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Solvency and Financial Condition Report 2021

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

Summary

Scottish Friendly Assurance Society Limited (Scottish Friendly) is a modern financial mutual based in Glasgow, with roots that stretch back to 1862. Comprising Scottish Friendly Assurance Society, Scottish Friendly Asset Managers and Scottish Friendly Insurance Services, the Group develops and administers a range of life and investment products including ISAs. These products are marketed under the Scottish Friendly brand or are “white labelled” by other financial services providers.

Today, as at 31 December 2021, the Group has assets under management of £5.4 billion (2020: £5.3 billion) and has 776,000 members (2020: 745,000).

Over the past decade, Scottish Friendly has significantly restructured its business, reducing relative administration costs and maintaining efficient acquisition costs. The Group flourishes through a three-part growth strategy of organic growth, mergers and acquisitions and business process outsourcing.

Despite the ongoing COVID-19 pandemic and the significant economic disruption that has resulted, the business remains well capitalised, reflecting the strength of the capital position and actions taken to manage that position. The solvency and liquidity positions are monitored frequently, and actions taken, as appropriate, to protect the long-term interest of policyholders and the overall capital and liquidity position of Scottish Friendly.

Scottish Friendly continues to have a capital position in excess of both the levels required by the regulations, which themselves are designed to provide a strong level of protection for policyholders, and the minimum tolerance levels above this amount as set by the Board.

This report has been written at a time of heightened geopolitical tensions, as a result of the conflict in Ukraine. While the primary concern at this time is for those directly impacted by the conflict, Scottish Friendly has also considered the impact on its business. Scottish Friendly has no direct holdings of Russian assets and minimal indirect holdings through certain emerging market or commodity funds. The wider impact of volatility in the financial markets is being monitored and Scottish Friendly’s capital and liquidity positions remain within appetite.

Mergers and consolidation within the life insurance sector is one of the main elements of Scottish Friendly’s strategy and is important in producing long term economies of scale. 2021 saw Scottish Friendly continue to embed the significant portfolio of life and pensions policies that transferred from Canada Life Limited (CLL) in 2019. Scottish Friendly remains active in the market, and will consider future mergers and acquisitions where these enhance value for our members.

Since 2012, Scottish Friendly’s organic growth has been founded on the introduction of innovative and affordable ISA investments via the Group’s My Plans platform, including a multi-award-winning* Junior ISA for children, and a range of protection products. Scottish Friendly has continued to deliver sales and increase membership as a result of strong e-business and direct marketing and major collaborations with companies like the BGL Group, Neilson Financial Services and Guardian Financial Services.

The success of this strategy was reflected in another year of strong financial results, with Scottish Friendly continuing to deliver strong growth in statutory earned premiums, which increased by £9.3m to £155.4m (2020: £146.1m), underpinned by record total sales of £46.9m APE** (2020: £42.0m).

This growth has been built on the foundation of a robust capital position, with a solvency ratio*** of 174% (2020: 162%) under the Solvency II regulations. This ratio has remained resilient in light of continued volatility in financial markets and shows a significant excess over the required minimum. Our solvency ratio demonstrates that, even in an extreme 1-in-200 year scenario, we expect to have enough capital to meet our liabilities to policyholders.

2021 was also marked by the sudden and unexpected death of our previous CEO, Mr Jim Galbraith. Mr Galbraith had worked at Scottish Friendly for over 30 years, making an unparalleled contribution to its success. From April 2022 and subject to regulatory approval, Mr Stephen McGee will take on the role of CEO, having joined the Board of Scottish Friendly as a Non-Executive Director in 2021.

This report is the Solvency Financial Condition Report (SFCR) for Scottish Friendly Assurance Society Limited. It is a solo report covering Scottish Friendly Assurance Society Limited's activities.

* Investment Life & Pensions Moneyfacts® Awards: Best Junior ISA Provider 2019 - 2021

<https://www.moneyfactsgroup.co.uk/awards/ilp/winners/2019>;
<https://www.moneyfacts.co.uk/awards/investment-life-and-pension-awards-2020>;
<https://www.moneyfactsgroup.co.uk/awards-and-events/ilp/winners-2021>

** Annual Premium Equivalent, the industry standard measure of premium volumes, calculated as the annual amount of regular premiums plus one tenth of the single premiums on business written during the year

*** The solvency ratio is the Own Funds divided by the Solvency Capital Requirement (SCR)

Directors' Responsibilities Statement in respect of the Solvency and Financial Condition Report ("SFCR")

The Directors are responsible for preparing the Solvency and Financial Condition Report ('SFCR') in accordance with applicable law and regulations.

The PRA Rulebook for Solvency II firms in Rule 6.1(2) and Rule 6.2(1) of the Reporting part requires that Scottish Friendly must have in place a policy of ensuring the ongoing appropriateness of any information disclosed and that Scottish Friendly must ensure that its SFCR is approved by the Directors.

Each Director certifies that:

- a) the Solvency and Financial Condition Report ("SFCR") has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations;
- b) throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Company; and
- c) it is reasonable to believe that, at the date of the publication of the SFCR, the Company has continued so to comply, and will continue so to comply in future.

By order of approval of the Board.

Martin Pringle
Director
7 April 2022

Kerr Luscombe
Director
7 April 2022

Report of the External Independent Auditor to the Directors of Scottish Friendly Assurance Society Limited ('The Society') pursuant to Rule 4.1(2) of the External Audit chapter of the PRA Rulebook applicable to Solvency II Firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report ("SFCR")

Opinion

Except as stated below, we have audited the following documents prepared by the Society as at 31 December 2021:

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR of the Society as at 31 December 2021, ('the Narrative Disclosures subject to audit'); and
- Scottish Friendly's templates S.02.01.02, S.12.01.02, S.23.01.01, S.25.01.021 and S.28.02.01 ('the Templates subject to audit').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the SFCR'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- the 'Executive summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the SFCR;
- templates S05.01.02 and S.05.02.01;
- the written acknowledgement by management of their responsibilities, including for the preparation of the SFCR ('the Responsibility Statement').

In our opinion, the information subject to audit in the relevant elements of the SFCR of the Society as at 31 December 2021 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the SFCR in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR, which describe the basis of accounting. The SFCR is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The SFCR is required to be published, and intended users include but are not limited to the PRA. As a result, the SFCR may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Conclusions relating to going concern

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

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

- evaluated management's assessment of the risks across the group, including: solvency risk, liquidity risk, and operational matters;
- In conjunction with our internal actuarial specialists we evaluated management's stress and scenario testing of future liquidity and solvency ratios, including inspecting the own risk and solvency assessment ("ORSA"), and challenged management's key assumptions. We also reviewed the governance over, and the production of, solvency monitoring information, and considered its consistency with other available information and our understanding of the business; and
- assessed the going concern disclosures made by management in the financial statements, based on our knowledge gained throughout the audit.

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 Society's ability to continue as a going concern for a period of at least twelve months from when the SFCR is authorised for issue.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the SFCR does not cover the Other Information and, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the SFCR, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the SFCR themselves. 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 in this regard.

Responsibilities of the Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the SFCR in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a SFCR that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the SFCR are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the SFCR are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it 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 decision making or the judgement of the users taken on the basis of the SFCR.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: <https://www.frc.org.uk/auditorsresponsibilities>.

The same responsibilities apply to the audit of the SFCR.

Extent to which the audit was considered capable of detecting irregularities, including fraud

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.

We considered the nature of the Society's industry and its control environment, and reviewed the Society's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the Society operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the SFCR. These included Solvency II as implemented in the UK, pensions legislation and tax legislation; and
- do not have a direct effect on the SFCR but compliance with which may be fundamental to the Society's ability to operate or to avoid a material penalty. These included the Friendly Societies Act 1992, the Prudential Regulatory Authority and Financial Conduct Authority regulations.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations, pensions, IT, and actuarial specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

Actuarial Assumptions – The assumptions and methodology judgements for determining Cost of Guarantees reserves and setting of assumptions around future mortality and morbidity in the protection business

- We tested the economic assumptions and calibration of the stochastic models that determine CoG reserves;
- We challenged the key movements in the reserve over the period, as well as changes in methodology. In particular, we challenged management's actuarial function on the testing of the Economic Scenario Generator ("ESG") model output, used as an input to the CoG model, by assessing the inputs to the model and the outputs of the ESG model;
- We also tested the movements in the CoG 'analysis of change' by considering market and policy value movements in 2021; and

- We challenged management’s mortality and morbidity assumptions applied to the protection business by assessing the results of management’s experience data analyses and understanding the rationale for any significant changes in assumptions. In particular, we assessed how management had taken account of the additional uncertainty that exists as a result of Covid-19 on the setting of the mortality and morbidity assumptions in the protection business.

Valuation of illiquid and complex investments

- We independently tested the market prices used to value the investments including assessing the recent performance of the property funds, on both an absolute basis and against peers or benchmark indices, and performed targeted research using independent sources;
- We reviewed the recent performance of the property funds, on both an absolute basis and against peers or benchmark indices, and performed targeted research using independent sources;
- We assessed the appropriateness of management’s assumptions in valuing any property funds that were suspended from trading at the balance sheet date; and
- We analysed the investments to check for stale prices through assessing the activity of the investments.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates 9 are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing the SFCR disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and internal audit concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with the PRA and FCA, reviewing internal audit reports, and reviewing correspondence with HMRC.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Society's statutory financial statements. 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 in relation to this matter.

Use of our Report

This report is made solely to the Directors of the Society in accordance with Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook for Solvency II firms. We acknowledge that our report will be provided to the PRA for the use of the PRA solely for the purposes set down by statute and the PRA's rules. Our audit work has been undertaken so that we might state to the insurer's Directors those matters we are required to state to them in an auditor's report on the relevant elements of the SFCR and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the PRA, for our audit work, for this report or for the opinions we have formed.

Andrew Holland

(Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Glasgow, United Kingdom

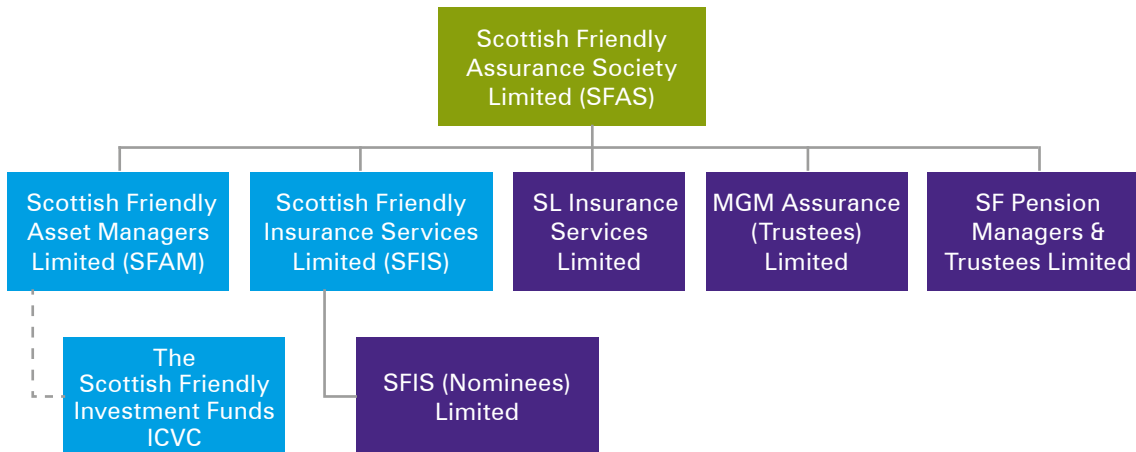
7 April 2022

A Business and Performance



A.1 Business

Scottish Friendly is an incorporated friendly society, a type of mutual, and consequently there are no shareholders in Scottish Friendly. The organisational structure of the business is detailed below.



- Green** denotes insurance company, subject to full Senior Managers and Certification Regime (SM&CR) rules.
- Blue** denotes IFPRU firm, in scope for SM&CR. Note, SFIS is in the process of being de-authorized.
- Purple** denotes – unregulated entity not in scope for SM&CR.

Scottish Friendly offers a range of life insurance products to policyholders in the United Kingdom. The main products are whole of life policies, endowment assurances, term assurance and ISAs.

The Scottish Friendly balance sheet is split between its Main Fund, which is open to new business, and five sub funds to the Main Fund, which are closed to new business. The closed sub funds are the Rational Shelley sub fund, London, Aberdeen and Northern Mutual Assurance Society (LANMAS) sub fund, the Scottish Legal Life sub fund, the Marine & General Mutual (M&GM) sub fund and the Manulife sub fund.

