Scottish Friendly

Annual Report & Financial Statements 2023


JOHN STEWART.
FOUNDER OF THE
CITY OF GLASGOW
FRIENDLY SOCIETY.
1862

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For more information on Scottish Friendly and its products visit

scottishfriendly.co.uk

A Warm Welcome

2023 Highlights

Scottish Friendly's status as a mutual means that we are not driven by the needs of shareholders. Instead, our profits are distributed to enhance returns to our with-profits policyholders, invested to generate future profits or used to improve products and services to our members.

Transfer to Fund for Future Appropriations

£2.3m

The transfer to the Fund for Future Appropriations (FFA) represents the change in value attributable to members by Scottish Friendly over the course of the year. The transfer to the FFA of £2.3m (2022: £3.9m) includes a loss of £13.9m (2022: loss of £15.2m) on the pension scheme[1]. Removing this results in a decreased year on year underlying transfer to FFA of £16.2m (2022: £19.1m). The risk from the pension scheme was removed for future years with a completion of a buy-in in March 2023, fully matching assets against the liabilities.

2021: £22.8m
2022: £3.9m
2023: £2.3m

Investment return[2]

9.1%

The return on asset shares within the Scottish Friendly Main With-Profits fund was 9.1%. These investment returns contribute to bonuses we pay to our with-profits policyholders. Over the year markets were volatile, initially driven by high inflation and the on-going impact of the cost living crisis. However, as the year progressed inflation started to fall, but remained elevated, with investment returns improving through the year ending in a strong positive position. The total return for with-profits members in the Main Fund is an increase of 11.1% including the enhancement in respect of the Special Members' Share[3] of 2.0%. With-profits policy pay-outs benefit from our smoothing policy, which can help to reduce the impact of market volatility.

2021: 7.5%
2022: (17.9)%
2023: 9.1%

Financial strength

190%

(Solvency II Pillar 1 capital)

The solvency position (as measured by Solvency II Pillar 1 capital) of Scottish Friendly has decreased, with a ratio of 190% at 31 December 2023, down 14% from the previous year. The decreased level reflects the impact of market movements and assumption changes partially offset by the reduction in Risk Margin as a result of updates to Solvency II regulations. The solvency position continues to be well above regulatory requirements, demonstrating continued financial strength.

2021: 174%
2022: 204%
2023: 190%

1 The assets and liabilities relating to the pension scheme are held within the ring-fenced M&GM sub-fund.
2 Investment return is the return in 2023 gross of charges and includes realised and unrealised gains. It is an alternative performance measure.
3 A With-Profits policyholder in our main fund receives a share of the transfer to the fund for future appropriations that Scottish Friendly makes each year, known as the 'Special Members' Share'

Assets under management[4]

£4.6bn

Total assets under management as at 31 December 2023 were £4.6bn, up from 2022 (£4.5bn). This reflects the investment market during the year and the combined impact of premiums received from policyholders and claims paid out.

2021: £5.4bn
2022: £4.5bn
2023: £4.6bn

New business sales

£51.1m (APE)[5]

New business sales are £51.1m, up 7% versus 2022 (£47.7m), a record level of sales. The results reflect strong performance on protection products sold through our partnerships, partially offset by a challenging market for savers as a result of the cost of living crisis.

2021: £46.9m
2022: £47.7m
2023: £51.1m

Number of members

838,000

Everyone who has a policy with Scottish Friendly is a member and 2023 saw the total number of members increase by 24,000 to 838,000 from 814,000 in 2022.

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

2021: 776,000
2022: 814,000
2023: 838,000

4 Assets under management is an alternative performance measure and includes assets in the Scottish Friendly Investment Funds ICVC.
5 Annual Premium Equivalent is an alternative performance measure and is gross of reinsurance (APE = Annual Premium Equivalent, calculated as the annual amount of regular premiums plus one tenth of the single premiums on business written during the year).

Chair's Statement

David Huntley
Chair

"As our customers look to build financial resilience for themselves and their families, we have been on hand to help - highlighting the benefits of mutuality, why Scottish Friendly exists and the importance of what we do."

We publish the 2023 Report and Financial Statements following another successful year of record-breaking sales for Scottish Friendly.

The year brought with it further uncertainty across a wide range of issues, both globally and domestically. However, economic activity fared somewhat better than expected, and, encouragingly, there are emerging signs that cost-of-living pressures are finally beginning to ease. Real wages are rising and there has been a reduction in headline inflation. As a consequence, many commentators are now predicting that interest rates will start to ease during the latter part of 2024.

Scottish Friendly remains resolute in our commitment to serving and supporting our customers and their families, whatever the future holds.

Focus on customer value

Our mutual status means that we are not driven by the needs of shareholders. Instead, we focus on distributing profits to enhance the investment return of With-Profits policies, or to invest in generating future profits for our members.

One benefit of this approach is that we enhance the investment returns in our With-Profits Main Fund. This benefit is known as the "Special Members' Share".

I am delighted to report that in 2023 we were able to increase the Special Members' Share to 2% (2022: 1.2%).

A renewed strategy

During the year, the Board commissioned a comprehensive review of our corporate strategy with the support of the Executive team and colleagues from across the business.

The outcome of this has principally been to confirm our confidence in the existing strategy. Additionally, it has helped sharpen our focus going forward. In particular, the review has enabled us to identify where to build on existing strengths as we seek to support our customers with a more comprehensive range of savings, investments, protection and retirement solutions.

Key to this is continuing to invest in improving our customer experience, developing our people and targeting further growth in our customer base and the products and services we offer.

Our impact on the wider community

We aim to be a sustainable business and to fulfil our responsibilities of being a good corporate citizen. Our Sustainability Report, which accompanies the Annual Report and Financial Statements, provides more information on our sustainability plans, including how we are helping to build stronger and more resilient communities.

Good corporate governance

Our robust approach to corporate governance means we can deliver on our regulatory commitments, while also responding to changes in regulation. Particular focus continues to be on Consumer Duty and the fair treatment of all our customers, including those who are experiencing vulnerability. We are a member of the Association of Financial Mutuals (AFM) and we support and adopt its governance standards. Specific details are included in the Report on Corporate Governance on pages 42 to 56 of this Annual Report.

The Board

Gillian Watson will step down at the AGM after six years. Gillian has made a significant contribution to our ongoing success, including serving as Chair of the Remuneration Committee and as a member of the Audit Committee. On behalf of the Board, I would like to thank Gillian for sharing her wisdom and experience for the benefit of everyone at Scottish Friendly and I wish her well for the future. Subject to regulatory approval Kerr Luscombe will assume the role of Chair of the Remuneration Committee.

In addition, it is with mixed emotions that I announce that I will retire as Chair of Scottish Friendly at the Annual General Meeting (AGM) in April. It has been a privilege to serve our customers, colleagues and delegates as a Board member since 2013 and for the past four years as Chair. Working alongside a dedicated Board and Executive team, I am incredibly proud of what we have achieved together.

John McGuigan, who joined our Board in November, will assume the role as Chair, subject to election by our delegates as a Non-Executive Director at the April 2024 AGM. I know that in John, alongside the rest of the Board and Executive, Scottish Friendly remains in safe and secure hands for the benefit of all our customers.

Our colleagues and delegates

This year's progress, of course, would not have been possible without the ongoing hard work, care and dedication of our colleagues, who continue to do their very best for our customers and our business. I would like to thank them for the tremendous job they do and for the pride they show in being a part of the Scottish Friendly team. The external validation of this great culture and environment has recently been reflected in Scottish Friendly being recognised as a 'Very Good Company to Work For' in the UK's Best 100 Companies review[1].

I would also like to thank our delegates. Scottish Friendly's delegate system continues to be central to the efficient governance of our business, and we truly appreciate their continued support.

Looking ahead

The encouraging headlines pointing to cost-of-living pressures finally easing should not obscure the fact that persistent economic headwinds have taken a toll on many UK household budgets and their ability to save, invest, and protect themselves and their loved ones.

Looking ahead, I am confident that Scottish Friendly will be resilient in the face of continued political and economic uncertainty and that the mutual model will continue to serve our customers' interests well.

Scottish Friendly has an exciting future ahead thanks to the renewed strategy and the unwavering commitment of colleagues to step up and deliver for our customers and the communities we serve. I look forward to watching the business continue to go from strength to strength.

Finally, I would like to take this opportunity to wish Scottish Friendly customers, colleagues, delegates, the Executive team and my fellow Board members all the very best for the future.

David Huntley
Chair
27 March 2024

1 Best Companies are the workplace engagement specialists. The b-Heard survey power the Best Companies to Work For Lists featuring some of the UK's best-known and most successful employers, allowing companies to see how they compare against their peers and competitors.


MINUTE
BOOK
Nº 7.

Chief Executive Officer’s Report

“Our customers live busy lives, and they are doing the very best they can for their families. As a mutual we are here for them, delivering on our purpose to help our customers achieve financial wellbeing.”

Stephen McGee
CEO

I am delighted to report that Scottish Friendly has again delivered on its purpose of helping you and your family achieve financial wellbeing through friendly products and customer care. We continue to invest significantly in our people and in transforming our customer experience; we continue to target growth and to drive efficiencies that add more value to our members.

Record Sales Results

We have delivered strong sales results, which demonstrates the resilience of our strategy. Total sales of £51.1m annual premium equivalent (APE) represents a record performance - 10% ahead of where we ended 2022. This is the highest sales result that we have delivered in our 160-year history - a significant achievement for our business.

Strong protection sales delivered a sizeable uplift, as customers looked to protect their income and have cover in place to help ensure financial security for themselves and their families, should the unexpected happen.

In a higher interest environment, people have favoured rates available in cash savings over investing in stocks and shares. As a result, our ISA and Junior ISA sales were lower than the previous year but continued to contribute to our profits in 2023.

The Transfer to the Fund for Future Appropriations for the year was £2.3m (2022: £3.9m) representing the amount of surplus available to distribute to our With-Profits customers or used to grow the business.

A strategy focused on supporting customers' needs

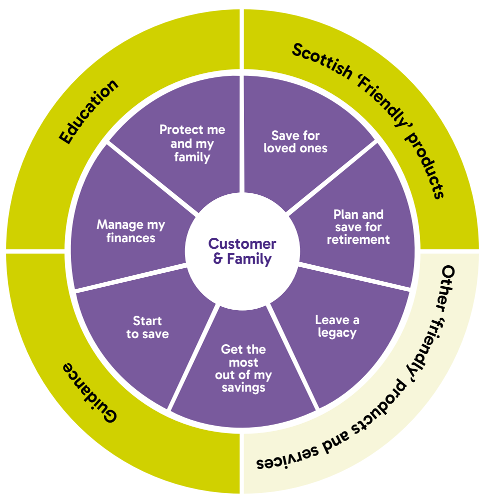
This year, our Board commissioned a comprehensive review of our corporate strategy. Through the review, we have confirmed our purpose and sharpened the focus of our strategy.

As our customers' requirements evolve, we must enhance our offering to better support their current and future needs. We will do this while we continue to grow through partnerships and seek acquisition opportunities that generate value.

Looking ahead we are focussed on the following areas:

Building on a strong foundation, we are continuing to deliver on our purpose to provide **friendly products** by:

- Offering customers invested in unitised investment products a simpler and more accessible choice of funds;
- Developing products to support the lifetime needs of our customers; and
- Delivering cost efficiencies.



To deliver on our purpose to help our customers and their families achieve **financial wellbeing** we are:

- Utilising insight about how our customers engage with financial products to build digital journeys that help them to make positive investment decisions over their lifetime; and
- Introducing digital content aimed at providing guidance and education whether customers are looking for help with their financial wellbeing or to take out a product to build financial resilience.

To deliver on our purpose to provide great **customer care** we are:

- Continuing the investment in our infrastructure and systems to deliver more efficient and customer friendly servicing to improve customers' experience of our brand;
- Making ongoing improvements to our digital experience to make it easier for our customers to self-serve and engage with us in the way they choose - whether around products, or seeking help and guidance; and
- Pursuing our efforts to digitalise, automate, and improve our processes so we can enhance member experiences while delivering operating cost benefits.

With all of this in mind, we have already invested across the business this year. We have made good progress in enhancing our business operations, technology, and security infrastructure. We have also invested in the talent required to drive our business forward.

Focus on own brand development

We have enhanced the way we communicate and present our brand with a creative refresh. This new design was created alongside a process to better understand our customers, their needs and how we can best connect with them. This is an important and positive step for our business.

The new website makes it easier for our customers to access the information and products they need, when they need it.

Partnerships growth

As in previous years, our partnerships have been an important growth driver for us.

We have deepened our relationship with Guardian Financial Services and Neilson Financial Services and have launched a new partnership with Unisure. We are working with One Family to ensure our members continue to receive excellent customer service following its acquisition of Beagle Street.

The Funeral Planning market has had a challenging year because of the lasting impact of new regulation and the cost-of-living crunch. Despite this, our Funeral Plan partners have continued to bring a positive contribution to Scottish Friendly's new business profit.

The strong performance and resilience of our partnership business is testimony to our diverse approach and flexibility. It is clear that people continue to see the importance of having Life Insurance cover and Funeral Plans in place, despite difficult economic conditions. We remain confident that our customers will continue to do so in 2024.

Acquisitions and consolidation

All acquisition and consolidation opportunities are stringently assessed for their potential to provide long-term sustainable growth in value for our members. We continue to look for meaningful acquisition and consolidation opportunities which can deliver that value and which align with our strategic objectives to leverage our existing strengths.

Financial position

Investment returns of 9.1% are being attributed to the asset shares within the Scottish Friendly Main With-Profits Fund for 2023, compared to negative investment returns of 17.9% in 2022. Our With-Profits policies in the fund have also benefitted from additional enhancements in respect of the Special Members' Share of 2.0% (2022: 1.2%).

Our solvency ratio decreased by 14% over the year to 190%, but remains well above the level required by the regulations and our internal risk appetite tolerance. We closely monitor and actively manage the risks facing our business. We also undertake extensive stress and scenario testing to determine the impact of a series of adverse events occurring concurrently. The results of this are reported to the Board annually. Even in very stressed scenarios, we are comfortably able to meet our regulatory capital requirements. This means that our customers can be confident in our ability to meet our promises to them as they fall due, both now and in the future.

Caring about our communities

As a mutual, we care about helping our communities and you can read more about the great work we have supported in our Sustainability Report. We have increased our support for Action For Children and we are providing the funding for two new Wellbeing Practitioner roles. These roles help improve the mental health and wellbeing of children in secondary schools in some of the most deprived areas in Glasgow.

This targeted support aims to help young people manage and improve their mental health and wellbeing, as well as provide them with coping strategies and resilience for the future. In supporting the funding of the Wellbeing Practitioner roles, we hope that we can improve the lives and outlook of young people in need, which can benefit the family unit and, in turn, help the wider community prosper.

Our People

We want to be a great place to work and have again taken part in the 'UK's Best 100 Companies' survey. I am proud that we achieved our goal of being awarded 'Very Good Company to Work For' status. We now also hold position 31 in the 'Top 50 Best Companies to Work for in Scotland' and we are ranked one of the 'Top 50 Best Companies To Work For In The Financial Services Sector Q4 2023'.

Our people work tirelessly to drive Scottish Friendly forward. I would like to thank all our colleagues, my Executive team and the Board for their hard work and unwavering commitment in serving our current and future customers, and to our delegates for their continued enthusiasm and support.

Our Board

There are a number of changes to the composition of the Board, which take effect from the AGM in April. Each member brings experience and expertise that is an asset to the business, so I want to express my gratitude to those Board members we will be bidding farewell, and to wish a warm welcome to the new members.

First, I would like to show my appreciation and give special thanks to David, our Chair, for his unstinting commitment in giving over more than a decade of service to Scottish Friendly. We all owe him a huge debt of gratitude for his tireless devotion. David has made an invaluable contribution to the Board over the past eleven years, and past four years as Chair, and I would like to thank him warmly for his consistent counsel and guidance. On behalf of all at Scottish Friendly I wish him every success for the future.

We say fond farewell to Gillian Watson and on behalf of the Executive team I would like to thank her for her service and dedication to Scottish Friendly over the years. Her contribution in guiding our business has been valued by all and in addition Gillian has been particularly generous in sharing her significant knowledge on sustainability.

I am delighted that John McGuigan, subject to election by our delegates as a Non-Executive Director at the April 2024 AGM, will assume the role as Chair. His profound understanding of the changing needs of customers and the behaviours required to improve business performance provides a rich source of expertise for our business. To have someone of John's calibre join Scottish Friendly, at such an exciting time, will help to take us forward on our journey to becoming the UK's leading mutual insurer. I am very much looking forward to working with him over the coming years.

We expect to welcome new members to the Board in the near future as we look to further strengthen the business.

Outlook

While inflation continues to remain steady and interest rates are expected to fall by the end of 2024, many UK households could start to feel some relief from the strain they have endured on their household budgets.

Scottish Friendly's commitment remains firmly on helping our customers achieve the best possible financial outcomes. We remain well capitalised and our 2023 financial results demonstrate record sales growth. I am proud of how Scottish Friendly is delivering for our customers, our people, and our communities.

With resilient financial and operating performance and a renewed strategy, we are well positioned to continuously improve the service and products we offer to our customers.

Stephen McGee
Chief Executive Officer
27 March 2024

Member Relations

Scottish Friendly's Delegate system has proven to be an effective model for communication with members and will continue to be the cornerstone around which Scottish Friendly fulfils its responsibilities to engage with, and be accountable to, its members. There are currently 30 Delegate positions (26 filled), elected to represent geographic constituencies and Delegate positions are advertised annually for the one third retiring by rotation. We expect to fill the remaining vacancies through this process in 2024.

