and Reputation ('SBER')	The risk of failing to manage resources, or make business decisions, in a manner appropriate to the business and external environment such that this damages Scottish Friendly's reputation and / or stops Scottish Friendly from being able to deliver its business strategy.
2. Market	The risk that market movements or fluctuations results in adverse impacts to the value of assets and/or liabilities leading to financial loss to Scottish Friendly.
3. Insurance	The risk of loss or adverse consequence for the business resulting from a failure to predict or respond to changes in the level, trend, or volatility of demographic, policyholder action and expense experience.
4. Liquidity	The risk of failing to have sufficient cash to meet financial obligations when they fall due



Mitigation and Management

We mitigate SBER risks through a combination of strategic and operational measures. Scottish Friendly sells a wide and varied range of products, and these are sold through a number of channels to multiple target markets, providing diversification of strategic risks.

In addition, operational controls are used to minimise the impact of events that could harm reputation as well as continued investment in people, systems and processes to strengthen the business' resilience to internal and external events. Strategic risks are monitored through KRIs and horizon scanning.

We adopt a relatively low risk investment strategy, which provides some stability against market risk. The specifics of investment strategy are set by the Investment Committee, and the risk exposure is closely monitored by the Risk Committee.

In addition, specific asset and liability management ('ALM') activities are undertaken for some blocks of liabilities, which includes using derivatives to hedge out undesired risk exposures.

Capital is also held to ensure the solvency position remains robust in the event that a market risk crystallises.

More generally, the Society's solvency position is not materially exposed to foreign exchange movements and hyper-inflation economies.

We closely monitor emerging experience data, in order to identify possible changes in long-term experience.

In 2022, experience analysis has included particular consideration for the potential hardship caused by the rising inflation / the "cost of living" crisis and the emerging data to allow us to assess the potential impact of Covid-19 on mortality, morbidity and longevity assumptions.

Capital is also held to ensure the solvency position remains robust in the event that an insurance risk crystallises.

This risk is also partially mitigated by reinsurance.

Liquidity risk is mitigated by holding adequate liquid resources. In particular, the level of cash held within Scottish Friendly's operational bank accounts is monitored closely as part of day-to-day activity, and trades are instructed to liquidate assets, as required, if this falls below a pre-defined level.

In addition, formal reporting of the liquidity position includes a forward looking projection of liquidity needs against projected liquid resources.

Risk	Description
5. Operational	The risk that inadequate or failed internal processes, systems, people or from external events result in financial loss or non-financial impact, including reduced operational resilience, customer and reputational impacts
6. Credit	The risk of loss or adverse consequences for the business resulting from default or failure of third parties to meet their payment obligations, or change in the credit standing of key counterparties
7. Conduct	The risk of poor outcomes for customers resulting from the acts of Scottish Friendly, associated third parties and/or individuals within the firm



Mitigation and Management

Operational risk is primarily mitigated and managed through the control environment which is operated across the business. Each Function is required to assess the design and operation of their key controls as part of a quarterly controls self-assessment submission, which is challenged by the Risk Function with further oversight from the Risk Committees.

Over 2022 work has continued to enhance the oversight and management of operational risk.

Although controls are the best mitigant against operational risks, capital is also held. Scottish Friendly uses a bespoke model within Pillar 2 to assess the level of capital needed to support its operational risk exposure. This model is owned by the Risk Function and is calibrated with input from experts across the business.

A formal credit report is provided monthly to the relevant management committee, allowing timely action to be taken on key credit exposures if required. Scottish Friendly's most significant credit exposures are to highly rated banking and reinsurance counterparties, and collateral is used to further mitigate a number of these key exposures.

Capital is also held to ensure the solvency position remains robust in the event that a credit risk crystallises.

Measures to mitigate conduct risks are embedded through the product lifecycle and customer journey. The management of conduct risk is overseen by the Conduct Risk Committee, Executive and Board Risk Committees. Over the year, developing our people and strengthening our cultural environment to support colleagues' deliver good outcomes for customers was a key focus. In addition, ahead of Consumer Duty, product review work continued with action taken to address known issues.

Over 2022, Scottish Friendly mobilised its Consumer Duty project and activities within that project will ensure that we have appropriate measures in place to deliver good customer outcomes.

Although strong culture and controls are the best mitigant against conduct risks, capital is also held as part of the operational risk capital.

Key Emerging Risks

Emerging risks are typically characterised by a high degree of uncertainty and generally fall into two categories. They are either 1) new risks which may develop in the future into a material exposure for Scottish Friendly; or 2) existing risks which

begin to present in a new or different way from previously understood. Emerging risks may be known to some extent, but they may never materialise, or might not have an impact for several years. Alternatively, they might crystallise rapidly, with little time to respond. Scottish Friendly operates

Emerging Risk	Description
1. Impact of cost of living crisis / rising inflation	A period of sustained very high inflation without equivalent pay growth could lead to social unrest within wider society - including widespread strike action and specific targeting of certain high-profile businesses to disrupt their operations. This could result in an increased incentive to commit financial crimes, as well as increased attempted cyber-attacks.
2. Scottish Independence	Constitutional change may have an impact on Scottish Friendly's ability to deliver services to some of its existing customers, and may restrict its ability to offer new products to some potential customers.
3. Geo-political instability	<p>There is significant geo-political uncertainty, with the ongoing war in Ukraine and escalating tensions in other parts of the world.</p> <p>If the situation in any of these regions escalated further this could lead to a global conflict involving many countries. This would have a significant and sustained impact on global supply chains and the financial markets.</p>
4. Regulatory change has unintended consequence for Scottish Friendly	There is a significant programme of financial services regulatory reform taking place following the UK's exit from the EU, and other changes are planned to the tax regime in the UK, as well as the approach to provision for long-term social care. There is a risk that a change is made which has a negative unintended consequence for Scottish Friendly, or friendly societies more generally.
5. Impact of long- Covid-19/ missed diagnosis and treatment delays	The direct impact of Covid-19 on long-term health - as well as the impact of missed diagnoses and delayed treatments - remains unknown. If this results in poorer health outcomes and shorter life expectancies, this would increase claims and reduce profitability – particularly for the whole of life business which is not reinsured.



an emerging risk process to identify new emerging risks, as well as to determine whether existing emerging risks have become more or less likely to crystallise in the future.

This process is used to ensure that timely action can be taken, as necessary, to mitigate the risk prior to it impacting Scottish Friendly.

The top five emerging risks which were identified in the 2022 ORSA process are described below.

Mitigation and Management

An extensive suite of controls is operated within the business to identify and prevent attempted financial crimes. Extensive IT controls, including utilising advanced cyber protection tools provided by external specialist, to prevent attempted cyber-attacks.

Emerging developments are being closely monitored by the Risk Function and the Board. Appropriate contingency options have been identified to ensure continuity of service to existing customers can be maintained.

An assessment has been undertaken to confirm that Scottish Friendly does not have any exposure to sanctioned individuals and holds only a very immaterial allocation to Russian securities through investment in emerging market funds.

More widely, the investment function works closely with abrdn and JP Morgan, Scottish Friendly's two main asset managers, to adapt investment strategy to reflect emerging geo-political events.

Management is closely monitoring proposed regulatory changes. To date, all proposals are assessed to have a minimal impact, or could be marginally beneficial for Scottish Friendly.

Management will continue to engage with industry bodies, such as Investment and Life Assurance Group and the ABI, and plans to respond to any consultation papers to highlight the impact on Scottish Friendly if necessary.

Emerging experience is being closely monitored. Management is also engaging with industry working groups to understand emerging data on wider societal impact.

Managing the Financial Risks of Climate Change

Managing the impact of climate change is one of the most important challenges facing society in the future. Over the past two years there has been a clear increase in expectations, from both Scottish Friendly's members and its regulators, around the role that asset managers and insurers should play in driving the transition to a low-carbon economy.

In line with regulatory expectations, over 2021 Scottish Friendly undertook significant development activity to enhance its approach to managing the financial risks of climate change – this included undertaking more advanced climate change scenario modelling, formalising the roles and responsibilities in relation to the management of climate change risk, and developing and implementing a climate change risk management policy.

A key focus for 2022 has been embedding the management of climate change risk within business-as-usual activities. This has included working with a third-party specialist to support the reduction in carbon emissions from BAU operations, as well as establishing a staff working group to encourage ownership of carbon reduction initiatives across all levels in the organisation. There has also been continued engagement with JP Morgan and abrdn, Scottish Friendly's two main asset managers, to discuss plans for the transition of the asset portfolio to net-zero by 2050. Both asset managers were able to

provide an assessment of the Value-at-Risk ('VaR') from climate change, using MSCI methodology, for the portfolios they manage and this analysis has been presented within the 2022 ORSA.

More generally, Scottish Friendly considers climate change risk to be a cross-cutting risk, which makes other financial risks more likely to crystallise, rather than a standalone financial risk. Scenario analysis completed within the annual ORSA assessment demonstrates that the transition to a net-zero economy will, absent any mitigating actions, reduce the value of Scottish Friendly's asset portfolio, although the impact is not expected to be significantly different between different temperature transition scenarios. Overall, the impact of climate change on the asset portfolio is not expected to be very significant from a financial risk perspective, and this will be mitigated by working closely with Scottish Friendly's asset managers over the coming years, to ensure that a transition to a net-zero portfolio takes place in a timely manner.

Climate change is, however, considered to be a key strategic risk for Scottish Friendly. The Risk Universe has been updated to incorporate climate change as a specific level 2 SBER risk, and an Executive Risk Owner is responsible for providing a quarterly assessment of climate change risk exposure relative to risk appetite to the Risk Committee. Climate change metrics are also being embedded as part of the assessment of SBER risk. Work on the management



and mitigation of this risk will continue in the coming years.

Directors

Brief biographies of the current Directors are set out on pages 29 to 32.

In addition to the Chair and Senior Independent Director, the Board comprised, as at 31 December 2022, four other Non-Executive Directors and the CEO. The Commercial Director stepped down from the Board in January 2022 and the CFO was appointed as an Executive Director with effect from January 2023.

This composition is considered to provide an effective and balanced mix of skills and experience to meet the Board's remit. The Nomination Committee has reviewed the length of service of the Non-Executive Directors and considers that they all meet the criteria of independence.

Kerr Luscombe was appointed as the Senior Independent Director; as such, he may, as necessary, lead meetings of the independent Non-Executive Directors (with/without the Chair being present), be available to members through the Member Relations function to understand their concerns (in the event that other contacts within Scottish Friendly are inappropriate or have failed) and to present these views to the Board as a whole, and to lead the performance evaluation of the Chair. He is also the whistleblowing champion.

Scottish Friendly's rules provide for all Directors to stand for re-election

at least once every three years. If any member of the Board who does not also hold or has not held an executive position with Scottish Friendly has been a member of the Board for nine years or more, that member of the Board is subject to annual re-election at the Annual General Meeting.

In line with the Code, the submission of any Non-Executive Director for re-election for a term which means they would serve more than six years is subject to particular review, taking into account the need for progressive refreshing of the Board.

Particulars of Directors' remuneration are given in the Directors' Remuneration Report on pages 71 to 75.

Performance Evaluation

On at least an annual basis, the Chair conducts a performance evaluation of each Director in order to verify that each continues to contribute effectively and demonstrate commitment, including time commitment, to the role.

Feedback from the evaluation is communicated individually to the Director by the Chair. The performance of the Chair is reviewed by the Non-Executive Directors, led by the Senior Independent Director, taking into account the views of the Executive Directors. Executive Directors are appraised in respect of their Directorial duties.

The performance of the Board and its Committees is also considered on at

least an annual basis and the results shared with the Board as a whole.

Board Committees

The terms of reference of the current Committees of the Board – Audit, Risk, Remuneration, Nomination, Investment and With-Profits Committee – are available on the Scottish Friendly website <https://www.scottishfriendly.co.uk/about-us/board-committee-terms-reference>.

Membership of the Committees of the Board is intended to make best use of the skills and experience of the Directors. The work carried out during 2022 by the Audit, Risk, Nomination, Investment and With-Profits Committees in discharging their responsibilities is summarised below. The work carried out by the Remuneration Committee is described within the Directors' Remuneration Report on pages 71 to 75.

Audit Committee

- **Mark Laidlaw**
(Chair, from 27 April 2022)
- **Kerr Luscombe**
(Chair, until 27 April 2022)
- **Dermot J Jenkinson**
(until 27 April 2022)
- **Gillian Watson**
- **Susan Beckett**

The terms of reference of the Audit Committee include all matters indicated by the Code. The Committee consisted of four independent Non-Executive Directors, at least one of whom has recent and relevant financial experience, in line with the Code. The Company Secretary acted as Secretary to the Committee. In addition, the Chair, CEO, CFO, CRO and Chief Actuary all attend the Audit Committee meetings.

During 2022 the Committee met formally on four occasions and informally on two occasions. The Committee:

- reviewed the internal control systems, including internal financial controls and ensured that these continued to be effective; advised the Risk Committee as appropriate of any concerns regarding the effectiveness of the current control framework;
- considered the External Audit Plan which highlighted key judgement areas and summarised changes in reporting requirements;



- reviewed the annual financial statements and annual regulatory returns including Solvency II reporting and the Solvency and Financial Condition Report (SFCR) and approved them for submission to the Board. The Committee focused particularly on major judgemental areas and compliance with accounting standards and legal requirements, including the regulations and guidance of the PRA. The Committee reviewed thoroughly the external auditor's detailed report on the draft documents and obtained satisfactory explanations where necessary. The Committee also reviewed the previous external auditor's final report on internal controls and ensured that follow up action was appropriate and completed where necessary;
 - approved the internal audit programmes and received regular progress reports from internal audit and ensured that recommendations made were followed up by management. Individual internal audit reviews are scheduled both according to regular assessments of key risk areas on a cyclical approach supplemented with matters of a topical nature. The Committee also monitored coordination between the internal and external auditors and ensured that the internal audit function was adequately resourced and had appropriate standing within the organisation;
 - reviewed the internal audit charter which follows guidance from the Chartered Institute of Internal Auditors;
 - assessed the effectiveness of the current external and internal audit processes through the reporting that it receives from the respective auditors who were present at each Committee meeting.
- As part of the review of the 2022 annual financial statements, the Committee considered and approved the prior year restatements. Please refer to note 37 for full details of the restatements.
- The Committee meets with each of internal and external auditors in the absence of management at least once a year; and reviewed and ensured the fulfilment of the terms of reference of the Committee and examined Committee effectiveness.
- In planning its work and reviewing the audit plan of the external auditors, the Committee took account of the most significant issues and risks, both operational and financial, likely to impact on the Group's financial statements. The two areas which have most impact on the financial statements and returns are:
- the calculation of life insurance technical provisions and reinsurance valuation on a Solvency II basis. The Audit Committee reviews these on behalf of the Board including reports from the Chief Actuary covering methodology, assumptions, significant judgements and other factors impacting the provisions and recommends their approval to the Board. Over 2022, this included detailed consideration of

the potential impact of the Covid-19 pandemic on future experience; and

- the appropriate recording and valuation of the investment portfolio, particularly the valuation of less liquid and more complex investments. Approximately 99% of the investment portfolio by value can be verified against daily market prices. Scottish Friendly uses appropriate independent safeguarding and custodian arrangements. The Committee has reviewed the control environment as relates to investments, including relevant internal or external audit activity.