Limited volumes of legacy products were sold across Europe either by Scottish Friendly, Scottish Legal Life or M&GM and, where relevant, premiums are still received for these.

Scottish Friendly is authorised and regulated by the Prudential Regulatory Authority (“PRA”), which is located at 20 Moorgate, London EC2R 6DA.

Scottish Friendly is also regulated by the Financial Conduct Authority (“FCA”), which is located at 12 Endeavour Square, London, E20 1JN.

Scottish Friendly’s auditor is Deloitte LLP, whose Glasgow office is 110 Queen Street, Glasgow, G1 3BX.

A.2 Underwriting Performance

The following table illustrates Scottish Friendly's performance over 2021, as reflected in the 2021 Annual Report and Accounts:

| Technical Account - Long Term Business For year ended 31 December | 2021 £000 | 2020 (restated) £000 |
|--|----------------------|-------------------------------------|
| Earned Premiums | 155,442 | 146,136 |
| Reinsurance Premiums | (67,692) | (61,694) |
| Earned Premiums, Net of Reinsurance | 87,750 | 84,442 |
| Investment Income | 237,354 | 119,498 |
| Unrealised Gains/(Losses) on Investments | 100,411 | 27,916 |
| Other Technical Income | 30,698 | 34,343 ¹ |
| Release of Negative Goodwill | 6,060 | 6,062 |
| | 462,273 | 272,261 |
| Claims Incurred | 236,072 | 222,705 |
| Reinsurance Claims | (98,955) | (90,010) |
| Net Claims Incurred | 137,117 | 132,695 |
| Change in Other Technical Provisions | 219,018 | 71,208 ¹ |
| Operating Expenses | 78,159 | 62,224 |
| Investment Expenses & Charges | 3,255 | 3,054 |
| Other Technical Charges | 861 | 794 |
| Tax attributable to Long Term Business | 16,594 | 961 |
| Actuarial (Gain)/Loss re pension scheme | (16,742) | (7,524) |
| Transfer (from/to) the Fund for Future Appropriations | 24,011 | 8,849 ¹ |
| | 462,273 | 272,261 |

¹ Values have been restated. Please see note 37 in the Scottish Friendly Annual Report and Accounts

Scottish Friendly writes four lines of business as detailed below:

- Insurance with participation (i.e. with-profits business).
- Index Linked and Unit Linked
- Other Life Insurance
- Health Insurance Business

The table below illustrates Scottish Friendly's premiums, claims and expenses split by Solvency II lines of business for the periods ended 31 December 2020 and 31 December 2019.

| 2021 | Insurance with participation £000 | Index Linked & Unit Linked Insurance £000 | Other Life Insurance £000 | Health Insurance £000 | Total £000 |
|----------------|--|--|--------------------------------------|----------------------------------|-----------------------|
| Gross Premiums | 14,193 | 9,662 | 128,710 | 2,877 | 155,442 |
| Gross Claims | 84,431 | 58,481 | 89,488 | 3,672 | 236,072 |
| Expense | 7,439 | 5,064 | 67,404 | 1,507 | 81,414 |

| 2020 | Insurance with participation £000 | Index Linked & Unit Linked Insurance £000 | Other Life Insurance £000 | Health Insurance £000 | Total £000 |
|----------------|--|--|--------------------------------------|----------------------------------|-----------------------|
| Gross Premiums | 20,612 | 10,965 | 111,336 | 3,223 | 146,136 |
| Gross Claims | 100,059 | 38,259 | 81,651 | 2,261 | 222,230 |
| Expense | 4,982 | 2,650 | 57,342 | 779 | 65,753 |

The claims incurred on the Technical Account in 2020 include claims management fees of £475,000 which are not included in the gross claims figures above. The claims management fees have been added to the 2020 expenses in the above table. This reallocation has ceased in 2021.

A.3 Investment Performance

The return attributed to the asset shares within the Scottish Friendly with-profits Main Fund for 2021 was 7.5% (2020: 3.4%) reflecting an overall positive return in a year of significant market volatility. An additional 1.2% uplift was allocated to with-profits policies in the Main Fund to reflect their share of miscellaneous surplus generated.

The Group assets under management increased slightly to £5,378 million (2020: £5,312 million), reflecting positive returns, offset partially by policyholder movements.

Financial investments are recognised at fair value through profit or loss. Derivatives are recognised at their marked to market value.

Scottish Friendly manages these investments and makes purchase and sale decisions based on their fair value in accordance with Scottish Friendly's investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss as incurred.

The following table illustrates Scottish Friendly's investment performance over 2021, as reflected in the annual report and accounts:

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| Income from land & buildings | 71 | 135 |
| Income from other investments | 58,815 | 64,389 |
| Net gains on the realisation of investments | 178,468 | 54,974 |
| Unrealised Gains/(Losses) on investments | 100,411 | 27,916 |
| | 337,765 | 147,414 |

A.4 Performance of other activities

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

In 2021, the total other technical income was £30.7m, compared to £34.3m (restated) in 2020. Of the 2021 total, £28.1m relates to fee income (2020: £27.3m (restated)).

A.5 Any other material information

There is no other material information to provide in this report.

B System of Governance



B.1 General information on the system of governance

As a mutual organisation, the Board of Management is responsible to the members for the performance of Scottish Friendly, and the service that is provided. This accountability is exercised through the Delegates system of member representation.

Scottish Friendly operates a delegate system to ensure that it engages with, and is accountable to, its members. Scottish Friendly has 30 delegate positions, each representing one of five geographical electoral districts (Scotland, Northern Ireland, North of England, South of England & Wales and Republic of Ireland). In addition to any vacancies that arise from time to time, one third of delegates have to retire in rotation each year and may offer themselves for re-election. The system allows members to have their views represented at the Annual General Meeting through their representative delegate (typically the delegate closest to them geographically).

The Board Members and Scottish Friendly Executives who have duties in relation to Scottish Friendly's subsidiaries are fully responsible for ensuring that they are managed to the same high standards and principles set out by Scottish Friendly.

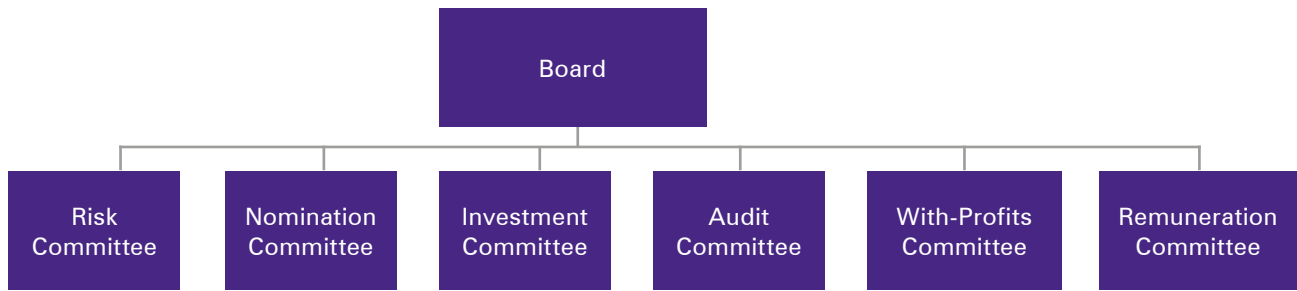
Responsibilities have been allocated to senior management in accordance with the SM&CR. The functional structure of Scottish Friendly and roles and responsibilities of key function holders are set out in Appendices F1 and F2.

As a mutual, Scottish Friendly has no shareholders.

Internal Control Framework

The Board is responsible for directing the affairs of Scottish Friendly. In addition to the principles of prudent management, there are several specific powers given to the Board, which are defined in the Scottish Friendly Rules. 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 Chief Executive, there is a formal schedule of matters reserved to the Board for approval which includes: the authorisation regime for bank accounts, changes to investment parameters and deals outwith 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 Chief Executive and to Board Committees, are reviewed at least annually by the Board.



The committee and governance structure is set out in detail in Appendix F1. The high level structure is set out above and the responsibilities of the Committees are as follows:

Risk Committee

- Provides focused support and advice on risk strategy, assisting the Board in reviewing the systems for managing all aspects of business risk.
- Takes account of the most significant issues and risks, both operational and financial, likely to impact on Scottish Friendly's customers and the Group's financial statements.
- Reviews, challenges and approves the Risk Appetite Methodology and recommends the Statements to the Board for approval, including monitoring measures with limits and triggers that are the basis for regular Own Risk and Solvency Assessment (ORSA) reporting.
- Shapes the design and content of the Annual ORSA report to meet the requirements of the Board in terms of risk insights and forward-looking threats and reviews the design and execution of stress and scenario testing.
- Ensures there is a satisfactory framework in place with appropriate metrics for identifying and managing all aspects of risk within the business and to keep under review the steps taken by management to monitor, manage and mitigate risk.
- Receives regular reports from Executive Risk Committee and Risk and Compliance functions outlining the key prudential and conduct risks facing Scottish Friendly and the controls and actions in place to mitigate their impacts.

Nomination Committee

- Ensures that plans are in place for orderly succession for appointments to the Board.
- Leads the process for such appointments and makes recommendations to the Board, taking into consideration the time commitments required of Non-Executive directors and their independence.
- Considers the overall balance of skills, experience and knowledge to ensure that Directors bring informed and independent judgement to the Board.
- Ensures that Scottish Friendly's employee policies are applied in Board nomination matters.

Investment Committee

- Oversees Scottish Friendly's investment holdings and performance on behalf of the Board.
- Makes decisions on asset allocation and strategy of the Scottish Friendly funds in line with the liabilities, relevant risk appetite and parameters established by the Board or by the relevant fund objective.
- Monitors risk appetite, investment parameters and fund objectives, making recommendations to the Board as appropriate.

Audit Committee

- Reviews internal control systems, including internal financial controls and ensures that these continue to be effective; advises the Risk Committee as appropriate of any concerns regarding the effectiveness of the current control framework.
- Considers the Audit Plan which highlights key judgement areas and summarises changes in reporting requirements.
- Reviews the annual financial statements and regulatory returns and approves these for submission to the Board.
- Approves the internal audit programmes and receives regular process reports from internal audit and ensures that recommendations made are followed up. Also monitors co-ordination between the internal and external auditors and ensures that the Internal Audit Function (IAF) is adequately resourced and has appropriate standing within the organisation.
- Assesses the effectiveness of the internal and external audit processes through the reporting that it receives from the respective auditors who are present at each Committee meeting.
- Provides recommendations to the Board in relation to the appointment of the external auditors.

With-Profits Committee

- Provides recommendations and advice to the Board on the way each with-profits fund is managed.
- Considers compliance with the principles and practices set out in the relevant Principles and Practices of Financial Management (PPFM).
- Provides recommendations to the Board relating to changes that would result in a revision to the PPFM(s).
- Provides advice to the Board as to whether Scottish Friendly has effectively addressed the conflicting rights and interests of with-profits policyholders and other policyholders or stakeholders.
- Considers other issues which with-profits policyholders might reasonably expect the With-Profits Committee to be involved in, including bonus setting, the development of run-off plans and the identification of surplus within the various funds.

Remuneration Committee

- Reviews the remuneration of the Chair and other Non-Executive Directors and determines appropriate levels of Executive Management remuneration.

There were no changes to the structure of the internal control framework over 2021.

In September 2021, Stephen McGee and Mark Laidlaw were appointed as non-Executive members of the Board. Following Jim Galbraith's death in April 2021, Martin Pringle was appointed as acting CEO, with other consequential changes to the senior management roles. Details of the individuals performing key functions are set out in Appendix F2.

Remuneration Policy

Scottish Friendly's policy is to provide a competitive remuneration package which will attract and retain the appropriate calibre of Executive and Non-Executive Directors.

Executive Director salaries are reviewed annually. A range of data is taken into account to inform the review including comparable positions in other organisations, remuneration trends in the financial services sector, as well as wider economic influences. Any change in salary is effective from 1 January. The Remuneration Committee ensures that it remains apprised of these factors and of best practice, taking external advice where appropriate.

The remuneration package for Executive Directors incorporates a performance element which is targeted at increasing growth and cost efficiencies while generating longer term value for members. Payments are capped at 100% of salary. In line with the relevant Solvency II requirements, 40% of bonus payments may be deferred for three years, if applicable.

The Executive Directors are entitled to a company car and healthcare insurance.

Non-Executive Directors' duties and responsibilities are set out in Scottish Friendly's Governance and Control Procedures Manual. 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 Rules of Scottish Friendly.