The Annual General Meeting provides an opportunity to inform the Delegates on business performance and future strategy. This is supplemented by additional Delegates' meetings held at least annually and we are always encouraged by both the participation and attendance of the delegates.

In 2023 we have consulted with the delegates on what they would like to see more of from us. Following this consultation, our Delegates receive snippets from our monthly colleague newsletter and are more closely involved in customer research. There are plans underway for how we can further enhance this vital relationship in 2024 and beyond.

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

I would also like to thank our delegates. Scottish Friendly's delegate system continues to be central to the efficient governance of our business, and we truly appreciate their continued support.

David Huntley
Chair

Creating a great place to work - look back and look forward

Best Companies

In 2023, there have been continued efforts made on building a great place to work. Our participation in the externally accredited Best Companies Survey helps us measure the success of this and our results have been encouraging. Since joining this in 2022, we have been identified as a 'one to watch' and moved to a 'one star company' and attained a 'very good place to work' classification in 2023.

Investment in Roles and Careers

In response to colleague feedback and our analysis of our customer data, 2023 saw the business invest substantially in new roles to improve our customer experience. The roles were a mixture of operational and support roles, all of which provided skills and expertise to enhance the outcomes for our customers, now or in the future. Additionally, some of these roles provided an opportunity for future career pathways for our colleagues and, as a result, 58% of promotions or new roles have been filled internally during the year.

Early Careers and Social Investment

We have continued the development of our successful early careers programmes, which began in 2022 and recruits interns, apprentices and graduates. The 2022 apprentices completed their programme in 2023, each gaining permanent roles within the firm. We have had a particular focus on trying to recruit young people from backgrounds that would not typically be drawn to financial services and have been supported by the Robertson Trust in filling placements that have turned into permanent roles. Through our partnership with Developing the Young Workforce, we have been supporting Bannerman High School in Glasgow and have supported development initiatives with their students, including visits to our office and career opportunities for those with an interest in our firm. In 2024, we will further support the students with mentoring, CV writing and will hire a new cohort of apprentices.

Pay and Performance

In response to colleague feedback, we introduced pay transparency across the firm, sharing our externally benchmarked data. This means all colleagues have the information to see and understand why they are paid what they are, and have clarity of what their pay point is on the pay scale for their role.

People System and Efficiency

We launched a new people system that brings together all colleague and line manager people administration and payroll into one platform. This delivers greatly improved people processes and a more efficient way to communicate, report and process.

We're in this together

We care about our customers

We keep moving forward

Sustainability Report

There has been continued focus on sustainability within Scottish Friendly in 2023, all of which can be found in our sustainability report that accompanies this year's Annual Report and Financial Statements and can be found on our website.

Our vision for sustainability

As a mutual insurer, our purpose extends beyond the provision of insurance benefits. We have been committed to helping people for over 160 years and this dedication has not only fortified our business but has enriched the communities we serve. By continuing Scottish Friendly's legacy of shared success, we are not only safeguarding our members but also contributing to a more equitable world. We recognise we play a crucial role in fostering sustainable practices to help our customers, communities, business partners and suppliers be more secure today. It is therefore vital that we maintain our awareness and mitigate our impact on the environment and communities in which we operate. This section provides a transparent summary of Scottish Friendly's ESG ambition and performance for the year ended 31 December 2023.

ESG ambition

Our Environmental, Social and Governance (ESG) ambition is to do the right thing in the UK financial services sector by acting on climate change, building stronger, more resilient communities, and operating as a sustainable business. We are dedicated to integrating sustainability into our core business practices and we aim to deliver our ambition in the way we operate, the products we offer, the responsible investments we make, our commitment to colleague wellbeing and utilising our platform to influence others.

Environment

Climate action

We have an ambitious goal to become a NetZero carbon business by 2050. To achieve our goal, it is crucial that we understand the ESG footprint of the companies we invest in and continue to focus on considering the implications of such factors on the investment portfolio. While quantifying the impact of climate change is an emerging practice and we face challenges such as obtaining consistent asset data across our entire portfolio, we are focused on conducting high-quality assessments using our two-strand approach: own operations, doing as much of what we can that is within our control, and investments, working with investment managers to monitor and improve the overall ESG rating of investments. Our progress against our own direct operations and investments is as follows:

Own operations

We have achieved a 30.4% reduction in our location-based carbon emissions against our 2021 baseline. Greenhouse gas emissions are categorised into three scopes. Scope 1 covers direct emissions generated from within our operations. Scope 2 covers emissions from purchased energy to power our operations. Scope 3 includes all other indirect emissions that occur within our value chain, including the suppliers we work with, and investment assets held.

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

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

Governance	• Optimise our building services and ensure they are operating as efficiently as possible. • Procure 100% green energy from natural renewable sources. • Implement a Carbon and Energy Management System to drive, measure and report on the progress of the carbon reduction opportunities.
Building Upgrades	• Improve the thermal properties of the building envelope to reduce heat loss. • Install secondary glazing. • Improve metering and reporting of energy.
Low Carbon Heat	• Transition away from fossil fuelled heating systems to low carbon, energy efficient heat pumps.

This year we have enhanced the governance and strategy strand of our glide path to net zero.

Our next actions and targets are to:

- Establish metrics that will help us to meet our climate goals.
- Continue to scope and consider next steps on building upgrades and low carbon heat.
- Explore how we can reduce scope 3 emissions, which includes all other indirect emissions that occur within our value chain.
- Better understand and manage our wider environmental footprint and impact, including improvements in recycling and exploring was to reduce water consumption and paper usage.

Our organisation's carbon emissions for the period 1st January 2023 to 31st December 2023 reflects emissions from our Glasgow office for which we are directly responsible.

We reported our total emissions against our 2021 baseline year using the financial control boundary. Our methodology aligns with Defra's Environmental reporting guidelines (2019) and uses the government's greenhouse gas reporting conversion factors (2023) to quantify emissions. For the purposes of evaluating performance to date we have compared our emissions on a like for like basis against last year.

Further information can be found below:

Emissions Source	2021 (baseline)	2022	2023	Change 2021-2023	% Change 2021-2023
Direct Emissions from Stationary Combustion - Natural Gas Consumption	107.80	93.58	63.57	-44.23	-0.41
Total Scope 1 (tCO_2e)	107.80	93.58	63.57	-44.23	-0.41
Indirect Emissions from Purchased Electricity					
Total Scope 2 (tCO_2e) Location Based	54.08	43.42	49.09	-4.99	-9.2%
Total Scope 1 & 2 (tCO_2e) Market Based	8.60	1.87	1.98	-6.62	-77.0%
Total Scope 1 & 2 (tCO_2e) Location Based	161.88	137.00	112.66	-49.22	-30.4%
Total Scope 1 & 2 (tCO_2e) Market Based	116.40	95.45	65.55	-50.85	-43.7%
Energy Consumption by source (kWh)					
Electricity	253,650	221,258	234,611	-19,039	-7.5%
Gas	588,580	512,638	347,554	-241,026	-41.0%
Total	**842,230**	**733,896**	**582,165**	**-260,065**	**-30.9%**

Total energy consumption has reduced by 30.9% upon recorded emissions in 2021 to 2023. Our carbon emissions have also decreased by 30.4% against baseline year. The reduction has mainly been driven by a significant reduction in gas usage resulting from a newly installed heating system in the second half of the year.

We are continuously taking measures to reduce our carbon emissions and improve on our carbon efficiency, as noted in the report.

Notes: The emissions factors from the UK government-produced '2023 conversion factor guidance' has been used to calculate our scope 1 and 2 emissions. Reporting covers the financial year 2023 and reflects emissions from our Glasgow office for which we are directly responsible. GHG emissions are categorised into three scopes. Scope 1 covers direct emissions generated from within our operations. Scope 2 covers emissions from purchased energy to power our operations. Scope 3 includes all other indirect emissions that occur within our value chain. Location-based: A location-based method reflects the average emissions intensity of grids on which energy consumption occurs. Market-based: A market-based method reflects emissions from electricity that companies have purposefully chosen.

Investments

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

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

As part of our climate change commitments we:

- require key investment managers to report to us on ESG performance.
- monitor the overall ESG rating of investments and work with key investment managers to improve these.
- encourage our investment managers to exercise their voting rights on all eligible investments, and make sure their voting supports appropriate action on ESG issues.

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

Suppliers

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

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

Risk Management Report

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

In recent years there has been a significant amount of development work undertaken by the Risk Function to strengthen the RMF, as well as to enhance the approach to risk measurement and risk management across the business.

Key developments over 2023 included:

- Wider roll out and embedding of the Governance, Risk Management and Compliance ('GRC') tool within Scottish Friendly's risk management systems.
- Continued embedding of financial risk of climate change within the Risk Management Framework, including development of metrics for assessing progress against the implementation plan.

In addition, risk management practices across industry continue to evolve, and so a degree of ongoing development work is anticipated in 2024 (and beyond) in order to stay aligned with industry practice and ensure the RMF continues to be fit for purpose.

Risk Management Framework

Risk Landscape

The "Risk Universe" categorises all the risks to which the business is exposed, providing a common language for risk across the business and a structure for assessing and reporting risk. There are three risk categories within the Risk Universe, with level 1 being the highest. The level 1 risks are described on pages 30 to 32.

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

	Business Strategy and Culture	
Risk Landscape	Risk Universe	
	Risk Capital Assessments (including SST/RST)	
	Risk Strategy and Appetite	
Risk Governance and Oversight	Risk Policies and Frameworks	
	Risk Governance and Organisation	
	Risk Assurance (independent reviews and opinions	
Risk Monitoring and Reporting	Policy impact assessment and waivers	Risk Events and Breaches
	Key Risk Indicators (KRIs)	Risk Assurance & Compliance Reports
	Risk and Control Self-Assessment	ORSA Process
Identification, Measurement, Management	Risk Identification	
	Business Process Controls and Risk Mitigation	
	Inherent and residual risk assessments	
Risk Embedding	Risk Culture and Behaviours	
	Embedding in transformation and change (controls by design)	
	Embedding in business decisions (including strategy & capital management)	

SST = Stress and Scenario Testing RST = Reverse Stress Testing

Risk Governance and Oversight

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

Risk Identification, Measurement and Management

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

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

The annual Own Risk and Solvency Assessment (ORSA) cycle involves a forward-looking projection of the business' capital resources and capital requirements over a five-year time horizon, with consideration given to strategic and business plans. Stress and scenario testing is used to test the impact of adverse scenarios on the capital coverage and business viability. Reverse stress testing is also completed as part of the annual ORSA cycle.

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

Risk Monitoring and Reporting

An ongoing process of Risk and Control Self-Assessment (RCSA) is in place for monitoring and managing inherent and residual risk exposures. As part of the regular cycle of risk reporting, the Risk Function is responsible for consolidation of information from the components of the risk management framework. This is used to inform a number of regular risk reports, which are communicated through appropriate governance structures.

This risk reporting is used to inform decision making, facilitate risk monitoring and ensuring pro-active action is taken to remain within risk appetite.

Risk Embedding

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

Risk Governance:

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

The Board has delegated some responsibilities for risk to the Audit Committee of the Board, to assist the Board in reviewing the systems of internal controls and the external financial reports of the business, and to the Risk Committee 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 Risk Committee 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 members of the Executive are responsible for the identification, assessment, management and control of risks in their respective areas and are required to report these to the ERC on at least a quarterly basis.

Three lines of defence model

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

1. The First Line of Defence is the operational areas across Scottish Friendly which are responsible for the identification and management of day- to-day risks and controls across the business. The management of risks, monitoring of risks and the reporting of breaches of risk appetite are the responsibility of each Executive Risk Owner.

2. The Risk Function is part of the Second Line of Defence, reporting to the Chief Risk Officer, Executive Risk Committee and Risk Committee. 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 is responsible for the Compliance Function (SMF16) supported by the Head of Compliance and Financial Crime. Responsibilities of the Function include preparing and delivering the Risk Committee annual compliance plan, assessing the systems and controls in place to prevent non-compliance with the regulatory requirements including financial crime, monitoring and tracking regulatory developments, and to provide policy guidance and support to the First Line.

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

Principal risks

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

Risk	Description	Mitigation and Management
1. **Strategic, Business Environment and Reputation ('SBER')**	The risk of failing to manage resources, or make business decisions, in a manner appropriate to the business and external environment such that this damages Scottish Friendly's reputation and / or stops Scottish Friendly from being able to deliver its business strategy.	We mitigate SBER risks through a combination of measures, including operational controls that are used to minimise the impact of events that could harm reputation as well as continued investment in people, systems and processes to strengthen the business' resilience to internal and external events. Strategic risks are monitored through KRIs and horizon scanning. Over 2023, to support delivery of strategy and manage associated risks we made investments to enhance business operations, technology, and security infrastructure, and in the talent required to drive the business forward. In particular, a dedicated Operations Change Function has been established to manage strategic change.
2. **Market**	The risk that market movements or fluctuations results in adverse impacts to the value of assets and/ or liabilities leading to financial loss to Scottish Friendly.	We adopt a relatively low risk investment strategy, which provides some stability against market risk. The specifics of investment strategy are set by the Investment Committee, and the risk exposure is closely monitored by the Risk Committee. In addition, specific asset and liability management ('ALM') activities are undertaken for some blocks of liabilities, which includes using derivatives to hedge out undesired risk exposures. Capital is also held to ensure the solvency position remains robust in the event that a market risk crystallises.

Risk		Description	Mitigation and Management
3.	Insurance	The risk of loss or adverse consequence for the business resulting from a failure to predict or respond to changes in the level, trend, or volatility of demographic, policyholder action and expense experience.	We closely monitor emerging experience data, in order to identify possible changes in long-term experience. In 2022 and 2023, experience analysis has included particular consideration for the potential hardship caused by higher inflation / the "cost of living" crisis and the emerging data to allow us to assess the potential impact of Covid-19 on mortality, morbidity and longevity assumptions. Capital is also held to ensure the solvency position remains robust in the event that an insurance risk crystallises. This risk is also partially mitigated by reinsurance.
4.	Liquidity	The risk of failing to have sufficient cash to meet financial obligations when they fall due.	Liquidity risk is mitigated by holding adequate liquid resources. In particular, the level of cash held within Scottish Friendly's operational bank accounts is monitored closely as part of day-to- day activity, and trades are instructed to liquidate assets, as required, if this falls below a pre-defined level. In addition, formal reporting of the liquidity position includes a forward looking projection of liquidity needs against projected liquid resources.
5.	Operational	The risk that inadequate or failed internal processes, systems, people or from external events result in financial loss or non-financial impact, including reduced operational resilience, customer and reputational impacts.	Operational risk is primarily mitigated and managed through the control environment which is operated across the business. Each Function assesses the design and operation of its key controls as part of the quarterly controls self-assessment. Over 2023 work has continued to enhance the oversight and management of operational risk. An independent assessment of our cyber security arrangements was performed against industry best practice to ensure we keep pace with the evolving threat landscape. Over 2023 improvements enhancements to cyber security were made through implementation of a Security Information and Event Management solution. Although controls are the best mitigant against operational risks, capital is also held.

Emerging Risk	Description	Mitigation and Management
6. Credit	The risk of loss or adverse consequences for the business resulting from default or failure of third parties to meet their payment obligations or change in the credit standing of key counterparties.	A formal credit report is provided monthly to the relevant management committee, allowing timely action to be taken on key credit exposures if required. Scottish Friendly's most significant credit exposures are to highly rated banking and reinsurance counterparties, and collateral is used to further mitigate a number of these key exposures. Capital is also held to ensure the solvency position remains robust in the event that a credit risk crystallises.
7. Conduct	The risk of failure to provide good outcomes for customers resulting from the behaviours, products or services of Scottish Friendly, associated third parties and/or individuals within the firm.	Measures to mitigate conduct risks are embedded through the product lifecycle and customer journey. The management of conduct risk is overseen by the Conduct Risk Committee, Executive and Risk Committees. Over 2023, developing our people and strengthening our customer service operational environment to support colleagues' delivery of good outcomes for customers was a key focus. Scottish Friendly also completed the first phase of its Consumer Duty project and activities within that project will ensure that we have appropriate measures in place to deliver good customer outcomes. In addition, product review work continued with actions taken to address known issues. Strong culture and controls are the best mitigant against conduct risks, however capital is also held as part of the operational risk capital.

Key Emerging Risks

Emerging risks are typically characterised by a high degree of uncertainty and generally fall into two categories. They are either 1) new risks which may develop in the future into a material exposure for Scottish Friendly; or 2) existing risks which begin to present in a new or different way from previously understood. Emerging risks may be known to some extent, but they may never materialise, or might not have an impact for several years. Alternatively, they might crystallise rapidly, with little time to respond. Scottish Friendly operates an emerging risk process to identify new emerging risks, as well as to determine whether existing emerging risks have become more or less likely to crystallise in the future.

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

The top five emerging risks which were identified in the 2023 ORSA process are described below.

