Scottish Friendly

Annual Report & Financial Statements 2024

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For more information on Scottish Friendly and its products visit

scottishfriendly.co.uk

2024 Highlights

Key to our ability to deliver against our purpose is driving value for our members. To this end, we have distributed a total of £23.0m to eligible members in the last year, including £4.5m shared through our ProfitShare scheme.

Transfer from Fund for Future Appropriations[1]

£(9.2)m

The transfer from the Fund for Future Appropriations (FFA) represents the change in value attributable to members[2] by Scottish Friendly over the course of the year. The transfer from the FFA of £9.2m (2023: transfer to the FFA £2.3m) reflects our commitment to reinvesting in the business to support long-term growth and deliver value to our members. Over the course of the year, we have enhanced member benefits by £23.0m[3] (2023: £16.3m), including £4.5m through our ProfitShare[4] scheme, as well as continued investment in key strategic initiatives and supporting distribution activities.

2022 £3.9m
2023 £2.3m
2024 £(9.2)m

ProfitShare

£4.5m

Scottish Friendly's ProfitShare rewards members by returning a portion of our financial success to eligible policyholders each year in the form or regular and final bonuses. In 2024, ProfitShare distribution was £4.5M (2023: £4.4M), which represents 2% (2023: 2%). This reflects our commitment to delivering long-term value while ensuring sustainable growth for our members.

2022: £2.2m
2023: £4.4m
2024: £4.5m

Investment return[5]

7.3%

The return on asset shares within the Scottish Friendly Main With-Profits fund was 7.3%. These investment returns contribute to bonuses we pay to our With-Profits policyholders. Equity markets, and particularly the US, were the primary driver of positive returns in spite of continued complexity in the geopolitical landscape. With-Profits policy pay-outs benefit from our smoothing policy, which can help to reduce the impact of market volatility.

2022 (17.9)%
2023 9.1%
2024 7.3%

Financial strength capital coverage ratio[6]

216%

(Solvency II Pillar 1 capital)
The solvency position (as measured by Solvency II Pillar 1 capital) of Scottish Friendly has increased, with a ratio of 216% at 31 December 2024, up 26% from the previous year. The increased level reflects the impact of market movements and assumption changes. The solvency position continues to be well above regulatory requirements, demonstrating continued financial strength.

2022 204%
2023 190%
2024 216%

Assets under management[7]

£4.2bn

Total assets under management as at 31 December 2024 were £4.2bn, down from 2023 (£4.5bn restated). This reflects the positive investment market returns during the year and the combined impact of premiums received from policyholders and claims paid out, as well as reductions to the value of the reinsurance asset due to actuarial assumption and model changes.

2022 £4.5bn
2023 £4.5bn (restated)[8]
2024 £4.2bn

New business sales

£50.6m (APE)[9]

New business sales, as measured by APE, are of £50.6m versus £51.1m in 2023. The reduction of 1% was due to a contraction in protection and funeral plan partner sales, offset by strong sales of Scottish Friendly products, which grew by almost 30% compared to 2023.

2022 £47.7m
2023 £51.1m
2024 £50.6m

1 Transfer from/to the fund for future appropriations represents the statutory UK GAAP measure 'Transfer from/to the fund for future appropriations' in the Technical Account – Long Term Business.
2 All Scottish Friendly customers become members of the Society when they take out a policy with us, and members invested in the Scottish Friendly With-Profits fund are also eligible for a share of profits earned by the Society.
3 The distribution reflects enhancements made to customer policy values, including the distribution of assets from our closed With-Profits sub-funds.
4 ProfitShare is an alternative performance metric representing the amounts distributed and enhancements to funds of the With-Profits policyholders in our main fund during the year from the Main Fund. Distributions were also made to Scottish Legal Life and MGM policyholders.
5 Investment return is the return in the year, gross of charges and includes realised and unrealised gains. It is an alternative performance measure.
6 The Financial Strength capital cover ratio is calculated as the Own Funds, being the regulatory capital under Solvency II, divided by the Solvency Capital Requirement (SCR).
7 Assets under management is an alternative performance measure and includes assets in the Scottish Friendly Investment Funds ICVC.
8 Details on the restatement are included in note 38.
9 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

> *"With a clear focus on growth and investment, we have made meaningful progress against our strategy and driving value for our members."*
>
> **John McGuigan**
> Chair

I am delighted to present my first Annual Report and Financial Statements as Chair of Scottish Friendly in a year that has reinforced the underlying resilience and strength of our business. With a clear focus on growth and investment, we have made meaningful progress against our strategy and driving value for our members.

The economy

While some of the key external challenges – such as the impact of high interest rates and inflation – may have eased slightly others continue to create uncertainty for our members and the communities we serve. The external context remains challenging, and Scottish Friendly continues to support our members, our colleagues and our wider community in achieving financial wellbeing by providing access to investment options that are clear and meet their needs.

Our members

Key to our ability to deliver against our purpose is driving value for our members. To this end, our ProfitShare scheme has been successful - sharing over £4.5million of our profits with our eligible members in the last year, compared with our 2023 figure of £4.4million. Alongside this, we have also made significant progress in delivering positive outcomes, by ensuring that Scottish Friendly uses research as a pathway to broaden our reach and deepen our insights into member experience.

In 2024, our Net Promoter Score, which measures member satisfaction, has exceeded expectation, and we remain focused on improving our products and services based on member feedback. To this end, in 2024, we made significant strides with several product enhancements to benefit our members.

You can find more about the developments we have made to our products and services in our Chief Executive Officer's Report on pages 6 to 9.

Our delegates

Ensuring that Scottish Friendly remains accountable and connected to our members is delivered through our delegate system. We greatly value Scottish Friendly's relationship with our delegates, which helps us to ensure that we uphold the values of mutuality, collaboration, and remain focused on driving value for our members.

Our community

Supporting the next generation remains a priority. We are advocating for Junior ISA reform to provide more flexibility for families in contributing to a child's savings, making it easier and more inclusive.

Moreover, our commitment to community support has continued through partnerships with organisations like Action for Children, Scottish Book Trust and Developing the Young Workforce, enabling us to support children, young people and families. Fiona Steele, National Director for Scotland at Action for Children commented on our impact, "With the support of Scottish Friendly, the wellbeing programme has made a tangible difference to the lives of young people in some of the most in-need schools in Glasgow."

Our sector

The financial services sector is undergoing significant transformation, driven by advancements in technology, particularly artificial intelligence and financial technology ("FinTech"). In 2024, we increased our engagement with FinTech Scotland to stay attuned to these changes.

A renewed emphasis by the current government on supporting the mutual sector also highlights the critical role of our sector to drive the growth that will benefit both the economy and wider society. This commitment presents an exciting opportunity for our Society, and others like us, to expand our impact, elevate member services, and broaden our presence within the wider financial landscape.

The next stage of the Consumer Duty regulation matches well with our high standards for how firms serve their members. Doing right by our customers has always been at the core of what we do. To this end, we remain committed to ensuring our products, services and communications reflect fairness, transparency and long-term value.

Our board

In May 2024, Mai Fenton and Olive Gaughan joined as new non-executive directors to the Scottish Friendly Board. Each of our non-executives brings a wealth of relevant professional and personal expertise to their role. Collectively, they make an outstanding team. We are all committed to, and motivated by, the strategy we will pursue over the coming years.

In April 2025, Kerr Luscombe, our Vice-Chair and Senior Independent Director, will retire after 10 years of exceptional service. His significant contribution will have a lasting impact, and we thank him for his years of service.

The future

It is a great privilege for me to hold this role, not only because of my pride in what mutuality represents but also because I am surrounded by the dedicated executive team and their talented, hard-working teams contributing to deliver real value for our members at every level. They share with the Board our desire to deliver a strategy that secures the future of Scottish Friendly, and which provides enhanced outcomes for our members, our partners and our colleagues.

Looking ahead, we must continue to be resolute - growing our Society, engaging existing and prospective members and operating a sustainable commercial business that delivers real value for our members. We look forward to continuing to strengthen Scottish Friendly and securing a bright future for all our members.

John McGuigan

Chair

26 March 2025

Chief Executive Officer's Report

"At the heart of everything we do lies our commitment to you, our customers, and ensuring we're creating real value for you today, tomorrow, and for the future."

Stephen McGee
CEO

Reflecting on the past year, I'm proud of what we've achieved together. At the heart of everything we do lies our commitment to you, our customers, and ensuring we're creating real value for you today, tomorrow, and for the future. It's been a year of robust performance, strategic growth, and meaningful progress - all of which position us well to deliver even better outcomes for you in the years ahead.

Delivering growth and returning real value to our members

I am pleased to report that we have delivered another year of strong growth through our new business proposition. Our performance shows the resilience of our strategy and commitment to delivering real value to our members. Total sales of £50.6m annual premium equivalent (APE) represent the second-highest sales result in our 163-year history - an achievement that highlights our ability to navigate complexity while remaining customer-focused.

Despite the high-interest rate environment, where cash accounts have been an attractive short-term option for consumers, our stocks and shares ISA and Junior ISA sales ended the year ahead of plan, achieving nearly 30% of growth compared to 2023. This success reflects the relevance and appeal of our offering in meeting our customers' mid- to longer-term saving and investment goals, and the impact of our investment in our marketing to increase brand awareness.

As the protection market continued to evolve under heightened regulatory scrutiny, our sales results here were lower than we had hoped. However, we remain resolute in working with our protection partners to deliver solutions that meet the needs of both current and future customers.

The Transfer from the Fund for Future Appropriations for the year was £9.2.m (2023: transfer to the Fund of Future Appropriations of £2.3m), representing our commitment to reinvesting in the business to support long-term growth and deliver value to our members. Over 2024, we distributed £23.0m (2023: £16.3m), including £4.5m (2023: £4.4m) ProfitShare to eligible members, making a tangible difference to the outcomes they receive.

A financially stable business

Investment returns of 7.3% are being attributed to the asset shares within the Scottish Friendly Main With-Profits Fund for 2024, compared to investment returns of 9.1% in 2023. Our With-Profits policies in the fund have also benefitted from additional enhancements in respect of our ProfitShare of £4.5m (2023: £4.4m).

Our solvency ratio increased by 26% over the year to 216%, and 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 members can be confident in our ability to meet our promises to them, both now and in the future.

Scottish Friendly recently announced the acquisition of pension and annuity in payment books of business from FIL Life Insurance Limited, part of the Fidelity International Group. The acquisition consists of a book of unit-linked Section 32[1] pensions business comprising £2.16bn assets under management across 76 schemes and covering c40,000 policyholders, and the in payment annuities book with liabilities of £7.3m and c1,000 annuitants. This is subject to approval under Part VII of the Financial Services and Markets Act 2000 and is expected to be completed in the second half of 2026.

We carefully evaluate all acquisition and consolidation opportunities to ensure they offer long-term growth in value for our members. We continue to look for opportunities that align with or support our strategic objective to grow our own-brand business with the aim of delivering real value.

1 Section 32 of the Finance Act 1981.

Delivering on our strategy

Our strategy remains focused on supporting our customers' needs and delivering on our purpose - being dedicated to helping you and your family achieve financial wellbeing through friendly products and customer care.

To do so, we aim to grow our modern savings and investment business, where customers and colleagues are our advocates, and we can deliver real value to our members. We have made good progress in 2024, and have a clear plan on what to focus on next across each of our strategic aims.

Profitably growing our business

To enhance our reach, we've invested in our marketing with targeted campaigns that include radio broadcasts, outdoor advertising, leaflets delivered to UK households and a strong digital presence aimed at families. Our marketing has been successful in driving growth and is an area that we will continue to build on in 2025.

Our protection partnerships remain a key driver of sales and profitability. Despite challenges in the protection market, we continue to work closely with our existing partners to deliver solutions and exceptional service. We also continue to carefully evaluate new partnership opportunities that align with our strategic objectives.

We have launched our first ProfitShare marketing campaign, proudly announcing that we shared £4.5m of our profits with our eligible members in 2024. Giving back is at the heart of our business, and this milestone reinforces our commitment to sharing success with those who matter most – our members.

We have made good progress in enhancing our business operations, technology, and security infrastructure. We have upgraded our administration system and introduced a customer relationship management system to support the acceleration of our strategy. We have also continued to invest in the talent required to drive our business forward.

Looking forward we continue to focus on:

- Growing our business profitably through better retention, our own brand sales and our partners.
- Attracting more of our core customers and target new, underserved customer groups.
- Investing in our business so that it is efficient with embedded operational controls.
- Offering customers invested in our products a simpler and more accessible choice of funds.