Both the Board and the external auditor have safeguards in place to prevent the auditor's independence and objectivity being compromised. The external auditor reports regularly to the Committee on the actions that it has taken to maintain its independence. PwC was appointed as auditor from April 2022 following a tendering exercise in 2021. No issues with the independence of PwC were identified.

Investment Committee

- **Anja Balfour**
(Chair)
- **Sue Beckett**
(from 27 April 2022)
- **Stephen McGee**
(from 27 April 2022)
- **Martin Pringle**
(until 31 October 2022)
- **David Huntley**
(until 27 April 2022)
- **Alan Rankine**

During 2022 the Committee met formally on four occasions. The Company Secretary acts as Secretary to the Committee. The Investment Committee oversees Scottish Friendly's investment holdings and performance on behalf of the Board.

The terms of reference of the Committee include setting asset allocation and investment strategy of the Scottish Friendly funds in line with the liability profile, relevant risk appetite and parameters established by the Board or by the relevant fund objective, and also monitoring risk appetite, investment parameters and fund objectives, making recommendations to the Board as appropriate.



External fund managers were invited to present to the Committee at an investment away day and investment advisors are invited to give regular updates on an ongoing basis.

During the year, the Committee oversaw the work to transition towards a new unit-linked fund structure.

The Committee continued its work to support Scottish Friendly's wider ESG development, reviewing and approving an updated ESG Policy for investments.

During 2022, the Committee also reviewed and ensured the fulfilment of the terms of reference and examined Committee effectiveness.

Nomination Committee

- **David Huntley**
(Chair)
- **Martin Pringle**
(until 27 April 2022)
- **Dermot J Jenkinson**
(until 27 April 2022)
- **Kerr Luscombe**
(from 27 April 2022)
- **Stephen McGee**
(from 27 April 2022)

The Committee ensures that plans are in place for orderly succession for appointments to the Board. It leads the process for such appointments and makes recommendations to the Board, taking into consideration the time commitments required of Non-Executive Directors as well as their independence. The Committee considers the overall balance of skills, diversity, experience and knowledge to ensure that, collectively, the Directors bring informed and independent judgement across the full range of matters either impacting or having the potential to impact the Company.

During 2022 the Committee met formally on five occasions. The Company Secretary acts as Secretary to the Committee. Under the direction of the Board, the Committee retained the services of an external search firm to identify candidates for the longer term succession to the role of CEO, subsequently recommending to the Board in November 2021 that Stephen McGee be offered the position. In addition, the Committee also recommended to the Board a number of changes in the Executive structure of the business with effect from 1 October 2022.

Risk Committee

- **Susan Beckett**
(Chair)
- **Martin Pringle**
(until 27 April 2022)
- **Stephen McGee**
(from 27 April 2022)
- **Kerr Luscombe**
- **Mark Laidlaw**
(from 27 April 2022)
- **Anja Balfour**
(until 27 April 2022)

The Risk Committee provides focused support and advice on risk governance, assisting the Board in reviewing the systems for managing all aspects of business risk. The Committee takes account of the most significant issues and risks, both operational and financial, likely to impact on the Group's financial statements.

During 2022 the Committee met formally on five occasions. The Company Secretary acts as Secretary to the Committee.

The Committee:

- reviewed, challenged and approved the revised Risk Appetite Methodology and recommended Risk Appetite Statements for Board approval, including oversight of the limits and triggers that are the basis for regular ORSA reporting;
- shaped the design and content of the Annual ORSA report to meet the requirements of the Board in terms of risk insights and forward-looking risks and threats. In particular reviewing through the lens of the Solvency II regulations, with specific focus on risks inherent in the strategy, the overall solvency needs assessment, and the adequacy of the stress and scenario testing;
- received regular reports from the second-line teams outlining the key prudential, operational and conduct risks facing Scottish Friendly and the controls and actions being taken to mitigate their impacts. The Committee reviewed various 'deep dives' into areas of risk such as the continued threat from Cybercrime as well as projects in place to meet upcoming regulatory change such as Operational Resilience and Consumer Duty.

This included updates on the Compliance Monitoring plan and any actions arising from Compliance Reviews and Risk Assurance reviews during the period;

- oversaw risk exposure relative to appetite and the actions taken by management to manage principal risks; and
- reviewed and ensured the fulfilment of the terms of reference of the Committee and examined Committee effectiveness.



With-Profits Committee

- **David Gulland**
(Chair)
- **Anja Balfour**
- **Lorna Blyth**
- **Kerr Luscombe**
- **Mark Laidlaw**
(from 27 April 2022)

During 2022 the Committee met formally on five occasions. The Company Secretary acts as Secretary to the Committee.

The role of the Committee is, as relevant, to assess, report on, and provide clear advice and, where appropriate, recommendations to the Board on:

- the way in which each With-Profits fund is managed by Scottish Friendly and, if a PPFM is required, whether this is properly reflected in the PPFM;
- if applicable, whether the firm is complying with the principles and practices set out in the PPFM;
- any proposed changes which would result in revisions to the PPFM;
- whether the firm has addressed effectively the conflicting rights and interests of with-profits policyholders and other policyholders or stakeholders in a way that is consistent with Principle 6 of the FCA Handbook (treating customers fairly);
- reviewed and ensured the fulfilment of the terms of reference of the Committee and examined Committee effectiveness; and
- any other issues with which the Board or Committee considers with-profits policyholders might reasonably expect the Committee to be involved.

Member Relations

Scottish Friendly's Delegate system has proven to be an effective model for communication with members and will continue to be the cornerstone around which Scottish Friendly fulfils its responsibilities to engage with, and be accountable to, its members. There are currently 30 Delegate positions (25 filled), elected to represent geographic constituencies and Delegate positions are advertised annually for the one third retiring by rotation.

The Annual General Meeting provides an opportunity to inform the Delegates on business performance and future strategy. This is supplemented by additional Delegates' meetings held at least annually.

Delegate attendance at meetings has always been very good. Due to Covid-19 some of these meetings moved to virtual events in 2021, with these returning to in-person events in 2022, with the option to dial-in to ensure these are easily accessible for our Delegates.

Scottish Friendly's member relations strategy includes hosting a dedicated members' area at www.scottishfriendly.co.uk/customer-centre on the Scottish Friendly website which promotes two-way communication by providing access to information of particular relevance to members and through a dedicated email link which members can use to provide feedback. This members' area also includes dedicated areas for those members joining as a result of transfers of business.



Directors' Remuneration Report

Remuneration Committee

- **Dermot J Jenkinson**
(Chair, until 27 April 2022)
- **Gillian Watson**
(Chair, from 27 April 2022)
- **David Huntley**
- **Kerr Luscombe**

The terms of reference of the Remuneration Committee were externally benchmarked in late 2021 and its content subsequently reviewed in 2022. This review led to the Committee increasing the number of duties from 3 to 10. It was felt this extension in duties was more reflective of what the Committee was doing in practice and was also in keeping with industry best practice.

The on-going duties such as reviewing the remuneration of the Chair, the Non-Executive Directors, and Solvency II and Material Risk Takers, as well as determining appropriate levels of Executive Management remuneration continued, whilst examples of some of the additions made to the duties were; ensuring the remuneration policy reflects strategy and considers the long-term success of the firm; determining aggregate increases across all colleagues within the firm; annually reviewing identified staff and overseeing any major changes in employee benefits.

The updated terms of reference were put in place in February 2022 and its effectiveness reviewed in February 2023. The Committee welcomes the enhancements to the terms of reference and the assessment of effectiveness of the Committee was considered strong.

The Committee consists of a newly appointed (April 2022) Chair, Gillian Watson and two additional independent Non-Executive Directors as well as the CEO and HR Director.

Scottish Friendly's remuneration policy, which also benefitted from a detailed review in February 2022, forms part of the risk management strategy, and is intended to ensure Scottish Friendly attracts and retains competent, experienced and skilled colleagues.

The Remuneration Committee reviews Executive Director salaries annually. A range of data is taken into account to inform the review, particularly the use of Willis Towers Watson (WTW) annual salary review which is externally benchmarked across the Financial Services sector, as well as wider economic influences are also reviewed, as well as assessing performance and potential of individuals and the wider recruitment market. The Committee meets in February to ensure a full review of the previous year's performance can be made and any changes to those salaries reviewed are effective from 1 January.

The remuneration package for Executive Directors incorporates a quantitative element of bonus which is targeted at delivering growth and cost efficiencies while generating longer term value for members and a discretionary element, there is an on-target-earning percentage agreed by the Committee annually.

Through 2021 and 2022 more consistent objectives have been used to measure discretionary performance and support the determination of any resultant additional discretionary award. A revised balanced scorecard approach and cascaded objectives from the CEO to all direct reports has been introduced for 2023 and has been approved by the Remuneration Committee in 2022.

For 2023 variable pay has been introduced for each of the Executive¹ members. Their objectives fully align to the delivery of the 2023 business plan and introduces a stronger link between individual and overall performance and total remuneration.

Dependent on individual composition the Executive Directors' total compensation may be comprised of a car allowance or health benefit allowance as well as the provision of pay in lieu of pension contributions and healthcare insurance.

Non-Executive Directors' duties and responsibilities are set out in their letter of appointment and further governance within the firm. Non-Executive Directors initially hold office until the conclusion of the Annual General Meeting following their appointment, at which they are eligible for election without nomination. The circumstances in which a Board member would be required to vacate office are set out in the Memo and Rules of Scottish Friendly.

Fees for the Chair are set by the Committee in his absence and for Non-Executive Directors are set by the Executive Directors and the Chair. Changes are effective from 1 January. Fees are designed to recognise the responsibilities of Non-Executive Directors and to attract individuals with the necessary skills and experience to contribute to the future development of Scottish Friendly. These fees are reviewed and externally benchmarked every three years and the next review is set for 2024 with interim increases in line with annual increases for all colleagues.

¹ Executive is considered to be all members of the Executive Committee.



Fees are made up of an annual fee covering Board and Committee membership. Additional fees are payable to the Vice-Chair and to the Chairs of the Audit, Risk, Remuneration, and Investment Committees, as well as With-Profits Committee members, in respect of the additional responsibilities relating to those roles. Fees are neither performance-related nor pensionable and Non-Executive Directors do not receive any additional benefits.

Non-Executive Directors receive reimbursement of travel and accommodation costs where required for attending meetings.

Employment Contracts and Letters of Appointment

The Executive Directors have employment contracts with 6 months notice on either side. In the event of termination, any payments made would be based on individual circumstances including the reason for termination and contractual obligations and would be reviewed and approved through the Remuneration committee. All Non Executive Directors have letters of appointment.

Directors' Emoluments

	Salary and Fees £000	Performance pay £000
Chair		
David C Huntley ²	163	-
Executive Directors		
Stephen McGee (18 April 2022 onwards)	318	118
Alan Rankine	57	7
Neil Lovatt ³	16	-
Martin Pringle	242	18
Non-Executive Directors		
Anja Balfour	74	-
Dermot J Jenkinson	23	-
Kerr Luscombe	74	-
Gillian Watson	56	-
Susan Beckett	64	-
Mark Laidlaw	67	-
Stephen McGee (joined Jan 2022-Apr 2022)	15	-

1 For Executive Directors, benefits comprise a company car or car allowance where applicable, as well as the provision of pay in lieu of pension contributions and healthcare insurance. For the Non-Executive Directors, figures in the benefits column comprise travel and accommodation cost reimbursements.

2 An additional payment was made in respect of oversight role in 2021 and 2022 until the permanent appointment of new CEO in April 2022.

3 Mr Neil Lovatt resigned from the Board in January 2022 and retired from Scottish Friendly in July 2022.



	Entitled performance pay deferred £000	Benefits ¹ £000	Total Compensation Year ended 31 Dec 2022 £000	Total Compensation Year ended 31 Dec 2021 £000
	-	5	168	107
	-	22	458	-
	-	6	70	-
	-	2	18	313
	-	17	277	430
	-	-	74	72
	-	-	23	62
	-	-	74	72
	-	-	56	50
	-	4	68	64
	-	-	67	17
	-	-	15	17

Accounts



A light green background with a faint, stylized pattern of overlapping leaves or petals, creating a natural and organic feel.

Independent auditors' report to the members of Scottish Friendly Assurance Society Limited

Report on the audit of the financial statements

Opinion

In our opinion, Scottish Friendly Assurance Society Limited's Group financial statements and Society financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2022 and of the Group's and the Society's result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Friendly Societies Act 1992.

We have audited the financial statements, included within the Annual Report & Accounts (the "Annual Report"), which comprise: the Balance Sheet of the Group and the Society as at 31 December 2022; the Income and Expenditure of the Group and the Society for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 8 to the financial statements, we have provided no non-audit services to the Group or its controlled undertakings in the period under audit.

Our Audit Approach

Context

The Group is based in the United Kingdom and offers a wide range of products which includes conventional and unitised with-profits business, unit-linked and index-linked business, and other non-profit business. Life product types include endowments, whole of life, and term assurance, as well as personal pensions accumulation and decumulation products, including annuities. The Group consists of two regulated companies, Scottish Friendly Assurance Society Limited and Scottish Friendly Asset Managers Limited. In planning our audit, we met with the Audit Committee and members of management across the Group to discuss and understand business developments during the year, and to understand their perspectives on associated business risks. We used this insight and our knowledge of the Group and our industry experience when forming our own views regarding the audit risks and as part of developing our planned audit approach to address those risks. Given the activities of the Group, we have built a team with the relevant industry experience and technical expertise.

Overview

Audit Scope

- Our audit scope has been determined to provide coverage of all material financial statement line items.
- One reporting component was subject to a full scope audit (the Society) and all other components were considered immaterial to the Group.

Key Audit Matters

- Valuation of technical provisions - Persistency assumptions for the protection business (Group and Society)
- Valuation of technical provisions - Non annuitant mortality assumptions (Group and Society)



Materiality

- Overall Group materiality: £11.1 million based on 5% of Funds for Future Appropriations.
- Overall Society materiality: £10.9 million based on 5% of Funds for Future Appropriations (restricted as noted below).
- Performance materiality: £5.5 million (Group) and £5.4 million (Society).
- Specific overall materiality: £24.4 million based on 1% of Assets held to Cover Linked Liabilities applied to Assets Held to Cover Linked Liabilities and Technical Provision for Linked Liabilities (Group and Society).
- Specific performance materiality: £12.2 million applied to Assets Held to Cover Linked Liabilities and Technical Provision for Linked Liabilities (Group and Society).

The Scope of Our Audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key Audit Matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit Matter

Valuation of technical provisions - Persistency assumptions for the protection business (Group and Society)

Refer to Note 2 Accounting policies and Note 26 Technical Provisions.

Persistency assumptions are subjective and complex due to their nature, and given the size of the protection book, is a material assumption for the Society.

When determining the value of insurance and participating investment contract liabilities, an assumption needs to be made regarding the proportion of existing policies that will remain in-force in future time periods. Persistency rates determine this and thus are a key assumption.

The persistency assumptions are estimated using past experience and consideration of the future changes to policyholder behaviour. These changes are difficult to predict, and therefore expert judgement is applied when setting an appropriate basis.