Emerging Risk	Description	Mitigation and Management
1. Impact of cost of living crisis / rising inflation	A period of sustained very high inflation without equivalent pay growth could lead to social unrest within wider society - including widespread strike action and specific targeting of certain high-profile businesses to disrupt their operations. This could result in an increased incentive to commit financial crimes, as well as increased attempted cyber-attacks.	An extensive suite of controls is operated within the business to identify and prevent attempted financial crimes. Extensive IT controls, including utilising advanced cyber protection tools provided by an external specialist, to prevent attempted cyber-attacks.
2. Geo-political instability	There is significant geo-political uncertainty, with the ongoing war in Ukraine, the conflict in the Middle-East, and escalating tensions in other parts of the world. If the situation in any of these regions escalated further this could lead to a global conflict involving many countries. This would have a significant and sustained impact on global supply chains and the financial markets.	Scottish Friendly undertakes regular sanction screening to ensure we do not transact with sanctioned individuals. In addition, Scottish Friendly holds only a very immaterial allocation to Russian securities through investment in emerging market funds. More widely, the investment function works closely with abrdn and JP Morgan, Scottish Friendly's two main asset managers, to adapt investment strategy to reflect emerging geo-political events.
3. Regulatory change has unintended consequence for Scottish Friendly	There is a significant programme of financial services regulatory reform taking place following the UK's exit from the EU, and other changes are planned to the tax regime in the UK, as well as the approach to provision for long-term social care. There is a risk that a change is made which has a negative unintended consequence for Scottish Friendly, or friendly societies more generally.	Management is closely monitoring proposed regulatory changes. To date, all proposals are assessed to have a minimal impact, or could be marginally beneficial for Scottish Friendly. Management will continue to engage with industry bodies, such as Investment and Life Assurance Group and the ABI, and plans to respond to any consultation papers to highlight the impact on Scottish Friendly if necessary.

Emerging Risk		Description	Mitigation and Management
4.	New emerging infectious disease alongside strained health services	If a new infectious disease arises, 'pandemic fatigue' may cause people to be less motivated to protect against illnesses. Coupled with strained health services leading to missed diagnoses and delayed treatment, this could result in large scale absences and a further strain on the economy. If this results in poorer health outcomes and shorter life expectancies, this would increase claims and reduce profitability – particularly for the whole of life business which is not reinsured.	Management is engaging with industry working groups to understand emerging data on wider societal impact.
5.	Scottish Independence	Constitutional change may have an impact on Scottish Friendly's ability to deliver services to some of its existing customers, and may restrict its ability to offer new products to some potential customers.	Emerging developments are monitored by the Risk Function and the Board. Appropriate contingency options have been identified to ensure continuity of service to existing customers can be maintained.

Managing the Financial Risks of Climate Change

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

In 2022 and 2023 JP Morgan and abrdn, Scottish Friendly's two main asset managers, provided an assessment of the Value-at-Risk ('VaR') from climate change for the portfolios they manage and this analysis has been presented within the 2023 ORSA. The scenario analyses indicate that the transition to a net-zero economy will, absent any mitigating actions, reduce the value of Scottish Friendly's asset portfolio, although the impact is not expected to be realised for many years, nor to be very significant from a financial risk perspective. The financial risks will be mitigated by working increasingly closely with Scottish Friendly's asset managers, to ensure that a transition to a net-zero portfolio takes place in a timely manner.

In addition, over 2023, Scottish Friendly improved the efficiency of its gas-powered heating, increased its use of recycling and added an ESG assessment to the supplier procurement process.

More generally, Scottish Friendly considers climate change risk to be a cross-cutting risk, which makes other financial risks more likely to crystallise, rather than a standalone financial risk. Climate change is, however, considered to be a key strategic risk for Scottish Friendly. Climate change metrics are also being embedded as part of the assessment of SBER risk. Work on the management and mitigation of this risk will continue in the coming years.

Corporate Governance

Scottish Friendly continues to embrace best practice in corporate governance and is committed to and adopts the principles of the AFM Corporate Governance Code for Mutual Insurers. The Directors who help us do this are detailed on the following pages, along with a summary of the governance framework we follow.

Directors

In addition to the Chair and Senior Independent Director, as at 31 December 2023, the Board comprised of five other non-executive directors, the CEO and the CFO.

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

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

Mr David Huntley was approved by the regulator to become Chair in May 2020, having served as a board member since 2013. There was an expectation that he would therefore exceed his 9 years tenure. To this effect an independence assessment has been conducted annually for Mr Huntley in order for the firm to satisfy he remains independent. Mr Huntley will retire as a director in April 2024.

Mr Kerr Luscombe acts as the Senior Independent Director; as such, he may, as necessary, lead meetings of the independent non-executive directors (with/without the Chair being present), be available to members through the Member Relations function to understand their concerns (in the event that other contacts within Scottish Friendly are inappropriate or have failed) and to present these views to the Board as a whole, and to lead the performance evaluation of the Chair. He is also the whistleblowing champion. Kerr will reach his 9 year tenure in 2025 and the Nomination Committee has been considering this in the succession plan this year.

Mr John McGuigan was appointed as a director in September 2023 and, subject to election by delegates, will be appointed as Chair with effect from April 2024.

The submission of any non-executive director for re-election for a term which means they would serve more than six years is subject to review by the Nomination Committee, taking into account the need for progressive refreshing of the Board.

Particulars of Directors' remuneration are given in the Directors' Remuneration Report on page 64.

Directors

David Huntley

Chair

David became Chair with effect from the Annual General Meeting in April 2020, having been appointed to the Board in January 2013. He is Chair of the Nomination Committee and a member of the Remuneration Committee, and also holds the position of Chair of Scottish Friendly Assurance Society Limited's subsidiary companies: Scottish Friendly Asset Managers Limited, Scottish Friendly Insurance Services Limited, SFIS (Nominees) Limited, M&GM Assurance (Trustees) Limited and SF Pension Managers & Trustees Limited.

David holds non-executive director roles at Hampden & Co plc and FIL FLH (UK) Limited. He has also acted as Chair of FIL Life Insurance Limited and FIL Life Insurance (Ireland) DAC, Senior Independent Director of Loughborough Building Society, Managing Director of Pearl Life, CEO of Scottish Re Limited and Swiss Re Life and Health Australia Limited.

Kerr Luscombe

Vice-Chair and Senior Independent Director

Kerr was appointed as Vice-Chair and Senior Independent Director with effect from the Annual General Meeting in April 2022, having been appointed to the Board in June 2015. He is a member of the Audit Committee, Risk Committee, Remuneration Committee, Nomination Committee and With-Profits Committee.

Kerr is a Fellow of the Institute and Faculty of Actuaries and has extensive experience at board level within the life insurance industry.

Kerr is Chairman of the With-Profits Committees at Phoenix Group plc and a director of Scottish Equitable Policyholders' Trust Limited, which acts as the With-Profits Committee for Aegon UK. He is also a trustee director for The Merchants House of Glasgow. He has held directorships at Royal London Group, Lloyds Banking Group and Santander's life insurance businesses.

Anja Balfour

Anja was appointed to the Board in April 2018. She is Chair of the Investment Committee and a member of the With-Profits Committee, and was appointed as a director of Scottish Friendly Assurance Society Limited's subsidiary companies; Scottish Friendly Asset Managers Limited, Scottish Friendly Insurance Services Limited, SFIS (Nominees) Limited, M&GM Assurance (Trustees) Limited and SF Pension Managers & Trustees Limited with effect from April 2022.

Anja acts as Chair of The Global Smaller Companies Trust plc and as a non-executive director of AVI Global Trust plc. She previously acted as Chair of Schroder Japan Growth Fund plc.

Susan Beckett

Susan was appointed to the Board in September 2020. She is Chair of the Risk Committee and member of the Audit Committee and Investment Committee, and was appointed as a director of Scottish Friendly Assurance Society Limited's subsidiary companies: Scottish Friendly Asset Managers Limited with effect from September 2020 and Scottish Friendly Insurance Services Limited, SFIS (Nominees) Limited, M&GM Assurance (Trustees) Limited and SF Pension Managers & Trustees Limited with effect from April 2022.

Susan holds a non-executive director and Chair role on the Risk Committee for RBC Brewin Dolphin Wealth Manager Ireland. She has also acted as CRO for RBC Brewin Dolphin and held senior leadership positions at global firms including Schroders, JP Morgan, Barclays Global Investors, BlackRock, Kleinwort Benson, and the BT Pension Scheme.

Mark Laidlaw

Mark was appointed as Chair of the Audit Committee with effect from the Annual General Meeting in April 2022, having been appointed to the Board in September 2021. He is also a member of the Risk Committee and With-Profits Committee.

Mark is a qualified actuary, with a career spanning more than 30 years within the insurance sector across life insurance, general insurance, pensions and asset management.

Mark acts as a director of Kilter Finance Services Limited, London LGPS CIV Limited, Chair of the Audit and Risk Committee of Omnilife Insurance Company Limited, as well as being a Trustee of the LV= pension scheme. He has previously acted as CFO role at Aegon UK, Global Head of Solvency II for Aegon nv and as Corporate Strategy Director of LV=.

Stephen McGee

CEO

Stephen was appointed to the Board in September 2021 and is a member of the Risk Committee, Nomination Committee and Investment Committee. He was also appointed as a director of Scottish Friendly Assurance Society Limited's subsidiary companies: Scottish Friendly Asset Managers Limited, Scottish Friendly Insurance Services Limited, SFIS (Nominees) Limited, M&GM Assurance (Trustees) Limited and SF Pension Managers & Trustees Limited with effect from the Annual General Meeting in April 2022.

Stephen is a Fellow of the Institute and Faculty of Actuaries and previously held CFO, Chief Actuary and Board roles at UK insurance companies.

Directors Continued

John McGuigan

John was appointed to the Board in September 2023 and, subject to election by delegates at the Annual General Meeting in April 2024, will replace David Huntley when he retires from his role of Chair. John is a member of the Nomination Committee and Remuneration Committee and acts as a director of Scottish Friendly Assurance Society Limited's subsidiary companies: Scottish Friendly Asset Managers Limited, Scottish Friendly Insurance Services Limited, SFIS (Nominees) Limited, M&GM Assurance (Trustees) Limited and SF Pension Managers & Trustees Limited.

John is also the Chair of Scottish Financial Enterprise and Scottish Rugby Ltd and works as a Mentor with Merryck & Co. He has previously held a non-executive director role with Scottish Ambulance Service.

Alan Rankine

CFO

Alan was appointed to the Board in October 2022 and to the role of CFO in January 2023. He is a member of the Investment Committee and was appointed as a director of Scottish Friendly Assurance Society Limited's subsidiary companies: Scottish Friendly Asset Managers Limited with effect from December 2022 and Scottish Friendly Insurance Services Limited, SFIS (Nominees) Limited, M&GM Assurance (Trustees) Limited and SF Pension Managers & Trustees Limited with effect from January 2023.

Alan is a Fellow of the Institute and Faculty of Actuaries, with over 16 years' experience in the life insurance industry across both life companies and consultancy.

Gillian Watson

Gillian was appointed as Chair of the Remuneration Committee with effect from the Annual General Meeting in April 2022, having been appointed to the Board in April 2018, and is also a member of the Audit Committee.

Gillian holds Chair roles at DC25 Limited and char.gy Limited and is a non-executive director of Statera Energy Limited, Vidrala SA and Carrs Group plc. She acts as Managing Director and Head of Energy and Renewables at Noble & Co, whilst also being a Trustee of the Boswell Trust.

After a successful six year term, Gillian will retire from the Board at the Annual General Meeting in April 2024.

Executive

Stephen McGee
Chief Executive Officer

Alan Rankine
Chief Financial Officer

Aileen Abernethy
Head of Operational Control and Conduct Risk

Stephen Campbell
Chief Operating Officer

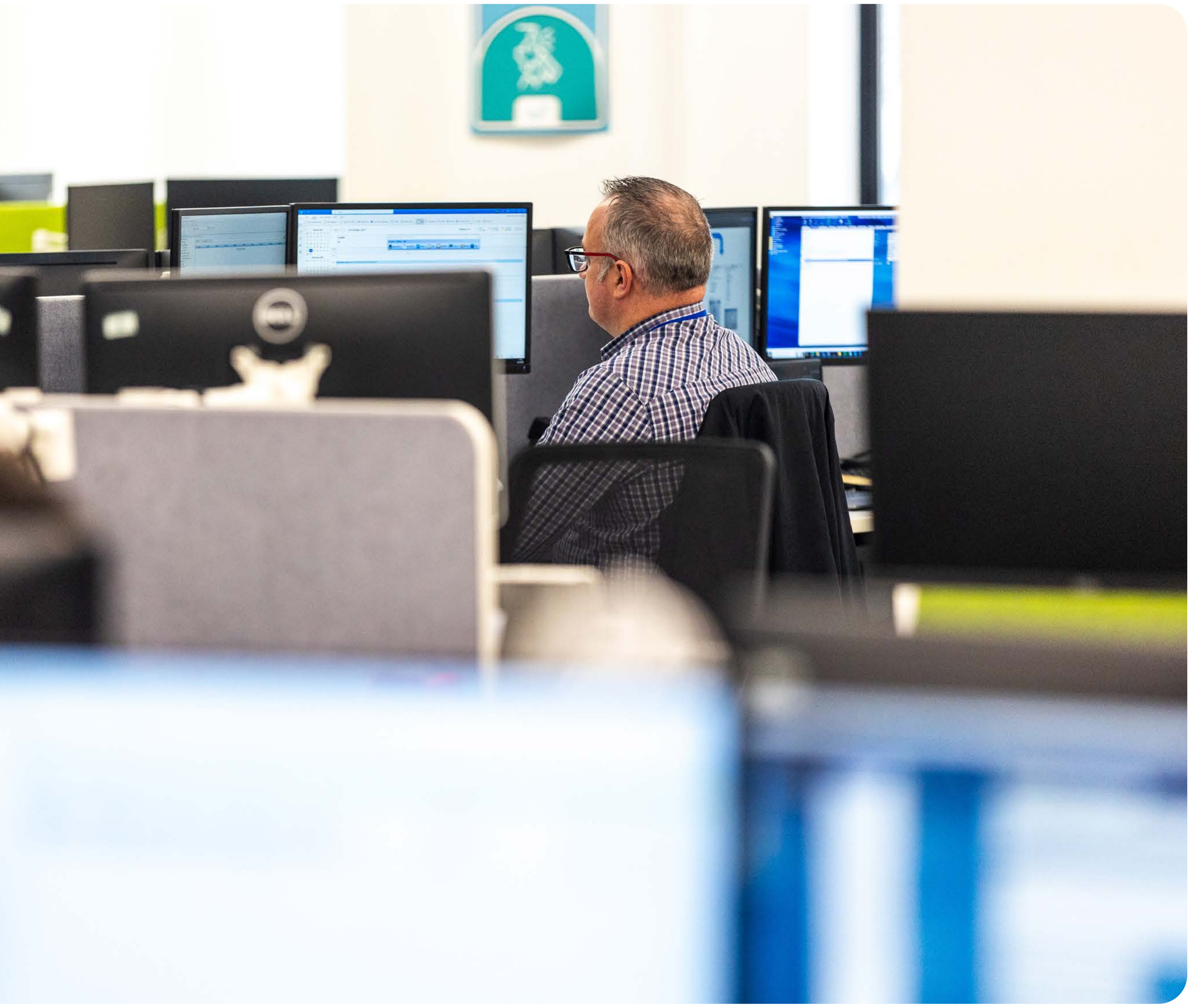
Gen Humphreys
Chief Risk Officer

Jill Mackay
Head of Marketing

Alexander Manas
Commercial Director

Pam Simmons
HR Director and Company Secretary

Report on Corporate Governance



Compliance with the AFM Governance Code

As a friendly society, Scottish Friendly is a member of the Association of Financial Mutuals (AFM) and reports under the Friendly Societies Act. This membership provides additional layers of support, guidance and best practice in corporate governance. We report annually on the principles of the AFM Corporate Governance Code for Mutual Insurers ("the Code"). The AFM asks members to demonstrate in their annual reports how they applied the Code's six high level principles and how that has contributed to better corporate governance. Details of how the Directors believe Scottish Friendly have applied, complied and delivered on the 'Code' in 2023 and the additional forums and committees and methods used for oversight are detailed below:

AFM Corporate Governance Code Principles

Principle One - Purpose and Leadership
An effective Board promotes the purpose of an organisation, and ensures its values, strategy and culture align with that purpose."

How Scottish Friendly applies the Principle	Forums, Committees or internal operating methods that assist in this execution and evaluation
• It is the Board's role to set the strategy and the Executives role to execute and report on this strategy. • As reported in the 2022 Annual Report, the Board appointed a new CEO in April 2022. This brought with it an objective for the CEO to commence a full strategic review. The CEO appointed a new Commercial Director, who on behalf of the CEO and in consultation with the Board and the Executives began the review and re-design of a three year strategic plan and business plan. • To ensure this strategy was aligned to the purpose and values of the firm, a strategic planning session was held with the Board in June 2023, with work undertaken by the Commercial Director since then to devise a three year strategic plan and consider the steps needed to achieve this. Regular and formal reviews were undertaken of this process and content throughout 2023, culminating in the plan being approved in December 2023. Throughout 2023 we have reported progress against our current strategy and, as we look forward into 2024, the Board will formally review and be provided with updates throughout the year on progress against the approved strategy . • The annual Business Plan to meet this strategic plan continues to be developed each year by the Executive and is reviewed and approved annually by the Board at the year end. A monthly review of progress against the business plan is led by the CFO and undertaken by each of the Executive, this is reported at each Board meeting.	• Two Day Strategy Offsite June 2023 • Individual 1-1 strategy reviews with the Board • Board Meetings – review of strategy progress and approval of strategy and business plan – November and December 2023 • CEO Board Report – each Board • Business Plan Board report – each Board • SF Purpose statement • SF Values • Best Companies survey • Remuneration Committee • Executive Balanced scorecard for variable pay

AFM Corporate Governance Code Principles

The Board were updated on how management approached recognition in 2023, including a recognition event and the introduction of a new scheme which will be live in 2024 that will enable managers to recognise these values more easily at a local level. A total of 27 colleagues were recognised for living the Scottish Friendly values throughout 2023. The introduction of a new HR system in September 2023 also enables all colleagues to recognise when they see others demonstrating our values and purpose in real time.