Our customers as advocates for our products and services

We firmly believe that for our customers to promote our products and services we need to offer simple, value for money products and services, and deliver a consistent experience through our customers' channel of choice.

In 2024, we have introduced several enhancements to our ISA and Junior ISA offerings. We have improved the ways our customers can interact with us through our enhanced website and have streamlined some of our customer journeys. We have also enhanced our Junior ISA With-Profits fund and now apply a guarantee when the child turns 18.

Additionally, as part of our commitment to younger savers, we are advocating for Junior ISA reform to enable grandparents and other family members to open Junior ISAs directly - empowering families to play a more active role in the child's financial future which benefits the family unit.

To support our customers to navigate the complexities associated with Financial Services, we have built out our support and insights hubs on our website with information, friendly guides and frequently asked questions. We have also introduced the 'friendly word' - digital content aimed at supplying information to help customers improve financial wellbeing.

We are also progressing key initiatives that will benefit our customers from 2025 onwards:

- Introducing a seamless digital transfer-in journey to make consolidating ISAs and Junior ISAs easier.
- Adjusting the charging structure that applies to our My ISAs and Junior ISAs; meaning that from 2025 the more you invest, the lower your charge will be.
- Enabling customers to deal with us digitally with alternatives available where needed, as appropriate.
- Investing in our systems and infrastructure to deliver continuous improvement in service delivery and customer experience.

Our colleagues as advocates for Scottish Friendly

Our people are the foundation of everything we do. Their dedication, passion, and expertise are what allow us to deliver exceptional value to you. We continue to invest in colleague development, ensuring they have the tools, training, and support needed to serve you best.

We are proud to have retained our rating as a 'Very Good Company to Work For' in the UK's Best 100 Companies review. How it feels to work for Scottish Friendly is something that we want to protect and build on, and after conducting a review of the market, we have decided to transition to a new partner survey (Work L). This new survey provides actionable insight at both business and team level, and also enables us to compare our results with the rest of the industry. We believe that this will help towards achieving our goal of making Scottish Friendly a great place to work.

In 2024, we raised over £53,000 for Action for Children, including over £12,000 from the "Boycott Your Bed" event, and have supported community initiatives such as external maintenance at the Renfrewshire Short Breaks Service. I am also delighted to have joined the Board of Action for Children Developments Limited in 2024 and feel incredibly proud to strengthen my own personal support for the charity's fantastic work in helping young people.

For 2025 and beyond, we continue to focus on:

- Encouraging all our colleagues to understand the role they play in achieving our aims and to be proud to be part of Scottish Friendly.
- Having an open and inspiring culture where colleagues are supported, valued and treated as an individual and differing views are welcomed.
- Investing in and foster a culture of development and give all colleagues the opportunity to grow. Allowing everyone to be the best version of themselves.
- Paying colleagues fairly for the job they do.
- Supporting Action for Children in our local community, through colleague fundraising and volunteering initiatives, as well as the funding of two wellbeing practitioners who work in local schools to support children and young people who need it most.

By delivering on these priorities, we aim to strengthen our position in the market, enhance customer loyalty, and build a more connected, resilient community.

Looking ahead

Looking ahead, we are excited about the government's commitment to doubling the size of the co-operative and mutual sector, which could provide a powerful tailwind for our future growth.

We remain fully focused on adding real value to our members with a steadfast focus on the delivery of our strategy. We want our members to know that we are on their side, and our mutual status remains the cornerstone of our growth ambitions to create a more secure future.

None of this would be possible without the support of a dedicated team. I would like to thank our colleagues, executive team, and Board for their unwavering dedication, to our delegates for their engagement and to our members for their trust in us. We will continue to innovate, grow, and deliver on our purpose and I look forward to all we can achieve together for our members in the years to come.

Stephen McGee

Chief Executive Officer
26 March 2025

Member Relations

As a member-owned organisation, we aim to deliver good outcomes for all through good value products and our customer service. We also aim to add a share of our profits to eligible plans each year. We call this ProfitShare. While we can't promise a ProfitShare every year, the continued strength in how we run the business and our commitment to putting customers first means a customer that invested with us 5 years ago has enjoyed an additional 8% uplift in the value of their policy over that time. ProfitShare is one way we show what it means to be a mutual organisation. Profits we earn go back to our eligible members, rather than shareholders.

Scottish Friendly's Delegate system has proven to be an effective model for communication with members and is the cornerstone around which Scottish Friendly fulfils its responsibilities to engage with, and be accountable to, its members. There are a maximum of 30 Delegate positions (22 currently filled), elected by our members to represent geographic constituencies and Delegate positions are advertised annually for the one third retiring by rotation. An exercise was completed during 2024 to update our Delegate criteria with the aim of widening eligibility, and it is expected that we will fill the remaining vacancies in 2025.

The Annual General Meeting provides an opportunity to inform 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 delegates, with 23 out of 26 (88%) voting at the AGM in April 2024. A Special General Meeting was held in February 2025 for delegates to review and approve minor changes to Scottish Friendly's Memorandum and Rules, to bring these in line with current practice.

In 2024, feedback sessions took place with the CEO and delegates to identify potential improvements for how Scottish Friendly engages with the delegates. Following these sessions, changes were made to enhance the Delegate experience and ensure appropriate support is available to enable them to discharge their responsibilities in representing Scottish Friendly members. These include a robust induction plan for new delegates, circulation of the key financial highlights section of the Report and Financial Statements in advance of the AGM and additional time at the start of face-to-face meetings, to allow delegates the opportunity to interact with the Board and Executive team. In addition to this, we continue to provide regular business updates to our delegates through our colleague newsletter, and will continue to look into further improvements to enhance this vital relationship in 2025 and beyond.

Scottish Friendly's member relations strategy includes hosting a dedicated members' area at https://www.scottishfriendly.co.uk/about-us/corporate-governance/our-delegate-system on the Scottish Friendly website, which provides access to information of particular relevance to members. Members can also access investment information via our website (https://www.scottishfriendly.co.uk/help-support/investment-information).

Creating a great place to work

Best Companies

In 2024, 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. Scottish Friendly successfully maintained its "Very Good Place to Work" classification during 2024 with feedback highlighting a supportive and friendly work environment. We now also hold position 19 in the 'Top 25 Best Companies to Work for in Scotland' and we are ranked one of the 'Top 25 Best Companies to Work For In The Financial Services Sector Q4 2024'[1]. We will continue to build on this strong foundation to make this a great place to work, during 2025 and beyond.

Investment in Roles and Careers

2024 saw continued investment in the performance and development of colleagues. We conducted manager training and launched a manager toolkit to help our people managers. Customer Promises were developed by our colleagues and launched with a programme of customer experience training to all colleagues in the business, including the Executive, to further strengthen the role we all play in delivering for our customers. We launched the Scottish Friendly Career Tree, a collection of tools and resources designed to provide visibility of opportunities for personal growth within Scottish Friendly. We are delighted that throughout 2024 around 10% of our workforce have moved into different roles within Scottish Friendly as part of their career development.

This year we have achieved a record recruitment milestone, welcoming 135 new colleagues to our organisation. This significant increase in our workforce underscores our commitment to growth and support for our operations. At the same time our turnover rates and absence levels have remained stable and we anticipate this trend will continue, reflecting the strength and stability of our workforce.

1 Best Companies to Work For Lists 2024

Early Careers and Social Investment

In 2024, we maintained our commitment to the Developing Young Workforce initiative. Our apprentices who commenced employment in September 2022, secured permanent roles within the business during 2024 and in September 2024, we welcomed two new apprentices: one joined our IT Infrastructure team and the other our Claims team. Additionally, our Actuarial graduate apprentice began his professional studies in October 2024. We continued our collaboration with Bannerman High School and are excited to expand our efforts to encompass a broader network across Glasgow and its surrounding areas in the future. We extended this orientation of financial services for young people by offering a 'bring your kid to work' day for all colleagues. We were delighted to welcome several of our colleagues' own children or relations to join us in finding out about all the different kind of careers on offer at Scottish Friendly.

We've organised Scottish book tours for 14 schools reaching over 750 children, held career information sessions throughout the year and 16 of our colleagues participated in Action for Children's Boycott Your Bed. In February 2024, two wellbeing practitioners, sponsored by Scottish Friendly, started working with children at Castlemilk High School and other schools in Glasgow. Since their arrival, they have supported numerous children and their families.

Pay and Recognition

This year we introduced our new and improved recognition scheme and platform that enables local and organisation-wide recognition for colleagues living our values. This scheme feeds into quarterly and annual winner celebrations.

Wellbeing

Monthly webinars were run via our Employee Assistance Programme to support colleagues with topics like menopause, mental health and managing stress. October 2024 saw our third annual wellbeing week where there was a focus on all aspects of wellbeing with colleagues taking part in a steps challenge, having access to flu vaccinations and learning more about how our benefits can support them across different aspects of their personal wellbeing.

Diversity, Equity, and Inclusion (DEI)

Our Board approved the DEI strategy in April 2024 and this year has seen us focus on gathering data on the diversity of our workforce, utilising the people system we introduced in 2023 as well as celebrating Pride month and Disability awareness month, with colleagues from different departments sharing their personal stories that have helped colleagues learn from others lived experience. Our DEI agenda extends beyond delivery from the HR function and is sponsored by our CFO.

Our values

We're in this together

We care about our customers

We keep moving forward

Living & breathing our values

In 2024, Kenny Graham, who works within the Scottish Friendly Quality Assurance Department as a Subject Matter Expert, was the winner of Customer Champion of the Year at the UK Contact Centre Forum Awards. This recognition is testament to Kenny's unwavering dedication and hard work in supporting customers who require extra care, and showcases his commitment to delivering the Scottish Friendly values on a daily basis.

Sustainability Report

There has been continued focus on sustainability within Scottish Friendly in 2024. With the arrival of new Board members we took the opportunity in September 2024 to review our sustainability arrangements and have refreshed our operational plan.

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 summary of Scottish Friendly's approach to sustainability and what we have delivered for the year ended 31 December 2024.

Sustainability goals

Our sustainability aim is to do the right thing in the UK financial services sector and in 2024 we agreed a number of goals to achieve this:

- We will progress towards our 'own operations' (Scope 1 and 2 net zero by 2030 and net zero (Scope 3) by 2050.
- We will set and monitor environmental standards for our current and new suppliers and partners.
- We select investment partners who have the capability to support us with our ESG journey, ensuring we regularly monitor performance.
- We are truly a great and inclusive place to work.
- We create the conditions for our policyholders to be able to make informed choices for a sustainable future.
- We seek opportunities to build stronger more resilient communities balancing our members' interests with this investment.

We are dedicated to integrating sustainability into our core business practices and with these goals we also reviewed and set an operational plan for 2025 to support the delivery of these goals. Our goals, governance and communication of progress is designed to be proportionate to our size, scale, sector and customer requirements.

Notes: 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.

Environment

Own operations

Our organisation's carbon emissions for 2024 reflect emissions from our Glasgow office for which we are directly responsible.

We commissioned an externally evaluated Energy Savings Opportunity Scheme Regulations (ESOS) report in May 2024, in which a series of potential opportunities for further energy savings were identified. These were items such as lighting, heating ventilation air conditioning (HVAC) system, SMART Meter installation, secondary glazing, insulation and roofing options.

Each of these measures would require significant investment and will be reviewed in 2025 in line with a wider building strategy. We are aiming through 2025 and 2026 to introduce a framework to help us select the appropriate items on the pathway whilst balancing the investment in these areas and our policyholders' interests.

We reported our total emissions against our 2021 baseline year using the financial control boundary. Our methodology aligns with the HM Government's Environmental Reporting Guidelines (March 2019)[1] and uses the government's Greenhouse Gas Reporting Conversion Factors (2024)[2] to quantify emissions. For the purposes of evaluating performance to date, an independent report by the Green Energy Advice Bureau (GEAB) published in September 2024, found that our current annual Carbon emissions were 105.7 tCO_2e, based on our energy consumption profile and building design, confirming the previously reported reductions from the 2021 baseline.

Further information can be found below.