How our audit addressed the key audit matter

We performed the following audit procedures to test the persistency assumptions:

- Assessed the appropriateness of, and evidence supporting, expert judgements made in the setting of the persistency basis, including the appropriateness of judgements made relating to recent economic and societal events including the cost of living crisis and COVID-19;
- We considered relevant controls that exist within the wider actuarial process and models and assessed the design, effectiveness and implementation of these controls;
- Tested the production of the persistency experience analysis and implementation within the actuarial models;
- Reviewed management's analysis of change and checked consistency with the proposed changes to the persistency basis; and
- Reviewed the methodology selected by management by comparing it against those used by peers and applying our industry knowledge and experience.

Based on the work performed and evidence obtained, we consider the assumptions used for persistency to be appropriate.



Key audit matter

Valuation of technical provisions - Non-annuitant mortality assumptions (Group and Society)

Refer to Note 2 Accounting Policies and Note 26 Technical Provisions.

Non-annuitant mortality assumptions are an area of significant management judgement due to the inherent uncertainty involved.

Given that the Society's liabilities are significantly made up of protection business, including term assurance and whole of life contracts, mortality risk is a key risk to which the business is exposed. Setting mortality assumptions, both base and improvement factors, are subjective and complex due to their nature, and given the size of the protection book, this is considered to be a significant assumption.

How our audit addressed the key audit matter

We performed the following audit procedures to test the non-annuitant mortality assumptions:

- Assessed the appropriateness of the methodology used to perform the experience analysis. This involved the assessment of key judgements with reference to relevant rules, actuarial guidance and by applying our industry knowledge and experience;
- We considered relevant controls that exist within the wider actuarial process and models and assessed the design, effectiveness and implementation of these controls;
- Tested the production of the non-annuitant mortality experience analysis and implementation within the actuarial models;
- Assessed the appropriateness of areas of expert judgments used in the development of the mortality basis, including the appropriateness of judgments made in respect of COVID-19; and
- Compared the non-annuitant mortality methodology and assumptions selected by management against those used by peers using our independent annual benchmarking survey of assumptions (to the extent available).

Key audit matter

Base mortality assumptions

This component of the assumption is mainly driven by internal experience analyses. It requires expert judgement, in determining the most appropriate granularity at which to carry out the analysis; the period used for historic experience; whether data should be excluded from the analysis; and in selecting an appropriate industry mortality table to which management overlays the results of the experience analysis.

Rate of future mortality improvements

This component of the assumption is more subjective given the lack of data and the uncertainty over how life expectancy will change in the future. The allowance for future mortality improvements is inherently subjective, as improvements develop over long timescales and cannot be captured by analysis of internal experience data. The Continuous Mortality Investigation Bureau ("CMIB") provides mortality projection models which are widely used throughout the industry and contain a standard core set of assumptions including initial rates of improvement, calculated by the CMIB based on the most recent available population data.

How our audit addressed the key audit matter

Based on the work performed and evidence obtained, we consider the assumptions used for non-annuitant mortality to be appropriate.



How We Tailored the Audit Scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Society, the accounting processes and controls, and the industry in which they operate.

Decisions regarding scoping require a significant degree of professional judgement based on quantitative and qualitative considerations, including the size and nature of business activities in each operating entity.

For the one financially significant component identified, being the Society, a full scope audit was performed. For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatements.

The Impact of Climate Risk on Our Audit

As part of our audit we have made enquiries of management to understand the extent of the potential impact of climate change risk on the Group's financial statements and the Group's preparedness for this. We have performed a risk assessment of how the impact of commitments made by the Group in respect of climate change may affect the financial statements and our audit. There was no impact of this on our key audit matters.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - Group	Financial statements - Society
Overall materiality	£11.1 million.	£10.9 million.
How we determined it	5% of Funds for Future Appropriations	5% of Funds for Future Appropriations
Rationale for benchmark applied	<p>The engagement team concluded that £11.1m is the most appropriate amount when setting an overall materiality on the engagement. The quantum of £11.1m was determined by considering the various benchmarks available to us as auditors. Fund for Future Appropriations is the most applicable measure because we regard Fund for future appropriations as the primary measure used by the members of the Society, since it represents the amount of surplus yet to be allocated to those members of the Society and to whom our opinion is addressed.</p>	<p>The engagement team concluded that £10.9m is the most appropriate amount when setting an overall materiality on the engagement. The quantum of £10.9m was determined by considering the various benchmarks available to us as auditors. Fund for Future Appropriations is the most applicable measure because we regard Fund for future appropriations as the primary measure used by the members of the Society, since it represents the amount of surplus yet to be allocated to those members of the Society and to whom our opinion is addressed.</p> <p>The benchmark for the Society is consistent with the Group, however, an allocation of the overall group materiality was determined for the Society as detailed below.</p>



For the component in the scope of our Group audit, we allocated a materiality that is less than with our overall group materiality. The benchmark for the Society was restricted to 99% of the overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 50% of overall materiality, amounting to £5.5 million for the Group financial statements and £5.4 million for the Society financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the lower end of our normal range was appropriate.

For certain balances our specific performance materiality was 50% of the specific overall materiality for assets held to cover linked liabilities and technical provision for linked liabilities amounting to £12,209,000. We have applied a higher materiality solely for the purpose of identifying and evaluating the effect of misstatements that are likely only to lead to a reclassification between line items within assets and liabilities of the balance sheet.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £550,000 (Group audit) and £545,000 (Society audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions Relating to Going Concern

Our evaluation of the directors' assessment of the Group's and the Society's ability to continue to adopt the going concern basis of accounting included:

- Obtained management's going concern assessment and challenged the rationale for downside scenarios adopted and material assumptions made using our knowledge of the Group's business performance, review of regulatory correspondence and obtaining further corroborating evidence;
- Considered management's assessment of the regulatory solvency coverage and liquidity in management's future forecast; and
- Considered information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Society's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on Other Information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.



In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether they had been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Friendly Societies Act 1992 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and the Society and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the Financial Statements and the Audit

Responsibilities of the Directors for the Financial Statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Directors' Report and The Accounts, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.



Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Friendly Societies Act 1992. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to management bias in accounting estimates and judgmental areas as shown in our key audit matters. Audit procedures performed by the engagement team included:

- Discussions with the Board, management, Internal Audit and senior management involved in the Risk and Compliance function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities;
- Reading key correspondence with and reports to the PRA and the FCA in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Audit Committee, the Risk Committee and the Technical Provisions Committee;
- Reviewing data regarding policyholder complaints, the Society's register of litigation and claims, Internal Audit reports and compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of the technical provisions described in the related key audit matters;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this Report

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 73 of the Friendly Societies Act 1992 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Other required reporting

Friendly Societies Act 1992 exception reporting

Under the Friendly Societies Act 1992 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Society; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 27 April 2022 to audit the financial statements for the year ended 31 December 2022 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Lee Clarke (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

3 April 2023

Accounts

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Income and Expenditure

Technical Account – Long Term Business

For year ended 31 December

	Note	Group 2022 £000	Group 2021 (Restated) £000	Scottish Friendly 2022 £000	Scottish Friendly 2021 (restated) £000
Earned Premiums		198,752	188,505 ¹	198,752	188,505 ¹
Reinsurance Premiums		(72,475)	(67,692)	(72,475)	(67,692)
Earned Premiums, Net of Reinsurance	3	126,277	120,813	126,277	120,813
Investment Income	4	55,042	236,354	55,042	237,354
Unrealised (Losses)/Gains on Investments	5	(458,499)	110,439 ¹	(458,002)	110,394 ¹
Other Technical Income	6	34,511	32,790	33,001	30,698
Amortisation of Negative Goodwill	13	6,060	6,060	6,060	6,060
		(236,609)	506,456	(237,622)	505,319
Claims Incurred		261,236	269,467 ¹	261,236	269,467 ¹
Reinsurance Claims		(107,502)	(98,955)	(107,502)	(98,955)
Net Claims Incurred	7	153,734	170,512	153,734	170,512
Change in Long-term Business Provision	26a	(305,980)	(80,303) ¹	(305,980)	(80,303) ¹
Change in Technical Provisions for Linked Liabilities	26b	(162,781)	310,203 ¹	(162,781)	310,203 ¹
Operating Expenses	8	90,583	78,159	90,583	78,159
Investment Expenses & Charges	10	3,409	3,255	3,409	3,255
Other Technical Charges	11	2,078	1,766	1,190	861
Tax attributable to Long Term Business	12	(36,744)	16,826	(36,869)	16,594
Actuarial Loss/(Gain) re Pension Scheme	24	15,156	(16,742)	15,156	(16,742)
Transfer to the Fund for Future Appropriations	25	3,936	22,780 ¹	3,936 ¹	22,780 ¹
		(236,609)	506,456	(237,622)	505,319

Except as disclosed above, there are no recognised gains or losses for the year. All results are derived from continuing operations.

The inclusion of unrealised gains and losses reflects the marking to fair value of investments in the balance sheet.

The notes on pages 96 to 160 form an integral part of these accounts

¹ Details on the restatement are included in note 37.

Balance Sheet

Assets

As at 31 December

	Note	Group 2022 £000	Group 2021 (restated) £000	Scottish Friendly 2022 £000	Scottish Friendly 2021 (restated) £000
Intangible Assets					
Negative Goodwill	13	(41,415)	(47,475)	(41,415)	(47,475)
Investments					
Land and Buildings	14	3,250	3,250	3,250	3,250
Investment in Group Undertakings	15	-	-	4,373	3,879
Derivative Financial Instruments	16	4,777	20,110	4,777	20,110
Other Financial Investments	17	962,446	1,152,556	962,446	1,152,556
Total Non-Linked Financial Investments		970,473	1,175,916	974,846	1,179,795
Assets Held to Cover Linked Liabilities	17	2,441,857	2,841,831 ¹	2,441,603	2,841,620 ¹
Total Financial Investments		3,412,330	4,017,747	3,416,449	4,021,415
Reinsurers' share of Technical Provisions					
Long-term Business Provision	26a	842,743	1,083,880 ¹	842,743	1,083,880 ¹
Debtors					
Deposits held for Reinsurers	19	10,662	10,939	10,662	10,939
Debtors arising out of Direct Insurance Operations	20	22,073	16,561	22,073	16,561
Other Debtors	21	24,682	7,491	25,078	8,779
		57,417	34,991	57,813	36,279
Other Assets					
Tangible Assets	22	659	753	659	753
Cash at Bank and In Hand	23	60,423	106,305	55,601	100,573
		61,082	107,058	56,260	101,326
Prepayments and Accrued Income					
Prepayments & Accruals		102	103	101	104
Pension Scheme Surplus	24	25,444	40,147	25,444	40,147
		4,357,703	5,236,451	4,357,395	5,235,676

The notes on pages 96 to 160 form an integral part of these accounts



Liabilities

As at 31 December

	Note	Group 2022 £000	Group 2021 (restated) £000	Scottish Friendly 2022 £000	Scottish Friendly 2021 (restated) £000
Fund for Future Appropriations	25	222,679	218,743 ¹	222,679	218,743 ¹
Technical Provisions					
Long-term Business Provision	26a	1,792,005	2,339,122 ¹	1,792,005	2,339,122 ¹
Claims Outstanding	28	47,712	48,778	47,575	48,641
		1,839,717	2,387,900	1,839,580	2,387,763
Technical Provision for Linked Liabilities					
	26b	2,218,537	2,539,782 ¹	2,218,537	2,539,782 ¹
Creditors					
Derivative Financial Instruments	16	2,207	106	2,207	106
Deposits Received from Reinsurers	31	28,961	36,085	28,961	36,085
Creditors arising out of Direct Insurance Operations	32	8,980	7,508	8,834	7,508
Other Creditors	33	10,593	11,820	10,704	11,365
		50,741	55,519	50,706	55,064
Accruals and Deferred Income		17,124	3,172	16,988	2,989
Provisions for Liabilities	34	8,905	31,335	8,905	31,335
		4,357,703	5,236,451	4,357,395	5,236,676

The financial statements on pages 92 to 160 were approved by the Board of Directors on 3 April 2023 and signed on its behalf by:

P Simmons
Company Secretary

S McGee
Chief Executive

The notes on pages 96 to 160 form an integral part of these accounts

¹ Details on the restatement are included in note 37.

Notes to the Accounts

Group and Scottish Friendly

1. General Information

Scottish Friendly Assurance Society Limited ("Scottish Friendly") is an incorporated friendly society authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. It is incorporated in the United Kingdom under the Friendly Societies Act 1992, and its principal place of business is its registered office: Galbraith House, 16 Blythswood Square, Glasgow, G2 4HJ.

It has five wholly owned subsidiaries, together "the Group". The principal activities of each company in the Group are detailed in the Directors' Report.

2. Accounting Policies

The Group's significant accounting policies are included at the beginning of the relevant notes to the Accounts. This note sets out the basis of preparation, a summary of the Group's critical accounting estimates and judgements in applying accounting policies, and other significant accounting policies which have been applied to the financial statements as a whole.

Basis of Preparation

The Accounts have been prepared in accordance with "The Financial Reporting Standard 102 ('FRS 102') and The Financial Reporting Standard 103 ('FRS 103')" issued by the Financial Reporting Council. They have also been prepared in accordance with The Friendly Societies Act 1992 and The Friendly Societies (Accounts and Related Provisions) Regulations 1994.

The Accounts have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with FRS 102. The accounts have also been prepared on a going concern basis, as confirmed in the Directors' Report. As outlined in the Directors' Report, after making enquiries, the directors have reviewed financial projections across a five-year period and have a reasonable expectation that the Group has adequate resources to continue in operational existence for this period.

As a mutual life assurance society, under FRS 102 Scottish Friendly and the Group is exempt from the requirement to prepare a Statement of Cash Flow.

The Accounts are prepared in sterling which is the functional currency of the Group and rounded to the nearest £000.



2. Accounting Policies (cont)

Basis of Consolidation

The Group Accounts consolidate the assets, liabilities and income and expenditure account transactions of Scottish Friendly together with its subsidiary undertakings. A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The activities of Scottish Friendly and the Group are accounted for in the Income and Expenditure Technical Account – Long Term Business. All intra-group transactions, balances, income and expenses are eliminated on consolidation. The amounts stated are the same for both Scottish Friendly and the Group unless otherwise stated. The classification of transactions and balances included in the Accounts of Scottish Friendly have been reviewed in the current period to enhance the understandability to the users of the Accounts. Where transactions and balances have been presented differently in the current period the prior period comparative has been updated to ensure consistency with the current period classification. Details of prior period restatements are disclosed in note 37.

Business Combinations and Goodwill

Business combinations are accounted for under the purchase method. The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. The accounting policies in relation to the acquired assets and liabilities are harmonised with those of the Group.

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is 10 years. Provision is made for any impairment.

Negative goodwill is similarly included in the balance sheet and is credited to the technical account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale.

Contract Classification

Scottish Friendly issues contracts that transfer insurance risk or financial risk or both. Products are classified for accounting purposes as insurance, investment, or investment with discretionary participating features contracts.

Insurance contracts are defined as those containing significant insurance risk if, and only if, the value of benefits payable under the contract varies significantly as the result of the occurrence of an insured event. This assessment is undertaken at the inception of the contract and excludes consideration of scenarios that lack

2. Accounting Policies (cont)

commercial substance. Such contracts which may also transfer financial risk, remain insurance contracts until all rights and obligations are extinguished or expire.

Insurance contracts include conventional and unitised with-profits business, unit-linked business, and other non-profit business. The product range includes endowments, whole of life, and term assurance, as well as personal pensions accumulation and decumulation products, including annuities. For certain hybrid insurance contracts the product class is separated into the relevant with-profit or unit-linked elements, so that each element is accounted for separately.