Fees for the Chair are set by the Committee in his absence. Fees for Non-Executive Directors are monitored and reviewed annually with changes effective from 1 May through approval by the Executive Directors and the Chair. 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.

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

The aggregate premiums payable for the year by eleven Directors in respect of Scottish Friendly's products amounted to £71,926 (2020: £70,321).

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

Service contracts

The Executive Directors have service agreements with a notice period of less than 12 months. The service agreements do not have a fixed term and provide for retirement at age 65.

In the event of termination, any payments made would be based on individual circumstances including the reason for termination and contractual obligations.

Changes to the System of Governance

There were no significant changes to the system of governance over 2021.

B.2 Fit and Proper requirements

Scottish Friendly has been subject to the SM&CR since December 2018. The aim of the SMCR is to reduce harm to consumers and strengthen market integrity by making individuals more accountable for their conduct and competence.

The SM&CR seeks to ensure that senior persons, who are responsible for overseeing and managing insurance firms, or who have responsibility for other key functions at those firms, will behave with integrity, honesty and skill.

The SM&CR consists of 3 parts:

- The Senior Managers Regime, which focuses on individuals who hold key roles within Scottish Friendly
- The Certification Regime, which applies to other staff who could pose a risk of significant harm to Scottish Friendly or any of its customers
- The Conduct Rules, which are high level requirements that hold individuals to account

Scottish Friendly has implemented appropriate processes and controls to comply with the SM&CR. All members of staff are provided with appropriate annual training on the Conduct Rules, how these apply to them and the standards of behaviour Scottish Friendly expects.

The responsibilities of Scottish Friendly's senior managers, and those of key function holders (KFH's) within the business, are documented in Scottish Friendly's Management Responsibilities Map and Manual.

Scottish Friendly ensures that individuals subject to the SM&CR are fit and proper to do their jobs. This requirement to assess fitness and propriety applies to:

- Senior Managers
- Individuals subject to the Certification Regime (including KFH's)

The fitness and propriety of an individual is performed before they commence the role, and thereafter on an annual basis.

In assessing whether an individual is fit and proper, Scottish Friendly will consider, and be satisfied that, an individual:

- Has the personal characteristics (including being of good repute and integrity);
- Possesses the level of competence, knowledge and experience;
- Has the qualifications; and
- Has undergone or is undergoing all training;

required to enable such person to perform their senior manager function, key function or certification function effectively and in accordance with any relevant regulatory requirements.

In determining whether an individual is fit and proper, Scottish Friendly considers the information contained in the following assessments:

Fitness and Propriety Questionnaire - considers honesty, integrity and reputation and considers whether the individual is financially sound.

Regulatory References (on commencement of employment) - provides information on previous employers' assessment of the individual's conduct and fitness and propriety.

Employee Screening Check - supplements the self-attestation in the F&P questionnaire and identifies whether the individual has had any CCJ's/Court Decrees or Bankruptcy, Sequestration or Insolvency arrangements.

Criminal Records Check (on commencement of employment) - supplements the F&P Questionnaire and considers whether the individual has been convicted of a criminal offence.

Competency Assessment - records why the individual is competent and capable to carry out the function.

Conduct Assessment - considers whether the individual's past conduct has breached the regulator's conduct rules.

The Chief Executive performs the F&P assessments.

For individuals in the certification regime, a certificate will be issued confirming

- that Scottish Friendly is satisfied that the person is a fit and proper person to perform the Certification Function
- the aspects of the Scottish Friendly's business in which the individual is involved.

B.3 Risk management system including the Own Risk and Solvency Assessment

Risk Governance

The overall accountability for risk within the business ultimately rests with the Board. The Board has overall responsibility for the system of internal control and, through a combination of the activities below, is able to review its effectiveness annually, including financial, operational and compliance controls and risk management systems.

The Board have delegated some responsibilities for risk to the Audit Committee of the Board (AC), 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.

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

- 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 includes the Risk and Compliance function.
- 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 of a risk-aware culture across the organisation.
- The Chief Risk Officer (SMF16) is responsible for the Compliance Function supported by the Senior Compliance and Financial Crime Manager. Responsibilities of the Function include preparing and delivering the Board Risk Committee approved 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.

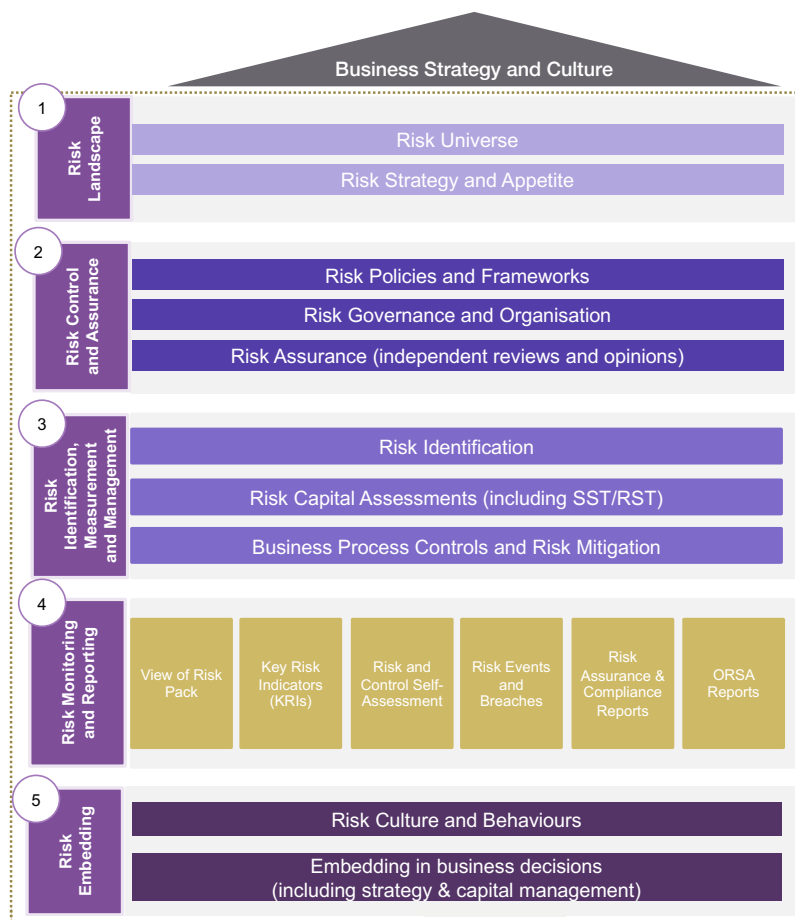
- The Third Line of Defence is independent assurance of the adequacy and effectiveness of our risk and control environment and this is provided by the Internal Audit Function which delivers a cyclical and prioritised programme of risk based audits covering all aspects of work undertaken in the First and Second Line business areas over a period of years

Risk management is embedded in the duties and responsibilities of all employees and it is the responsibility of managers to ensure that this approach is maintained, and the responsibility of the ERC to ensure that this is effectively monitored.

The Risk Management Framework

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

The five key components of the RMF are:



1. Risk Landscape: sets out the wide range of risks to which SFA is exposed, the risk strategy and appetite of the Board and associated risk triggers and tolerance levels.
2. Risk Control and Assurance: sets out the risk policies and frameworks that provide the mechanism which sets out how the identification, measurement and management of risk against appetite will operate. It sets out the organisation and governance structure which is in place to provide assurance to the Board, our members and other stakeholders that risks are being appropriately managed.
3. Risk Identification, Measurement and Management: sets out how current and emerging risks are identified, the forward looking assessment of the impact on the capital required to meet the risks to achieving strategy and business objectives, and the mechanism by which the business mitigates or manages the risks inherent in business processes.
4. Risk Monitoring and Reporting: a regular cycle of risk reporting through appropriate governance structures to inform decision making, monitoring and pro-active action.
5. Risk Embedding: a strong firm-wide risk culture is a key element of effective risk management. SFA aims to deliver a culture of risk awareness through desired behaviours, key business decisions, day-to-day operations and change management.

The value of risk management for the benefit of Scottish Friendly's members and business is achieved through embedding risk in key business decisions, day-to-day operations and the management of change:

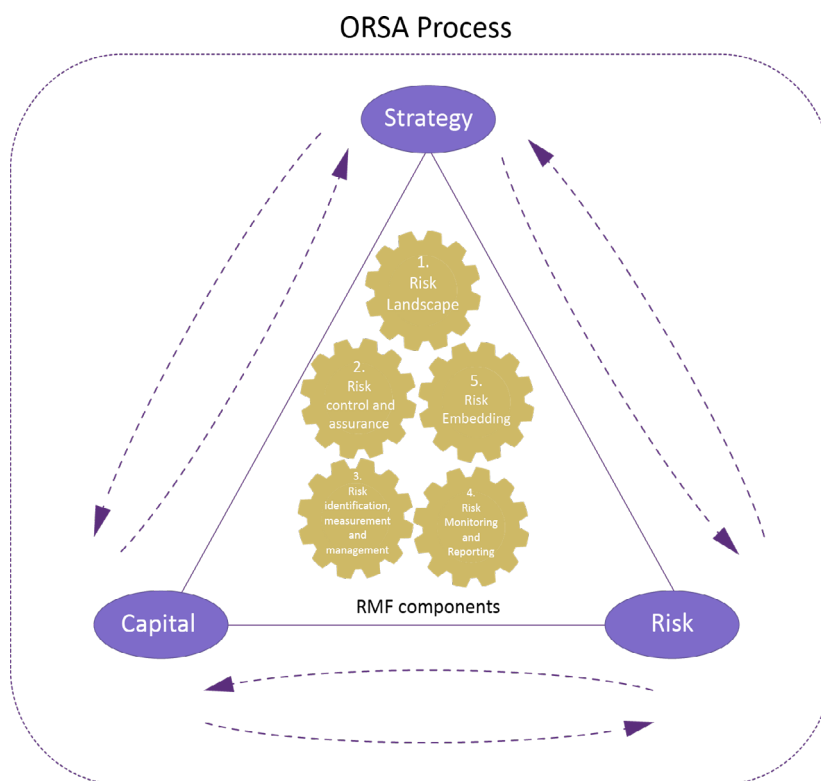
- This takes place at Board level and in day-to-day management of the business.
- Embedding is supported through provision of insightful and relevant information on risks and proposed measures to manage and respond to risks, together with representation of the 2nd line at key points in the decision making process.
- The business embed risk management in the day-to-day business processes through operation of effective controls. In addition, there is a process to assess business compliance with the risk policies which is reported to the Risk Committees.
- Embedding risk management in the management of change within our business.
- Embedding of risk supports enhancement of business performance and capital management to the benefit of our policyholders and delivery of SFA's strategy.

ORSA

The ORSA is a key process used in the identification, management and mitigation of risk. Each component of the risk management framework feeds into the ORSA, in order to enable an integrated approach towards risk management throughout Scottish Friendly.

The ORSA process is a dynamic process which links:

- Business strategy to the risks SFA takes and manages;
- the risks managed to the capital held against those risks; and
- the capital held to the strategy (for example, as either a potential enabler or constraint on writing new business and continued merger and acquisition activity).



The purpose of the ORSA is to:

- understand and manage Scottish Friendly's risks and associated controls;
- assess the risk profile against risk appetite;
- review forward looking assessment of future solvency, based on the business and strategic plans, which takes into account both the current risk profile and the risk profile following acquisitions;
- carry out stress and scenario testing (including reverse stress testing) to understand the impact of changes to the risk profile; and
- allow the Executive team and Board to make informed strategic decisions that impact the firm's risk profile.

In particular, the ORSA considers the extent to which level and type of capital may be appropriate for risks identified over Scottish Friendly's five-year business planning period. To this end the ORSA process involves a forward-looking assessment of capital requirements and capital resources over a five year period based on Scottish Friendly's risk profile and strategic plans. Within this projection the ORSA considers whether the level of capital coverage is compliant with Scottish Friendly's solvency risk appetite statements as well as the associated limits / triggers.

The ORSA is an integral part of the strategic decision making process within Scottish Friendly and its results inform capital management, investment and product development decisions taken

by the Executive and the Board. The ORSA is completed alongside, and is consistent with, the business planning process.

Responsibility for co-ordination of the ORSA process, and ownership of the ORSA policy, resides with the Chief Risk Officer. The key output of the ORSA process is an annual ORSA report which is reviewed by senior management and approved by the Board. An ORSA report is also produced following a significant change to the risk profile of the business. The Board approved ORSA Report is sent to the PRA.