Emissions Source	2021 (baseline)	2022	2023	2024	Change 2021-2024	% Change 2021-2024
Direct Emissions from Stationary Combustion - Natural Gas Consumption	107.8	93.6	63.6	65.2	(42.6)	(39.5%)
Total Scope 1 (tCO_2e)	107.8	93.6	63.6	65.2	(42.6)	(39.5%)
Indirect Emissions from Purchased Electricity						
Total Scope 2 (tCO_2e) Location Based	54.1	43.4	49.1	40.5	(13.6)	(25.1%)
Total Scope 2 (tCO_2e) Market Based	8.6	1.9	2.0	0.0	(8.6)	(100.0%)
Total Scope 1 & 2 (tCO_2e) Location Based	161.9	137.0	112.7	105.7	(56.2)	(34.7%)
Total Scope 1 & 2 (tCO_2e) Market Based	116.4	95.5	65.6	65.2	(51.2)	(44.0%)
Energy Consumption by source (kWh)						
Electricity	253,650	221,258	234,611	202,846	(50,804)	(20.0%)
Gas	588,580	512,638	347,554	326,654	(261,926)	(44.5%)
Total	**842,230**	**733,896**	**582,165**	**529,500**	**(312,730)**	**(37.1%)**

1 HM Government Environmental Reporting Guidelines https://assets.publishing.service.gov.uk/media/67161e8696def6d27a4c9ab3/environmental-reporting-guidance-secr-march-2019.pdf
2 Greenhouse Gas Reporting Conversion Factors https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2024

Electricity continues to be procured via sustainable tariffs and as part of procurement process, environment and social governance due diligence is carried out on our supply base to ensure that our suppliers act in a similar environmentally responsible manner.

We are aiming for scope 1 and 2 emissions from our own operations to be net zero carbon by 2030 and have worked with a number of specialist partners to help identify possible pathways to achieve this outcome and to monitor progress.

This year our total energy consumption has reduced by 37.1% upon recorded emissions in 2021 to 2024. Our carbon emissions have also decreased by 39.5% against the 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 2024.

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

Investments

A key element of our approach to environmental, social and governance (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 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 strive to achieve net zero in our supply chain by 2050.

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

Risk Management Report

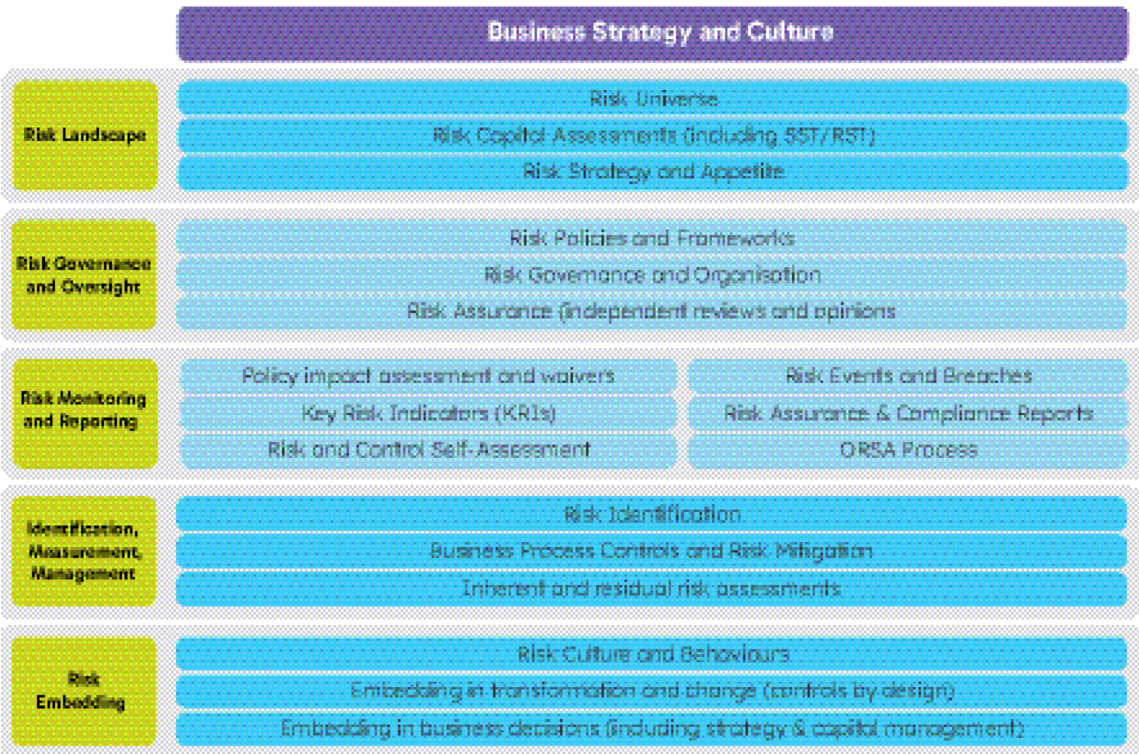
Scottish Friendly maintains a robust Risk Management Framework (RMF) that creates an effective risk management capability across the business which underpins both strategic and operational aspects of risk management.

Developments in 2024:

The RMF is continuously reviewed and updated. 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. In 2024 these included:

- Further enhancements of the Governance, Risk Management and Compliance (‘GRC’) tool within Scottish Friendly’s risk management systems to allow full integration of the Risk and Control Self-Assessment (RCSA) process to provide more coherent and holistic risk reporting, and targeted investment in risk management improvement plans;
- Rationalisation of risks and controls, enhancing clarity and efficiency in risk management processes;
- Substantive updates to the risk appetite framework and statements to align these more closely with the business’s risk tolerance and strategic goals, delivering improvements in our risk-based decision making;
- Further improvements to embed effective incident management across operations, including activities to strengthen the risk and control awareness within operations.

Risk Management Framework



SST = Stress and Scenario Testing **RST** = Reverse Stress Testing

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.

Board approved Risk Appetite Statements set out the type and amount of risk that Scottish Friendly is willing to accept in pursuit of its strategic objectives and the three-year business plan.

Risk Governance and Oversight

Risk policies are in place to define the principles and standards for managing key risks across the business. Each risk policy is allocated an Executive Risk Owner (ERO) who is responsible for demonstrating ongoing compliance with the standards. The Risk Function provides oversight and challenge of this process.

Risk Monitoring and Reporting

Both first and second line operate a number of risk processes that support ongoing risk monitoring through management and risk committees.

A quarterly Risk and Control Self-Assessment (RCSA) process is in place for monitoring and reporting risk exposures. The Risk Function is responsible for consolidation of this information and regular risk reporting 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.

Own Risk and Solvency Assessment (ORSA) reporting sets out a forward-looking assessment of the risks faced by Scottish Friendly, associated capital requirements, and the continued adequacy of capital resources.

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.

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. Stress and scenario testing, including reverse stress testing, is used to test the impact of adverse scenarios on the capital coverage and business viability.

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.

The ORSA process and reporting, with its assessment of risk and capital implications, is considered a key process informing strategic and business decisions, including strategy setting, planning and capital management.

Risk Governance

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

The Board delegates responsibility for the oversight of the system of internal controls and the external financial reporting to the Audit Committee of the Board and responsibility for oversight of the risk management systems to the Risk Committee.

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 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.

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 business areas across Scottish Friendly that are responsible for the identification and management of day- to-day risks and controls within their remit. The management of risk, monitoring of risk and the reporting of breaches of risk appetite are the responsibility of each Executive Risk Owner.
2. The Second Line of Defence consists of the Risk and Compliance Functions. The responsibilities 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 RCSA, the ORSA methodology and processes, and promotion of a risk-aware culture. Responsibilities of the Compliance Function include preparing and delivering the annual compliance monitoring 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 the Internal Audit Function, which provides independent assurance of the adequacy and effectiveness of our risk and control environment. This is delivered via 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 core high level risk categories are described below, 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 damage to Scottish Friendly's reputation and / or inhibition of Scottish Friendly's ability to deliver its strategy, as a result of failure to manage resources, or make business decisions, in a manner appropriate to the business and external environment.	We mitigate SBER risks through a combination of measures, including operational controls 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. Over 2024 we made further investments to enhance operational frameworks, technology, security infrastructure, strategic change capability, and in the talent required to drive the business forward.
2. Market	The risk of adverse impacts to the value of assets and/or liabilities, leading to financial loss to Scottish Friendly, as a result of market movements or fluctuations.	We adopt a relatively low risk investment strategy, which provides appropriate 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 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 as a result of 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 recent years, experience analysis has included particular consideration for the potential hardship caused by higher inflation and the "cost of living" crisis, and the 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 that, although solvent, Scottish Friendly is unable to settle its financial obligations when they fall due as a result of limited access to liquid assets, or inability to realise investments and other assets.	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 of financial loss or non-financial impact, including reduced operational resilience, customer and reputational impacts as a result of inadequate or failed internal processes, systems or people, or as a result of external events.	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. Although controls are the best mitigant against operational risks, capital is also held.
6. Credit	The risk of loss or adverse consequences for the business as a result of default or failure of third parties to meet their payment obligations or changes 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, investment 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.

Risk	Description	Mitigation and Management
7. Conduct	The risk of failure to provide good outcomes for customers as a result of ineffective behaviours, products or services of Scottish Friendly, third party service providers 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, Executive and Risk Committees. Over 2024, continued development of our people and strengthening of our customer service operational environment to support colleagues' delivery of good outcomes for customers in line with Consumer Duty requirements was a key focus. 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 key emerging risks, identified as part of the 2024 ORSA process, are described below:

Emerging Risk	Description	Mitigation and Management
1. Shifting consumer lifestyles and milestones	Customer expectations continue to evolve alongside an ageing population, leading to changes in product requirements and customer service expectations.	This risk is mitigated and managed through the annual review of the strategic and business plan, which takes into account ongoing market research into market expectations and close monitoring of experience over the year.
2. Failure of a key supplier	A challenging business environment has led to an increased number of business insolvencies. There is a risk that this occurs to a key business supplier to Scottish Friendly.	Relationships with third parties are closely monitored and managed, and include regular review of exit plans, and work done by the Operational Resilience team to map out actions that would be taken in case of the exit or failure of key suppliers.

Emerging Risk	Description	Mitigation and Management
3. Cyber security	Cyber-attacks remain a key risk to businesses with several recent external high-profile events, indicating this is an increasing risk. Significant evolution and availability of AI tools risks a commensurate increase in malicious actors using these tools to cause significant damage to the financial sector.	An extensive suite of controls is operated within the business to identify and prevent attempted financial crimes, which include extensive IT controls, including utilising advanced cyber protection tools provided by external specialist, to prevent attempted cyber-attacks.
4. Geopolitical turmoil and instability	Ongoing war in Ukraine & Middle East could escalate further, impacting supply chains, and political change potentially leading to trade wars, both likely to have a knock-on effect on prices and global financial markets. Escalating tensions could also lead to consumer campaigns to boycott financial services companies invested in industries deemed to be involved in the wars.	The investment function works closely with Aberdeen and JP Morgan, Scottish Friendly's two main asset managers, to adapt investment strategy to reflect emerging geo-political events.

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.

The climate change scenario analysis within the 2024 ORSA report is supported by information from JP Morgan and Aberdeen, Scottish Friendly's two main asset managers, who provide an assessment of the Value-at-Risk ('VaR') from climate change for the portfolios they manage. This analysis indicates that a 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.

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. Work on the management, mitigation and reporting of this risk will continue to be developed 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 Vice-Chair (who also acts as Senior Independent Director), as at 31 December 2024, 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.

John McGuigan was appointed as a director in September 2023 and, following election by the delegates at the Annual General Meeting, was appointed as Chair with effect from April 2024.

David Huntley retired as a director in April 2024, having exceeded his 9 years tenure and was succeeded by John McGuigan.

Kerr Luscombe acts as both Vice-Chair and 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 retire in April 2025, having reached his 9 years tenure at which point, subject to regulatory approval, Anja Balfour will take on the role of Vice-Chair and Senior Independent Director.

Mai Fenton was appointed as a director in April 2024, having been elected by the delegates at the Annual General Meeting. Following Kerr Luscombe's retirement in 2025, Mai will assume the role of Chair of the Remuneration Committee.

Olive Gaughan was appointed as a director in April 2024, having been elected by the delegates at the Annual General Meeting. Following Kerr Luscombe's retirement in 2025, Olive will be a member of the Risk Committee, Audit Committee, With-Profits Committee and With-Profits Approval Committee.

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 and its Committees.

Particulars of Directors' remuneration are given in the Directors' Remuneration Report on page 46.

Directors

John McGuigan
Chair

Skills and Experience: John McGuigan has over 25 years experience operating at senior executive levels across a number of sectors. A customer director, McGuigan draws on a profound understanding of the changing needs of customer behaviours to improve business performance and to steer organisations towards sustainable outcomes. John has held senior executive roles within financial services, including Managing Director of Customer Operations at Standard Life where he led the customer work as part of the purchase of Standard Life by Phoenix Group. At the point of completion of the takeover, John was subsequently invited to join Phoenix as Group Customer Director, leading a large-scale transformation programme to improve the overall customer journey.