Contracts which contain a discretionary participation feature entitle the holder to receive, as a supplement to guaranteed benefits, a minimum percentage of growth in that guarantee. The percentage allocated to contract holders may be higher and the timing of the allocation and/or the amount of the benefits to individual contract holders is to some extent at the discretion of the Group. Such participating investment contracts are recognised and measured in the same way as insurance contracts.

Non-participating investment contracts are those contracts that transfer financial risk with no significant insurance risk. The liability under these contracts is dependent on the value of the underlying financial assets.

Scottish Friendly seeks to reduce its exposure to potential losses by reinsuring certain levels of risk with reinsurance companies. Reinsurance contracts that meet the classification requirements for insurance contracts are classified as reinsurance contracts.

Significant Judgements and Estimates

In preparing the Accounts in line with FRS 102 and 103, the Group uses judgement in applying its accounting policies and estimates where uncertainty exists that affect the reported amounts of assets and liabilities. The more critical areas, where accounting judgements and estimates are made, are set out below.

Critical Accounting Judgements

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Classification of Long-Term Contracts

The Group has exercised judgement in its classification of long-term business between insurance and investment contracts, which will be accounted for differently in accordance with our accounting policies. Insurance contracts are those where



2. Accounting Policies (cont)

significant risk is transferred to the Group under the contract and judgement is applied in assessing whether the risk so transferred is significant.

Key Sources of Estimation and Uncertainty

The purpose of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies and principally arises in respect of the technical provisions of the company. As a consequence of this uncertainty, the insurance company needs to apply complex estimation techniques to determine the appropriate provisions. Therefore the key sources of estimation and uncertainty arise in the valuation of contract obligations and, in some cases, the assets backing these contracts, where market prices are not readily available.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Investments

The fair value measurement note 18 explains the assumptions used in the valuation, particularly in respect of level 2 and 3 assets.

Valuation of Insurance and Investment Contract Liabilities

The technical provisions note 26 explains the main assumptions used in relation to mortality, morbidity, longevity, expenses, lapse and surrender rates, investment returns and discount rates. Note 35 provides information on the sensitivities of key assumptions.

A significant proportion of the insurance claims arising are ceded to reinsurers. The values placed on the associated reinsurance contracts are based on appropriate valuation assumptions, which are consistent with those used in the evaluation of the relevant insurance contract liabilities.

2. Accounting Policies (cont)

Insurance Claim Reserves – Reinsurance Recoverable

The reinsurance asset is highly sensitive to assumptions around future mortality and morbidity experience, which are set based on observed experience and rely on judgements about how to interpret that experience and how that experience may change in the future. In preparing the Accounts the directors have made an assessment as to whether claims ceded to reinsurers are recoverable. Note 35 provides information on the sensitivities on this assumption.

Valuation of Pension Benefit Obligations

The valuation includes assumptions about discount rates, expected returns on assets and mortality rates. Note 24 includes more details on the assumptions used and sensitivities thereon.

Outstanding Claims

Outstanding claims reserve is based on observed experience and relies on judgements about how to interpret that experience and how that experience may change in the future. Note 35 provides information on the sensitivities on this assumption.

Deferred Acquisition Costs

Acquisition costs incurred in issuing insurance contracts are not deferred as they are written in a with-profits fund. All acquisition costs on investment contracts are recognised as an expense in the technical account when incurred as they are not considered to be material.

Prior Year Restatement

During the year Scottish Friendly restated its prior year Accounts to reflect material restatements in its assets and liabilities. Details on the prior year restatement is shown in Note 37.

Foreign Currencies

Transactions in foreign currencies are recorded at the average rate for the period. Monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the balance sheet date. All differences are taken to the technical account.



3. Earned Premiums

Accounting for premiums

Insurance Contracts

Gross earned premiums on insurance contracts are recognised when the policy liability is set up and the premium becomes due for payment; reinsurance premiums are accounted for when they become payable.

Investment Contracts

Premiums relating to investment contracts are not recognised in the technical account, but are recorded as contributions to and deductions from the investment contract liabilities recorded in the balance sheet.

Earned premiums, all of which relate to direct insurance on individual contracts and to investment contracts with discretionary participating features, can be analysed as follows:

	Total	
	2022 £000	2021 (restated) £000
Annual	197,523	180,303
Single	1,229	8,202
	198,752	188,505
Comprising		
Premiums for investment contracts with participating features	27,372	32,984 ¹
Premiums for participating contracts	17,248	14,117 ¹
Premiums for non- participating contracts	146,315	131,825 ¹
Premiums from linked contracts	7,817	9,579 ¹
Gross Earned Premiums	198,752	188,505
Reinsurance Premiums on Insurance Contracts	(72,475)	(67,692)
Earned Premiums, net of reinsurance	126,277	120,813

Consideration received in respect of investment contracts of £44,551k (2021 restated: £42,655k¹) is treated as customer deposits and taken directly to the technical provisions, see Note 26b.

¹ Details on the restatement are included in note 37.

4. Investment Income

Accounting for Investment Income

Investment income includes dividends, interest, rents, and gains and losses on the realisation of investments. Dividends are included as investment income on the date on which the shares are quoted "ex-dividend interests". Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost.

	Group		Scottish Friendly	
	2022 £000	2021 £000	2022 £000	2021 £000
Income from land and buildings	100	71	100	71
Income from financial investments held at fair value through profit and loss	67,011	57,815	67,011	58,815
Net realised (losses)/gains on financial investments held at fair value through profit and loss	(12,069)	178,468	(12,069)	178,468
Investment Income	55,042	236,354	55,042	237,354

5. Unrealised Gains And Losses On Investments

Accounting for Unrealised Gains and Losses on Investments

Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and the valuation at the last balance sheet date, or purchase price if acquired during the year. All unrealised gains and losses are included in the Technical Account.

	Group		Scottish Friendly	
	2022 £000	2021 (restated) £000	2022 £000	2021 (restated) £000
Unrealised (losses)/gains on investments	(458,499)	110,439 ¹	(458,002)	110,394 ¹

¹ Details on the restatement are included in note 37.



6. Other Technical Income

Accounting for Other Technical Income

Other technical income comprises fee income and, at Group level, the income from the subsidiaries. Fee income is charged to policyholders for administration services, investment management services and surrenders. These fees are recognised in the period over which the services are performed.

Income from Subsidiaries is payment for services provided to subsidiaries in accordance with intra-group service agreements. These include services such as administration, technology, finance and compliance activities.

	Group		Scottish Friendly	
	2022	2021	2022	2021
	£000	£000	£000	£000
Annual management charges	26,446	28,133	26,446	28,133
Policy charges	3,799	4,527	3,799	4,527
Income from Subsidiaries	-	-	1,207	804
Foreign exchange gain/(loss)	1,525	(2,769)	1,525	(2,769)
Other income	2,741	2,899	24	3
	34,511	32,790	33,001	30,698

7. Claims Incurred

Accounting for Claims

Insurance Contracts

Claims incurred, which include related claims handling expenses, are accounted for, in the case of death claims and surrenders, when they are notified to Scottish Friendly and, in the case of maturities and annuities, when they become due. Claims on with-profits business include bonuses payable (see note 27). Reinsurance recoveries are credited to match the relevant gross amounts.

Investment Contracts

Gross claims on investment contracts are deducted from investment contract liabilities and are accounted for as deductions from investments in the Balance Sheet.

Outstanding Claims

Please refer to note 28 for accounting treatment.

	Group		Scottish Friendly	
	2022 £000	2021 (restated) £000	2022 £000	2021 (restated) £000
Gross claims paid	262,302	253,192 ¹	262,302	253,192 ¹
Change in provision for claims outstanding at the year-end	(1,066)	16,275	(1,066)	16,275
	261,236	269,467	261,236	269,467
Aggregate recoveries received from reinsurers	(107,502)	(98,955) ¹	(107,502)	(98,955) ¹
Net Claims Paid on Insurance Contracts	153,734	170,512	153,734	170,512

Policies defined as investment rather than insurance contracts are accounted for on a deposit basis.

The claims analysis above excludes £192,912k (2021 restated: £219,699¹k) of payments made in relation to investment contracts, see Note 26b.

¹ Details on the restatement are included in note 37.



8. Operating Expenses

Accounting for Acquisition Costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of sales. The costs are not split between insurance and investment contracts because the business model manages the sales and marketing function on an integrated basis. Acquisition costs incurred in issuing insurance contracts are not deferred as they are written in a with-profits fund. All acquisition costs on investment contracts are recognised as an expense in the technical account when incurred as they are not material.

Renewal commission is recognised when the policy is renewed.

Operating Costs

	2022 £000	2021 £000
Acquisition costs	17,897	20,813
Administration costs	23,556	19,989
Renewal commission	49,130	39,057
Bad debt reversal	-	(1,700)
	90,583	78,159

Remuneration of Auditors

	2022 £000	2021 £000
Fees payable to the auditor for audit of annual accounts	500	382
Fees payable to the auditor for other services:		
The audit of subsidiary companies pursuant to legislation	30	31
Other assurance fees	161	93

During the year other assurance fees were paid to the auditors for other assurance services specific to the Group's authorisation to conduct regulated business under the Financial Services and Market Act 2000.

9. Staff Costs

Staff Numbers and Costs

The average number of persons, including executive directors, employed by Scottish Friendly during the year was 251 (2021: 225). The aggregate payroll costs of these persons were as follows:

	2022 £000	2021 £000
Wages and salaries	11,176	9,614
Social security costs	1,267	963
Other pension costs	803	680
	13,246	11,257

Remuneration of Directors

During the year there was £938k (2021: £966k) remuneration incurred for executive directors (included above). Details of directors' remuneration are included in the Directors' Remuneration Report on pages 71 to 75.

During the year there were £547k (2021: £461k) of fees incurred for non-executive directors.



10. Investment Expenses And Charges

Accounting for Investment Expenses

Investment expenses include expenses paid to external fund managers and custody fees. Expenses are accounted for on an accruals basis. Other investment fees and charges includes money paid to third parties for investment administration.

	2022 £000	2021 £000
External fund manager fees	1,480	1,410
Custody fees	176	176
Other investment fees and charges	1,753	1,669
	3,409	3,255

11. Other Technical Charges

Accounting for Other Technical Charges

Other technical charges are recognised as they are incurred. Amounts include interest on collateral, OEIC administration fees and overhead expenses.

	Group		Scottish Friendly	
	2022 £000	2021 £000	2022 £000	2021 £000
Other Technical Charges	2,078	1,766	1,190	861

12. Tax Attributable to Long Term Business

Accounting for Taxation

The charge for taxation in respect of business that falls outside the tax-exempt limit is based on the rules for the taxation of friendly societies, as applied to items included in the long-term business technical account for the year. It also takes into account deferred taxation arising from timing differences between the recognition of gains, losses and certain items of expenditure in the financial statements and recognition for tax purposes. Deferred tax assets are recognised to the extent that they are judged to be recoverable in future periods.

	Group		Scottish Friendly	
	2022	2021	2022	2021
	£000	£000	£000	£000
Current tax charge	105	3,748	(20)	3,516
Deferred tax liabilities movement	(35,395)	15,751	(35,395)	15,751
Under/(Over) provided in earlier years	400	(623)	400	(623)
Other	(1,854)	(2,050)	(1,854)	(2,050)
Corporation Tax and irrecoverable income tax	(36,744)	16,826	(36,869)	16,594

UK corporation tax in the technical account has been calculated at a rate of 20% (2021: 20%) in accordance with rates applicable to the long-term business of a friendly society.



12. Tax Attributable to Long Term Business (cont)

	2022 £000	2021 (restated) £000
Transfer to Fund for Future Appropriations	3,936	22,780 ¹
Tax using the policyholder tax rate of 20% (2021: 20%)	787	4,556 ¹
Tax effect of accounting profit not subject to tax	(807)	(1,039) ¹
Movement in deferred tax	(30,247)	8,940
Tax applied to pension surplus at 35%	(5,145)	6,810
Differences due to policyholder tax items	(1,857)	(2,050)
Under/(Over) provided in earlier years	400	(623)
Current tax year	(36,869)	16,594

Corporation tax is charged at the standard rate of 19% (2021: 19%) on the profit on ordinary activities of the subsidiary SFAM £125k (2021: £232k) with adjustments in respect of prior years being £nil (2021: £nil).

The recognition of a deferred tax asset during the year has arisen primarily as a result of the negative fixed interest returns that have been experienced across the industry in the latter half of 2022.

¹ Details on the restatement are included in note 37.

13. Negative Goodwill

	2022 £000	2021 £000
Carrying amount at the beginning of the period	(47,475)	(53,535)
Amortisation	6,060	6,060
Carrying amount at the end of the period	(41,415)	(47,475)

14. Land And Buildings

Accounting for Land and Buildings

Land and buildings occupied by Scottish Friendly are revalued to fair value every three years with the surplus or deficit on book value being included in the technical account. It is Scottish Friendly's practice to maintain these assets in a continual state of sound repair and to extend and make improvement thereto from time to time; accordingly, the directors consider that the lives of these assets are so long and the residual values, based on prices prevailing at the time of acquisition or subsequent revaluation, are so high that any depreciation would be insignificant.

	2022 £000	2021 £000
Owner Occupied Land and Buildings:		
Fair Value at 1 January	3,250	3,500
Revaluation adjustment	-	(250)
Fair Value at 31 December	3,250	3,250

Land and buildings relates to freehold property at 14-16 Blythswood Square. The most recent valuation was completed at 31 December 2021 and there have been no indicators that would require a change to that valuation.



15. Investment in Group Undertakings

Accounting for Investments in Group Undertakings

Investments in Group undertakings are valued at the excess of assets over liabilities, within the balance sheet of the undertaking. The directors believe this is an approximate fair value which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

The Group's investments in subsidiary undertakings as at 31 December 2022, are set out below, all of which are included in the consolidation; the carrying value of these subsidiaries cancel out on consolidation. All subsidiaries are wholly owned by the Group. SL Insurance Services Limited has been dissolved during the year.

Name of Subsidiary Undertaking	Nature of Business	Country of Incorporation and Registered Address
Scottish Friendly Asset Managers Limited	Child Trust Fund, ISA, and Junior ISA management and Authorised Corporate Director to operate OEICs.	Scotland 16 Blythswood Square, Glasgow G2 4HJ
Scottish Friendly Insurance Services Limited	Administration services	Scotland 16 Blythswood Square, Glasgow G2 4HJ
MGM Assurance (Trustees) Limited	Trustee	England and Wales 78 Cannon Street, London, England, EC4N 6AF
SF Pension Managers & Trustees Limited	Trustee	England and Wales 78 Cannon Street, London, England, EC4N 6AF
Scottish Friendly Insurance Services (Nominees) Limited	Nominee	Scotland 16 Blythswood Square, Glasgow G2 4HJ

SFAS holds a majority of the shares in issuance of the Scottish Friendly UK Growth Fund (a sub-fund of the ICVC). The shares are held as part of the investment portfolio assets backing unit-linked liabilities and, as such, will be sold when the underlying policyholders claim on their policies. Scottish Friendly does not consolidate the Scottish Friendly UK Growth Fund within these wider financial statements, under the exemption set out in FRS 102 Guidance 9.9(b) as the investment is held exclusively with a view to a subsequent resale and has not previously been consolidated within the financial statements. The interest in the subsidiary is held at fair value on the balance sheet and is disclosed in note 17 (£17.3m; 2021: £18.5m).