To ensure we are living up to the purpose, culture and values set, the Board will regularly test this via the CRO and HRD either one to one, at the Board Risk Committee or the Board, it also has an annual review session on people. In addition, the review of people metrics, such as turnover and absence in the monthly business plan and anonymous colleague surveys provide evidence of whether these values are being delivered within the business. Internal colleague surveys have been undertaken since 2019 and we introduced the externally accredited Best Companies survey in 2022, in 2023 we have been awarded a 1 star "great company to work for" status and a Top 50 employer to work for in the Region and the sector, with the best companies index (BCI) measure improving from 617 to 676 between September 2022 to September 2023

To ensure performance of the Executive is aligned to driving the strategy, culture and future success of the firm, the Remuneration Committee approves all Executive strategic objectives by way of a balanced scorecard. This is also overseen by the Chair of the Risk Committee and the CRO. The scorecard metrics and performance against these are reviewed at each Board. Variable pay is awarded based on delivery of this and is set at a ratio to fixed pay to ensure excessive risk-taking is avoided and that a balance is struck across all key metrics of the business.

Through all of these mechanisms the Board is satisfied it is able to ensure values, strategy and culture align to the purpose however this is continually monitored throughout the year.

AFM Corporate Governance Code Principles

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

How Scottish Friendly applies the Principle	Forums, Committees or internal operating methods that assist in this execution and evaluation
• A succession, skills and capacity review of the Board takes place on an annual basis via the Nomination Committee and recruitment of any new members prioritises any gaps in skills as well as diversity. It is typical to have an external review of the Board and its effectiveness every three years albeit internal governance reviews are conducted annually. The external review that was conducted in 2021 assessed the skills and composition and the report concluded this composition was satisfactory and the Board was effective. The Nomination Committee have conducted a further detailed skills and competency audit in 2023. The audit was firstly individually scored by each NED, independently scored by each member of the Nomination Committee and the HRD, then calibrated via a Nomination Committee meeting. Each Board member has a learning and development plan to complete and if newly appointed a detailed induction to undertake. There is an annual calendar of Board training agreed at the start of the year for all to undertake which is supported by any individual elements identified to the Chair or the Company Secretary. • The CEO and the non executive directors have an annual review of individual performance, effectiveness, capacity and independence conducted by the Chair. The Chair's performance is reviewed by the SID with contribution sought from the non-executive directors. The CFO's is conducted by the CEO. • During 2023 the Nomination Committee reviewed the skills, competence, capacity and succession of the Board in February, June, August, September and November 2023. It identified that there was a gap in customer service and operational experience on the Board. It also identified that there would be two retirements over 2024 and 2025 in that the Chair and the Senior Independent Director (SID) will have come to the end of the appointment dates which would create additional gaps. As such, a resourcing plan was agreed to procure the requisite skills onto the Board. An appointment of a new Board member and Chair designate Mr John McGuigan, was made in September 2023 and who the delegates will be asked to elect at the 2024 AGM. The remaining gaps will be filled by further recruitment in 2024. Additionally, it was identified there was a skills gap in marketing and digital within the Board and given its strategic aims any future appointments should aim to close this gap.	• Board Succession Plan • Board Skills and competence framework • Nomination Committee • Board Performance reviews and annual fitness, propriety, capacity and independence assessment

AFM Corporate Governance Code Principles

• The maximum size of the Board is determined within the Memorandum and Rules and the application of this and determination of how many members are required and what skills are needed are assessed and determined within the Nomination Committee. • Of the current NED composition, three out of the six are female, with the succession plan recognising any vacancies would attempt to further review and broaden diversity as laid out in the Diversity policy. • There is annual Committee effectiveness review undertaken by the Company Secretary of all Committees, as well as asking the Committee Chairs to report on the fulfilment of the Terms of Reference. The outcome of the 2023 review concluded that the Board saw evidence of all governance requirements being met, however to further enhance the effectiveness of the Board and ensure more time was spent together as a Board meeting planning should combine Committees and Board meetings. It was also agreed given the maturity now of the governance journey a review of Committee and Board ToR's (Terms of Reference) should be undertaken to ensure maximum efficiency between Board and Management Committees. This review commenced in 2023 and will be concluded in the first half of 2024.	

Principle Three - Director Responsibilities

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

How Scottish Friendly applies the Principle	Forums, Committees or internal operating methods that assist in this execution and evaluation
• The individual statements of responsibilities as well as performance as a director are clearly laid out in the Management Responsibilities Manual which was reviewed at each Board Risk Committee in 2023. Individual performance against responsibilities is assessed by the Chair each year. As part of the Senior Manager Certification Regime annual review, for any new appointments, a comprehensive induction is undertaken, with a review of completion, at the end of this, by the Chair or the Senior Independent Director (SID).	• Management Responsibilities Manual and Individual Statements of Responsibility • Independence Assessment of Director template • Conflicts of Interest and register of interest records • Board ToR • Board Committee ToR

AFM Corporate Governance Code Principles

- The Memorandum and Rules set out the policies and practices which apply to Scottish Friendly, in accordance with the Friendly Societies Act 1992 and these are all shared and understood by the Board. Additionally, since 2021 we have had an annual review with external legal advisors on the responsibilities and accountabilities of being a Board member and any changes necessary for corporate governance are discussed at this annual review.
- There are detailed Statements of Responsibility in place for each of the Senior Management Function Holders (SMFs) on the Board and the content of these are reviewed quarterly at the risk committee and attested to annually by each member. In addition, each Board member has a performance assessment against these statements of responsibility as well as competence, capacity and independence which is assessed by the Chair or SID annually.
- Conflicts of interest are recorded at each meeting and a record of conflicts and interests are retained by company secretariat. Directors are required to disclose details of anything that could be a perceived or actual conflict at each meeting, throughout their tenure or prior to being appointed. This requirement is laid down in the terms of the appointment letters issued. The annual review of each of the director's independence provides additional governance and the opportunity to ensure independence of decision making is retained and reduce the risk that the firm's best interests being influenced by other interests.
- The former Board Powers document was updated to a Board Terms of Reference in 2023 and included within this are Matters Reserved to the Board. These documents will be subject to an annual review and have also been mapped against the annual calendar of Board meetings to ensure all duties are considered across the year.
- Terms of reference are also in place for each of the Board's sub-committees which are reviewed annually and any changes are approved via the Board. As stated above a review of these is currently underway.
- All of the above help to ensure the roles, responsibilities and duties of the Board are clear, as well as being clear on what duties and responsibilities are delegated to Committees or Management. It also enables the Company Secretariat to have a forward view of topics to be discussed at each Board and committee and ensure appropriate controls are in place to deliver all duties of the Board and the Committees.
- There is clear demarcation between the Chair and CEO accountabilities as well as it being clearly documented what is delegated to the CEO by the Board.

AFM Corporate Governance Code Principles

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

How Scottish Friendly applies the Principle	Forums, Committees or internal operating methods that assist in this execution and evaluation
• Scottish Friendly has established a framework of internal controls for the management of risk within its business and to safeguard the interests of its members. The system is designed to manage the risk of failure to achieve business objectives, and to provide reasonable assurance against material mis-statement or loss. The Board Risk Committee has delegated responsibility to review and consider the framework in detail and bring to the Board at quarterly updates or as required any issues it feels the Board needs to have oversight on. • A strategic plan detailing how the organisation creates and preserves value over the next three years is prepared annually and approved by the Board. This, along with the Business Plan and Own Risk Solvency Assessment (ORSA), details how opportunities are assessed in line with our long-term strategy and risk appetite. The risk management focus and the ongoing Own Risk and Solvency Assessment process helps highlight any risk across the firm that the Board need to take account of or review. The capital position continued to be strong in 2023. • The strategic plan has undergone a detailed review in 2023 whereby all of the previous strategic assumptions and objectives have been reviewed and tested against the current and future economic, environmental, political and internal landscape. • The Scottish Friendly organisational purpose of 'Dedicated to helping you and your family achieve financial wellbeing through friendly products and customer care' forms the basis of the strategy. Management objectives and balanced scorecard are linked to the strategic plan and these as well as four standard objectives were cascaded in the organisation in January 2023 to ensure alignment throughout the organisation. • The Board reviews progress against the strategic plan at each Board cycle to ensure progress is being made and to determine whether changes may be needed, assessing external and internal factors. In 2023 a deep dive on re-insurance was undertaken, with the Board provided with a detailed paper which considered our reinsurance strategy.	• Risk Management Framework (RMF) • Strategic Plan • Business Plan • ORSA

AFM Corporate Governance Code Principles

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

How Scottish Friendly applies the Principle	Forums, Committees or internal operating methods that assist in this execution and evaluation
• Our Remuneration Committee and Policy defines our remuneration strategy and ensures that it is aligned to the sustainable success of the business. An annual review takes place of both the terms of reference for the committee and the remuneration policy and external benchmarking reviews are included in order to determine whether any regulatory or best practice updates should be made to our remuneration strategy and ensures that it is aligned to the sustainable success of the business. An annual review takes place of both the terms of reference for the committee and the remuneration policy and external benchmarking reviews are included in order to determine whether any regulatory or best practice updates should be made. • In 2022 the TOR of the Remuneration committee was reviewed in detail against other financial services business, and as a result the scope and terms were extended. These changes were incorporated into the review of the Remuneration policy. The policy and the TOR were reviewed at the annual Committee in February 2023 and will be again in February 2024 for the 2023 performance year. • To ensure performance of the Executive is aligned to driving the strategy, culture and future success of the firm, the Remuneration Committee approves all Executive strategic objectives by way of a balanced scorecard. The scorecard metrics and performance against these are reviewed at each Board. • Variable pay is awarded based on delivery of the objectives and scorecards and is set at a ratio to fixed pay to ensure excessive risk-taking is avoided and that a balance is struck across all key metrics of the business. All salary awards are approved by the Remuneration Committee for either new entrants or for annual pay increases. • Variable pay is based on the scorecard and a formula set at the beginning of the year by the Committee with an additional small percentage available for discretionary award. The Committee in liaison with the CRO and Risk Committee can downgrade or over-ride variable payments should this be required. • The variable pay outcomes were assessed by the Remuneration Committee in February 2024 for the performance year 2023. • Our remuneration policy is available on the Scottish Friendly website.	• Remuneration Policy • Pay Principles • Remuneration Committee TOR • Executive Balanced Scorecard & Objectives • Three Year Strategy

AFM Corporate Governance Code Principles	
• The effectiveness of the Remuneration committee is reviewed annually as is the fulfilment of the Terms of Reference. • Compensation for all roles within the firm are benchmarked externally against Willis Towers Watson (Financial Services) data and an 80-120% to median pay scale is set for all roles. • In 2023 the pay principles that had been agreed in 2022 by the Remuneration Committee were launched across the whole firm. To supplement these principles we undertook a 'pay transparency' exercise to ensure all colleagues were able to see where they benchmarked against pay and individual letters detailing this were issued. Job Family data was then made available for all colleagues for the full organisation.	

AFM Corporate Governance Code Principles

Principle Six - Stakeholder Relationships and Engagement
"Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions."

How Scottish Friendly applies the Principle	Forums, Committees or internal operating methods that assist in this execution and evaluation
• Engagement with stakeholders is undertaken through a variety of mechanisms for example, principally colleague views are examined in the twice annual externally benchmarked Best Companies engagement survey. The score in this survey has increased from 617 to 676 between September 2022 and September 2023, leading the firm to be awarded a 1 star 'Good Place to Work' rating. Monthly people ambassador forums feedback is also fed into the Board discussions through our regular Board reporting and indicators such as turnover and absence are monitored on a monthly basis. • There was 1 private board session held with the NEDs this year, and any issues raised would be discussed with the Company Secretary and CEO. • The Board have individually and collectively spent time in the office meeting and talking to management teams and colleagues through 2023, specifically spending time with our contact centre colleagues to understand the day-to-day operational pressures. Our 6 NEDs spent time in the business this year engaging with various functions, for example Risk, HR, Actuarial, Finance Marketing and Contact Centre, and the experience of these sessions were fed into Board discussions in 2023. The Board have also had the opportunity to meet the management layer below the Executive team this year, both through Committee meetings and the two-day strategy offsite in June. • In addition to the stakeholder engagement gained from the above, the Board considered the detailed review and report on the Operations function prepared by the newly appointed COO. • The annual review of the people function also provides the Board with an additional mechanism to understand colleague stakeholder views and the People strategy sits within the strategic plan to ensure it is delivered in accordance with our purpose and values. • The Board meet with delegates who represent our members twice per year, once more informally in September to discuss and review some evolving themes and topics and again more formally at the AGM in April.	• Best Companies Survey • Colleague Briefings • Lunch and Learn sessions with Executive team • People Ambassador Forums

The Board and Board Committees

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

Membership of the committees of the Board is intended to make best use of the skills and experience of the directors. The work carried out during 2023 by the Audit, Risk, Nomination, Investment and With- Profits Committees in discharging their responsibilities is summarised below. The work carried out by the Remuneration Committee is described within the Directors' Remuneration Report on pages 62 to 64.

	Board Meetings	Audit Committee	Risk Committee	Remuneration Committee	Investment Committee	Nomination Committee	With-Profits Committee
David C Huntley (until April 2024)	9 (9) [2]	-	-	2 (2)	-	4 (4) [2]	-
Kerr Luscombe	9 (9)	4 (4)	5 (5)	2 (2)	1 (1) [2]	5 (5)	-
Anja Balfour	8 (9)	-	-	-	3 (4) [2]	-	3 (5)
Susan Beckett	9 (9)	4 (4)	5 (5)[2]	-	4 (4)	-	-
Mark Laidlaw	9 (9)	4 (4) [2]	5 (5)	-	-	-	4 (5)
John McGuigan (from Sept 2023)	2 (2)	-	-	0(0)[1]	-	1 (1)	-
Gillian Watson	9 (9)	4 (4)	-	2 (2) [2]	-	-	-
Stephen McGee	9 (9)	-	5 (5)	-	4 (4)	5 (5)	-
Alan Rankine	9 (9)	-	-	-	4 (4)	-	

1 No meetings since appointment for Remuneration Committee.
2 Committee Chair

The Board and its responsibilities:

A new Terms of Reference was approved by the Board during 2023. The summary of the Board's responsibilities are as follows:

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

- financial performance against budget, data and analysis relating to business volumes, and reports on investment strategy and performance;
- risk management, through the Risk Management Framework (refer to page 27);
- actuarial matters including solvency and capital requirements;
- operational reports on customer service and colleague matters; and
- business conduct information, including performance on the six outcomes of the Treating Customers Fairly initiative.

There is a formal schedule of matters reserved to the Board for approval which includes specific aspects of the authorisation regime for bank accounts, changes to investment parameters and deals out with those parameters, transfers of engagement, the budget and the distribution of surpluses and bonuses.

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

The Audit Committee and its responsibilities:

During 2023 the Committee met formally on four occasions. The Committee:

- reviewed the internal control systems, including internal financial controls and ensured that these continued to be effective; advised the Risk Committee as appropriate of any concerns regarding the effectiveness of the current control framework;
- considered the External Audit Plan which highlighted key judgement areas;
- reviewed the annual financial statements and annual regulatory returns including Solvency II reporting and the Solvency and Financial Condition Report (SFCR) and approved them for submission to the Board. The Committee focused particularly on major judgemental areas and compliance with accounting standards and legal requirements, including the regulations and guidance of the PRA. The Committee reviewed thoroughly the external auditor's detailed report on the draft documents and obtained satisfactory explanations where necessary. The Committee also reviewed the previous external auditor's final report on internal controls and ensured that follow up action was appropriate and completed where necessary;
- appointed BDO as our co-source internal audit partner in April 2023;
- approved the internal audit programmes and received regular progress reports from internal audit and ensured that recommendations made were followed up by management. Individual internal audit reviews are scheduled both according to regular assessments of key risk areas on a cyclical approach supplemented with matters of a topical nature. The Committee also monitored co-ordination between the internal and external auditors and ensured that the internal audit function was adequately resourced and had appropriate standing within the organisation;
- reviewed the Internal Audit Charter which follows guidance from the Chartered Institute of Internal Auditors;
- assessed the effectiveness of the current external and internal audit processes through the reporting that it receives from the respective auditors who were present at each Committee meeting.

The Committee meets with each of internal and external auditors in the absence of management at least once a year; and reviewed and ensured the fulfilment of the terms of reference of the Committee and examined Committee effectiveness.

In planning its work and reviewing the audit plan of the external auditors, the Committee took account of the most significant issues and risks, both operational and financial, likely to impact on the Group's financial statements. The two areas which have most impact on the financial statements and returns are:

- the calculation of life insurance technical provisions and reinsurance valuation on a Solvency II basis. The Audit Committee reviews these on behalf of the Board including reports from the Chief Actuary covering methodology, assumptions, significant judgements and other factors impacting the provisions and recommends their approval to the Board.
- the appropriate recording and valuation of the investment portfolio, particularly the valuation of less liquid and more complex investments. The majority of the investment portfolio by value can be verified against daily market prices. Scottish Friendly uses appropriate independent safeguarding and custodian arrangements. The Committee has reviewed the control environment as relates to investments, including relevant internal or external audit activity.

Both the Board and the external auditor have safeguards in place to prevent the auditor's independence and objectivity being compromised. The external auditor reports regularly to the Committee on the actions that it has taken to maintain its independence. PricewaterhouseCoopers LLP (PwC) was re-appointed as auditor from April 2023. No issues with the independence of PwC were identified.