He has previously held a non-executive director role with Scottish Ambulance Service and recently retired as the Chair of Scottish Financial Enterprise after serving his allotted tenure of 9 years.

External Appointments: John is currently the Chair of Scottish Rugby Ltd and works as a Mentor with Merryck & Co.

Kerr Luscombe
Vice-Chair and Senior Independent Director

Skills and Experience: Kerr Luscombe is a Fellow of the Institute and Faculty of Actuaries with extensive experience at Board level in the life insurance industry. He has held directorships at Royal London Group, Lloyds Banking Group and Santander's life insurance businesses.

External Appointments: Until very recently, Kerr was 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.

Anja Balfour
Independent Non-Executive Director

Skills and Experience: Anja Balfour has extensive experience managing Japanese, Asian ex-Japan and International equity portfolios for Stewart Ivory, Baillie Gifford and, latterly, Axa Framlington. Her former appointments include being Chair of Schroder Japan Growth Fund plc and a non-executive director for Martin Currie Asia Unconstrained Trust plc. She has also previously acted as a trustee of Venture Scotland, a charity specialising in personal development for young people. She is a member of the CFA Society of the UK and Archangel Informal Investment, a business angel syndicate.

External Appointments: Anja acts as Chair of The Global Smaller Companies Trust plc and as a non-executive director of AVI Global Trust plc.

A Audit Committee	**R** Remuneration Committee	**WP** With-Profits Approval Committee
I Investment Committee	**RC** Risk Committee	● Chair of Committee
N Nomination Committee	**W** With-Profits Committee	● Member of Committee

Directors Continued

Susan Beckett

Independent Non-Executive Director

Skills and Experience: Susan Beckett has held senior leadership positions at global firms including Schroders, JP Morgan, Barclays Global Investors, BlackRock, Kleinwort Benson, and the BT Pension Scheme. She previously acted as Chief Risk Officer for RBC Brewin Dolphin.

External Appointments: Susan holds a non-executive director and Chair role on the Risk Committee for RBC Brewin Dolphin Wealth Management Ireland.

Mai Fenton (since April 2024)

Independent Non-Executive Director

Skills and Experience: Mai Fenton is a non-executive director and Chief Marketing Officer with over two decades of experience in brand building and growth acceleration across large multinationals and challenger brands. Most recently, she served as Chief Marketing Officer at Superscript where she developed the digital proposition, built the brand, devised data-led scalable marketing strategies, and contributed to two successful funding rounds.

External Appointments: Mai serves on the board of Henderson International Income Trust plc, and is a Trustee and Chair of the Nomination, Remuneration and HR Committee of Dallaglio RugbyWorks, a charity that leverages the power of rugby to support vulnerable young people.

Olive Gaughan (since April 2024)

Independent Non-Executive Director

Skills and Experience: Olive Gaughan is a highly experienced actuary and financial services executive with over 30 years of experience within the Insurance industry. She was previously Director & Head of Actuarial with Mazars in Ireland, and Appointed Actuary & HoAF at Prudential International Assurance. Olive is a Fellow of the Society of Actuaries in Ireland.

External Appointments: Olive is currently a non-executive director of FBD Insurance and of Canada Life Reinsurance Ireland. She is a member of the Pensions Council in Ireland, advising the Minister for Social Protection on matters relating to pensions policy. Olive is also a member of the board of the charity Réalta.

Mark Laidlaw

Independent Non-Executive Director

Skills and Experience: Mark Laidlaw is a Fellow of the Institute and Faculty of Actuaries, with a career spanning more than 30 years within the insurance sector across life insurance, general insurance, pensions and asset management. 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=.

External Appointments: Mark acts as a director of Kilter Finance Services Limited, London LGPS CIV Limited, chair of the Risk Committee of Omnilife Insurance Company Limited, Chair of the Investment Oversight Committee for TPT as well as being a Trustee of the LV= pension scheme.

Stephen McGee

CEO

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

External Appointments: Stephen is currently a non-executive director on the Board of Action for Children Developments Limited.

Alan Rankine

CFO

Skills and Experience: Alan Rankine is a Fellow of the Institute and Faculty of Actuaries, with over 17 years experience in the life insurance industry across both life companies and consultancy.

External Appointments: None

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

Scott McNeill (with effect from January 2025)
Chief Actuary

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"), whilst also continuing to adopt relevant best practice from the 2018 UK Corporate Governance 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' during 2024 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
• The Board is responsible for setting the strategy and objectives by which we deliver our purpose and vision. The Executive is responsible for the execution and delivery against the agreed strategy. A three-year strategy was set by the Board and Executive in June 2023, with a review undertaken in June and November 2024 to ensure delivery against strategic objectives. • Our purpose ('dedicated to helping you and your family achieve financial wellbeing through friendly products and customer care"), values and strategic objectives are communicated to all employees and feature prominently in internal communications. • Throughout 2024 we have reported progress against our current three-year strategy and, as we look forward into 2025 and 2026, the Board will formally review and be provided with updates throughout the year on progress against the approved strategy. • 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 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.	• Individual 1-1 strategy reviews with the Board • Board Meetings – review of strategy progress and approval of strategy and business plan – June, November and December 2024 • 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 • DE&I Policy

AFM Corporate Governance Code Principles

We have maintained a "Very Good Place to Work" classification during 2024 and now also hold position 19 in the 'Top 25 Best Companies to Work for in Scotland'. We are also ranked one of the 'Top 25 Best Companies To Work For In The Financial Services Sector Q4 2024', with the best companies index (BCI) measure moving from 676 to 666 between September 2023 to September 2024. • The Remuneration Committee approves all Executive reward objectives by way of a balanced scorecard. 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.	

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
• The Nomination Committee oversees Board composition and succession planning for the Board and senior executive team. During 2024, the Nomination Committee oversaw the appointments of Mai Fenton and Olive Gaughan to the Board, taking into account factors such as the candidates' suitability for the role against objective criteria, board composition and diversity. Of the current NED composition, four out of the seven are female. • 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 performance is reviewed separately by both the Chair and the CEO given his role as a director and as part of the Executive team. • The Chair, supported by the Company Secretary, leads an annual review of Committee effectiveness for all Committees, alongside reporting on the fulfilment of the Terms of Reference by the Committee Chairs. • 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. Each Board member has a learning and development plan to complete and induction plans are in place for new members. 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.	• Board Succession Plan • Board Skills and competence framework • Nomination Committee • Board Performance reviews and annual fitness, propriety, capacity and independence assessment • Board and Committee Terms of Reference • Annual effectiveness reviews • Conflicts of Interest Policy and register

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. • Annual effectiveness reviews are undertaken by the Company Secretary for all Committees, alongside reporting on the fulfilment of the Terms of Reference by the Committee Chairs. • 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.	

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 is reviewed on an annual basis by the Risk Committee. This includes detailed statements of responsibility for each of the Senior Management Function Holders (SMFs) on the Board. 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. 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, an annual review is undertaken with external legal advisors on the responsibilities and accountabilities of the Board and any relevant changes from a corporate governance perspective. • Conflicts of interest are recorded at each meeting and a record of conflicts and interests are retained by company secretariat. • The Board has its own Terms of Reference and Schedule of Matters Reserved to the Board. These documents are kept under regular review and mapped against the annual calendar of Board meetings to ensure all duties are considered during 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.	

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 misstatement or loss. The Risk Committee has been 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 2024.	• Risk Management Framework (RMF) • Strategic Plan • Business Plan • ORSA

AFM Corporate Governance Code Principles

• 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. • 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 are reviewed on a regular basis by the Board.	

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
• Information on how we apply this principle is included in the Directors' remuneration report on page 44, and the overview of the Remuneration Committee on page 45.	• Remuneration Policy • Pay Principles • Remuneration Committee TOR • Executive Balanced Scorecard & Objectives • Business Plan

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, colleague views are examined in the twice annual externally benchmarked Best Companies engagement survey. Feedback from the monthly people ambassador forums is fed into the Board discussions through our regular Board reporting and indicators such as turnover and absence are monitored on a monthly basis. • The NEDs met privately on at least one occasion in 2024 and any issues raised were discussed with the Company Secretary and CEO. • 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. • A phased implementation of a new customer relation management (CRM) system was launched in October 2024, with the aim of improving our customer and colleague experience and produce MI by which Scottish Friendly can identify any areas of improvement in our policies and processes in order to best meet the needs of our customers. • The Board approved the DEI strategy, with work undertaken in 2024 to assess the diversity of our workforce. Scottish Friendly also celebrated Pride and Disability awareness, with staff having the opportunity to share their personal experiences with the aim of providing a better understanding for colleagues. • 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. The CEO engaged with delegates during 2024 to identify any improvements to how we communicate with them, with some suggested enhancements detailed within our Member relations section including more time at meetings for the delegates to network with the Board and Executive. • ESG and sustainability was an area of continued focus during 2024, with a review of ESG arrangements in September 2024. Our aims and operational plan on ESG were refreshed as a result of this exercise, with key actions identified for 2025. Further details are included in the Sustainability Report on page 14.	• Best Companies Survey • Colleague Briefings • Lunch and Learn sessions with Executive team • People Ambassador Forums • DEI Strategy • ESG

The Board and Board Committees

The terms of reference of the Scottish Friendly Board and its Committees – Audit, Risk, Remuneration, Nomination, Investment, With-Profits Committee and With-Profits Approval Committee – as well as the Scottish Friendly Asset Managers Limited Board terms of reference are available on the Scottish Friendly website at 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 2024 by the Audit, Risk, Nomination, Investment, With-Profits Committees and With-Profits Approval Committee in discharging their responsibilities is summarised below. The work carried out by the Remuneration Committee is described within the Directors' Remuneration Report on pages 44 to 46.

	Board Appointment	Board Retirement	Board Meetings	Audit Committee	Risk Committee	Remuneration Committee	Investment Committee	Nomination Committee	With-Profits Committee	With-Profits Approval Committee
David C Huntley (until April 2024)	January 2013	April 2024	3 (3)	-	-	1 (1)	-	1 (1)	-	-
John McGuigan (from Sept 2023)	September 2023	-	8 (8)	-	-	2 (2)	-	3 (3)	-	-
Kerr Luscombe	June 2015	April 2025	8 (8)	4 (4)	7 (7)	2 (2)	-	3 (3)	4 (4)	4 (4)
Anja Balfour	April 2018	-	8 (8)	-	-	-	4 (4)	-	4 (4)	4 (4)
Susan Beckett	September 2020	-	8 (8)	4 (4)	7 (7)	-	2 (2)	-	-	-
Mark Laidlaw	September 2021	-	8 (8)	4 (4)	7 (7)	-	-	-	4 (4)	3 (4)
Mai Fenton	April 2024	-	5 (5)	-	-	-	2 (2)	-	-	-
Olive Gaughan	April 2024	-	5 (5)	2 (2)	4 (4)	-	-	-	2 (2)	2 (2)
Gillian Watson	April 2018	April 2024	2 (3)	2 (2)	-	1 (1)	-	-	-	-
Stephen McGee	September 2021	-	8 (8)	-	-	-	4 (4)	3 (3)	-	3 (4)
Alan Rankine	January 2023	-	8 (8)	-	-	-	4 (4)	-	-	-

The above reflects the formally scheduled meetings. In addition, there were a number of ad-hoc meetings over the year to discuss strategic initiatives.

The Board and its responsibilities:

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 17);
- actuarial matters including solvency and capital requirements;
- operational reports on customer service and colleague matters; and
- business conduct information.

The Board received regular updates on the work undertaken by Scottish Friendly in relation to the new FCA regulation of Consumer Duty. The final Consumer Duty plan was approved by the Board on 18 July 2024 and whilst work continued on improving outcomes for customers, the Board is comfortable that Scottish Friendly is acting to deliver good outcomes for retail customers in compliance with Principle 12 of the FCA Principles for businesses.

During 2024, the Board also considered a number of strategic proposals and provided oversight in conjunction with the Risk Committee on the Sonata upgrade implementation ahead of go-live in September 2024.

The Board also reviewed and ensured the fulfilment of the terms of reference and examined Committee effectiveness. Over 2024 the Board approved the establishment of the With-Profits Approval Committee to support in relation to With-Profits matters.

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, the distribution of surpluses and bonuses as well as a number of governance matters such as conflicts of interest, offices of profits and Delegate re-election.

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 2024 the Audit 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 external auditor's final report on internal controls and ensured that follow up action was appropriate and completed where necessary;
- approved the internal audit programmes and received regular progress reports from internal audit and ensured that recommendations made were followed up by management. Individual internal audit reviews are scheduled both according to regular assessments of key risk areas on a cyclical approach supplemented with matters of a topical nature. The Committee also monitored 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.