B.4 Internal Audit System

The following provides more information about Scottish Friendly's Internal Audit Function:

The Internal Audit Function (IAF) has the objective of providing management and the AC with an independent assessment of the effectiveness of internal control systems in the areas outlined and agreed in the Internal Audit Plan.

The Internal Audit Plan is prepared annually and approved by the AC. All IAF reports are presented to the AC.

Fundamental Principles under Solvency II

SFA incorporates the IAF and associated reporting lines into the organisational structure in a way that ensures that the IAF is free from influences that may compromise the IAF's ability to undertake its duties in an objective, fair and independent manner. The persons carrying out the IAF shall not assume any responsibility for any other function.

The IAF operates under the ultimate responsibility of, and reports to the AC and, where appropriate, cooperates with other functions in carrying out their roles.

The persons carrying out the IAF will have the necessary authority, resources and expertise to carry out their responsibilities. They will also have unrestricted access to all relevant information necessary to carry out their responsibilities. The persons performing the IAF will promptly report any major problem in their area of responsibility to the AC or Board.

The IAF shall:

- establish, implement and maintain an audit plan setting out the audit work to be undertaken, taking into account all activities and the complete system of governance of Scottish Friendly;
- take a risk-based approach in deciding its priorities;
- report the audit plan to the AC;
- issue recommendations based on the work carried out and submit a written report on its findings and recommendations;
- verify compliance with the decisions taken by the AC on the basis of those recommendations.

Where necessary, the IAF may carry out audits which are not included in the audit plan.

Relationship with Management/Other Stakeholders

IAF has a dual reporting role to Management for assistance and support in organising and conducting assignments, and to the AC for strategic direction and accountability. IAF will take account of the activities of external audit and external audit will review the planned activities of the function to assess the scope and relevance of the work to the external audit activity. This will facilitate a “joined up” approach where it is appropriate to do so.

Internal Audit cannot absolve management of responsibility for internal controls and must ensure it is not involved in the operation of controls.

IAF Process

Internal Audit will produce a proposed schedule of audits to be performed during the year, to be submitted to the AC for approval.

At the conclusion of each element of the Internal Audit Plan a draft report will be prepared. Auditees will be required to consider their element of the report for factual accuracy and to provide management responses for considering the recommendations, and where applicable, realistic target dates for implementation. Final reports will then be issued to auditees, the Executive Team and the AC.

B.5 Actuarial Function

Scottish Friendly’s actuarial function has the following responsibilities:

- To fulfil the Chief Actuary SMF20 role, responsible for taking all reasonable steps to ensure the continued solvency, safety and soundness of Scottish Friendly, including actuarial investigations and regular valuations on the Solvency II and ORSA reporting bases;
- Undertaking the capital calculations, and ensuring adequate provisions are available to meet policyholder benefits in all reasonably foreseeable circumstances in accordance with the risk appetite and taking due account of liquidity;
- Ensuring regulatory and legislative requirements are met, including annual review of the operation of the Principles and Practices of Financial Management (PPFM);
- Undertaking regular and ad hoc exercises including bonus investigations, calculations, reviews, analyses, profitability and experience monitoring, reinsurance arrangements, reports and regulatory submissions as required from time to time;
- Assisting in the Product Development processes. For example review of: product design, profit testing, specification and appropriate reinsurance arrangements; and
- Specifying and implementing claims calculations bases and methods including monitoring and application of Market Value Adjustments (MVAs) as and when required.

B.6 Outsourcing

Outsourcer Failure risk is defined as failure of outsourcing or supplier arrangements and failures within the administration undertaken by partners, including breach of contract.

Scottish Friendly seeks to manage its exposure to Outsourcer Failure risk by establishing minimum policy requirements set out in the Outsourcing and Key Supplier Policy and supporting practices/procedures that align with the agreed requirements. The Outsourcing Committee provides oversight controls to monitor the delivery of the services provided by outsourcers, suppliers and partners and ensures that appropriate action is taken to address any issues identified.

As at 31 December 2021, the following key outsourced functions are considered critical or important in line with the terms of 7.2 of Conditions Governing Business in the PRA Rulebook for Solvency II Firms:

- Internal Audit (EY)
- With Profits Actuary (Hymans Robertson)

In addition, there are five contracts which involve an element of policy administration (Aegon, BGL Group, Neilson Financial Services, Nucleus and Guardian Financial Services) and four arrangements for investment administration or investment management (Canada Life, JP Morgan, abrdn plc and Mobius).

All of these outsourcers are located within the United Kingdom.

B.7 Any other material information

There is no other material information to disclose in this situation.

C Risk Profile

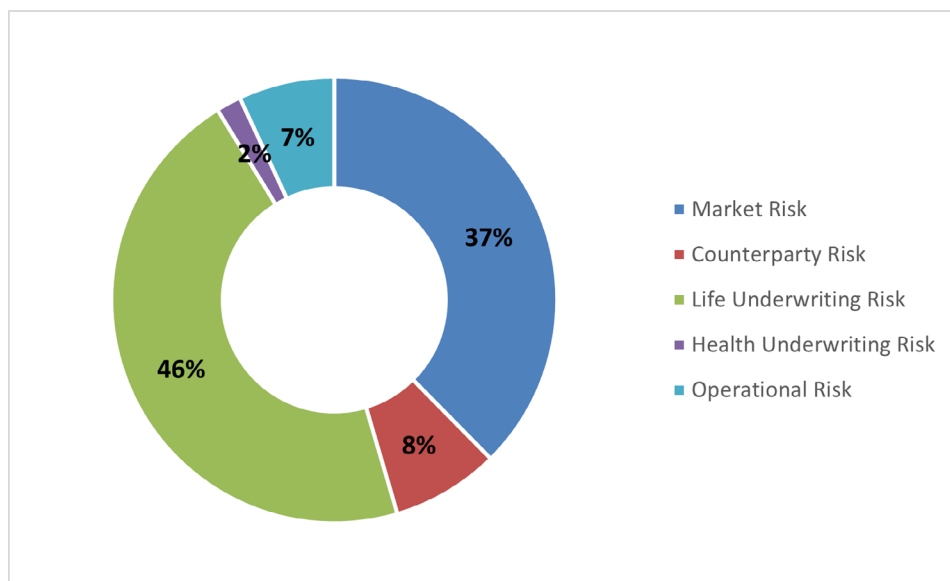


The key risks facing Scottish Friendly are considered within the ORSA and presented to the Board on at least an annual basis.

Quarterly Risk Dashboard reports are presented to the Executive Risk Committee, Risk Committee and Board to highlight any significant movements in the risk profile of the business or the forward-looking risks.

The principal risks to which Scottish Friendly is exposed are underwriting, market, counterparty credit, and operational risks. Within underwriting risk, the principal exposure is to life underwriting risk, with a relatively small exposure to health underwriting risk as a result of the transfer of business from CLL. The RMF supports the identification, measurement, management, monitoring and reporting of these risks.

The figure below shows the split of the main risks to which Scottish Friendly is exposed. The capital requirements shown are based on the Standard Formula capital requirement for each risk:



C.1 Market Risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows from fluctuations in interest rates, foreign currency exchange rates, equity prices and property values. This is mitigated through ongoing solvency monitoring, matching of assets and liabilities and oversight provided by the Investment Committee.

As at 31 December 2021 the total capital required in respect of market risk facing the business was £60.4m (2020: £66.7m). This is comprised of the following risks across each of the sub funds.

| Business Block | SF main fund £m | LANMAS £m | Rational Shelley £m | Scottish Legal £m | M&GM £m | Manulife £m | Aggregate £m |
|--------------------------|----------------------------|----------------------|------------------------------------|----------------------------------|------------------------|------------------------|-------------------------|
| Interest rate risk | 0.1 | 0.0 | 0.0 | 0.1 | 7.7 | 0.0 | 7.9 |
| Equity risk | 39.2 | 0.4 | 0.0 | 0.2 | 13.8 | 0.0 | 53.6 |
| Property risk | 2.2 | 0.0 | 0.0 | 0.0 | 0.6 | 0.0 | 2.9 |
| Spread risk | 1.3 | 0.0 | 0.0 | 0.2 | 1.7 | 0.0 | 3.2 |
| Currency risk | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.4 |
| Other market risk | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Diversification | (1.0) | (0.0) | 0.0 | (0.2) | (6.4) | 0.0 | (7.6) |
| Total market risk | 41.9 | 0.4 | 0.0 | 0.6 | 17.4 | 0.0 | 60.4 |

The primary driver of market risk is “equity risk” reflecting the investment in equities in respect of the with-profits asset shares, and the impact on the cost of guarantees for that business in the event of a fall in market values. In addition, equity risk arises as a result of holdings of equity within the unit-linked funds, including those transferred from CLL. Falls in equity values reduce the value of these funds, reducing the expected future income stream for Scottish Friendly.

Note, the capital requirements for the Manulife sub-fund are shown as nil, as the sub-fund’s distribution approach is that any losses would be directly reflected in lower payouts, with the strength of the sub-fund sufficient to absorb the prescribed Standard Formula stresses.

C.2 Underwriting Risk

Underwriting risk is the risk of potential losses arising from inaccurate assessment of the risks entailed in writing an insurance policy. This is mitigated by the provision of reinsurance arrangements, limits on cover and explicit exclusions. The potential risks associated with the COVID-19 pandemic were considered in setting the assumptions used in evaluating the financial position.

Under the Solvency II regulations, underwriting risk is calculated separately for life insurance business and health insurance business. As a result of the transfer from Canada Life, Scottish Friendly has a small portfolio of health insurance business.

As at 31 December 2021 the total capital required in respect of the life underwriting risk exposure was £73.8m (2020: £75.2m). This is comprised of the following risks across each of the sub funds.

| Business Block | SF main fund £m | LANMAS £m | Rational Shelley £m | Scottish Legal £m | M&GM £m | Manulife £m | Aggregate |
|-------------------------------------|--------------------|--------------|------------------------|----------------------|-------------|----------------|-------------|
| Mortality | 13.6 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 13.7 |
| Longevity | 7.3 | 0.0 | 0.0 | 0.1 | 9.5 | 0.0 | 17.0 |
| Disability | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Lapse | 39.1 | 0.2 | 0.0 | 0.1 | 4.9 | 0.0 | 44.3 |
| Expense | 23.9 | 0.0 | 0.1 | 0.1 | 2.2 | 0.0 | 26.2 |
| Revision | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Catastrophe risk | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.1 |
| Diversification | (24.5) | (0.0) | (0.0) | (0.2) | (3.8) | 0.0 | (28.5) |
| Total life underwriting risk | 60.4 | 0.2 | 0.1 | 0.3 | 12.8 | 0.0 | 73.8 |

The corresponding exposure to health underwriting risk was £2.9m (2020: £3.4m), split as set out in the table below.

| Business Block | SF main fund £m | LANMAS £m | Rational Shelley £m | Scottish Legal £m | M&GM £m | Manulife £m | Aggregate £m |
|-------------------|--------------------|--------------|------------------------|----------------------|------------|----------------|-----------------|
| Health Mortality | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Health Longevity | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 |
| Health Disability | 2.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.7 |
| Health Expense | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 |

| Business Block | SF main fund £m | LANMAS £m | Rational Shelley £m | Scottish Legal £m | M&GM £m | Manulife £m | Aggregate £m |
|---------------------------------------|--------------------|--------------|---------------------------|-------------------------|------------|----------------|-----------------|
| Health Revision | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Health Lapse | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 |
| Diversification | (0.6) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.6) |
| Total health underwriting risk | 2.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.9 |

The level of underwriting risk is broadly unchanged from 2020, with lapse risk remaining the most significant exposure. Scottish Friendly's lapse capital is based on its exposure to a "mass lapse" event, under which there is a sudden and significant exit of business that is expected to be profitable in the future.

C.3 Counterparty Default Risk

Counterparty default risk is the risk of financial loss as a result of the default or failure of third parties to meet their obligations. This is mitigated via diversified counterparties and minimum counterparty credit ratings when establishing new relationships.

As at 31 December 2021 the total capital required in respect of credit risk facing the business was £12.6m (2020: £13.5m). This is comprised of the following risks across each of the sub funds.

| Business Block | SF main fund £m | LANMAS £m | Rational Shelley £m | Scottish Legal £m | M&GM £m | Manulife £m | Aggregate £m |
|--------------------------------|--------------------|--------------|---------------------------|-------------------------|------------|----------------|-----------------|
| Type 1 | 9.8 | 0.0 | 0.1 | 0.1 | 1.6 | 0.0 | 11.6 |
| Type 2 | 1.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.2 |
| Diversification | (0.3) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.3) |
| Total counterparty risk | 10.8 | 0.0 | 0.1 | 0.1 | 1.6 | 0.0 | 12.6 |

Note:

- Type 1 details the exposures to other insurance companies (through reinsurance arrangements) and to banks.
- Type 2 details all remaining exposures.