16. Derivative Financial Instruments

Accounting for Derivatives

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes and does not designate any derivatives as hedging instruments. A small portfolio of derivatives is held for efficient portfolio management. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the technical account in finance costs or income as appropriate.

	2022			2021		
	Contract Amount £000	Fair Value Assets £000	Fair Value Liabilities £000	Contract Amount £000	Fair Value Assets £000	Fair Value Liabilities £000
Futures	8,893	389	277	27,576	343	50
Forwards	162,031	42	1,930	108,159	2,061	56
Swaptions	21,600	4,346	-	30,600	17,706	-
	192,524	4,777	2,207	166,335	20,110	106

At 31 December 2022, the outstanding contracts all mature within 5 years of the year end (2021: 6 years).



17. Financial Investments

Accounting for Financial Investments

Financial assets are recognised when the Group becomes a party to the contractual obligations of the instrument.

Financial Assets at Fair Value Through Profit or Loss

Financial assets measured at fair value through profit or loss are initially measured at fair value, normally the transaction price excluding transaction costs. Subsequent changes of fair value are recognised in profit or loss. Financial investments at fair value through profit or loss include derivatives, listed and unlisted investments, debt securities and bonds, and units in authorised unit trusts, Open Ended Investment Companies (OEICs) and other investments.

Loans and Receivables

Instruments classified as 'basic' financial instruments are initially measured at transaction price excluding transaction costs and subsequently at amortised cost using the effective interest method. Debt instruments that have no stated interest rate (and do not constitute a financing transaction) and are classified as payable or receivable within one year, are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Derecognition of Financial Assets

A financial asset is de-recognised when Scottish Friendly's right to receive cash flows from the asset has expired, and where Scottish Friendly has transferred to a third party its right to receive cash flow from an asset, and substantially all the risks and rewards of ownership or control of the asset.

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment; any impairment loss is recognised in operating expenses in the technical account.

17. Financial Investments (cont)

	Group Carrying Value	
	2022 £000	2021 £000
Other non-linked financial investments		
Financial investments designated at fair value;		
Shares, other variable yield securities and units in OEICs and unit trusts	454,530	511,371
Debt securities and other fixed income securities	507,916	641,105
Private equity investments	-	80
Investments in Group Undertakings	-	-
Total non-linked financial investments	962,446	1,152,556
	Group Carrying Value	
	2022 £000	2021 £000
Linked financial investments		
Financial investments designated at fair value;		
Shares, other variable yield securities and units in OEICs and unit trusts	2,441,562	2,841,400
Debt securities and other fixed income securities	136	165
	2,441,698	2,841,565
Loans and receivables		
Deposits with credit institutions	159	266
Total linked financial investments	2,441,857	2,841,831



17. Financial Investments (cont)

Group Cost		Scottish Friendly			
2022	2021	Carrying Value		Cost	
£000	£000	2022	2021	2022	2021
		£000	£000	£000	£000
476,888	500,443	454,530	511,371	476,888	500,443
678,126	645,867	507,916	641,105	678,126	645,867
658	658	-	80	658	658
-	-	4,373	3,879	3,115	3,115
1,155,672	1,146,968	966,819	1,156,435	1,158,787	1,150,083

Group Cost		Scottish Friendly			
2022	2021	Carrying Value		Cost	
£000	£000	2022	2021	2022	2021
		£000	£000	£000	£000
2,090,060	2,272,257	2,441,308	2,841,189	2,089,806	2,272,047
288	303	136	165	288	303
2,090,348	2,272,560	2,441,444	2,841,354	2,090,094	2,272,350
159	266	159	266	159	266
2,090,507	2,272,826	2,441,603	2,841,620	2,090,253	2,272,616

18. Fair Value Measurement

Scottish Friendly applies the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Unadjusted Prices Quoted in Active Markets for Identical Assets or Liabilities.

Prices are obtained from pricing service providers where there is clear evidence that the valuations are based on traded prices in an active market. The prices for assets in this category are received daily from Thomson Reuters, or are provided by third parties based on active market prices.

Fair Value Hierarchy	Group	
	Level 1 £000	Level 2 £000
Financial instrument assets 2022		
Financial instruments designated at fair value;		
Shares, other variable yield securities and units in OEICs and unit trusts	2,374	2,684,558
Debt securities and other fixed income securities	445,598	59,879
Private equity investments	-	-
Investments in Group Undertakings	-	-
Land and buildings	-	-
	447,972	2,744,437
Derivative Financial Instruments	389	4,388
Financial assets measured at fair value through profit and loss	448,361	2,748,825
Loans and receivables;	-	159
Deposits with credit institutions	-	-
Total financial assets	448,361	2,748,984
Financial instrument liabilities 2022		
Derivative Financial Instruments	277	1,930
Investment contract and liabilities (see Note 26b)	-	-
Total financial liabilities	277	1,930



18. Fair Value Measurement (cont)

Level 2: Inputs Other Than Quoted Prices That Are Observable Either Directly (as Prices) or Indirectly (as Derived from Prices).

Where it is not possible to determine prices based on actual transactions in an active market, the fair value is based on broker quotes and information from fund managers. Assets in this category include derivatives and investments in unit trusts and OEICs.

Level 3: The Inputs Are Not Based on Observable Market Data (Unobservable Inputs).

In a minority of cases, there are no market observable inputs and therefore the fair value is determined using a valuation technique based on assumptions that are not supported by observable market transactions nor based on market data. Details of the valuation techniques used is given in Note 35. Such assets include Scottish Friendly's investment in property funds, private equity and the subsidiary companies.

Group		Scottish Friendly			
Level 3 £000	Total £000	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
209,160	2,896,092	2,374	2,684,304	209,160	2,895,838
2,575	508,052	445,598	59,879	2,575	508,052
-	-	-	-	-	-
-	-	-	-	4,373	4,373
3,250	3,250	-	-	3,250	3,250
214,985	3,407,394	447,972	2,744,183	219,358	3,411,513
-	4,777	389	4,388	-	4,777
214,985	3,412,171	448,361	2,748,571	219,358	3,416,290
-	159	-	159	-	159
214,985	3,412,330	448,361	2,748,730	219,358	3,416,449
-	2,207	277	1,930	-	2,207
2,218,537	2,218,537	-	-	2,218,537	2,218,537
2,218,537	2,220,744	277	1,930	2,218,537	2,220,744

18. Fair Value Measurement (cont)

Each financial instrument is categorised according to the lowest level of input that is significant to the fair value measurement of the financial instrument. Both price volatility and market information on assets are reviewed periodically to see if there is any indicator that an asset may require reclassification due to liquidity or impairment.

At 31 December 2022 Scottish Friendly had an investment in a Level 3 security that was the subject of a class action.

Fair Value Hierarchy	Group	
	Level 1 (restated) £000	Level 2 (restated) £000
Financial instrument assets 2021		
Financial instruments designated at fair value;		
Shares, other variable yield securities and units in OEICs and unit trusts	3,458	3,283,603
Debt securities and other fixed income securities	574,325	63,206
Private equity investments	-	-
Investments in Group Undertakings	-	-
Land and buildings	-	-
	577,783	3,346,809
Derivative Financial Instruments	343	19,767
Financial assets measured at fair value through profit and loss	578,126	3,366,576
Loans and receivables;		
Deposits with credit institutions	-	266
Total financial assets	578,126	3,366,842
Financial instrument liabilities 2021 (restated)		
Derivative Financial Instruments	50	56
Investment contract and liabilities (see Note 26b)	-	-
Total financial liabilities	50	56

1 Details on this restatement are included in note 37.



18. Fair Value Measurement (cont)

Group		Scottish Friendly			
Level 3 (restated) £000	Total £000	Level 1 (restated) £000	Level 2 (restated) £000	Level 3 (restated) £000	Total £000
65,710	3,352,771	3,458	3,283,392	65,710	3,352,560
3,739	641,270	574,325	63,206	3,739	641,270
80	80	-	-	80	80
-	-	-	-	3,879	3,879
3,250	3,250	-	-	3,250	3,250
72,779	3,997,371	577,783	3,346,598	76,658	4,001,039
-	20,110	343	19,767	-	20,110
72,779	4,017,481	578,126	3,366,365	76,658	4,021,149
-	266	-	266	-	266
72,779	4,017,747	578,126	3,366,631	76,658	4,021,415
-	106	50	56	-	106
2,539,782 ¹	2,539,782	-	-	2,539,782 ¹	2,539,782
2,539,782	2,539,888	50	56	2,539,782	2,539,888

18. Fair Value Measurement (cont)

During the year, there have been several reclassifications between Levels 1, 2 and 3 for the fair value hierarchy. Units in OEICs and Unit Trusts, which had an overall value of £2,786,342k at 31 December 2021, previously classified as Level 1, have been reclassified to Level 2. Holdings in property and UK Property Funds, classified as Level 2 in 2021 with a value of £65,710k have now been reclassified as Level 3. These reclassifications have taken place following a full review of the Group's approach to the valuation and classification of investments, which indicated that a more prudent approach to the classification of Unit Trust and OEIC holdings was required, in order to reflect the presence of certain non-observable inputs within the investments' net asset values. With the exception of property funds, it was concluded that these assets meet the definition of "quoted prices for identical or similar assets or liabilities in markets that are not active" and so should be classified as Level 2 for statutory reporting purposes. Property funds and direct property holdings are classified as Level 3 due to the greater prevalence of non-observable inputs in their valuations. Reinsurance assets of £501,485k were reclassified from reinsurers shares of technical provision and are included within Shares, other variable yield securities and units in OEICs and unit trusts at Level 2.

The following table sets out the adjustments between what was disclosed in the 2021 Accounts and the revised classification:

Fair Value Hierarchy	Group	
	Level 1 (restated) £000	Level 2 (restated) £000
Per note 18 in 2021		
Financial instruments designated at fair value;		
Shares, other variable yield securities and units in OEICs and unit trusts	2,789,800	61,486
Reclassification of assets previously classified as reinsurance assets (note 37)	-	501,485
Reclassification of property funds	-	(65,710)
Reclassification of units in OEICs and Unit Trusts	(2,786,342)	2,786,342
Per restated Fair Value Hierarchy for 2021	3,458	3,283,603



18. Fair Value Measurement (cont)

Derivative financial instruments

Derivatives are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key assumptions used in valuing the derivatives are interest rate curve data and interest rate volatility data.

Group		Scottish Friendly			
Level 3 (restated) £000	Total £000	Level 1 (restated) £000	Level 2 (restated) £000	Level 3 (restated) £000	Total £000
-	2,851,286	2,789,589	61,486	-	2,851,075
-	501,485	-	501,485	-	501,485
65,710	-	-	(65,710)	65,710	-
-	-	(2,786,131)	2,786,131	-	-
65,710	3,352,771	3,458	3,283,392	65,710	3,352,560

19. Deposits Held For Reinsurers

Accounting for Deposits Held for Reinsurers

Debtors arising out of deposits held for reinsurers are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Reinsurance arrangements are in place for the “Standard” and “Select” annuity products written in the past under treaties with Pacific Life Re and Hannover Re respectively, and include an overlay treaty with RGA providing 100% reinsurance in total.

The reinsurance treaties include appropriate collateral arrangements in the form of deposits as security for obligations under the contracts. Amounts paid as collateral under reinsurance arrangements is as follows, with amounts received under reinsurance arrangements is shown in note 31.

	2022 £000	2021 £000
Collateral deposits for: Longevity Swap (Pacific Life Re)	10,662	10,939
	10,662	10,939

20. Debtors Arising Out Of Direct Insurance Operations

Accounting for Debtors Arising Out of Direct Insurance Operations

Debtors arising out of insurance operations are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method.

	2022 £000	2021 £000
Amounts due from policyholders/intermediaries	9,053	7,680
Amounts due from reinsurance operations	13,020	8,881
	22,073	16,561

There are debtors due after more than one year of £1.6m (2021: £1.7m) included within amounts due from policyholder/intermediaries.



21. Other Debtors

Accounting for Other Debtors

Other debtors are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method. The current tax asset is corporation tax recoverable in respect of the taxable surplus or deficit in the year.

	Group		Scottish Friendly	
	2022 £000	2021 £000	2022 £000	2021 £000
Amounts due from brokers	10,029	5,111	10,029	5,111
Amounts due from Group entities	-	-	656	1,600
Other receivables	572	2,103	312	1,791
Current corporation tax asset	1,118	277	1,118	277
Deferred corporation tax asset (note 34)	12,963	-	12,963	-
	24,682	7,491	25,078	8,779

22. Tangible Assets

Accounting for Tangible Assets

Tangible fixed assets are stated at cost net of any depreciation and provision for impairment. Depreciation is provided on tangible fixed assets to write off the cost less the estimated residual value of tangible assets on a straight-line basis over the estimated useful economic lives as follows:

Computer Equipment	4 years
Fixtures & Fittings	10 years

	Computer equipment £000	Fixtures & fittings £000	Total (£000)
Cost			
At 1 January 2022	960	471	1,431
Additions	115	-	116
Disposals	-	-	-
At 31 December 2022	1,075	471	1,547
Accumulated depreciation			
At 1 January 2022	577	101	678
Charge for the year	163	47	210
Disposals	-	-	-
At 31 December 2022	740	148	888
Net Book Value at 31 December 2022	335	323	659
Net Book Value at 31 December 2021	383	370	753



23. Cash at Bank and In Hand

Accounting for Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and cash in hand as well as short-term deposits with a maturity of three months or less and known redemption values which are held to manage short-term operational cash requirements on origination. There is no restricted cash.

	Group		Scottish Friendly	
	2022 £000	2021 £000	2022 £000	2021 £000
Cash and Cash Equivalents	60,423	106,305	55,601	100,573

24. Pension Scheme Surplus

Accounting for Pension Schemes

For the defined contribution scheme, the amount charged to the technical account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

For the defined benefit scheme, the amounts charged to the technical account are the costs arising from employee services rendered during the period, and the cost of plan introductions, benefit changes, settlements or curtailments. Remeasurement, comprising actuarial gains and losses and the return on the scheme assets, is recognised in the technical account.

The defined benefit scheme is funded, with the assets of the scheme held separately from those of the Group, in a separate trustee administered fund. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and updated at each balance sheet date.

Money purchase Group personal pension scheme

Scottish Friendly operates a money purchase Group personal pension scheme. For the year ended 31 December 2022, the charge included in the technical account relating to the employer's contributions to this scheme was £803,267 (2021: £680,477). There were no outstanding or prepaid contributions at the date of the balance sheet.

24. Pension Scheme Surplus (cont)

MGM Assurance Staff Pension Plan

Scottish Friendly sponsors the MGM Assurance Staff Pension Plan ('the Plan'), a funded defined benefit pension plan in the UK. The Plan is set up on a tax relieved basis as a separate trust independent of Scottish Friendly. The Trustees are responsible for ensuring that the correct benefits are paid, that the Plan is appropriately funded and that Plan assets are appropriately invested.

Under the previous Schedule of Contributions dated 6 September 2019, Scottish Friendly paid monthly contributions of £226,667 in January and February 2022. The new Schedule of Contributions, dated 14 March 2022, details up to five additional payments of £226,667 which are contingent on the funding position on the buyout (solvency) basis. No payments under the new schedule were required to be paid during 2022.