The Investment Committee and its responsibilities:

During 2023 the Committee met formally on four occasions. The Investment Committee oversees Scottish Friendly's investment holdings and performance on behalf of the Board. Duties include:

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

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

During 2023, the Committee also reviewed and ensured the fulfilment of the terms of reference and examined Committee effectiveness.

In November 2023 Kerr Luscombe was confirmed as interim chair for the 28 November meeting.

The Nomination Committee and its responsibilities:

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

During 2023 the Committee met formally on five occasions. The Committee retained the services of an external search firm to identify candidates for succession to the role of Chair, subsequently recommending to the Board in September 2023 that Mr John McGuigan be offered the position. Additionally, succession has been discussed for the retirement of the Senior Independent Director (SID) and the Chair of the Remuneration Committee. A detailed skills analysis was completed by individual members of the Board, independently scored by members of the Nomination Committee calibrated collectively by the Committee. This exercise identified a further skills gap in marketing and digital and the Committee agreed any replacement appointments should address this gap, seek to continue to have Actuarial and Insurance expertise and consider diversity within future appointments. In total the committee on-boarded one new non-executive director in 2023 and commenced the search for a further two.

The Risk Committee and its responsibilities:

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

During 2023 the Committee met formally on five occasions.

The Committee:

- reviewed, challenged and approved the revised Risk Appetite Methodology and recommended Risk Appetite Statements for Board approval, including oversight of the limits and triggers that are the basis for regular ORSA reporting;
- reviewed the Annual ORSA report to meet the requirements of the Board in terms of risk insights and forward-looking risks and threats. In particular reviewing through the lens of the Solvency II regulations, with specific focus on risks inherent in the strategy, the overall solvency needs assessment, and the adequacy of the stress and scenario testing;
- received regular reports from business risk owners, risk and compliance functions outlining the key prudential, operational and conduct risks facing Scottish Friendly and the controls and actions being taken to mitigate their impacts, this included focus on conduct risk and operational resilience, updates on the Compliance Monitoring plan and any actions arising from Compliance Reviews and Risk Assurance reviews during the period;
- oversaw risk exposure relative to appetite and the actions taken by management to manage risks against appetite; and
- reviewed and ensured the fulfilment of the terms of reference of the Committee and examined Committee effectiveness.

The With-Profits Committee and its responsibilities:

During 2023 the Committee met formally on five occasions.

The Committee assessed, reported on and provided clear advice and, where appropriate, recommendations to the Board on:

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

The Committee also reviewed routine reports on profitability, capital, service MI and regulatory updates, as well as reports on revised bonus setting methodology, strategic asset allocation, policyholder communications and financial management framework.

The Remuneration Committee and its responsibilities:

During 2023 the committee met formally on 2 occasions

The Committee consists of the Chair, Gillian Watson and two additional independent Non-Executive Directors as well as the CEO and HR Director.

The purpose of the committee is to oversee:

- Any remuneration for the board, executive and identified colleagues, including appointment and exit terms;
- Remuneration practices, policies and frameworks to support strategy, regulatory requirements and promote the long term success of the business; and
- Ensure consistency of application of the Scottish Friendly Pay Principles

The Remuneration Committee reviews executive salaries annually. A range of data is taken into account to inform the review, particularly the use of Willis Towers Watson (WTW) externally benchmarked data from across the Financial Services sector, as well as wider economic influences such as the market and economic factors such as inflation.

The Committee meets in February to ensure a full review of the previous year's performance can be made and any changes to those salaries reviewed are effective from 1 January.

Total compensation for executives was changed in 2023 to have more of a variable element in order to drive a focus on performance outcomes. This quantitative element of bonus is targeted at delivering growth and cost efficiencies while generating longer term value for members. There is an on-target-earning percentage agreed by the Committee annually. A revised balanced scorecard approach and cascaded objectives from the CEO to all direct reports was introduced in 2023 and was approved by the Remuneration Committee in February 2023. These objectives fully aligned to the delivery of the 2023 business plan and introduced a stronger link between individual and overall performance. On target variable payments of 15% for executives, 30% for Executive Director and 60% for CEO were agreed by Remuneration Committee. The February 2024 Remuneration Committee assessed performance against these objectives.

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

Fees for the Chair are set by the Committee in their absence and for non-executive directors are set by the Executive Directors and the Chair. Changes are effective from 1 January. Fees are designed to recognise the responsibilities of non-executive directors and to attract individuals with the necessary skills and experience to contribute to the future development of Scottish Friendly. These fees are reviewed and externally benchmarked every three years and the next review is set for 2024 with interim increases in line with annual increases for all colleagues. Fees are made up of an annual fee covering board and committee membership. Additional fees are payable to the Vice-Chair and to the Chairs of the Audit, Risk, Remuneration, and Investment Committees, as well as With-Profits Committee members, in respect of the additional responsibilities relating to those roles. Fees are neither performance-related nor pensionable and non-executive directors do not receive any additional benefits.

Non-executive directors receive reimbursement of travel and accommodation costs where required for attending meetings.

Directors' Report

The Directors have pleasure in submitting their Annual Report and Financial Statements for the year ended 31 December 2023.

Business objectives and activities

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

Scottish Friendly is authorised by the Prudential Regulatory Authority and regulated by the FCA and the Prudential Regulatory Authority. It has five wholly owned subsidiaries, (collectively with Scottish Friendly "the Group"): Scottish Friendly Asset Managers Limited, Scottish Friendly Insurance Services Limited, SFIS (Nominees) Limited, M&GM Assurance (Trustees) Limited and SF Pension Managers & Trustees Limited.

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

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

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

Directors and Chief Executive Officer

The current Directors of Scottish Friendly, including the CEO, are listed on pages 38 to 40. Further information on the Board is set out in the Report on Corporate Governance on pages 42 to 56.

Statement of solvency

In the opinion of Scottish Friendly's Chief Actuary and the Board, Scottish Friendly had the required margin of solvency as prescribed in the Solvency II regulatory requirements as at 31 December 2023 and throughout the year.

Going concern basis

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

Thus, the Board considers that Scottish Friendly has adequate resources to continue in business for the foreseeable future. In making this assessment, the Board has considered the above statement of solvency from the Chief Actuary, which is further supported by actuarial valuation and solvency reporting made to the Board on a regular basis, including the Own Risk and Solvency Assessment (ORSA) as described in the longer term viability statement.

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

Longer term viability statement

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

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

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

In each of the scenarios modelled the projections demonstrate that appropriate levels of capital would remain under both the base and reasonably foreseeable stress scenarios, and Scottish Friendly is comfortably able to cover its regulatory capital requirement without taking any additional management actions. Contingency actions are reviewed annually or more frequently if required.

Reverse stress testing results demonstrate the business is sustainable in the medium to longer term. It would require an implausibly extreme combination of market shocks before the solvency position remained below 100% for a sustained period.

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

Based on the robust assessment of the principal risks, the Directors have a reasonable expectation that Scottish Friendly will be able to continue in operation and meet its liabilities as they fall due over that five-year period.

Tax strategy

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

Modern Slavery Act

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

Policy on complaints by customers

Scottish Friendly's complaints procedures, detailing the action to be taken in the event of a complaint being received from a member, are documented in Scottish Friendly's Memorandum and Rules, Complaints Manual and Compliance Manual. There is provision for an arbiter to be appointed. In the event that Scottish Friendly is unable to resolve a complaint to the member's satisfaction, the member is made aware of the option to refer to the Financial Ombudsman Service. The complaints procedure is also available on our website: **www.scottishfriendly.co.uk/contact-us/make-a-complaint.**

Disclosure of information to auditors

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

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing Annual Report & Financial Statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group and the society financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

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

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

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

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

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

Auditors

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

Pam Simmons

Company Secretary
27 March 2024

Directors' Remuneration Report

Annual statement from the Remuneration Committee Chair

Dear Members

On behalf of the Board and as Chair of the Remuneration Committee, I have the pleasure in presenting the Directors' remuneration report and the Directors emoluments for the year ending 31 December 2023. Like many other organisations in 2023 our colleagues continued to be impacted by the volatility of the external market and the rise in inflation and cost of living challenges. The Committee agreed in 2022 to make two £500 payments to all colleagues split equally between October 2022 and March 2023. We reviewed this position at the February 2023 Committee and concluded there would be no need to make a further payment in 2023, albeit we recognised the payments made had achieved their purpose of minimising financial hardship for our people.

Our colleagues continued to show great passion for our customers and the Society in this last year whilst we have been stabilising our service levels and undertaking significant transformation and change in our business. The foundations were laid in 2023 for our transformation programme and I know we can count on our colleagues to provide the same level of energy to the programme of change as they have with our past endeavours. Our annual salary award for 2023 which was paid out in January 2024 was slightly higher than previous years and set at 5% for good performers, this was to reflect the on-going cost of living challenges the majority of our people face and to ensure that we continue to pay people fairly for the role they do. A small number of colleagues achieved an enhanced salary increase to reflect exceptional performance and this additional award was funded from budget ring-fenced for executive compensation.

Following colleague feedback we conducted pay transparency sessions with all colleagues in 2023, sharing external pay data for individual roles and providing individuals with the details of where their pay was positioned on their job family payscale. We also published our pay principles to colleagues and have committed to treating colleagues in line with these principles

We have historically, and continue to, pay the Glasgow Real Living Wage albeit only 6.4% of colleagues are on salaries requiring any minimum wage threshold. Our colleagues continue to benefit from 10% employer pension contributions, providing they contribute a minimum of 3%, free health care and extended wellbeing initiatives as well holiday entitlements that increase with service.

The February 2023 Remuneration Committee met to complete their annual review of director and executive compensation.

From 2024 and for the 2025 Annual Report we will report on gender pay.

Directors’ Emoluments

The summary of our Director emoluments are detailed in the table below. This table shows details of remuneration paid to executive and non-executive directors who served during 2023.

	Salary and Fees £000	Performance pay £000	Benefits[1] £000 (Expenses Pilop and healthcare)	Total Compensation Year ended 31 Dec 2023 £000	Total Compensation Year ended 31 Dec 2022 £000
Chair					
David Huntley	106[2]	-	7	113	168
Executive Directors					
Stephen McGee	460	168	66	694	473[3]
Alan Rankine	225	46	23	294	70[4]
Non-Executive Directors					
Anja Balfour	77	-	-	77	74
Kerr Luscombe	77	-	-	77	74
Gillian Watson	60	-	-	60	56
Susan Beckett	66	-	7	73	68
Mark Laidlaw	77	-	-	77	67
John McGuigan (joined Sept 2023)[5]	14	-	-	14	-

1 For Executive Directors, benefits comprise of pay in lieu of pension contributions and healthcare insurance. For the Non-Executive Directors, figures in the benefits column comprise travel and accommodation cost reimbursements as well as a grossed-up payment of the associated tax due on these taxable expenses claimed.
2 An additional payment was made in respect of oversight role in 2022 until the permanent appointment of new CEO in April 2022.
3 Stephen McGee was appointed CEO in April 2022.
4 Remuneration covers period serving as a director on the Board.
5 John McGuigan joined the Board in September 2023.
*A loss of office payment of £159,000 was made to a former Executive Director in 2023.


Scottish Friendly
Taking care of our customers
"We care about our customers and we're here to help.
Please tell us of any individual circumstances that we should take into consideration when managing your policy."

Financial Statements


Scottish
Friendly

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2023 and of the Group's and the Society's result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Friendly Societies Act 1992.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet of the Group and the Society as at 31 December 2023; the Income and Expenditure of the Group and the Society for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

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

Our audit approach

Context

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

Overview

Audit scope

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

Key audit matters

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

Materiality

- Overall Group materiality: £12.9 million (2022: £11.1 million) based on 5.7% of Funds for Future Appropriations (2022: 5% of Funds for Future Appropriations).
- Overall Society materiality: £12.7 million (2022: £10.9 million) based on 5.7% of Funds for Future Appropriations (2022: 5% of Funds for Future Appropriations) (restricted as noted below).
- Performance materiality: £9.7 million (2022: £5.5 million) (Group) and £9.5 million (2022: £5.4 million) (Society).
- Specific overall materiality: £24.2million (2022: £24.4 million) based on 1% of Assets held to Cover Linked Liabilities applied to Assets Held to Cover Linked Liabilities and Technical Provision for Linked Liabilities (2022: 1% of Assets held to Cover Linked Liabilities) (Group and Society).
- Specific performance materiality: £18.2 million (2022: £12.2 million) applied to Assets Held to Cover Linked Liabilities and Technical Provision for Linked Liabilities (2022: applied to Assets Held to Cover Linked Liabilities and Technical Provision for Linked Liabilities) (Group and Society).

The scope of our audit

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

Key audit matters

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

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

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of technical provisions - Persistency assumptions for the protection business (Group and Society) Refer to Note 2 Accounting policies and Note 26 Technical Provisions Persistency assumptions are subjective and complex due to their nature, and given the size of the protection book, are a material assumption for the Society. When determining the value of insurance and participating investment contract liabilities, an assumption needs to be made regarding the proportion of existing policies that will remain in-force in future time periods. Persistency rates determine this and thus are a key assumption. The persistency assumptions are estimated using past experience and consideration of the future changes to policyholder behaviour. These changes are uncertain, and therefore, expert judgement is applied when setting an appropriate basis.	Using our actuarial specialists, we have performed the following procedures: • Understood and evaluated the design effectiveness of key controls relevant to the assumption setting process; • Assessed the appropriateness of the methodology for analysing experience and setting assumptions for persistency with reference to relevant rules, actuarial guidance and by applying our industry knowledge and experience; • Assessed the appropriateness of, and evidence supporting, expert judgements made in the setting of the persistency basis, including the appropriateness of judgements made relating to recent economic and societal events including the cost of living crisis; • Tested the production of the persistency experience analysis; • Reviewed the impact of the changes to persistency assumptions on the value of the gross insurance contract liabilities and reinsurance asset; and Based on the work performed and evidence obtained, we consider the assumptions used for persistency to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Valuation of technical provisions - Non-annuitant mortality assumptions (Group and Society) Refer to Note 2 Accounting Policies and Note 26 Technical Provisions Non-annuitant mortality assumptions are an area of significant management judgement due to the inherent uncertainty involved. Given that the Society's liabilities are significantly made up of protection business, including term assurance and whole of life contracts, mortality risk is a key risk to which the business is exposed. Setting mortality assumptions, both base and improvement factors, is subjective and complex due to their nature and, given the size of the protection book, this is considered to be a significant assumption.	Using our actuarial specialists, we have performed the following procedures: • Understood and evaluated the design effectiveness of key controls relevant to the assumption setting process; • Assessed the appropriateness of the methodology used to perform the experience analysis. This involved the assessment of key judgements such as the selection of the mortality base tables for escalating protection business, the change from using claim amounts to claim counts in the experience analysis for one product line and the first-time use of own experience data for a recently acquired portfolio, with reference to relevant rules, actuarial guidance and by applying our industry knowledge and experience; • Tested the production of the non-annuitant mortality experience analysis; • Reviewed the impact of the changes to non-annuitant mortality assumptions on the value of the gross insurance contract liabilities and reinsurance asset; • Assessed the appropriateness of areas of expert judgement used in the development of the mortality basis, including the appropriateness of management's decision on whether or not to allow for future improvements and, where such an allowance is made, the appropriateness of the improvement assumptions; and • Compared the non-annuitant mortality methodology and assumptions selected by management against those used by peers using our independent annual benchmarking survey of assumptions Based on the work performed and evidence obtained, we consider the assumptions used for non-annuitant mortality to be appropriate.

How we tailored the audit scope

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

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

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

The impact of climate risk on our audit

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

Materiality

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

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

	Financial statements - Group	Financial statements - Society
Overall materiality	£12.9 million (2022: £11.1 million)	£12.7 million (2022: £10.9 million)
How we determined it	5.7% of Funds for Future Appropriations	5.7% of Funds for Future Appropriations
Rationale for benchmark applied	The engagement team concluded that £12.9m is the most appropriate amount when setting an overall materiality on the engagement. The quantum of £12.9m was determined by considering the various benchmarks available to us as auditors. Fund for Future Appropriations is the most applicable measure because we regard Fund for future appropriations as the primary measure used by the members of the Society, since it represents the amount of surplus yet to be allocated to those members of the Society and to whom our opinion is addressed.	The engagement team concluded that £12.7m is the most appropriate amount when setting an overall materiality on the engagement. The quantum of £12.7m was determined by considering the various benchmarks available to us as auditors. Fund for Future Appropriations is the most applicable measure because we regard Fund for future appropriations as the primary measure used by the members of the Society, since it represents the amount of surplus yet to be allocated to those members of the Society and to whom our opinion is addressed. The benchmark for the Society is consistent with the Group, however, an allocation of the overall group materiality was determined for the Society as detailed below.

Regarding the specific materiality for Assets Held to Cover Linked Liabilities and Technical Provision for Linked Liabilities (and related Income and expenditure), we applied 1% of Assets held to cover linked liabilities (Group and Society). We have applied this specific materiality for the purpose of identifying and evaluating the effect of misstatements that are likely only to lead to a reclassification between line items within assets and liabilities.

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

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 50%) of overall materiality, amounting to £9.7 million (2022: £5.5 million) for the Group financial statements and £9.5 million (2022: £5.4 million) for the Society financial statements.