The primary driver of counterparty default risk refers to the risks that reinsurers or banks are unable to satisfy their obligations and cause financial loss. Only high-quality counterparties are sought as counterparties, collateral arrangements are put in place where appropriate and concentration risk is managed by using a number of banks and reinsurers to spread the risks.

C.4 Liquidity Risk

Liquidity risk is the risk that loss or adverse circumstances will result in the inability of Scottish Friendly to meet its liabilities when they fall due.

Liquidity risk is subject to extensive management oversight and reporting. Analysis of projected cash inflows and outflows is performed by Finance with input from Actuarial, and the projected liquidity position is monitored through regular risk reporting. Liquidity requirements are considered over one month, three month and six month time horizons. Consideration is also given to longer term liquidity risks as part of the ORSA.

Reinsurance claims payments and schedules are subject to regular monitoring and any issues raised at regular relationship management meetings. The Investment Committee provides oversight of the asset allocation and ultimately maintains a strategy that includes a proportion of the portfolio that is very liquid e.g. listed equities, gilts, which if required, could be sold to provide additional liquidity during stressed periods.

Given the nature of this risk and the controls in place, Scottish Friendly did not hold any capital against this risk as at 31 December 2021.

The total amount of expected profit included in future premiums within the technical provisions was £24.5m as at 31 December 2021 (2020: £21.0m).

C.5 Operational Risk

Operational risk is the risk of loss or adverse consequences for the business resulting from inadequate or failed internal processes, people or systems, cyber risk, or from external events. This is mitigated through effective first line of defence controls within procedures and, where appropriate, automated processes to minimise the risk of human error.

The operational risk capital requirement is calculated in line with the prescribed Standard Formula basis, with the results shown below. The capital requirement is calculated based on the earned premiums, the technical provisions, and the expenses on unit linked business.

As at 31 December 2021 the total capital required in respect of operational risk facing the business was £11.1m (2020: £11.3m). This is comprised of the following risks across each of the sub funds. The operational risk in respect of the Manulife fund is held in the SF Main Fund.

| Business Block | SF main fund £m | LANMAS £m | Rational Shelley £m | Scottish Legal £m | M&GM £m | Manulife £m | Aggregate £m |
|------------------------|--------------------|--------------|------------------------|----------------------|------------|----------------|-----------------|
| Total operational risk | 8.2 | 0.1 | 0.0 | 0.2 | 3.6 | 0.0 | 11.1 |

The level of operational risk is substantially unchanged from that in 2020.

C.6 Risk Sensitivities

Scottish Friendly conducts a number of stress tests to assess the implications of various scenarios on the capital position of the business. These are performed as part of the ORSA process which is completed at the same time as the Business Planning and, longer-term, Strategic Planning processes.

The following stress scenarios were defined and developed following input from both the Executive and Board. These were tested quantitatively within the ORSA:

- Moderate economic and demographic scenario
- High Inflation allowed to persist through business planning period
- High Inflation with removal of policy stimulus resulting in period of low economic growth
- High profile operational failure scenario
- Unsuccessful new business marketing campaign
- Demographic misestimation
- Counterparty downgrade
- Climate change scenario
- Change project overruns
- Emerging risk – charge cap scenario
- Liquidity scenario

The scenarios consider the immediate impact to the capital position e.g. payment of remediation and costs, as well as the longer-term impact on revenues e.g. impacting ongoing sales volumes. The exercise concluded that under an appropriate range of adverse scenarios, Scottish Friendly remains well capitalised, with capital in excess of the SCR.

Additional management actions, beyond those modelled in the SCR calculation, have not been incorporated, as the solvency position does not necessitate the use of the actions to maintain solvency. In reality, such actions would be taken if the solvency of Scottish Friendly was under threat.

In addition to the above, a number of further scenarios were also considered qualitatively within the ORSA, in order to assess the controls and other risk mitigants in place within the business, and to highlight any areas where further action is required. These scenarios include new, severe COVID-19 variant, an operational failure scenario, a partner / outsourcer failure scenario and a small number of emerging risk scenarios. Finally, reverse stress tests were also completed by the business based on input from the Executive and the Board.

C.7 Other Risks

The ORSA considers the “emerging risks” to which Scottish Friendly is exposed. Emerging risks are new or changing risks that can have a serious impact on the business environment or broader society. These risks are known to some degree, but may not materialise or have an impact for several years.

Scottish Friendly recognises and incorporates emerging risks in strategic planning, as they typically relate to the long-term time horizon. By monitoring trends that are beginning to emerge, Scottish Friendly can identify potential opportunities as well as risks, and develop or modify strategies to either minimise the negative effects or capitalise on the potential opportunities that an emerging risk may present. These emerging risks inform the choice of stress scenarios considered in the ORSA. No capital is specifically held against emerging risks.

The key emerging risks facing the Group include:

- Keeping pace with evolving technology to ensure customer demands are met;
- Impact of long-COVID/missed diagnosis and treatment delays;
- Regulatory change has unintended consequence for Scottish Friendly;
- Regulation requires rapid acceleration on climate change strategy; and
- The impact which Scottish independence could have on the Group’s ability to sell products into the rest of the UK and impact on ability to service existing customers.

D VALUATION FOR SOLVENCY PURPOSES

Valuation Basis

The Solvency II regulations require Scottish Friendly's assets and liabilities to be measured in accordance with the principles of an arm's length transaction between knowledgeable willing parties using market consistent valuation methods. In the case of assets, this is described as "fair value".

The differences between the Statutory Accounts and Solvency II balance sheets as at 31 December 2021 are shown below. As the Statutory Accounts are principally valued at fair value, the differences between the Solvency II balance sheet and the Statutory Accounts are minimal. As the technical provisions and related reinsurance assets in the Statutory Accounts are calculated on a Solvency II basis, differences are either due to the reclassification of assets from one asset sector to another (with no change on the value of the balance sheet) or items not recognised on one or other of the balance sheets.

As at 31 December 2021, certain cash assets held in respect of unit-linked contracts of insurance (£8.4m) are recognised as cash on the Statutory Accounts basis and as investments on the Solvency II balance sheet.

A £47.5m liability is recognised on the Statutory Accounts balance sheet which recognises that the price paid for the acquisition of business from Canada Life Limited and Mobius Life Limited, was less than the fair value of the net assets acquired. This amount is amortised over time as the capital requirements run-off and expected profits from this book emerge.

The pension scheme surplus is restricted on a Solvency II basis to be in line with the contribution of the pension scheme to the capital requirements. There is no such restriction in the Statutory Accounts. The related tax charge of £(14.1)m, recognised as part of the "other" liabilities within the Statutory Accounts, is not recognised on the Solvency II Balance sheet, as the impact is already reflected in the surplus restriction.

The differences between the Statutory Accounts and Solvency II Balance Sheet are shown below.

| | Statutory £000 | Solvency II £000 | Solvency II £000 |
|----------------------|-------------------|---------------------|---------------------|
| Property & Equipment | 4,003 | 0 | 4,003 |
| Investments | 3,496,573 | 8,369 | 3,504,941 |
| Derivative assets | 20,109 | 0 | 20,109 |
| Reinsurance | 1,561,288 | 0 | 1,561,288 |
| Cash | 100,573 | (8,369) | 92,204 |

| | Statutory £000 | Solvency II £000 | Solvency II £000 |
|--------------------------|--------------------|---------------------|---------------------|
| Pension scheme surplus | 40,147 | (38,456) | 1,691 |
| Negative Goodwill | (47,475) | 47,475 | 0 |
| Other | 36,381 | 0 | 36,381 |
| Total Assets | 5,211,600 | 9,019 | 5,220,618 |
| Technical Provisions | (4,847,276) | 0 | (4,847,276) |
| Derivative liabilities | (106) | 0 | (106) |
| Other | (137,924) | 14,051 | (123,873) |
| Total Liabilities | (4,985,306) | 14,051 | (4,971,255) |
| Net Assets | 226,293 | 23,070 | 249,364 |

D.1 Assets Valuation

Scottish Friendly's Solvency II valuation principles (including the bases, methods and main assumptions) for each asset class are set out below. Unless otherwise stated (i.e. where there are differences to the Statutory Accounts value column) the valuation methods for UK GAAP are consistent with the valuation methods of the regulations. Further details on the UK GAAP valuation principles are set out in the Notes to the Annual Accounts in the Scottish Friendly Annual Report and Accounts for the year ended 31 December 2021.

There have been no significant changes to the valuation principles set out below during the year.

Assets carried at fair value in the Solvency II balance sheet are categorised based upon the valuation techniques used, as follows:

- QMP – quoted market price in active markets for the same assets.
- QMPS – quoted market price in active markets for similar assets.
- AVM – alternative valuation methods.

An active market exists where transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Some of Scottish Friendly's financial instruments are valued using alternative valuation methods, which utilise a combination of observable and non-observable market inputs (please see section D.5).

Property, plant and equipment

Land and buildings are valued at fair value. This is the same basis as the Statutory Accounts for Solvency II purposes. A formal valuation of 14-16 Blythswood Square, completed by a professional independent valuer, takes place every three years and was completed for the 31 December 2021 reporting period.

Plant and equipment are valued at their net realisable value. This is considered by management as an appropriate proxy for fair value of these assets.

Investments

Investments including those held to cover linked liabilities are stated at the current market value as described below:

- Shares and other variable-yield securities, units in unit trusts and shares in OEICs are shown in the balance sheet at market value at the balance sheet date.
- Debt securities and other fixed income securities are valued at the current market value at the balance sheet date.
- Investments in Group undertakings (detailed as Participations under Solvency II) are valued using the adjusted equity value in accordance with the requirements of Article 13.1(b) and 13.3 of the Delegated Acts (2015/35/EU).
- Derivatives are shown in the balance sheet at their marked to market value
- Property acquired as part of the acquisition from Canada Life is held in the Private Portfolio Funds, and the underlying properties are revalued annually.

As at 31 December 2021 the following investments were held by Scottish Friendly (values exclude the cash held in respect of unit-linked contracts of insurance):

| | QMP £000 | AVM £000 | Total £000 |
|--|----------------|------------------|------------------|
| Property held for own use | - | 3,250 | 3,250 |
| Equities - unlisted | - | 3,961 | 3,961 |
| Government Bonds | 632,408 | - | 632,408 |
| Corporate Bonds | 59,189 | - | 59,189 |
| Structured notes | - | 3,739 | 3,739 |
| Collective Investments Undertakings | - | 457,140 | 457,140 |
| Derivative assets | 343 | 19,767 | 20,110 |
| Assets held for index-linked and unit-linked contracts | - | 2,340,135 | 2,340,135 |
| Total financial assets | 691,940 | 2,827,992 | 3,519,932 |
| Derivative liabilities | (50) | (56) | (106) |

Reinsurance assets

The recoverables from reinsurance contracts relate to annuity business, which is almost entirely reinsured, protection business, of which a large proportion is reinsured, and reinsurance of certain investment funds (including the pension funds which transferred from Mobius Life Limited). The reinsurance arrangements involve a number of different reinsurers. Regular monitoring is carried out to assess the ongoing risk associated with these arrangements.

The reinsurance assets for Solvency II reporting and the Statutory Accounts have been calculated on best estimate basis in line with Solvency II requirements. An allowance is made for expected losses on reinsurance recoverables due to counterparty default.

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. The valuation in the Statutory Accounts basis is materially consistent with a fair value and therefore the valuation is unadjusted in the Solvency II balance sheet.

Other Assets

These include sundry debtors and prepayments and are recorded at amortised cost. This approximates the fair value valuation basis under Solvency II for these assets. The Statutory Accounts also include a negative goodwill asset, which was recognised on the transfer of a block of business from Mobius Life Limited and a further amount recognised as part of the transfer of the Canada Life book. As an intangible asset, this is not recognised on the Solvency II basis.

D.2 Technical Provisions

The Technical Provisions represent the best estimate liability of future policyholders along with a Risk Margin. The Risk Margin is intended to reflect the difference between the amount which must be paid to another insurer to meet the future obligations for a block of policies and the best estimate value of liabilities for the same block of policies.