A formal actuarial valuation as at 31 December 2021 is currently being carried out. The liabilities at the reporting date have been calculated by using the same membership data as that used for the preliminary results of the 2021 actuarial valuation, but adjusted to allow for the passage of time, benefits paid out of the Plan and changes in actuarial assumptions over the period from 31 December 2021 to 31 December 2022.

The last formal actuarial valuation was carried out as at 31 December 2018. The liabilities at 31 December 2021 were calculated by using the same membership data as that used for the 2018 actuarial valuation, but adjusted to allow for the passage of time, benefits paid out of the Plan and changes in actuarial assumptions over the period from 31 December 2018 to 31 December 2021.

The figures in the following disclosure were measured using the projected unit method.

The amounts recognised in the statement of financial position are as follows:	2022 £000	2021 £000
Defined benefit obligation	(64,647)	(104,321)
Fair value of plan assets	90,091	144,468
Net defined benefit asset	25,444	40,147

The amounts recognised in comprehensive income are the current and past service costs, settlements and curtailments, together with the net interest expense for the year as included in profit or loss. Remeasurements of the net defined benefit liability are included in comprehensive income.



24. Pension Scheme Surplus (cont)

	2022 £000	2021 £000
Service cost:		
Administration expenses	739	-
Net interest credit	(720)	(276)
Charge/(credit) recognised in profit and loss	19	(276)
Remeasurements of the net liability:		
Return on Plan assets (excluding amount included in net interest expense)	53,830	(3,829)
Actuarial (losses)/gains	(38,693)	(12,637)
Charge/(credit) recorded in Technical Account	15,137	(16,466)
Total defined benefit credit	15,156	(16,742)

Scheme administration expenses of £7k (2021: £485k) has been included in the operating expenses of Scottish Friendly.

The principle actuarial assumptions used were:	2022	2021
Liability discount rate	4.75%	1.80%
Inflation assumption – RPI	3.35%	3.45%
Inflation assumption – CPI	2.70%	2.80%
Revaluation of deferred pensions:		
GMP	Fixed rate	Fixed rate
Excess over GMP	2.70%	2.80%
Increases for pensions in payment:		
Pre 88 GMP	0.00%	0.00%
Post 88 GMP	3.00%	3.00%
Excess over GMP (RPI capped at 5%)	3.25%	3.30%
Proportion of employees opting for early retirement	0%	0%
Proportion of pension commuted for cash at retirement	20%	20%

24. Pension Scheme Surplus (cont)

The principle actuarial assumptions used were:	2022	2021
Expected age at death of current pensioner at age 65:		
Male aged 65 at year end	87.4	87.4
Female aged 65 at year end	89.0	89.2
Expected age at death of future pensioner at age 65:		
Male aged 45 at year end	89.0	89.0
Female aged 45 at year end	90.1	90.3

Analysis was carried out in 2020 into the proportion of employees commuting their pension for cash. Reflective of this information, an assumption that 20% of pension benefit is commuted to cash (2021: 20%) has been allowed for in the amounts recognised in the statement of financial position.

Reconciliation of Plan assets and liabilities	Assets £000	Liabilities £000	Total £000
At start of period	144,468	(104,321)	40,147
Benefits paid	(2,833)	2,833	-
Administration expenses	(739)	-	(739)
Contributions from the employer	453	-	453
Interest income/(expense)	2,572	(1,852)	720
Return on assets (excluding amount included in net interest expense)	(53,830)		(53,830)
Actuarial gains		38,693	38,693
At end of period	90,091	(64,647)	25,444

The return on Plan assets was:	2022 £000	2021 £000
Interest income	2,572	1,755
Return on plan assets (excluding amount included in net interest expense)	(53,830)	3,829
Total return on plan assets	(51,258)	5,584



24. Pension Scheme Surplus (cont)

The major categories of Plan assets are as follows:	2022 £000	2021 £000
Corporate Bonds	39,576	14,194
Gilts	-	12,631
Cash	14,839	75,197
Liability Driven Investment (LDI)	35,676	42,446
Total fair value of assets	90,091	144,468

None of the fair value of the assets shown above include any of the company's own financial instruments of and property occupied by, or other assets used by, the company.

Projected Technical Account cost items for year ending:	2023 £000	2022 £000
Service cost – inc. current & past service costs, settlements	-	-
Service cost – administrative cost	764	150
Net interest on the net defined benefit liability	(1,190)	(735)
	(426)	(585)

If the discount rate was 0.5 percent higher (lower), the Plan liabilities would decrease by £4,422k (2021: £9,300k) (increase by £4,965k (2021: £10,703k)) if all the other assumptions remained unchanged.

If the inflation assumption was 0.5 percent higher (lower), the Fund liabilities would increase by £3,459k (2021: £7,614k) (decrease by £3,405k (2021: £6,836k)). In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, that is the deferred pension increases and pension in payment increases, if all the other assumptions remain unchanged.

If life expectancies were to increase by 1 year, the Fund liabilities would increase by £2,323k (2021: £5,374k) if all the other assumptions remained unchanged.

25. Fund For Future Appropriations

Accounting for Fund for Future Appropriations

The balance on this account represents funds that have not been allocated to specific policyholders. Transfers to and from the fund reflect the excess of income over outgoings in each accounting year arising from with-profits business.

	2022 £000	2021 (restated) £000
Value at start of the year	218,743 ¹	195,963 ¹
Transfer to the Fund for Future Appropriations in the year	3,936	22,780 ¹
Value at the end of the year	222,679	218,743¹

26. Technical Provisions

(a) Long-term Business Provision

Accounting for Long-Term Business Provisions

With-profit insurance, non-profit insurance, unit-linked insurance and participating investment contracts provisions are determined in accordance with the requirements of the PRA rulebook: Solvency II Firm Technical Provisions Instrument 2015. They are calculated as the expected future cash flows (claims and expenses less premiums) plus a risk margin. The risk margin allows for the cost to a third party of holding the Solvency II risk capital for non-hedgeable risks until all contracts are settled.

The liability calculations are undertaken on a Solvency II basis and are based on demographic and expense assumptions that reflect Scottish Friendly's best estimate of future experiences at the time of calculation. The economic assumptions used are market consistent, in line with the requirements of Solvency II, and are set using current market data.

¹ Details on the restatement are included in note 37.



26. Technical Provisions (cont)

For with-profits, the underlying liabilities are based on “asset shares” and reflect the accumulated premiums, investment return, expenses and charges applied to each contract. Where appropriate, the cost of meeting future expected cash flows relating to the with-profits policies, including cash flows resulting from embedded options and guarantees, is evaluated using a stochastic approach. For non-profit contracts, the best estimate liability is calculated using a cash flow projection of all future benefit payments, future expenses and future premiums. These are adjusted for tax where applicable and discounted to give a present value. Credit is only taken for future premiums to the extent that they fall within the boundary of the contract, as defined under Solvency II.

The main assumptions used relate to mortality, morbidity, longevity, expenses, lapse and surrender rates, investment returns and discount rates. Scottish Friendly bases mortality, morbidity and longevity rates on standard industry or reinsurers’ tables, adjusted where necessary to reflect Scottish Friendly’s own experience. Expense, lapse and surrender rates assumptions are based on product characteristics and relevant claims experience. Investment returns and discount rates are based on current risk-free market rates, as prescribed under Solvency II.

Guarantees

Some with-profits contracts contain guarantees that can increase the benefits payable to the policyholder. A market consistent stochastic model is used to determine the potential liability for the following guarantees:

- the sum assured and declared reversionary bonuses on with-profits policies; and
- unitised with-profits plans containing guarantees that the market adjustments will not be applied at specific times.

Reinsurance

A significant proportion of the insurance claims arising are ceded to reinsurers. The value placed on the associated reinsurance contracts are based on appropriate valuation assumptions, which are consistent with those used in the evaluation of the relevant insurance contract liabilities.

Reinsurance premiums payable are recognised when the underlying contract premiums become receivable or the underlying contract becomes effective. Reinsurance recoveries are recognised as a deduction to claims and are recognised when the underlying contract claims become payable.

26. Technical Provisions (cont)

A breakdown of the long-term business provisions on a gross and net basis is shown below.

With-Profits Insurance

Non-Profits Insurance

Unit-Linked Insurance

Participating Investment Contracts

The movements on the long-term business provisions during the year are as follows:

With-Profits Insurance Contracts	Gross 2022 £000	Reinsured 2022 £000	Gross (restated)¹ 2021 £000	Reinsured 2021 £000
1 January	833,267	(408,741)	885,893	(404,947)
Premiums received	17,248	-	14,117	-
Liabilities paid by claims	(73,375)	50,054	(89,532)	49,053
New Business	7,275	-	1,934	-
Fees deducted	(3,167)	-	(1,305)	-
Experience Variance and assumption changes	(115,319)	16,548	22,160	(52,847)
31 December	665,929	(342,139)	833,267	(408,741)

Non-Profits Insurance Contracts	Gross 2022 £000	Reinsured 2022 £000	Gross (restated)¹ 2021 £000	Reinsured 2021 £000
1 January	940,693	(675,139)	868,201	(575,203)
Premiums received	146,315	(72,376)	131,825	(67,599)
Liabilities paid by claims	(107,897)	57,154	(96,268)	48,911
New Business	48,279	(46,158)	78,606	(76,252)
Fees deducted	(1,021)	-	(1,840)	-
Experience Variance and assumption changes	(350,847)	235,915	(39,831)	(4,996)
31 December	675,522	(500,604)	940,693	(675,139)

¹ Details on the restatement are included in note 37.



26. Technical Provisions (cont)

	Gross £000	2022 Reinsured £000	Net £000	Gross £000	2021 (restated) Reinsured £000	Net £000
	665,929	(342,139)	323,790	833,267	(408,741)	424,526
	675,522	(500,604)	174,918	940,693	(675,139)	265,554
	269,656	-	269,656	357,525	-	357,525
	180,898	-	180,898	207,637	-	207,637
	1,792,005	(842,743)	949,262	2,339,122	(1,083,880)	1,255,242

Unit-Linked Insurance Contracts	Gross 2022 £000	Reinsured 2022 £000	Gross (restated)¹ 2021 £000	Reinsured 2021 £000
1 January	357,525	-	373,209	-
Premiums received	7,817	-	9,579	-
Liabilities paid by claims	(60,940)	-	(64,125)	-
Fees deducted	(2,283)	-	(4,451)	-
Experience Variance and assumption changes	(32,463)	-	43,313	-
31 December	269,656	-	357,525	-

Participating Investment Contracts	Gross 2022 £000	Gross (restated)¹ 2021 £000
1 January	207,637	188,390
Premiums received	27,371	32,984
Liabilities paid by claims	(19,024)	(19,542)
New Business	1,187	4,957
Fees deducted	(2,396)	(2,550)
Experience Variance and assumption changes	(33,877)	3,398
31 December	180,898	207,637

¹ Details on the restatement are included in note 37.

26. Technical Provisions (cont)

(b) Technical Provision for Linked Liabilities

Accounting for Technical Provisions for Linked Liabilities

Non-Participating Investment Contracts

The valuation of liabilities on non-participating investment contracts is based on the fair value of the related assets and liabilities. The financial liability is measured based on the carrying value of the assets and liabilities that are held to back the contract. The liability is the sum of the unit-linked liabilities plus an additional amount present value of excess of future policy costs over future charges.

Under deposit accounting, non-participating investment contract premiums and claims are not treated as income or expense and instead are treated as deposits which are received and paid directly to non-participating investment contract liabilities in the balance sheet. As there is no significant transfer of risk, these deposits are treated as fully under the trust of Scottish Friendly and are not required to be recognised in the technical account. Related non-participating investment contract charges and expenses are treated as profit or loss items within the technical account.

A breakdown of the long-term business provisions on a gross and net basis is shown below.

	2022			2021 (restated)		
	Gross £000	Reinsured £000	Net £000	Gross £000	Reinsured £000	Net £000
Non-Participating Investment Contracts	2,218,537	-	2,218,537	2,539,782 ¹	-	2,539,782 ¹
	2,218,537	-	2,218,537	2,539,782	-	2,539,782

Reconciliation of movement in technical provision for linked liabilities:	2022 £000	2021 (restated) £000
Movement in net technical provisions	321,245	(141,982) ¹
Other	(10,103)	8,823
Amounts received in respect of investment contracts	44,551	42,655
Payments made on non-participating investment contracts	(192,912)	(219,699)
Change in technical provision for linked liabilities per technical account	162,781	(310,203)

¹ Details on the restatement are included in note 37.



26. Technical Provisions (cont)

The movements on the technical provision for linked liabilities during the year are as follows:

	Gross 2022 £000	Gross (restated) 2021 £000
Non-Participating Investment Contracts		
1 January	2,539,782	2,397,800
Premiums received	44,551	42,655
Liabilities paid by claims	(192,912)	(219,699)
New Business	9,066	15,422 ¹
Fees deducted	(17,580)	(17,887)
Experience Variance and assumption changes	(164,370)	321,491 ¹
31 December	2,218,537	2,539,782

27. Costs Of Bonuses

Accounting for bonuses

Vested reversionary bonuses, including the current declaration, are dealt with in the technical account under "change in other technical provisions". Terminal bonuses paid during the year are included as part of claims incurred.

Total bonuses attributable to the year are as follows:	2022 £000	2021 £000
Year-end reversionary bonus declared (included in change in other technical provisions)	2,336	2,113
Reversionary and terminal bonuses paid (included in claims)	7,914	7,982
	10,250	10,095

¹ Details on the restatement are included in note 37.

28. Claims Outstanding

Accounting for Claims Outstanding

Claims outstanding on insurance contracts represents the best estimate of the expected cashflows resulting from all outstanding obligations which have not as yet been paid to policyholders as at year end.

	Group		Scottish Friendly	
	2022	2021	2022	2021
	£000	£000	£000	£000
Claims Outstanding	47,712	48,778	47,575	48,641

29. With-Profits Actuary

Mr S Makin of Hymans Robertson LLP served as the With-Profits Actuary for the period between 1 January 2022 and 31 December 2022. The following information has been provided in response to a request made by Scottish Friendly as required by section 77 of the Friendly Societies Act 1992. Mr Makin has confirmed that neither he nor his family were members of Scottish Friendly, nor had they any financial or pecuniary interest in Scottish Friendly, with the exception of fees paid to Hymans Robertson LLP for professional services which amounted to £384,977 (2021: £379,044) (this figure includes fees payable for work carried out by Hymans Robertson LLP not related to Mr Makin's role as With-Profits Actuary).

30. Capital Management

(a) Capital Management Policies and Objectives

Scottish Friendly's capital management objectives are:

- to protect Scottish Friendly's financial strength, providing security to policyholders;
- to comply with the PRA's capital requirements; Scottish Friendly has not breached these requirements at any point in the current or prior years;
- to enable smoothing of investment returns and payouts; and
- to ensure that Scottish Friendly's capital position is sufficient to enable it to invest in the development of the business in order to fulfil its stated core strategic objectives as determined by the Board.

The capital position of Scottish Friendly is monitored on a regular basis and reviewed formally by the Board.



30.Capital Management (cont)

(b) Solvency II Balance Sheet

A Solvency II available capital balance sheet is shown below, split between the Main Fund, which is open to new business, and its sub-funds that are closed. The closed sub-funds are the Rational Shelley sub-fund, LANMAS (London Aberdeen and Northern Mutual Assurance Society) sub-fund, the Scottish Legal sub-fund, the M&GM sub-fund and the Manulife sub-fund.