There was significant focus from the Committee during 2024 on compliance with the Client Asset Sourcebook ("CASS"). In accordance with the 2024 Internal Audit Plan, an internal audit review was performed on the effectiveness of CASS controls.

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 2024. No issues with the independence of PwC were identified.

The Investment Committee and its responsibilities:

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 in September 2024 and investment advisors are invited to provide regular updates on an ongoing basis.

During 2024, the Committee also reviewed and ensured the fulfilment of the terms of reference and examined Committee effectiveness, which included a review of the effectiveness of our fund managers. 360°feedback was also received from the fund managers by the Committee.

In March 2024, Anja Balfour resumed the role of Chair for the Committee, with Kerr Luscombe stepping down as interim chair.

The Nomination Committee and its responsibilities:

The Nomination Committee ensures that plans are in place for orderly succession for appointments to the Board and regularly reviews the composition of the Board and its Committees. 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.

Following a detailed skills and competency assessment of the current and future Board requirements, the Committee retained the services of an external search firm to identify one non-executive director candidate who had marketing and digital experience and one who had Actuarial experience, subsequently recommending to the Board in March 2024 that Mai Fenton and Olive Gaughan be offered the positions. Following their appointment, the Committee agreed the succession plan for the retirement of the Vice-Chair and Senior Independent Director (SID), and the role of Chair of the Remuneration Committee.

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.

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.

In line with the TOR, the Committee reviews any proposed acquisitions and significant change programmes including IT. During the year, the Committee reviewed a number of potential acquisitions as well as reporting from the Sonata Steering Committee in relation to the Sonata upgrade implementation. A number of ad-hoc meetings were held to ensure the Committee were comfortable to proceed with the project, with successful go-live of the upgrade in September 2024.

The With-Profits Committee and its responsibilities:

During 2024, the Committee assessed, reported on and provided clear advice and, where appropriate, recommendations to the With-Profits Approval Committee and Board on:

- the way in which each With-Profits fund is managed by Scottish Friendly and, where 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;
- where 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 the Committee's 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 and surplus, policyholder communications and administration standards, investment performance and strategic asset allocation.

In addition, it also requested and received reports on various strategic and corporate initiatives, proposed changes to product charges, actions to improve policyholder outcomes and a financial management framework.

The With-Profits Approval Committee and its responsibilities:

During 2024, the Board established the With-Profits Approval Committee (WPAC) for the purpose of supporting the Board in the consideration of certain delegated matters relating to the management of With-Profits policies and to discharge certain aspects of the board's responsibilities as set out in COBS[1] 20. For matters which are financially or strategically significant the WPAC refers these to the full Board.

The Committee reviewed and approved a number of matters which had been considered by the With-Profits Committee, including the management of With-Profits funds, compliance with PPFM and any changes resulting in revisions to PPFM and the determination of bonus rates to be applied to the With-Profits business.

The Committee undertook a review of the fulfilment of terms of reference and examined the Committee's effectiveness in March 2025.

1 FCA Conduct of Business Sourcebook

Directors' Report

The Directors have pleasure in submitting their Annual Report and Financial Statements for the year ended 31 December 2024.

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 out 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, MGM 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 certain Scottish Friendly ISA/JISAs and Child Trust Funds.

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 25 to 27. Further information on the Board is set out in the Report on Corporate Governance on pages 29 to 39.

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 2024 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 at www.scottishfriendly.co.uk/about-us/corporate-governance/modern-slavery-statement. 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 or the Pensions Ombudsman. 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 the 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, a resolution to re-appoint PricewaterhouseCoopers (PwC) LLP will be proposed at the 2025 Annual General Meeting.

Pam Simmons

Company Secretary
26 March 2025

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 2024.

Our colleagues continued to show great passion for our customers and the Society in this last year whilst our transformation and change of our business evolves.

Our annual salary award takes into account various economic external factors such as inflation, the market movements in pay for the sector and the external benchmarking of our pay grades. In 2024 the Remuneration Committee approved a new approach to pay, which set a framework for incremental pay variances depending on position in range and performance, the total budget for 2024 was 3% with the average payout being 2.5%.

We held refresher sessions on pay transparency with all colleagues in 2024, 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 paid, and continue to, pay the Glasgow Real Living Wage, albeit only 2% of colleagues are on salaries requiring any adjustment to meet the Real Living Wage threshold. During 2024, we introduced a new pension scheme and 4x annual salary life assurance to support financial wellbeing, with employees continuing to benefit from 10% employer pension contributions providing they contribute a minimum of 3%. Our colleagues continue to benefit from health care and extended wellbeing initiatives, as well holiday entitlements that increase with service. Sessions were also held to inform colleagues of the benefits of our private medical insurance, with an additional 52 colleagues joining this scheme during the year.

Our gender pay data as of 5 April 2023, which was published in April 2024, showed that in Scottish Friendly there were no significant differences, when comparing the pay of men and women in lower to upper middle quartiles. Our April 2024 data has followed the same trend and the report will be available on our website from 5 April 2025 at **https://www.scottishfriendly.co.uk/gender-pay-report.**

The February 2024 Remuneration Committee met to complete their annual review of director and executive compensation, and summary of the Board compensation is available in the table on page 46.

Kerr Luscombe

Chair of Remuneration Committee

The Remuneration Committee and its responsibilities:

The Committee consists of the Chair, Kerr Luscombe 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.

The February 2024 Remuneration Committee assessed performance against the Executive balanced scorecard and objectives, which had been introduced during 2023, with variable pay applied to drive a focus on performance outcomes. The Committee also reviewed the remuneration of the non-executive directors, including the Chair, and the fees payable to delegates and external appointees. The October 2024 Committee also considered the future competitive landscape and any changes needed to our pay approach, to ensure the business continued to attract talented individuals.

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 Non-Executive Director were set for three years in February 2024 and therefore no further changes are anticipated until 2027. 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. 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' 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 2024.

	Salary and Fees £000	Performance pay £000	Benefits[1] £000 (Expenses Pilop and healthcare)	Total Compensation Year ended 31 Dec 2024 £000	Total Compensation Year ended 31 Dec 2023 £000
Chair					
David Huntley [2]	35	-	5	40	113
John McGuigan[3]	93	-	2	95	14
Executive Directors					
Stephen McGee	481	289	70	840	694
Alan Rankine	235	85	24	344	294
Non-Executive Directors					
Anja Balfour	80	-	4	84	77
Kerr Luscombe	84	-	-	84	77
Gillian Watson[4]	20	-	1	21	60
Susan Beckett	69	-	7	76	73
Mark Laidlaw	80	-	1	81	77
Mai Fenton (joined April 2024)[5]	38	-	5	43	-
Olive Gaughan (joined April 2024)[5]	43	-	4	47	-

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. David Huntley retired as a Director in April 2024.
3. John McGuigan joined the Board in September 2023 and started serving as Chair of the Board in April 2024.
4. Gillian Watson retired as a Director in April 2024.
5. Mai Fenton and Olive Gaughan joined the Board in April 2024.

Financial Statements

Our Colleague Promises
We're in this together. We care about our customers. We keep moving forward.
Remuneration
You are paid fairly for the job you do
Environment
You are proud to join and be part of the SF family and differing views are welcomed
We promise... great place to work no gimmicks
Development
You have the skills and training to be the best version of you & have the opportunity to develop and grow
Well-Being
You are valued and supported and treated as an individual
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 2024 and of the Group's and 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 & Financial Statements (the "Annual Report"), which comprise: the Balance Sheet of the Group and the Society as at 31 December 2024; 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 for the protection business (Group and Society)

Materiality

- Overall Group materiality: £11.8 million (2023: £12.9 million) based on 5.5% of Funds for Future Appropriations (2023: 5.7% of Funds for Future Appropriations).
- Overall Society materiality: £11.2 million (2023: £12.7 million) based on 5.2% of Funds for Future Appropriations (2023: 5.7% of Funds for Future Appropriations) (restricted to 95% of group materiality).
- Performance materiality: £8.8 million (2023: £9.7 million) (Group) and £8.4 million (2023: £9.5 million) (Society).
- Specific overall materiality: £23.6 million (2023: £24.2 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 (2023: 1% of Assets held to Cover Linked Liabilities) (Group and Society).
- Specific performance materiality: £17.7 million (2023: £18.2 million) applied to Assets Held to Cover Linked Liabilities and Technical Provision for Linked Liabilities (2023: 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. Given that the Society's liabilities are significantly made up of protection business, including term assurance and whole of life contracts, persistency is a key risk to which the business is exposed and, given the size of the protection book, is a material assumption for the Society.	We have performed the following procedures: • Assessed the appropriateness of and evidence supporting the judgements made in the setting of the persistency basis, including the choice of assumptions for which there is limited or no credible experience data and the consideration of external factors such as the cost-of-living crisis; • Understood the relevant controls within the persistency experience analysis and assumption-setting process and assessed the design effectiveness and implementation of these controls; • Tested the production of the persistency experience analysis; • Reviewed management's analysis of change and checked consistency of persistency-related impacts with the proposed changes to the persistency basis; and • Reviewed the persistency experience analysis and assumption-setting methodology selected by management against that used by peers, based on our industry knowledge and experience and our actuarial assumptions benchmarking survey. Based on the work performed and evidence obtained, we consider the proposed persistency assumptions to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Valuation of technical provisions - Non annuitant mortality assumptions for the protection business (Group and Society) Refer to Note 2 Accounting Policies and Note 26 Technical Provisions: The valuation of gross technical provisions for protection business is highly sensitive to mortality assumptions. Setting mortality assumptions, both base mortality and the rate of future improvements, is subjective and complex due to their nature. 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 and, given the size of the protection book, this is considered to be a significant assumption.	We have performed the following procedures: • Assessed the appropriateness of and evidence supporting the judgements made in the setting of the mortality basis, both base mortality rates and the rate of future mortality improvements. This includes the choice of base tables, approach to setting scalars applied to those tables and allowance for future mortality improvements; • Understood the relevant controls within the mortality experience analysis and assumption-setting process and assessed the design effectiveness and implementation of these controls; • Tested the production of the mortality experience analysis; • Reviewed management's analysis of change and checked consistency of non-annuitant mortality-related impacts with the proposed changes to the mortality basis; and • Reviewed the mortality assumptions selected by management against those used by peers, separately for base mortality and for future improvements, using our independent actuarial assumptions benchmarking survey. Based on the work performed and evidence obtained, we consider the proposed mortality assumptions to be appropriate

How we tailored the audit scope

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

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

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

The impact of climate risk on our audit

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

Materiality

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

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

	Financial statements - Group	Financial statements - Society
Overall materiality	£11.8 million (2023: £12.9 million).	£11.2 million (2023: £12.7 million).
How we determined it	5.5% of Funds for Future Appropriations	5.2% of Funds for Future Appropriations, and restricted to the 95% of the Group.
Rationale for benchmark applied	The engagement team concluded that £11.8 million is the most appropriate amount when setting an overall materiality on the engagement. The quantum of £11.8 million 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 £11.2 million is the most appropriate amount when setting an overall materiality on the engagement. The quantum of £11.2 million 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 each 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 95% 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% (2023: 75%) of overall materiality, amounting to £8.8 million (2023: £9.7 million) for the Group financial statements and £8.4 million (2023: £9.5 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 of our normal range was appropriate.

For certain balances, our specific performance materiality was 75% of the specific overall materiality for assets held to cover linked liabilities and technical provision for linked liabilities amounting to £18.4 million (2023: £18.2 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 £590,000 (2023: £645,000) (Group audit) and £560,000 (2023: £635,000) (Society audit) and specifically £1,200,000 (2023: £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 2024 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 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 3 years, covering the years ended 31 December 2022 to 31 December 2024.