The key demographic assumptions in the Solvency II calculations (expense, mortality, morbidity and persistency) are based on the experience investigations carried out in late 2021 and presented to the Audit Committee of the Board in December 2021. These process for setting these assumptions included consideration of the likely impact of the COVID-19 pandemic. The economic assumptions (e.g. yield curves and volatilities) are based on relevant market data at 31 December 2021.

The key components of the Technical Provisions are the with-profit benefit reserves, the cost of guarantees, non-profit reserves, unit linked reserves and the Risk Margin. The with-profit benefits reserves (i.e. the asset share for with-profits business) may be calculated using a retrospective or prospective approach.

The retrospective approach involves rolling the asset share forward month-on-month allowing for premiums, investment returns, charges and any other relevant factors.

The prospective approach involves discounting the expected payout to policyholders (including allowance for future bonuses) to the valuation date, allowing for future expenses and premiums.

The with-profits benefit reserves at 31 December 2021 are all valued using a retrospective approach except for the Rational Shelley business and the with-profits business held in the Manulife sub-fund, which are valued using a prospective approach.

The with-profits benefit reserves on Rational Shelley policies were originally calculated using a prospective approach because it was not possible to undertake a retrospective valuation as there was no historical asset share information available when the business was acquired. The asset shares are recalibrated once a year to ensure that they remain appropriate.

The with-profits benefit reserves for the Manulife sub-fund policies are set based on the assets available in the sub-fund (after allowance for the non-profit business in that sub-fund), reflecting the expectation that all free assets will be distributed to the Manulife with-profits policies over time.

| | 2021 £000 | 2020 (restated) £000 |
|-----------------------------|------------------|----------------------------|
| Best Estimate Liabilities | 4,800,899 | 4,647,484 ¹ |
| Risk Margin | 46,377 | 47,520 ¹ |
| Technical Provisions | 4,847,276 | 4,695,004 |

¹ Values have been restated. Please see note 37 in the Scottish Friendly Annual Report and Accounts

D.3 Uncertainties within the Technical Provisions

The basis items with the largest impact on the overall valuation of Technical Provisions are the assumptions surrounding future claim rates and expenses and the future development of the economic markets, including equity markets and the interest rate yield curve. When setting assumptions for the 31 December 2021 valuation, specific consideration was given to the potential impact of the COVID-19 pandemic on future claims experience and policyholder behaviour.

D.4 Other Liabilities

The other liabilities are analysed below. These are recorded at amortised cost, with the exception of outstanding claims which is measured on a best estimate of the expected cashflows resulting from all outstanding obligations. In each case, the recorded value approximates the fair value valuation basis under Solvency II for these liabilities.

The total amount of other liabilities is £137.9m. The key liabilities within this total are detailed in the table below:

| | 2021 £000 | 2020 (restated) £000 |
|--|--------------|-------------------------|
| Deposits from reinsurers | 36,085 | 40,550 |
| Claims outstanding | 48,641 | 32,365 |
| Creditors arising out of Direct Insurance Operations | 7,508 | 7,982 |

| | 2021 £000 | 2020 (restated) £000 |
|------------------------------|----------------|----------------------------|
| Other Creditors | 11,365 | 11,507 |
| Accruals and Deferred Income | 2,988 | 1,576 |
| Provisions for liabilities | 31,335 | 15,584 ¹ |
| Total | 137,922 | 109,564¹ |

¹ Values have been restated. Please see note 37 in the Scottish Friendly Annual Report and Accounts

D.5 Alternative Valuation Methods

Some of Scottish Friendly's financial instruments are valued using alternative valuation methods, which use a combination of observable and non-observable market inputs. All of the alternative valuation methods described below follow accepted market practice. The methods are consistent with the permitted alternative valuation methods under SII as set out in Article 10(5) - 10(7) of the Solvency II Delegated Regulation.

There have been no significant changes in the recognition, measurement or valuation base used for financial assets and liabilities during the reporting period.

| Asset | AVM £000 | Alternative Valuation Method | Assumption |
|--|-------------|---|--|
| Property held for own use | 3,250 | Royal Institution of Chartered Surveyors ('RICS') Appraisal and valuation methodology. | As per RICS valuation manual and based on professional judgement of independent valuers. |
| Equities - unlisted | 3,961 | Subsidiaries are valued at net asset value. Equity and Venture Capital ('IPEVC') valuation guidelines. | Non-observable market input, primarily net asset value statements. |
| Structured notes | 3,739 | Combination of observable and non-observable market inputs including modelling. | The valuation is based on the discounted value of the estimated future cashflows, including a proportion of the shared appreciation on the underlying property assets. |
| Collective Investments Undertakings | 457,140 | Prices are obtained from published information representing the value at which units could be redeemed via the investment manager. | None |
| Derivative assets | 19,767 | Market approach, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or group of assets and liabilities. | Various assumptions used |
| Assets held for index-linked and unit-linked contracts | 2,340,135 | Prices are obtained from published information representing the value at which units could be redeemed via the investment manager. | For property assets, as per RICS valuation manual and based on professional judgement of independent valuers. |
| Liabilities | | | |
| Derivative liabilities | (56) | Market approach, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or group of assets and liabilities. | Various assumptions used depending on the type of derivative, including the use of the risk free interest rate and the absence of transaction costs. |

Collective Investment Undertakings and Assets held for index-linked and unit-linked contracts consists of holdings in open-ended funds.

The fair value of daily priced pooled investment funds is calculated as equal to the observable unit price. This is obtained from published information where available, otherwise the fair values of underlying assets and liabilities held by the fund, divided by the total number of units at the valuation date is used to calculate the unit price. Unit pricing of managed pooled investment funds does not meet the Solvency II criteria for QMP or QMPS categorisation since prices are not listed on a regulated market or multilateral trading facility.

Unlisted equities are valued under the Equity and Venture Capital ('IPEVC') valuation guidelines. The valuation of these securities is largely based on inputs that are not based on observable market data, and accordingly these instruments are categorised as AVM. Where appropriate, reference is made to observable market data.

Derivative positions are valued using observable market inputs and are subject to price verification against independent sources which are used to determine plausible alternative valuation ranges.

D.6 Other Material Information

The information presented in section D provides a true and fair view of the valuation for Solvency purposes of Scottish Friendly.



E.1 Own Funds

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,
- 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 core strategic objectives as determined by the Board.

The capital position of Scottish Friendly is monitored on a regular basis by the Risk Committee as part of the Risk Management Framework and is also reviewed formally by the Board. Scottish Friendly has not breached the PRA's capital requirements at any point in the current or prior year

Composition of Own Funds

Scottish Friendly's capital comprises of its Own Funds. As a mutual these comprise 100% of the profits not yet allocated to members. All Scottish Friendly's Own Funds are Tier 1 capital and there are no restrictions on the availability of these to support either the Minimum Capital Requirement (MCR) or Solvency Capital Requirement (SCR).

The following table provides a breakdown of the components of the Own Funds.

| | 2021 £000 | 2020 (restated) £000 |
|------------------------|--------------|----------------------------|
| Own Funds | 163,736 | 170,792 |
| Tier 1 | 163,736 | 170,792 |
| Surplus Funds | 249,364 | 252,963 |
| Reconciliation Reserve | (85,628) | (82,172) |
| Tier 2 | - | - |
| Tier 3 | - | - |
| % Tier 1 | 100% | 100% |

The Surplus Funds item represents the excess of the assets over the liabilities in Scottish Friendly and is the surplus that has not yet been distributed to our participating members. The reconciliation reserve reflects the ring-fencing restriction relating to the closed sub-funds, as described below. Reconciliation to Funds for Future Appropriations shown in the financial statements

Reconciliation to Funds for Future Appropriations shown in the financial statements

There is a difference between the net assets as shown in the financial statements and the Solvency II value excess of assets over liabilities, which is due to the recognition of an intangible negative goodwill on the Statutory Accounts basis but not on the Solvency II basis. This reflected the transfer of business from CLL and Mobius Life Limited and, as an intangible asset, is not recognised on a Solvency II basis. In addition, under Solvency II the level of pension scheme surplus is restricted. As at 31 December 2021, excess assets over liabilities were £226.3m on a Statutory Accounts basis and £249.4m on a Solvency II basis (before ring-fencing).

Change in Own Funds

The following table shows the change in Scottish Friendly's Own Funds from 31 December 2020 to 31 December 2021.

| | 2021 £000 |
|--|----------------------|
| Opening Own Funds (as presented in 2020 SFCR) | 163,611 |
| Restatement | 7,181 |
| Restated Opening Own Funds | 170,792 |
| Increase/(Decrease) in Total Assets | 68,569 |
| (Increase)/Decrease in Technical Provisions | (50,515) |
| (Increase)/Decrease in Current Liabilities | (21,655) |
| Total | 167,192 |
| (Decrease)/Increase in ring-fencing of available capital | (3,456) |
| Closing Own Funds | 163,736 |

The assets and liabilities in the table above are shown net of reinsurance. Further details on the restatement are shown later in this section.

Ring Fenced Funds

The Solvency II excess of assets over liabilities is reduced to reflect the impact of ring fencing of individual sub funds. The sub funds are closed to new business and they have separate equity backing mixes resulting in different investment experiences and bonus policies. The excess assets over liabilities in the sub fund are not treated as transferable.

The impact of this on the Own Funds position is shown below. These sub funds are the Rational Shelley sub fund, LANMAS sub fund, the Scottish Legal Life sub fund, the M&GM sub fund and the Manulife sub fund.

| | 2021 £000 | 2020 (restated) £000 |
|---|----------------|----------------------------|
| Excess assets over liabilities | 249,364 | 252,963 |
| Adjustment for restrictions due to ring fencing | (85,628) | (82,172) |
| Own Funds | 163,736 | 170,792 |

Restatement

The Own Funds as at 31 December 2020 have been restated due to the removal of errors in the evaluation of various items of the Technical Provisions and the related reinsurance assets that occurred in 2021.

These changes are shown in the table below. For ease of reference, the adjustments have been numbered, using consistent numbering with the disclosures in Note 37 of the Statutory Accounts.

| | 2020 as previously reported £000 | Adjustment Two £000 | Adjustment Three £000 | Adjustment Four £000 | Adjustment Five £000 | Restated 2020 £000 |
|-------------------------------|---|---------------------------|-----------------------------|----------------------------|----------------------------|-----------------------|
| Reinsurance Asset | 1,551,327 | (67,521) | (24,275) | 0 | 0 | 1,459,530 |
| Technical Provisions | 4,792,727 | (67,521) | (23,728) | 3,739 | (10,213) | 4,695,004 |
| Unrestricted Own Funds | 247,036 | 0 | (547) | (3,739) | 10,213 | 252,963 |
| Ring-fencing restriction | (83,424) | 0 | 0 | 1,253 | 0 | (82,172) |
| Own Funds | 163,612 | 0 | (547) | (2,486) | 10,213 | 170,792 |

The changes were:

- Adjustment Two: In the non-profit contract liabilities, a regular review of actuarial models calculating the technical provisions identified an error relating a model simplification for a personal injury insurance benefit, which on calculation has proved to be materially inaccurate.
- Adjustment Three: In the non-profit contract liabilities, a regular review of actuarial models calculating the technical provisions identified an error relating to the use of data and assumptions which did not accurately reflect a range of product features.

- Adjustment Four: In the non-profit contract liabilities, a regular review of actuarial models calculating the technical provisions identified an error relating to an incorrect modelling approach being applied to a portfolio of whole of life contracts.
- Adjustment Five: In the unit-linked contract liabilities, a review of the accounting treatment of a portfolio of onshore bonds identified an error relating to taxation on investment gains on assets within the funds.

In addition, there was a consequential increase in the Own Funds of £1.3m as a result of a reduction in the ring-fencing restriction.

Details of the restatements are included in Note 37 to the Accounts. The Adjustments in respect of the pension scheme surplus taxation (Adjustment One) and the recognition of annual management charges (Adjustment Six) had no impact on the Own Funds.

The changes affecting the Own Funds resulted in some minor changes to the capital requirements, as set out in E.2 below.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

Scottish Friendly uses the Standard Formula as the basis for calculating capital requirements having reviewed them and assessed them as appropriate for the firm. Scottish Friendly complies in all material respects with the requirements of the PRA rules and Solvency II Regulations related to the SCR and MCR.

The capital position of the business is estimated on at least a monthly basis, with the results communicated to the Board. A full calculation is carried out at least quarterly. The Risk Committee reviews solvency by risk indicators and the stock market is continuously monitored with the implications on solvency considered if volatility triggers are breached.