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

For certain balances, our specific performance materiality was 75% (2022: 50%) of the specific overall materiality for assets held to cover linked liabilities and technical provision for linked liabilities (and related Income and expenditure) amounting to £18.2 million (2022: £12.2 million). We have applied a higher materiality solely for the purpose of identifying and evaluating the effect of misstatements that are likely only to lead to a reclassification between line items within assets and liabilities of the balance sheet.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £645,000 (2022: £550,000) (Group audit), £635,000 (2022: £545,000) (Society audit) and specifically £1,200,000 (2022: £1,200,000) (Group and Society) for Assets held to cover linked liabilities and Technical provision for linked liabilities (and related Income and expenditure) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Use of this report

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

Other required reporting

Friendly Societies Act 1992 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 27 April 2022 to audit the financial statements for the year ended 31 December 2022 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2022 to 31 December 2023.

Thomas Ferguson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
London
27 March 2024

Income and Expenditure

Technical Account – Long Term Business
For year ended 31 December

	Note	Group 2023 £000	Group 2022 £000	Scottish Friendly 2023 £000	Scottish Friendly 2022 £000
Gross Earned Premiums		208,205	198,752	208,205	198,752
Reinsurance Premiums		(84,719)	(72,475)	(84,719)	(72,475)
Earned Premiums, Net of Reinsurance	3	**123,486**	**126,277**	**123,486**	**126,277**
Investment Income	4	23,048	55,042	23,048	55,042
Unrealised Gains/(Losses) on Investments	5	239,164	(458,499)	239,500	(458,002)
Other Technical Income	6	31,423	34,511	30,067	33,001
Amortisation of Negative Goodwill	13	6,060	6,060	6,060	6,060
		423,181	**(236,609)**	**422,161**	**(237,622)**
Claims Incurred		254,429	261,236	254,429	261,236
Reinsurance Claims		(117,296)	(107,502)	(117,296)	(107,502)
Net Claims Incurred	7	**137,133**	**153,734**	**137,133**	**153,734**
Change in Long-term Business Provision	26a	(30,154)	(305,980)	(30,154)	(305,980)
Change in Technical Provisions for Linked Liabilities	26b	191,532	(162,781)	191,532	(162,781)
Operating Expenses	8	103,539	90,583	103,539	90,583
Investment Expenses & Charges	10	4,087	3,409	4,087	3,409
Other Technical Charges	11	2,102	2,078	1,174	1,190
Tax credit attributable to Long Term Business	12	(1,290)	(36,744)	(1,382)	(36,869)
Actuarial Loss re Pension Scheme	24	13,941	15,156	13,941	15,156
Transfer to the Fund for Future Appropriations	25	2,291	3,936	2,291	3,936
		423,181	**(236,609)**	**422,161**	**(237,622)**

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

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

The notes on pages 82 to 122 form an integral part of these financial statements.

Balance Sheet

Assets as at 31 December	Note	Group 2023 £000	Group 2022 £000	Scottish Friendly 2023 £000	Scottish Friendly 2022 £000
Intangible Assets					
Negative Goodwill	13	(35,355)	(41,415)	(35,355)	(41,415)
Investments					
Land and Buildings	14	3,250	3,250	3,250	3,250
Investment in Group Undertakings	15,17	-	-	4,761	4,373
Derivative Financial Instruments	16	4,986	4,777	4,986	4,777
Other Financial Investments	17	937,716	962,446	937,716	962,446
Total Non-Linked Financial Investments		**945,952**	**970,473**	**950,713**	**974,846**
Assets Held to Cover Linked Liabilities	17	2,426,580	2,441,857	2,426,353	2,441,603
Total Financial Investments		**3,372,532**	**3,412,330**	**3,377,066**	**3,416,449**
Reinsurers' Share of Technical Provisions					
Long-term Business Provision	26a	967,936	842,743	967,936	842,743
Debtors					
Deposits held for Reinsurers	19	11,367	10,662	11,367	10,662
Debtors arising out of Direct Insurance Operations	20	23,463	22,073	23,463	22,073
Other Debtors	21	15,987	24,682	18,012	25,078
		50,817	**57,417**	**52,842**	**57,813**
Other Assets					
Tangible Assets	22	888	659	888	659
Cash at Bank and In Hand	23	62,434	60,423	55,727	55,601
		63,322	**61,082**	**56,615**	**56,260**
Prepayments & Accruals		624	102	624	102
Pension Scheme Surplus	24	11,503	25,444	11,503	25,444
		4,431,379	**4,357,703**	**4,431,231**	**4,357,395**

The notes on pages 82 to 122 form an integral part of these financial statements.

Balance Sheet Continued

LIABILITIES As at 31 December	Note		Group 2022 £000	Scottish Friendly 2023 £000
Fund for Future Appropriations	25	224,970	222,679	224,970
Technical Provisions				
Long-term Business Provision	26a	1,879,715	1,792,005	1,879,715
Claims Outstanding	28	48,676	47,712	48,676
		1,928,391	1,839,717	1,928,391
Technical Provision for Linked Liabilities	26b	2,205,637	2,218,537	2,205,637
Creditors				
Derivative Financial Instruments	16	1,011	2,207	1,011
Deposits Received from Reinsurers	31	26,570	28,961	26,570
Creditors arising out of Direct Insurance Operations	32	10,485	8,980	10,217
Other Creditors	33	6,476	10,593	6,954
		44,542	50,741	44,752
Accruals and Deferred Income		22,914	17,124	22,556
Provisions for other risks				
Deferred taxation	34	4,026	8,905	4,026
Other provisions		899	-	899
		4,431,379	4,357,703	4,431,231

S McGee
Chief Executive

A Rankine
Director

The notes on pages 82 to 122 form an integral part of these financial statements.

Notes to the Financial Statements

Group and Scottish Friendly

1. General Information

Group and Scottish Friendly

Scottish Friendly Assurance Society Limited ("Scottish Friendly") is an incorporated friendly society authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. It is incorporated in the United Kingdom under the Friendly Societies Act 1992, and its principal place of business is its registered office: Galbraith House, 16 Blythswood Square, Glasgow, G2 4HJ. It has five wholly owned subsidiaries, together "the Group". The principal activities of each company in the Group are detailed in the Directors' Report.

2. Accounting Policies

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

Basis of preparation

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

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

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

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

Basis of consolidation

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

The activities of Scottish Friendly and the Group are accounted for in the Income and Expenditure Technical Account – Long Term Business. All intra-group transactions, balances, income and expenses are eliminated on consolidation. The amounts stated are the same for both Scottish Friendly and the Group unless otherwise stated.

Business combinations and goodwill

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

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any

2. Accounting Policies Continued

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

Negative goodwill is similarly included in the balance sheet and is credited to the technical account on a straight-line basis over the periods in which the acquired non-monetary assets are recovered through depreciation or sale, which is 10 years.

Contract classification

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

Insurance contracts are defined as those containing significant insurance risk if, and only if, the value of benefits payable under the contract varies significantly as the result of the occurrence of an insured event. This assessment is undertaken at the inception of the contract and excludes consideration of scenarios that lack commercial substance. Such contracts, which may also transfer financial risk, remain insurance contracts until all rights and obligations are extinguished or expire.

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

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

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

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

Foreign currencies

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

Significant judgements and estimates

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

Critical accounting judgements

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

2. Accounting Policies Continued

Classification of long-term contracts

The Group has exercised judgement in its classification of long-term business between insurance and investment contracts, which will be accounted for differently in accordance with our accounting policies. Insurance contracts are those where significant risk is transferred to the Group under the contract and judgement is applied in assessing whether the risk so transferred is significant.

Deferred Acquisition Costs

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

Key sources of estimation and uncertainty

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

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

Investments

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

Valuation of insurance and investment contract liabilities

The technical provisions note 26 explains the assumptions used in relation to mortality, morbidity, longevity, expenses, lapse and surrender rates, investment returns and discount rates. Scottish Friendly bases mortality, morbidity and longevity rates on standard industry or reinsurers' tables, adjusted where necessary to reflect Scottish Friendly's own experience. Expense, lapse and surrender rates assumptions are based on product characteristics and relevant claims experience. Investment returns and discount rates are based on current risk-free market rates, as prescribed under Solvency II. Note 36 provides information on the sensitivities of key assumptions.

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

The reinsurance asset is highly sensitive to assumptions around future mortality and morbidity experience, which are set based on observed experience and rely on judgements about how to interpret that experience and how that experience may change in the future. In preparing the financial statements the directors have made an assessment as to whether claims ceded to reinsurers are recoverable. Note 36 provides information on the sensitivities on this assumption.

2. Accounting Policies Continued

Valuation of pension benefit obligations and associate plan asset

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

Outstanding claims

Outstanding claims reserve is based on observed experience and relies on judgements about how to interpret that experience and how that experience may change in the future. Note 36 provides information on the sensitivities on this assumption.

3. Earned Premiums

Accounting for premiums

Insurance contracts

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

Investment contracts

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

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

	2023 £000	2022 £000
Annual	205,766	197,523
Single	2,439	1,229
	208,205	**198,752**

Comprising:		
Premiums for investment contracts with participating features	24,579	27,372
Premiums for participating contracts	15,075	17,248
Premiums for non- participating contracts	161,454	146,315
Premiums from linked contracts	7,097	7,817
Gross Earned Premiums	**208,205**	**198,752**
Reinsurance Premiums on Insurance Contracts	(84,719)	(72,475)
Earned Premiums, net of reinsurance	**123,486**	**126,277**

Consideration received in respect of investment contracts of £42,657k (2022: £44,551k) is treated as customer deposits and taken directly to the technical provisions, see Note 26b.

4. Investment Income

Accounting for investment income

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

	Group		Scottish Friendly	
	2023 £000	2022 £000	2023 £000	2022 £000
Income from land and buildings	141	100	141	100
Income from financial investments held at fair value through profit and loss	84,260	67,011	84,260	67,011
Net realised losses on financial investments held at fair value through profit and loss	(61,353)	(12,069)	(61,353)	(12,069)
Investment Income	**23,048**	**55,042**	**23,048**	**55,042**

Net realised losses are presented within Investment Income, rather than Investment Expenses and Charges order to present a consistent and complete view of the investment return.

5. Unrealised Gains/(Losses) on Investments

Accounting for unrealised gains and losses on investments

Unrealised gains and losses are calculated as the difference between the valuation at the balance sheet date and the valuation as at the last balance sheet date, with adjustments made in respect of the net book cost of investment trades and accumulation income. All unrealised gains and losses are included in the Technical Account.

	Group		Scottish Friendly	
	2023 £000	2022 £000	2023 £000	2022 £000
Unrealised gains/(losses) on investments	239,164	(458,499)	239,500	(458,002)

Unrealised losses are presented within income, rather than expenses, in order to present a consistent and complete view of the investment return.

6. Other Technical Income

Accounting for other technical income

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

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

	Group		Scottish Friendly	
	2023 £000	2022 £000	2023 £000	2022 £000
Annual management charges	24,810	26,446	24,810	26,446
Policy charges	4,597	3,799	4,597	3,799
Income from Subsidiaries	-	-	1,229	1,207
Foreign exchange (loss)/gain	(627)	1,525	(627)	1,525
Other income	2,643	2,741	58	24
	31,423	**34,511**	**30,067**	**33,001**

7. Claims Incurred

Accounting for claims

Insurance contracts

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

Investment contracts

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

Outstanding Claims

Please refer to note 28 for accounting treatment.

	Group		Scottish Friendly	
	2023 £000	2022 £000	2023 £000	2022 £000
Gross claims paid	253,465	262,302	253,328	262,302
Change in provision for claims outstanding at the year-end	964	(1,066)	1,101	(1,066)
	254,429	**261,236**	**254,429**	**261,236**
Aggregate recoveries received from reinsurers	(117,296)	(107,502)	(117,296)	(107,502)
Net Claims Paid on Insurance Contracts	137,133	153,734	137,133	153,734

7. Claims Incurred Continued

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

The claims analysis above excludes £230,596k (2022: £192,912k) of payments made in relation to investment contracts, see Note 26b.

8. Operating Expenses

Accounting for acquisition costs

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

	2023 £000	2022 £000
Acquisition costs	12,245	17,897
Administration costs	29,347	23,556
Renewal commission	61,947	49,130
Operating Expenses	**103,539**	**90,583**

Remuneration of Auditors

	2023 £000	2022 (restated) £000
Fees payable to the auditor for audit of financial statements	551	610[1]
Fees payable to the auditor for other services:		
The audit of subsidiary companies pursuant to legislation	34	30
Other assurance fees	238	161

The fees payable to the auditor for audit of annual report and financial statements has been updated to include additional audit fees incurred during the course of the audit.

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

1. Updated comparative to include additional fees paid in relation to the audit of the Financial Statements for the year ended 31 December 2022.

9. Staff Costs

Staff numbers and costs

The average number of persons, including executive directors, employed by Scottish Friendly during the year was 253 (2022: 251). The aggregate payroll costs of these persons were as follows:

	2023 £000	2022 £000
Wages and salaries	13,957	11,176
Social security costs	1,387	1,267
Other pension costs	1,079	803
	16,423	**13,246**

Remuneration of Directors

During the year there was £988k (2022: £938k) remuneration incurred for executive directors (included above). Details of directors' remuneration are included in the Directors' Remuneration Report on pages 62 to 64.

During the year there were £495k (2022: £547k) of fees incurred for non-executive directors.

10. Investment Expenses and Charges

Accounting for investment expenses and charges

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

	2023 £000	2022 £000
External fund manager fees	2,112	1,480
Custody fees	196	176
Other investment fees and charges	1,779	1,753
	4,087	**3,409**

11. Other Technical Charges

Accounting for other technical charges

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

	Group		Scottish Friendly	
	2023 £000	2022 £000	2023 £000	2022 £000
Other Technical Charges	2,102	2,078	1,174	1,190

12. Tax Attributable to Long Term Business

Accounting for taxation

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

	Group		Scottish Friendly	
	2023 £000	2022 £000	2023 £000	2022 £000
Current tax charge/(credit)	91	105	(1)	(20)
Deferred tax movement	2,360	(35,395)	2,360	(35,395)
(Over)/under provided in earlier years	(2,984)	400	(2,984)	400
Other	(757)	(1,854)	(757)	(1,854)
Corporation Tax and irrecoverable income tax	**(1,290)**	**(36,744)**	**(1,382)**	**(36,869)**

UK corporation tax in the technical account has been calculated at a rate of 20% (2022: 20%) in accordance with rates applicable to the long-term business of a friendly society.

Scottish Friendly	2023 £000	2022 £000
Transfer to fund for future appropriations	**2,291**	**3,936**
Tax using the policyholder tax rate of 20% (2022: 20%)	458	787
Tax effect of accounting profit not subject to tax	(459)	(807)
Movement in deferred tax on BLAGAB (note 34)	7,239	(30,247)
Tax applied to pension surplus at 35% (note 34)	(4,879)	(5,145)
Differences due to policyholder tax items	(757)	(1,857)
(Over)/underprovided in earlier years	(2,984)	400
Current tax year	**(1,382)**	**(36,869)**

Corporation tax is charged at the standard rate of 23.5% (2022: 19%) on the profit on ordinary activities of the subsidiary SFAM £92k (2022: £125k) with adjustments in respect of prior years being £nil (2022: £nil).

The recognition of a deferred tax asset arose primarily as a result of the negative fixed interest returns that were experienced across the industry in the latter half of 2022.

13. Negative Goodwill

	2023 £000	2022 £000
Carrying amount at the beginning of the period	(41,415)	(47,475)
Amortisation	6,060	6,060
Carrying amount at the end of the period	**(35,355)**	**(41,415)**

Negative goodwill arose primarily from the acquisition of a block of business from Canada Life Limited in 2019.

14. Land and Buildings

Accounting for land and buildings

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

Owner Occupied Land and Buildings:	2023 £000	2022 £000
Fair Value at 31 December	3,250	3,250

Land and buildings relates to freehold property at 14-16 Blythswood Square. The most recent independent valuation by a RICs Registered Valuers was completed at 31 December 2021 and there have been no indicators that would require a change to that valuation. The valuation was carried out in accordance with RICS Valuation – Global Standards.

15. Investment in Group Undertakings

Accounting for investments in Group undertakings

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

Scottish Friendly's investments in subsidiary undertakings as at 31 December 2023 are set out on page 93, all of which are included in the consolidation; the carrying value of these subsidiaries cancel out on consolidation. All subsidiaries are wholly owned by the Group.

15. Investment in Group Undertakings Continued

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

Scottish Friendly holds a majority of the shares in issuance of the Scottish Friendly UK Growth Fund (a sub-fund of the ICVC). The shares are held as part of the investment portfolio assets backing unit-linked liabilities and, as such, will be sold when the underlying policyholders claim on their policies. Scottish Friendly does not consolidate the Scottish Friendly UK Growth Fund within these wider financial statements, under the exemption set out in FRS 102 Guidance 9.9(b) as the investment is held exclusively with a view to a subsequent resale and has not previously been consolidated within the financial statements. The interest in the subsidiary is held at fair value on the balance sheet and is disclosed in note 17 (£18,400k; 2022: £17,300k).

16. Derivative Financial Instruments

Accounting for derivatives

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

	2023			2022		
	Contract Amount	**Fair Value Assets**	**Fair Value Liabilities**	**Contract Amount**	**Fair Value Assets**	**Fair Value Liabilities**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Futures	(27,389)	460	791	8,893	389	277
Forwards	716	938	220	162,031	42	1,930
Swaptions	16,700	3,588	-	21,600	4,346	-
	(9,973)	**4,986**	**1,011**	**192,524**	**4,777**	**2,207**

At 31 December 2023, the outstanding contracts all mature within 4 years of the year end (2022: 5 years).