Solvency II available capital for both the open and closed funds of Scottish Friendly is determined in accordance with the Solvency II balance sheet methodology. This can be broadly described as placing a fair value on both the assets and the liabilities, including both benefits already guaranteed and future discretionary benefits.

With-profits liabilities comprise asset shares, plus the costs of smoothing, and the value of guarantees and options which have been granted to policyholders. Unit-linked liabilities comprise of a unit reserve plus a non-unit reserve, which is calculated based on the expected future management charges less future expected expenses. Non-profit non-linked liabilities are based on the expected future benefit payments plus expenses less premiums to be received.

When calculating the with-profits liabilities, allowance has been made for actions that management would be expected to undertake on key assumptions, for example future bonus or investment policy in varying market conditions, in line with the PPFMs (Principles and Practices of Financial Management). The cost of financial options and guarantees are measured using a market-consistent stochastic model.

(c) Capital Statement

Available capital resources

	2022			2021		
	Main Fund	Closed Sub-funds	Total	Main Fund	Closed Sub-funds	Total
	£000	£000	£000	£000	£000	£000
Total available capital resources	141,148	18,628	159,776	140,411	23,325	163,736

The capital resources are calculated under the Solvency II regulatory requirements and the total capital resources presented represents Solvency II own funds.

30.Capital Management (cont)

(d) Movement in Available Capital Resources

	2022 £000	2021 £000
Opening capital resources	163,736	163,612
Prior year adjustments	-	7,180
(Decrease)/increase in Current Assets	(397,250)	68,569
Decrease/(increase) in Technical Provisions	387,653	(50,514)
Decrease/(increase) in Current Liabilities	8,127	(21,655)
Total	162,266	167,192
Decrease in ring-fencing of available capital	(2,490)	(3,456)
Closing capital resources	159,776	163,736

(e) Solvency Position

	2022 £000	2021 £000
Own Funds	159,776	163,736
SCR	78,209	94,106
Solvency Ratio	204%	174%

(f) Capital Resource Sensitivities

The capital position is sensitive to changes in market conditions and to a lesser extent to assumptions and experience relating to mortality, expenses and persistency.

Economic assumptions are set consistent with market prices. The liability valuation will include assumptions about interest rates and investment returns. An adverse change in either variable will increase liabilities and, to the extent that assets are impacted, this may increase or decrease the available capital. For example, a reduction in long-term interest rates would increase the amount of Scottish Friendly's liabilities and could therefore reduce its available capital, depending upon the extent to which the liabilities are matched by assets with similar anticipated cash flows. Currently, the available capital of Scottish Friendly will decrease if interest rates fall.

Similarly, an adverse change in the markets for Scottish Friendly's investment assets could increase or decrease the available capital of Scottish Friendly to the extent that equity falls cannot be reflected in reductions in payments to policyholders



30.Capital Management (cont)

because of the presence of guarantees and options in the underlying contracts, and any change in assets within the working capital. Currently, a fall in equity/property values would reduce available capital for the Scottish Friendly main fund.

Non-economic assumptions are set at best estimate levels based on historic experience. Scottish Friendly monitors actual experience in mortality; morbidity and persistency rates against the assumptions used, and applies that outcome to refine its long-term assumptions. Amounts paid will inevitably differ from estimates, particularly when the expected payments do not occur until well into the future. Liabilities are evaluated at least quarterly, allowing for changes in the assumptions used, as well as for the actual claims experience. If actual claims experience is less favourable than the underlying assumptions, or it is necessary to increase provisions in anticipation of a higher rate of future claims, then available capital will be reduced.

Scottish Friendly has provided guarantees in respect of sums assured and reversionary bonus guarantees on with-profits contracts. Under the Solvency II balance sheet basis, these are explicitly calculated using a stochastic valuation model.

(g) Reconciliation of UK GAAP Fund for Future Appropriations to Regulatory Capital Available Own Funds

	2022 £000	2021 (restated) £000
UK GAAP Fund for Future Appropriations	222,679	218,743 ¹
Adjustment to the value of technical provisions	(3,284)	7,550 ¹
Intangible assets	41,415	47,475
Pension valuation differences	(21,822)	(38,455)
Deferred tax	8,905	14,051
Solvency II excess of assets over liabilities	238,947	249,364

¹ Details on the restatement are included in note 37.

31. Deposits Received From Reinsurers

Accounting for Deposits Received from Reinsurers

Creditors arising out of deposits received from insurers are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method.

The “Standard” and “Select” annuity products written in the past by M&GM are reinsured under treaties with Pacific Life Re and Hannover respectively, with an overlay treaty with RGA providing 100% reinsurance in total.

The reinsurance treaties include appropriate collateral arrangements, in the form of deposits as security for obligations under the contracts. Amounts received as collateral under reinsurance arrangements is as follows, with amounts paid shown in note 19.

	2022 £000	2021 £000
Collateral deposits for:		
“Select” annuity (Hannover Re)	23,866	30,266
“Standard” annuity (RGA)	5,095	5,819
	28,961	36,085



32. Creditors Arising Out of Direct Insurance Operations

Accounting for Creditors Arising Out of Direct Insurance Operations

Creditors arising out of insurance operations are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method.

	Group		Scottish Friendly	
	2022 £000	2021 £000	2022 £000	2021 £000
Due to reinsurers	1,842	1,906	1,842	1,906
Due to intermediaries	7,138	5,602	6,992	5,602
	8,980	7,508	8,834	7,508

33. Other Creditors

Accounting for Other Creditors

Other creditors are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method. Taxation is calculated in line with HMRC guidelines and is payable within a year.

	Group		Scottish Friendly	
	2022 £000	2021 £000	2022 £000	2021 £000
Taxation	55	3,152	55	3,151
Trade Creditors	1,347	427	1,347	427
Investment Creditors	4,566	3,182	4,565	3,182
Other payables	3,375	4,385	3,487	3,931
HMRC payments PAYE and VAT	1,250	674	1,250	674
	10,593	11,820	10,704	11,365

34. Deferred Taxation

Accounting for Deferred Taxation

Deferred tax is provided based on the timing differences between the recognition of gains, losses and certain items of expenditure in the financial statements and their recognition for tax purposes. Provisions for deferred taxation are recognised at cost and relate to amounts of tax which is expected to be recovered or paid at a future date. Deferred taxation on the pension scheme surplus is payable only when Scottish Friendly receives a payment of surplus on the pension scheme which is not expected to occur whilst there are members in the scheme. Deferred taxation on s212 deemed disposals are payable over the next seven years. Deferred tax assets are recognised to the extent that they are judged to be recoverable in future periods. The term BLAGAB signifies where income has been earned or expenses have been incurred in relation to basic life assurance or general annuity business.

The tables below show the movement in deferred tax:

	At 1 January 2022 £000	Recognised in the technical account £000	At 31 December 2022 £000
Excess carried forward BLAGAB acquisition expenses	1,902	(561)	1,341
Excess carried forward BLAGAB s212 gains	(19,186)	9,896	(9,290)
Excess carried forward BLAGAB loan relationship losses	-	20,912	20,912
Deferred tax (liability)/asset on BLAGAB	(17,284)	30,247	12,963
Deferred tax liability on defined benefit pension scheme	(14,051)	5,146	(8,905)



34. Deferred Taxation (cont)

	At 1 January 2021 £000	Recognised in the technical account £000	At 31 December 2021 £000
Excess carried forward BLAGAB acquisition expenses	1,736	166	1,902
Excess carried forward BLAGAB s212 gains	(10,080)	(9,106)	(19,186)
Excess carried forward BLAGAB loan relationship losses	-	-	-
Deferred tax (liability)/asset on BLAGAB	(8,344)	8,940	(17,284)
Deferred tax liability on defined benefit pension scheme	(7,240)	(6,811)	(14,051)

The deferred tax asset is recognised in note 21. The recognition of a deferred tax asset during the year has arisen primarily as a result of the negative fixed interest returns that have been experienced across the industry in the latter half of 2022. This has not been offset on the balance sheet with the deferred tax liability on the pension scheme due to the nature in the underlying timing differences.

The deferred tax on the pension scheme surplus impacts the with-profits fund, whereas the deferred corporation tax on s212 deemed disposals impacts unit-linked policyholders.

The deferred tax liability is expected to be settled after 12 months.

35. Risk Management

The principal risks to which Scottish Friendly is exposed are strategic (business environment), market, credit, insurance, solvency, liquidity, operational, and conduct risks. Scottish Friendly's approach to risk management is detailed in the Report on Corporate Governance on pages 42 to 49, and this includes a description of the key controls and risk mitigants operated in relation to the principal risks to which Scottish Friendly is exposed.

A key tool used in the identification and management of risks is completion of the Own Risks and Solvency Assessment ('ORSA') process. The ORSA report is approved annually by the Board. As part of Scottish Friendly's 2022 ORSA process, a range of different future scenarios have been considered, including consideration of the potential impact on the business from three different climate

35. Risk Management (cont)

change temperature transition scenarios. Consideration was also given within the 2022 ORSA to a number of market and credit risk events occurring concurrently, as well as the impact of higher inflation prevailing for a prolonged period of time.

Further details are included here of insurance risk, credit risk and liquidity risk, and a sensitivity analysis of each type of market risk.

Insurance Risk

Insurance risk refers to the risk of failure to predict or respond to changes in demographic experience, policyholder actions and level of expenses incurred in administering the in-force business.

The exposure of Scottish Friendly depends on the value of claims to be paid in the future, relative to the assets accumulated to the date of claim. The value of such future obligations is assessed using best estimate assumptions, which include future mortality and/or morbidity rates, persistency rates, expenses, investment returns, interest rates and tax rates.

The level of insurance risk assumed by Scottish Friendly varies with the type of business written. Additional risks also arise from the financial options and guarantees within contracts. The Board, having taken advice from the Chief Actuary and based on its risk appetite, may set limits on new business volumes, including restricting the extent to which specific products with particular risks are written.

Scottish Friendly is not exposed to significant concentrations of insurance risk. A diverse mix of life insurance business is written and has been written (or acquired) in the past through a range of distribution channels. The Group's business is virtually all in the UK and therefore the results are subject to demographic and economic changes arising in the UK.

With-Profits Contracts

With-profits contracts (including both conventional and unitised with-profits policies) usually contain a guaranteed benefit on maturity, death or surrender at certain specified dates.

This guaranteed benefit may be increased by the addition of annual bonuses and a final bonus may also be applied when the policy becomes a claim. Scottish Friendly can vary the amount of future bonuses paid, including reducing future bonus additions to zero. Scottish Friendly also has contractual discretion to vary the amount payable on early surrender of the contract. The setting of bonus rates and surrender terms are subject to the relevant PPFM. All discretionary actions must be consistent with the overriding principle that customers be treated fairly.



35. Risk Management (cont)

The key risk factors of with-profits contracts are:

- **mortality:**

The guaranteed payments on death can exceed the value of the assets held to back the policy, giving rise to mortality risk. Assumptions regarding the rate of mortality are taken into account when determining the bonus payments to be added to with-profits contracts. The level of these bonus additions can be varied to mitigate differences between expected and actual mortality experience.

- **guarantees:**

With-profits contracts are subject to the risk that the fair value of assets held to back the liabilities is depressed at the time that the guaranteed payments specified in the contract fall due to be paid. Scottish Friendly's contractual right to vary future bonus additions can be used to partly mitigate this risk. A number of with-profits contracts include guarantees relating to the minimum level of income received at retirement. These risks are mitigated by Scottish Friendly's use of appropriate investment strategies that match changes in the value of these liabilities under market movements.

- **persistency and expenses:**

The most significant costs associated with writing insurance contracts are the costs incurred to acquire the policy. These expenses, together with the ongoing costs of administration, are recovered over the policy's lifetime. If the policy is terminated early, the expense deductions made to the point of termination may be less than the costs incurred. For some product types, this risk is partly mitigated by Scottish Friendly's contractual ability to vary the amount payable on surrender. Scottish Friendly also controls its administration expenses on an ongoing basis, and Scottish Friendly's right to vary future bonus additions can be used to partly mitigate this risk.

35. Risk Management (cont)

Protection Contracts

Protection policies contain a guaranteed payment on death or disability or illness depending on the terms of the contract. These contracts may also be attached to with-profits or unit-linked policies. In addition, there are also a small number of income protection policies which pay policyholders a defined income when they are unable to work due to sickness for an extended period of time.

For most policies, the level of benefits payable is determined at the start of the contract and so the ability of Scottish Friendly to reduce the level of insurance risk accepted by varying terms and conditions is very limited. However, some contracts include a premium review clause and for some contracts the policyholder has the option to reduce benefits in lieu of a premium increase.

The key insurance risk factors of protection contracts are:

- **mortality and morbidity:**
Scottish Friendly has largely mitigated these risks through the use of reinsurance to transfer most of the mortality and morbidity risk to third-party reinsurers.
- **persistency and expenses:**
Scottish Friendly manages these risks by monitoring persistency experience, including through discussions with our partners and actively controlling and monitoring expense levels.

Non-Profit Insurance Contracts – Non-Profit Annuities

For non-profit annuities, the level of annuity payments is determined at the start of the contract and these payments continue until the death of the annuitant and in certain cases the later death of their dependants. Hence the ability of Scottish Friendly to reduce the level of insurance risk accepted by varying terms and conditions is very limited.

The key insurance risk factor of annuity contracts is:

- **longevity:**
The contractual stream of payments made until the death of the annuitant gives rise to longevity risk. An increase in life expectancy will increase the payments that have to be made. Scottish Friendly mitigates this risk by the extensive use of third-party reinsurers.



35. Risk Management (cont)

Investment Contracts

For investment business most of the risks (particularly market and credit risk) are borne by the policyholders. The principal benefit payable is the value of the underlying assets and therefore Scottish Friendly generally has limited ability to apply penalties on early surrender or early cessation of regular premiums. The ability to increase charges or apply penalties may be constrained by regulatory or market pressures and by the obligation to treat customers fairly.

The key insurance risk factors of unit-linked contracts are:

- **persistency and expenses:**

Acquisition and administration costs are recovered by management charges deducted over the policy's lifetime. If the policy is terminated early, the expense deductions made to the point of termination may be less than the costs incurred. The administration expenses may also exceed the level of management charges deducted from policies which remain in force. These risks are mitigated by Scottish Friendly's ability to increase management charges. Scottish Friendly also controls its administration expenses on an ongoing basis.

- **embedded guarantees:**

A small number of unit-linked contracts include guarantees relating to the minimum level of income that can be purchased at retirement using the proceeds of the policy or guarantees related to the terms of that purchase. In addition, some unit-linked contracts also offer a loyalty bonus, whereby policyholders are awarded additional units for remaining in force. The risks arising from these guarantees are primarily mitigated by Scottish Friendly's use of appropriate investment strategies that match changes in the value of these liabilities under market movements.

35. Risk Management (cont)

Insurance Risk Sensitivity Analysis

The following table illustrates the impacts on the Scottish Friendly Main Fund of applying stress scenarios prescribed under the Solvency II regulations, which are believed to be good approximations of the sensitivities under UK GAAP.