Thomas Ferguson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 March 2025

Income and Expenditure

Technical Account – Long Term Business
For year ended 31 December

	Note	Group 2024 £000	Group 2023 (restated) £000	Scottish Friendly 2024 £000	Scottish Friendly 2023 (restated) £000
Gross Earned Premiums		219,722	208,205	219,722	208,205
Reinsurance Premiums		(97,754)	(84,719)	(97,754)	(84,719)
Earned Premiums, Net of Reinsurance	**3**	**121,968**	**123,486**	**121,968**	**123,486**
Investment Income	4	61,936	23,048	61,936	23,048
Unrealised gains on Investments	5	181,383	239,164	181,571	239,500
Other Technical Income	6	32,040	31,423	30,940	30,067
Amortisation of Negative Goodwill	13	6,060	6,060	6,060	6,060
		403,387	**423,181**	**402,475**	**422,161**
Claims Incurred		254,140	254,429	254,140	254,429
Reinsurance Claims		(131,254)	(117,296)	(131,254)	(117,296)
Net Claims Incurred	**7**	**122,886**	**137,133**	**122,886**	**137,133**
Change in Long-term Business Provision	26a	(68,810)	(30,300)[1]	(68,810)	(30,300)[1]
Change in Technical Provisions for Linked Liabilities	26b	220,476	191,532	220,476	191,532
Operating Expenses	8	125,909	103,539	125,909	103,539
Investment Expenses & Charges	10	3,343	4,087	3,343	4,087
Other Technical Charges	11	1,953	2,102	1,108	1,174
Tax charge/(credit) attributable to Long Term Business	12	7,031	(1,290)	6,964	(1,382)
Actuarial (gain)/loss re Pension Scheme	24	(182)	13,941	(182)	13,941
Transfer (from)/to the Fund for Future Appropriations	25	(9,219)	2,437[1]	(9,219)	2,437[1]
		403,387	**423,181**	**402,475**	**422,161**

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 64 to 106 form an integral part of these financial statements.

1 Details on the restatement are included in note 38

Balance Sheet

Assets as at 31 December	Note	Group 2024 £000	Group 2023 (restated) £000	Scottish Friendly 2024 £000	Scottish Friendly 2023 (restated) £000
Intangible Assets					
Negative Goodwill	13	(29,295)	(35,355)	(29,295)	(35,355)
Investments					
Land and Buildings	14	3,100	3,250	3,100	3,250
Investment in Group Undertakings	15,17	-	-	4,946	4,761
Derivative Financial Instruments	16	2,692	4,986	2,692	4,986
Other Financial Investments	17	863,372	937,716	863,372	937,716
Total Non-Linked Financial Investments		**869,164**	**945,952**	**874,110**	**950,713**
Assets Held to Cover Linked Liabilities	17	2,363,629	2,426,580	2,363,534	2,426,353
Total Financial Investments		**3,232,793**	**3,372,532**	**3,237,644**	**3,377,066**
Reinsurers' Share of Technical Provisions					
Long-term Business Provision	26a	771,993	891,861[1]	771,993	891,861[1]
Debtors					
Deposits held for Reinsurers	19	12,501	11,367	12,501	11,367
Debtors arising out of Direct Insurance Operations	20	18,695	23,463	18,695	23,463
Other Debtors	21	7,574	15,987	8,039	18,012
		38,770	**50,817**	**39,235**	**52,842**
Other Assets					
Tangible Assets	22	843	888	843	888
Cash at Bank and In Hand	23	78,220	62,434	72,651	55,727
		79,063	**63,322**	**73,494**	**56,615**
Prepayments and Accrued Income		457	624	457	624
Pension Scheme Surplus	24	11,685	11,503	11,685	11,503
		4,105,466	**4,355,304**	**4,105,213**	**4,355,156**

The notes on pages 64 to 106 form an integral part of these financial statements.

1 Details on the restatement are included in note 38.

Balance Sheet Continued

Liabilities as at 31 December	Note	Group 2024 £000	Group 2023 (restated) £000	Scottish Friendly 2024 £000	Scottish Friendly 2023 (restated) £000
Fund for Future Appropriations	**25**	**214,878**	**224,097[1]**	**214,878**	**224,097[1]**
Technical Provisions					
Long-term Business Provision	26a	1,631,379	1,804,513[1]	1,631,379	1,804,513[1]
Claims Outstanding	28	39,886	48,676	39,886	48,676
		1,671,265	**1,853,189**	**1,671,265**	**1,853,189**
Technical Provision for Linked Liabilities	**26b**	**2,171,058**	**2,205,637**	**2,171,058**	**2,205,637**
Creditors					
Derivative Financial Instruments	16	2,074	1,011	2,074	1,011
Deposits Received from Reinsurers	31	5,164	26,570	5,164	26,570
Creditors arising out of Direct Insurance Operations	32	13,944	10,485	13,730	10,217
Other Creditors	33	5,331	6,476	5,584	6,954
		26,513	**44,542**	**26,552**	**44,752**
Accruals and Deferred Income		**18,099**	**22,914**	**17,807**	**22,556**
Provisions for other risks					
Deferred taxation	34	2,921	4,026	2,921	4,026
Other provisions	35	732	899	732	899
		4,105,466	**4,355,304**	**4,105,213**	**4,355,156**

The financial statements on pages 60 to 106 were approved by the Board of Directors on 26 March and signed on its behalf by:

S McGee
Chief Executive

A Rankine
Director

The notes on pages 64 to 106 form an integral part of these financial statements.

1 Details on the restatement are included in note 38.

Notes to the Financial Statements

Group and Scottish Friendly

1. General Information

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

2. Accounting Policies

The Group's significant accounting policies are included at the beginning of the relevant notes to the 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 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.

2. Accounting Policies Continued

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 year. 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.

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 that is 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.

2. Accounting Policies Continued

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.

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:

	2024 £000	2023 £000
Annual	217,541	205,766
Single	2,181	2,439
	219,722	**208,205**

Comprising:		
Premiums for investment contracts with participating features	22,356	24,579
Premiums for participating contracts	11,350	15,075
Premiums for non- participating contracts	179,916	161,454
Premiums from linked contracts	6,100	7,097
Gross Earned Premiums	**219,722**	**208,205**

Reinsurance Premiums on Insurance Contracts	(97,754)	(84,719)
Earned Premiums, net of reinsurance	**121,968**	**123,486**

Consideration received in respect of investment contracts of £43,701k (2023: £42,657k) 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	
	2024 £000	2023 £000	2024 £000	2023 £000
Income from land and buildings	126	141	126	141
Income from financial investments held at fair value through profit and loss	82,324	84,260	82,324	84,260
Net realised losses on financial investments held at fair value through profit and loss	(20,514)	(61,353)	(20,514)	(61,353)
Investment Income	**61,936**	**23,048**	**61,936**	**23,048**

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 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	
	2024 £000	2023 £000	2024 £000	2023 £000
Unrealised gains on investments	181,383	239,164	181,571	239,500

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	
	2024 £000	2023 £000	2024 £000	2023 £000
Annual management charges	25,915	24,810	25,915	24,810
Policy charges	4,806	4,597	4,806	4,597
Income from Subsidiaries	-	-	1,380	1,229
Foreign exchange loss	(1,337)	(627)	(1,337)	(627)
Other income	2,656	2,643	176	58
	32,040	**31,423**	**30,940**	**30,067**

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	
	2024 £000	2023 £000	2024 £000	2023 £000
Gross claims paid	262,930	253,465	262,930	253,328
Change in provision for claims outstanding at the year-end	(8,790)	964	(8,790)	1,101
	254,140	**254,429**	**254,140**	**254,429**
Aggregate recoveries received from reinsurers	(131,254)	(117,296)	(131,254)	(117,296)
Net Claims Paid on Insurance Contracts	122,886	137,133	122,886	137,133

7. Claims Incurred Continued

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

The claims analysis above excludes £281,630k (2023: £230,660k) 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.

	2024 £000	2023 £000
Acquisition costs	15,997	12,245
Administration costs	35,603	29,347
Renewal commission	74,309	61,947
Operating Expenses	**125,909**	**103,539**

Remuneration of Auditors

Group	2024 £000	2023 £000
Fees payable to the auditors for audit of financial statements	622	551
Fees payable to the auditors for other services:		
The audit of subsidiary companies pursuant to legislation	42	34
Other assurance fees	225	238
	889	**823**

Fee payable by Scottish Friendly to the auditors for the audit of annual financial statements and other services was £692k (2023: £616k).

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

9. Staff Costs

Staff numbers and costs

The average number of persons, including executive directors, employed by Scottish Friendly during the year was 317 (2023: 253). The aggregate payroll costs of these persons were as follows:

	2024 £000	2023 £000
Wages and salaries	15,935	13,957
Social security costs	1,652	1,387
Other pension costs	1,404	1,079
	18,991	**16,423**

Remuneration of Directors

During the year there was £1,184k (2023: £988k) remuneration incurred for executive directors (included above). Details of directors' remuneration are included in the Directors' Remuneration Report on pages 44 to 46.

During the year there were £571k (2023: £495k) of fees incurred for non-executive directors.

Compensation to key management personnel (including executive directors) in the year was £2,709k (2023: £2,244k).

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.

	2024 £000	2023 £000
External fund manager fees	1,299	2,112
Custody fees	241	196
Other investment fees and charges	1,803	1,779
	3,343	**4,087**

Net realised losses of £20,514k (2023: £61,353k) are presented within investment income (note 4), rather than investment expenses and charges order to present a consistent and complete view of the investment return.

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	
	2024 £000	2023 £000	2024 £000	2023 £000
Other Technical Charges	1,953	2,102	1,108	1,174

12. Tax Charge/(Credit) 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	
	2024 £000	2023 £000	2024 £000	2023 £000
Current tax charge/(credit)	67	91	-	(1)
Deferred tax charge	1,019	2,360	1,019	2,360
Under/(over) provided in earlier years	5,948	(2,984)	5,948	(2,984)
Other	(3)	(757)	(3)	(757)
Total tax charge/(credit)	**7,031**	**(1,290)**	**6,964**	**(1,382)**

UK corporation tax in the technical account has been calculated at a rate of 20% (2023: 20%) in accordance with rates applicable to the long-term business of a friendly society.

Scottish Friendly	2024 £000	2023 (restated) £000
Transfer (from)/to fund for future appropriations	(9,219)	2,437[1]
Tax using the policyholder tax rate of 20% (2023: 20%)	(1,844)	487[1]
Tax effect of accounting profit not subject to tax	1,844	(488)[1]
Movement in deferred tax on BLAGAB (note 34)	2,124	7,239
Tax applied to pension surplus (note 34)	(1,105)	(4,879)
Differences due to policyholder tax items	(3)	(757)
Under/(over) provided in earlier years	5,948	(2,984)
Total tax charge/(credit)	**6,964**	**(1,382)**

Corporation tax is charged at the standard rate of 25% (2023: 23.5%) on the profit on ordinary activities of the subsidiary SFAM £64k (2023: £92k) with adjustments in respect of prior years being £nil (2023: £nil).

Details on deferred tax movements are shown in note 34.

1 Details on the restatement are included in note 38.

13. Negative Goodwill

Accounting for negative goodwill

Negative goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the identifiable assets and liabilities acquired over the fair value of the consideration given, is capitalised and amortised 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. The amortisation is recognised as a credit to the Technical Account.

	2024 £000	2023 £000
Carrying amount at 1 January	(35,355)	(41,415)
Amortisation	6,060	6,060
Carrying amount at 31 December	**(29,295)**	**(35,355)**

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 thereto from time to time; accordingly, the directors consider that the lives of these assets are so long and the residual values, based on prices prevailing at the time of acquisition or subsequent revaluation, are so high that any depreciation would be insignificant.

Owner Occupied Land and Buildings:	2024 £000	2023 £000
Fair Value at 31 December	3,100	3,250

Land and buildings relates to freehold property at 15-17 Blythswood Square. The most recent independent valuation was completed by a RICs Registered Valuers for 31 December 2024.The valuation was carried out in accordance with RICS Valuation – Global Standards. The revaluation deficit of £150k in the year has been recognised in the technical account.

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 2024 are set out on page 75, 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 (£18,600k; 2023: £18,400k).

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.