The Own Funds are summarised below with more detail provided in the Appendices which contain the relevant Quantitative Reporting Templates.

| | 2021 Solvency II £000 | 2020 Solvency II £000 (as reported) |
|------------------------------|-----------------------------|--|
| Own Funds | 163,736 | 163,611 |
| Minimum Capital Requirement | 42,348 | 44,711 |
| Solvency Capital Requirement | 94,106 | 101,112 |
| Solvency Ratio | 174.0% | 161.8% |

The solvency coverage ratio has increased relative to the 31 December 2020 position, primarily reflecting a limited decrease in the SCR. The fall in the SCR is largely due to a reduction in market

risk, partially as a result of de-risking of asset strategy of the defined benefit staff pension scheme.

Restatement

As disclosed in E.1 and Note 37 to the accounts, a number of prior year adjustments have been identified. These would have had the following effect on the solvency position

| | 2020 Solvency II £000 (restated) | 2020 Solvency II £000 (as reported) |
|------------------------------|---|--|
| Own Funds | 170,792 | 163,611 |
| Minimum Capital Requirement | 44,733 | 44,711 |
| Solvency Capital Requirement | 104,733 | 101,112 |
| Solvency Ratio | 163.1% | 161.8% |

The consequential changes to the capital requirements were: an increase in market risk of £6.2m, primarily reflecting potential changes in the value of future tax reclaims on the Nucleus business, and a small reduction in the life insurance capital requirement of £(0.9)m due to a fall in the mass lapse capital. After allowance for diversification and the adjustment due to the ring-fenced funds, the SCR increased by £3.6m.

The overall change to the capital requirements and the solvency ratio was not material and the disclosures in the remainder of this Section E have not been restated.

Solvency Capital Requirement split by risk modules

The table below shows the risk modules that make up Scottish Friendly Assurance Society Limited's SCR at 31 December 2021.

| | 2021 SCR £000 | 2021 SCR £000 (as reported) |
|---------------------------|---------------------|--------------------------------------|
| Market Risk | 60,355 | 66,721 |
| Counterparty Default Risk | 12,602 | 13,465 |
| Life Underwriting | 73,791 | 75,206 |
| Health Underwriting | 2,918 | 3,431 |
| Undiversified BSCR | 149,666 | 158,823 |
| Diversification Credit | (37,678) | (40,367) |
| Basic SCR | 111,988 | 118,456 |

| | 2021 SCR £000 | 2021 SCR £000 (as reported) |
|---|---------------------|--------------------------------------|
| Operational Risk | 11,142 | 11,252 |
| Adjustment due to RFF/MAP | 719 | 2,212 |
| Loss-absorbing capacity of technical provisions | (20,003) | (24,095) |
| Loss-absorbing capacity of deferred taxes | (9,742) | (6,713) |
| Solvency Capital Requirement | 94,106 | 101,112 |

The components of these risk modules are shown in section C of this report.

The SCR for each of the risk modules is broadly comparable with the prior year, other than market risk where the total market risk has decreased, partially as a result of de-risking of the asset strategy of the staff pension scheme.

The calculation of Scottish Friendly's SCR has been carried out using the parameters of the Standard Formula. No undertaking-specific parameters were used.

No simplifications have been applied within the calculation of the SCR.

No capital add-on has been applied to the SCR calculated by Scottish Friendly.

Minimum Capital Requirement

The MCR has been calculated as the minimum of 45% of the SCR and the greater of 25% of the SCR and the linearly derived MCR.

The detail of the MCR calculation is shown below:

| | 2021 £000 | 2021 £000 (restated) |
|------------------------------------|---------------|----------------------------|
| Linear MCR | 43,393 | 44,711 |
| SCR | 94,106 | 101,112 |
| MCR cap | 42,348 | 45,500 |
| MCR floor | 23,527 | 25,278 |
| Combined MCR | 42,348 | 44,711 |
| Absolute floor of the MCR | 3,126 | 3,338 |
| Minimum Capital Requirement | 42,348 | 44,711 |

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

Scottish Friendly is not using the duration-based equity risk sub-module.

E.4 Differences between the standard formula and any internal model used

Scottish Friendly has not used an internal model or partial internal model in the calculation of the SCR.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

Scottish Friendly has complied with the MCR and the SCR throughout the period.

E.6 Other Material Information

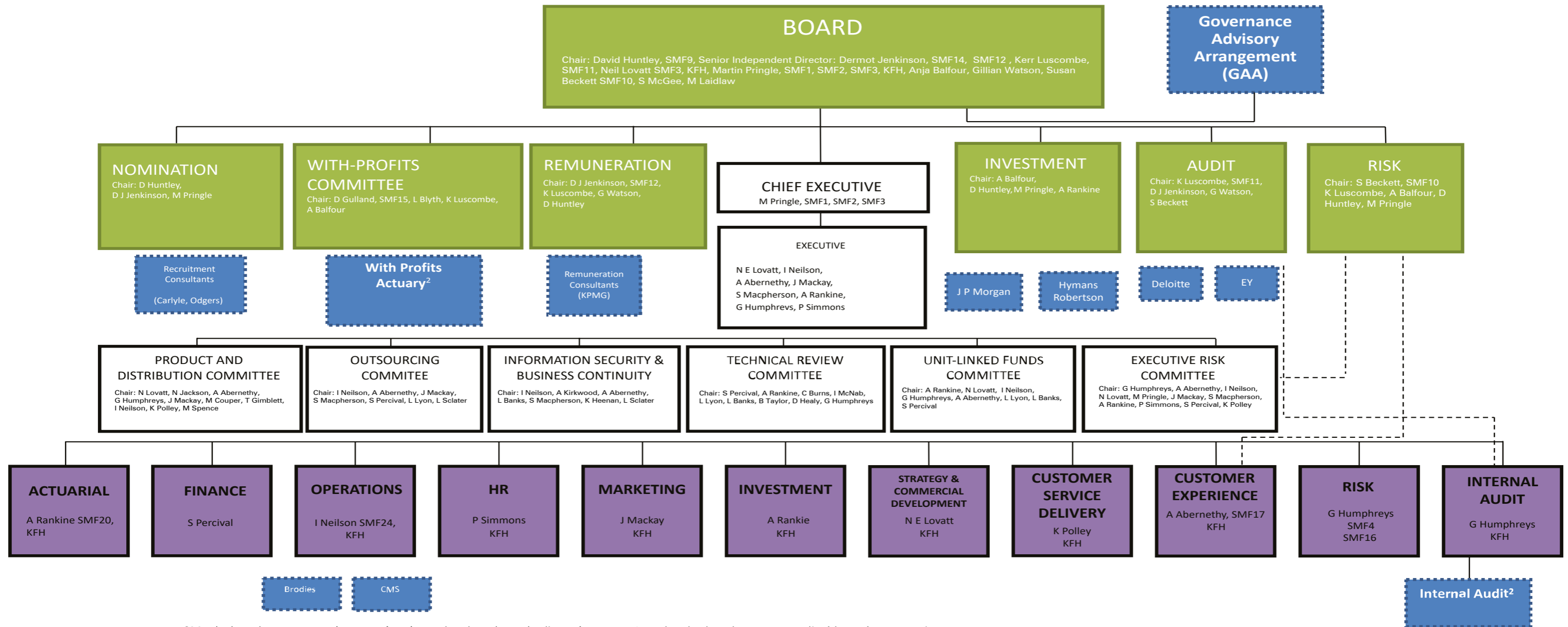
No simplifications have been applied within the calculation of the SCR.

F Appendices



F.1 Appendix - Functional Structure as at 31 December 2021

F.1 Appendix – Functional Structure as at 31 December 2021



SMF designations are noted at Board and Exec level, and not duplicated at Committee level other than were applicable to that Committee.



¹ List of external advisors is not exhaustive in that others are called upon as required, driven by project demands.

² Outsourced functions.

F.2 Individual Performing Function (as at 31 December 2021)

| SMF/KFH | Regulator | Function | Individual Performing Function |
|---------|-----------|-------------------------------------|---|
| SMF1 | PRA | Chief Executive function | Martin Pringle (Acting) |
| SMF2 | PRA | Chief Finance function* | Martin Pringle |
| SMF3 | FCA | Executive Director | Neil Lovatt |
| SMF3 | FCA | Executive Director | Martin Pringle |
| SMF4 | PRA | Chief Risk function* | Genevieve Humphreys |
| SMF9 | PRA | Chair | David Huntley |
| SMF10 | PRA | Chair of the Risk Committee | Susan Beckett |
| SMF11 | PRA | Chair of the Audit Committee | Kerr Luscombe |
| SMF 12 | PRA | Chair of the Remuneration Committee | Dermot Jenkinson |
| SMF14 | PRA | Senior Independent Director | Dermot Jenkinson |
| SMF15 | FCA | Chair of the With-Profits Committee | David Gulland |
| SMF16 | FCA | Compliance* | Genevieve Humphreys (subject to approval) |
| SMF17 | FCA | Money Laundering Reporting | Aileen Abernethy |
| SMF20 | PRA | Chief Actuary function | Alan Rankine |
| SMF20a | PRA | With Profits Actuary function* | Stephen Makin |
| SMF24 | PRA | Chief Operations Function | Ian Neilson |
| KFH | PRA | Internal Audit Function** | Genevieve Humphreys |
| KFH | PRA | Investment | Alan Rankine |
| KFH | PRA | Marketing | Jill Mackay |
| KFH | PRA | IT | Ian Neilson |
| KFH | PRA | Strategy and Commercial Development | Neil Lovatt |
| KFH | PRA | Human Resources | Pamela Simmons |
| KFH | PRA | Customer Service Delivery | Kirsty Polley |
| KFH | PRA | Customer Experience | Aileen Abernethy |

* Denotes SMF's that are mandatory key functions.

** Genevieve Humphreys is the Key Function Holder for Internal Audit however the prescribed responsibility sits with Kerr Luscombe, Chair of the Audit Committee.

Note: Anja Balfour, Gillian Watson, Stephen McGee and Mark Laidlaw do not hold a SMF role under the regime but retain the role of non-executive director.

F.3 Public Quantitative Reports Template

The following public Quantitative Reports Templates (QRTs) are disclosed:

- S.02.01.02 Balance Sheet
- S.05.01.02 Premiums, Claims & Expenses by line of Business
- S.05.02.01 Premiums, Claims & Expenses by Country
- S.12.01.02 Life & Health SLT Technical Provisions
- S.23.01.01 Own Funds
- S.25.01.21 Solvency Capital Requirement
- S.28.01.01 Minimum Capital Requirement



Find out more about Scottish Friendly
at www.scottishfriendly.co.uk

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The Scottish Friendly Group is authorised by the Prudential
Regulation Authority and regulated by the Financial Conduct
Authority and the Prudential Regulation Authority, the UK
Financial Regulators.
Member of AFM and ABI.