17. Financial Investments

Accounting for financial investments

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

Financial assets at fair value through profit or loss

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

Loans and Receivables

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

Derecognition of financial assets

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

Impairment of assets

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

17. Financial Investments Continued

Other non-linked financial investments

	Group				Scottish Friendly			
	Carrying Value		Cost		Carrying Value		Cost	
	2023 £000	2022 £000	2023 £000	2022 £000	2023 £000	2022 £000	2023 £000	2022 £000
Financial investments designated at fair value; Shares, other variable yield securities and units in OEICs and unit trusts	459,308	454,530	464,686	476,888	459,308	454,530	464,686	476,888
Debt securities and other fixed income securities	478,408	507,916	598,748	678,126	478,408	507,916	598,748	678,126
Private equity investments	-	-	658	658	-	-	658	658
Investments in Group Undertakings	-	-	-	-	4,761	4,373	3,115	3,115
Total non-linked financial investments	**937,716**	**962,446**	**1,064,092**	**1,155,672**	**942,477**	**966,819**	**1,067,207**	**1,158,787**

17. Financial Investments Continued

Assets held to cover linked liabilities

	2023 £000	2022 £000	2023 £000	2022 £000	2023 £000	2022 £000	2023 £000	2022 £000
Financial investments designated at fair value; Shares, other variable yield securities and units in OEICs and unit trusts	2,426,414	2,441,562	1,922,099	2,090,060	2,426,187	2,441,308	1,921,872	2,089,806
Debt securities and other fixed income securities	166	136	321	288	166	136	321	288
	2,426,580	**2,441,698**	**1,922,420**	**2,090,348**	**2,426,353**	**2,441,444**	**1,922,193**	**2,090,094**
Deposits with credit institutions	-	159	-	159	-	159	-	159
Total linked financial investments	**2,426,580**	**2,441,857**	**1,922,420**	**2,090,507**	**2,426,353**	**2,441,603**	**1,922,193**	**2,090,253**

18. Fair Value Measurement

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

Level 1: unadjusted prices quoted in active markets for identical assets or liabilities.

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

Level 2: inputs other than quoted prices that are observable either directly (as prices) or indirectly (as derived from prices).

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

Level 3: the inputs are not based on observable market data (unobservable inputs).

In a minority of cases, there are no market observable inputs and therefore the fair value is determined using a valuation technique based on assumptions that are not supported by observable market transactions nor based on market data. Details of the valuation techniques used are in Note 36. Such assets include Scottish Friendly's investment in property funds, private equity and the subsidiary companies.

18. Fair Value Measurement Continued

Fair Value Hierarchy

	Group				Scottish Friendly			
	2023 £000	2022 £000	2023 £000	2022 £000	2023 £000	2022 £000	2023 £000	2022 £000
Financial instrument assets 2023								
Financial instruments designated at fair value;	2,121	2,690,941	192,660	2,885,722	2,121	2,690,714	192,660	2,885,495
Shares, other variable yield securities and units in OEICs and unit trusts	394,208	82,211	2,155	478,574	394,208	82,211	2,155	478,574
Investments in Group Undertakings	-	-	-	-	-	-	4,761	4,761
Land and buildings	-	-	3,250	3,250	-	-	3,250	3,250
	396,329	**2,773,152**	**198,065**	**3,367,546**	**396,329**	**2,772,925**	**202,826**	**3,372,080**
Derivative Financial Instruments	460	4,526	-	4,986	460	4,526	-	4,986
Financial assets measured at fair value through profit and loss	396,789	2,777,678	198,065	3,372,532	396,789	2,777,451	202,826	3,377,066
Total financial assets	**396,789**	**2,777,678**	**198,065**	**3,372,532**	**396,789**	**2,777,451**	**202,826**	**3,377,066**
Financial instrument liabilities 2023								
Derivative Financial Instruments	(791)	(220)	-	(1,011)	(791)	(220)	-	(1,011)
Investment contract and liabilities (see Note 26b)	-	-	(2,205,637)	(2,205,637)	-	-	(2,539,782)	(2,539,782)
Total financial liabilities	**(791)**	**(220)**	**(2,205,637)**	**(2,206,648)**	**(791)**	**(220)**	**(2,539,782)**	**(2,540,793)**

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

18. Fair Value Measurement Continued

Fair Value Hierarchy

	Group				Scottish Friendly			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial instrument assets 2022								
Financial instruments designated at fair value; Shares, other variable yield securities and units in OEICs and unit trusts	2,374	2,684,558	209,160	2,896,092	2,374	2,684,304	209,160	2,895,838
Debt securities and other fixed income securities	445,598	59,879	2,575	508,052	445,598	59,879	2,575	508,052
Investments in Group Undertakings	-	-	-	-	-	-	4,373	4,373
Land and buildings	-	-	3,250	3,250	-	-	3,250	3,250
	447,972	**2,744,437**	**214,985**	**3,407,394**	**447,972**	**2,744,183**	**219,358**	**3,411,513**
Derivative Financial Instruments	389	4,388	-	4,777	389	4,388	-	4,777
Financial assets measured at fair value through profit and loss	**448,361**	**2,748,825**	**214,985**	**3,412,171**	**448,361**	**2,748,571**	**219,358**	**3,416,290**
Loans and receivables; Deposits with credit institutions	-	159	-	159	-	159	-	159
Total financial assets	**448,361**	**2,748,984**	**214,985**	**3,412,330**	**448,361**	**2,748,730**	**219,358**	**3,416,449**
Financial instrument liabilities 2022								
Derivative Financial Instruments	277	1,930	-	2,207	277	1,930	-	2,207
Investment contract and liabilities (see Note 26b)	-	-	2,218,537	2,218,537	-	-	2,218,537	2,218,537
Total financial liabilities	**277**	**1,930**	**2,218,537**	**2,220,744**	**277**	**1,930**	**2,218,537**	**2,220,744**

18. Fair Value Measurement Continued

Derivative financial instruments

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

19. Deposits Held For Reinsurers

Accounting for deposits held for reinsurers

Debtors arising out of deposits held for reinsurers are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method. For cash collateral received and pledged the risks and rewards of ownership are transferred. Cash collateral received is recognised as an asset with a corresponding liability to repay the collateral. For cash collateral pledged, the cash asset is derecognised and an equivalent debtor for the repayment of the collateral is recognised.

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

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

	2023 £000	2022 £000
Collateral deposits for: Longevity Swap (Pacific Life Re)	11,367	10,662
	11,367	**10,662**

20. Debtors Arising Out Of Direct Insurance Operations

Accounting for debtors arising out of direct insurance operations

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

	2023 £000	2022 £000
Amounts due from policyholders/intermediaries	10,086	9,053
Amounts due from reinsurance operations	13,377	13,020
	23,463	**22,073**

There are debtors due after more than one year of £1,499k (2022: £1,550k) included within amounts due from policyholder/intermediaries.

21. Other Debtors

Accounting for other debtors

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

	Group		Scottish Friendly	
	2023 £000	2022 £000	2023 £000	2022 £000
Amounts due from brokers	4,782	10,029	4,782	10,029
Amounts due from Group entities	-	-	2,271	656
Other receivables	574	572	328	312
Current corporation tax asset	1,978	1,118	1,978	1,118
Deferred corporation tax asset (note 34)	8,653	12,963	8,653	12,963
	15,987	**24,682**	**18,012**	**25,078**

22. Tangible Assets

Accounting for tangible assets

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

Computer Equipment	4 years
Fixtures & Fittings	10 years

Group and Scottish Friendly

	Computer equipment £000	Fixtures & fittings £000	Total £000
Cost			
At 1 January 2023	1,076	471	1,547
Additions	194	230	424
At 31 December 2023	**1,270**	**701**	**1,971**
Accumulated depreciation			
At 1 January 2023	740	148	888
Charge for the year	148	47	195
At 31 December 2023	**888**	**195**	**1,083**
Net Book Value at 31 December 2023	**382**	**506**	**888**
Net Book Value at 31 December 2022	**336**	**323**	**659**

23. Cash At Bank And In Hand

Accounting for cash and cash equivalents

Cash and cash equivalents comprise cash at bank and cash in hand as well as short-term deposits with a maturity of three months or less and known redemption values which are held to manage short-term operational cash requirements on origination.

	Group		Scottish Friendly	
	2023 £000	2022 £000	2023 £000	2022 £000
Cash and Cash Equivalents	62,434	60,423	55,727	55,601

Included in the above is £2,899k (2022: £2,758k) of cash held to back unit linked business.

24. Pension Scheme Surplus

Accounting for pension schemes

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

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

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

All numbers apply to both the Group and Scottish Friendly.

Money purchase Group personal pension scheme

Scottish Friendly operates a money purchase Group personal pension scheme. For the year ended 31 December 2023, the charge included in the technical account relating to the employer's contributions to this scheme was £1,003k (2022: £803k). There were outstanding contributions of £271k (2022: £nil) at the date of the balance sheet.

MGM Assurance Staff Pension Plan

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

On 3 March 2023, the Trustees of the Plan entered into an agreement to purchase a Bulk Annuity Policy to secure benefits under the Plan. The purpose of this is to de-risk the scheme, by ensuring that the Trustees' liability for the overall obligation for future benefits is covered by an insurance policy in the Trustees' name.

Scottish Friendly pays the balance of the cost as determined by regular actuarial valuations. The Trustees are required to use prudent assumptions to value the liabilities and costs of the Plan whereas the accounting assumptions must be best estimates.

The new Schedule of Contributions, dated 14 March 2022, details up to five additional monthly payments of £226k which are contingent on the funding position on the buyout (solvency) basis at the end of each quarter. No payments under the new schedule were paid during 2023.

A formal actuarial valuation as at 31 December 2021 has been carried out. The liabilities at the reporting date have been calculated by using the same membership data as that used for the results of the 2021 actuarial valuation, but adjusted to allow for the passage of time, benefits paid out of the Plan and changes in actuarial assumptions over the period from 31 December 2021 to 31 December 2023.

24. Pension Scheme Surplus Continued

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

The amounts recognised in the statement of financial position are as follows:	2023 £000	2022 £000
Defined benefit obligation	(63,591)	(64,647)
Fair value of plan assets	75,094	90,091
Net defined benefit asset	**11,503**	**25,444**

The amounts charged to the technical account are the current and past service costs, settlements and curtailments, together with the net interest expense for the year as included in profit or loss. Remeasurements of the net defined benefit asset are included in the technical account.

Service cost:	2023 £000	2022 £000
Administration expenses	643	739
Net interest credit	(1,193)	(720)
Credit/(charge) recognised in Technical Account	**(550)**	**19**
Remeasurements of the net liability:		
Return on Plan assets (excluding amount included in net interest expense)	15,951	53,830
Actuarial gains	(1,460)	(38,693)
Charge recorded in Technical Account	**14,491**	**15,137**
Total defined benefit credit	**13,941**	**15,156**

Scheme administration expenses of £50k (2022: £7k) has been included in the operating expenses of Scottish Friendly.

The principle actuarial assumptions used were:	2023	2022
Liability discount rate	4.55%	4.75%
Inflation assumption – RPI	3.10%	3.35%
Inflation assumption – CPI	2.50%	2.70%
Revaluation of deferred pensions:		
GMP	Fixed rate	Fixed rate
Excess over GMP	2.50%	2.70%
Increases for pensions in payment:		
Pre 88 GMP	0.00%	0.00%
Post 88 GMP	3.00%	3.00%
Excess over GMP (RPI capped at 5%)	3.05%	3.25%
Proportion of employees opting for early retirement	0.00%	0%
Proportion of pension commuted for cash at retirement	20%	20%
Expected age at death of current pensioner at age 65:		
Male aged 65 at year end	86.9	87.4
Female aged 65 at year end	88.5	89.0
Expected age at death of future pensioner at age 65:		
Male aged 45 at year end	88.4	89.0
Female aged 45 at year end	89.7	90.1

24. Pension Scheme Surplus Continued

Reconciliation of Plan assets and liabilities	Assets £000	Liabilities £000	Total £000
At start of period	90,091	(64,647)	25,444
Benefits paid	(2,605)	2,605	-
Administration expenses	(643)	-	(643)
Contributions from the employer	-	-	-
Interest income/(expense)	4,202	(3,009)	1,193
Return on assets (excluding amount included in net interest expense)	(15,951)	-	(15,951)
Actuarial gains	-	1,460	1,460
At end of period	**75,094**	**(63,591)**	**11,503**

The return on Plan assets was:	2023 £000	2022 £000
Interest income	4,202	2,572
Return on plan assets (excluding amount included in net interest expense)	(15,951)	(53,830)
Total return on plan assets	**(11,749)**	**(51,258)**

The return on plan assets in 2023 significantly comprises the impact of the purchase of the insurance policy.

The major categories of Plan assets are as follows:	2023 £000	2022 £000
Corporate Bonds	-	39,576
Insured asset	63,383	-
Cash	11,711	14,839
Liability Driven Investment (LDI)	-	35,676
Total fair value of assets	**75,094**	**90,091**

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

Projected Technical Account cost items for year ending:	2024 £000	2023 £000
Service cost – administrative cost	663	764
Net interest on the net defined benefit asset	(508)	(1,190)
	155	**(426)**

If the discount rate was 0.5 percent higher (lower), the Plan liabilities would decrease by £4,179k (2022: £4,422k) (increase by £4,677k (2022: £4,965k)) if all the other assumptions remained unchanged.

If the inflation assumption was 0.5 percent higher (lower), the Fund liabilities would increase by £3,359k (2022: £3,459k) (decrease by £3,315k (2022: £3,405k)). In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, that is the deferred pension increases and pension in payment increases, if all the other assumptions remain unchanged.

25. Fund For Future Appropriations

If life expectancies were to increase by 1 year, the Fund liabilities would increase by £2,543k (2022: £2,323k) if all the other assumptions remained unchanged.

Accounting for Fund for Future Appropriations

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

Group and Scottish Friendly	2023 £000	2022 £000
Value at start of the year	222,679	218,743
Transfer to the Fund for Future Appropriations in the year	2,291	3,936
Value at the end of the year	**224,970**	**222,679**

26. Technical Provisions

(a) Long-term Business Provision

Accounting for long-term business provisions

With-profit insurance, non-profit insurance, unit-linked insurance and participating investment contracts provisions are determined in accordance with the requirements of the PRA rulebook: Solvency II Firm Technical Provisions Instrument 2015 and as amended by The Insurance and Reinsurance Undertakings (Prudential Requirements) (Risk Margin) Regulations 2023. They are calculated as the expected future cash flows (claims and expenses less premiums) plus a risk margin. The risk margin allows for the cost to a third party of holding the Solvency II risk capital for non-hedgeable risks until all contracts are settled.

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

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

The assumptions used relate to mortality, morbidity, longevity, expenses, lapse and surrender rates, investment returns and discount rates. Refer to note 36 for further detail on insurance risk assumptions and sensitivity. Scottish Friendly bases mortality, morbidity and longevity rates on standard industry or reinsurers' tables, adjusted where necessary to reflect Scottish Friendly's own experience. Expense, lapse and surrender rates assumptions are based on product characteristics and relevant claims experience. Investment returns and discount rates are based on current risk-free market rates, as prescribed under Solvency II.

26. Technical Provisions Continued

Guarantees

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

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

Reinsurance

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

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

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

	2023			2022		
	Gross £000	Reinsured £000	Net £000	Gross £000	Reinsured £000	Net £000
With-Profits Insurance	635,910	(344,545)	**291,365**	665,929	(342,139)	**323,790**
Non-Profits Insurance	810,151	(623,391)	**186,760**	675,522	(500,604)	**174,918**
Unit-Linked Insurance	240,278	-	**240,278**	269,656	-	**269,656**
Participating Investment Contracts	193,376	-	**193,376**	180,898	-	**180,898**
	1,879,715	**(967,936)**	**911,779**	**1,792,005**	**(842,743)**	**949,262**

26. Technical Provisions Continued

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

With-Profits Insurance Contracts	Gross 2023 £000	Reinsured 2023 £000	Gross 2022 £000	Reinsured 2022 £000
1 January	665,929	(342,139)	833,267	(408,741)
Premiums received	15,075	-	17,248	-
Liabilities paid by claims	(70,502)	48,669	(73,375)	50,054
New Business	7,756	-	7,275	-
Fees deducted	(2,868)	-	(3,167)	-
Experience variance and assumption changes	20,520	(51,075)	(115,319)	16,548
31 December	**635,910**	**(344,545)**	**665,929**	**(342,139)**

Non-Profits Insurance Contracts	Gross 2023 £000	Reinsured 2023 £000	Gross 2022 £000	Reinsured 2022 £000
1 January	675,522	(500,604)	940,693	(675,139)
Premiums received	161,454	(84,719)	146,315	(72,376)
Liabilities paid by claims	(116,654)	68,627	(107,897)	57,154
New Business	33,076	(34,559)	48,279	(46,158)
Fees deducted	-	-	(1,021)	-
Experience variance and assumption changes	56,753	(72,136)	(350,847)	235,915
31 December	**810,151**	**(623,391)**	**675,522**	**(500,604)**

Unit-Linked Insurance Contracts	Gross 2023 £000	Gross 2022 £000
1 January	269,656	357,525
Premiums received	7,097	7,817
Liabilities paid by claims	(45,252)	(60,940)
Fees deducted	(2,109)	(2,283)
Experience variance and assumption changes	10,886	(32,463)
31 December	**240,278**	**269,656**

26. Technical Provisions Continued

Participating Investment Contracts	Gross 2023 £000	Gross 2022 £000
1 January	180,898	207,637
Premiums received	24,579	27,371
Liabilities paid by claims	(22,021)	(19,024)
New Business	1,687	1,187
Fees deducted	(2,350)	(2,396)
Experience variance and assumption changes	10,583	(33,877)
31 December	**193,376**	**180,898**

(b) Technical Provision for Linked Liabilities

Accounting for technical provisions for linked liabilities Non-Participating Investment Contracts

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

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

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

	2023 £000	2022 £000
Non-participating Investment Contracts	2,205,637	2,218,537
	2,205,637	**2,218,537**

Reconciliation of movement in technical provision for linked liabilities:	2023 £000	2022 £000
Movement in net technical provisions	12,900	321,245
Other	(16,429)	(10,103)
Amounts received in respect of investment contracts	42,657	44,551
Payments made on non-participating investment contracts	(230,660)	(192,912)
Change in technical provision for linked liabilities per technical account	**(191,532)**	**162,781**

26. Technical Provisions Continued

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

Non-Participating Investment Contracts	2023 £000	2022 £000
1 January	2,218,537	2,539,782
Premiums received	42,657	44,551
Liabilities paid by claims	(230,660)	(192,912)
New Business	7,383	9,066
Fees deducted	(16,430)	(17,580)
Experience variance and assumption changes	184,150	(164,370)
31 December	**2,205,637**	**2,218,537**

27. Costs Of Bonuses

Accounting for bonuses

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

Total bonuses attributable to the year are as follows:	2023 £000	2022 £000
Year-end reversionary bonus declared (included in change in other technical provisions)	2,807	2,336
Reversionary and terminal bonuses paid (included in claims)	5,118	7,914
	7,925	**10,250**

28. Claims Outstanding

Accounting for claims outstanding

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

	Group		Scottish Friendly	
	2023 £000	2022 £000	2023 £000	2022 £000
Claims Outstanding	48,676	47,712	48,676	47,575

29. With-Profits Actuary

Mr S Makin of Hymans Robertson LLP served as the With-Profits Actuary for the period between 1 January 2023 and 4 August 2023. The following information has been provided in response to a request made by Scottish Friendly as required by section 77 of the Friendly Societies Act 1992. Mr Makin has confirmed that neither he nor his family were members of Scottish Friendly, nor had they any financial or pecuniary interest in Scottish Friendly, with the exception of fees paid to Hymans Robertson LLP for professional services which amounted to £239,415 (2022: £384,977) (this figure includes fees payable for work carried out by Hymans Robertson LLP in the year to 31 December 2023 not related to Mr Makin's role as With-Profits Actuary).