	2024			2023		
	Contract Amount	Fair Value Assets	Fair Value Liabilities	Contract Amount	Fair Value Assets	Fair Value Liabilities
	£000	£000	£000	£000	£000	£000
Futures	(13,683)	1,086	1,454	(27,389)	460	791
Forwards	(549)	173	620	716	938	220
Swaptions	12,700	1,433	-	16,700	3,588	-
	(1,532)	**2,692**	**2,074**	**(9,973)**	**4,986**	**1,011**

At 31 December 2024, the outstanding contracts all mature within 3 years of the year end (2023: 4 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	
	2024 £000	2023 £000	2024 £000	2023 £000	2024 £000	2023 £000	2024 £000	2023 £000
Financial investments designated at fair value; Shares, other variable yield securities and units in OEICs and unit trusts	424,210	459,308	416,893	464,686	424,210	459,308	416,893	464,686
Debt securities and other fixed income securities	439,162	478,408	578,911	598,748	439,162	478,408	578,911	598,748
Private equity investments	-	-	658	658	-	-	658	658
Investments in Group Undertakings	-	-	-	-	4,946	4,761	3,115	3,115
Total non-linked financial investments	**863,372**	**937,716**	**996,462**	**1,064,092**	**868,318**	**942,477**	**999,577**	**1,067,207**

17. Financial Investments Continued

Assets held to cover linked liabilities

	Group				Scottish Friendly			
	Carrying Value		Cost		Carrying Value		Cost	
	2024 £000	2023 £000	2024 £000	2023 £000	2024 £000	2023 £000	2024 £000	2023 £000
Financial investments designated at fair value; Shares, other variable yield securities and units in OEICs and unit trusts	2,363,393	2,426,414	1,698,746	1,922,099	2,363,298	2,426,187	1,698,651	1,921,872
Debt securities and other fixed income securities	236	166	389	321	236	166	389	321
Total linked financial investments	**2,363,629**	**2,426,580**	**1,699,135**	**1,922,420**	**2,363,534**	**2,426,353**	**1,699,040**	**1,922,193**

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			
	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 2024								
Financial instruments designated at fair value; Shares, other variable yield securities and units in OEICs and unit trusts	1,546	2,656,956	129,101	2,787,603	1,546	2,656,861	129,101	2,787,508
Debt securities and other fixed income securities	367,211	69,712	2,475	439,398	367,211	69,712	2,475	439,398
Investments in Group Undertakings	-	-	-	-	-	-	4,946	4,946
Land and buildings	-	-	3,100	3,100	-	-	3,100	3,100
	368,757	**2,726,668**	**134,676**	**3,230,101**	**368,757**	**2,726,573**	**139,622**	**3,234,952**
Derivative Financial Instruments	1,086	1,606	-	2,692	1,086	1,606	-	2,692
Financial assets measured at fair value through profit and loss	369,843	2,728,274	134,676	3,232,793	369,843	2,728,179	139,622	3,237,644
Total financial assets	**369,843**	**2,728,274**	**134,676**	**3,232,793**	**369,843**	**2,728,179**	**139,622**	**3,237,644**
Financial instrument liabilities 2024								
Derivative Financial Instruments	(1,454)	(620)	-	(2,074)	(1,454)	(620)	-	(2,074)
Investment contract liabilities (see note 26b)	-	-	(2,171,058)	(2,171,058)	-	-	(2,171,058)	(2,171,058)
Total financial liabilities	**(1,454)**	**(620)**	**(2,171,058)**	**(2,173,132)**	**(1,454)**	**(620)**	**(2,171,058)**	**(2,173,132)**

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 2023								
Financial instruments designated at fair value; Shares, other variable yield securities and units in OEICs and unit trusts	2,121	2,690,941	192,660	2,885,722	2,121	2,690,714	192,660	2,885,495
Debt securities and other fixed income securities	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 liabilities (see note 26b)	-	-	(2,205,637)	(2,205,637)	-	-	(2,205,637)	(2,205,637)
Total financial liabilities	**(791)**	**(220)**	**(2,205,637)**	**(2,206,648)**	**(791)**	**(220)**	**(2,205,637)**	**(2,206,648)**

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" annuity products written in the past under treaties with Pacific Life Re, and includes an overlay treaty with RGA providing 100% reinsurance in total.[1]

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.

	2024 £000	2023 £000
Collateral deposits for: Longevity Swap (Pacific Life Re)	12,501	11,367
	12,501	**11,367**

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.

	2024 £000	2023 £000
Amounts due from policyholders/intermediaries	6,849	10,086
Amounts due from reinsurance operations	11,846	13,377
	18,695	**23,463**

There are debtors due after more than one year of £1,395k (2023: £1,499k) included within amounts due from policyholder/intermediaries.

1 Reinsurance arrangements which were in place for the "Select" annuity products written in the past under treaties with Hannover Re were recaptured and released during the year to 31 December 2024.

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	
	2024 £000	2023 £000	2024 £000	2023 £000
Amounts due from brokers	6,609	4,782	6,609	4,782
Amounts due from Group entities	-	-	721	2,271
Other receivables	568	574	312	328
Current corporation tax asset	-	1,978	-	1,978
Deferred corporation tax asset (note 34)	397	8,653	397	8,653
	7,574	**15,987**	**8,039**	**18,012**

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

Cost	Computer equipment £000	Fixtures & fittings £000	Total £000
At 1 January 2024	1,270	701	1,971
Additions	128	52	180
At 31 December 2024	**1,398**	**753**	**2,151**
Accumulated depreciation			
At 1 January 2024	888	195	1,083
Charge for the year	155	70	225
At 31 December 2024	**1,043**	**265**	**1,308**
Net Book Value at 31 December 2024	**355**	**488**	**843**
Net Book Value at 31 December 2023	**382**	**506**	**888**

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	
	2024 £000	2023 £000	2024 £000	2023 £000
Cash and Cash Equivalents	78,220	62,434	72,651	55,727

Included in the above is £7,222k (2023: £2,899k) of cash held in relation to the 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 year, 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.

24. Pension Scheme Surplus Continued

Money purchase Group personal pension scheme

Scottish Friendly operates a money purchase Group personal pension scheme. For the year ended 31 December 2024, the charge included in the technical account relating to the employer's contributions to this scheme was £1,351k (2023: £1,003k). There were outstanding contributions of £5k (2023: £271k) 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 23 March 2023, requires no contributions from the employer with all items of administration expenditure, including all Plan levies, are to be borne by the Plan.

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 2024.

In relation to the High Court ruling in the case between Virgin Media and the NTL Pension Trustees II Limited (and others), the Trustees have obtained legal advice and undertaken appropriate due diligence to assess the documentation held in relation to scheme amendments made between 1997 and 2013 and have confirmed that no adjustment is required in relation to any potential liabilities arising from the scheme amendments.

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:	**2024 £000**	**2023 £000**
Defined benefit obligation	(57,075)	(63,591)
Fair value of plan assets	68,760	75,094
Net defined benefit asset	**11,685**	**11,503**

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.

24. Pension Scheme Surplus Continued

Service cost:	2024 £000	2023 £000
Administration expenses	567	643
Net interest credit	(511)	(1,193)
Charge/(credit) recognised in Technical Account	**56**	**(550)**
Remeasurements of the net liability:		
Return on Plan assets (excluding amount included in net interest expense)	5,648	15,951
Actuarial gains	(5,886)	(1,460)
(Credit)/charge recorded in Technical Account	**(238)**	**14,491**
Total defined benefit (credit)/cost	**(182)**	**13,941**

Scheme administration expenses of £26k (2023: £50k) has been included in the operating expenses of Scottish Friendly.

The principle actuarial assumptions used were:	2024	2023
Liability discount rate	5.50%	4.55%
Inflation assumption – RPI	3.40%	3.10%
Inflation assumption – CPI	2.85%	2.50%
Revaluation of deferred pensions:		
GMP	Fixed rate	Fixed rate
Excess over GMP	2.85%	2.50%
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%)	3.30%	3.05%
Proportion of employees opting for early retirement	0.00%	0.00%
Proportion of pension commuted for cash at retirement	20.00%	20.00%
Expected age at death of current pensioner at age 65:		
Male aged 65 at year end	86.8	86.9
Female aged 65 at year end	88.6	88.5
Expected age at death of future pensioner at age 65:		
Male aged 45 at year end	88.4	88.4
Female aged 45 at year end	89.7	89.7

24. Pension Scheme Surplus Continued

Reconciliation of Plan assets and liabilities	Assets £000	Liabilities £000	Total £000
At start of year	75,094	(63,591)	11,503
Benefits paid	(3,445)	3,445	-
Administration expenses	(567)	-	(567)
Interest income/(expense)	3,326	(2,815)	511
Return on assets (excluding amount included in net interest expense)	(5,648)	-	(5,648)
Actuarial gains	-	5,886	5,886
At end of year	**68,760**	**(57,075)**	**11,685**

The return on Plan assets was:	2024 £000	2023 £000
Interest income	3,326	4,202
Return on plan assets (excluding amount included in net interest expense)	(5,648)	(15,951)
Total return on plan assets	**(2,322)**	**(11,749)**

The major categories of Plan assets are as follows:	2024 £000	2023 £000
Insured asset	56,905	63,383
Cash	11,855	11,711
Total fair value of assets	**68,760**	**75,094**

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:	2025 £000
Service cost – administrative cost	586
Net interest on the net defined benefit asset	(627)
	(41)

If the discount rate was 0.5 percent higher (lower), the Plan liabilities would decrease by £3,452k (2023: £4,179k) (increase by £3,836k (2023: £4,677k)) if all the other assumptions remained unchanged.

If the inflation assumption was 0.5 percent higher (lower), the Fund liabilities would increase by £2,775k (2023: £3,359k) (decrease by £2,756k (2023: £3,315k)). In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, that is the deferred pension increases and pension in payment increases, if all the other assumptions remain unchanged.

If life expectancies were to increase by 1 year, the Fund liabilities would increase by £2,246k (2023: £2,543k) if all the other assumptions remained unchanged.

25. Fund For Future Appropriations

Accounting for Fund for Future Appropriations

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

Group and Scottish Friendly	2024 £000	2023 (restated) £000
Value at 1 January	224,097[1]	221,660[1]
Transfer (from)/to the Fund for Future Appropriations in the year	(9,219)	2,437[1]
Value at 31 December	**214,878**	**224,097**

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 UK firms. 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.

1 Details on the restatement are included in note 38.

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.

	2024			2023		
	Gross £000	Reinsured £000	Net £000	Gross (restated) £000	Reinsured (restated) £000	Net (restated) £000
With-Profits Insurance	618,932	(352,430)	266,502	635,910	(344,545)	291,365
Non-Profits Insurance	601,311	(419,563)	181,748	734,949[1]	(547,316)[1]	187,633
Unit-Linked Insurance	209,823	-	209,823	240,278	-	240,278
Participating Investment Contracts	201,313	-	201,313	193,376	-	193,376
	1,631,379	**(771,993)**	**859,386**	**1,804,513**	**(891,861)**	**912,652**

1 Details on the restatement are included in note 38.

26. Technical Provisions Continued

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

With-Profits Insurance Contracts	Gross 2024 £000	Reinsured 2024 £000	Gross 2023 £000	Reinsured 2023 £000
1 January	635,910	(344,545)	665,929	(342,139)
Premiums received	11,350	(10,713)	15,075	-
Liabilities paid by claims	(59,101)	47,646	(70,502)	48,669
New Business	2,158	-	7,756	-
Fees deducted	(3,607)	-	(2,868)	-
Experience variance and assumption changes	32,222	(44,818)	20,520	(51,075)
31 December	**618,932**	**(352,430)**	**635,910**	**(344,545)**

Non-Profits Insurance Contracts	Gross 2024 £000	Reinsured 2024 £000	Gross 2023 (restated)[1] £000	Reinsured 2023 (restated)[1] £000
1 January	734,949	(547,316)	612,736	(436,799)
Premiums received	179,916	(87,041)	161,454	(84,719)
Liabilities paid by claims	(130,730)	83,608	(116,654)	68,627
New Business	7,997	(9,226)	33,076	(34,559)
Fees deducted	(1,083)	-	-	-
Experience variance and assumption changes	(189,738)	140,412	44,337	(59,866)
31 December	**601,311**	**(419,563)**	**734,949**	**(547,316)**

Unit-Linked Insurance Contracts	Gross 2024 £000	Gross 2023 £000
1 January	240,278	269,656
Premiums received	6,100	7,097
Liabilities paid by claims	(36,979)	(45,252)
Fees deducted	(1,574)	(2,109)
Experience variance and assumption changes	1,998	10,886
31 December	**209,823**	**240,278**

1 Details on the restatement are included in note 38.

26. Technical Provisions Continued

Participating Investment Contracts	Gross 2024 £000	Gross 2023 £000
1 January	193,376	180,898
Premiums received	22,356	24,579
Liabilities paid by claims	(27,330)	(22,021)
New Business	2,291	1,687
Fees deducted	(2,566)	(2,350)
Experience variance and assumption changes	13,186	10,583
31 December	**201,313**	**193,376**

(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.