Scottish
Friendly 

Scottish Friendly

Solvency and Financial Condition Report

Disclosures

31 December

2021

(Monetary amounts in GBP thousands)

General information

| | |
|---|---|
| Undertaking name | Scottish Friendly |
| Undertaking identification code | 21380058XYHZJQMXDQ26 |
| Type of code of undertaking | LEI |
| Type of undertaking | Life undertakings |
| Country of authorisation | GB |
| Language of reporting | en |
| Reporting reference date | 31 December 2021 |
| Currency used for reporting | GBP |
| Accounting standards | Local GAAP |
| Method of Calculation of the SCR | Standard formula |
| Matching adjustment | No use of matching adjustment |
| Volatility adjustment | No use of volatility adjustment |
| Transitional measure on the risk-free interest rate | No use of transitional measure on the risk-free interest rate |
| Transitional measure on technical provisions | No use of transitional measure on technical provisions |

List of reported templates

- S.02.01.02 - Balance sheet
- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.02.01 - Premiums, claims and expenses by country
- S.12.01.02 - Life and Health SLT Technical Provisions
- S.23.01.01 - Own Funds
- S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
- S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

| Solvency II value | |
|----------------------|-----------|
| C0010 | |
| | |
| | |
| | 1,691 |
| | 4,003 |
| | 1,176,547 |
| | 0 |
| | 0 |
| | 3,961 |
| | |
| | 3,961 |
| | 641,105 |
| | 583,429 |
| | 53,937 |
| | 0 |
| | 3,739 |
| | 511,372 |
| | 20,109 |
| | 0 |
| | 0 |
| | 2,348,504 |
| | 0 |
| | 0 |
| | |
| | 1,561,288 |
| | 0 |
| | |
| | |
| | 1,059,803 |
| | 2,770 |
| | 1,057,033 |
| | 501,485 |
| | 0 |
| | 16,561 |
| | 10,939 |
| | 8,881 |
| | |
| | 0 |
| | 92,204 |
| | |
| | 5,220,618 |

Assets

| | |
|-------|--|
| R0030 | Intangible assets |
| R0040 | Deferred tax assets |
| R0050 | Pension benefit surplus |
| R0060 | Property, plant & equipment held for own use |
| R0070 | Investments (other than assets held for index-linked and unit-linked contracts) |
| R0080 | <i>Property (other than for own use)</i> |
| R0090 | <i>Holdings in related undertakings, including participations</i> |
| R0100 | <i>Equities</i> |
| R0110 | <i>Equities - listed</i> |
| R0120 | <i>Equities - unlisted</i> |
| R0130 | <i>Bonds</i> |
| R0140 | <i>Government Bonds</i> |
| R0150 | <i>Corporate Bonds</i> |
| R0160 | <i>Structured notes</i> |
| R0170 | <i>Collateralised securities</i> |
| R0180 | <i>Collective Investments Undertakings</i> |
| R0190 | <i>Derivatives</i> |
| R0200 | <i>Deposits other than cash equivalents</i> |
| R0210 | <i>Other investments</i> |
| R0220 | Assets held for index-linked and unit-linked contracts |
| R0230 | Loans and mortgages |
| R0240 | <i>Loans on policies</i> |
| R0250 | <i>Loans and mortgages to individuals</i> |
| R0260 | <i>Other loans and mortgages</i> |
| R0270 | Reinsurance recoverables from: |
| R0280 | <i>Non-life and health similar to non-life</i> |
| R0290 | <i>Non-life excluding health</i> |
| R0300 | <i>Health similar to non-life</i> |
| R0310 | <i>Life and health similar to life, excluding index-linked and unit-linked</i> |
| R0320 | <i>Health similar to life</i> |
| R0330 | <i>Life excluding health and index-linked and unit-linked</i> |
| R0340 | <i>Life index-linked and unit-linked</i> |
| R0350 | Deposits to cedants |
| R0360 | Insurance and intermediaries receivables |
| R0370 | Reinsurance receivables |
| R0380 | Receivables (trade, not insurance) |
| R0390 | Own shares (held directly) |
| R0400 | Amounts due in respect of own fund items or initial fund called up but not yet paid in |
| R0410 | Cash and cash equivalents |
| R0420 | Any other assets, not elsewhere shown |
| R0500 | Total assets |

S.02.01.02
Balance sheet

| Solvency II value | |
|------------------------------|-----------|
| C0010 | |
| | 0 |
| | 0 |
| | |
| | |
| | |
| | 0 |
| | |
| | |
| | |
| | 1,959,545 |
| | 16,045 |
| | 0 |
| | 15,696 |
| | 349 |
| | 1,943,500 |
| | 0 |
| | 1,909,736 |
| | 33,763 |
| | 2,887,731 |
| | 2,807,045 |
| | 68,422 |
| | 12,265 |
| | |
| | 48,640 |
| | |
| | 36,085 |
| | 17,286 |
| | 106 |
| | |
| | |
| | 7,508 |
| | |
| | 14,353 |
| | 0 |
| | |
| | 0 |
| | |
| | 4,971,255 |
| | |
| | 249,364 |

Liabilities

| | |
|-------|--|
| R0510 | Technical provisions - non-life |
| R0520 | <i>Technical provisions - non-life (excluding health)</i> |
| R0530 | <i>TP calculated as a whole</i> |
| R0540 | <i>Best Estimate</i> |
| R0550 | <i>Risk margin</i> |
| R0560 | <i>Technical provisions - health (similar to non-life)</i> |
| R0570 | <i>TP calculated as a whole</i> |
| R0580 | <i>Best Estimate</i> |
| R0590 | <i>Risk margin</i> |
| R0600 | Technical provisions - life (excluding index-linked and unit-linked) |
| R0610 | <i>Technical provisions - health (similar to life)</i> |
| R0620 | <i>TP calculated as a whole</i> |
| R0630 | <i>Best Estimate</i> |
| R0640 | <i>Risk margin</i> |
| R0650 | <i>Technical provisions - life (excluding health and index-linked and unit-linked)</i> |
| R0660 | <i>TP calculated as a whole</i> |
| R0670 | <i>Best Estimate</i> |
| R0680 | <i>Risk margin</i> |
| R0690 | Technical provisions - index-linked and unit-linked |
| R0700 | <i>TP calculated as a whole</i> |
| R0710 | <i>Best Estimate</i> |
| R0720 | <i>Risk margin</i> |
| R0740 | Contingent liabilities |
| R0750 | Provisions other than technical provisions |
| R0760 | Pension benefit obligations |
| R0770 | Deposits from reinsurers |
| R0780 | Deferred tax liabilities |
| R0790 | Derivatives |
| R0800 | Debts owed to credit institutions |
| R0810 | Financial liabilities other than debts owed to credit institutions |
| R0820 | Insurance & intermediaries payables |
| R0830 | Reinsurance payables |
| R0840 | Payables (trade, not insurance) |
| R0850 | Subordinated liabilities |
| R0860 | <i>Subordinated liabilities not in BOF</i> |
| R0870 | <i>Subordinated liabilities in BOF</i> |
| R0880 | Any other liabilities, not elsewhere shown |
| R0900 | Total liabilities |
| R1000 | Excess of assets over liabilities |

S.05.02.01

Premiums, claims and expenses by country

Life

| | C0150 | C0160 | C0170 | C0180 | C0190 | C0200 | C0210 |
|--|-------------------|--|-------|-------|--|-------|------------------------------|
| | Home Country | Top 5 countries (by amount of gross premiums written) - life obligations | | | Top 5 countries (by amount of gross premiums written) - life obligations | | Total Top 5 and home country |
| R1400 | | IE | BE | DE | NL | | |
| | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 |
| Premiums written | | | | | | | |
| R1410 | Gross | 155,283 | 158 | | | | 155,441 |
| R1420 | Reinsurers' share | 67,692 | | | | | 67,692 |
| R1500 | Net | 87,592 | 158 | 0 | 0 | 0 | 87,750 |
| Premiums earned | | | | | | | |
| R1510 | Gross | 155,283 | 158 | | | | 155,441 |
| R1520 | Reinsurers' share | 67,692 | | | | | 67,692 |
| R1600 | Net | 87,592 | 158 | 0 | 0 | 0 | 87,750 |
| Claims incurred | | | | | | | |
| R1610 | Gross | 233,787 | 1,380 | 95 | 805 | 4 | 236,072 |
| R1620 | Reinsurers' share | 98,955 | | | | | 98,955 |
| R1700 | Net | 134,832 | 1,380 | 95 | 805 | 4 | 137,117 |
| Changes in other technical provisions | | | | | | | |
| R1710 | Gross | -8,915 | 1,064 | 82 | 986 | 8 | -6,775 |
| R1720 | Reinsurers' share | -91,774 | | | | | -91,774 |
| R1800 | Net | 82,859 | 1,064 | 82 | 986 | 8 | 84,999 |
| R1900 | Expenses incurred | 42,365 | 24 | 2 | 22 | 0 | 42,414 |
| R2500 | Other expenses | | | | | | |
| R2600 | Total expenses | | | | | | 42,414 |

S.12.01.02

Life and Health SLT Technical Provisions

| | Index-linked and unit-linked insurance | | | Other life insurance | | | Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations | Accepted reinsurance | Total (Life other than health insurance, including Unit-Linked) | Health insurance (direct business) | | | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Health reinsurance (reinsurance accepted) | Total (Health similar to life insurance) | |
|---|--|--|--------------------------------------|--|--------------------------------------|--|---|----------------------|---|--------------------------------------|--|--------------------------------------|---|---|--|--------|
| | Insurance with profit participation | Contracts without options and guarantees | Contracts with options or guarantees | Contracts without options and guarantees | Contracts with options or guarantees | Contracts without options and guarantees | | | | Contracts with options or guarantees | Contracts without options and guarantees | Contracts with options or guarantees | | | | |
| | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0150 | C0160 | C0170 | C0180 | C0190 | C0200 | C0210 |
| R0010 Technical provisions calculated as a whole | | 2,807,045 | | | | | | | | 2,807,045 | | | | | | 0 |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole | | 501,485 | | | | | | | | 501,485 | | | | | | 0 |
| R0020 | | | | | | | | | | | | | | | | |
| Technical provisions calculated as a sum of BE and RM | | | | | | | | | | | | | | | | |
| Best estimate | | | | | | | | | | | | | | | | |
| R0030 Gross Best Estimate | 1,030,940 | | 40,530 | 27,891 | | | | 878,796 | | | 1,978,158 | | | 15,696 | | 15,696 |
| R0080 Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | 408,741 | | | | | | | 648,291 | | | 1,057,033 | | | 2,770 | | 2,770 |
| R0090 Best estimate minus recoverables from reinsurance/SPV and Finite Re | 622,199 | | 40,530 | 27,891 | | | | 230,505 | 0 | | 921,125 | | | 12,926 | 0 | 12,926 |
| R0100 Risk margin | 10,212 | 12,265 | | | | | 23,551 | | | 46,028 | 349 | | | | | 349 |
| Amount of the transitional on Technical Provisions | | | | | | | | | | | | | | | | |
| R0110 Technical Provisions calculated as a whole | | | | | | | | | | 0 | | | | | | 0 |
| R0120 Best estimate | | | | | | | | | | 0 | | | | | | 0 |
| R0130 Risk margin | | | | | | | | | | 0 | | | | | | 0 |
| R0200 Technical provisions - total | 1,041,152 | 2,887,731 | | | | | 902,347 | | | 4,831,231 | 16,045 | | | | | 16,045 |

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

| | Gross solvency capital requirement | USP | Simplifications |
|---|------------------------------------|-------|-----------------|
| | C0110 | C0090 | C0120 |
| R0010 Market risk | 60,742 | | |
| R0020 Counterparty default risk | 12,683 | | |
| R0030 Life underwriting risk | 74,266 | | |
| R0040 Health underwriting risk | 2,936 | | |
| R0050 Non-life underwriting risk | 0 | | |
| R0060 Diversification | -37,920 | | |
| R0070 Intangible asset risk | 0 | | |
| R0100 Basic Solvency Capital Requirement | 112,708 | | |
| Calculation of Solvency Capital Requirement | | | |
| R0130 Operational risk | 11,142 | | |
| R0140 Loss-absorbing capacity of technical provisions | -20,003 | | |
| R0150 Loss-absorbing capacity of deferred taxes | -9,742 | | |
| R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | 0 | | |
| R0200 Solvency Capital Requirement excluding capital add-on | 94,106 | | |
| R0210 Capital add-ons already set | 0 | | |
| R0220 Solvency capital requirement | 94,106 | | |
| Other information on SCR | | | |
| R0400 Capital requirement for duration-based equity risk sub-module | 0 | | |
| R0410 Total amount of Notional Solvency Capital Requirements for remaining part | 71,834 | | |
| R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds | 23,283 | | |
| R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios | 0 | | |
| R0440 Diversification effects due to RFF nSCR aggregation for article 304 | 0 | | |
| Approach to tax rate | | | |
| R0590 Approach based on average tax rate | Yes | | |
| Calculation of loss absorbing capacity of deferred taxes | | | |
| LAC DT | | | |
| | C0130 | | |
| R0640 LAC DT | -9,742 | | |
| R0650 LAC DT justified by reversion of deferred tax liabilities | -8,601 | | |
| R0660 LAC DT justified by reference to probable future taxable economic profit | 0 | | |
| R0670 LAC DT justified by carry back, current year | -1,141 | | |
| R0680 LAC DT justified by carry back, future years | 0 | | |
| R0690 Maximum LAC DT | -9,742 | | |

USP Key

For life underwriting risk:

- 1 - Increase in the amount of annuity benefits
- 9 - None

For health underwriting risk:

- 1 - Increase in the amount of annuity benefits
- 2 - Standard deviation for NSLT health premium risk
- 3 - Standard deviation for NSLT health gross premium risk
- 4 - Adjustment factor for non-proportional reinsurance
- 5 - Standard deviation for NSLT health reserve risk
- 9 - None

For non-life underwriting risk:

- 4 - Adjustment factor for non-proportional reinsurance
- 6 - Standard deviation for non-life premium risk
- 7 - Standard deviation for non-life gross premium risk
- 8 - Standard deviation for non-life reserve risk
- 9 - None