Mr C Stuart served as the With-Profits Actuary for the period between 4 August 2023 and 31 December 2023. The following information has been provided in response to a request made by Scottish Friendly as required by section 77 of the Friendly Societies Act 1992. Mr Stuart has confirmed that neither he nor his family were members of Scottish Friendly, nor had they any financial or pecuniary interest in Scottish Friendly, with the exception of salary and employers pension contributions which amounted to £142,662 (2022: £nil) during the year.

30. Capital Management

(a) Capital management policies and objectives

Scottish Friendly's capital management objectives are:

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

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

(b) Solvency II balance sheet

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

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

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

30. Capital Management Continued

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

(c) Capital Statement

Available capital resources

	2023			2022		
	Main Fund £000	Closed Sub-funds £000	Total £000	Main Fund £000	Closed Sub-funds £000	Total £000
Total available capital resources	138,122	10,220	148,342	141,148	18,628	159,776

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

(d) Movement in available capital resources

	2023 £000	2022 £000
Opening capital resources	159,776	163,736
Decrease in Current Assets	(44,679)	(397,250)
Decrease in Technical Provisions	58,659	387,653
(Increase)/decrease in Current Liabilities	(3,037)	8,127
Total	**170,719**	**162,266**
Decrease in ring-fencing of available capital	**(22,377)**	**(2,490)**
Closing capital resources	**148,342**	**159,776**

(e) Solvency position

	2023 £000	2022 £000
Own Funds	148,342	159,776
SCR	77,879	78,209
Solvency Ratio	190%	204%

(f) Capital resource sensitivities

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

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

30. Capital Management Continued

Similarly, an adverse change in the markets for Scottish Friendly's investment assets could increase or decrease the available capital of Scottish Friendly to the extent that equity falls cannot be reflected in reductions in payments to policyholders because of the presence of guarantees and options in the underlying contracts, and any change in assets within the working capital. Currently, a fall in equity/property values would reduce available capital for the Scottish Friendly main fund.

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

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

(g) Reconciliation of UK GAAP Fund for Future Appropriations to regulatory capital available own funds

	2023 £000	2022 £000
UK GAAP Fund for future appropriations	224,970	222,679
Adjustment to the value of technical provisions	5,989	(3,284)
Intangible assets	35,355	41,415
Pension valuation differences	(11,503)	(21,822)
Deferred tax	4,026	8,905
Solvency II excess of assets over liabilities	**258,837**	**247,893**

31. Deposits Received From Reinsurers

Accounting for deposits received from reinsurers

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

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

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

Collateral deposits for:	2023 £000	2022 £000
"Select" annuity (Hannover Re)	21,400	23,866
"Standard" annuity (RGA)	5,170	5,095
	26,570	**28,961**

32. Creditors Arising Out Of Direct Insurance Operations

Accounting for creditors arising out of direct insurance operations

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

	Group		Scottish Friendly	
	2023 £000	2022 £000	2023 £000	2022 £000
Due to reinsurers	1,819	1,842	1,819	1,842
Due to intermediaries	8,666	7,138	8,398	6,992
	10,485	**8,980**	**10,217**	**8,834**

33. Other Creditors

Accounting for other creditors

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

	Group		Scottish Friendly	
	2023 £000	2022 £000	2023 £000	2022 £000
Taxation	-	55	-	55
Trade Creditors	1,536	1,347	1,536	1,347
Investment Creditors	1,645	4,566	1,645	4,565
Other payables	1,676	3,375	2,154	3,487
HMRC payments PAYE and VAT	1,619	1,250	1,619	1,250
	6,476	**10,593**	**6,954**	**10,704**

34. Deferred Taxation

Accounting for deferred taxation

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

34. Deferred Taxation Continued

The tables below show the movement in deferred tax:

	At 1 January 2023 £000	Over provision from prior year £000	Movement in the year £000	Recognised in the technical account £000	At 31 December 2023 £000
Excess carried forward BLAGAB acquisition expenses	1,341	2,929	16,484	19,413	20,754
Excess carried forward BLAGAB s212 gains	(9,290)	-	(2,811)	(2,811)	(12,101)
Excess carried forward BLAGAB loan relationship losses	20,912	-	(20,912)	(20,912)	-
Deferred tax (liability) /asset on BLAGAB	**12,963**	**2,929**	**(7,239)**	**(4,310)**	**8,653**
Deferred tax liability on defined benefit pension scheme	**(8,905)**	**-**	**4,879**	**4,879**	**(4,026)**

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

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

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

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

35. Other Provisions

Accounting for other provisions

A provision is recognised on the balance sheet when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated.

	Group		Scottish Friendly	
	2023 £000	2022 £000	2023 £000	2022 £000
Other provisions	899	-	899	-
	899	**-**	**899**	**-**

Other provisions comprise the expected cost of remediating past identified issues. The provision is estimated by multiplying the population of the issues by the forecast cost to resolve. Discounting is not applied on the basis of materiality. The provision is expected to be utilised across 2024 and 2025.

36. Risk Management

The principal risks to which Scottish Friendly is exposed are strategic (business environment), market, credit, insurance, solvency, liquidity, operational, and conduct risks. Scottish Friendly's approach to risk management is detailed in the Report on Corporate Governance on pages 42 to 56, and this includes a description of the key controls and risk mitigants operated in relation to the principal risks to which Scottish Friendly is exposed.

A key tool used in the identification and management of risks is completion of the Own Risks and Solvency Assessment ('ORSA') process. The ORSA report is approved annually by the Board. As part of Scottish Friendly's 2023 ORSA process, a range of different future scenarios have been considered, including consideration of the potential impact on the business from three different climate change temperature transition scenarios. Consideration was also given within the 2023 ORSA to a number of market and credit risk events occurring concurrently, as well as the impact of a significant drop in interest rates.

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

Insurance risk

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

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

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

36. Risk Management Continued

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

With-profits contracts

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

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

The key risk factors of with-profits contracts are:

- **mortality:**
  The guaranteed payments on death can exceed the value of the assets held to back the policy, giving rise to mortality risk. Assumptions regarding the rate of mortality are taken into account when determining the bonus payments to be added to with-profits contracts. The level of these bonus additions can be varied to mitigate differences between expected and actual mortality experience.
- **guarantees:**
  With-profits contracts are subject to the risk that the fair value of assets held to back the liabilities is depressed at the time that the guaranteed payments specified in the contract fall due to be paid. Scottish Friendly's contractual right to vary future bonus additions can be used to partly mitigate this risk. A number of with-profits contracts include guarantees relating to the minimum level of income received at retirement. These risks are mitigated by Scottish Friendly's use of appropriate investment strategies that match changes in the value of these liabilities under market movements.
- **persistency and expenses:**
  The most significant costs associated with writing insurance contracts are the costs incurred to acquire the policy. These expenses, together with the ongoing costs of administration, are recovered over the policy's lifetime. If the policy is terminated early, the expense deductions made to the point of termination may be less than the costs incurred. For some product types, this risk is partly mitigated by Scottish Friendly's contractual ability to vary the amount payable on surrender. Scottish Friendly also controls its administration expenses on an ongoing basis, and Scottish Friendly's right to vary future bonus additions can be used to partly mitigate this risk.

Protection contracts

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

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

36. Risk Management Continued

The key insurance risk factors of protection contracts are:

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

Non-profit insurance contracts – non-profit annuities

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

The key insurance risk factor of annuity contracts is:

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

Investment contracts

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

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

- **persistency and expenses:**
  Acquisition and administration costs are recovered by management charges deducted over the policy's lifetime. If the policy is terminated early, the expense deductions made to the point of termination may be less than the costs incurred. The administration expenses may also exceed the level of management charges deducted from policies which remain in force. These risks are mitigated by Scottish Friendly's ability to increase management charges. Scottish Friendly also controls its administration expenses on an ongoing basis.
- **embedded guarantees:**
  A small number of unit-linked contracts include guarantees relating to the minimum level of income that can be purchased at retirement using the proceeds of the policy or guarantees related to the terms of that purchase. In addition, some unit-linked contracts also offer a loyalty bonus, whereby policyholders are awarded additional units for remaining in-force. The risks arising from these guarantees are primarily mitigated by Scottish Friendly's use of appropriate investment strategies that match changes in the value of these liabilities under market movements.

36. Risk Management Continued

Insurance risk sensitivity analysis

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

Impact on the FFA:	2023 £m	2022 £m
Increase in expenses by 10%	(22.3)	(17.9)
Increase in assurance mortality rates by 15%	(11.5)	(12.5)
Reduction in persistency by 50%	(18.7)	(19.8)

Credit risk

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

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

Group 2023	AAA £000	AA £000	A £000	BBB and below £000	Not rated £000	Not subject to credit risk £000	Value in the balance sheet £000
Non-linked investments – debt and fixed income securities	19,375	387,384	40,941	22,103	8,604	-	**478,407**
Cash and cash equivalents	-	-	62,434	-	-	-	**62,434**
Derivatives	-	-	-	-	3,588	1,398	**4,986**
Reinsurers' share of technical provisions:							
With-profit Insurance Contracts	-	344,545	-	-	-	-	**344,545**
Non-profit Insurance Contracts	-	589,740	33,651	-	-	-	**623,391**
Other assets	-	11,367	-	-	-	28,819	**40,186**
Total	**19,375**	**1,333,036**	**137,026**	**22,103**	**12,192**	**30,217**	**1,553,949**

36. Risk Management Continued

Group 2022	AAA £000	AA £000	A £000	BBB and below £000	Not rated £000	Not subject to credit risk £000	Value in the balance sheet £000
Non-linked investments – debt and fixed income securities	20,019	444,784	26,996	16,117	-	-	**507,916**
Cash and cash equivalents	-	-	60,423	-	-	-	**60,423**
Derivatives	-	-	-	-	-	4,777	**4,777**
Reinsurers' share of technical provisions:							
With-profit Insurance Contracts	-	472,948	18,772	-	8,884	-	**500,604**
Non-profit Insurance Contracts	-	342,139	-	-	-	-	**342,139**
Other assets	-	10,662	-	-	-	47,151	**57,813**
Total	**20,019**	**1,270,533**	**106,191**	**16,117**	**8,884**	**51,928**	**1,473,672**

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

Collateral pledged by Scottish Friendly in respect of exchange traded derivatives amounted to £2,955k (2022: £2,164k), and collateral received in respect of exchange traded derivatives amounted to £366k (2022: £148k). The net fair value of derivatives in respect of which cash margin is held for both group and Scottish Friendly at the year-end is £331k (2022: £113k).

Scottish Friendly also holds a portfolio of fully collateralised swaptions, held as an asset on the balance sheet, with a year-end fair value of £3,577k (2022: £4,777k). These positions are held to mitigate the interest rate risk associated with certain contractual options on Scottish Friendly's unit-linked business. Cash collateral received in respect of swaptions of £nil (2022: £4,400k) is held off-balance sheet.

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

Other assets include amounts due from policyholders and intermediaries all of which are less than three months old. Scottish Friendly has never experienced a significant loss arising from these parties because it maintains the right to cancel a policy if premiums are not paid when due. No provision is made for impairment of these assets (2022: £nil).

Liquidity risk

Liquidity risk is the risk that a firm, even if solvent, either does not have sufficient liquid financial resources to meet its obligations as they fall due. This risk could arise if the timing of premium receipts, maturity payments, claim payments, expense payments, and the receipt of investment proceeds and amounts due from reinsurers were not appropriately managed.

36. Risk Management Continued

Scottish Friendly manages this risk by monitoring cash flow across key transactions in the business, and setting investment strategies with consideration to the level of liquid and readily marketable assets, in order to allow for timely adjustments to match expected liabilities, if required.

The analysis below summarises the exposures the Group and Scottish Friendly carry in respect of liquidity risks. The earliest contractual repayment date of investment contracts with discretionary participation features and unit-linked investment contracts is repayment on demand and therefore the undiscounted cash flows subject to liquidity risk are £184,605k (2022: £171,729k) and £1,932,294k (2022: £1,944,108k) respectively.

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

	Group		Scottish Friendly	
	2023 £000	2022 £000	2023 £000	2022 £000
Other financial liabilities	120,046	122,275	119,898	121,967

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

Group 2023:	0-5 years £000	5-10 years £000	10-15 years £000	15-20 years £000	Over 20 years £000	Total £000
Non-Profit (insurance)	144,451	202,453	242,073	248,564	532,873	**1,370,414**
With-Profits (insurance)	260,327	223,464	142,532	107,408	160,982	**894,713**
Unit Linked	238,496	-	-	-	-	**238,496**
Participating Investment	193,376	-	-	-	-	**193,376**
Non-participating Investment	2,205,637	-	-	-	-	**2,205,637**
Derivative Financial Instruments	1,011	-	-	-	-	**1,011**
Other Liabilities	120,046	-	-	-	-	**120,046**
Total	**3,163,344**	**425,917**	**384,605**	**355,972**	**693,855**	**5,023,693**

Group 2022:	0-5 years £000	5-10 years £000	10-15 years £000	15-20 years £000	Over 20 years £000	Total £000
Non-Profit (insurance)	98,766	151,478	198,364	219,438	533,150	**1,201,196**
With-Profits (insurance)	292,103	236,872	144,692	110,431	156,112	**940,210**
Unit Linked	268,346	-	-	-	-	**268,346**
Participating Investment	180,898	-	-	-	-	**180,898**
Non-participating Investment	2,218,537	-	-	-	-	**2,218,537**
Derivative Financial Instruments	2,207	-	-	-	-	**2,207**
Other Liabilities	122,275	-	-	-	-	**122,275**
Total	**3,183,132**	**388,350**	**343,056**	**329,869**	**689,262**	**4,933,669**

36. Risk Management Continued

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

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

Fair value estimation

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

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

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

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

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

Specific valuation techniques used to value financial instruments include:

- the use of observable prices for recent arm's length transactions;
- quoted market prices or dealer quotes for similar instruments; in particular, for corporate bonds for which there is no active market the fair value is based on broker/dealer price quotations. Where possible the Group seeks at least two quotations for each bond and considers whether these are representative of fair value in light of current traded levels. Where this information is not available or where it is considered to be not representative of fair value, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics; and
- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

36. Risk Management Continued

Market risk sensitivity analysis

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

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

	2023 Impact £m	2022 Impact £m
Equity Fall	(27.9)	(22.7)
Property Fall	(3.1)	(3.3)
Interest Rate Fall	(1.1)	8.3
Interest Rate Rise	1.3	(7.8)

Outstanding Claims

Increasing the experience of making payments to customers by 10% would increase outstanding claims by approximately £1.4m and a decrease in the experience of making payments to customers would reduce outstanding claims by approximately £1.4m.

Derivative financial instruments

The company holds interest rate swaptions to mitigate the interest rate risk associated with its non-linked business. At 31 December 2023, the outstanding contracts all mature within 4 years of the year end.

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

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

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

Climate Risk

Scottish Friendly considers climate change risk to be a cross-cutting risk, which makes other financial risks more likely to crystallise, rather than a standalone financial risk. There is no current impact on the Financial Statements.

37. Transactions With Related Parties

The aggregate premiums payable for the year by nine directors in respect of Scottish Friendly's products amounted to £38,365 (2022: £55,912).

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