	2024 £000	2023 £000
Non-participating Investment Contracts	2,171,058	2,205,637
	2,171,058	**2,205,637**

Reconciliation of movement in technical provision for linked liabilities:	2024 £000	2023 £000
Movement in net technical provisions	34,579	12,900
Investment contract fees deducted	(17,126)	(16,429)
Amounts received in respect of investment contracts	43,701	42,657
Payments made on non-participating investment contracts	(281,630)	(230,660)
Change in technical provision for linked liabilities per technical account	**(220,476)**	**(191,532)**

26. Technical Provisions Continued

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

Non-Participating Investment Contracts	2024 £000	2023 £000
1 January	2,205,637	2,218,537
Premiums received	43,701	42,657
Liabilities paid by claims	(281,630)	(230,660)
New Business	8,840	7,383
Fees deducted	(17,126)	(16,430)
Experience variance and assumption changes	211,636	184,150
31 December	**2,171,058**	**2,205,637**

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:	2024 £000	2023 £000
Year-end reversionary bonus declared (included in change in other technical provisions)	2,892	2,807
Reversionary and terminal bonuses paid (included in claims)	4,639	5,118
	7,531	**7,925**

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	
	2024 £000	2023 £000	2024 £000	2023 £000
Claims Outstanding	39,886	48,676	39,886	48,676

29. With-Profits Actuary

Mr C Stuart served as the With-Profits Actuary for the year between 1 January 2024 and 31 December 2024. 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 £193,985 (2023: £142,662[1]) 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

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.

1 Period of employment 11th April 2023 to 31 December 2023

30. Capital Management Continued

(c) Capital Statement

Available capital resources

	2024			2023		
	Main Fund £000	Closed Sub-funds £000	Total £000	Main Fund (restated) £000	Closed Sub-funds £000	Total (restated) £000
Total available capital resources	130,346	4,378	134,723	137,249[1]	10,220	147,469[1]

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

	2024 £000	2023 (restated) £000
Opening capital resources	147,469[1]	159,776
Prior year adjustments	-	(1,019)[1]
Decrease in Current Assets	(125,142)	(44,679)
Decrease in Technical Provisions	77,981	58,805[1]
Decrease/(increase) in Current Liabilities	30,408	(3,037)
Total	**130,716**	**169,846**
Increase/(decrease) in ring-fencing of available capital	**4,007**	**(22,377)**
Closing capital resources	**134,723**	**147,469**

(e) Solvency position

	2024 £000	2023 (restated) £000
Own Funds	134,723	147,469[1]
SCR	62,250	77,879
Solvency Ratio	216%	189%[1]

(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.

1 Details on the restatement are included in note 38.

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

	2024 £000	2023 (restated) £000
UK GAAP Fund for future appropriations	214,878	224,097[1]
Adjustment to the value of technical provisions	5,802	6,862[1]
Intangible assets	29,295	35,355
Pension valuation differences	(11,685)	(11,503)
Deferred tax	2,921	4,026
Solvency II excess of assets over liabilities	**241,211**	**258,837**

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" annuity products written in the past by M&GM are reinsured under treaties with Pacific Life Re with an overlay treaty with RGA providing 100% reinsurance in total[2].

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 are as follows, with amounts paid shown in note 19.

Collateral deposits for:	2024 £000	2023 £000
"Select" annuity (Hannover Re)	-	21,400
"Standard" annuity (RGA)	5,164	5,170
	5,164	**26,570**

1 Details on the restatement are included in note 38.
2 Reinsurance arrangements which were in place for the "Select" annuity products written in the past under treaties with Hannover Re were recaptured and released during the year to 31 December 2024.

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	
	2024 £000	2023 £000	2024 £000	2023 £000
Due to reinsurers	1,980	1,819	1,980	1,819
Due to intermediaries	11,964	8,666	11,750	8,398
	13,944	**10,485**	**13,730**	**10,217**

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	
	2024 £000	2023 £000	2024 £000	2023 £000
Trade Creditors	536	1,536	536	1,536
Investment Creditors	22	1,645	22	1,645
Other payables	2,609	1,676	2,862	2,154
Other taxes and social security costs	2,164	1,619	2,164	1,619
	5,331	**6,476**	**5,584**	**6,954**

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 2024 £000	Over provision from prior year £000	Movement in the year £000	Total recognised in the technical account £000	At 31 December 2024 £000
Excess carried forward BLAGAB excess management expenses	20,754	(6,132)	(667)	(6,799)	13,955
Excess carried forward BLAGAB s212 gains	(12,101)	-	(1,457)	(1,457)	(13,558)
Deferred tax asset on BLAGAB	**8,653**	**(6,132)**	**(2,124)**	**(8,256)**	**397**
Deferred tax liability on defined benefit pension scheme	**(4,026)**	**-**	**1,105**	**1,105**	**(2,921)**

	At 1 January 2023 £000	Over provision from prior year £000	Movement in the year £000	Total recognised in the technical account £000	At 31 December 2023 £000
Excess carried forward BLAGAB excess management expenses	1,341	2,929	16,484	19,413	20,754
Excess carried forward BLAGAB s212 losses/(gains)	11,622	-	(23,723)	(23,723)	(12,101)
Deferred tax 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)**

The deferred tax asset is recognised in note 21. The recognised deferred tax asset has decreased during the year primarily due to a decrease in the unused management expenses carried forward. An element of the brought forward management expenses was reassessed during the year and determined to be in relation to non-taxable business. As a result, this element of the deferred tax asset has been derecognised. 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 rate of the authorised surplus payments charge was changed from 35 percent to 25 percent following the substantive enactment of The Authorised Surplus Payments Charge (Variation of Rate) Order 2024 on 11 March 2024. 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.

35. Other Provisions Continued

	Group		Scottish Friendly	
	2024 £000	2023 £000	2024 £000	2023 £000
Other provisions	732	899	732	899
	732	**899**	**732**	**899**

Other provisions of £732k (2023: £899k) 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 2025 and 2026.

The movement in provisions during the year is shown in the following table:

	Group		Scottish Friendly	
	2024 £000	2023 £000	2024 £000	2023 £000
At 1 January	899	-	899	-
Additions in the year	732	899	732	899
Utilised in the year	(899)	-	(899)	-
At 31 December	**732**	**899**	**732**	**899**

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 Strategic Report on pages 17 to 23 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 2024 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 2024 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:	2024 £000	2023 £000
Increase in expenses by 10%	(19,700)	(22,300)
Increase in assurance mortality rates by 15%	(11,100)	(11,500)
Reduction in persistency by 50%	(17,500)	(18,700)

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 2024	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	12,976	358,444	49,452	18,290	-	-	**439,162**
Cash and cash equivalents	-	-	78,220	-	-	-	**78,220**
Derivatives	-	-	-	-	2,519	173	**2,692**
Reinsurers' share of technical provisions:							
With-profit Insurance Contracts	-	352,430	-	-	-	-	**352,430**
Non-profit Insurance Contracts	-	397,639	22,436	-	(512)	-	**419,563**
Other assets	-	12,501	-	-	-	25,872	**38,373**
Total	**12,976**	**1,121,014**	**150,108**	**18,290**	**2,007**	**26,045**	**1,330,440**

36. Risk Management Continued

Group 2023 (restated)	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	-	518,805[1]	29,267[1]	-	(756)[1]	-	**547,316**
Other assets	-	11,367	-	-	-	28,819	**40,186**
Total	**19,375**	**1,262,101**	**132,642**	**22,103**	**11,436**	**30,217**	**1,477,874**

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 £4,849k (2023: £2,955k), and collateral received in respect of exchange traded derivatives amounted to £133k (2023: £366k). 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 £368k (2023: £331k).

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 £1,433k (2023: £3,577k). These positions are held to mitigate the interest rate risk associated with certain contractual options on Scottish Friendly's unit-linked business.

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 (2023: £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.

1 Details on the restatement are included in note 38.

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 £193,258k (2023: £184,605k) and £1,907,604k (2023: £1,932,294k) respectively.

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

	Group		Scottish Friendly	
	2024 £000	2023 £000	2024 £000	2023 £000
Other financial liabilities	86,077	120,046	91,925	119,898

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 2024:	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)	117,382	177,753	210,964	206,964	395,168	**1,108,231**
With-Profits (insurance)	249,422	206,224	168,176	135,772	215,692	**975,286**
Unit Linked	208,416	-	-	-	-	**208,416**
Participating Investment	201,313	-	-	-	-	**201,313**
Non-participating Investment	2,171,058	-	-	-	-	**2,171,058**
Derivative Financial Instruments	2,074	-	-	-	-	**2,074**
Other Liabilities	86,077	-	-	-	-	**86,077**
Total	**3,035,742**	**383,977**	**379,140**	**342,736**	**610,860**	**4,752,455**

Group 2023 (restated)	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)	130,962[1]	183,548[1]	219,469[1]	225,354[1]	483,115[1]	**1,242,448**
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	**3,149,855**	**407,012**	**362,001**	**332,762**	**644,097**	**4,895,727**

1 Details on the restatement are included in note 38.

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.

	2024 Impact £000	2023 Impact £000
Equity Fall	(27,400)	(27,900)
Property Fall	(1,300)	(3,100)
Interest Rate Fall	2,300	(1,100)
Interest Rate Rise	(1,800)	1,300

Outstanding Claims

Increasing the experience of making payments to customers by 10% would increase outstanding claims by approximately £1,200k and a decrease in the experience of making payments to customers would reduce outstanding claims by approximately £200k.

Derivative financial instruments

The company holds interest rate swaptions to mitigate the interest rate risk associated with its non-linked business. At 31 December 2024, the outstanding contracts all mature within 3 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 directors (executive and non-executive) and key management personnel in respect of Scottish Friendly's products amounted to £57,758 (2023: £38,365)

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

38. Prior Year Adjustment

During the finalisation of the 2024 Financial Statements there has been an adjustment identified in relation to errors which require the restatement of the 2023 Balance Sheet and Technical Account. The following table sets out the adjustment to Scottish Friendly's balance sheet for the year ended 31 December 2023:

Impact on the 2023 Balance Sheet	2023 as previously reported £000	Adjustment One £000	Adjustment Two £000	2023 (restated) £000
Reinsurers' Share of Technical Provisions				
Long-term Business Provision	967,936	(25,381)	(50,694)	891,861
Total Assets	**4,431,379**	**(25,381)**	**(50,694)**	**4,355,304**
Fund for Future Appropriations	224,970	(138)	(735)	224,097
Technical Provisions				
Long-term Business Provision	1,879,715	(25,243)	(49,959)	1,804,513
Total Liabilities	**4,431,379**	**(25,381)**	**(50,694)**	**4,355,304**

Explanation of adjustment to the Technical Account for the year ended 31 December 2023:

Impact on the 2023 Technical Account	2023 as previously reported £000	Adjustment One £000	Adjustment Two £000	2023 (restated) £000
Change in Long-term Business Provision	(30,154)	(34)	(112)	(30,300)
Transfer to the Fund for Future Appropriations	2,291	34	112	2,437

38. Prior Year Adjustment Continued

Explanation of adjustment to the Balance Sheet for the year ended 31 December 2022:

Impact on the 2022 Balance Sheet	2022 as previously reported £000	Adjustment One £000	Adjustment Two £000	2022 (restated) £000
Reinsurers' Share of Technical Provisions				
Long-term Business Provision	842,743	(19,956)	(43,849)	778,938
Total Assets	**4,357,703**	**(19,956)**	**(43,849)**	**4,293,898**
Fund for Future Appropriations	222,679	(172)	(847)	221,660
Technical Provisions				
Long-term Business Provision	1,792,005	(19,784)	(43,002)	1,729,219
Total Liabilities	**4,357,703**	**(19,956)**	**(43,849)**	**4,293,898**

Adjustment One:

As part of the ongoing review of our actuarial models, an error was identified in relation to the assumptions which are used to value the protection lines of business sold by Neilson Financial Services and Beagle Street. A simplified approach was being used to convert lapse rates from annual decrements to monthly decrements but this simplification was no longer deemed appropriate given the larger size of the book. This is classed as an error requiring a prior year restatement in accordance with FRS102.10

Adjustment Two:

As part of the ongoing review of our actuarial models, an error was identified in relation to the assumptions which are used to value the protection lines of business sold by Neilson Financial Services and Beagle Street. The discount rate used to value these lines of business was being netted down to allow for a future tax liability but this approach did not accurately reflect the actual tax computations for non-BLAGAB business sold by a mutual. This is classed as an error requiring a prior year restatement in accordance with FRS102.10.

39. Post Balance Sheet Events

Scottish Friendly recently announced the acquisition of pension and annuity in payment books of business from FIL Life Insurance Limited, part of the Fidelity International Group. The acquisition consists of a book of unit-linked Section 32[1] pensions business comprising £2.16bn assets under management across 76 schemes and covering c40,000 policyholders, and the in payment annuities book with liabilities of £7.3m and c1,000 annuitants. This is subject to approval under Part VII of the Financial Services and Markets Act 2000 and is expected to be completed in the second half of 2026. There is no adjustment required to the financial statements for the year ended 31 December 2024 arising from this transaction.

1 Section 32 of the Finance Act 1981.

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