Impact on the FFA:	2022 £m	2021 £m
Increase in expenses by 10%	(17.9)	(19.8)
Increase in assurance mortality rates by 15%	(12.5)	(4.1)
Reduction in persistency by 10%	(19.8)	(13.6)

For the purposes of the scenarios shown above, in 2021, it was assumed that the negative goodwill recognised in respect of the transfer from Canada Life Limited would be written down to absorb the impact of the scenario, adjusted as appropriate to allow for amortisation at that point. This was no longer done on 2022.

Group 2022	AAA £000	AA £000
Non-linked investments – debt and fixed income securities	20,019	444,784
Cash and cash equivalents	-	-
Derivatives	-	-
Reinsurers' share of technical provisions:	-	-
With-profit Insurance Contracts	-	472,948
Non-profit Insurance Contracts	-	342,139
Other assets	-	10,662
Total	20,019	1,270,533

Group 2021	AAA £000	AA £000
Non-linked investments – debt and fixed income securities	26,876	574,944
Cash and cash equivalents	-	-
Derivatives	-	-
Reinsurers' share of technical provisions:	-	-
With-profit Insurance Contracts	-	408,741
Non-profit Insurance Contracts	-	638,570
Investments in collective investment schemes	-	184,244
Other assets	-	10,939
Total	26,876	1,817,438



35. Risk Management (cont)

Credit Risk

Credit risk is the risk of loss arising from third parties failing to meet their financial obligations. Scottish Friendly's key exposures includes holdings in corporate bonds, cash deposits, and reinsurance assets. Scottish Friendly manages this risk by setting clear limits and tolerances on exposures to a single counterparty, or groups of counterparties, holding treaties with several different reinsurers and using only reinsurers with appropriate credit ratings.

The potential financial exposure is in the table below, showing the assets of the Group and Scottish Friendly that are subject to credit risk and the Balance Sheet carrying value for that asset. For derivatives the credit rating reflects the credit rating of the counterparty. Linked assets are not subject to credit risk as this risk is borne by the holders of the contracts concerned. These assets are therefore not included in the following tables. The Board does not consider that there is any appreciable credit risk associated with UK Government gilts. Non-linked assets not subject to credit risk include shares and other variable yield securities that are subject to market risk.

	A £000	BBB and below £000	Not rated £000	Not subject to credit risk £000	Value in the balance sheet £000
	26,996	16,117	-	-	507,916
	60,423	-	-	-	60,423
	-	-	-	4,777	4,777
	-	-	-	-	0
	18,772	-	8,884	-	500,604
	-	-	-	-	342,139
	-	-	-	47,151	57,813
	106,191	16,117	8,884	51,928	1,473,672

	A £000	BBB and below £000	Not rated £000	Not subject to credit risk £000	Value in the balance sheet £000
	29,243	10,042	-	-	641,105
	106,305	-	-	-	106,305
	-	-	2,063	18,047	20,110
	-	-	-	-	408,741
	-	-	12,491	-	651,061
	-	-	317,241	-	501,485
	-	-	-	24,052	34,991
	135,548	10,042	331,795	42,099	2,363,798

35. Risk Management (cont)

Scottish Friendly holds certain derivative positions for the purposes of currency hedging and efficient portfolio management. The derivative investments portfolio generally requires third parties to pledge collateral for the derivative assets. The collateral is in the form of cash and, to help protect against credit risk, all collateral is to be held by an intermediary company.

Collateral pledged by Scottish Friendly in respect of exchange traded derivatives amounted to £2,164k (2021: £1,072k), and collateral received in respect of exchange traded derivatives amounted to £148k (2021: £104k). The net fair value of derivatives in respect of which cash margin is held for both group and Scottish Friendly at the year-end is £113k (2021: £292k).

For cash collateral received and pledged the risks and rewards of ownership are transferred. Cash collateral received is recognised as an asset with a corresponding liability to repay the collateral. For cash collateral pledged, the cash asset is derecognised and an equivalent debtor for the repayment of the collateral is recognised.

Scottish Friendly also holds a portfolio of fully collateralised swaptions, held as an asset on the balance sheet, with a year-end fair value of £4.3m (2021: £17.7m). These positions are held to mitigate the interest rate risk associated with certain contractual options on Scottish Friendly's unit-linked business. Cash collateral received in respect of swaptions of £4.4m (2021: £17.6m) is held off-balance sheet.

No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by counterparties.

Other assets include premium debtors all of which are less than three months old. Scottish Friendly has never experienced a significant loss arising from premium debtors because it maintains the right to cancel a policy if premiums are not paid when due. No provision is made for impairment of these assets (2021: £nil).



35. Risk Management (cont)

Liquidity Risk

Liquidity risk is the risk that a firm, even if solvent, does not have sufficient liquid financial resources to meet its obligations as they fall due. This risk could arise if the timing of premium receipts, maturity payments, claim payments, expense payments, and the receipt of investment proceeds and amounts due from reinsurers were not appropriately managed. Scottish Friendly manages this risk by monitoring cash flow across key transactions in the business, and setting investment strategies with consideration to the level of liquid and readily marketable assets, in order to allow for timely adjustments to match expected liabilities, if required.

The analysis below summarises the exposures the Group and Scottish Friendly carry in respect of liquidity risks. The earliest contractual repayment date of investment contracts with discretionary participation features and unit-linked investment contracts is repayment on demand and therefore the undiscounted cash flows subject to liquidity risk are £171,729k (2021: £222,911k) and £1,944,108k (2021: £2,560,084k) respectively.

Other financial liabilities are repayable between 0-5 years as follows:

	Group		Scottish Friendly	
	2022 £000	2021 £000	2022 £000	2021 £000
Other financial liabilities	122,275	138,698	121,967	137,922

The following table shows the undiscounted expected maturity analysis of the Group's and Scottish Friendly's liabilities, including insurance contracts and investment contracts with discretionary participation features. These are the amounts that are guaranteed on maturity (or any earlier date where the surrender value is guaranteed).

35. Risk Management (cont)

Group 2022

Non-Profit (insurance)
With-Profits (insurance)
Unit Linked
Participating Investment
Non-participating Investment
Derivative Financial Instruments
Other Liabilities

Total

Group 2021

Non-Profit (insurance)
With-Profits (insurance)
Unit Linked
Participating Investment
Non-participating Investment
Derivative Financial Instruments
Other Liabilities

Total

1 Details on the restatement are included in note 37



35. Risk Management (cont)

	0-5 years £000	5-10 years £000	10-15 years £000	15-20 years £000	Over 20 years £000	Total £000
	98,766	151,478	198,364	219,438	533,150	1,201,196
	292,103	236,872	144,692	110,431	156,112	940,210
	268,346	-	-	-	-	268,346
	180,898	-	-	-	-	180,898
	2,218,537	-	-	-	-	2,218,537
	2,207	-	-	-	-	2,207
	122,275	-	-	-	-	122,275
	3,183,132	388,350	343,056	329,869	689,262	4,933,699

	0-5 years £000	5-10 years £000	10-15 years £000	15-20 years £000	Over 20 years £000	Total £000
	66,531	119,999	169,826	199,260	527,959	1,083,575
	329,312	254,816	133,779	83,111	91,904	892,922
	352,960 ¹	-	-	-	-	352,960
	207,637 ¹	-	-	-	-	207,637
	2,539,782 ¹	-	-	-	-	2,539,782
	108,209	-	-	-	-	108,209
	138,695	-	-	-	-	138,695
	3,743,126	374,815	303,605	282,371	619,863	5,323,780

35. Risk Management (cont)

Other liabilities in the liquidity risk tables consists of outstanding claims, deposits received from reinsurers, creditors arising out of direct insurance operations, other creditors, accruals and deferred income, and provisions for liabilities.

Amounts under unit-linked contracts are generally repayable on demand and the Group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit-linked policy holders to be met as they fall due.

Fair Value Estimation

Disclosure of the fair value measurements for financial instruments held at fair value in the balance sheet by level of the fair value measurement hierarchy is detailed at Note 18.

The Group does not have any financial liabilities that are held for trading.

The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date. These instruments are included in Level 1 and comprise primarily listed equities, OEICs and debt instruments.

The Group closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where it is determined that there is no active market, fair value is established using a valuation technique. The techniques applied incorporate relevant information available and reflect appropriate adjustments for credit and liquidity risks. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. The relative weightings given to different sources of information and the determination of non-observable inputs to valuation models can require the exercise of significant judgement.

If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more significant inputs are not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- the use of observable prices for recent arm's length transactions;
- quoted market prices or dealer quotes for similar instruments; in particular, for corporate bonds for which there is no active market the fair value is based on broker/dealer price quotations. Where possible the Group seeks at least two quotations for each bond and considers whether these are representative of fair value in light of current traded levels. Where this information is not available or



35. Risk Management (cont)

where it is considered to be not representative of fair value, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics; and

- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Note that all of the resulting fair value estimates are included in Level 2 and Level 3.

Market Risk Sensitivity Analysis

The following table illustrates the impacts on the available capital resources of the Scottish Friendly Main Fund of applying stress scenarios in line with the Standard Formula under Solvency II which are believed to be good approximations of the impact on the UK GAAP FFA.

- The equity price sensitivity considers the changes in prices of UK and other type 1 equities as defined under Solvency II. This is a change in equity prices of $\pm 39\%$ plus the symmetric adjustment of the equity capital charge as published by the PRA.
- The property value sensitivity considers a 25% reduction in property values.
- The interest rate sensitivities are based on the Solvency II Standard Formula interest rate stresses, which are expressed as a duration dependent multiplicative factor applied to the base curve.

	2022 Impact £m	2021 Impact £m
Equity Fall	(22.7)	(34.9)
Property Fall	(3.3)	(1.2)
Interest Rate Fall	8.3	0.3
Interest Rate Rise	(7.8)	2.1

Outstanding Claims

Increasing the experience of making payments to customers by 10% would increase outstanding claims by approximately £1.6m and a decrease in the experience of making payments to customers would reduce outstanding claims by approximately £1.6m.

35. Risk Management (cont)

Derivative Financial Instruments

The company holds interest rate swaptions to mitigate the interest rate risk associated with its non-linked business. At 31 December 2022, the outstanding contracts all mature within 5 years of the year end.

The interest rate swaptions are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key assumptions used in valuing the derivatives are interest rate curve data and interest rate volatility data.

During the year, Scottish Friendly entered into forward contracts to reduce exposure to foreign currency movements in overseas bonds. None are held for speculative purposes.

Further, a very small exposure to futures contracts were entered into during the year for efficient portfolio management.

36. Transactions with Related Parties

The aggregate premiums payable for the year by nine directors in respect of Scottish Friendly's products amounted to £55,912 (2021: £71,926).

At the year end, no director of Scottish Friendly had any beneficial interest in shares of Scottish Friendly's subsidiary companies.

37. Prior Period Adjustment

During the finalisation of the 2022 Accounts there have been three adjustments identified in relation to errors which require the restatement of the 2021 Balance Sheet and Technical Account.

The following table sets out the adjustment to Scottish Friendly's balance sheet for the year ended 31 December 2021:



37. Prior Period Adjustment (cont)

Impact on the 2021 Balance Sheet	2021 as previously reported £000	Adjustment One £000	Adjustment Two £000	Adjustment Three £000	2021 restated £000
Assets held to cover linked liabilities	2,340,346	-	501,485	-	2,841,831
Non-Profits Insurance Contracts	651,061	-	-	24,078	675,139
Investment Contracts	501,485	-	(501,485)	-	-
Total Assets	5,212,373	-	-	24,078	5,236,451
Fund for Future Appropriations	226,293	(7,550)	-	-	218,743
Long Term Business Provision:					
With-Profit Insurance Contract Liabilities	765,383	67,884	-	-	833,267
Non-Profit Insurance Contract Liabilities	896,118	20,497	-	24,078	940,693
Unit Linked Insurance Contract Liabilities	288,413	69,112	-	-	357,525
Investment Contract Liabilities	2,897,362	(2,689,725)	-	-	207,637
Technical provision for linked liabilities	-	2,539,782	-	-	2,539,782
Total Liabilities	5,212,373	-	-	24,078	5,236,451

37. Prior Period Adjustment (cont)

Explanation of adjustment to the Technical Account for the year ended 31 December 2021:

Impact on the 2021 Technical Account	2021 as previously reported	Adjustment One £000	Adjustment Two £000	Adjustment Three £000	2021 restated £000
Earned Premiums	155,442	33,063	-	-	188,505
Unrealised Gains on Investments	100,456	9,983	-	-	110,439
Claims Incurred	(236,072)	(33,395)	-	-	(269,467)
Change in other Technical Provisions	219,018	(219,018)	-	-	-
Change in Long-term Business Provision	-	(80,303)	-	-	(80,303)
Change in Technical Provisions for Linked Liabilities	-	310,203	-	-	310,203
Transfer to the Fund for Future Appropriations	24,011	(1,231)	-	-	22,780



37. Prior Period Adjustment (cont)

Explanation of adjustment to the balance sheet for the year ended 31 December 2020:

Impact on the 2020 Balance Sheet	2020 as previously reported £000	Adjustment One £000	Adjustment Two £000	Adjustment Three £000	2020 restated £000
Assets held to cover linked liabilities	2,230,570	-	491,502	-	2,722,072
Reinsurers' share of technical provisions					
Non-Profits Insurance Contracts	563,082	-	-	12,121	575,203
Investment Contracts	491,502		(491,502)	-	-
Total Assets	5,007,546	-	-	-	5,007,546
Fund for Future Appropriations	202,282	(6,318)	-	-	195,964
Long Term Business Provision:					
With-Profit Insurance Contract Liabilities	816,030	69,863	-	-	885,893
Non-Profit Insurance Contract Liabilities	838,415	17,665	-	12,121	868,201
Unit Linked Insurance Contract Liabilities	296,910	76,299	-	-	373,209
Investment Contract Liabilities	2,743,649	(2,555,259)	-	-	188,390
Technical provision for linked liabilities	-	2,397,750	-	-	2,397,750
Total Liabilities	5,007,546	-	-	-	5,007,546

37. Prior Period Adjustment (cont)

Adjustment One: Scottish Friendly has changed the measurement of investment contract technical provisions to be based on the sum of the unit-linked liabilities plus an additional amount representing the present value of excess of future policy costs over future charges. This represents the correction of an error in the accounting policy.

Following the technical review undertaken of this change, the group of products currently classified as investment has been split into participating investment contract liabilities and non-participating contract liabilities.

The presentation on the Balance Sheet has been simplified to present contract liabilities and the related reinsurers' share as Long-term Business Provisions or Technical Provision for Linked Liabilities.

Long-term Business Provisions include with-profit insurance, non-profit insurance, unit-linked insurance and participating investment contracts provisions. Technical Provisions for Linked Liabilities consist of non-participating investment contracts. The underlying contract categories and related Technical Account movements are disclosed within notes 26(a) and 26(b).

Adjustment Two: The assets linked to the non-participating investments do not meet the classification requirements for insurance contracts, they have been reclassified as assets held to cover linked liabilities, and the related asset movements reclassified in the Technical Account.

Adjustment Three: In the non-profit insurance contract liabilities, a regular review of actuarial models calculating the technical provision identified an error relating to a model simplification in relation to decreasing term assurance features. This is classified as an error requiring a prior year restatement in accordance with FRS102.10 as the simplification was not removed before it could not reasonably be deemed appropriate.

38. Post Balance Sheet Events

In March 2023, the Trustees of the Staff Pension Scheme completed a "buy-in", whereby insurance policies were purchased as investments to match the expected costs of meeting the pension liabilities. This is a non-adjusting post balance sheet event.

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